



# **Environment Agency**

**Annual report and accounts for the financial year  
2023 to 2024**

# **Environment Agency Annual report and accounts 2023-24**

For the period 1 April 2023 to 31 March 2024

Presented to Parliament pursuant to section 46 of the Environment Act 1995  
(as amended)

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

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

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

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

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## Chair's foreword

As the primary environmental regulator in England, we exist to create better places. We are here both to protect and improve the environment and to support sustainable development.

In 2023-24, we focused on delivering our key priorities and statutory responsibilities:

- We continued to deliver the government's capital flood investment programme.
- We ramped up inspections in the water sector to check water company compliance and hold them to account - work which will increase throughout 2024-25.
- In the agricultural sector, we checked compliance against environmental regulations for farming, issuing improvement actions to clean up performance.

We also achieved good results in delivering cleaner, healthier air (year-on-year reduction in pollutants) and protected people and the environment through effective regulation (97% compliance at permitted sites).

The country faced a difficult winter, with the wettest October to March period on record in England. We experienced 11 named storms this season which caused significant flooding across the country. However, for every property that flooded, we protected 35. Our staff worked incredibly hard throughout the winter, and I am extremely grateful to them and proud of them.

I continue to tell the people I meet up and down the country about the fantastic work that our staff are doing. We could not deliver what we do without them, and I echo my message from last year: the EA is a fantastic organisation, and I feel very privileged to lead it.



**Alan Lovell, Chair**

**15 November 2024**



# Performance report

## Chief Executive's statement

This Annual Report and Accounts describes a year of considerable progress. Firstly, and most importantly, they reveal how we continued to deliver for the nation through a tighter focus on performance. We completed our farm inspection programme, delivered our targets for homes protected from flooding, stopped more than 450 illegal waste sites and worked to protect communities through one of the wettest winters ever recorded. I am always inspired by the commitment and drive of our staff to deliver for communities and for the environment.

This was a year when we took important steps to become the regulator the country needs with a greater focus on the water industry's environmental performance. We reached 100% monitoring for storm overflows, agreed an approach to move away from Operator Self Monitoring and built a new capability to inspect water company assets and improve our enforcement capacity.

We are working towards becoming a Net Zero organisation, improving our customer service, and delivering efficiencies to ensure we're achieving the best outcomes for every pound of funding we receive.

We also made progress on how the organisation is managed. For 2024-25, we launched a 1-Year Business Plan to provide greater clarity on our annual priorities. We improved our performance on permitting – with more progress to come – and developed capabilities to support the highest priority Net Zero and housing schemes. We made significant progress on the underlying data and systems we need to do our work, demonstrated in maintaining performance on Freedom of Information requests and clearing some of the qualifications that we had in our accounts last year. We will continue this mission in the year ahead and I would like to record my thanks to the National Audit Office and finance teams who have worked so hard to improve this position.

Of course, we could not have achieved any of this without our skilled, dedicated people who work tirelessly to deliver better outcomes for people and nature. I echo our Chair's sentiments of gratitude, and I encourage you to read more of what they have achieved in the pages of this report.



**Philip Duffy, Chief Executive and Accounting Officer**

**15 November 2024**



## About the Environment Agency

The Environment Agency is a non-departmental public body (NDPB) established by the Environment Act 1995. NDPBs are public bodies that, although not part of government departments, carry out functions on behalf of sponsor departments who fund and monitor their performance. NDPBs are independent of the department that sponsors them and are managed as 'at arm's length' bodies.

Our principal sponsoring department is the Department for Environment, Food and Rural Affairs (Defra). Defra oversees the environmental policy framework within which the Environment Agency operates in England.

The Environment Agency is the largest public body for protecting and improving the environment in England. We exist to create a better place, working in partnership with organisations and communities to tackle the climate emergency.

Our current 5-year action plan, EA2025, sets out how we are delivering this. It aligns our goals to the objectives from the last spending review.

## What we do

We have two main business areas which deliver EA2025 - flood and coastal erosion risk management (FCERM) and environment and business (E&B), which covers water, land, and biodiversity, and the regulation of industry.

The average number of full-time equivalent staff in 2023-24, was 13,070. Our annual expenditure for the financial year ended 31 March 2024 was £2.2 billion. Defra provides most of our funding, although approximately one quarter comes from other parties including charge payers.

For more information on our business model or organisational structure, please refer to the Accountability report.

2023-24 marked the fourth year of delivery towards EA2025. Since it was published, we have moved closer to achieving our long-term goals which remain at the heart of the plan: a nation resilient to climate change; healthy air, land, and water; green growth and a sustainable future. They continue to drive everything we do today, tomorrow and to 2025 and beyond.

The sections below provide further details on our organisational performance against these goals as well as examples of the outcomes we have achieved.

But there is still much more to do. The scale and pace of the changing climate means we need to think and work in different ways, not only to minimise our own impact on the planet but also to be better prepared for the inevitable consequences. A new strategy to build on EA2025 and tackle these challenges is currently under development.

## The Government Strategic Framework and Defra's Outcome Delivery Plan

Our vision is set by EA2025, the Defra group Outcome Delivery Plan and the government's Environmental Improvement Plan (EIP). We are here to make our air purer, land greener, water cleaner 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.

We will pursue the delivery of the Environment Act (November 2021) which provides a framework to improve and protect the environment. It includes statutory environmental targets (set out in December 2022) and a range of planning provisions, including notably the mandatory requirement for new developments to provide a 10% biodiversity net gain and statutory environmental targets. Going forward, this work will be guided by these targets and the Environment Improvement Plan that was launched in January 2023.

We will continue to seek to work effectively and efficiently, ensuring that we have the right people, skills, and structures in place to deliver our new and existing priorities with the best value for money for the public.

### Defra's Outcome Delivery Plan

Defra has an Outcome Delivery plan (ODP) which we contribute to. We support three out of the four priority outcomes namely environment, Net Zero for natural resources sectors and flood risk management, resilience and climate adaptation.

Our metrics, identified in the ODP, include:

- Number of kilometres of enhanced and protected water environment
- Number of high-risk illegal waste sites
- Number of properties better protected from flooding in England and percentage of high consequence flood defence assets at required condition
- Proportion of incident staff utilised in core incident roles

For more detail on the Defra Outcome Delivery plan, please refer to the Defra group annual report and accounts.

## Case studies on the work of the Environment Agency

### Improving the way, we deliver property flood resilience



Property flood resilience involves making changes to properties to keep as much floodwater out as possible and reduce damage if water enters. These changes can involve using flood doors or barriers, self-closing air bricks, raising electrics and tiling floors.

Working closely with Flood Re, we launched the Be Flood Smart campaign to showcase property flood resilience options available and raise awareness. Our campaign has reached 10 million people and helped to improve understanding of the steps people can take to keep their property and possessions safe.

To learn more, see: [Improving the way we deliver Property Flood Resilience - Creating a better place \(blog.gov.uk\)](#)

### Harnessing the hidden power of restored saltmarshes for carbon capture



A collaboration involving the Environment Agency, the environmental consultancy firm Jacobs and Manchester Metropolitan University (MMU) is shining light on the role of restored saltmarshes in storing blue carbon - carbon captured by the oceans and coastal ecosystems. The scientific reports published demonstrate the valuable role saltmarshes can play in achieving our Net Zero targets.

Despite the important role that saltmarshes play in our ecosystems, significant gaps in our understanding still remain. Questions such as how much and

how fast restored saltmarshes can store carbon, the types of carbon they store, and the overall net carbon benefit they provide are still under investigation. These gaps are not just areas of academic interest; they have real-world implications for how we manage our natural resources and respond to climate change.

To tackle some of these questions the EA initiated two studies with Jacobs and MMU, aimed at uncovering the carbon storage capabilities of restored saltmarshes. The first focuses on identifying and defining the data gaps that exist, paving the way for future research and policy development.

The second study dives deeper into the analysis of carbon accumulation, gathered using real-world sampling, seeking to expand our evidence and establish a more robust understanding of how restored salt marshes contribute to our carbon capture efforts.

To learn more, see: [Harnessing the hidden power of restored saltmarshes for carbon capture - Creating a better place \(blog.gov.uk\)](#)

## The ground-breaking Environment Agency project helping to restore nature and reduce flood risk in Teesside



Situated in one of North East's industrial centres, the River Tees Estuary has been heavily adapted by human hands over the last 200 years. Vital for jobs and the economy, this has led to the loss of 90% of the intertidal habitat that once existed.

To redress the balance between nature and industry in a way that adapts to climate change, we teamed up with key partners to launch the Tees Tideland programme.

With funding of more than £30 million, this pioneering programme aims to realign flood defences, restore mudflat and saltmarsh habitat, and remove tidal barriers so migratory fish can return to rivers where

they haven't been seen for hundreds of years. This is part of the EA's work to build a future ensuring better land, air, and water for all.

In total, Tees Tideland aims to create over 50 hectares of mudflats, saltmarsh and other valuable estuarine habitats, as well as reducing flood risk for homes and businesses.

To learn more, see: [The ground-breaking Environment Agency project helping to restore nature and reduce flood risk in Teesside - Creating a better place \(blog.gov.uk\)](https://blog.gov.uk/2023/09/27/the-ground-breaking-environment-agency-project-helping-to-restore-nature-and-reduce-flood-risk-in-teesside-creating-a-better-place/)

## Working together to shut down waste criminals



At Hampshire and the Isle of Wight's Constabulary, our dedicated Rural and Wildlife Crime Team, Country Watch, have been working closely with partner agencies and local policing teams to tackle the scourge of waste crime.

Our officers have teamed up with key local council partners, including Hampshire County Council's waste management team and other police forces, to conduct joint operations locally and on our county borders under Operation Wolf. Operation Wolf is set up to target vehicles which travel cross-border to commit rural crime; it also provides teams with proactive opportunities to deter and disrupt fly-tippers.

To learn more, see: [Working together to shut down waste criminals - Creating a better place \(blog.gov.uk\)](https://blog.gov.uk/2023/09/27/working-together-to-shut-down-waste-criminals-creating-a-better-place/)

## How we carry out maintenance on the Somerset Levels and Moors



The Somerset Levels and Moors have long been shaped both by human history and natural processes. This means the landscape needs careful management to reduce the risk of flooding to properties within it and ensure the species that have come to call it home continue to thrive. One method of management used throughout the Somerset Levels and Moors is summer weed cutting. Weed cutting is the removal of excess vegetation from watercourses using various hand tools, weed boats or driven machinery like tracked excavators with specialist attachments.

The main purpose of the summer weed cut is to reduce flood risk by increasing the conveyance of water in the channel. This allows more water to move through the river networks during times of higher flows. Managing aquatic vegetation is an important part of managing the water levels across the Somerset Levels and Moors all year. The control of the water levels allows pre-agreed, desired summer levels to be maintained, which not only provides drinking water and wet fencing for livestock, but also ensures the habitat for fish and aquatic invertebrates is protected.

To learn more, see: [How we carry out maintenance on the Somerset Levels and Moors - Creating a better place \(blog.gov.uk\)](#)

## Performance summary

This performance report outlines our performance against our priorities for the financial year from 1 April 2023 to 31 March 2024 ('the financial year'). It follows the structure of our EA2025 Action Plan and corporate scorecard (reported quarterly) and includes examples of how we are meeting our objectives.

A summary of the performance against these measures and their targets is shown below. Our action plan<sup>1</sup> and corporate scorecard<sup>2</sup> are published online. Previous versions of the scorecard are available online for comparison.

The measures on our corporate scorecard, and this performance report, do not capture all that we do to protect and improve the environment.

Our corporate scorecard consists of 15 measures.

We use a red, amber, green system to assess our performance. The categories are:

- Red, which means there are improvements to be made
- Amber, which means we are falling slightly short of the target,
- Green, which means we are performing at or above the target(s) set

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<sup>1</sup> <https://www.gov.uk/government/publications/environment-agency-ea2025-creating-a-better-place>

<sup>2</sup> <https://www.gov.uk/government/collections/environment-agency-corporate-scorecard>

## Performance measures and metrics

		2023-24	2023-24	2023-24	2022-23
Success measure	Units	Target	Actual	RAG rating	Performance %
We reduce the risk of flooding for more properties	Number of properties better protected	87,351	88,272	Green	99% (Amber)
We maintain our flood and coastal risk management assets at or above the target condition	% of high-risk assets at target condition	94.5%	92.6%	Red	94.5% (Red)
We deliver on Preparing for Climate Impacts Plan and Enabling UK Net Zero Plan to tackle the climate emergency	90% of actions on track	90%	78%	Red	93% (Green)
We have a first-class incident response capability-proportion of trained staff utilised in core incident roles	% trained staff utilised in core incident roles	96%	113%	Green	74% (Amber)
By 2025 our air will be cleaner and healthier	Pollutants showing a reduction in emissions on the previous year	4 out of 4	3 out of 4	Amber	4 out of 4 (Green)
The water environment is healthier and is a better place for people and wildlife. Measure: kilometres of the water environment enhanced	Kilometres	2,130km	2,520km	Green	112% (Green)
We increase biodiversity and promote an environmental net gain by creating more and better habitats for the benefit of people and wildlife	Hectares of habitat created and restored	1,350	1,912	Green	125% (Green)
We protect people and the environment through effective regulation	% compliance of permitted sites	97%	97%	Green	98% (Green)
We reduce the number of serious environmental incidents from permitted sites and activities and sources we regulate directly	Number of category 1 & 2 environmental incidents	150	142	Green	94% (Green)

		2023-24	2023-24	2023-24	2022-23
Success measure	Units	Target	Actual	RAG rating	Performance %
We successfully influence planning decisions by local authorities	% decision notices successfully influenced	97%	97%	Green	96.5% (Amber)
We reduce the number of high-risk illegal waste sites	Number of high-risk illegal waste sites	151	141	Green	97% (Green)
Net Zero (total carbon budget)	Tonnes of carbon dioxide	282,916	269,339	Green	120% (Red)
We manage our money effectively to deliver our outcomes	% spend to budget	£1,953m	£1,947m	Green	99.5% (Green)
We have a diverse workforce: The proportion of our staff who are from a Black, Asian and Minority Ethnic background	% of workforce	18%	6.1%	Red	5.3% (Red)
We have a diverse workforce: The proportion of our executive managers who are female	% of workforce	50%	45.3%	Amber	47.6% (Amber)
We have the lowest possible lost time incident (LTI) frequency rate	LTI frequency rate per 100,000 hrs worked	0.11	0.10	Green	91% (Green)

## Performance explained

### A nation resilient to climate change

**By 2025, we will have created more climate resilient places and infrastructure, by ensuring the nation is prepared for flooding, coastal change, and drought**



### We reduce the risk of flooding for more properties

This measure identifies the total number of properties with a reduced probability of flooding or coastal erosion. It includes homes, but also non-residential properties, public services (such as schools, hospitals), industry and commerce (such as factories, shops) and utilities (such as sewage treatment works).



#### Number of properties better protected:

Target - 87,351

Actual - 88,272 (Green - performance rating)

We are in the third year of a six-year programme, investing £5.6 billion in government funding in over 1,500 schemes over the period to 2027. In 2023-24, the total properties better protected was 28,971 against a target of 28,000.

Significant improvement schemes we delivered over the year include:

- Middle Tame - Perry Barr and Witton (West Midlands): 1,790 properties
- Saltfleet to Gibraltar Point Beach Management (Lincolnshire): 2,904 properties
- Wyre Beach Management Schemes (Lancashire): 1,760 properties
- Lydd Ranges (Kent): 2,290 properties

Since April 2021 we have better protected 88,272 properties, exceeding the target of 87,351.

In February 2024 Government approved an updated Business Plan for the 2021-27 programme to take account of the impact of inflation and delays due to the Covid-19 pandemic. The updated Business Plan reprofiled the £5.6 billion allocation within the 2021-27 period. EA now forecast 200,000 properties will now be better protected compared against the original 336,000.

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

This measure is linked to our priority to 'Manage our flood and coastal risk management assets effectively and efficiently and encourage others to do the same'. We target and allocate investment in our assets according to risk, to ensure that these assets operate effectively to protect people, properties and businesses



### % of high-risk assets at target condition:

Target - 94.5%

Actual - 92.6% (Red - performance rating)

Asset condition has fallen during the year to 92.6% as successive storm damage has exceeded the rate at which we can make improvements through capital replacement and routine maintenance. We have completed around 60,000 post-storm asset inspections since November 2023 which have identified the scale of the damage, and we have initiated a recovery programme to repair the highest priority assets. Contingency and winter readiness plans are in place to reduce risk to communities where assets are below required condition in the short-term.

Where assets are below their required condition, this identifies that work is required. This does not mean in every case that assets have structurally failed or that performance in a flood is compromised. However, with more of our assets falling below their target condition than prior to the storms, there is an increased risk of asset failure and flood risk which is likely to persist.

Asset condition is directly related to maintenance funding. An extra £25 million was agreed in 2023 by the then Secretary of State for 2023-24 which offsets the effect of inflation in our programme.

## By 2025, we will be a stronger leader on climate adaptation and resilience, encouraging others to act now on the climate emergency

### We will deliver on Preparing for Climate Impacts Plan and Enabling UK Net Zero Plan to tackle the climate emergency

This measure tracks our aim to reduce the risks we face from climate change by measuring the actions that are completed within the Climate Impacts Action Plan, including the FCERM Strategy Action Plan. These actions aim to tackle our risks from climate change and help improve our resilience.



#### % of actions on track:

Target - 90%

Actual - 78% (Red - performance rating)

Performance is rated red as 75 out of the 96 (78%) actions we set ourselves for 2023-24 were completed or are on track. This breaks down into 53 out of 71 adaptation actions (75%) and 22 out of 25 Net Zero actions (88%) on track.

**Adaptation:** Of the 18 adaptation actions off track, seven are progressing slower than expected but are forecast to be delivered in 2024-25. A further eight are off track due to reprioritisation, and three are delayed as they are tied to wider corporate changes.

Adaptation highlights include the launch of an online digital tool for coastal practitioners and the public to make the world-leading Shoreline Management Plans easier to access, understand and use. This is a vital step in helping policy makers and practitioners make well-informed decisions about the future management of our coastline and how we adapt to a changing climate.

**Net Zero:** Three Net Zero actions remain off track due to either legislation, outstanding policy decisions or prioritisation of limited technical resources. Two will depend on wider government timings and one has been completed in the first half of 2024-25.

Highlights include securing funding from the Department for Energy Security and Net Zero (DESNZ) for a Net Zero Hydrogen Fund (NZHF) and Carbon Capture and Storage (CCS) programme enabling us to bolster capacity in early 2024. Guidance for blue and green hydrogen has been published along with updated guidance for Carbon Capture Utilisation and Storage (CCUS).

Our EA Methane Action Plan was published in early April 2024. We have been announced as Scheme Administrator for the Clean Heat Market Mechanism (CHMM), planned to launch on 1 April 2025.

## By 2025, we will be a recognised and trusted incident management organisation responding rapidly to environmental emergencies to protect people and the environment

### We have a first-class incident response capability - proportion of trained staff used in core incident roles

This measures how we use our trained staff from core incident rosters and is intended to show that we are robustly able to respond to environmental incidents to protect life, property, the environment, and our reputation.

This measure presents the utilisation of staff members engaged in key incident response activities as a proportion of the total number needed. It focuses on command and control first response roles reporting against what resource we need, rather than purely those trained.



#### % of trained staff utilised in principal incident roles:

Target - 96%

Actual - 113% (Green - performance rating)

Performance is rated green at 113%; the metric can exceed 100% as it is a comparison between the supply and demand of incident staff. Severe winter weather resulted in a high number of incidents, requiring an elevated response.

During periods of severe weather, additional rostering may be required, resulting in a surge in response activity and more people responding to incidents. This raises the 'supply' side of the measure. However, the 'demand' is a snapshot figure of our incident staff needs throughout the year, which is not adjusted during periods with high amounts of incidents.

Improvements to this measure have been made for 2024-25 to provide a more holistic view of our resilience by measuring both the health of our standby rotas, including any gaps and the daily resilience of our incident cells when responding to active incidents.

## Healthy air, land and water

### By 2025, our air will be cleaner and healthier



## Air quality is improving - Monitor the reductions across four priority pollutants: NO<sub>x</sub> (Oxides of Nitrogen), SO<sub>x</sub> (Oxides of Sulphur), PM<sub>2.5</sub> (fine particulate matter) and NMVOCs (non-methane volatile organic compounds)

We have a role in reducing the priority pollutants from the refineries, metals, large combustion plant (LCP) and large volume organic chemicals (LVOC) sectors to support delivery of the national emissions ceilings regulations (NECR) target.



#### Grams of pollutant per tonne:

Target - 4 out of 4 pollutants showing a reduction on the previous year  
Actual - 3 out of 4 pollutants showing a reduction (Amber - performance rating)

The air quality measure reports emissions of four key pollutants: nitrogen oxides (NO<sub>x</sub>), sulphur oxides (SO<sub>x</sub>), fine particulate matter (PM<sub>2.5</sub>) and non-methane volatile organic compounds (NMVOCs). A fifth key pollutant, ammonia, is not included as its emissions from the sectors monitored are relatively small. It is reported annually based on returns from the industries in the four main sectors referred to above.

Emissions have reduced over 2023-24 for three of the four pollutants - PM<sub>2.5</sub> being the exception - resulting in an 'amber' rating. Decreases are attributable in particular to the closure in June 2023 of the coke ovens at a large steel manufacturing plant, resulting in reductions in emissions of NO<sub>x</sub>, SO<sub>x</sub>, and PM<sub>2.5</sub>. Mild weather during autumn and winter may have reduced energy demand, resulting in the LCP sector experiencing a slight reduction in emissions. The increase in PM<sub>2.5</sub> was noted for the metals and refineries sectors, attributable, at least in part, to the recent introduction of reporting at two refineries. This new reporting does not necessarily equate to increased emissions.

The four sectors have recently undergone permit reviews, and we therefore expect improvements in emissions related to these. From 2024-25, we are adding two more sectors to those covered by this measure (energy from waste, and food and drink), to reflect the permit reviews completed in 2023-24.

## By 2025, our rivers, lakes, groundwater, and coasts will have better water quality and will be better places for people and wildlife

### Our rivers and coasts have better water quality and are better places for wildlife

This measure records the number of kilometres of waters (rivers, lakes, canals, groundwater, transitional and coastal waters) enhanced in England. Enhancements include work to improve ecological, chemical and / or physical quality, e.g. reducing pollution, restoring flows and improving habitat.

#### Kilometres (kms) of the water environment enhanced:



Target - 2,130 kms

Actual - 2,520 kms (Green - performance rating)

During 2023-24, 2,520 kilometres were enhanced, exceeding our target by 18%. Nearly half (1,257 kilometres) of these were from the Countryside Stewardship Programme. Under this programme, farmers receiving an agreement or standalone grant take specific action to improve the water environment. Whilst the individual enhancements are often small, together they make a real difference to the local environment, reducing flood risk and diffuse pollution.

In addition to the Countryside Stewardship programme, several individual projects and activities have made a great contribution to the total. A river and floodplain restoration project in Colsterworth, Lincolnshire enhanced 1.3 kilometres. The river was restored with floodplain connectivity, and habitat improved through floodplain lowering and the addition of gravel, which benefited priority species such as brown trout and white clawed crayfish.

In addition to the numbers above, we also protected a further 2,270 kilometres of water environment from deterioration in 2023-24.

The end of the 2023-24 reporting year marks the final time we will report this measure. Since we began reporting in this way in 2016-17, we have enhanced 17,790 kilometres and protected 4,660 kilometres of our rivers, lakes, coastal and groundwaters. From 2024-25, we are focusing on measures that reflect Environment Agency delivery rather than the broader performance of others. We are introducing new measures that will highlight our progress with water company inspections, farm inspections and bringing non-compliant sewage treatment works into compliance.

## We increase biodiversity and promote an environmental net gain by creating more and better habitats for the benefit of people and wildlife

This measure records the amount of new priority habitat created, and existing areas of priority habitat restored to their former condition. Along with planting more trees and carrying out remedial action to restore and maintain the condition of Site of Special Scientific Interest (SSSI) units, this is our contribution to the goal of thriving plants and wildlife under the government's Environment Improvement Plan (EIP). Priority habitats are defined as habitats of principal importance under the Natural Environment and Rural Communities Act.



### Hectares (ha) created and restored:

Target - 1,350 ha

Actual - 1,912 ha (Green - performance rating)

We exceeded the ambitious target set this year by 42%, having created 385 ha of wildlife rich habitat and restoring another 1,527 ha in 2023-24, making a total of 1,912 ha.

The majority of wildlife rich habitat types created and restored were blanket bog, coastal and floodplain grazing marsh, lowland mixed deciduous woodland, lowland meadow, and intertidal mudflat. Teams also controlled invasive non-native species through 38 projects, for mink, Himalayan balsam, giant hogweed, floating pennywort and Japanese knotweed.

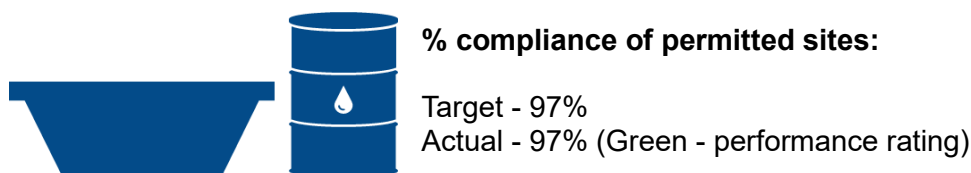
A significant contribution (1,042 ha) to the final delivery figures was through the Yorkshire Peat Partnership blanket bog restoration.

Using a natural capital approach, we can estimate the value of the benefits provided by these habitats. Creating, restoring and maintaining peatland, along with the creation of saltmarsh and broadleaved woodland, will remove an additional 2,600 tonnes of carbon dioxide equivalent a year. This is valued at £14 million over 40 years at present value. The habitats will absorb fewer air pollutants overall (3.7 tonnes less NO<sub>2</sub>, SO<sub>2</sub> and O<sub>3</sub>) and will remove an additional 0.45 tonnes of PM2.5 (fine particulate matter) per year.

## We protect people and the environment through effective regulation

This measure provides an indication of how well the environment and communities are protected from pollution caused by regulated sites, by measuring sites' compliance with permit conditions.

We are committed to being a trusted and respected regulator. Measuring compliance with environmental permits provides an indication of our effectiveness as a regulator, and how well the environment and our communities are protected from pollution caused by regulated sites. A site is considered compliant if assessed within the top three compliance bands (A to C) in published Environment Agency guidance.



Of the waste and installations permitted sites (nearly 14,000 in number) we assessed in 2023-24, 97% were compliant, meeting our target. These sites include a range of sectors including chemicals, combustion, metals, biowaste, intensive farming and incineration.

To enable compliance, we work in an open and transparent way with those we regulate so they understand what is expected of them. We continue to work with poor performing sites, implementing tracking systems and improvement plans to bring sites back into compliance.

We are investing in training, digital systems and technology, so our staff have the tools they need, making it easier for businesses to deal with us, and to enable the public to find out about their environment.

## Green growth and a sustainable future

**By 2025, we will achieve cleaner growth by supporting businesses and communities to make good choices, through our roles as a regulator, adviser, operator, and enabler**



### **We reduce the number of serious environmental incidents from permitted sites and activities and sources we regulate directly**

This measure sets a ceiling target for incidents from permitted sites and activities, focusing on activities we directly regulate through permit and regulatory compliance. It also keeps a watch on incident numbers from unpermitted sources or where the source is unknown, to obtain a total number of serious incidents that we respond to on a rolling basis. For broader context, incident numbers from unpermitted sources or where the source is unknown are also monitored, providing a total number of serious incidents that we respond to on a rolling basis.



#### **Number of category 1 & 2 environmental incidents:**

Target - 150  
Actual - 142 (Green - performance rating)

The number of serious environmental incidents from permitted sources fluctuated between 127 and 142 over the year, remaining below our ceiling target of 150. We continue to work to reduce incident numbers, especially from permitted sites and activities. Action from our interventions can take time, so reductions in incident numbers may not be seen immediately. Further information from specific industries is provided below.

#### **Incidents from permitted sites**

Incident numbers from **metal recycling** remain stable. One incident was a fire; all others were noise - inherent to metal recycling activities - from a limited number of sites, one of which was closed down last year.

The number of serious pollution incidents from **water company** sites remains high (47 serious incidents during the 2023 calendar year). Our increased compliance work and use of improved digital and data tools improves our understanding of risk and inevitably leads to further incidents being recorded.

Two **biowaste treatment** sites are causing the majority of incidents for this sector. We are carrying out compliance assessment activities at these sites including odour assessments and feeding back our findings for the operator to take action.

Odour from **landfill** is the primary reason for serious incidents in the sector. Historically, extended periods of very wet weather, which has occurred in the year, have led to increased odour issues at landfill sites. Improving operations, managing gas, tackling misdescription of waste and ensuring sites only accept the right waste will help reduce further the number of incidents relating to odour.

There was one incident from a permitted **agriculture** site, which was a spill of slurry from a pig farm.

**Incidents from unpermitted sources**

This measure also tracks the incident numbers from unpermitted sources or where the source is unknown, to obtain a total number of serious incidents.

Unpermitted incidents significantly outnumber those from a permitted source. In 2023-24, 73% of incidents (589) were from an unpermitted or unknown source, compared to 215 from permitted sites and activities.

Incidents from unpermitted sources impact the water environment significantly more than other media. The sources with the highest numbers of incidents are agriculture, illegal waste management activities and water companies.

Other unpermitted sources of incidents include construction and demolition, catering and accommodation, domestic and residential, and natural sources, for example extreme weather or algal growth.

## We successfully influence planning decisions by local authorities

This measure serves as an indicator of our performance as an influential consultee in the spatial planning system in England. Specifically, it reports on our ability to influence planning application decisions and thereby limit the impact of development and / or achieve environmental improvement.



### % of planning decision notices successfully influenced:

Target - 97%

Actual - 97% (Green - performance rating)

Performance improved steadily over the year, and by the end of 2023-24 we exceeded the 97% target. Over the year, there were 817 planning applications where we had initially raised objections. Reasons for our objections included unacceptable risk to groundwater or water quality, flood risk concerns, use of non-mains foul drainage, development planned too close to riverbanks, or unacceptable impacts on biodiversity.

Most planning decisions are made in line with our advice, but where we do have to raise objections, we work hard with developers and the local planning authorities to try and resolve issues.

This engagement with developers could help create over 19,000 new residential units should all planning permissions be implemented.

## By 2025, we will have cut waste crime and helped develop a circular economy

### We reduce the number of high-risk illegal waste sites

This measure focuses on our work to reduce the number of active high-risk illegal waste sites, thereby reducing the overall risk from these sites to the environment, people and legitimate business. We focus our efforts on the highest risk illegal waste sites, and continue to use prevention, disruption and enforcement to achieve our outcomes.



#### Number of high-risk illegal waste sites:

Target - No more than 151

Actual – 141 (Green - performance rating)

The number of high-risk illegal waste sites reduced over the year from 167 at the end of June 2023 to 141 by the end of March 2024. This is 10 fewer than the ceiling target and we ended the year at 'green' status. During the year we stopped 95 high-risk sites, each of which had been identified as posing the greatest risk of harm to the environment and our communities.

Actions focused on stopping the sites which pose the greatest threat, risk and harm to the environment and our communities. Recruitment to our Enforcement Teams during the year will enable us to continue to reduce the number of high-risk sites, and support delivery of the aim to eliminate waste crime by 2042.

## By 2025, we will be on track to deliver our sustainable business commitments, including to be a Net Zero carbon organisation by 2030

### Net Zero (total carbon budget)

This measure tracks our ambition to be Net Zero by 2030. It shows the amount of carbon emitted by the Environment Agency, including all energy sources used within our occupied buildings and sites; our travel and commuting; embodied carbon of our fleet, IT, construction, water, waste, hotel stays, and other supply chains.

We aim to reduce our entire carbon footprint by at least 45% from our 2019-20 baseline and to use offsetting for the rest of our emissions.



#### Tonnes of carbon dioxide:

Target - No more than 282,916

Actual - 269,339 (Green - performance rating)

Performance improved steadily over the year and by the year end we were within the carbon target. Performance is heavily influenced by the construction category, which remains the most significant percentage of our carbon budget and is under target in 2023-24. Issues regarding the quality and completeness of our construction carbon data remain a challenge. However, a major project to replace modelled data with real data will significantly improve data accuracy in 2024-25.

The cars, computers, other direct (e.g. boats, survey planes, LPG) and other indirect (e.g. train, air, hotels) categories are all over target at year-end. The main reason for this is the changes we have made to the way we calculate our supply chain emissions, to align our reporting methods and reference UK-specific market figures. This change has improved data accuracy and resulted in an uplift in reported emissions. We will re-align our baseline to this new methodology in 2024-25.

Our comprehensive organisational Net Zero roadmap is currently showing that only 19% of the 92 planned actions are on track for full and timely delivery: continued progress on these actions is essential for the Environment Agency to achieve our interim Net Zero milestones by 2030 and organisational Net Zero by 2045 to 2050.

## We manage our money effectively to deliver our outcomes

We aim to manage our assets, including money, to the highest standard, generating the maximum possible budget for achieving environmental outcomes.



### Spend to budget:

Target - £1,953m

Actual - £1,947m (Green - performance rating)

The measure shows whether we are effectively managing our money to achieve our outcomes and is based on the percentage of our full year funding that we have invested. Expenditure is an 'input' measure; effective management of our budget enables delivery of environmental outcomes, so this indicator is inextricably linked to most of our other performance measures.

Over the financial year 2023-24, we regularly reviewed and re-profiled our budget in line with good financial management practice. This meant that by the end of the year, our spend of £1,947 million was within 0.3% of the £1,953 million budget. Performance is therefore rated green.

Actions taken across the EA in 2023-24 around spending controls, recruitment controls, and optimisation of opportunities around group capital have all contributed to landing a good grant-in-aid and DEL (Departmental Expenditure Limit) outturn.

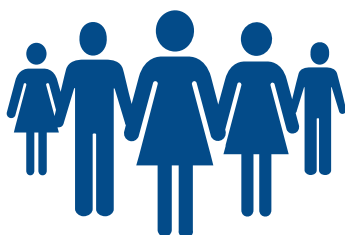
The actual spend reported against the target is our year-end 'management accounting' spend figure within the control of budget holders reporting to the Executive Directors' Team. This is different from the gross expenditure reported in the financial statements as it does not include necessary post year-end financial accounting adjustments, many of which do not have an impact on spend that is within the scope of the reported budget figure, such as the accrued Defra group corporate service charge.

## We have a diverse workforce

### The proportion of our staff who are from a Black, Asian and Minority Ethnic background

#### The proportion of our executive managers who are female

We have an ambition to be representative of the communities we serve. This measure tracks the diversity of our workforce, focusing on employees from a Black, Asian and Minority Ethnic background, and women in Executive roles.



#### % of workforce who are:

##### (a) from a Black, Asian and Minority Ethnic background

Target - 18%

Actual - 6.1% (Red - performance rating)

##### (b) Female Executives

Target - 50%

Actual - 45.3% (Amber - performance rating)

#### Black, Asian and Minority Ethnic representation

Our current target is that 18% of all employees are from Black, Asian and Minority Ethnic backgrounds. In 2024-25 we will move to reporting against a smaller but stretching annual target of 7.6% by the end of 2024-25. The target is based on achieving a 1.5 percentage point improvement over 12 months. Targets will be reviewed annually to help us reach our longer-term ambition of 18%, reflecting representation in the 2021 census.

The current proportion of employees from minority ethnic backgrounds in the Environment Agency is 6.1%, an increase of 1.7 percentage points since the start of 2020-21, due to recruitment improvements that include attracting more diverse talent. Our representation across all groups has increased.

12% of new recruits were from minority ethnic backgrounds compared to 7.9% at the end of 2022-23. We continue to use external recruitment experts PeopleScout, which has led to 15% of verbal offers being made to those from minority ethnic backgrounds. We have a number of career entry initiatives and 33% of the Summer Diversity Internship Programme (SDIP) participants who joined us over the summer of 2023 have remained with us, eight of them securing permanent contracts. Towards the end of 2023 we recruited 27 interns for the 2024 SDIP.

#### Female executives

Although there are now more individual female Executive Managers (EMs) in total, there is a lower proportion of female EMs compared to males. The percentage of female Grade 7 managers (the grade below an EM) was 41% (262), an increase from 39% (231) in 2022-23. Whilst this is encouraging evidence of an increase in the internal talent pipeline for women into Executive Manager roles, there is still work to be done.

The EDI Action Plan includes commitments to improve the diversity in our employee population, including Executive Managers. Roles lasting six months or more are usually advertised externally and internally, although currently we are reshaping the workforce and prioritising internal mobility. All roles recruited to Grade 7 and above should be conducted by diverse shortlisting and interview panels. We use a diverse pool of trained recruitment volunteers from our centralised service, to drive more inclusive recruitment practices. As a result of this work, we have seen consistently higher levels of female EMs (no less than 45% in the past six quarters) and more women across our higher grades in general. This could explain why our gender pay gap this year favours women for the first time ever. As next steps, we need an increased focus on linking the Grade 7 talent pipeline to EM opportunities.

## We have the lowest possible lost time incident frequency rate

Keeping our workforce safe is of paramount importance to us. Lost time incidents (LTIs) are work related injuries resulting in a day or more lost time; tracking these is an effective measure of whether we are achieving this aim.



### Lost time incident frequency rates (LTIFR) per 100,000 hours worked:

Target - No more than 0.11

Actual - 0.10 (Green - performance rating)

Lost time incident frequency rate (LTIFR) is a universally accepted indicator of health and safety performance. This conservative definition, plus a very low ceiling of 0.11 injuries per 100,000 hours worked, sets a challenging ambition.

The LTIFR has been within the target range throughout 2023-24. We continue to monitor and review every lost time injury and to act if we identify lessons for the business, as well as acting swiftly on new incidents to share early lessons to raise awareness.

## Performance on better regulation

### Review of activities regulated by the Environment Agency 2022 report

The 2022 report, formerly known as 'Regulating for people, the environment and growth', was published after the 2022-23 annual report and accounts was published. The report containing the 2023 data has not yet been published. This annual report provides key statistics on the environmental performance of regulated businesses and activities in England. It provides information about emissions from the businesses we regulate; the number of serious pollution incidents and sectors responsible; compliance with environmental permits; how we support those we regulate and the enforcement action we take when a business or individual does not comply.

Some main points in the report include:

**Regulating industry:** 94% of the industrial sites we regulated were in the top two (of six) compliance bands, A and B.

**Protecting water, habitats and wildlife:** By the end of 2022, our Restoring Sustainable Abstraction programme was 86% complete. We have changed 324 water abstraction licences to make them more sustainable, returning 49 billion litres of water a year to the environment.

**Waste: resources, pollution and crime:** The total amount of waste produced by the industrial sites we regulate under Environmental Permitting Regulations (EPR) was 15.2 million tonnes, a 13% decrease from 2021.

**Climate change and the transition to Net Zero:** The climate change emissions trading and energy efficiency schemes that we manage delivered a two million tonne reduction of carbon dioxide compared with 2021. This equates to an estimated £496 million in carbon cost savings.

**Our regulatory approach and services:** We continued to develop and deploy our digital services and new innovative ways of working to support those we regulate. Water abstraction licence holders received email alerts for the first time, providing an estimated benefit of £6.3 million each year to affected businesses.

## Risk management

Throughout 2023-24, the Executive Director Team (EDT) has persistently addressed risks identified in prior years, including:

### Climate adaptation: The effects of a changing climate could impact the Environment Agency's ability to fulfil statutory duties or achieve corporate objectives.

To mitigate this risk, climate change is considered within the National Flood and Coastal Erosion Risk Management Strategy and strategic approaches are used to tackle climate pressures on England's water environment. We have also put in place an action plan for dealing with climate risks to our supply chain and are building our capacity to support those we regulate with adaptation.

### Achieving Net Zero: There is a risk that we will fail to achieve our Net Zero goal.

We have reset our Net Zero goal in line with the Science Based Targets Initiative. Two key FCERM projects will help mitigate future emissions - the Decarbonisation Technology Accelerator programme (DTA) and the Actual Cost and Carbon Data project - which will deliver carbon actuals along with costs from schemes.

### Water quality and quantity: There is a risk that we fail to secure expected improvements in water quality and quantity, leading to impacts on wildlife and human health.

The Water Industry Regulation Transformation Programme (WIRTP) will implement fundamental changes to the way we regulate the industry. We are making a step change to create a more

specialised workforce that focuses solely on water company regulation and makes better use of data intelligence to direct regulatory effort and decision making.

**Staff health, safety and wellbeing: There is a risk of not sufficiently managing the health, safety and wellbeing of Environment Agency colleagues.**

A programme of wellbeing activities and support is in place to address this risk alongside projects around health, safety and wellbeing Risk Assessments and Assurance particularly in Asset Maintenance Activities. Health, safety and wellbeing provisions and strategy are being reviewed to ensure that they are effective.

**Failure of Strategic Important Assets (SIA): The failure of a strategic flood asset could have significant impact on people and infrastructure.**

The risk of such a failure is mitigated by contingency plans, external assurance and a high standard of resilience through engineering standards, operational procedures and critical maintenance. Security measures are currently implemented for both protection of structures and services.

**Regulatory challenges: There is a risk that our action and / or inaction as a regulator will lead to environmental harm.**

We are continuing to deliver our Regulatory Services Programme which will provide improvements to our digital and IT systems for regulation. The Chief Regulators Group will set the system within which we regulate and the framework for assuring proportionality and consistency.

Five new risks were identified during the year as part of a refresh of the corporate risk register:

**Resilience of incident management service: A programme of transformational change has been commissioned to renew the operating model of our incident management response.**

Improved triaging and tactical advice and assurance during incidents will be implemented in the coming year.

**Insufficient capacity and capability to respond to high impact low probability environmental incidents: The focus on flooding incidents could negatively impact our preparedness for environmental incidents, resulting in an ineffective response.**

A number of measures have been implemented to address this risk. Improved training, which includes a simulated major incident at a Control of Major Accident Hazards (COMAH) site, as well as other major environmental incident scenarios, have been put in place.

**Cyber-attack: There is a risk that the EA suffers from major cyber security incidents due to an increasing threat landscape.**

This risk is being actively managed in partnership with our critical partners in Defra Corporate Services - Security and Digital, Data, Technology and Security (DDTS).

**Transformation: There is significant change underway in the Environment Agency which brings risks to morale and delivery.**

There are active approaches to manage this live issue. Internal governance arrangements will define the accountabilities, responsibilities and expectations of change and associated spend control, delivery, reporting, and assurance.

Three risks were de-escalated from the corporate risk register during the year, related to pay, provision of corporate services and delivery of the capital flood programme. All these were deemed to be sufficiently well managed at a lower level within the organisation.

## Fraud risk management

The Environment Agency takes all allegations of fraud seriously and investigates where appropriate. Our total reported fraud and error loss for 2023-24 was almost £190,000 (compared to almost £137,000 for 2022-23).

In 2023-24, no fraud or error was reported in any grant schemes administered by the EA.

In 2023-24, £85,000 which was lost to fraud and error was recovered. This related to errors on government procurement cards and was recovered through voluntary repayment.

An Initial Fraud Impact Assessment has been completed for the Flood Capital Programme. Efforts are ongoing to update fraud risk assessments across the organisation, ensuring that we identify and monitor fraud risks effectively and that our mitigation actions are suitable and proportionate. Since most payments from the Environment Agency are made to local authorities, the fraud risk is lower compared to payments made to individuals.

We have consistently integrated many of our counter fraud controls into other processes, including security checks for new staff, procurement procedures, and delegation schemes for both expenditure and decision authorisation.

A priority for 2024-25 is to increase fraud risk awareness across the organisation and ensure that all fraud and error incidents (including prevented incidents) are reported to enable lessons to be learned from them.

We are working with the Public Sector Fraud Authority which leads the government's counter fraud function and with other arm's length bodies within the Defra group to share good practice.

## Sustainability in the Environment Agency

The Environment Agency exists to protect and enhance the environment and contribute towards achieving sustainable development. This makes us uniquely placed to drive and inspire lasting change. Our responsibility is a collective one and our actions as an organisation can have a profound impact on the world we leave behind for future generations.

This is why sustainability lies at the heart of our work and delivering our sustainable business goals forms section 8.9 of the Environment Agency's business plan, which states that we will deliver our corporate sustainability commitments to meet government targets. We aim to carry out our own activities as sustainably as possible and encourage our suppliers and partners to do the same.

As an organisation, across our operations, we are committed to:

- **Responding to the climate emergency:** becoming a Net Zero organisation by 2045 to 2050 and adapting our own estate.
- **Becoming a nature positive organisation:** reversing biodiversity loss and helping nature to recover, from a base of robust internal environmental compliance.
- **Contributing to an equitable society:** eliminating inequalities and contributing to a fair and just society.
- **Transitioning to a circular approach:** reducing consumption, regenerating resources and keeping them in use, while minimising waste and pollution.

We do our best to collaborate and share sustainability learning regularly with our suppliers, partners and colleagues across government.

Our sustainability data is included in Appendix A. This appendix gives an overview of our key sustainability measures including greenhouse gas emissions, water and waste. This reporting is required to be 'fair, balanced and understandable' therefore it includes data for the past three years, to give a transparent view of our performance.

## Responding to the climate emergency

In 2019, we stated our ambition to become a Net Zero organisation by 2030, in line with the robust and widely recognised external standard, the Science Based Targets Initiative (SBTi). To do this, we said we would reduce our carbon emissions by 45% by 2030 and offset the remaining 55%, through the creation or restoration of habitats which absorb emissions.

Wider thinking on how to define Net Zero has continued to evolve over the last four years, including the SBTi Net Zero definition, which now requires a 90% reduction in emissions with no more than 10% offset by 2050.

We have adopted this revised, more stringent SBTi definition. We have set ourselves a more demanding challenge of taking our reduction target up from 45% to 90% by 2045 to 2050. The remaining 10% will still need to be offset, but we will do this ourselves through effective, nature-based offsetting in the UK.

We have also set new interim milestone targets and these include:

- A reduction in emissions by 45% by 2030 (a recommitment to the existing 2019 target)
- A reduction in Scope 1 and 2 emissions of at least 80% by 2030
- A zero-carbon emitting fleet of cars and vans by 2027
- A zero-carbon emitting 4x4 fleet no later than 2030

We have a comprehensive roadmap for how we will deliver Net Zero. This roadmap is continuously evolving and iterated on an annual basis as technology and our business continues to evolve.

A key roadmap commitment over the last few years, has been to successfully educate our people in carbon literacy. In 2023-24 we became the first government organisation to become a gold accredited, carbon literate organisation. Over 7,000 members of EA staff voluntarily completed training to help them to understand their own carbon footprint at work and at home, as well as the footprint of the wider organisation.

We have now assessed all our main properties to determine their vulnerability to climate change. This assessment will help us to make an adaptation plan for our estate, over the next few years.

## Becoming a nature positive organisation

In 2023-24, we continued to scope what we need to do to become a nature positive organisation by 2030. This work will be supported by a new nature literacy training package which we are currently developing for our staff and hope to launch in 2024-25.

We have achieved certification to the ISO14001 (International Organisation for Standardisation) environmental management standard since 2003. To retain the standard, we undergo two annual surveillance audits and a full re-certification programme every three years. These exercises are conducted by United Kingdom Accredited Service (UKAS) certified audit providers to ensure we benchmark our internal environmental management approach against external best practice.

Our robust environmental management system helps us to ensure internal environmental compliance and to identify, manage, monitor and control environmental performance in a holistic manner. An example of assurance is the internal audit programme conducted annually by our Environment Officers. In 2023-24, this programme audited 110 of our static sites to ensure environmental best practice and to highlight and resolve any areas in which we can improve environmental protection and enhancement across our operations.

## Contributing to an equitable society

We now produce a modern slavery report. The Modern Slavery Report for 2021-22 was published in the autumn of 2023 and we are preparing our most recent report for publication in autumn 2024.

We want to ensure that we are contributing to a fair and equitable society. One of our commitments is to ensure that the people who work with us and for us have good working conditions and are protected from modern slavery.

In 2023, we became members of the Slave Free Alliance (SFA). We want to eradicate modern slavery from our supply chain and ensure that all our people are confident that they can spot the signs of modern slavery and know how to report it. We have already made training available and our new partnership with the SFA will enable us to enhance our focus on this area. In 2023-24, the SFA reviewed our current approach and is now producing a report detailing their findings. We will use this report, when completed, to improve our modern slavery action plan.

### Transitioning to a circular approach

As part of our ambition to move towards a circular approach and design waste and pollution out of our operations, in 2023-24 we worked with an external consultancy to commission and complete an innovative study to establish our organisational resource consumption footprint, to help us understand how much of the Earth's natural resources we consume whilst undertaking our operations. The study provided us with information on what we consume the most of, and the impact this has on the environment, the economy and society.

We have used the study to identify eight 'signature resources' across the business that are of concern due to the quantity we consume and / or their impact on the environment and society.

In 2024-25, we will develop an action plan to begin our move towards more circular use of goods and materials. Not only will this help us to reduce our environmental impact, but it will also drive cost reduction and reduce our exposure to resource scarcity for key products.

### Single use plastics

The Environment Agency has a 10-point plan to reduce single use plastics. This plan focuses on addressing operational issues such as sampling and laboratory equipment and we continue to work through the actions within this plan. Single use plastics are avoided within our workplace and supply chain as far as is reasonably practical. We will work with new workplace service suppliers in 2024-25 to ascertain and address any remaining occurrences.

### Sustainable procurement

The Environment Agency's corporate sustainability plan eMission 2030 sets out its key priorities which includes the significant impacts associated with the supply chain. These are reflected in Defra group Commercial's policy and guidance and implemented through the procurement strategy for requirements.

Relevant procurement strategies will include a completed Risk Management Tool (RMT). Sustainability opportunities and risks are identified with plans to manage them across the commercial life cycle and into contract management. Effort is prioritised on high-risk and high value procurements and sustainability specialists will be assigned to these contracts.

Training is available to ensure good management of suppliers and supply chain risks, including sustainability, for instance through formal courses, guidance and tools, masterclasses and a community of best practice. Supplier performance against Social Value KPIs is reported for contracts over £5 million total value.

### Adapting to climate change

As an environmental regulator, an operator, an environmental emergency responder and an advisor to government, the impacts of climate change will affect much of the Environment Agency's work and so adapting to climate change is a priority objective in our business plan.<sup>3</sup>

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<sup>3</sup> [Environment Agency: EA2025 creating a better place - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/environment-agency-2025-creating-a-better-place)

### Accountability for adaptation

The Environment Agency is a reporting body under Part 4 of the Climate Change Act 2008. Our most recent, third report sets out our climate change risk assessment and action plan. This plan is updated annually with designated senior responsible officers at Director level.

### Climate change risk assessment

Table 1 summarises the Environment Agency’s adaptation risks, based on our most recent adaptation report under Part 4 of the Climate Change Act 2008. We will update this assessment in our fourth report during 2024.

**Table 1 - Summary of the Environment Agency’s adaptation risks**

EA2025 aim	Strategic climate risk	Example impacts
By 2025 we will have created more climate resilient places and infrastructure, by ensuring the nation is prepared for flooding, coastal change and drought	More frequent flooding and drought and increased coastal change reduce our ability to create climate resilient places and infrastructure	<ul style="list-style-type: none"> <li>• Intense rainfall, coastal change and sea level rise will cause more frequent and worse flooding from rivers, surface water, coastal and groundwater</li> <li>• Accelerating sea level rise and coastal erosion threaten coastal wildlife habitats, communities and infrastructure. It will cost more money to build and maintain flood and coastal defenses</li> </ul>
By 2025 we will be a stronger leader on climate adaptation and resilience, encouraging others to act now on the climate emergency and invest in adaptation	Climate impacts compromise our ability to influence others to act on the climate emergency. Climate change provides an opportunity to make the most of our knowledge, experience and data	<ul style="list-style-type: none"> <li>• Adaptation shortfall (perceived or real) affects our ability to influence</li> <li>• Unable to meet increasing demands for our data and advice</li> <li>• Opportunity for green finance and to be a credible climate advisor</li> </ul>
By 2025 we will be ready for bigger, more frequent incidents and will support those at risk to be more resilient	The frequency and extent of environmental incidents exceeds our ability to respond	<ul style="list-style-type: none"> <li>• More extreme weather causes larger and more complex floods and environmental incidents</li> <li>• The increasing burden of incident response means that we must stop or slow other work</li> </ul>
By 2025 air will be cleaner and healthier	Pressures on air quality make it a greater challenge to clean it and protect health	<ul style="list-style-type: none"> <li>• Increased air pollution and effects on health and ecosystems</li> </ul>
By 2025 rivers, lakes, groundwater and coasts will have better water quality and will be better places for people and wildlife	Pressures on the water environment make it a greater challenge to clean and protect it	<ul style="list-style-type: none"> <li>• Hotter weather increases water demand from the public, farmers, industry and nature</li> <li>• Changing rainfall patterns may make droughts worse or more common</li> </ul>

		<ul style="list-style-type: none"> <li>• Water quality decreases due to more pollution incidents and less water in the rivers to dilute them</li> </ul>
By 2025 nature and land is better protected and enhanced	Pressures on land and nature make it a greater challenge to enhance and protect it	<ul style="list-style-type: none"> <li>• Climate change could permanently alter our wildlife composition</li> <li>• A changing climate helps invasive species to colonise and spread</li> </ul>
By 2025 we will achieve cleaner, greener growth by supporting businesses and communities to make good choices, through our roles as a regulator, adviser and operator	Climate change will exacerbate risks from (and to) regulated industries	<ul style="list-style-type: none"> <li>• More extreme weather leads to increased industrial pollution</li> <li>• We need to change our environmental regulation approaches to reflect the rapidly changing environment</li> </ul>
By 2025 we will have cut waste crime and helped develop a circular economy	Climate-related pressures resources (their production, use, reuse, reprocessing) make it harder to use them sustainably	<ul style="list-style-type: none"> <li>• Stockpiling of waste due to bad weather</li> <li>• More waste generated by flooding</li> </ul>
By 2025 we will be on track to deliver our internal, organisational sustainable business commitments, including to become a Net Zero organisation by 2045-50 and to adapt the Environment Agency's estate to climate and biodiversity changes	The impacts of climate change on activities and behaviour reduces our ability to meet Net Zero and other sustainable business commitments	<ul style="list-style-type: none"> <li>• Extreme weather disrupts organisational supply chains, offices, depots, assets, people and processes</li> <li>• Energy use to manage environmental change negatively impacts on our ability to achieve organizational Net Zero</li> </ul>

### Adaptation action plan

The Environment Agency aims to embed climate resilience across its work including:

- Our National Flood and Coastal Erosion Risk Management Strategy is in place, setting direction and committing us to adaptation measures including the development of a new national flood risk assessment that takes account of climate change, new long-term investment scenarios and support to communities.
- We use strategic approaches to tackle climate pressures on England's water environment, including factoring climate change into the review of the National Framework for Water Resources, River Basin Management Planning and the Water Industry National Environment Programme.
- We work collaboratively on climate change and the nature crisis, including Keeping Rivers Cool (e.g. our riparian shade maps support tree planting and natural regeneration) and the Restoring Meadow, Marsh and Reef (ReMeMaRe) initiative, which supports practical restoration activity, and our work with water companies to reduce spread of invasive species within water transfers.
- We have added a requirement for climate risk assessment within management systems for EPR and are building our capacity to support those we regulate with adaptation.
- We have put in place an action plan for dealing with climate risks to our supply chain.
- We maintain oversight of climate adaptation through our cross-organisation action plan.

Our adaptation action plan is updated annually and addresses all risks set out in our most recent adaptation report under Part 4 of the Climate Change Act 2008. Table 2 summarises these.

**Table 2 - Example adaptation actions 2023-24**

<b>Priority</b>	<b>Example actions 2023-24</b>
Environmental regulation	Embed adaptation in the management systems of those we regulate. Train our regulatory officers on adaptation.
Flood and coastal risks	Continue to deliver the National Flood and Coastal Erosion Risk Management Strategy for England. Update our advice on future flood risk to help Local Planning Authorities ensure developments are resilient to a four degree increase by 2100.
Water	Include resilience measures within the Water Industry National Environment Programme (WINEP) as part of the next price review. Implement river basin management plans and associated catchment planning system, including adaptation measures.
Nature	Enhance resilience to sea-level rise and increase carbon sequestration through our collaborative restoration initiative to restore at least 15% of saltmarsh habitats along the English coast by 2043.
Incident management	Help others take action during incidents through improved climate adaptation communication and engagement.
Asset management	Develop our asset management planning capability to be resilient to impacts of climate change.
Capacity building	Build capacity to advise local planning authorities on environmental climate risks. Develop outcome-based adaptation monitoring and evaluation tools.
EA pensions	Raise the issue of adaptation and make sure the Environment Agency Pension Fund (EAPF) and other investors take account of the physical risks from climate change in their investment portfolio.
Estates	Understand the risks and adaptive capacity of our buildings.
Evidence	Develop climate projections on water temperature to inform water quality planning.

## **Sustainable construction**

Our investment strategy centres on a comprehensive evaluation of options to identify the most sustainable solution. This approach addresses specific local challenges, meets key requirements, and provides additional benefits to communities and the environment, including flood risk reduction. The solutions are often a combination of soft engineered solutions using on-site materials and, where possible, working with natural processes, but also building and adapting hard structures and flood defences where required. We deliver these solutions with a focus on sustainability and efficiency through an increasingly 'digital by default' approach, enabling Modern Methods of Construction (MMC) as well as the use of innovative lower carbon construction materials and techniques.

## **Nature recovery and biodiversity action planning**

### **Natural capital and the Environment Agency estate**

A natural capital approach helps us understand the benefits that are provided by nature. Through our work to enhance nature, such as the protection and restoration of habitats and regulation of pollution, we gain wider benefits that contribute to people's health, wealth and wellbeing. However, many of these wider benefits are difficult to define and value, and as a result, are often not recognised or considered when designing and delivering projects or making investment decisions.

Using a natural capital approach, we can assess and quantify those benefits, e.g. the amount of carbon dioxide absorbed by habitats which regulates the climate, the ability of floodplains to store water and reduce flooding, or improvements to the physical and mental health of people who visit green and blue spaces. The Environment Agency is developing evidence and tools to use a natural

capital approach to contribute to the recovery of nature, achieve organizational Net Zero and deliver additional environmental, public health and wellbeing benefits.

The Environment Agency is fortunate to have a large stock of natural capital assets across our estate which comprises over 17,240 ha of coastal plains, river corridors, farmland, woodlands and wetlands. Using the Environment Agency's Natural Capital Register and Account Tool (NCRAT) we can quantify the flows of nature's services from the environment and estimate an economic value for the benefits derived from its estate. This value represents the longer-term benefits for people from protecting and improving the environment. We estimate that the benefits provided by our estate's natural capital assets are worth over £17 million to society each year. The analysis focuses on seven benefits: agricultural production, timber, air quality, climate regulation, flood mitigation, recreation, and physical health. The natural capital within our estate makes a vital contribution to the delivery of our organisational Net Zero commitments by sequestering over 7,000 tonnes of carbon equivalent each year.

By providing tailored natural capital evidence, metrics and capacity building we are supporting our colleagues and partners to adopt this innovative approach in national policy, planning, delivery and reporting. Embedding a natural capital approach is starting to transform how we (and others) invest in the environment - enabling us to increase investment and stewardship in the environment and focus on interventions which are greatest value for money, so that we maximise benefits for nature and people.

## Rural proofing

The agriculture sector is facing unique challenges: efficient food production that is economically sustainable; adapting to the effects of a changing climate; reducing its impact on water quality and enhancing the environment.

We work with Defra and other arm's length bodies as part of a Stakeholder Co-ordination Group to provide a joined-up approach to the regulation of agriculture and on-farm activities. Through this Group, we have developed a shared regulatory approach to set out priority areas to work on, including improved clarity in the information we provide and better consistency in our approaches.

We carry out 4,000 farm inspections annually. We take an advice led approach to regulation - many farms may not have been visited by an Environment Agency officer before and we want to work with them to achieve compliance with environmental regulations.

Many of our officers have an agricultural background and understand the competing pressures of running a farm. All our officers are trained in mental health awareness and can direct farmers to emotional support services, alongside financial assistance through grant schemes.

Intensive pig and poultry farms are regulated through environmental permitting. We use the Pig and Poultry Assurance Scheme to gather data for these farms through their routine certification visits, to reduce the number of inspections and the cost of a permit. The scheme has been operating successfully for 14 years and overall permit compliance is high.

Alongside our regulatory work, we are working with Defra and other arm's length bodies to develop the Environmental Land Management schemes. We have helped to shape the schemes, based on feedback from the sector, to ensure that they are attractive to farmers and will achieve good environmental outcomes. Similarly, we are engaging directly with the agri-food sector more broadly to help them understand farming practices that are beneficial to the environment and how they can support their suppliers.

One of the biggest issues confronting farmers is the impact of extremes in our weather - both from flooding and drought - something evidence suggests will be more commonplace due to our changing climate. Through our FCERM Strategy Roadmap, we are working closely with partner organisations to understand and reduce the impact of flooding on rural communities. This includes working with farmers and land managers to help them adapt their businesses to be resilient to

flooding and coastal change and encouraging farming and land management practices that better support wider rural resilience to floods and droughts.

We take a stepped approach to restrictions on water abstraction during drought conditions. Farmers can voluntarily reduce their consumption before we move towards partial restrictions or total bans. We recognise the impact this can have on crop production and are widening our work on regional water resource planning to integrate the needs of farmers; facilitating development of Local Resource Options that will benefit farmers by improving resilience of abstractions; and we have worked with UK Irrigation Association to review and update the farm storage reservoir guidance.

### **Green Information and Communication Technology (ICT)**

As a part of the Defra group, we have adopted the Greening Government: Information Communication Technology (ICT) and Digital Services Strategy (2020 to 2025). Under the strategy Defra reports the greenhouse gas (GHG) and power consumption for the Defra group ICT, a full breakdown of waste, using the waste hierarchy, including value retained and charitable donations, strategy statements and results. More information can be found in the Greening Government: ICT and Digital Services annual reports.<sup>4</sup>

### **Taskforce on Climate-related Financial Disclosures (TCFD)**

Climate change is fundamental to what we do. Our staff play a pivotal role in preparing communities and the environment for a changing climate. The risks climate change poses to our delivery and the changes we need to make to transition to a Net Zero organisation mean that we must think differently - 'business as usual' is not an option. The integrated nature of our approach means that information relating to climate change can be found throughout our corporate reporting.

The Environment Agency is England's statutory environmental regulator and has vital roles on climate change in both statutory and corporate contexts.

In a statutory context, we:

- Integrate climate adaptation into the delivery of our wider statutory and non-statutory duties, for example to ensure that flood risk management and water management activities account for the effect of climate change. This means that we play an important role in delivering national climate resilience through our work on flood and coastal risks, water and nature.
- Play a regulatory role in reducing greenhouse gas emissions and improving energy efficiency through the industries we regulate, including as the administrator of the UK Emissions Trading System and of the quota system for fluorinated gases and ozone depleting substances. We regulate many producers of renewable energy through our environmental protection duties (e.g. hydropower plants).

In a corporate context, relating to our institutional functions, we:

- Ensure that our corporate operations adapt to climate impacts (for example, as it impacts on our estates and supply chains) in line with Greening Government Commitments (GGC) organisational estates and sustainability strategies and Defra's estates and sustainability strategies.
- Commit to reducing our own carbon footprint to an SBTi-aligned (Science Based Targets initiative) organisational Net Zero position by 2045 to 2050, across Scopes 1, 2 and 3 emissions. Our near-term target is to achieve a highly ambitious 45% reduction against our 2019-20 baseline emissions, by 2030.

### **EA regulatory requirements related to climate change**

- Existing: There are a range of statutory duties and wider government / other stakeholder obligations that apply to us (e.g. Greening Government Commitments (GGC), Adaptation

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<sup>4</sup> <https://www.gov.uk/government/collections/ict-strategy-resources#greening-government-ict>

Reporting Power (ARP) and Taskforce on Climate-related Financial Disclosures (TCFD)), as well as our own internal corporate targets. Our certified ISO14001 and ISO9001 management systems include an obligations register, which includes statutory and non-statutory obligations/compliance matters, and the management system enables us to achieve a high degree of assurance that we comply with relevant requirements. We welcome the particular new emphasis placed on Climate Change, which ISO has this year created through a wide-ranging amendment to many of its management systems standards, including ISO14001 and ISO9001.<sup>5</sup> ISO now explicitly puts a focus on climate change matters relevant to the outcomes of the management systems and this is inclusive of regulatory compliance matters.

- Future: As an advisor to government and the leading English environmental regulator with wide ranging collaborations across public and private sectors, we spend much of our time anticipating regulatory requirements and advising government on the potential need for new regulations, prior to their emergence. Our advice is evidence based, guided by the state of the environment and influenced by our experience of both complying with and regulating environmental legislation. As an example of this role, we have recently supported Defra and HM Treasury in developing climate change adaptation guidance for GGC, ARP and TCFD.

### TCFD compliance statement

In terms of the Board's oversight of climate-related issues and management's role in assessing and managing climate-related issues, we have reviewed our internal processes and outline below where we believe we have complied with the TCFD's recommended disclosures and where we intend to do further work in 2024-25, to ensure full compliance in our next disclosure.

#### Board's oversight of climate-related issues:

- Compliance relating to the processes and frequency by which the Board and the Board's Audit and Risk Committee are kept informed about climate-related risks, through our corporate risk register reporting each quarter, which includes two climate-related corporate transitional risks (one on our statutory duties and one on Net Zero delivery).
- Compliance regarding how the Board monitors and oversees progress against goals and targets for addressing climate-related issues, through our quarterly performance scorecard report, which includes goals and targets for both our climate impact plan and organisational Net Zero.
- Partial compliance relating to how our Board and Board committees consider climate-related issues when reviewing and guiding corporate strategies, annual budgets, organisational performance objectives, performance monitoring and oversight of major capital expenditure. We are reviewing our processes to ensure a consistent focus across all our elements through an organisational governance review in 2024-25.

#### Management's role in assessing and managing climate-related issues:

- Compliance in terms of how management monitors climate-related issues through the climate items on the corporate risk register and performance scorecard, which go to our Executive Director Team (EDT) Meeting each quarter, for review and discussion, before going on to the Environment Agency's Board.
- Partial compliance relating to organisational assignment of climate-related responsibilities and issues to specific management-level positions and committees. We will address the remaining gap through the organisational governance review.
- Partial compliance with regards to informing management about climate-related issues. We will extend our current arrangements for sustainability performance reporting to strengthen areas identified to ensure full compliance in 2024-25.

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<sup>5</sup> [APG Auditing Climate Change issues FINAL 3-19-2024 Rev 1.pdf \(iso.org\)](#)

## Governance

### The Board's oversight of climate-related risks and opportunities

The Environment Agency Board is directly accountable to ministers for all aspects of the organisation and its performance. This includes consideration and approval of short and long-term strategy, and the key strategies are mentioned throughout this climate-related disclosure section. All papers discussed by the Board and EDT must include how plans will tackle the climate emergency.

The Board delegates responsibilities for risk and control to the Audit and Risk Assurance Committee (ARAC) which is responsible for considering and advising the Board and Accounting Officer on matters relating to corporate risk.

The Board annually approves the corporate scorecard which contains measure for managing climate risk (both physical and transitional risks).

The Board has oversight of our climate-related risks and opportunities on a quarterly basis through our corporate risk register and corporate scorecard.

The governance statement also sets out the consideration of material issues. Climate change is considered a key material issue and was a prominent theme of the January 2023 Audit and Risk Assurance Committee annual material issues review.

Among the 11 highest scoring material issues, climate change (both mitigation and adaptation) continues to rank within the top three. The Committee used the material issues to inform their oversight of the organisation's corporate risks as part of a programme of deep-dive sessions in 2023: including a session on organisational sustainability in April 2023. The material issues are reviewed and tracked on an annual basis.

### Management's role in assessing and managing risks and opportunities

The Environment Agency incorporates climate risk management into its governance arrangements, so that individual directors are accountable for managing their own adaptation and mitigation risks.

Where our statutory duties require us to assess and manage physical climate risks (for example, in delivering our flood and coastal risk management duties), then management responsibilities are discharged in accordance with the Environment Agency's financial and non-financial Schemes of Delegation.

The Environment Agency is periodically directed to report to ministers on its adaptation risks and plans under the Climate Change Act. Our most recent report contains a comprehensive analysis of our physical and transitional climate risks and our adaptation strategy to manage them, drawing on assessments and plans developed under our statutory duties where relevant. The report and its constituent risk assessment and adaptation strategy were approved by EDT.

All Executive Directors are responsible for effective management of their relevant components of physical and transitional climate risks and opportunities and full integration with strategy and performance. Currently, each director has accountability for different aspects of climate change, reflecting the nature of our organisation and their individual remits.

Our Climate Ambition is to create a Net Zero nation, resilient to climate change. The Executive Director for Strategy Transformation and Assurance (STA) is accountable for overseeing climate mitigation and adaptation plans within our own organisation. The Environment and Business Executive Director is accountable for the two external facing segments (i.e. for overseeing the Environment Agency's contribution to the nation's mitigation and adaptation). The Executive Director of Flood and Coastal Risk Management also has a significant accountability in mitigation, adaptation, and resilience.

The Executive Director Team reviews the corporate scorecard quarterly and receives a quarterly update on corporate risks.

Nine of the corporate scorecard measures are linked to the climate crisis. This scorecard is reviewed by EDT every quarter, alongside the two climate risks on the corporate risk register.

Each of the organisation's EDT sub-groups are also required to consider climate risks and opportunities that are relevant to their remits. In 2023-24, there were improvements to corporate governance, with changes in the scope of these sub-groups, through the implementation of Internal Audit recommended actions.

The Preparing for Climate Impacts Plan is the action plan agreed as part of our third adaptation report (Living better with a changing climate), published in October 2021, which is a comprehensive quinquennial assessment of the risks and opportunities for us in delivering our strategy and functions, in the context of climate change impacts. We produce this plan as a reporting authority under the Climate Change Act 2008.

Relevant strategies - from a climate-related financial risk perspective - are regularly reviewed and approved by EDT, for example the National Flood and Coastal Erosion Risk Management Strategy, the EA Net Zero roadmap and the Adaptation Report. These all address the current situation, future risks and opportunities and set out how the organisation is going to address these, with costed plans where feasible.

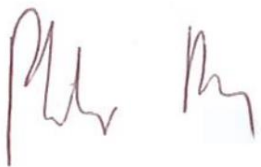
For example, each of the approximately 90 emissions reductions and removals actions which sit within the organisational Net Zero roadmap were formally approved by EDT and are now monitored quarterly by the Sustainable Business Team. Each action in the roadmap is given a red, amber or green status each quarter and these ratings are reported to EDT and the Board, as part of the bi-annual EDT corporate sustainability report.

### **Disclosure Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks**

Appendix A of this annual report details emissions totals within each scope category.

### **Conclusions**

The climate emergency has profound implications for all we do as an organisation; and to respond to this, climate-related risks and opportunities are being integrated into the organisation's governance, strategy, risk management and performance metrics. Our aspiration is to continuously improve our response to climate-related financial risk. Completing and fully complying with all aspects of TCFD will enhance our approach to tackling climate change, improve internal dialogue and action on climate change.



**Philip Duffy, Chief Executive and Accounting Officer**

**15 November 2024**



## Review of financial performance and funding

Our audited financial statements show total gross expenditure for the year ended 31 March 2024 was £2,234 million, compared to £1,921 million in the previous year (restated). Of our total funding, 74% (2022-23 - 72%) came in the form of funding from Defra. The other 26% (2022-23 - 28%) largely came from fees and charges. Figures 1 and 2 provide more information on the make-up of total gross expenditure.

The values presented for 2022-23 have been restated by a prior period adjustment which corrected the treatment of project costs between capital works expensed in year (CWEIY), asset purchases and resource costs incurred on projects, and corrected inappropriate historic valuations of operational and freehold land assets. Further information on the prior period adjustment is detailed in the notes to the financial statements.

Net expenditure for the year after deducting income was £1,690 million (2022-23 - £1,418 million restated).

### Income

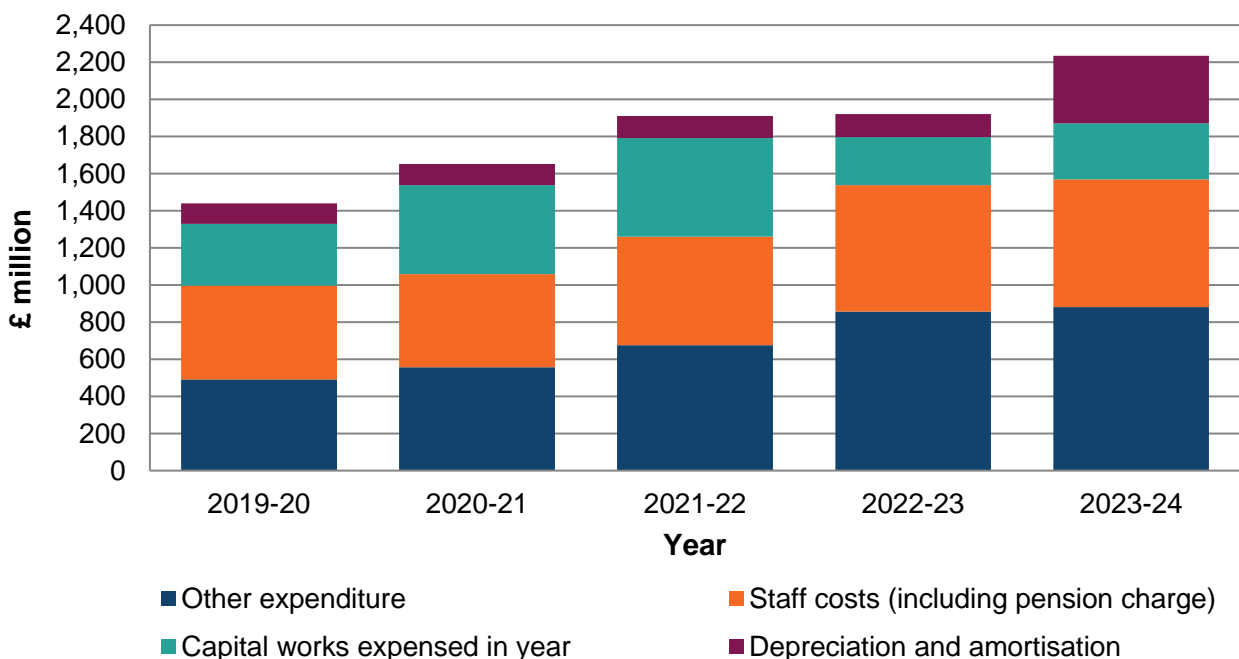
As detailed in note 6 of the financial statements, our overall level of income increased by 8.2%, driven by an increase in accrued income relating to charge balances which will be recovered in future through amended spending or increases to charge rates following consultations.

In 2023-24, we continued our good income collection performance with 97.4% of billed income (overdue invoices less insolvencies) collected within the financial year and 92.7% of all billed income. 98.5% of all income billed during the prior year has now been collected.

### Expenditure

Our expenditure increased compared to the prior year, driven in part by an increase to the depreciation charge as a result of the implementation of Depreciated Replacement Cost (DRC) valuation of our operational assets.

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



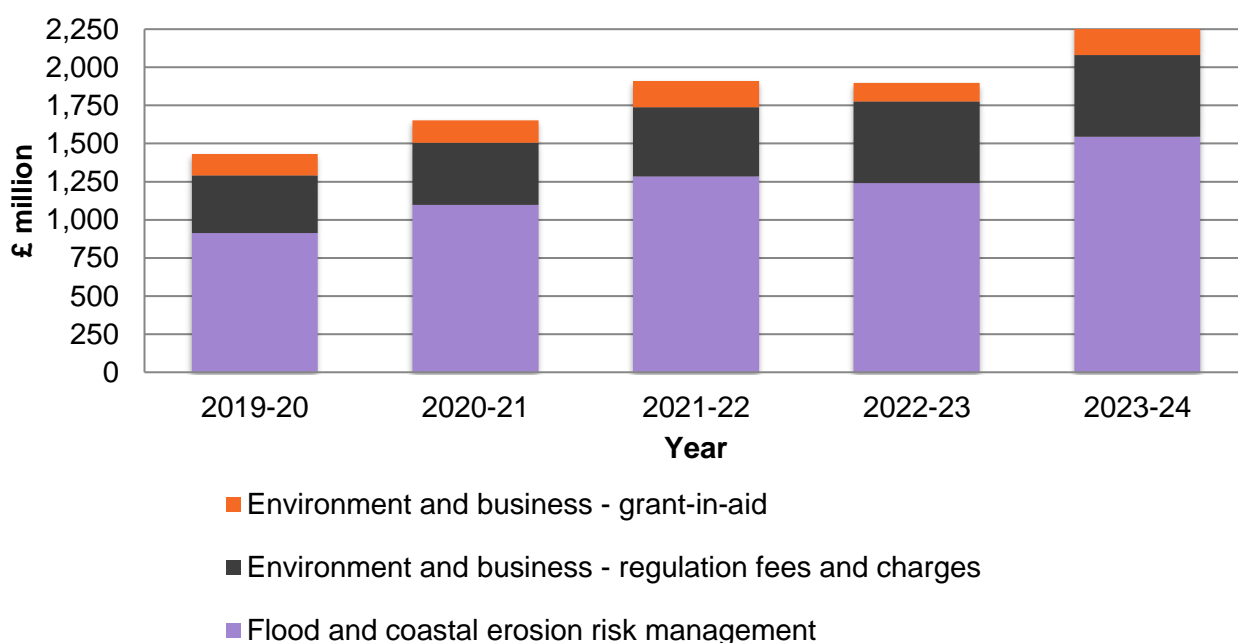
More detail on staff costs, capital works expensed in year (CWEIY) and other expenditure is provided in the financial statements in notes 3, 4 and 5 respectively.

Expenditure classified as CWEIY has increased this year to £302 million, from £259 million in 2022-23, as has other expenditure which has increased slightly from £857 million to £881 million. This reflects the ongoing delivery of the flood capital programme which entered its third year in 2023-24. The value of CWEIY reduced since 2021-22 due to a change in the scope of what could be recognised as CWEIY following clarification from HM Treasury.

Our expenditure by funding stream is shown in Figure 2. Resource funding pays for recurring operating expenditure and capital funding pays for expenditure from which longer-term benefits are expected to accrue. Capital funding covers our CWEIY expenditure, asset purchases and additions to assets under construction.

We spent £260 million on asset purchases and additions to assets under construction in 2023-24. The breakdown can be seen in notes 7 and 9 of the accounts. Assets under construction is where we hold construction costs of assets which take longer than 1 year to construct and so will include major flood alleviation schemes and other specialist asset complexes. Depreciation charges increased in 2023-24 due to the increased valuation of the operational asset base following the application of a depreciated replacement cost valuation from 31 March 2023.

**Figure 2: Five-year summary of our expenditure by funding stream**



Grant-in-aid has increased for environment and business and flood and coastal erosion risk management (FCERM) over the past five years. The Parliamentary Accountability and Audit report details the activities funded by fees and charges and grant-in-aid.

## Balance sheet overview

The statement of financial position has strengthened compared to the prior year, with the value of all assets less liabilities up £677 million compared to the previous year.

Firstly, this reflects the increase in the valuation of our operational assets, which have been valued at Depreciated Replacement Cost for both the current and prior financial year. The valuation of operational assets remains qualified for both 2023-24 and 2022-23 whilst data improvements works are completed on operational assets.

Secondly, the pension fund has continued to perform well, which demonstrates the benefit of many years of a prudent and stable long-term approach to employer contribution rates, as well as excellent investment returns. The fund is in a stronger balance sheet position than many peer local government pension scheme funds, which means the Agency's contribution rate is lower than many peer organisations.

## Going concern

The Environment Agency is a going concern under the continued provision of service basis from the government's Financial Reporting Manual. There is no change to the service the Environment Agency is expected to deliver under relevant legislation and no expected changes to that legislation.

The statement of financial position as at 31 March 2024 shows taxpayers' equity of £10,936 million (31 March 2023 - £10,259 million restated).

The future funding for our liabilities will be primarily grant-in-aid from Defra and other income, mainly from fees and charges. Parliament approves the grant-in-aid funding annually. The fees and charges are statutory and recurring, with the risk of reduced income arising if there is a substantial reduction in economic activity in sectors we regulate.

We have received approval for our grant-in-aid resource funding for 2024-25. Our grant-in-aid funding for the following year will be agreed as part of a future Spending Review.

We expect billed income collection to remain strong, with in the region of 97% of the income billed in 2024-25 expected to be collected during that year. While remaining prudent with our assumptions on levels of bad debt, we do not currently have concerns that any increases to bad debt will have a material impact on our status as a going concern.

We have the same prudent view on bad debt within our budget allocations and will manage our spend through 2024-25 based on our income collection and bad debt experience. We have therefore, based on all these considerations, prepared the financial statements on a going concern basis.

# Accountability report

## Corporate Governance report

### Statement of Accounting Officer's responsibilities

Under section 45 of the Environment Act 1995, the Secretary of State for Environment, Food and Rural Affairs has directed the Environment Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Environment Agency and of its income and expenditure, statement of financial position, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by the Secretary of State and HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on a going concern basis.
- Confirm that the annual report and accounts as a whole is fair, balanced, and understandable.

The Accounting Officer of Defra has designated the Chief Executive as Accounting Officer of the Environment Agency. The responsibilities of an Accounting Officer are set out in 'Managing Public Money' published by HM Treasury. These include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Environment Agency's assets.

The Comptroller and Auditor General, Head of the National Audit Office (NAO), is the statutory external auditor of the Environment Agency. The NAO received no remuneration for non-audit services in the year to 31 March 2024, the same as in the previous year.

As far as the Accounting Officer is aware, there is no relevant audit information of which the external auditor is unaware. Supported by the Finance Director and the Finance function, the Accounting Officer has taken all steps to make himself aware of any relevant audit information and to establish that the external auditor is aware of that information. The Accounting Officer also takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced, and understandable.

## Governance statement

### Introduction

The Chief Executive is responsible for maintaining a good system of internal control that supports our aims and objectives, and prevents attempted fraud, corruption, or bribery, and relies on his Executive Directors to support him in delivering his responsibilities. The Chief Executive is the Accounting Officer (AO) for the EA.

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

## Summary of governance arrangements

### The governance framework

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

The Board ensures that:

- We fulfil our statutory duties.
- We follow the directions provided by the Secretary of State.
- We operate with propriety and regularity.
- We are an efficient and effective organisation.

As at 31 March 2024, the Chief Executive and 10 independent non-executive Board members, including the Chair, sit on the Board. The Board, Executive Director Team and senior managers review our performance across all our activities and discuss it with Defra. The Chair and Chief Executive typically meet with the Secretary of State twice yearly in Ministerial Performance Meetings, and other Defra ministers regularly on various subjects.

For the financial year of 2023-24, the topics discussed during ministerial meetings included:

- Water management, including the government's plan for water, water quality and resources.
- Flood risk management, including asset maintenance, the flood investment programme, the frequently flooded allowance, and response and recovery from recent storms.
- Regulating industry and waste management, including waste crime and Environment Agency permitting Agriculture, including the Environment Agency's farm inspections.
- Air quality.
- Environment Agency's performance, targets, and funding, including charging schemes.
- Industrial action, pay and staffing levels.
- Recruitment of the Environment Agency Chief Executive.

### Effectiveness of corporate governance

The Environment Agency has undertaken work over the last 12 months to evaluate and realign its corporate governance framework to provide the Executive Director Team with better strategic oversight and assurance of its key priorities. Central to this has been the creation of five Executive Director-led sub-groups:

- People
- Digital and Transformation
- Capital Programme and Assets
- Environment and Regulation
- Operations and Performance

These groups have now brought together the right skills and resources from across the business to take rapid decisions to enable the Environment Agency to meet its environmental priorities.

Underpinning governance groups and structures have also been streamlined to create the capacity needed to deliver these priorities. This has created a simpler governance model that adheres to relevant standards and fully enables effective assurance and decision making, but is also one that is efficient, agile, and inclusive.

### Board duties and responsibilities

The Board is responsible for:

- Developing and approving the short and long-term strategy, and the means for its implementation, for the Environment Agency to meet its responsibilities and duties under the Environment Act 1995 and all other relevant legislation and directions, having regard to the Management Statement, the Financial Memorandum, the guidance on sustainable development and other guidance from Ministers.
- Approving the allocation of resources.

- Approving the Corporate Plan and the Annual Report (including the Accounts).
- Approving proposed charging schemes.
- Approving various capital works programmes.
- Approving projects, contracts and consultancies etc. as required by the Financial Memorandum and the Environment Agency's Scheme of Delegation.
- Approving the Scheme of Delegation.
- Monitoring the performance, finances, conduct and propriety of affairs of the Environment Agency to ensure that it is an inclusive, efficient and effective, healthy and safe organisation with effective internal environmental management.
- Providing scrutiny of specific topics relevant to the Environment Agency's role as might be expected in the oversight of a non-departmental public body.
- Managing the Environment Agency's Superannuation Funds to safeguard the interests of pensioners and employees.
- Establishing and maintaining regional committees for England as required by law and consulting them as appropriate.

### Committee structure, including Regional Flood and Coastal Committees

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

The Flood and Water Management Act 2010 required us to establish Regional Flood and Coastal Committees (RFCCs). RFCCs raise levies to fund local priority projects. They also work with coastal groups and lead local flood authorities to advise on activities within their catchments and along the coast and to share good practice. We must consult with RFCCs and agree our flood and coastal risk management investment programmes and budgets with them. All RFCC meetings are advertised on gov.uk and members of the public are welcome to attend.

### Executive Director Team (EDT)

The Chief Executive manages a team of four Executive Directors who provide leadership and strategic direction to the organisation. In addition, this team is supported by the Finance Director for the EA who provides a service through the Group service model. The four Executive Directors are responsible for four main directorates:

- Flood and Coastal Risk Management
- Environment and Business
- Local Operations
- Strategy, Transformation and Assurance

The Chief Executive and his team meet weekly for operational updates and decisions and monthly for a full day to consider and make strategic decisions on managing the Environment Agency. During incidents they may meet more frequently, as required. They are responsible to the Board for all aspects of performance and risk management. EDT supports the Chief Executive in establishing and maintaining an effective system of internal control within the organisation. EDT meetings include the Director of Legal and Audit Services, Deputy Director of Governance and Engagement, as well as support from the EA Finance Director and Deputy Director of Human Resources which is delivered through the group model. In addition, an Equality, Diversity, and Inclusion representative joins EDT meetings. The team can be seen in the figure below.

**Figure 3: Environment Agency committee board structure**

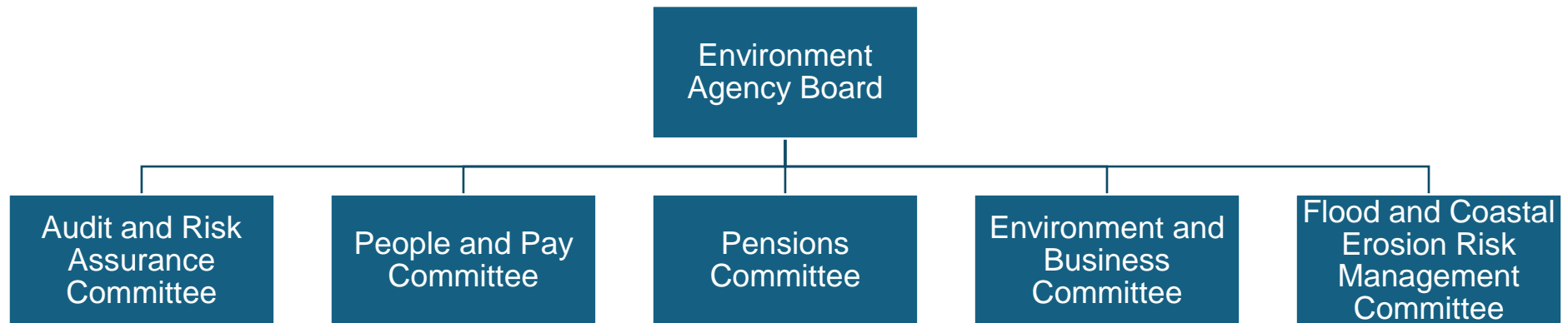
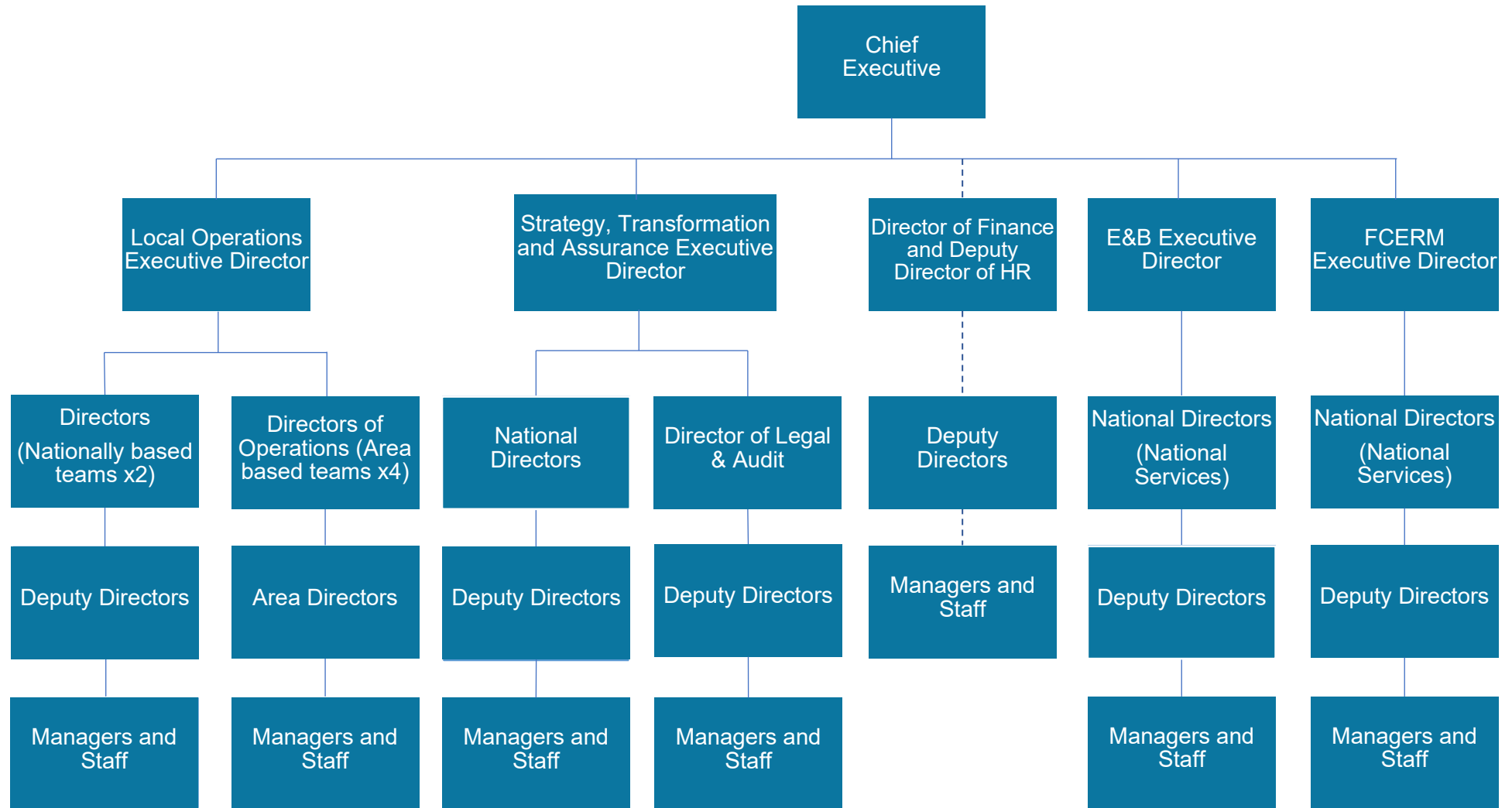


Figure 4: Environment Agency organisational reporting lines



## Structures and governance

In 2023-24, the Environment Agency had three business Boards. In April 2024, the EA implemented a change in this governance with five Director led subgroups as mentioned above. The Business Boards provided 'one-team' leadership, bringing together director representatives from all four executive directorates to ensure that national and operational teams work together effectively:

- Flood and Coastal Risk Management
- Environment and Business
- Organisational Business Board

This was a key part of the organisation's internal oversight processes, with the first two Boards providing oversight and strategic direction on specific activity relating to that business area, and the Organisational Business Board focusing on cross-cutting topics and enabling services.

## Defra group Corporate Services

Governance of the overall partnership with Defra group Corporate Services in the Environment Agency sits with the Environment Agency Corporate Services Portfolio (CSP) group which reports into the Organisational Business Board. The CSP brings together senior Environment Agency representatives and the senior corporate services business partners supporting the organisation. The CSP meets every two months and oversees corporate and cross-cutting matters, including the management of risks that require substantial activity or co-ordination by Defra group Corporate Services. Other Portfolio groups under the Organisational Business Board focus on more specific areas of service. The Partnership Agreement of 2017 between Defra and the Environment Agency remains at the heart of the relationship.

Defra group Corporate Services and the Environment Agency are committed to working together in partnership to understand areas of challenge and address problems, including strengthening communications to end users through the most effective channels.

## Shared Services

The Cabinet Office manages the shared services contract for transactional Finance, Commercial and HR processes with an external provider, Shared Services Connected Limited (SSCL), on behalf of the Environment Agency.

We have gained assurance from the Government People Group in their 2023-24 Framework Authority Annual Audit Plan and the Internal Audit report received from SSCL's auditors (Pricewaterhouse Coopers LLP [PwC]), combined with assurance gained from audits undertaken by the Government Internal Audit Agency (GIAA) in relation to the 2023-24 Audit Plan together with their knowledge of the business.

The assurance opinion provided by PwC for the 2023-24 audit year relating to SSCL's system of internal control was 'Reasonable/Moderate Assurance'. No critical risks were identified by PwC as part of the 2023-24 audit programme.

GIAA has issued a 'limited' annual opinion for 2023-24 (the same as in the previous year). Of the five end-to-end audits conducted by GIAA in 2023-24, three were rated as 'Moderate' and two as 'Limited'. These audits included a follow-up of the EA Local Government Pensions Scheme Audit undertaken in 2022-23 (rated 'Unsatisfactory' at the time).

## Compliance with the corporate governance code

We follow best practice for corporate governance and have complied with the HM Treasury's corporate governance code. Our handbook for Board members reflects this guide. Board members are required to make bi-annual declarations of memberships of other organisations' Boards and any conflicts of interest. We also ask Executive Directors to make annual declarations of interest for further transparency. All managers and staff are asked to complete an annual disclosure of interests and discuss any disclosures and potential conflicts of interest with their line manager.

The Environment Agency takes the management of interests and conflicts very seriously. There are robust processes and guidance for managing potential and actual conflicts for our Board members, senior executives, and staff. The requirements for Board members are set in the Environment Act 1995. Board members provide updates on declarations at each meeting as a standing item, recorded in the minutes. Board members are required (by the Environment Act 1995) to declare potential conflicts of interest and not take part in deliberations or decisions where they have such conflicts, including declaring conflicts of interest in relation to specific items on the agenda before every meeting they attend. We hold a register of Board member and Executive Director declarations, available to view on gov.uk. The Board's ARAC review the details of Board member and Executive Director declarations annually.

## Effectiveness of EDT and the Board

In November 2023, EDT held a session to review their ways of working and discuss priorities for the year ahead. EDT agreed:

- To seek opportunities to increase the diversity of its membership in terms of both gender balance and increased Local Operational representation, with consideration of guest spaces and additional representation from those with other protected characteristics.
- To encourage greater diversity of thought, cross-team working and accountability on strategic issues across the wider leadership group.

In February 2023, the Board met to evaluate its collective effectiveness as a group. The Board considered successes and areas for improvement across three themes: support and challenge; strategic focus; and engagement.

The Board discussed outcomes of the evaluation exercise and agreed:

- To invite a greater variety of voices to future meetings.
- To continue to foster open and constructive discussions that enable challenge.
- To move towards more strategic discussion to focus on this going forward.
- That having more engagement opportunities and working more collaboratively as a group would add great value.

## Effectiveness of risk management

Our approach to risk management is approved by the Board and Executive Directors. Individual directors are responsible for the risks within their business area. However, strategic risks or other risks with the potential to disrupt the organisation are managed by EDT.

EDT own the corporate risk register and Executive Directors own the risks. They are responsible for developing, formally reviewing, and updating their risk assessments. Risk management forms a regular agenda item at quarterly meetings during the year. The Board's Audit and Risk Assurance Committee has an important role in identifying, advising on, and monitoring the management of these significant organisational risks.

The ARAC Chair is a member of the Defra Audit and Risk Assurance Committee, which supports and advises the Defra Board and the Defra Principal Accounting Officer on issues of risk, control and governance.

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

Risk registers and maps are in place for business boards and area leadership teams, which include risk assessments, mitigating measures and an identified person who is accountable for managing each risk. We also have a link into the Defra risk management process via the Environment Agency Director of Finance.

During quarter four of 2023-24 an updated Risk Management Framework was approved by EDT and ARAC and this has been launched in quarter 1 of 2024-25. This improved framework will ensure a consistent approach to risk management and escalation across the business. This updated framework is compliant with all five principles outlined in the government's 'The Orange Book - Management of Risks - Principles and Concepts'.

Risks that currently feature on the corporate risk register are detailed in the Risk Management section.

## Effectiveness of the internal control system

### Overview of the internal control system

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

Our internal control processes are designed to:

- Identify and prioritise the risks affecting our business aims and objectives.
- Evaluate the likelihood of those risks happening and their likely impact.
- Manage those risks efficiently and effectively.

Our resource allocation is published in our corporate plan, and we report on our in-year progress against objectives, performance targets and budget in our corporate scorecard. The performance report section of this annual report summarises our performance in delivering environmental outcomes and provides assurance on how we have used our resources this financial year. We hold ourselves to high standards and have a policy of compliance with the law.

The following elements of the Environment Agency's internal control environment helps to ensure we deliver value for money:

- The Board has delegated its powers of control over income and expenditure through a financial scheme of delegation (FSoD), which establishes the limits within which individual officers are allowed to approve spending. The FSoD requires consultation with senior business partners from Finance, Commercial and HR. Larger items of expenditure must be referred to and approved by external parties such as the Defra Permanent Secretary, HM Treasury or Cabinet Office.
- All projects over £100,000 go through an assurance process and are reviewed by a qualified person from the appropriate area of expertise using clear investment and appraisal criteria. These individuals are independent of both the proposer and the approver of the expenditure. Further external scrutiny of substantial levels of capital expenditure is provided via:
  - Regional flood coastal committees on local investment plans,
  - Reviews by the Infrastructure and Projects Authority of our largest projects.
- Procured expenditure goes through our Commercial teams or the frameworks they have provided. Central contract expenditure is vetted by a finance compliance team and items procured via government procurement cards are subject to line manager approval.

A positive and well embedded compliance culture is fundamental to the success of our internal control environment. This is a culture of respecting rules and policies, feeling empowered to challenge more senior people if required, and doing the right thing.

### Overview of the internal control system - internal audit assurance

Annually EDT and ARAC approve a risk-based internal audit plan. This responds in year to emerging risks, with changes agreed with EDT and the ARAC. The Accounting Officer is advised on internal control matters through a monthly summary with full internal audit reports attached, quarterly progress reports and presentations at EDT meetings. Similarly, the ARAC receives monthly summaries and documented and verbal progress reports at every meeting. A year end

opinion is provided to both parties giving an overall opinion on the control environment. These reports provide the key findings from our work including trends and key themes and the progress of agreed actions.

Drawing on the evidence obtained from 1 April 2023 to 31 March 2024, an overall limited assurance rating was given on the adequacy and effectiveness of the Environment Agency's arrangements for corporate governance, risk management and internal control. Improvements are needed to ensure compliance across the organisation and that staff are clear as to how to manage competing priorities. Work is needed to ensure policies, procedures and training requirements are clear. There was a lot of change in year and more work is needed to better coordinate this. All internal audits have an action plan to address key risks and issues. The action plans are tracked to ensure their completion. Excellent progress was made on implementing outstanding management actions promptly.

### National Audit Office value for money reviews

In 2023-24, there were four value for money reviews that touched on areas managed by the Environment Agency: extreme weather, flooding resilience, the government's resources and waste reforms for England and regulating to achieve environmental outcomes. The full reports for all of these are available on the NAO's website.

There were recommendations within the flooding resilience review that required further action by the Environment Agency which will need increased spending and careful project management. The report acknowledged that building new flood defences and maintaining existing ones is no longer enough and that a wider range of interventions is now needed to build resilience against increasing flood risk.

### Data quality

The Board acknowledges that good quality data is fundamental for effective strategic and operational decision making. It recognises the opportunities and risks data quality brings to the efficient and effective use of Environment Agency resources. Our approach is aligned to the Government Data Quality Framework.<sup>6</sup>

Assurance is provided from internal audits and through the conclusions of the NAO, published in the year-end audit completion report, around the data supporting the financial statements. However, it should be noted that some data quality issues have been identified in recent years which the business is working to improve upon.

Additionally, our organisation holds externally audited certifications for the ISO9001 (Quality Management) and ISO14001 (Environmental Quality) standards.

Our accreditation under ISO55001 (asset management) standard requires that we have a data management system suitable for our asset management strategy, plan, and outcomes, which enables efficient and effective asset management and risk-based decision making.

### External certification

Recommendations are also made by accredited bodies, who review our environmental performance and quality standards.

We were recertified to the international standard for quality management (ISO9001) and environmental management (ISO14001) on 23 March 2023. This followed an audit of our quality and environment management systems. The auditors assessed at all elements of the standards and followed themes related to water quality, flooding, regulated industry, community and customer engagement and conservation and biodiversity. The audit identified seven minor non-conformities

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<sup>6</sup> <https://www.gov.uk/government/publications/the-government-data-quality-framework/the-government-data-quality-framework>

resolved internally and closed by the auditors. We were re-audited in September 2022, and no non-conformities were found during this audit.

As noted above the organisation is also certified under ISO55001 (asset management system AMS) for flood and coastal risk management flood risk asset portfolio. We were first certified in 2018 by SGS and re-certified in 2022 against the standard's full requirements. The latest ISO55001 surveillance audit by SGS in June 2024, reduced our minor no-conformities to two for Resource Management and Management of Change, with action plans under Asset Management System Portfolio Board (AMSPB), for re-certification in June 2025.

### Information security

Following the Cyber Incident with the Environment Agency Pension Fund's (EAPF) third-party administrator in March 2023, the administrator took extensive steps to recover and secure the customer, supplier and colleague data contained within the impacted server estate, and to remediate any issues arising from the incident. They worked closely with all appropriate regulatory authorities and with customers, suppliers, and colleagues to notify those affected and take any remaining necessary steps to address the incident.

The EAPF provided comprehensive support to its affected members which took the form of writing to affected members, offering free membership of a leading identity protection service, Experian, in conjunction with the third-party administrator, with the Fund extending this service to 24 months from the administrator's initial 12-month offer. Forums were provided so that members could ask questions and receive answers on these live sessions, with officers present as well as subject experts, both from the administrator and Experian. These questions were compiled into categories which allowed the supporting Q&A to be adapted and better targeted, as well as being able to address these concerns at subsequent Cyber webinars. An online information hub has been set up for members. Key stakeholders continue to be kept informed and regular meetings are held with representatives of the Trade Unions. The Pensions Regulator published its report into the incident on 2 February 2024 and set out their expectations of Pensions Schemes and Trustees on cyber security.

On 3 February 2024, the Information Commissioner's Office (ICO) confirmed that it had considered the information the EAPF had provided on the cyber incident and decided not to take further action against the Fund. As far as the EAPF is concerned, the ICO now considers the matter to be closed. This indicates the ICO is satisfied with the information provided, and that the ICO has no concerns with respect to the EAPF's compliance with its regulatory obligations.

The EAPF's third-party administrator's engagement with the ICO continues. The ICO has not provided the administrator with a timescale for completion of their enquiries.

In late March 2024, EAPF received the forensic audit report from their third-party administrator, which was initially commissioned in August 2023. This report offers a forensic review of the exfiltrated data and compares it with the manual data review conducted by the administrator in 2023. The outcome of the audit identified 671 newly impacted members. This increased the percentage of affected members from 95.95% to 96.65%. These new cases are 'low risk' in line with ICO data definitions.

Letters have been issued to these new, in scope members in May 2024, providing the same level of support as the initial exercise, which includes the 24-month membership of Experian.

The EAPF instigated an audit, in conjunction with other clients using the same third-party administrator, through a Cyber Security Review undertaken by the EAPF's professional advisor. The request was sent to the third-party administrator in April, but due to a delay in receiving a response, the conclusion of this extended passed the original timescale of July or August. The EAPF's professional advisor is currently analysing the completed review and will be sharing its results with the Pension Fund Management team once it has been finished.

The EAPF continues to treat the incident with the utmost importance, with help from various specialists and advisors. Work continues with the third-party administrator, internal security teams and take appropriate legal advice to measure every aspect of the incident and to further underpin cyber security controls, protect the fund's data and avoid any recurrence.

## Ministerial directions

The Environment Agency received two ministerial directions since 1 April 2023 from the previous government. These have both been received after the reporting period with no financial statement impact in 2023-24.

- A ministerial direction relating to the **determination of environmental permits for new waste incineration** facilities in England was received on 4 April 2024. Former Minister for Food, Farming and Fisheries Mark Spencer MP issued the direction to the Environment Agency, under Regulation 62 of the Environmental Permitting (England and Wales) Regulations 2016, to temporarily pause the determination of environmental permits for new waste incineration facilities, including Energy from Waste and Advanced Thermal Treatment between 4 April and 24 May 2024. The direction applied to proposed developments that did not yet hold an environmental permit for waste incineration, regardless of whether they held planning permission from the relevant planning authority. The Environment Agency complied with the direction and paused determinations of the permits in scope temporarily during this time period. The Environment Agency has resumed its operations and determination after 24 May 2024 and once this temporary pause lapsed.
- A ministerial direction relating to the **clearance of the illegal waste site at Hoad's Wood, Kent**, was received on 22 May 2024. The previous Secretary of State for Environment, Food and Rural Affairs Steve Barclay MP issued the direction to the Environment Agency, under Section 40 of the Environment Act 1995, requiring the Environment Agency to immediately put in train actions to clear the waste from Hoad's Wood and provide the Secretary of State with fortnightly updates on progress. This direction confirmed it would remain in place until the waste is cleared from the site. The Environment Agency continues to comply with the direction to clear the illegal waste.

## Administration of grants to local authorities, internal drainage boards and civil society

We pay grants to local authorities, internal drainage boards, National Highways, and water companies (all of whom are categorised as other risk management authorities) for flood and coastal erosion risk management work. All projects require technical and financial approval, and all studies and schemes must adhere to the grant memorandum.

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

Since March 2021 we have been paying out grants to risk management authorities as part of the Flood and Coastal Innovation Programmes to improve the Environment Agency's evidence on the costs and benefits of innovative resilience actions as well as helping to inform future policy approaches to, and investments in, FCERM. This includes informing the next long-term investment scenarios and future Spending Review bids. These programmes support 29 Risk Management Authority led projects.

In September 2023, Defra and the EA launched a £25 million Natural Flood Management Programme to improve resilience to flooding through natural based solutions. Through this programme we are administering grants to 40 successful projects announced in February 2024. Grantees include local authorities, charities, community groups and landowners.

We provide grants to charities and civil society groups for work delivering Water Framework Directive objectives. This funding focuses on Water Improvement Projects that enabled the Agency to award Water Environment Improvement Fund (WEIF) and catchment partnership grants to third sector organisations.

This should include the prioritisation of the catchment-based approach (CaBA) and catchment coordination. The purpose of this funding is to support the delivery of the statutory water body objectives set out in the River Basin Management Plans; the achievement of the 25 Year Environment Plan goals in restoring habitat conditions for water dependent wildlife and enabling riverine ecosystems to adapt and become more resilient to climate change impacts, with a specific focus on delivering clean and plentiful water outcomes. Investments in clean and plentiful water projects must demonstrate good value for money, and the Environment Agency should aim to deliver £6 in benefits for every £1 spent.

The types of intervention may include:

- Managing rural pollution
- Managing pollution from towns, cities, and transport
- Improving physically modified habitats
- Managing invasive non-native species
- Improvements in estuarine and coastal waters

Since April 2021, we have used the Natural Environment Investment Readiness Fund (NEIRF) a catalytic fund to drive private sector investment in nature, to demonstrate the role private investors can play in protecting and enhancing our domestic natural environment, in climate adaptation and nature restoration.

NEIRF grants fund a broad range of projects designed to deliver environmental benefits for society, while also demonstrating a wide range of innovative approaches to generating revenues from ecosystem services. These projects aim to provide a return on investment by capturing the value of the carbon, water quality, biodiversity and other benefits provided by natural assets such as woodlands, peatlands, catchments, and landscapes. This will create a pipeline of projects for the private sector to invest in.

We manage all our programmes in accordance with government grants functional standard guidance from Cabinet Office and the new Defra group Grants Hub, a centre for grants assurance and advice.

## Data security

The Environment Agency works with Defra group Security to ensure that there is appropriate security in place to protect our data and information. The Data Protection Team produce guidance, policies and communication on dealing with personal data securely, and conduct Data Protection Impact Assessments for any new and potentially high-risk processing.

We ran annual and quarterly mandatory security and personal data training over the 2023-24 financial year for all staff to help ensure compliance with regulations, enhance awareness of data security, information protocols and enhance our cybersecurity posture. We have adopted the accountability framework from the Information Commissioner's Office (the regulator for information legislation), to monitor, assess, and improve how we demonstrate compliance with data protection requirements.

In the financial year 2023-24, we reported two personal data breaches to the ICO. The ICO required no specific action from us in each case.

## Public correspondence

We received 4,601 pieces of correspondence in 2023-24 compared to 3,750 in 2022-23.

Our Chief Executive and Chair received 518 enquiries. The top three issues raised to our executive team, through these enquiries, were about Flood and Coastal Risk Management, Water Quality and Planning and Development.

We received 1,646 complaints, compared to 1,754 in 2022-23. The top three areas of complaint were Flood and Coastal Risk Management, Waste Management and Navigation. We responded to 78% of complaints within 20 working days.

Commendations decreased slightly to 123 compared to 137 in the previous year.

## Complaint handling at the Environment Agency

The Environment Agency's complaints process is published on the gov.uk website. We define a complaint as "A strong expression of dissatisfaction about our ways of working, decisions, policies and procedures or our staff, that may require investigation and action."

If a customer remains dissatisfied after completing our two-stage complaints process, we signpost them to the appropriate independent complaints bodies - Parliamentary and Health Service Ombudsman, Local Government Ombudsman, and the Office of Environmental Protection if it is a matter relating to environmental law.

Our Customer Service Commitment outlines what customers can expect from the Environment Agency and what we expect of our customers.

Looking ahead, the Environment Agency will continue collaborating with central government and the Parliamentary and Health Service Ombudsman to introduce and embed new complaint standards. The standards set out how government services should approach complaint handling and will ensure we continue to promote a learning culture, welcome complaints in a positive way, are thorough and fair, and give fair and accountable responses. The complaints procedure will be reviewed and updated to reflect any best practice changes as a result of implementing the standards, and we will produce some more guidance to support those involved in handling, investigating and responding to complaints.

## Independent complaints bodies

### Parliamentary and Health Service Ombudsman

The Environment Agency had a quieter business year with the Parliamentary and Health Service Ombudsman compared to recent years.

Seven new complaints were referred in 2023-24, of which none were investigated, and there were no investigation decisions in 2023-24. Out of 10 decisions, three of them did not have their complaints upheld. Of the remaining seven, four were closed by the Ombudsman after we responded to their enquiries, one was regarded as premature as the complaint had not exhausted our formal complaints procedure. In one case the complaint was withdrawn by the complainant.

It has been over three years since an Ombudsman investigation ruled against the Environment Agency. No investigation has fully upheld a complaint for over 10 years, and the last investigation to partly uphold a complaint was in December 2020.

As mentioned in our previous annual report and accounts, the Ombudsman referred one of our cases to Parliament under section 10(3) of the Parliamentary Commissioner Act 1967 because we were unable to comply fully with one recommendation from a 2015 investigation report. No view has yet been received from the Public Accounts and Constitutional Affairs Committee.

Should a future Ombudsman investigation find against the Environment Agency, the findings will be cascaded within the organisation to ensure lessons are learnt.

### Office for Environmental Protection (OEP)

The Office for Environmental Protection (OEP) receives and investigates complaints on alleged failures of public authorities to comply with environmental law.

During 2023-24, seven cases were referred to the Environment Agency. One of those seven cases was closed with no further action; we are still awaiting the OEP's assessment on four cases; the other two are in the OEP validation stage and we are currently reviewing them to see if they have exhausted our own complaints procedure.

The investigation from last year is still ongoing with an expectation to receive final decisions or actions around the summer. We continuously provide the OEP with updates on the closed intervention case to reassure them that the work is progressing; while another case from last year has moved into intervention stages (resolving the issue through dialogue, co-operation, and agreement) with the OEP monitoring our work.

Feedback and learning from our dealings with the OEP has been shared with appropriate teams and senior staff. We are looking to improve engagement with the wider-business and continue to cascade reporting and learning more widely. The OEP continues to consult with us on matters relating to their scrutiny and advice functions.

## Whistleblowing

### Internal whistleblowing

Clear information is provided to all employees and our suppliers and contractors on how disclosures can be made and what protections and support are in place for those who raise concerns. Assurances on the way we approach and deal with whistleblowing is provided to Executive Directors and the ARAC on a regular basis. There is widespread awareness amongst all staff about the options available to them if they wish to raise concerns.

All concerns raised under our policy were carefully considered and investigated. During the year, management action was taken. Management action included improved guidance, processes and oversight.

In the period between 1 April 2023 and 31 March 2024, 47 cases were considered:

- 4 cases were closed as unable to be progressed through lack of information.
- 26 cases had no merit or were not qualifying disclosures, but useful learning resulted in management action from 16 of these.
- 5 cases had merit and resulted in actions or recommendations for the business.
- 12 are currently under investigation.

### External whistleblowing: concerns about environmental malpractice from workers in third party employers

As part of public interest disclosure legislation, we are a 'prescribed person', with an obligation to act on relevant third-party disclosures made to us. Workers who wish to make a protected disclosure, which is in the public interest, about their employer, can choose to raise their concerns with the employer directly, or directly to us for environmental concerns.

In November 2023, we published our sixth annual report into such external whistleblowing. We received 13 qualifying disclosures between 1 April 2022 and 31 March 2023. The report describes the broad type of concern reported to us, what action we took in response and the impact on us of dealing with the concern.

In March 2024, we launched a new service on our internet site for the receipt of concerns. This provides workers in regulated businesses with guidance, routes reports received directly for assessment by our intelligence teams whilst ensuring better confidentiality and protection for reporters.

The reports are available on the gov.uk website and can be found here:

<https://www.gov.uk/government/publications/whistleblowing-annual-reports>

## Money laundering reporting and compliance

### Anti-money laundering activity in 2023-24

The Director of Legal and Audit Services is the Anti-Money Laundering Compliance and Reporting Officer for the Accounting Officer. During 2023-24, we have continued to deliver against our action plan. Care is taken to help staff members avoid the accidental commission of tipping-off offences.

The action plan reinforced the message that criminals could use the Environment Agency as a mechanism to launder money and that we need to be vigilant to prevent this from happening and us accidentally committing any connected criminal offences. Since the last update we have undertaken the following actions:

- Promoted the generic money laundering training WebEx to front line teams.
- Made improvements to our anti-money laundering processes for property transactions, and,
- Reviewed the areas of Environment Agency activity that are considered most likely to be exposed to money laundering risk.

We have not had to report any issue to the National Crime Agency (NCA) this year by way of a Suspicious Activity Report (known as SAR).

Our communications activities continue to bring forward queries on reporting now or in the future and general questions about money laundering. This level of engagement is encouraging and reduces the risk of money laundering and accidental criminal offences.

A new action plan for 2024 to 2025 has been developed. Compliance continues to be heavily dependent on raising awareness and understanding, as well as assurance activity.

## NAO audit opinion

### NAO qualification: Valuation of operational assets

In 2022-23, we delivered our first Depreciated Replacement Cost (DRC) valuation of over 60,000 operational assets at a value of £9.6 billion. For 2023-24, our operational asset base valued through DRC has increased to over 65,000 assets, at a value of £9.9 billion.

During the 2022-23 DRC valuation process, it was found that source data underpinning the valuation had errors due to the merging of multiple operational systems into a new modern asset management system. It was not practicable or affordable to complete all the necessary data reviews to resolve these issues affecting the valuation as at 31 March 2023. For this reason, the NAO qualified the valuation of operational assets.

During 2023-24, significant progress has been made on our data review and improvement programme, including the completion of critical foundational work such as updated asset data standards, improvements to our asset management system, and updated guidance for staff; ensuring that the measurement, capture and assurance of asset data is rigorous, consistent, and of a high quality.

Additionally, an asset management led review for duplicate entries, confirmation of EA asset control, and asset start dates (where applicable), has continued and has made strong progress.

We have focused on priority activities such as incident management and recovery, and increased asset maintenance of vital operational assets.

During 2023-24 we also began a multi-year national programme of asset dimensional data improvements led by our National Data Team. The programme has seen very good progress, with work nearing completion on high value asset types. The work will continue throughout 2024-25, with outputs continuing to feed into our methodological approach utilising a range of source data, statistical sampling, and averaging, ensuring the accuracy of our DRC portfolio valuation.

Despite this progress, our operational asset data has not been sufficiently improved in time for the 2023-24 valuation. It was therefore agreed with the NAO that carrying out full testing was not a worthwhile use of time and resources and so this qualification has remained in place.

### **NAO qualification: Valuation of land and buildings**

In 2020-21, the NAO expanded its qualification on the reported values of operational property to include those within the scope of the quinquennial revaluation of land and buildings (operational land, freehold land, dwellings and freehold buildings). This widening of the NAO qualification on asset values was due to a combination of issues with the quinquennial revaluation.

The Environment Agency's property valuations are complex, with over 5,000 often small property assets and delivering the property valuation is challenging. During 2022-23, we moved to a series of rolling annual property asset valuations, largely delivered by internal RICS qualified valuers with knowledge of the bespoke nature of the holdings.

The revaluation programme will deliver the coverage of all assets within a given five-year period and has proven to be operationally easier to manage. It has also reduced the risk of errors compared to a large, one-off quinquennial valuation.

The NAO's audit of the 2022-23 financial statements included work on both the 2022-23 and historic property valuations. Due to the historic nature of many land holdings, which were inherited from previous public organisations, it was challenging to provide sufficient evidence on the ownership and size of assets.

The C&AG did not qualify his opinion in respect of the valuation approach adopted, but gaining evidence for historic valuations was difficult. They also noted that there were £47m of assets which had not been revalued within a five-year period. This meant that the 2022-23 valuation of land and buildings was qualified by the NAO.

During 2023-24 we focused our quinquennial review on high value assets and the population of £47m which was not revalued in the last full valuation exercise before the rolling programme started in 2022-23. We improved the data on land the EA holds, meaning we could provide ownership and size evidence. We also reviewed the valuation techniques applied.

In some cases, parcels of land owned by the Agency had been significantly valued upwards by external, third-party valuers, based on what the land might be sold for on the open market. However, this was using market rates for prime land parcels for development. On review by in-house specialist surveyors, with expert knowledge of the land the Agency owns, it was noted that some of these parcels of land did not have development potential and therefore had been valued incorrectly. As described in note 20 to the financial statements we have processed portfolio level downwards revaluations to 2023-24, 2022-23 and 2021-22 operational land values.

The work we have completed has meant the NAO have removed their qualification on the valuation of land and buildings on all periods reported. We will continue to improve data held on our assets and continue with the rolling valuation programme.

### NAO qualification: Categorisation of capital spend

The Environment Agency completes two types of capital works:

- capital works on assets which are controlled by us (recognised as assets under construction (“AUC”) and then once commissioned as property, plant and equipment on completion,
- and on assets which are not controlled us, where there is a significant public benefit in doing so, which is accounted for as capital works expensed in year (“CWEIY”).

From 1 April 2022, HMT clarified the expenditure which could be included within CWEIY had to be capital in relation to International Accounting Standard 16 on Property, Plant and Equipment. This significantly reduced the amount of CWEIY expenditure for previously accepted repairs and maintenance works.

The decision was made, due to resource restrictions and value for money, that for 2022-23 the focus would be on ensuring that both CWEIY and in year AUC capital expenditure met these requirements. We contracted with an audit firm and in collaboration with in-house finance and project management teams, reviewed project spends to ensure that only expenditure we could be very confident under the clarified framework could be classified as capital in nature was recognised in CWEIY or in year AUC expenditure.

The NAO confirmed in their 2022-23 audit opinion that, unlike in the previous year, they received key audit evidence in respect of capital expenditure - including both CWEIY and AUC additions. This meant that the scope of the NAO's 2022-23 qualification in this area was reduced compared to 2021-22.

The residual qualification issues on capital expenditure noted by the C&AG 2022-23 opinion were associated with uncertainties around whether spend should be treated as CWEIY or AUC additions and if the historic AUC balance included items which did not meet capital recognition criteria or assets which had been completed so should be transferred out of AUC.

As the qualification remained in place in respect of the classification of capital spend, a review was undertaken during 2023-24. As with the CWEIY phase one review, this was completed in partnership with an external audit firm, also utilising in-house finance and project management teams. As described in note 20 to the financial statements this resulted in significant prior period adjustments to the 2021-22 and 2022-23, consistent with the treatment of capital spend in 2023-24.

The work we have completed has meant the NAO have removed their qualification on the categorisation of capital spend on all periods reported. We will continue to improve the guidance, processes and technical accounting support. We will also continue to consider if there are changes to our accounting policies which would remain compliant with accounting standards whilst ensuring they are sustainable operationally to deliver.

### Previous NAO qualification over irregularity of expenditure:

In 2022-23, certain elements of FCERM programme expenditure procured under three supplier frameworks exceeded the level the frameworks had been set up for. This meant the Agency was operating outside of the requirements of Cabinet Office spend controls and public contract regulations.

During 2022-23, £88 million was spent against the frameworks, taking the cumulative spend to £215 million - £64 million above the £151 million approved by the Cabinet Office. As these are long-term contracts there was £341 million of committed expenditure as at 31 March 2023, compared to a compliant limit of £151 million.

Following a clear decision by the Cabinet Office to not agree with a proposed extension to the given frameworks, the Accounting Officer directed that the Agency return to a compliant position as quickly as possible and mitigate the impacts on delivery and in particular on any risk to life.

From 2023-24, the Environment Agency has proactively managed the forecast of call-off contractual commitments of the three supplier frameworks, of which the majority are long-term arrangements due to the nature of the works, through a National Transition Plan and subsequent mitigation actions. This has seen a reduction of the declared 2022-23 forecast of £341 million to below £325 million in 2023-24, which is in line with the Transition Plan shared with Cabinet Office.

The forecast expenditure has been managed through a new governance structure, including a National Transition Triage Panel (NTTP) that met twice a week during 2023-24 and continued to meet weekly from quarter 1 of 2024-25 to ensure the appropriate management of legacy contracts in accordance with the Transition Plan. Through implementation of this plan, two new frameworks were awarded and commenced in 2023-24 and a further framework is progressing to market in 2024-25. Implementing lessons learned in Major Projects and Programme Delivery (MPPD) has resulted in earlier commencement of procurement activity to replace the existing Collaborative Delivery Framework (CDF) and subsequently improve long-term compliance.

Continuous improvement and lessons learned processes have been undertaken to ensure that the Environment Agency addresses and understands the requirements for compliance with PCR, the Cabinet Office Spend Controls and Managing Public Money. In collaboration with Defra group Commercial, improved ways of working have been established, including pro-active consideration of the spend in the long tail of legacy contracts, through to contract formation and framework management. Improved forecasting and monitoring of spend processes have been embedded, supported by improvements in contract and framework management practices, and reinforced by a centralised quarterly Commercial report that captures the critical spend figures and ensures strategic management and planning.

## Directors' report

### Board and Executive Directors

We employ four Executive Directors in addition to the Chief Executive. A full list of Executive Directors and Board members is provided in the remuneration and staff report. The notice period for Executive Directors is at least three months.

The Executive Directors and Board members and Executive Directors had no company directorships or other significant interests which may conflict with their responsibilities in the financial year 2023-24.

### Pensions

We are the administering and employing authority for the Environment Agency Active Pension Fund (EAPF), which is a statutory member of the Local Government Pension Scheme (LGPS). The EAPF was created on 1 April 1996 when the functions and employees of the National Rivers Authority were transferred to the Environment Agency. It now provides defined benefit pension benefits to over 29,000 members, who are current and former employees of the Environment Agency, Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL). For the financial year 2023-24, the Active Fund received employer contributions equivalent to 19% from the Environment Agency and between 5.5% and 12.5% from its employees.

Every three years, the Active Fund undertakes a valuation in conjunction with the Scheme Actuary. Our 31 March 2022 valuation assessed the Active Fund's financial position with a funding level of 103% (31 March 2019 - 106%). Better than expected investment returns on the Active Fund's assets between 31 March 2019 and 31 March 2022 were 24.4% which had a positive impact on the funding position of £570 million. The 2022 valuation is positive with the Active Fund reporting only a small reduction in funding over the preceding three years, driven by inflation and offset by strong asset performance. To maintain 100% funding, the Active Fund needs a 3% annual investment return (2.9% annual in 2019), the likelihood of achieving that is estimated at 80% (in 2019, the likelihood was more than 80%).

Since 31 March 2023, markets continued to be disrupted by the ongoing conflict in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. Continued high levels of inflation in the UK, have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level remains very strong as at 31 March 2024 due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The EAPF's actuary continues to monitor the funding level and outlook for the long-term economy and returns on the Active Fund's assets on a regular basis.

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

The government introduced regulations in 2016 which require LGPS Funds to pool investments to improve efficiency. Brunel Pension Partnership Ltd (Brunel), was created and became operational from 1 April 2018. It comprises the EAPF and nine other LGPS Funds (predominantly based in the Southwest) to meet this obligation.

The Board approved becoming a shareholder in Brunel in July 2017, following a rigorous assurance process. The EAPF will continue to adhere to its own investment strategy, and retain control of its own assets, but will aim to benefit from reduced costs from pooling investments. Around 60% of the Fund's assets are managed by Brunel at 31 March 2024.

As reported last year, the EAPF had identified that the Environment Agency's third-party payroll provider, SSCL, provided incorrect final pensionable pay figures to Capita, the pensions administrator, for some employees who had left or retired from the EA since 2015. The impact of this was that the affected employees' pensions are incorrect.

The pensioner rectification phase will be completed in due course and in-scope members and beneficiaries will be written to in September 2024, followed by deferred members and transferees in 2025.

The EAPF has undertaken a comprehensive cost benefit analysis to identify the full financial impact on overpayments and associated costs relating to the error. HM Treasury (HMT) approved the EA's decision to write off overpayments, which are expected to be an estimated £405k. We are working with the EAPF to identify costs associated with managing this project and the potential routes to resolution.

In 2023, we won an award from the World Pension Summit for our approach to investing in biodiversity and were also recognised in the Future 40 Climate Change Champions for our climate change strategy working towards Net Zero 2045, investment in natural capital and impact investments in private markets,

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

More information regarding both the EA Active and Closed Pension Funds can be found on our website: [www.eapf.org.uk/](http://www.eapf.org.uk/).

### **Creditor payment policy and statistics**

We aim to meet the level of performance for paying creditors in 'British Standard 7890: Method for achieving good payment performance in commercial transactions' and relevant HM Treasury guidance. During the year, we paid 98% of invoices from suppliers within five days of receipt and registration, the same as in the previous year. Creditor days, calculated on an average basis for the year, were 3.8 days during 2023-24 (2022-23 - 1.8 days).

## Remuneration and staff report

### The People and Pay Committee

The People and Pay Committee comprises five non-executive Board members and is chaired by the Environment Agency's Chair.

The People and Pay Committee met five times during the financial year ended 31 March 2024. It agreed the Chief Executive's performance rating and objectives.

During the year, the committee also considered:

- 2023 pay review and pay remit
- Executive Managers 2022-23 performance decisions and pay review
- Executive Director recruitment
- Board member and Executive Director team expenses
- Attraction and recruitment
- Equality, Diversity and Inclusion and continuing racism in the workplace
- Talent and succession planning
- Opportunities for shaping our culture through leadership development
- Gender pay gap and pay gap reporting

Under section 1 of the Environment Act 1995, Board members are appointed by the Secretary of State for Environment, Food and Rural Affairs. The Act provides for the Environment Agency to pay its Board members such remuneration as may be determined by the appropriate minister.

The level of remuneration is subject to review in the context of decisions taken by ministers from time to time in relation to payments of this type.

Non-executive Board members are not eligible for membership of the Environment Agency pension scheme or compensation for loss of office. Board members' appointments may be terminated at any time upon giving three months' notice in writing.

## Remuneration of Executive Directors

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

**Table 3: Executive Directors' periods of service**

Executive director	Position	Period of appointment
Philip Duffy	Chief Executive	1 July 2023 to present
John Curtin	Chief Executive	1 April 2023 to 30 June 2023 (Interim)
	Executive Director of Local Operations	1 December 2020 to 31 March 2023 1 July 2023 to 30 November 2023
John Leyland	Executive Director of Environment and Business	17 October 2022 to present
Caroline Douglass	Executive Director of Flood and Coastal Risk Management	1 April 2021 to present
Sarah Chare	Executive Director of Local Operations	1 April 2023 to 31 July 2023 (Interim) 14 November 2023 to 29 February 2024 (Interim) 1 March 2024 to present
	Executive Director Chief Operating Officer	1 August 2023 to 13 November 2023 (Interim)
Lucy Hunt	Executive Director Chief Operating Officer	1 December 2020 to 25 August 2023
Nicola Lawton	Executive Director Chief Operating Officer	14 November 2023 to 17 March 2024 (Interim)
Tamara Bruck	Executive Director of Strategy, Transformation and Assurance (i)	4 March 2024 to present

### Notes

- i. The Executive Director of Strategy, Transformation and Assurance role replaced the previously named Executive Director Chief Operating Officer role in March 2024.

## Board members' remuneration (audited)

**Table 4: The appointment and emoluments of Board members who have received emoluments in the last two financial years**

Board member	Subcommittee member	Latest date of appointment or reappointment	Period of appointment (months)	Latest time commitment (days)	Remuneration in 2023-24 (£)	Remuneration in 2022-23 (£)
Alan Lovell (Chair) (i)	PPC	26 September 2022	36	3.5 per week	100,000	58,311
Judith Batchelar (Deputy Chair)	ARAC, EB, PPC	30 September 2021	42	5 per month	25,201	25,201
Robert Gould	ARAC, PC, PCISC, FCERM, PPC	30 September 2021	42	6 per month	25,200	24,151
John Lelliott (ii)	ARAC, PC, FCERM	31 March 2024	6	5 per month	21,002	21,002
Caroline Mason	PC, PCISC, EB	30 September 2021	30	4 per month	16,800	16,800
Stewart Davies	ARAC, EB, PPC	1 February 2021	48	4 per month	16,800	16,800
Ines Faden da Silva (iii)	ARAC, FCERM	1 February 2021	48	5 per month	17,608	16,800
Lilli Matson	PC, FCERM	1 February 2021	48	4 per month	16,800	16,800
Mark Suthern	ARAC, FCERM, EB	10 January 2022	48	4 per month	16,800	16,800
Sarah Mukherjee	FCERM, EB, PPC	10 January 2022	48	4 per month	16,800	16,800
<b>Total</b>					<b>273,011</b>	<b>229,465</b>

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

ARAC - Member of Audit and Risk Assurance Committee at 31 March 2024

PC - Member of Pensions Committee at 31 March 2024

PCISC - Member of Pensions Investment Sub Committee at 31 March 2024

FCERM - Member of Flood and Coastal Erosion Risk Management Committee at 31 March 2024

EB - Member of Environment and Business Committee at 31 March 2024

PPC - Member of People and Pay Committee at 31 March 2024

**Notes**

- i. Alan Lovell was appointed as Chair from 26 September 2022 to 25 September 2025. His full year equivalent pay is £100,000.
- ii. John Lelliott was reappointed for a further six months from 31 March 2024. He was in post for the full year in both 2023-24 and 2022-23.
- iii. Ines Faden da Silva increased her time commitment from four days to five days per month from February 2024, to reflect additional responsibilities as Chair of the Flood and Coastal Erosion Risk Management Committee.

Brittany Harris and Maya Leibman were appointed on 1 April 2024, both for a term of three years.

Three Board members received remuneration during 2022-23 but not in 2023-24 as they had left their role. Emma Howard-Boyd received £46,598 (full year equivalent - £100,000), Maria Adebawale-Schwarte received £5,251 (full year equivalent - £21,002) and Lynne Frostick received £7,336 (full year equivalent - £25,200).

**Table 5: Board members’ attendance (Not subject to audit)**

<b>Member</b>	<b>Board</b>	<b>ARAC</b>	<b>PC</b>	<b>PCISC</b>	<b>FCERM</b>	<b>EB</b>	<b>PPC</b>
Alan Lovell (Chair)	9 of 9	-	-	-	-	-	5 of 5
Judith Batchelar (Deputy Chair)	6 of 9	4 of 4	-	-	-	4 of 4	1 of 5
Stewart Davies	9 of 9	4 of 4	-	-	-	4 of 4	5 of 5
Ines Faden da Silva	9 of 9	4 of 4	-	-	6 of 6	-	-
Robert Gould	9 of 9	4 of 4	5 of 5	4 of 4	6 of 6	-	5 of 5
John Lelliott	9 of 9	3 of 4	4 of 5	-	6 of 6	-	-
Caroline Mason	7 of 9	-	5 of 5	4 of 4	-	4 of 4	-
Lilli Matson	8 of 9	-	5 of 5	-	5 of 6	-	-
Sarah Mukherjee	8 of 9	-	-	-	3 of 6	2 of 4	5 of 5
Mark Suthern	9 of 9	1 of 4	-	-	5 of 6	4 of 4	-

Board - nine formal meetings in 2023-24.

ARAC - Member of Audit and Risk Assurance Committee - four meetings in 2023-24.

PC - Member of Pensions Committee - five meetings in 2023-24.

PCISC - Member of Pensions Investment Sub Committee - four meetings in 2023-24.

FCERM - Member of Flood & Coastal Erosion Risk Management Committee - six meetings in 2023-24.

EB - Member of Environment & Business Committee - four meetings in 2023-24.

PPC - Member of People and Pay Committee - five meetings in 2023-24.

## Executive Directors' emoluments (audited)

**Table 6: Total emoluments and benefits in kind of Executive Directors during 2023-24 (audited)**

For the year ended 31 March 2024

Executive Director	Emoluments (£5,000 banded range)	Performance related pay (£5,000 banded range)	Benefits in kind (to nearest £100)	Pension benefits (to nearest £000)	Total (£000 banded range)
Philip Duffy (i)	130-135	-	-	39,000	170-175
John Leyland	130-135	-	-	36,000	165-170
John Curtin (ii)	110-115	10-15	-	(35,000)	90-95
Caroline Douglass	140-145	-	-	54,000	195-200
Lucy Hunt (iii)	50-55	5-10	-	26,000	85-90
Sarah Chare (iv)	125-130	-	8,900	51,000	185-190
Nicola Lawton (v)	40-45	0-5	-	12,000	55-60
Tamara Bruck (vi)	10-15	-	-	3,000	10-15

Emoluments (which reflect gross salaries) and performance related pay are the amounts paid in the financial year.

### Notes

- i. Philip Duffy was appointed on 1 July 2023. His full year equivalent pay is in the range £175,000 to £180,000.
- ii. John Curtin was the interim Chief Executive from 1 April 2023 to 30 June 2023 before returning to his substantive post as Executive Director of Local Operations until 30 November 2023, when he left the organisation. His full year equivalent pay as Chief Executive was in the range £160,000 to £165,000 and £155,000 to £160,000 as Executive Director of Local Operations.
- iii. Lucy Hunt left the organisation on 25 August 2023. Her full year equivalent pay would have been in the range £125,000 to £130,000.
- iv. Sarah Chare was the interim Executive Director of Local Operations from 1 April 2023 to 31 July 2023 and again from 14 November 2023 to 29 February 2024. From 1 March 2024, she was permanently appointed to this role. From 1 August 2023 to 13 November 2024, she was the interim Executive Director Chief Operating Officer.
- v. Nicola Lawton was the interim Executive Director Chief Operating Officer from 13 November 2023 to 17 March 2024. Her full year equivalent pay was in the range £125,000 to £130,000.
- vi. Tamara Bruck was appointed as the Executive Director of Strategy, Transformation and Assurance on 4 March 2024. Her full year equivalent pay was in the range £135,000 to £140,000.

**Table 7: Total emoluments and benefits in kind of Executive Directors during 2022-23 (audited)**

For the year ended 31 March 2023

Executive Director	Emoluments (£5,000 banded range)	Performance related pay (£5,000 banded range)	Benefits in kind (to nearest £100)	Pension benefits (to nearest £000)	Adjustment (£5,000 banded range)	Total (£000 banded range)
Sir James Bevan (i)	190-195	5-10	-	(130,000)	0-5	75-80
Harvey Bradshaw (ii)	115-120	-	-	-	-	115-120
John Leyland (iii)	60-65	5-10	-	(6,000)	-	65-70
John Curtin	145-150	-	-	(105,000)	-	40-45
Caroline Douglass	135-140	-	-	21,000	-	155-160
Lucy Hunt	120-125	-	-	(8,000)	-	110-115

- i. Sir James Bevan became Chief Executive on 30 November 2015. Sir James Bevan was an employee of the Foreign, Commonwealth and Development Office (FCDO) who was seconded to the Environment Agency. The amounts shown above are the amounts reimbursed to the FCDO, exclusive of VAT which is recoverable. The pension benefits disclosed above represent the contributions the Environment Agency reimbursed to the FCDO in respect of Sir James Bevan's pension costs in the Principal Civil Service Pension Scheme. He was awarded performance related pay for 2021-22 which was paid in October 2022.
- ii. Harvey Bradshaw opted out of the pension scheme on 31 March 2020. He left the Environment Agency on 31 December 2022. His full year pay was in the range £140,000 to £145,000.
- iii. John Leyland started as Executive Director of Environment and Business on 17 October 2022. His full year pay was in the range £115,000-£120,000.

### Performance related pay policy

We award performance related pay to our Executive Managers in line with the Senior Civil Service Pay Guidance.<sup>7</sup> The approval process for this is through our People and Pay Committee.

<sup>7</sup> [Guidance on the Senior Civil Service Pay Award 2023/24 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/senior-civil-service-pay-award-2023-24)

**Table 8: Pension benefits of Executive Directors during the last two financial years (audited)**

Executive Director	Accrued pension at 31 March 2024 (£5,000 range)	Increase/ (decrease) in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2024 (£5,000 range)	Increase/ (decrease) in lump sum during year (£2,500 range)	CETV at 31 March 2023 (£000s)	CETV at 31 March 2024 (£000s)	Real increase/ (decrease) in CETV (£000s)
Sir James Bevan	-	-	-	-	2,141	-	-
John Leyland (i)	25-30	0-2.5	-	-	316	374	24
John Curtin (i, ii)	65-70	(0-2.5)	95-100	(5-7.5)	1,334	1,409	(43)
Lucy Hunt (i, iii)	35-40	0-2.5	5-10	(0-2.5)	493	556	16
Caroline Douglass (i)	20-25	2.5-5	-	-	273	352	40
Philip Duffy (iv)	0-5	2.5-5	-	-	556	34	19
Sarah Chare	55-60	2.5-5	55-60	0-2.5	883	1,006	39
Nicola Lawton (v)	40-45	0-2.5	30-35	0-2.5	585	620	7
Tamara Bruck (vi)	0-5	0-2.5	-	-	476	3	2

- i. John Leyland, John Curtin, Lucy Hunt and Caroline Douglass's CETV at 31 March 2023 has been updated as the scheme's actuarial transfer factors changed during the year. This meant that the CETVs had to be recalculated using the amended transfer factors to ensure that a fair comparison can be made between the opening and closing positions.
- ii. John Curtin left his role as Executive Director of Local Operations during 2023-24. His CETV at 31 March 2024 disclosed above reflects the CETV at the date of his departure.
- iii. Lucy Hunt left her role as Executive Director Chief Operating Officer during 2023-24. Her CETV at 31 March 2024 disclosed above reflects the CETV at the date of her departure.
- iv. Philip Duffy joined from HM Treasury on 1 July 2023 as Chief Executive. His CETV at 31 March 2023 disclosed above is as per HM Treasury's 2022-23 annual report and accounts, as required by the government financial reporting manual.
- v. Nicola Lawton was interim Executive Director Chief Operating Officer from 14 November 2023 to 17 March 2024. Her opening and closing CETV values are as at the dates she started and left this role.
- vi. Tamara Bruck joined from HM Treasury on 4 March 2024 as Executive Director of Strategy, Transformation and Assurance. Her CETV at 31 March 2023 disclosed above is as per HM Treasury's 2022-23 annual report and accounts, as required by the government financial reporting manual.

The Environment Agency remunerates its employees in line with standard public sector pay and pension policies. The accrued pension at 31 March 2024 represents the annual pension that individuals would be entitled to at their normal retirement date in the event they left employment with the Environment Agency on 31 March 2024. Changes in the lump sum calculation can fluctuate depending on changes in the final salary figures at the start and end of the period, which can sometimes result in a reduction in value. Where there is no or a small pay rise, the increase in pension due to

extra service may not be sufficient to offset the inflation increase. Thus, in real terms, the pension value can reduce, hence some negative values are reported in the table above.

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

## Staff report

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

**Table 9: Average number of full-time equivalent staff employed during the year (audited)**

	2023-24			2022-23		
	Permanent	Temporary	Total	Permanent	Temporary	Total
Directly employed	12,093	314	<b>12,407</b>	10,755	276	<b>11,031</b>
Contractors	-	663	<b>663</b>	-	520	<b>520</b>
<b>Total</b>	<b>12,093</b>	<b>977</b>	<b>13,070</b>	<b>10,755</b>	<b>796</b>	<b>11,551</b>

**Table 10: Staff seconded out**

Grade	2023-24	2022-23
Deputy director	3	3
Nuclear Grade 2	1	1
Grade 7	3	5
Grade 6	5	7
Grade 5	6	9
Grade 4	1	1
Grade 3	1	1
<b>Total</b>	<b>20</b>	<b>27</b>

All staff were seconded out for a period of six months or more.

**Table 11: Staff seconded in**

Grade	2023-24	2022-23
Chief Executive Officer	-	1
Grade 6	2	-
Grade 5	3	1
Grade 4	2	3
<b>Total</b>	<b>7</b>	<b>5</b>

All staff were seconded in for a period of six months or more.

During 2023-24, the Environment Agency employed 117 executive managers (equivalent to senior civil servant grades). A breakdown of these by level is shown below.

**Table 12: Executive manager breakdown**

Grade	Headcount	
	2023-24	2022-23
Chief Executive Officer	1	1
Executive Directors	4	4
Directors	20	19
Deputy Directors	92	81
<b>Total</b>	<b>117</b>	<b>105</b>

All of the above are Environment Agency employees with the exception of the Chief Executive during 2022-23, Sir James Bevan, who was on a secondment from the Foreign, Commonwealth and Development Office.

## Equality, diversity and inclusion

We follow the Defra group Equality, Diversity and Inclusion (EDI) strategy 2020 to 2024 and has been developed with input from EDI networks, HR, trade unions and others across Defra group organisations.

The strategy focuses on delivering against five key objectives:

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

The Environment Agency looks to create a sense of belonging for all our employees whatever their background, so that they will be heard and feel supported to bring their best self to work.

## Gender

We monitor the gender split of our workforce and have included the current numbers alongside the prior year comparison.

**Table 13: Gender split**

Headcount	2023-24		2022-23	
	Male	Female	Male	Female
Chief Executive, Executive Directors, Directors and Deputy Directors	64	53	55	50
All other staff	7,182	6,076	6,772	5,592
<b>Total</b>	<b>7,246</b>	<b>6,129</b>	<b>6,827</b>	<b>5,642</b>

The gender pay gap is the difference in the average hourly wage of all men and women across a workforce. We have a higher proportion of men than women in both higher paid and lower paid roles. Our gender pay gap at 31 March 2023 was 0.3%, compared to 0.1% the previous year. This is significantly lower than the civil service gender pay gap average of 8.1%.

## Disability

We continue to nurture, encourage, and support our mutual support employee networks. They act as our “critical friends” supporting our plans to remove all potential barriers which might prevent employees achieving their full potential in our workplace. We have separate networks for those who are autistic, and those dealing with cancer, chronic pain, dyslexia, hearing loss, fatigue, inflammatory bowel disease, mental health, physical mobility, stammering and visual impairment. Executive Manager champions also support these networks working together with them and disability networks and champions from across the wider Defra group, sharing knowledge and experience to improve the day to day working environment for employees with disabilities.

The feedback of disabled colleagues remains a key driver in helping to build on our continued commitment, in addition to the continued learning and shaping of our disability action plan. We champion career development, career progression and retention of our disabled employees and carry out reviews to make sure we do not discriminate against them. We have a centralised workplace adjustments process for employees with a disability, impairment, or long-term medical condition, which is complimented by a disability leave policy, and an employee disability passport. The employee passport is a confidential document to help our employees to have discussions with their line manager about the support they need. It is also a key document when an employee moves to a new team and can be shared with the new line manager to ensure continuity of support.

In addition, our guaranteed interview scheme means that if an external or internal candidate declares that they have a disability or impairment and they meet the minimum criteria for the job, they will be offered an interview.

### Staff turnover

Staff turnover in 2023-24 was 5.7% (2022-23 - 5.9%).

### Sickness absence data

We monitor staff sickness absences and have policies in place to minimise them. An average of 6.0 days per full time equivalent employee was lost to sickness absence in 2023-24 (2022-23 - 5.6 days).

### Staff engagement

The last full employee survey was conducted in 2021 and the next is expected in late 2024.

Between full employee surveys, we run regular pulse surveys to evaluate our key metrics for staff engagement. These are flexible to make space to hear how staff are coping with the different ways of working and what support they have needed.

A pulse survey conducted in February 2024 was sent to 4,000 randomly selected employees, with 2,129 responses. Positive themes highlighted in the survey results included satisfaction with being able to make use of skills and abilities, as well as an increase in job motivation and an increase in the number of people who would recommend the EA as a good place to work.

### Employment of consultants and contractors

The nature of our work means we require the expertise of temporary workers as well as those we employ permanently. The table below shows how much we have spent on consultants and temporary workers and contractors over the past two years (table 9 shows the numbers employed under the category “contractors”).

**Table 14: Expenditure on temporary workforce**

	2023-24	2022-23 Restated
	£ million	£ million
Consultancy	104.1	89.7
Temporary workers and contractors	13.1	12.8
<b>Total</b>	<b>117.2</b>	<b>102.5</b>

### Tax arrangements of public sector appointees

We provide information about appointments of consultants or staff that last longer than six months and where the individuals earn more than £245 per day, where we pay by invoice rather than through the payroll. We only use these arrangements where we cannot avoid them and minimise their use. We include contractual clauses in the appointment documents to enable us to receive assurance that the individual or their employer is managing their tax and national insurance affairs appropriately.

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

## Table 15: Off-payroll appointments for more than £245 per day and that last longer than six months

Number of existing engagements as at the year-end date that have existed for:

	31 March 2024	31 March 2023
Less than one year	-	1
Between one and two years	1	9
Between two and three years	5	5
Between three and four years	-	1
Four years or more	2	6
<b>Total</b>	<b>8</b>	<b>22</b>

## Table 16: All highly paid off-payroll workers engaged at any point during the year, earning £245 per day or greater

Number of off-payroll workers engaged during the year	2023-24	2022-23
Not subject to off-payroll legislation	-	0
Subject to off-payroll legislation and determined as in-scope of IR35	-	12
Subject to off-payroll legislation and determined as out-of-scope of IR35	8	10
<b>Total</b>	<b>8</b>	<b>22</b>
<b>IR35</b>		
	<b>2023-24</b>	<b>2022-23</b>
Number of engagements reassessed for compliance or assurance purposes during the year	8	22
Of which: number of engagements that saw a change to IR35 status following review	-	6

The £245 threshold is set to approximate the minimum point of the pay scale for a Senior Civil Servant.

A worker that provides their services through their own limited company or another type of intermediary to the client will be subject to off-payroll legislation and the organisation must undertake an assessment to determine whether that worker is in-scope of Intermediaries legislation (IR35) or out-of-scope for tax purposes.

There were 19 Board members or senior officials with significant financial responsibility over the organisation during the financial year (2022-23 - 19).

### Reporting of compensation schemes (audited)

There may be occasions when external or internal changes have an impact on our staffing requirements. In these situations, we will use our Voluntary Early Release Scheme to avoid compulsory redundancies wherever possible. Our scheme supports business needs and fits in with our overall human resources strategy.

Redundancy and other departure costs are paid in accordance with our compulsory redundancy and voluntary early release schemes. Both schemes are based on the statutory redundancy scheme and take account of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006. All departure costs are accounted for in full when official notice has been served.

### Exit packages for the financial year 2023-24 (audited)

There were no exit packages during 2023-24.

### Exit packages for the financial year 2022-23 (audited)

There was one exit package during 2022-23. This was not a compulsory redundancy, and the cost was in the range of £0 to £25,000.

Where we agree early retirements, any additional costs are paid by us rather than the Environment Agency Pension Fund. Ill-health retirement costs are covered by the pension scheme and are not included in the table.

### Fair Pay disclosure (audited)

The Environment Agency and similar reporting bodies are required to disclose the percentage change from the previous financial year for both salary and performance pay in respect of the highest paid director and in respect of employees of the organisation taken as a whole.

**Table 17: Highest paid director and the whole workforce**

	Salary and allowances		Performance related pay		Total	
	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23
Highest paid director (£5,000 banded range)	175-180	195-200	-	5-10	<b>175-180</b>	<b>205-210</b>
Average employee remuneration (£)	40,219	37,501	1,657	624	<b>41,876</b>	<b>38,125</b>

No employee received remuneration in excess of the highest-paid director (2022-23 - none). The disclosure above is calculated on a full time and full year equivalent basis.

**Table 18: Percentage increase or decrease for highest paid director and the whole workforce - 2023-24 versus 2022-23**

	Salary and allowances	Performance related pay	Total
Highest paid director	-10.1%	-100%	-14.5%
Average employee remuneration	7.2%	165.6%	9.8%

The range of banded remuneration for all employees was £15,000 to £20,000 up to £175,000 to £180,000 (2022-23 - £15,000 to £20,000 up to £195,000 to £200,000).

Reporting bodies are also required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

Total remuneration includes salary, non-consolidated performance-related pay, and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

**Table 19: Relationship of pay between highest paid director and the whole workforce**

	25 <sup>th</sup> percentile		Median		75 <sup>th</sup> percentile	
	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23
	£	£	£	£	£	£
Highest paid director (mid-point of pay band)	177,500	207,500	177,500	207,500	177,500	207,500
All employees (salary)	31,429	29,706	39,635	37,462	41,002	39,448
All employees (total pay and benefits)	33,469	29,706	41,675	37,949	51,036	45,794
Ratio (total pay and benefits)	5.3	7.0	4.3	5.5	3.5	4.5

The banded remuneration of the highest paid director, as disclosed in the remuneration and staff report, for 2023-24 was £140,000 - £145,000 (2022-23 - £205,000 - £210,000). As noted above, the Fair Pay disclosure calculations are done on a full time and full year equivalent basis.

In line with the public sector pay remit guidance, on 1 July 2023 the EA paid a fixed value award equivalent to 6.35% of grade rate. We believe that the median pay ratio for 2023-24 is consistent with the pay, reward and progression policies for the EA's employees.

The change in highest paid director is due to a change in personnel in the Chief Executive role. In 2022-23, this role was held by Sir James Bevan, on secondment from FCDO and therefore subject to FCDO's salary band. From July 2023, the EA has directly employed Philip Duffy in this role. The change in ratio is due to a decrease in highest paid director as explained above and an increase in employee remuneration due to the 2023-24 pay award and £1,500 cost of living payment.

### Relevant union officials (not subject to audit)

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

The number of employees who were relevant union officials during 2023-24 was 390 (2022-23 - 393) with full-time equivalent employee numbers of 370 (2022-23 - 376).

### Table 20: Percentage of pay bill spent on facility time

Measures	Cost (£ million)	
	2023-24	2022-23
Total facility time by union officials	0.3	0.3
Total all staff	520.5	418.8
Percentage on facility time	0.1%	0.1%

### Table 21: Percentage of staff time spent on facility time

Measures	Time (in hours)	
	2023-24	2022-23
Total facility time by union officials	9,044	8,179
Total working hours by union officials	713,108	716,960
Percentage on facility time	1.3%	1.1%

### Table 22: Percentage of individual staff time spent on trade union activities

Percentage of time	Employee headcount	
	2023-24	2022-23
0% - 1%	325	326
1% - 50%	65	67
<b>Total</b>	<b>390</b>	<b>393</b>

## Parliamentary accountability and audit report

### Main activities of the Environment Agency business units

#### Environment and Business charges

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

Water, land, and biodiversity:

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

Regulation of industry:

- EPR installations - permitting to control and minimise pollution from industrial activities.
- EPR waste - permitting for waste management and exemptions.
- Hazardous waste - licensing for producing, transporting, or receiving hazardous waste.
- Emissions trading, Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and Climate Change Agreements Scheme - regulation of businesses under schemes including the EU Emissions Trading System and Climate Change Agreement Scheme. The CRC Energy Efficiency scheme closed on 31 March 2019, but some compliance and closure work is still continuing.
- Nuclear regulation - regulation of nuclear sites (radioactive substances 1 and 2), non-nuclear sites (radioactive substances 3 and 4) and nuclear new build sites.
- Other environmental protection charges - licensing for registration of waste carriers and brokers, trans-frontier shipments, producer responsibility licensing, end-of-life vehicles, polychlorinated biphenyls, and regulation of businesses under such schemes as control of major accident hazards (COMAH).
- Navigation licences - charging individuals for boat licences.

The majority of the charges funding is for resource expenditure.

#### Environment and Business grant-in-aid

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

- Strategic direction for delivery and support to Defra,
- Setting our direction on environmental protection to help create a better place for people and wildlife,
- Provision of technical leadership,
- Advice to government and other organisations in England that are involved in environmental protection,
- Monitoring, including water quality and air quality,
- Strategic environment planning, including river basin and catchment restoration plans,
- Investigations and improvement under the Water Framework Directive,
- Enforcement and environmental crime work including waste crime,
- Incident management,
- Navigation and fisheries work not covered by charges,
- Work with local partners, communities, and government,
- Town and country planning advice,
- Administration of energy efficiency or carbon reduction schemes, including the Energy Savings Opportunities Scheme (ESOS).

We receive ringfenced grant-in-aid from Defra to carry out specific activities. The majority of the environment and business grant-in-aid funding is for resource expenditure.

## Flood and Coastal Erosion Risk Management

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

- Capital investment strategy and delivery,
- Incident management and resilience, including flood warnings,
- Asset management,
- Digital and skills.

This is mainly funded by Defra grant-in-aid with some other funding sources as presented in the funding overview diagram below. The majority of the FCERM funding is for capital expenditure.

## Regularity of expenditure (audited)

The governance statement describes the supplier frameworks issue where expenditure procured exceeded the level for which the frameworks had been set up, which resulted in a regularity qualification in 2022-23. There was no regularity qualification in 2023-24.

## Analysis of fees and charges (audited)

The table below shows income raised from fees and charges for the Environment and Business operating unit. The financial objective for the 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.

Income billed differs from income reported in note 6 to the financial statements due to the accounting policy on accrued and deferred income, which is explained in note 11 of the financial statements. Surpluses and deficits are recognised as liabilities or assets as Managing Public Money requires income streams to fully cost recover and so deficits (note 11) are recovered either from reduced spending or increased charging, and surpluses (note 13) from increased spending or reduced charges. As the recovery of surpluses or deficits will occur in a future year (or years), the Environment Agency holds the surplus or deficit on its statement of financial position.

Expenditure funded by grant-in-aid has been excluded from the table below, except for fisheries and navigation where the deficit after charges is funded by grant-in-aid. The table does not include the effect of IAS 19 pension adjustments as these are not passed on to charge payers.

The expenditure figures in the table below are based on the statement of comprehensive net expenditure figures except for the depreciation costs associated with the implementation of a Depreciated Replacement Cost (DRC) valuation for operational assets, which significantly increased the asset valuation and consequently the depreciation charge.

Depreciation based on the DRC valuation was charged to the statement of comprehensive net expenditure for the first time in 2023-24, which means the costs included in fees and charges do not fully align with those in the financial statements. The reason that depreciation charges allocated in the fees and charges note still use the same basis is to align this analysis with the current basis of the charging model, and the basis for the recognition of income related to accumulated surpluses and deficits on charging schemes (see note 11). These do not yet use DRC-based depreciation costs pending charging scheme updates and the ongoing data improvement works described in the governance statement. Once this has concluded, the approach will be reviewed.

There has been an increase in the deficit (asset) this year compared to previous years because of unplanned costs due to higher-than-expected inflation, including of EA staff costs following a period of high overall inflation. We consider these costs to be part of the Agency's business-as-usual costs, which can be recovered under the current contract with the charge payers and therefore has been recorded as accrued income.

**Table 22: Fees and charges income**

Type of charge	Expenditure	Income billed	Deficit or (surplus)
	£ million	£ million	£ million
<b>Abstraction charges</b>	195.7	(172.2)	23.5
Navigation licences	12.1	(10.1)	2.0
Fishing licences	24.4	(22.8)	1.6
EPR water quality	80.0	(71.2)	8.8
EPR installations	43.1	(35.9)	7.2
EPR waste	39.7	(32.4)	7.3
Hazardous waste	16.4	(17.5)	(1.1)
Emissions trading and carbon reduction commitment	4.5	(5.3)	(0.8)
Nuclear regulation	19.9	(20.1)	(0.2)
<b>Other environmental protection charges</b>	19.0	(17.8)	1.2
<b>Total 2023-24</b>	<b>454.8</b>	<b>(405.3)</b>	<b>49.5</b>
<b>Total 2022-23</b>	<b>403.2</b>	<b>(398.4)</b>	<b>4.8</b>

### Losses and special payments (audited)

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

**Table 23: Losses and special payments by category**

Category	2023-24		2022-23	
	Number	£ million	Number	£ million
Write-off of sundry debts	1,364	1.1	2,093	2.6
Loss of assets	84	0.3	27	0.1
Special payments	10	0.4	10	0.2
Other (cash losses, fruitless payments, unenforceable claims and gifts)	123	8.0	58	0.8
<b>Total</b>	<b>1,581</b>	<b>9.8</b>	<b>2,188</b>	<b>3.7</b>

Losses are estimated at fair value and include costs incurred in previous years. We pursue all debts and refer unpaid invoices to a debt collection agency after a certain period. Some debts become irrecoverable and need to be written off such as those due from businesses and individuals which have become insolvent. There were no special severance payments in either 2023-24 or 2022-23.

### Losses and special payments individually over £300,000 (audited)

There was one loss and no special payments in excess of £300,000 in 2023-24.

The loss was a fruitless payment for the development of a new reporting system. It was assessed during development of the system that the additional costs of developing the full system versus a simplified product would not provide value for money. Stopping the project avoided spending in the region of an additional £7 million and continuing to invest in a solution that was increasingly unlikely to offer a suitable return on investment. The value of the loss was £7,860,000.

There were two losses and two special payments in excess of £300,000 in 2022-23.

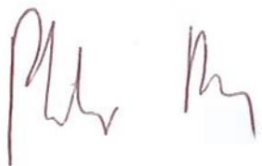
One loss was a constructive loss relating to emergency works to repair coastal flood defences where not all forecasted risks materialised leading to an excess of rock armour being purchased. This was not able to be used at other Environment Agency projects and so was passed to a nearby local authority for use in their scheme. In exchange for the rock armour, the local authority paid for the transportation from the site to theirs. The value of the loss was £657,000.

The second related to a specific situation where the Environment Agency had previously issued a short-term variation to a number of abstraction licences, reducing the cumulative volume allowed. The decision in respect of a further short-term variation was delayed by the need for complex modelling and the impacts of Covid-19. The Environment Agency agreed that the charge payer would maintain a reduced abstraction volume in accordance with the expired short-term variation, in order to reduce the potential environmental impact on the important chalk aquifer. The charge payer would continue to pay the appropriate amount for that reduced level of abstraction. The charge payer made the correct payments on that basis, but the higher fee was recorded in accordance with the (unused) higher abstraction volume in the old licence condition. As a result, a £733,000 reduction has been applied to invoices over three years to reflect the fees chargeable for the actual, reduced levels of abstraction.

There were no gifts in excess of £300,000 in 2023-24 or 2022-23.

### Remote contingent liabilities (audited)

There are no remote contingent liabilities that require disclosure in the annual report and accounts.



**Philip Duffy, Chief Executive and Accounting Officer**

**15 November 2024**

## The Certificate of the Comptroller and Auditor General to the Houses of Parliament

### Qualified opinion on financial statements

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2024 under the Environment Act 1995. The financial statements comprise the Environment Agency's:

- Statement of Financial Position as at 31 March 2024;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In my opinion, except for the possible effects of the matters described in the *Basis for qualified opinion on the financial statements* section, the financial statements:

- give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2024 and its net expenditure after interest for the year then ended; and
- have been properly prepared in accordance with the Environment Act 1995 and HM Treasury directions issued thereunder.

### Opinion on regularity

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

### Basis for qualified opinion on the financial statements

#### Overview

I have been unable to obtain sufficient appropriate evidence that the values of the operational assets within Property, Plant and Equipment as stated in the Statement of Financial Position for the Environment Agency as at 31 March 2024 and 31 March 2023 are free from material misstatement, due to the following matter.

I was unable to obtain sufficient appropriate audit evidence because of issues with the accuracy and completeness of source data on the Environment Agency's operational assets at 31 March 2024, 31 March 2023 and 1 April 2022. While I have not been able to reliably quantify the effect of this matter due to the nature of the limitations described, I consider the combined effect of these issues to be potentially material in terms of the valuation, completeness and existence of these assets, and the accuracy of related expenditure (principally depreciation) and equity entries. Additionally, in respect of the comparative information, because these assets were valued before 31 March 2023 using modified historic cost – a basis not in line with the financial reporting framework – I was not able to obtain sufficient appropriate evidence in respect of the valuation of operational assets at 1 April 2022, or the movement in valuation between 1 April 2022 and 31 March 2023.

**My assessment of the matter giving rise to qualified opinions**

**Depreciated Replacement Cost valuation of operational infrastructure assets**

<p>Matter giving rise to qualification</p>	<p>The Environment Agency holds a nationally important portfolio of operational infrastructure assets, predominantly to respond to risks of flooding.</p> <p>The accounting framework set for Government bodies by HM Treasury dictates that these specialised assets should be valued under the Depreciated Replacement Cost (DRC) method, reflecting the cost of a modern equivalent asset adjusted to reflect the asset’s current condition.</p> <p>As at 31 March 2023 the Environment Agency implemented a DRC valuation on this portfolio for the first time. This revaluation has resulted in a material increase to the valuation of operational assets within the Statement of Financial Position. At the point of implementation, net book value of these assets has increased to £9.6 billion (1 April 2022: £3.0 billion) as a result of both changes in costing rates and the changes in the scope of assets included in the Statement of Financial Position under the new valuation basis. Revaluation movements in 2023-24 – both relating to the indexation of the portfolio, and updates to asset source data – have increased this further to £9.9 billion. Note 7 includes further details on the nature of this framework as it relates to the Environment Agency’s operational assets.</p> <p>The preparation of the asset portfolio on the DRC methodology relies on several key inputs:</p> <ol style="list-style-type: none"> <li>a. source data on the quantity, nature and extent of assets within the Environment Agency’s control;</li> <li>b. unit rates for the replacement cost of these assets, determined with expert input on a modern equivalent basis; and</li> <li>c. information on the age and/or condition of these assets to inform an estimate of the extent of adjustment between the as-new modern equivalent asset value and the depreciated replacement cost of the actual portfolio.</li> </ol>
<p>Scope of my audit work</p>	<p>In responding to the above, my procedures included:</p> <ul style="list-style-type: none"> <li>• assessing key elements of the Environment Agency’s methodology for the DRC valuation, drawing in part on the input of RICS-qualified experts;</li> <li>• testing for a sample of assets to evaluate evidence of their existence, the accuracy of attribute data relevant to valuation (principally, dimensional data) and whether they were controlled by the Environment Agency;</li> <li>• assessing the completeness of the data based on post year end changes;</li> <li>• engaging an auditor’s expert to evaluate the appropriateness of costing rates, indexation rate and useful lives for different asset types prepared by management’s expert;</li> <li>• reviewing the evidence informing the Environment Agency’s adjustment for condition;</li> <li>• assessing the operation and mathematical integrity of the DRC model; and</li> <li>• evaluating management’s related disclosures.</li> </ul> <p>These procedures were performed across both 2022-23 and 2023-24. I performed limited work during 2023-24 on asset source data, since the Environment Agency had given notice that their improvement project on source data would not be complete in time for this audit.</p>

<p>Why I was unable to obtain sufficient appropriate audit evidence</p>	<p>My opinion remains qualified in respect of comparative figures for this valuation because the basis of valuation applied at 1 April 2022 has not been restated retrospectively under IAS 8 on grounds of impracticability. The preparation at the earliest prior period therefore remains out of line with the financial reporting framework. This is because management lack retrospective source data that would have enabled a reliable adjustment as at 1 April 2022, reflecting the live nature of the systems involved and extensive changes made during 2022-23 to improve information in the recently implemented asset management database.</p> <p>My opinion on 31 March 2023 and 2024 figures remains qualified because I was unable to obtain sufficient appropriate audit evidence because of issues with the accuracy and completeness of source data on assets. During the period of my audit, management made changes to asset data, primarily to improve the accuracy of standing data. Management’s actions are moving the Environment Agency towards a more stable and reliable dataset which will support both asset management and accounting; however, the project is ongoing. As of October 2024, management has completed reviews covering duplicate records, asset start dates, and the accuracy of the ‘maintainer’ field which acts as an indicator of whether the asset is controlled under the Environment Agency’s accounting policy, and asset start dates. Management expect to work on attribute (e.g. dimensional) data during the remainder of 2024-25.</p> <p>Consistent with management’s analysis that improvements need to continue, I found a number of issues in my prior year sample including assets which were duplicated, and where evidence contradicted the assertion of control by the Environment Agency. While improvements have continued during 2023-24, because management have not yet presented a cleansed dataset, I have qualified my opinion in respect of the value recognised at each reporting date including 31 March 2024 in respect of operational assets.</p>
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**Overall basis for opinions**

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)*. 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 am independent of the Environment Agency 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 qualified opinions.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

<p><b>Framework of authorities</b></p>	
<p>Authorising legislation</p>	<p>Environment Act 1995</p>
<p>Parliamentary authorities</p>	<p>Relevant regulations including in respect of fee income</p>
<p>HM Treasury and related authorities</p>	<p>Managing Public Money Cabinet Office controls</p>

## Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Environment Agency 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 Environment Agency'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 Environment Agency 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 is anticipated that the services which they provide will continue into the future.

## Overview of my audit approach

### Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified through the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed addressing the presumed risk of management override of controls, in respect of which I have no exceptions to report.

The key audit matters I have determined to be communicated in my certificate, below, are in addition to the issues described in the sections above headed *Basis for qualified opinion on the financial statements* and *Basis for qualified opinion on regularity*. I discussed both sets of issues with the Audit and Risk Assurance Committee. Management's report on matters that they considered to be significant to the financial statements is set out on pages 62 to 65.

### Land and buildings

#### Description of risk

The Environment Agency holds a significant amount of land and buildings, presented in Note 7 under columns headed *operational land*, *freehold land*, *dwellings*, and *freehold buildings*. The most significant holdings are of operational land which is principally held for flood alleviation purposes, either directly or to enable the operation of other assets. The Environment Agency values the combined balance at £330 million (31 March 2023: £373 million after restatement).

Under the financial reporting framework, the Environment Agency needs to revalue these assets at least every 5 years using Existing Use Value. For specialised assets, this involves a consideration of replacement cost; for non-specialised assets, an evaluation of market value constrained to the existing use.

<p>The valuation of land and buildings relies on:</p> <ul style="list-style-type: none"> <li>the classification of assets between operational land and freehold land to ensure the assets are revalued under a methodology in line with the financial reporting framework;</li> <li>source data, including on location and area;</li> <li>an assessment of which parcels the Environment Agency has rights over (generally, legal ownership);</li> <li>the application of professional judgement taking into account the characteristics of the land and the valuation basis, for example in determining an appropriate rate per square metre; and</li> <li>the selection of an index appropriate to the underlying asset category to bring land and building assets not fully revalued in year to current cost.</li> </ul> <p>I qualified my audit opinion in 2020-21, 2021-22 and – despite some improvements – 2022-23, due to errors and uncertainties my audit identified with the portfolio’s valuation, and because I was unable to obtain sufficient appropriate audit evidence in respect of the Environment Agency’s rights over these holdings.</p> <p>In 2022-23 the Environment Agency moved to a rolling programme of valuations for its land and buildings, aiming to complete the first cycle in an accelerated pattern, by 31 March 2026. This continued in 2023-24. In addition to performing another year of the rolling programme, management:</p> <ul style="list-style-type: none"> <li>made significant progress in improving the availability of information over rights, through the digitisation of ownership records;</li> <li>reviewed previous issues identified by my audit with indexation and the assignment of appropriate capital rates (£/hectare) for particular land types;</li> <li>determined and applied an portfolio-level overlay adjustment to take account of systemic issues identified with the selection of capital rates for those land types in previous revaluation rounds; and</li> <li>applied a prior period restatement to correct misstatements identified in previous estimates from these analyses, based on a retrospective indexation of the 31 March 2024 valuation.</li> </ul>	
<p><b>How the scope of my audit work responded to the risk</b></p>	<p>In responding to the above, my audit procedures included:</p> <ul style="list-style-type: none"> <li>testing a sample of assets to confirm the existence, rights and accuracy of source data used in each valuation;</li> <li>assessing, with the support of an auditor’s expert, the key elements of the valuations to ensure the Environment Agency had appropriately applied RICS principles relevant to the valuation basis prescribed in the financial reporting framework;</li> <li>testing for assets not revalued in year whether an appropriate index had been selected and properly applied;</li> <li>reviewing the reliability, design and arithmetic of management’s process to apply an overlay adjustment and prior period restatement; and</li> <li>evaluating management’s disclosures.</li> </ul>
<p><b>Key observations</b></p>	<p>In the course of completing this work, following management’s application of a prior period restatement, I did not identify any material misstatements. As a result, my opinion this year does not include a qualification in respect of this area.</p>

Classification of expenditure and valuation of Assets Under Construction	
<p><b>Description of risk</b></p>	<p>The combined balance of assets under construction is recognised in the Environment Agency’s accounts at £564 million (31 March 2023: £450 million following restatement). Expenditure contributing to this balance relates to the development or enhancements of operational assets, under projects to reduce flood risk and deliver other environmental objectives.</p>

The accounting framework sets out that only directly attributable costs contributing to an asset under the control of the reporting entity should be recognised on the Statement of Financial Position. The Environment Agency assesses control to exist wherever it has the ability to direct the use of the asset, principally reflected in it being the asset’s maintainer. Expenditure on projects which does not meet this criterion – for example, because the Environment Agency is doing work on a local authority-maintained asset – instead form part of the Environment Agency’s net expenditure. When the nature of the activity meets specific HM Treasury budgetary criteria, the Environment Agency describes this expenditure as Capital Works Expended In Year (CWEIY). Both categories of spend contribute towards the Department’s capital budget.

In 2021-22 and 2022-23, the Environment Agency was unable to provide sufficient evidence to support the Asset under Construction balances, or the split of classification between these two budget types. I therefore qualified my previous year’s opinion with regards to the existence, completeness, rights and valuation of Assets Under Construction balances (both tangible and intangible).

To support this year’s accounts, management performed a review of spend between 1 April 2021 and 31 March 2024, supported by external consultants, to assess the classification of spend and to re-state AUC balances and expenditure classification. This review aimed to achieve a consistent approach under the stated accounting policy, applied retrospectively under IAS 8. The principal risk for my audit was that this review had not sufficiently addressed the risks to the proper classification of expenditure, and achieved this outcome.

<b>How the scope of my audit work responded to the risk</b>	<p>My work included:</p> <ul style="list-style-type: none"> <li>• reviewing the design and implementation of procedures applied by management to re-analyse expenditure;</li> <li>• testing, on a project basis, the Environment Agency’s capital expenditure analysed between 2021-22 and 2023-24 and assessing whether management’s judgements about the final classification of this was appropriate to the context and the accounting policy;</li> <li>• evaluating and standing back on misstatements to assess the impact on my opinion in respect of each reporting date relevant to the retrospective restatement; and</li> <li>• considering the accuracy and sufficiency of management’s disclosures in relation to the prior period restatement.</li> </ul>
<b>Key observations</b>	<p>In the course of completing my work, following management’s application of a prior period restatement, I did not identify any material misstatements. As a result, my opinion this year does not include a qualification in respect of this area.</p>

**Valuation of defined benefit pension surplus**

**Description of risk**

The Environment Agency is responsible for a significant funded defined benefit pension scheme which is presented in Note 17, for which it recognises £3,406 million of defined benefit pension obligations and £4,203 million of recognised scheme assets.

There is significant complexity, and estimation uncertainty, in the valuation of the position of both the assets and liabilities contributing to the net scheme position, as described in Note 17.

*Scheme liabilities*

As with all defined benefit pension schemes, an actuarial estimate of the liability reflecting amounts to be paid out to members of the scheme in the future involves significant estimation in respect of key financial and demographic assumptions, applied to scheme membership data. Liabilities increased only slightly on last year, reflecting a steady membership and assumptions broadly consistent with those adopted for 31 March 2023.

	<p><i>Scheme assets</i> Because they represent the asset classes with higher levels of valuation uncertainty, I placed particular emphasis on assurance over the valuation of financial assets relating to equity, credit and infrastructure, given the extent of unobservable inputs. My assessment is partly informed by stale pricing risk, i.e. the risk arising from delays in investment managers providing the periodic valuation coterminous with the Environment Agency’s reporting date.</p> <p><i>Recognition of surplus</i> At 31 March 2023, the fair value of scheme assets exceeded the present value of the defined benefit obligation for the first time in several years, and management judged that the full surplus qualified for recognition under IFRIC 14. While I was able to draw to some extent on work performed in the prior year around this judgement, I again considered the risk around the adoption of this judgement in respect of the accounting surplus.</p>
<p><b>How the scope of my audit responded to the risk</b></p>	<p><i>Scheme liabilities</i> I contracted an actuarially qualified auditor’s expert to examine the assumptions, methodology and source data used to value the obligations, including both financial assumptions and the roll-forward procedures used to update membership data.</p> <p><i>Scheme assets</i> I placed reliance on the work of the auditor of the pension fund, which the engagement director of this audit had a role in supervising. Their work included:</p> <ul style="list-style-type: none"> <li>• vouching the alternative investment valuations to independently received statements;</li> <li>• testing a sample of private equity holdings and other alternative investment balances to third party evidence;</li> <li>• inspecting the latest audited financial statements of the funds; and</li> <li>• considering the reasonableness of movements from audited accounts position to the year-end valuation where these are not co-terminous, based on relevant external benchmarks.</li> </ul> <p>• <i>Recognition of surplus</i></p> <ul style="list-style-type: none"> <li>• Having obtained management’s refreshed position that the surplus did not require restriction using an asset ceiling, my procedures to evaluate this judgement included:</li> <li>• reviewing management’s position against IFRIC 14; and</li> <li>• recalculating the asset ceiling value based on recent industry guidance on the determination of the economic benefit available through future contribution reductions, as applicable to the Local Government Pension Scheme regime, drawing on previous internal consultation.</li> </ul>
<p><b>Key observations</b></p>	<p>In the course of completing this work, I did not identify any material misstatements.</p>

**Revenue recognition**

**Description of risk**  
As reflected in Note 6, the Environment Agency’s revenue is highly material at £544 million (2022-23: £502 million) and reflects a significant number of different income streams. Some of these reflect revenue recognised on the basis of the processing of an application, others on the basis of the Environment Agency’s legal entitlement to carry out operations over a period (‘subsistence income’).

*Measurement risk associated with performance obligations*

While my audit responded to the risks of material misstatement across the Environment Agency’s revenue, my assessment of risk included a consideration of whether to rebut the presumed risk in auditing standards of fraud in relation to revenue recognition. I rebutted this in respect of subsistence income given the limited opportunities to manipulate income around the year end, and focused additional effort in those areas where I was not able to rebut the risk, principally for application-based fees and charges, and partnership funding. My inclusion of this presumed risk reflects an assessment of risk inherent to the financial statements, rather than any heightened risk around observed behaviours from management.

Particularly in respect of these areas, management judgement is required at the year end to ensure that accruals or deferrals correctly reflect the extent to which performance obligations have been delivered.

*Fees and charges accounting policy*

I also took account of the accounting policy in respect of the Environment Agency’s recognition of its rights and obligations associated with its statutory charging regime, as described in Note 11. Fee levels at any given point in time are governed by the most recently issued Charging Scheme; however, there is a dynamic element to the Environment Agency’s rights since the Environment Act 1995 allows for the issue of new Charging Schemes from time to time bring the agency’s costs and income into balance. Under this policy, the Environment Agency recognises accrued income in 2023-24 deriving from a cumulative excess of costs over income.

I assessed a need to refresh my consideration of whether this policy met the requirements of IFRS 15, including in the context of management’s judgement that the increased depreciation costs relating to chargeable assets – recently revised following management’s implementation of Depreciated Replacement Cost for its operational assets – should be an exception to this policy and not result in additional accrued income.

<p><b>How the scope of my audit work responded to the risk</b></p>	<p><i>Measurement risk associated with performance obligations</i> My work in response to this risk included:</p> <ul style="list-style-type: none"> <li>• sample testing accrued and deferred revenue balances to ensure recognition in line with IFRS 15 principles;</li> <li>• for partnership funding, evaluating towards that end management’s judgement about the stage of project completion; and</li> <li>• checks on whether revenue has been classified to the right period (cut-off).</li> </ul> <p><i>Fees and charges accounting policy</i> In respect of the additional recognition from the fees and charges model, I:</p> <ul style="list-style-type: none"> <li>• evaluated the assumptions, methodology and source data for the model which management use to assess the cumulative surplus/deficit position, drawing on my audit of revenue and expenditure;</li> <li>• drawing on internal consultation, reviewed management’s paper and policy in the context of IFRS 15 and the Environment Act 1995.</li> </ul>
<p><b>Key observations</b></p>	<p>In the course of completing this work, I did not identify any material misstatements. Management have expanded disclosure at Note 11 to more completely explain the basis of judgements arising this year in respect of the accounting policy on the charging regime.</p>

## Application of materiality

### Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the Environment Agency's financial statements as a whole as follows.

	Overall materiality	Additional threshold
<b>Materiality</b>	£105 million	£35 million
<b>Basis for determining materiality</b>	1% of non-current assets (including land) of £10.9 billion	1.75% of gross expenditure excluding depreciation and impairment, but including capital additions
<b>Rationale for the benchmark applied</b>	Non-current assets are the largest item in the Statement of Financial Position. Significant public benefit is derived from the flood defence assets, driving user interest in the extent and condition of those assets.	This threshold is set to reflect the additional sensitivity of financial statement users to transactions and balances reflecting the extent of financial activity backed by taxpayers or fee-payers. Capital additions are included since these form part of Total Managed Expenditure voted by Parliament, and depreciation is excluded to avoid double-counting.
<b>Elements of financial reporting to which the thresholds apply</b>	All not matching the additional sensitivity described to the right, including the valuation of property, plant and equipment and associated non-cash entries; the non-cash valuation movements in pension scheme accounting; and the classification of project expenditure between amounts to be expensed and amounts to be capitalised (since this is neutral to analysing the overall extent of project expenditure).	Those which directly reflect the extent of the Environment Agency's various financial activities, including the transactions and balances connected with revenue; cash-based expenditure, including amounts capitalised in-year; and pension contributions. The greater part of our audit effort is applied to work against this the additional threshold.

This is the second year I have adopted a percentage of non-current assets as the materiality base, reflecting the significant public interest in the operational assets which since 31 March 2023 have been valued on a Depreciated Replacement Cost basis. Since these have built up over many decades, their value significantly exceeds the annual expenditure. I also assess the need for an additional threshold reflecting user sensitivity to misstatements in respect of the how funds have been applied to the Environment Agency's objectives, and in respect of income generation. In my judgement this combination ensures an appropriate focus on the asset base and on transactions and balances reflecting taxpayer-backed financial activity, reflecting overall user interest and sensitivity to error.

### Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality of the financial statements as a whole. Performance materiality was set at 70% of materiality for this audit (2022-23: 70%). In determining performance materiality, I considered the effectiveness of the Environment Agency's control environment.

### Other Materiality Considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected; for example, any errors reported in the Related Parties note in the financial statements. Assessment of such matters needs to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing my audit work to support my opinion on regularity and in evaluating the impact of any irregular transactions, I considered both quantitative and qualitative aspects that would reasonably influence the decisions of users of the financial statements.

### Error Reporting Threshold

I agreed with the Audit and Risk Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit and Risk Assurance Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Audit and Risk Assurance Committee would have the following net effects, on correction. I have evaluated errors in respect of different periods or reporting dates separately against our materiality threshold, as well as considering the cumulative effect on the comparability of different periods.

Unadjusted errors (summarised below) reflect misstatements the audit team has been able to specifically identify, either as a known error or an extrapolation based on sample testing of a residual balance. They should be taken in the context of potentially material findings or limitations on the scope of the audit described in the *Basis for qualified opinion on the financial statements* section, which are not replicated here and cannot be quantified precisely due to the nature of the limitations. Effects on net assets and net expenditure are not always in parity due to the interaction with the prior period restatement, and a small number of misstatements where the increase/decrease in net assets would affect revaluation surplus rather than net expenditure.

	2023-24	2022-23 (restated)	2021-22 (restated)
Net assets at the end of the reporting period	Increase of £76.8m	Increase of £27.0m	Increase of £29.5m
Net expenditure (before other comprehensive expenditure) for the period	Decrease of £81.2m	Decrease of £65.0	<i>n/a – 1 April 2022 is the earliest prior period, with no 21-22 transactional comparatives required or presented</i>

### Audit scope

The scope of my audit was determined by obtaining an understanding of the Environment Agency's environment and relevant controls, and by assessing the risks of material misstatement. This included a consideration of the estimation uncertainty attaching to specific balances,

transaction streams and disclosures, informed by both my cumulative audit knowledge and analysis of recent changes in the environment.

In making this assessment in respect of my work on regularity, I considered the risks of non-compliance with the framework of authorities, including both statutory elements and other authorities including HM Treasury and Cabinet Office controls.

## Other Information

The other information comprises the information included in the Annual Report but does not include the financial statements and my auditor's certificate and report 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.

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.

As stated under *Basis for qualified opinion on the financial statements*, I have been unable to obtain sufficient and appropriate evidence that the values of the operational assets (£9.9 billion) within Property, Plant and Equipment as stated in the Statement of Financial Position for the Environment Agency as at 31 March 2024, 31 March 2023 and 1 April 2022 are free from material misstatement, due to limitations in the accuracy of source data, and the use of an ineffective proxy for the required measurement basis prior to 31 March 2023. Where other information refers to these balances, it may be materially misstated for the same reason.

## Opinion on other matters

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Environment Act 1995.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Environment Act 1995;
- 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 and is in accordance with the applicable legal requirements.

## Matters on which I report by exception

In the light of the knowledge and understanding of the Environment Agency and its environment obtained in the course of the audit, except for the possible effect of the matter described above, under *Basis for qualified opinion on the financial statements*, I have not identified material misstatements in the Performance and Accountability Reports.

In respect solely of the limitations in receiving sufficient appropriate evidence as described in that section:

- 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, 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 subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; 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:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the Environment Agency from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Environment Act 1995;
- ensuring that the annual report, which includes the Remuneration and Staff Report, is prepared in accordance with HM Treasury directions made under the Environment Act 1995; and
- assessing the Environment Agency'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 Environment Agency 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 Environment Act 1995.

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.

### Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

### Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the Environment Agency's accounting policies, key performance indicators and performance incentives;

- inquired of management, the Environment Agency's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Environment Agency's policies and procedures on
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Environment Agency's controls relating to its compliance with the Environment Act 1995 and Managing Public Money;
- inquired of management, the Environment Agency's head of internal audit and those charged with governance whether
  - they were aware of any instances of non-compliance with laws and regulations; or
  - they had knowledge of any actual, suspected, or alleged fraud; and
- discussed with the engagement team and the relevant internal and external specialists, including pensions and property specialists, regarding how and where fraud might occur in the financial statements.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Environment Agency for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the Environment Agency's framework of authority and other legal and regulatory frameworks in which the Environment Agency operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Environment Agency. The key laws and regulations I considered in this context included the Environment Act 1995, Managing Public Money, employment law, pensions and tax legislation and relevant income regulations.

#### **Audit response to identified risk**

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

**Other auditor's responsibilities**

I am required to obtain sufficient appropriate audit evidence 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 I identify during my audit.

**Gareth Davies**  
**Comptroller and Auditor General**

**19 November 2024**

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

## The Report of the Comptroller and Auditor General to the Houses of Parliament

1. The Environment Agency is the leading public body for protecting and improving the environment in England. It 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 my certificate on the Environment Agency's accounts – which this report should be read alongside – I explained the basis of my qualified audit opinion on the 2022-23 financial statements in relation to the valuation of the Environment Agency's operational assets.
3. My report also describes two additional qualifications of my opinion on last year's accounts – relating to land and buildings, and the classification of expenditure and valuation of Assets Under Construction – which have now been lifted following management's additional work.
4. This report provides an accompanying commentary on this improved position, and looks forward to the actions which the Environment Agency will need to take in order to address the residual qualification issues, and embed improvements.

### Remaining qualification issues for 2023-24

5. Whilst there remains work to do, significant progress has been made during the year, which has allowed the scope of my qualifications to reduce. The only remaining source of qualification relates to the valuation of operational assets.
6. The Environment Agency is responsible for a nationally important portfolio of operational infrastructure assets, mostly made up of those protecting against, and responding to, the risk of flooding. In valuing these assets, management successfully implemented the Depreciated Replacement Cost (DRC) methodology for the first time in the previous financial statements, for 2022-23. This brought the Environment Agency's accounting policy into line with the financial reporting framework, and increased the relevance and reliability of the financial statements since the DRC valuation draws from the same information sources as the Environment Agency uses to manage its assets. The new valuation, like other significant infrastructure valuations in central government, factors in the extent of the relevant assets, management's best assessment of their condition, and a consideration of portfolio's service potential on a current cost basis. It also achieved a simplification, in process terms, with reliance on asset management records used by the business removing the need for a separate asset register for finance purposes.
7. As in 2022-23, my opinion remains qualified on a single point. The data on the extent of the Environment Agency's operational assets is improving, but is not yet at the point where I am assured that it is a materially reliable basis for valuation. This was reflected in my team's sample testing for 2022-23, and management have not provided an updated listing this year because their continuing efforts to cleanse and improve data accuracy are ongoing. Management have informed me that they completed their efforts in October 2024 on everything but attribute data (principally, the dimensions of key assets) which they expect to have cleansed by March 2025. I look forward to reviewing the accuracy and completeness of the updated asset data in the course of my 2024-25 audit.
8. Additionally, I have been able to successfully audit a number of areas which provide a good platform for future improvements. These areas include:
  - a. the key assumptions and principles underlying the Environment Agency's DRC methodology;
  - b. the costing rates for key asset types;
  - c. the operation of the model which translates source data inputs and costing rates into a DRC value; and

- d. the Useful Economic Lives and choice of costing indices which will support the Environment Agency's application of depreciation and indexation to the updated dataset, once available.

## Issues no longer leading to qualification

### Land and Buildings

9. I first qualified my opinion in respect of the Environment Agency's land and buildings valuations in 2020-21, following issues with the application of that year's revaluation, including its application to the accounting records and financial statements.
10. Management has addressed these issues progressively, and in 2022-23 my opinion remained qualified both in respect of evidence over:
  - a. valuation – relating to missing or incomplete valuation evidence for properties valued before the 2022-23 cycle, and problems with indexation; and
  - b. rights – since management were not able to present ownership evidence for a number of items.
11. The Environment Agency has addressed both issues in the year to the extent where I found no material misstatements or insufficiencies of evidence in my work. Ongoing valuation efforts have made significant progress in addressing legacy issues, and digital records of land ownership have improved to the point where management have been able to evidence their rights over assets satisfactorily.

### Classification of expenditure and valuation of Assets Under Construction

12. I qualified my opinion last year in respect of evidence issues for management distinguishing its capital expenditure between items which met criteria for asset recognition, and those that should be expensed. During 2023-24 management addressed these through a retrospective review of project expenditure, and restated the accounts. I have been able to review this exercise and conduct appropriate testing, and my opinion is no longer qualified.

## Conclusions and forward look

13. During 2022-23 management made important foundational improvements which I said provided a platform for further improvement. The removal of two heads of qualification represents significant progress and reflects increased reliability in the Environment Agency's accounts, and improvements in underlying data. Progress in respect of operational assets is also encouraging given the extent of the asset base under review and I expect to report further in 2024-25 following the completion of management's data improvement exercise.
14. To continue this journey towards financial statements which are both unqualified and timely, the Environment Agency will need to maintain a continued focus on improved financial management, including measures to ensure that this recent improvement can be sustained. Management needs to set specific goals, allocate sufficient resources for improvement, and to ensure that efforts are effectively targeted. In order to address the issues described in my certificate, priority areas for 2024-25 should include:
  - completing the drive towards a more stable, accurate and complete asset management dataset with data update reliably embedded in business as usual processes for asset management;
  - continuing the Environment Agency's rolling valuation programme for land and buildings, building in recent learnings and ensuring that reliable records are kept of the 5-year rolling programme;
  - refining processes for project spend classification to ensure that appropriate judgments and accounting processes are put in place in a manner closely aligned with broader project management practice;;
  - looking for opportunities to streamline and simplify policies and procedures where appropriate, where complexity is a barrier to sustainable improvement; and

- maintaining the environment – through appropriate resourcing and training, and broader leadership which promotes good data quality and continuous improvement – for improvements in financial management to be sustained over the long-term.

**Gareth Davies**  
**Comptroller and Auditor General**

**19 November 2024**

National Audit Office  
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## Financial statements

### Statement of Comprehensive Net Expenditure

For the year ended 31 March 2024	Note	2023-24	2022-23 Restated
		£ million	£ million
<b>Expenditure</b>			
Staff costs	3	688.6	681.6
Capital works expensed in year	4	302.3	258.5
Depreciation and amortisation	7, 8, 9	362.5	124.1
Other expenditure	5	880.5	857.0
		<b>2,233.9</b>	<b>1,921.2</b>
<b>Income</b>			
Revenue from contracts with customers	6	(516.8)	(456.8)
Other operating income	6	(27.0)	(45.5)
		<b>(543.8)</b>	<b>(502.3)</b>
<b>Net expenditure</b>	2	<b>1,690.1</b>	<b>1,418.9</b>
Loss on sale of assets		14.1	18.5
Interest receivable		(4.3)	(1.6)
Financing on pension scheme assets and liabilities	17.3	(23.4)	19.7
<b>Net expenditure after interest</b>		<b>1,676.5</b>	<b>1,455.5</b>
<b>Other comprehensive expenditure</b>			
Revaluation of property, plant and equipment	7	(527.2)	(6,644.2)
Revaluation of right of use assets	8	(0.3)	(4.6)
Revaluation of intangible assets	9	(3.2)	(5.8)
Actuarial gain on pension scheme assets and obligations	17.3	(268.1)	(1,302.4)
		<b>(798.8)</b>	<b>(7,957.0)</b>
<b>Total comprehensive net (income) / expenditure for the year</b>		<b>877.7</b>	<b>(6,501.5)</b>

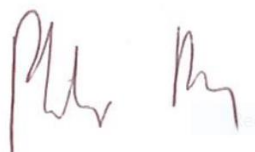
All of the Environment Agency's income and expenditure for the year was derived from continuing activities. The notes on pages 109 to 172 form part of these financial statements.

The prior period restatement is described in note 1.8.

## Statement of Financial Position

As at 31 March 2024	Note	31 March 2024	31 March 2023 Restated	31 March 2022 Restated
		£ million	£ million	£ million
<b>Non-current assets</b>				
Property, plant and equipment	7	10,869.1	10,494.8	3,766.0
Right of use assets	8	69.3	54.4	-
Intangible assets	9	87.6	91.7	98.6
Pension assets	17.3	797.1	503.4	-
<b>Total non-current assets</b>		<b>11,823.1</b>	<b>11,144.3</b>	<b>3,864.6</b>
<b>Current assets</b>				
Assets classified as held for sale		13.1	9.6	8.7
Trade and other receivables	11	162.1	165.0	110.5
Cash and cash equivalents	12	192.4	167.5	119.5
<b>Total current assets</b>		<b>367.6</b>	<b>342.1</b>	<b>238.7</b>
<b>Total assets</b>		<b>12,190.7</b>	<b>11,486.4</b>	<b>4,103.3</b>
<b>Current liabilities</b>				
Trade and other payables	13	(541.3)	(559.9)	(540.7)
Reservoir operating agreements	18.1	(25.6)	(24.3)	(21.1)
Lease liabilities	14	(20.7)	(14.0)	-
<b>Total current liabilities</b>		<b>(587.6)</b>	<b>(598.2)</b>	<b>(561.8)</b>
<b>Total assets less current liabilities</b>		<b>11,603.1</b>	<b>10,888.2</b>	<b>3,541.5</b>
<b>Non-current liabilities</b>				
Provisions	1.5	(36.8)	(29.2)	(10.6)
Reservoir operating agreements	18.1	(435.6)	(423.7)	(412.3)
Pension liabilities	17.3	-	-	(654.7)
Trade and other payables	13	(168.8)	(145.5)	(6.0)
Lease liabilities	14	(25.9)	(31.0)	-
<b>Total non-current liabilities</b>		<b>(667.1)</b>	<b>(629.4)</b>	<b>(1,083.6)</b>
<b>Assets less liabilities</b>		<b>10,936.0</b>	<b>10,258.8</b>	<b>2,457.9</b>
<b>Taxpayers' equity</b>				
Revaluation reserve		9,327.1	8,899.7	2,346.4
General reserve		811.8	855.7	766.2
Pension reserve		797.1	503.4	(654.7)
<b>Total taxpayers' equity</b>		<b>10,936.0</b>	<b>10,258.8</b>	<b>2,457.9</b>

The prior period restatement is described in note 1.8. The notes on pages 109 to 172 form part of these financial statements. The financial statements on pages 105 to 108 were approved by the Board on 15 November 2024 and signed on its behalf by:



**Philip Duffy, Chief Executive and Accounting Officer**  
15 November 2024

## Statement of Cash Flows

For the year ended 31 March 2024	Note	2023-24		2022-23 Restated	
		£ million	£ million	£ million	£ million
<b>Cash flows from operating activities</b>					
Net expenditure before interest		<b>(1,680.9)</b>		<b>(1,457.1)</b>	
Interest receivable		4.3		1.6	
Depreciation and amortisation	7, 8, 9	362.5		124.1	
Impairment of non-current assets	10	47.3		12.1	
Loss on sale of assets		14.1		18.5	
(Increase)/decrease in trade and other receivables	11	2.9		(54.5)	
Increase/(decrease) in trade and other payables	13	11.0		192.6	
Interest on reservoir operating agreement liabilities	18.1	40.2		40.1	
Increase/(decrease) in provisions		(3.6)		19.0	
Lease interest	14.4	1.8		1.0	
Non-cash pension costs		70.6		204.2	
Employer contributions to pension		(96.1)		(59.9)	
Donated assets		6.2		-	
<b>Net cash outflow from operating activities</b>			<b>(1,219.7)</b>		<b>(958.3)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	7	(249.4)		(207.5)	
Purchase of intangible assets	9	(10.8)		(13.0)	
Less movements in capital payables and accruals	13	(6.3)		(37.3)	
Proceeds of disposal of property, plant and equipment		1.5		1.4	
<b>Net cash outflow from investing activities</b>			<b>(265.0)</b>		<b>(256.4)</b>
<b>Cash flows from financing activities</b>					
Grants from Defra	19.1	1,555.0		1,300.0	
Payments towards lease liabilities	14.4	(18.4)		(11.8)	
Payments towards reservoir operating agreement liabilities	18.1	(27.0)		(25.5)	
<b>Net financing</b>			<b>1,509.6</b>		<b>1,262.7</b>
<b>Net increase in cash and cash equivalents in the period</b>	12		<b>24.9</b>		<b>48.0</b>
Cash and cash equivalents at the beginning of the period	12		167.5		119.5
<b>Cash and cash equivalents at the end of the period</b>	12		<b>192.4</b>		<b>167.5</b>

The notes on pages 109 to 172 form part of these financial statements. The prior period restatement is described in note 1.8. The prior year figures have also been restated to separate the non-cash interest and cash payments relating to reservoir operating agreement liabilities, including presenting the payment element as a financing cash flow (previously operating).

## Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2024	Note	Revaluation reserve	General reserve	Pension reserve	Total reserves
		£ million	£ million	£ million	£ million
<b>Changes in taxpayers' equity</b>					
<b>Balance at 1 April 2022 (Restated)</b>		<b>2,346.4</b>	<b>766.2</b>	<b>(654.7)</b>	<b>2,457.9</b>
Adoption of IFRS16		-	(0.5)	-	(0.5)
Net gain on revaluation of property, plant and equipment	7	6,644.2	-	-	6,644.2
Net gain on revaluation of intangible assets	9	5.8	-	-	5.8
Net gain on revaluation of right of use assets	8	4.6	-	-	4.6
Actuarial gain on pension scheme assets and obligations	17.3	-	-	1,302.4	1,302.4
Transfers between reserves	15.1	(101.3)	245.6	(144.3)	-
Retained deficit		-	(1,455.5)	-	(1,455.5)
<b>Total recognised income and expense</b>		<b>8,899.7</b>	<b>(444.3)</b>	<b>503.4</b>	<b>8,958.8</b>
Grants from Defra	19.1	-	1,300.0	-	1,300.0
<b>Balance at 1 April 2023 (Restated)</b>		<b>8,899.7</b>	<b>855.7</b>	<b>503.4</b>	<b>10,258.8</b>
Net gain on revaluation of property, plant and equipment	7	527.2	-	-	527.2
Net gain on revaluation of intangible assets	9	3.2	-	-	3.2
Net gain on revaluation of right of use assets	8	0.3	-	-	0.3
Actuarial gain on pension scheme assets and obligations	17.3	-	-	268.1	268.1
Transfers between reserves	15.1	(103.3)	77.7	25.6	-
Retained deficit		-	(1,676.6)	-	(1,676.6)
<b>Total recognised income and expense</b>		<b>9,327.1</b>	<b>(743.2)</b>	<b>797.1</b>	<b>9,381.0</b>
Grants from Defra	19.1	-	1,555.0	-	1,555.0
<b>Balance at 31 March 2024</b>		<b>9,327.1</b>	<b>811.8</b>	<b>797.1</b>	<b>10,936.0</b>

The notes on pages 109 to 172 form part of these financial statements. The prior period restatement is described in note 1.8.

### Details on the individual reserves

- Revaluation reserve - reflects the cumulative position of revaluation and indexation of non-current assets.
- General reserve - reflects the cumulative position of net expenditure and funding from the sponsor bodies of the Environment Agency, together with the historical cost of the non-current assets transferred on the creation of the Environment Agency.
- Pension reserve - reflects the cumulative position of the net assets or liabilities of the pension scheme.

## Notes to the financial statements

### 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2023-24 government financial reporting manual (FReM) issued by HM Treasury and are in accordance with the accounts direction issued by the Secretary of State for Environment, Food and Rural Affairs and HM Treasury under section 45 of the Environment Act 1995.

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

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

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

All values are reported in pound sterling rounded to the nearest 0.1 million unless otherwise stated.

#### 1.1 Significant judgements

The following areas represent significant judgements made in applying the accounting policies:

- Pension liabilities (reported in note 17). Independent and qualified actuaries assess the specific factors that influence the pension fund position, such as life expectancy and age of scheme members, prevailing interest and inflation rates, and projected returns on invested funds.
- The valuation of operational assets (reported in note 7).
- The selection of appropriate indices to assist with the valuation of property, plant and equipment and intangible assets (reported in notes 7, 8 and 9).
- The useful economic lives of assets that form the basis of periods over which property, plant and equipment is depreciated (reported in note 7 and 8) and intangible assets are amortised (reported in note 9).
- The impairment of property, plant and equipment and intangible assets (reported in notes 7 and 9).
- Revenue recognition regarding satisfaction of performance obligations on capital works expensed in year income per IFRS 15 (reported in notes 6, 11 and 13).
- Revenue recognition regarding satisfaction of performance obligations on fees and charges per IFRS 15 (reported in note 6). Within receivables and payables there are accrued and deferred income balances for fees and charges where there is a surplus or deficit. Charging schemes are required to break even over a reasonable period of time and judgment is required in assessing the factors behind whether the surplus or deficit will result in a break-even position over this reasonable period (reported in notes 11 and 13).
- The classification of expenditure between property, plant and equipment or intangible assets and capital works expensed in year (reported in note 4).
- The calculation of expected bad debts by income stream per IFRS 9 business model assessment and calculation of Expected Credit Losses (reported in note 18).
- The recognition of the liability relating to the reservoir operating agreements fixed payments at amortised cost under IFRS 9 (reported in notes 5.3 and 18.1). 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

treatment of the liability, including the recognition of the liability as a perpetuity at amortised cost and the expected future Retail Prices Index (RPI).

- The calculation of staff recharges to capital expenditure in line with IAS 16, IAS 19 and IAS 38 including judgements on management deployment of staff, utilisation rates and mix of permanent employees and contractors and agency staff (reported in notes 3 and 4).

Please note that the actual future income, expenditure, assets, and liabilities may differ from the estimates included in these financial statements.

## 1.2 Accounting convention

These accounts have been prepared on an accruals basis and, unless otherwise stated (for example for the revaluation of property, plant and equipment) on an historical cost basis.

## 1.3 Adoption of new and revised IFRS or FReM interpretations

### IFRS 17 Insurance contracts

IFRS 17 becomes effective, subject to adoption into the FReM, for accounting periods commencing on, or after, 1 January 2025. We do not expect a significant impact of the new standard on the Environment Agency's financial statements as we have few arrangements that are likely to be within scope. We plan to do further work where there is uncertainty if arrangements come within scope.

## 1.4 Value added tax (VAT)

By HM Treasury Order, the Environment Agency is classified as a body to which section 33 of the Value Added Tax Act 1994 applies. Accordingly, the Environment Agency recovers tax paid on both business and non-business activities, although the recovery of VAT on exempt supplies is dependent on the threshold for exempt activities. In all instances, where output tax is charged, or input tax is recoverable, the amounts included in these accounts are stated net of VAT.

## 1.5 Provisions

Provisions are recognised when the EA has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. The measurement of the provision is based upon the best estimate of the expenditure required to settle the obligation.

Overall, provisions increased by £7.6 million during 2023-24, predominantly due to the recognition of dilapidations provisions in respect of right of use assets.

## 1.6 Contingent liabilities

There are two contingent liabilities that require disclosure.

The first contingent liability relates to damage to an existing weir when Environment Agency works took place nearby. The claimants have indicated their claim would be in the region of £3 million. The Environment Agency disagrees with that valuation. The uncertainty and difference between these positions means a reliable value cannot be attributed.

The second contingent liability relates to an ongoing maintenance contract for coastal works, with the contractor claiming for additional costs incurred due to winter storms. The claimants have indicated their claim would be in the region of £3.5 million. The Environment Agency disagrees with that valuation. The uncertainty and difference between these positions means a reliable value cannot be attributed.

## 1.7 Research and development expenditure

We run a research and development programme which covers all our scientific and technical functions in environment and business, and flood and coastal erosion risk management. The purpose of the programme is to make our business more effective and efficient, inform our advice and guidance, and develop innovative approaches to the challenges we face. We record

expenditure on research in the year we spend it and we do not capitalise this expense within our statement of financial position.

In 2023-24, we recorded £17.8 million research and development expenditure (2022-23 - £8.5 million).

### **1.8 Prior period adjustments**

The prior year accounts have been restated to reflect changes to opening positions following on from a review of how project spend has been classified in the Environment Agency. For further detail, including details on the overall impact of the adjustments on prior periods, please refer to note 20.

## 2. Segmental reporting

### Analysis of net expenditure by segment

In accordance with IFRS 8, the Environment Agency is required to report financial and descriptive information about its operating segments. These are components about which separate financial information is available.

### Definition of segments and other segmental information

The Environment Agency summarises its activities into three main segments which are reported internally. These are:

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

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

### Major customers

Almost 10% of revenue from transactions with customers is derived from Northumbrian Water Limited, being £47.9 million in 2023-24 (2022-23 - £48.4 million).

All the Northumbrian Water Limited income relates to the Environment & Business segment and the vast majority of that income relates to regulatory charges for water abstraction (see note 6). The Environment Agency's reliance on customer income is limited, since the majority of its funding comes directly from government.

### Expenditure by operating segment

Statement of comprehensive net expenditure line	FCERM	E&B charges	E&B grant-in-aid	Total 2023-24	Total 2022-23 Restated
	£ million	£ million	£ million	£ million	£ million
Staff costs	315.2	296.1	77.3	688.6	681.6
Capital works expensed in year	302.3	-	-	302.3	258.5
Depreciation and amortisation	270.8	48.9	42.8	362.5	124.1
Other expenditure	598.2	203.8	78.6	880.6	857.0
<b>Gross expenditure</b>	<b>1,486.5</b>	<b>548.8</b>	<b>198.7</b>	<b>2,234.0</b>	<b>1,921.2</b>
Revenue from contracts with customers	(68.7)	(448.1)	-	(516.8)	(456.8)
Other income	(2.1)	(6.5)	(18.4)	(27.0)	(45.5)
<b>Net expenditure</b>	<b>1,415.7</b>	<b>94.2</b>	<b>180.3</b>	<b>1,690.2</b>	<b>1,418.9</b>

### 3. Staff costs

Staff costs	2023-24	2022-23 Restated
	£ million	£ million
Wages and salaries	520.5	418.8
Social security costs	58.8	50.4
Pension charge - service cost (note 17.3)	93.9	184.5
Agency staff wages and salaries	12.5	11.0
Other staff related costs	49.2	55.7
	<b>734.9</b>	<b>720.4</b>
Less amounts charged to capital projects	(46.6)	(39.1)
	<b>688.3</b>	<b>681.3</b>
Amounts payable to Board members	0.3	0.3
<b>Total staff costs</b>	<b>688.6</b>	<b>681.6</b>

Note 17 provides details of the Agency's pension arrangements. The remuneration and staff report provide details of the remuneration of Board members and Executive Directors.

The Agency makes regular contributions to the Environment Agency's Pension Fund (known as the active fund) to fund current and future pension liabilities. Employer contributions are treated as a diminution in the Agency's cash, and an increase in pension assets as shown in note 17.3. These are set at a level sufficient to ensure the scheme is fully funded following formal actuarial valuations of the fund. The last triennial valuation of the active fund was at 31 March 2022 (see note 17 for further details). Service costs are charged to the statement of comprehensive net expenditure, taking account of the expected costs over the service periods for relevant employees. Liabilities for enhancements to employees' pension arrangements under the Environment Agency's voluntary severance scheme are accounted for in the year in which applications for severance are approved.

The Environment Agency recognises a liability and expense for all other employee benefits, including unused annual leave, accrued at the statement of financial position date, provided these amounts are material in the context of overall staff costs. Termination benefits are recognised when the Environment Agency has a binding commitment to terminate the employment of an employee or group of employees before the normal retirement date, or as a result of an offer to encourage voluntary redundancy.

Amounts charged to capital projects reflects the allowable staff costs included in the creation and improvement of Environment Agency's assets (note 7) and in the delivery of capital works expensed in year projects (note 4). This is based on time recording data from time coded to capital projects which is then converted into a cost for the project using a calculated charge out rate based on allowable costs, expected deployment of staff, expected staff utilisation rates and mix of permanent staff, contractors and temporary workers.

## 4. Capital works expensed in year (CWEIY)

Type of capital works	2023-24	2022-23 Restated
	£ million	£ million
Beach replenishment	29.9	23.6
Capital salaries	4.0	6.2
Catchment flood management plans	11.4	7.0
Culverts and channel improvements	11.1	12.1
Embankments	59.1	57.8
Flood mapping	1.9	2.0
Flood risk management habitat creation	22.9	25.8
Flood risk management strategies	15.2	5.9
Navigation asset works	17.6	27.0
Restoration and refurbishment	98.3	71.3
Rock groynes and sea walls	8.2	1.8
Other	22.7	18.0
<b>Total</b>	<b>302.3</b>	<b>258.5</b>

This relates to work where the activity undertaken by the Environment Agency is capital in nature but is in relation to assets that it does not have control over. For example, assets which are controlled by local authorities or private individuals, where they have responsibility for the ongoing maintenance of the assets.

### Types of capital work

#### Beach replenishment

This involves sand and shingle replacement on beaches to retain the integrity of a coastal defence.

#### Capital salaries

Capital salaries represent the staff costs incurred on these capital works that are expensed in year.

#### Catchment flood management plans

Catchment flood management plans aim to establish flood risk management policies that deliver sustainable flood risk management for the long-term across a river catchment.

#### Culverts and channel improvements

This involves work on repairing or replacing culverts under land, roads and properties, and channel improvements that assist the flow of watercourses.

#### Embankments

This is for the creation, improvement or heightening of embankments to reduce the risk of water escaping from a river channel.

#### Flood mapping

Flood mapping is the production of multi-layered maps which provide information on flooding from groundwater, rivers, and the sea. Flood maps also have information on flood risk management assets and the areas benefiting from those assets.

#### Flood risk management habitat creation

Habitat creation, for example through the restoration of wetlands or creation of inter-tidal habitat in coastal areas, enables natural management of flood risks and contributes to flood and coastal resilience.

### **Flood risk management strategies**

Strategies are developed to provide long-term flood risk management options for fluvial catchments. It is from these long-term strategies that individual flood risk projects are developed.

### **Navigation asset works**

Navigation asset works include investment in waterways for which the Environment Agency is protecting and developing on behalf of other parties.

### **Restoration and refurbishment**

This involves carrying out works to ensure that flood risk management assets are restored to the appropriate condition.

### **Rock groynes and sea walls**

Rock groynes and sea walls are built as part of coastal flood risk management assets and are often used in conjunction with beach replenishment activity to prevent sea flooding. The responsibility for maintenance often resides with the local council.

## 5. Other expenditure

Type of expenditure	2023-24 £ million	2022-23 Restated £ million
Capital grants (note 5.4)	142.3	179.0
Hired and contracted services	138.9	134.8
Fees and commissions	128.5	119.8
Defra group Corporate Services charge (note 5.1 and 19.2)	88.7	85.9
Reservoir operating agreements (note 5.3 and 18.1)	67.8	58.0
Outsourced IT services	43.2	61.5
Other *	28.3	45.4
Transport and plant	25.1	25.0
Movement in provisions	(3.7)	18.6
Buildings	22.2	19.6
Grants and contributions	41.9	17.0
Utilities	22.7	13.4
Information technology	24.1	16.8
Impairment of non-current assets (note 10)	47.3	12.1
Training	8.6	8.7
Consumables and materials	6.3	7.5
Travel and subsistence	13.4	7.3
Other lease expenditure	13.2	6.4
Low value and short-term leases (note 14.2)	2.2	4.9
Maintenance	3.6	3.5
Administration	5.3	2.9
Insurance premiums	4.5	3.3
Bad debt write-offs	1.6	2.2
Compensation payments	1.5	2.1
IFRS 16 interest expense	1.8	1.0
Movement in the expected credit loss (bad debt) provision (note 11)	1.3	0.3
<b>Total</b>	<b>880.6</b>	<b>857.0</b>

\* The 'Other' expenditure figure for 2022-23 of £45.4m includes adjustments relating to the project accounting prior period adjustment of £18.1m.

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

Debts are written off when considered to be irrecoverable. Expected credit losses have been calculated and provided for in accordance with IFRS 9, as described in note 18.

### 5.1 Defra group Corporate Services

The full year cost of Defra group Corporate Services provided to the Environment Agency for 2023-24 was £155.4 million (2022-23 - £152.0 million).

£66.7 million of the expenditure in 2023-24 was incurred directly by the Environment Agency due to being under longstanding contracts (2022-23 - £66.1 million). These directly incurred costs are classified in other categories within note 5, and the actual charge from Defra group Corporate Services has been reduced to take account of these directly incurred costs. As external supplier contracts end and move to Defra group contracts, costs will be classified within the Defra group Corporate Services charge to the Environment Agency.

Defra charged the Environment Agency £88.7 million (2022-23 - £85.9 million) for net expenditure it incurred relating to the provision of corporate services to the Environment Agency in 2023-24. The approach to apportioning the total Defra group Corporate Services cost across the group uses metrics driving the costs to apportion them across the organisations that are serviced. A breakdown of the cost by function is provided below:

<b>Defra group Corporate Services function</b>	<b>2023-24 £ million</b>	<b>2022-23 £ million</b>
Digital, Data and Technology Services	70.8	72.7
Estates	45.7	41.8
Corporate Strategy	2.1	1.7
Shared Services Connected Limited (SSCL)	12.7	11.6
Commercial	4.0	4.6
Human Resources	4.9	4.8
Finance	10.6	10.2
Communications	4.6	4.6
	<b>155.4</b>	<b>152.0</b>
Less amounts incurred directly by the Environment Agency	(66.7)	(66.1)
<b>Total</b>	<b>88.7</b>	<b>85.9</b>

SSCL is Defra group's outsourced provider of payroll, finance, HR, and procurement shared transactional processing services.

## 5.2 External auditor's remuneration

The external auditor's remuneration is the audit fee for the statutory audit of £560,000 (2022-23 - £545,000). The cost of the audit is classified within the cost of finance and was included in the corporate services finance function charge (note 5.1). No payment was made to the external auditor for non-audit work.

## 5.3 Reservoir operating agreements

Expenditure under reservoir operating agreements includes two components. The first, and smaller component is reimbursement to water companies of their net costs of operating certain reservoirs, after deducting any income generated from hydroelectric power.

The second element represents annual payments set at the time of the related agreements (generally in 1989 upon privatisation of water companies) as compensation for a return-on-investment in reservoir assets which is indexed annually by the RPI (note 18.1).

Increases in the liability because of the accounting treatment (i.e. the element of the liability that will not result in a payment) have been approved by HM Treasury as being non-recoverable from charge payers.

## 5.4 Capital grants

The Environment Agency has responsibility for administering and issuing grants to local councils, internal drainage boards and other risk management authorities for flood and coastal erosion risk management capital schemes. This expenditure can be broken down as follows:

<b>Capital grants</b>	<b>2023-24 £ million</b>	<b>2022-23 £ million</b>
Local councils	119.3	163.7
Internal Drainage Boards (IDBs)	22.2	15.2
Other risk management authorities	0.8	0.1
<b>Total</b>	<b>142.3</b>	<b>179.0</b>

The Environment Agency also has responsibility for administering grants to risk management authorities which support waste and landfill initiatives and improvements to the water environment, flood resilience, flood management and surface water mapping.

The Environment Agency receives funding from Defra as grant-in-aid and then allocates it to appropriate projects during the year. The grants are recognised in the financial statements when the Environment Agency has a present obligation to the grantee because of it meeting the entitlement conditions set out in the grant agreement, and it can form a reliable estimate of the expenditure.

## 6. Income

	FCERM	E&B charges	E&B grant-in-aid	Total 2023-24	Total 2022-23 Restated
	£ million	£ million	£ million	£ million	£ million
<b>Revenue from contracts with customers</b>					
Abstraction charges	-	(190.9)	-	(190.9)	(167.1)
EPR water quality	-	(79.9)	-	(79.9)	(71.6)
EPR installations	-	(43.1)	-	(43.1)	(37.7)
EPR waste	-	(37.4)	-	(37.4)	(30.7)
Fishing licence duties	-	(22.8)	-	(22.8)	(21.2)
Hazardous waste	-	(16.4)	-	(16.4)	(13.9)
Radioactive substances regulation	-	(19.9)	-	(19.9)	(17.4)
Navigation licence income	-	(10.1)	-	(10.1)	(9.8)
Emissions trading and climate change agreements	-	(4.4)	-	(4.4)	(3.9)
Other charges	-	(22.6)	-	(22.6)	(21.4)
Flood risk levies	(37.4)	-	-	(37.4)	(31.5)
IDB precepts	(8.1)	-	-	(8.1)	(8.0)
Environmental improvement unit charge	-	(0.5)	-	(0.5)	-
Partnership funding	(23.3)	-	-	(23.3)	(22.6)
<b>Total</b>	<b>(68.8)</b>	<b>(448.0)</b>	<b>-</b>	<b>(516.8)</b>	<b>(456.8)</b>
<b>Other operating income</b>					
EU grants	(0.5)	0.1	0.4	-	(4.4)
Other grants	(0.3)	(0.8)	(5.6)	(6.7)	(7.3)
Other income	(1.3)	(5.8)	(13.2)	(20.3)	(33.7)
<b>Total</b>	<b>(2.1)</b>	<b>(6.5)</b>	<b>(18.4)</b>	<b>(27.0)</b>	<b>(45.4)</b>
<b>Total income</b>	<b>(70.9)</b>	<b>(454.5)</b>	<b>(18.4)</b>	<b>(543.8)</b>	<b>(502.2)</b>

The prior period restatement is described in note 1.8.

### Revenue from contracts with customers

Revenue from contracts with customers above includes £3.0 million E&B charges that had been included in the contract liability balance at the beginning of the period (2022-23 - £0.7 million).

### Charges income

The income from charges for regulating businesses to monitor and control their impact on the environment falls into two main categories: fees arising from applications relating to a licence or permit, and the subsistence charge associated with licences and permits, which give the customer legal entitlement to carry out their operation for a period of time under the Environment Agency's regulation.

Income is reported before an estimate is made of expected future losses in the form of bad debts by income stream, as required by IFRS 9.

The Environment Agency recognises revenue from its fees and charges in accordance with the five stages set out in 'IFRS 15 Revenue from contracts with customers'. Revenue is recognised when (or as) the Environment Agency satisfies a performance obligation.

### Applications income

For applications income, the performance obligation is the processing of the application and the provision of a decision and if appropriate the issuing of a permit or licence. This income is recognised at the point in time at which the decision, permit or licence is issued. Applications income is paid when the application is made. If no payment is made, processing of the application does not commence. Therefore, income relating to applications not fully processed is deferred.

### Subsistence income

For subsistence income, the performance obligation is to provide the legal entitlement to carry out operations for the period. Subsistence income is recognised over the permit period to reflect the Environment Agency's regulation over the period. For subsistence, payment is due on the invoice date. Our approach to contract balances follows Managing Public Money and is described in note 11.

### Accounting policies

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Income from Government Grants (accounted for under 'IAS 20: Accounting for Government Grants') is recorded as other operating income.

For other income transactions, including sale of goods, the customer simultaneously receives and consumes the benefits provided, and the revenue is recognised at the appropriate point in time when earned.

IFRS 15 requires disclosure on determining the transaction price. For charges income this is defined by the statutory charges that the Environment Agency is able to charge under each charging scheme.

The Environment Agency recognises revenue from capital projects (partnership funding) in accordance with the five stages set out in IFRS 15 Revenue from contracts with customers. Revenue is recognised when (or as) the Environment Agency satisfies a performance obligation.

Revenue from capital projects arises from legally binding agreements. An agreement obligates the Environment Agency to carry out certain flood risk management works in return for a contribution from a third party, although individual agreements may include other specific obligations unique to that particular agreement.

The transaction price comprises of the total amount payable under the agreement. This is allocated to the overall completion of the flood risk management works unless there is a specific separate obligation (for example, future maintenance works). Revenue is recognised over the progress of the completion of the flood risk management works using an input cost-based method. The costs incurred to date are assessed against the overall forecast costs for the project to give an indication of completion which is then applied to the relevant transaction price.

Due to the unique nature of each project and subsequently a corresponding agreement, the satisfaction of the performance obligations does not necessarily have a direct relationship to the timing of payments under an agreement. Therefore, the corresponding contract asset and liability balances can fluctuate from year to year.

Please refer to note 11 for details of the override of IFRS 15 Revenue from Contracts with Customers that is made to give a true and fair view of the Environment Agency's financial position, performance and cash flows.

### Grants

The Environment Agency treats other grants that relate to specific capital expenditure, and that have conditions attached to the asset, as deferred grants, and contributions. These are credited to the statement of comprehensive net expenditure over the period where the condition relating to the asset remains effective, but no longer than the asset's useful economic life.

The specific conditions are:

- If the grant is provided on condition of construction of an asset, the grant is only repayable if the asset is not constructed; therefore, the income is recognised over the period of construction of the asset.
- If the grant is provided on condition of construction of the asset and also imposes a requirement on the condition of the asset over its useful life, the income is recognised over the useful economic life of the asset. The method of apportioning the amortisation each year depends on the contract terms associated with each grant receipt.

Where there are no grant conditions imposed on the asset, the grant is recognised as income within the statement of comprehensive net expenditure at the date of receipt.

## 7. Property, plant and equipment

As at 31 March 2024	Operational assets	Operational land	Freehold land	Dwellings	Freehold buildings	Other property, plant and equipment	Assets under construction	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
<b>Cost or valuation</b>								
<b>At 1 April 2023 (Restated)*</b>	<b>23,378.2</b>	<b>237.2</b>	<b>36.0</b>	<b>17.7</b>	<b>165.4</b>	<b>281.3</b>	<b>426.0</b>	<b>24,541.8</b>
Capital expenditure	-	-	1.8	-	-	6.3	241.3	249.4
Assets commissioned in year	126.8	-	-	-	1.3	-	(128.1)	-
Disposals	-	(10.0)	(2.3)	(0.4)	(3.9)	(18.0)	-	(34.6)
Reclassification to held for sale	-	(0.3)	(0.2)	-	(2.9)	-	-	(3.4)
Revaluation	2,286.0	13.7	3.2	(3.6)	0.5	21.4	-	2,321.2
Impairment	-	(34.3)	(4.9)	(0.6)	(0.9)	(0.3)	(4.7)	(45.7)
Reclassification to right of use asset	-	-	-	-	-	-	-	-
Reclassification to intangibles / other PPE	6.3	22.0	0.6	(3.1)	(35.6)	9.8	-	-
<b>At 31 March 2024</b>	<b>25,797.3</b>	<b>228.3</b>	<b>34.2</b>	<b>10.0</b>	<b>123.9</b>	<b>300.5</b>	<b>534.5</b>	<b>27,028.7</b>

\*The prior period restatement is described in note 1.8.

As at 31 March 2024	Operational assets	Operational land	Freehold land	Dwellings	Freehold buildings	Other property, plant and equipment	Assets under construction	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
<b>Depreciation</b>								
<b>At 1 April 2023 (Restated)*</b>	<b>13,775.9</b>	<b>-</b>	<b>-</b>	<b>9.7</b>	<b>73.6</b>	<b>187.9</b>	<b>-</b>	<b>14,047.1</b>
Charged during the period	303.6	0.1	-	0.4	4.1	24.4	-	332.6
Disposals	-	(0.1)	-	(0.3)	(1.2)	(11.4)	-	(13.0)
Revaluation	1,800.4	(1.2)	-	(5.7)	(5.7)	6.0	-	1,793.9
Impairment	-	(0.3)	-	(0.1)	(0.3)	(0.2)	-	(0.9)
Reclassification to right of use asset	-	-	-	-	-	-	-	-
Reclassification to intangibles / other PPE	1.0	4.1	-	-	(10.9)	5.8	-	-
<b>At 31 March 2024</b>	<b>15,880.9</b>	<b>2.6</b>	<b>-</b>	<b>4.0</b>	<b>59.6</b>	<b>212.5</b>	<b>-</b>	<b>16,159.6</b>
<b>Net book value at 31 March 2024</b>	<b>9,916.4</b>	<b>225.7</b>	<b>34.2</b>	<b>6.0</b>	<b>64.3</b>	<b>88.0</b>	<b>534.5</b>	<b>10,869.1</b>

\*The prior period restatement is described in note 1.8.

As at 31 March 2023	Operational assets Restated*	Operational land Restated	Freehold land Restated	Dwellings	Freehold buildings	Other property, plant and equipment Restated	Assets under construction Restated	Total Restated*
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
<b>Cost or valuation</b>								
<b>At 1 April 2022 (Restated)*</b>	<b>6,471.0</b>	<b>282.6</b>	<b>42.8</b>	<b>14.1</b>	<b>103.8</b>	<b>226.7</b>	<b>306.9</b>	<b>7,447.9</b>
Capital expenditure	-	-	0.2	-	-	8.7	198.6	207.5
Assets commissioned in year	52.7	(2.9)	-	-	21.0	2.5	(73.4)	-
Disposals	(55.5)	(0.2)	-	-	-	(14.7)	-	(70.4)
Reclassification to held for sale	-	(0.6)	(0.4)	(0.1)	0.1	-	-	(1.0)
Revaluation	486.7	40.9	(6.2)	1.4	10.5	27.7	-	561.0
Impairment	-	(2.0)	0.1	-	-	-	(5.8)	(7.7)
Reclassification to right of use asset ***	-	(1.8)	(1.8)	-	(3.6)	-	-	(7.2)
Reclassification to intangibles / other PPE	14.7	(78.8)	1.4	2.3	33.6	30.4	(0.3)	3.3
Impact of transition to DRC ****	16,408.6	-	-	-	-	-	-	16,408.6
<b>At 31 March 2023</b>	<b>23,378.2</b>	<b>237.2</b>	<b>36.0</b>	<b>17.7</b>	<b>165.4</b>	<b>281.3</b>	<b>426.0</b>	<b>24,541.9</b>

\* The prior period restatement is described in note 1.8.

\*\* We consider that it is impracticable to restate the opening balances of operational assets under depreciated replacement cost (DRC) as we did not have a reliable asset base at 1 April 2022. The opening balances are therefore the same as the closing balances as at 31 March 2022, where the assets were valued under the modified historic cost method. Operational assets includes habitat creation schemes that are valued at £64 million (2022-23) under the Modified Historic Cost method.

\*\*\* With the adoption of IFRS 16, finance leases have been reclassified as right of use assets (note 8).

\*\*\*\* The 'Impact of transition to DRC' figures include all changes to asset valuations under DRC and includes some assets that are newly recognised as the EA has control and responsibility.

As at 31 March 2023	Operational assets Restated	Operational land Restated	Freehold land Restated	Dwellings	Freehold buildings	Other property, plant and equipment Restated	Assets under construction Restated	Total Restated
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
<b>Depreciation</b>								
<b>At 1 April 2022 (Restated)*</b>	<b>3,467.2</b>	<b>-</b>	<b>-</b>	<b>7.5</b>	<b>50.4</b>	<b>157.2</b>	<b>-</b>	<b>3,682.3</b>
Charged during the period	74.3	-	-	0.4	(3.0)	17.6	-	89.3
Disposals	(37.6)	-	-	-	-	(13.7)	-	(51.3)
Revaluation	424.7	-	-	0.5	12.7	15.4	-	453.3
Impairment	-	-	-	-	0.1	-	-	0.1
Reclassification to right of use asset***	(0.3)	-	-	-	(1.9)	-	-	(2.2)
Reclassification to intangibles / other PPE	(24.4)	-	-	1.3	15.3	11.4	-	3.6
Impact of transition to DRC****	9,872.0	-	-	-	-	-	-	9,872.0
<b>At 31 March 2023</b>	<b>13,775.9</b>	<b>-</b>	<b>-</b>	<b>9.7</b>	<b>73.6</b>	<b>187.9</b>	<b>-</b>	<b>14,047.1</b>
<b>Net book value at 31 March 2023</b>	<b>9,602.3</b>	<b>237.2</b>	<b>36.0</b>	<b>8.0</b>	<b>91.8</b>	<b>93.4</b>	<b>426.0</b>	<b>10,494.8</b>

\* The prior period restatement is described in note 1.8.

## Impact of transition to Depreciated Replacement Cost (DRC)

The government's financial reporting manual requires relatively specialised assets held for their service potential - including networked assets - to be accounted for at Depreciated Replacement Cost (DRC) to give the most appropriate valuation.

During 2022-23, the Environment Agency transitioned from valuing operational assets using the Modified Historic Cost (MHC) method to the Depreciated Replacement Cost method. In readiness for the transition to DRC, the Environment Agency took steps to significantly improve the reliability of source data on its asset base, especially in respect of its completeness. This led to the recognition of assets for which the Environment Agency had taken control and responsibility, but which were not previously valued under MHC as the EA neither purchased nor built them.

For 2022-23, the impact of transition to DRC under cost showed the adjustment from the gross book value as at the 31 March 2023, to the Modern Equivalent Asset Value (MEAV), i.e. the replacement cost of the asset portfolio based on modern equivalents. The impact of transition to DRC under depreciation shows the additional depreciation that was required to bring the MEAV down to the Depreciated Replacement Cost values as at the 31 March 2023. This ensured that the closing net book value of DRC assets reflected a replacement cost appropriately adjusted for the overall condition of the assets, which are part-way through their life.

As the transition to a DRC valuation was as at 31 March 2023, the opening balances were valued under MHC and were still subject to a qualified opinion based on the valuation approach not being in line with the financial reporting framework.

Operational assets includes a number of habitat creation schemes which remain valued using the Modified Historic Cost method, with a value of £43.2 million at 31 March 2024 (31 March 2023 - £64.0 million). Their primary purpose is to reduce the risk of flooding, but at the same time to enhance the natural habitat of the area and promote biodiversity. These are relatively recently constructed schemes and are not yet categorised as a separate asset type in the EA's asset management system, however in most cases conventional operational assets, such as outfalls, sluices and embankments have also been built on the site.

The number of schemes that use natural solutions to managing flood risk is expected to increase in the future and alternative valuation approaches may be worthy of review at future valuations.

## Accounting convention

The Environment Agency's tangible non-current assets fall into four categories:

Asset category	Accounting conventions
Operational assets	Valued using the depreciated replacement cost method
Land and buildings	Valued on an existing use value basis
Other property, plant and equipment	Valued using the modified historic cost method
Assets under construction	Valued at historic cost before they are capitalised and transferred to one of the categories above

The accounting policies for recognition, valuation and depreciation for each asset category is described below.

## 7.1 Operational assets

Operational assets are assets that directly enable the delivery of the primary outcomes of the Environment Agency. In-scope assets are specialised in nature and function for the delivery of these outcomes and, as such, are not likely to be available in the general marketplace. These assets include flood risk management assets such as control gates, flood gates, pumping stations and screens; water, land and biodiversity assets such as such as boreholes, gauging stations and weirs; and navigation assets such as locks.

Out of scope assets include assets that do not meet the following criteria:

1. Assets that are not Environment Agency owned or maintained (assets which the Environment Agency does not own but is responsible for keeping in good working condition and from which it receives economic benefit). These assets are not controlled by the Environment Agency, so do not meet the accounting test of providing economic value to the Environment Agency.
2. Assets where the Modern Equivalent Asset Value is less than £5,000. This is the de-minimis criteria for inclusion in the valuation, even if the other criteria are met.
3. Assets where the useful economic life is less than 1 year.

We had historically valued operational assets using the Modified Historic Cost method as a proxy for the Depreciated Replacement Cost method, which was found not to be compliant with the Government's Financial Reporting Manual (FRoM) and this led to a qualification of the accounts. In 2022-23 we implemented a Depreciated Replacement Cost method, for the valuation of operational assets, which determined the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

### Operational asset categories

The net book value of operational assets of £9.9 billion (excluding habitat creation schemes) can be split into categories as follows:

Category	Net book value
Aids to navigation	£425.7m
Buildings and compounds	£170.0m
Channel crossings and channels	£1,284.6m
Defence	£2,185.7m
Instruments	£38.7m
Mechanical, Electrical, Instrumentation, Control and Automation	£165.3m
Other	£190.1m
Structures	£4,422.0m
Thames Barrier and Associated Gates	£978.6m
<b>Total</b>	<b>£9,860.7m</b>

#### Aids to navigation

Assets that are used to aid navigation in the marine and fluvial environment. Included in this asset category are locks moorings, navigation booms and other navigational assets.

#### Buildings and compounds

Assets that are used to provide shelter for equipment or storage. Included in this asset category are control buildings, pump houses, gauge station buildings and monitoring buildings.

#### Channel crossings

Assets that allow access across a channel. Included in this asset category are bridges and utility service crossings.

#### Channels

Assets that convey water. Included in this asset category are simple and complex culverts.

### Defences

Assets that provide flood defence or coastal protection functions. These include both man-made and natural defences. Natural defences may include man-made elements to make them more effective or protect them from erosion. Included in this asset category are embankments, walls, spillways, floodgates, quays and demountable defences.

### Instruments

Assets used to measure water level and flow. Included in this asset category is instrumentation, CCTV systems, and flood warning systems.

### Mechanical, Electrical, Instrumentation, Control and Automation (MEICA)

Included in this asset category are Motor Control Centre Controls, High Voltage Electrical Equipment, and Pump Assemblies.

### Structures

Assets used to enable, restrict or affect the movement of water, people, fish, animals or materials. Included in this asset category are control gates, weirs, outfalls, debris screens, fish passes and water distribution pipelines.

### Measurement principles

For each asset type there is a measurement principle which aligns to the key cost drivers within each individual cost model used to provide the Modern Equivalent Asset Valuation (MEAV) for each individual asset. These differ across the 69 asset types and within the asset categories.

The measurement rules are:

- Control Gates:  $m^2$  (cross-sectional area)
- Embankments:  $m^3$  (length, assuming two metre crest and 1:3 slope)
- Culverts: m (length based on varying cross-sectional sizes)
- Walls:  $m^2$  (facing area)
- Outfalls:  $m^2$  (cross sectional area)
- Weirs: m (length)
- Lock:  $m^3$  (chamber volume)
- Bridge:  $m^2$  (deck area)
- Debris Scheme:  $m^2$
- Water Distribution Pipelines: m (length)

### Thames Barrier and Associated Gates

The Thames Barrier is a retractable barrier system built to protect the floodplain of most of Greater London from exceptionally high tides and storm surges on the North Sea. The Associated Gates function in the same way as the Environment Agency's large tidal barriers and other complex defence structures.

As a bespoke asset with limited recent replacement cost information available, a specialised methodology was developed to value the Thames Barrier. The approach has been to triangulate between indexed historical costs, a materials and quantities estimate, and international benchmarks. The valuation placed most weight on the materials and quantities estimate because this is where there was best available data to produce a DRC value of the Thames Barrier.

The valuation was based on:

- A high-level breakdown of the assets and dimensions of assets that comprise the Thames Barrier and are in scope of a DRC valuation.
- The best available data for the cost of replacing these assets. Due to the bespoke nature of the assets the availability of recent cost data associated with replacing or refurbishing components of the barrier is relatively limited. The sources of cost data for the Thames Barrier include:
  - market rates
  - adjusted cost models e.g. for the gates and piers

- Lump sum estimates provided by the EA experts - e.g. for replacement of the Higher Voltage / Low Voltage power assets
- The barrier has been depreciated using the same methods as explained below for all other operational assets. The majority of the value is in the gates and the piers and these have been depreciated based on an assessment of actual condition of these assets and application of EA's modelled deterioration curves for these assets and as also explained further in the section on civils deterioration curves.

A specific cost model was developed for the EA's tidal barrier control gates which was also applied to value the Associated Gates and also adjusted for use in the Thames Barrier valuation.

### Recognition and capitalisation policy

Operational assets are initially recognised in assets under construction at cost and are not depreciated. When the asset is fully operational, the cost is transferred to operational assets, it is depreciated and included in the valuation process until the time the asset is disposed of or decommissioned.

Capital expenditure is the money that we spend on acquiring, improving or renewing our assets. All direct construction costs are capitalised. Design costs that are directly attributable to an asset are also capitalised, including salaries when they are incurred as a result of staff spending time on capital projects and can be directly linked to bringing specific, separately identifiable assets into working condition or substantially enhancing the working life of an existing asset.

### Revalue using DRC

The DRC method is a cost-based valuation approach applied for specialised and networked assets held for their service potential, where market comparators do not exist and/or would not be appropriate. It is the cost a company would need to spend today to replace the asset to deliver the same functionality, adjusted (depreciated) to reflect the level of physical, functional and economic deterioration of the current asset.

The key steps and assumptions are summarised below.

### Define Modern Equivalent Asset (MEA)

As the EA's assets tend to be bespoke, which is necessary to deliver functional requirements, the MEA is based more on a like-for-like replacement than in other sectors. The EA has developed some MEA assumptions where assets can be more standardised, for buildings for example or because the valuation is based on using modern construction materials.

### Create cost models

Developed cost models and in exceptional cases unit rates for the valuation. These models have been developed to reflect current design standards and modern materials, the source data and the processes for 'cleansing' of costs that do not align with DRC methodology arising from assumptions such as instant build, no financing and greenfield site.

### Estimate MEAV

Every asset type then has a measurement rule which aligns to the key cost drivers within each individual cost model to calculate the MEAV for each asset in each asset type according to the attribute data for each asset (see descriptions for different categories including structures at the top of note 7.1.). Significant steps were taken during the valuation process to improve the level of actual attribute data available for the valuation. The valuation uses a mix of valuations driven by attribute data where the cost of an asset is significantly responsive to its dimensional extent (e.g. length / height) and standardised measurements for the MEA design in other cases where there is limited sensitivity or potential for variance.

Where there remained gaps, assumptions were made based on statistical analysis of the known data points.

## Depreciation

### In-year depreciation

Depreciation is calculated to apportion the value of operational assets over the expected useful economic life. Depreciation is charged in the month of capitalisation but not in the month of disposal. In year depreciation was straight line over the asset useful life. Additional depreciation was applied to bring the Modern Equivalent Asset Value down to the Depreciated Replacement Cost value at 31 March 2024.

### Application of depreciation adjustment to the closing DRC model

As described above, the aim of a DRC valuation is to provide a current cost of asset replacement after an adjustment (depreciation) for physical, functional, or economic obsolescence of the actual asset as compared against the hypothetical as-new modern equivalent asset. The most significant factor for the Agency's assets in terms of this adjustment is a physical deterioration associated with the assets being active over time.

To arrive at this adjustment, the DRC valuation applies one of three approaches (explained below) to arrive at a depreciation factor (a number between zero and one by which the MEAV is multiplied to arrive at a DRC, with zero being a fully depreciated asset and one being an as-new asset).

The approaches were developed according to the data available across the asset types to provide a best estimate.

- i. Using inspection data either on asset condition or, in the case of Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) assets, reliability to determine a point on a depreciation curve which models how assessed condition and reliability are expected from an engineering point of view to deteriorate over time, and therefore allow the existing inspection and other asset management information to be used to estimate how far the asset is expected to be through its useful life.
- ii. Applying straight line depreciation, with the depreciation factor calculated based on asset start date data and useful economic lives for the asset type. This approach is used as the basis of a best estimate where assets have not yet been included in the inspection regime so do not yet have sufficient data on asset condition to use the methods above.

### Deterioration curve

This method uses data routinely collected on asset condition and post inspection actions to estimate deterioration curves to calculate the asset's residual life. It has been applied to all civil assets where a suitable Environment Agency deterioration curve is available. For consistency within asset types the same depreciation method was used. The curves have been developed as a predictive tool for estimation of future asset condition and expected residual asset life, considering characteristics related to the:

- environment, whether the asset is located in a fluvial, tidal or coastal location
- asset age
- material type and construction
- past and intended (future) maintenance practices

Asset attribute data such as target condition, location and material type is used to select the relevant deterioration curve and the depreciation factor is calculated across this curve based on the actual recorded condition of the asset.

### MEICA curve

For MEICA assets, this method uses data from the Environment Agency's inspection regime to provide a depreciation factor. MEICA maintained FCERM assets are routinely inspected for availability, i.e. will they operate and perform as intended when needed, and the outcomes are recorded for each element of the MEICA asset. These inspections assess:

- Likelihood of failure in the future (LOF): Unlikely, Possible, Likely, or Imminent.
- Time to repair if failure does occur (TTR): designated as Quick (2 days), Short (10 days), Medium (30 days), Long (70 days) or Very Long (180 days).

- Whether they fall below the target condition grade.

To use this data as the basis for a DRC valuation two residual life percentage matrix tables were developed; one for assets not below target condition and one for assets that are.

### Straight line with residual balance

Straight line depreciation with an estimated residual balance is used where assets have not yet been included in the inspection regime so do not yet have sufficient data on asset condition to use either deterioration curves or reliability data. The depreciation factor is calculated based on asset start date data with straight line depreciation calculated based on its' useful economic life.

### Summary of key valuation assumptions

The valuation is based on the best available attribute data available at the valuation date. This includes data needed to derive for each individual asset the MEAV and depreciation factor applied to derive the DRC for each asset. This included an exercise during the valuation to improve the level data available focusing on the asset types that are most material to the overall valuation. Where there remains data 'gaps' we have made assumptions. The EA has a further data improvement plan in place to drive continuous improvement in the valuation.

### Useful economic life breakdown

Asset group	Range in years
Aids to navigation	12 - 90
Beach structures	60
Buildings and compounds	40 - 60
Channels	100
Channel crossings	40 - 100
Defence	40 - 60
Instruments	10 - 20
MEICA	10 - 20
Structures	10 - 100

The UEL weighted average of the DRC portfolio is 25 years.

The key assumptions are:

Process	Key data input assumptions
Modern Equivalent Asset	<p>For 17 standardised asset types a MEA assumption relating to design and/or materials has been made. For example for culverts it was assumed that small culverts are circular in design, medium culverts are square and large culverts are rectangular, and all are constructed from pre-cast concrete sectional units. For monitoring station buildings the MEA was a glass reinforced plastic (GRP) kiosk with a footprint of 4m by 4m. This is in line with RICs guidance on MEA assumptions. Other asset types were assumed to be designed to be replaced on a like for like basis.</p>
Dimensional data (to use to apply the cost model to derive the MEAV)	<p>During the valuation improvements were made to the level of attribute data required as inputs into the valuation focused on assets most material to the valuation. In addition, for 21 asset types, in consultation with EA business experts, standardised measurements for at least one required dimension were adopted based on the MEA design for that asset type. For example, standardised widths were used for foot (2m), farm (4m), road (8m), rail (11m), aqueduct (7m) bridges.</p> <p>Where attribute data was not available (either a MEA assumed dimension or actual dimension for like for like replacement), statistical analysis was undertaken to derive an assumption and tested with internal experts to confirm they were reasonably representative of the overall portfolio of assets.</p>
Depreciation factors - method 1 (civils based on condition data and EA deterioration curve)	<p>The methodology relies on key data from Asset Information Management System, Operations and Maintenance (AIMS OM) to be able to apply the most appropriate deterioration curve. The assumptions we have made where there is incomplete data are:</p> <ul style="list-style-type: none"> <li>• Where there is no asset raw condition then we have used the asset’s actual condition grade if this is populated and if this is also blank, we have assumed the asset’s target condition grade.</li> <li>• Where there is no target condition data we assume a target condition of three (out of a scale of five) - this is the most common target condition for the EA’s assets.</li> <li>• Where there is no protection type or it is classified as ‘surface water’ protection then we have assumed that the protection type is fluvial.</li> </ul> <p>We also developed a set of rules to determine the appropriate material type drawing on data on material type of assets that is available at an asset element level in order to select the most appropriate curve for individual assets.</p>
Depreciation factors - method 2 (MEICA assets using EA available data)	<p>This method calculated a depreciation factor for each asset element comprising the asset, and a mean average single factor derived for assets with multiple elements to apply to the calculated MEAV for the asset.</p> <p>The assumptions where there was incomplete data were to assume the mid points for the data inputs required to generate the depreciation factor</p> <ul style="list-style-type: none"> <li>• Where element LOF is ‘blank’ we have assumed ‘Possible’</li> <li>• Where TTR is ‘blank we have assumed ‘Medium</li> </ul>
Depreciation factors - method 3 (using data on asset start dates and useful economic life (UEL))	<p>Where an actual start date for an asset cannot currently be confirmed, we have applied a depreciation factor assuming the asset is at the mid-point of the UEL for the asset type. This equates to a depreciation factor of 0.51 which reflects the assumption of 2% residual life when an asset is still in use but is beyond its UEL. Asset types where this methodology is used are generally maintained to a fair operational standard and as such it is reasonable to assume across the portfolio of assets that these will be at the mid-point of their UEL.</p>

### Revaluation and indexation

To ensure that the DRC model continues to output a reasonable replacement cost adjusted for asset condition, the models will be updated annually to reflect the latest source data on asset quantities and conditions, as well as an update for indexation using appropriate construction-related indices to retain this being a current cost.

Every five years, a more thorough refresh will be carried out to update costing rates and consider modern equivalents based on an updated professional assessment, alongside a fuller check of judgements on modern equivalents.

The building cost information service (BCIS) construction data index, which is updated monthly has been applied to all operational assets. A review of the most appropriate index is completed on an annual basis.

### Accounting for revaluation

Any increase in asset values by category is recognised in the revaluation reserve. Any decrease in asset values is either recognised against the revaluation reserve, where a revaluation reserve surplus is available, or written off as an impairment where a revaluation reserve surplus is not available, by asset category.

Revaluation movement	£ million
Revaluation - Indexation	£324
Revaluation - Dimensional variance	£191
Technical valuation adjustment	£0

### Derecognition and impairment

Assets are derecognised when the Environment Agency has either sold, or decommissioned the asset, or transferred control and responsibility to a third party.

### Data limitations and sensitivity analysis

The sensitivities reflected below show the impact of changes to assumptions that affect the valuation of operational assets, excluding the Thames Barrier and habitat creation.

There are limitations on the data included within the DRC valuation until the data cleanse project is completed. Please refer to the governance statement, where this is discussed in more detail.

Type	DRC	DRC (-)	DRC (+)	Potential DRC	Variance as %
	£ million	£ million	£ million	£ million	£ million
Scenario 1: Alternative Inflation Index	9,814	-	147	9,961	1.5%
Scenario 2 Combined Depreciation sensitivity (Lower)	9,814	(264)	-	9,550	-2.7%
Scenario 3 Combined Depreciation sensitivity (Upper)	9,814	-	294	10,108	3.0%
Scenario 4 Change the assumption (indirect cost uplifts) by +/-10%	9,814	(431)	431	9,383 / 10,245	-4.4%

A description of the sensitivities is shown in the table below. Sensitivities 2 and 3 are the lower and upper values for a combined sensitivity relating to the three depreciation methods applied in the valuation.

Sensitivity	Assumption in valuation	Sensitivity
Inflation	Building Cost Information Service (BCIS) all construction costs index.  Inflation has been applied to cost data, so all costs are at March 2023 prices.	The sensitivity uses RPI which is a recognised general economic index.
Depreciation Civils - Condition Grade	For this depreciation method where there is no actual condition data recorded, we have assumed the asset is at its target condition grade. In some cases, for assets below required condition grade the target condition grade has been applied to calculate the depreciation factor.	Change the assumption (target condition grade) by +/- 10%.
Depreciation Civils - Asset Start Date	For this depreciation method where we do not have an asset start date, we have assumed that the asset is at the midpoint of the asset's useful economic life (UEL).	Change the assumption (depreciation factor) by +/- 10%.
Depreciation MEICA assets	For this depreciation method where there is no actual data for Likelihood of Failure (LoF) we have assumed 'Possible' and where there is no actual data for Time to Repair (TTR) we have assumed 'Medium'. These are the middle categories of the data used to calculate the depreciation factor.	Change the category of data used to calculate the depreciation factor to 'Unlikely' 'Short' and 'Likely' 'Long'.
Cost Models: Indirect cost uplift	We have assumed a range of indirect cost uplifts differentiating between very complex, complex, less complex and in house delivery arrangements.	Change the assumption (indirect cost uplifts) by +/- 10%.

**Thames Barrier sensitivity**

We have adopted a specialist methodology for valuing the Thames Barrier. The approach is to triangulate between three estimates: indexed historical costs, a materials and quantities estimate, and international benchmarks. Across the various methods when assessed against an industry standard cost estimate maturity assessment criterion our judgement is that the materials and quantities estimate provides the most accurate class of estimate to include in the valuation for the replacement cost of the Thames Barrier.

The assumptions and therefore the sensitivities run for the operational assets are not applicable across this methodology. Instead, we have provided a sensitivity based on the AACE International (AACE) estimate maturity assessment criteria. This can be used to derive an expected level of accuracy range for the MEAV for the Thames Barrier, based on an expert judgement on the class of estimate for the materials and quantities approach. The DRC has then been calculated for the lower and upper limits based on the proportion of DRC / MEAV for the most likely valuation.

## 7.2 Land and buildings

The Environment Agency owns more than 5,000 separately identified freehold land and building assets with a combined value of £330.2 million. The majority of these are operational land parcels but also include several administrative land and building assets and dwellings.

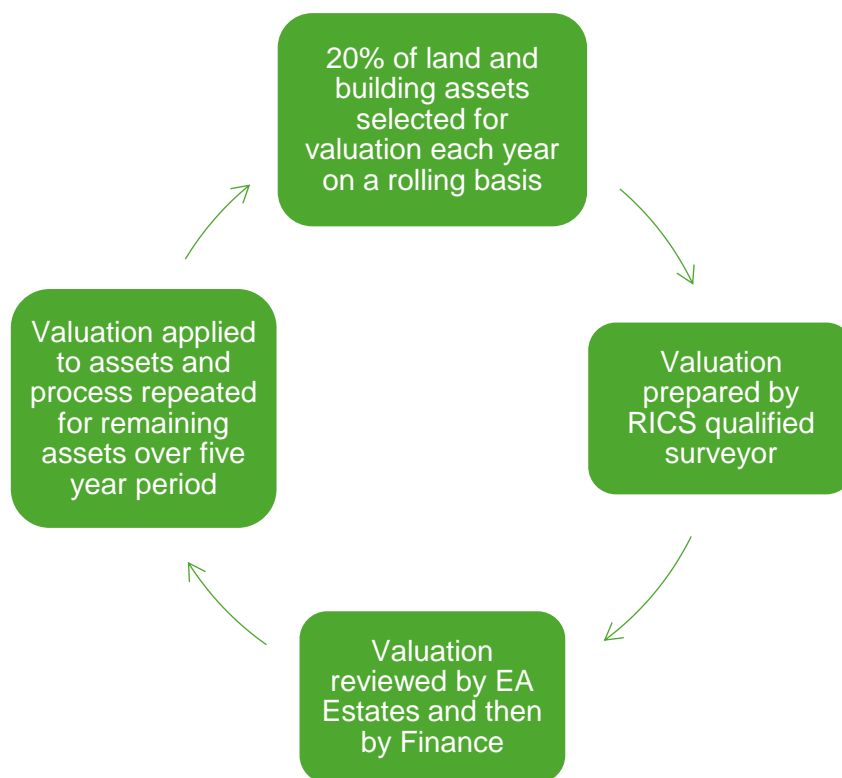
### Useful economic life by asset type

Asset type	Useful economic life
Fencing	15 years
Freehold buildings*	10 - 60 years
Dwellings	60 years
Operational buildings	60 years
Roads, car parks and walkways	60 years

\* Disclosed as 10 – 50 years in 2022-23 in error. The accounting policy for freehold buildings useful economic lives has not changed.

### Quinquennial review process

The quinquennial review process involves four steps, as follows:



### Recognition and valuation

All land and building assets are valued on an Existing Use Value (EUV) basis except for dwellings, typically lock keeper cottages, which are valued at Existing Use Value Social Housing to reflect that the property is being held and occupied for the delivery of a service in existing use.

Operational land is valued at Existing Use Value (EUV) based on the cost to replace its service potential. This looks at the original condition of the land at the time of acquisition and uses comparatives of the same nature to calculate the valuation. The EUV valuation approach for Administrative Land and Buildings uses comparatives of market value constrained to existing use.

The majority of land owned by the EA is specialised operational land, held for its service potential. It is valued under EUV at the cost to replace this service potential, i.e. the cost to buy a similar land parcel which is free from any encumbrance from the work done or the restrictions put on the land being replaced. The EA also owns land and buildings for administrative purposes, such as offices and depots, categorised as freehold land and freehold buildings. These are not considered as specialised assets and are valued on a comparable replacement basis.

Land and buildings assets that are above a minimum value threshold, currently set at £25,000, are considered to be in-scope of the quinquennial review process and are revalued by RICS qualified surveyors every five years. The previous review was carried out on all such in-scope assets in March 2021.

Due to issues identified in the quinquennial review process, freehold land and building assets including dwellings were subject to a qualified audit opinion in 2020-21 which remained unresolved in 2021-2022 and 2022-23. One of the actions put in place after the 2021 review, was to move to a rolling quinquennial revaluation process for operational land, buildings and dwellings, whereby a proportion of assets are valued every year. Administrative land and buildings (offices and depots) remain on a non-rolling revaluation process and will be revalued in March 2026.

Under the rolling programme, an average of 20% of the assets in-scope of the rolling programme (non-administrative assets above the £25k threshold) would be valued each year on a rolling basis such that each asset is valued once over a 5-year quinquennial period. The rolling programme commenced in 2022-23 with a target of at least 25% of in-scope assets being valued by March 2023 to allow the programme to remain on track to value all relevant assets by March 2026. In addition to the rolling quinquennial programme, a small proportion of land and building assets with a net book value below £25,000 are being valued each year to indicate any risk of materially inaccurate valuations in this group.

The value of assets not subject to independent revaluation in a particular year are revalued using an appropriate index, shown below.

Index	Index description	Asset type
MSCI CG	Land index	Operational land, admin land and land
PUBSEC Tender Price Index of Public Sector Building Non-Housing	Measures the movement of prices in tenders for building contracts in the public sector in Great Britain	Construction work, car park, office and depot, office building
Land Registry House Prices Index	The UK House Price Index (UK HPI) captures changes in the value of residential properties	Dwellings
Tender Price Index of Road Construction	BCIS index of road construction	Access road

### Depreciation

Freehold land assets are not depreciated. The useful economic life for buildings is between 10 and 60 years and is depreciated on a straight-line basis.

### 7.3 Other property, plant and equipment

The Environment Agency owns around 5,000 tangible assets that don't fall under operational assets or land and buildings. These include vehicles, mobile plant and machinery and equipment.

As at 31 March 2024	Plant and machinery	Vehicles	Furniture, fittings and equipment	IT hardware	Total
	£ million	£ million	£ million	£ million	£ million
<b>Cost or valuation</b>					
<b>At 1 April 2023 (Restated)</b>	<b>101.6</b>	<b>79.4</b>	<b>67.6</b>	<b>32.7</b>	<b>281.3</b>
Capital expenditure	0.9	4.1	1.1	0.2	6.3
Assets commissioned in year	-	-	-	-	-
Disposals	(12.2)	(3.6)	(2.2)	-	(18.0)
Reclassification to held for sale	-	-	-	-	-
Revaluation	6.8	10.7	2.8	1.1	21.4
Impairment	(0.2)	-	(0.1)	-	(0.3)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	(0.2)	-	10.2	(0.2)	9.8
<b>At 31 March 2024</b>	<b>96.7</b>	<b>90.6</b>	<b>79.4</b>	<b>33.8</b>	<b>300.5</b>

As at 31 March 2024	Plant and machinery	Vehicles	Furniture, fittings and equipment	IT hardware	Total
	£ million	£ million	£ million	£ million	£ million
<b>Depreciation</b>					
<b>At 1 April 2023 (Restated)</b>	<b>64.9</b>	<b>58.0</b>	<b>35.7</b>	<b>29.3</b>	<b>187.9</b>
Charged during the period	9.0	9.8	4.4	1.2	24.4
Disposals	(5.7)	(3.6)	(2.1)	-	(11.4)
Revaluation	(0.3)	4.6	0.8	0.9	6.0
Impairment	(0.2)	-	-	-	(0.2)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	(0.1)	-	5.9	-	5.8
<b>At 31 March 2024</b>	<b>67.6</b>	<b>68.8</b>	<b>44.7</b>	<b>31.4</b>	<b>212.5</b>
<b>Net book value at 31 March 2024</b>	<b>29.1</b>	<b>21.8</b>	<b>34.7</b>	<b>2.4</b>	<b>88.0</b>

<b>As at 31 March 2023</b>	<b>Plant and machinery Restated</b>	<b>Vehicles Restated</b>	<b>Furniture, fittings and equipment Restated</b>	<b>IT hardware</b>	<b>Total Restated</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>Cost or valuation</b>					
<b>At 1 April 2022</b>	<b>71.3</b>	<b>72.4</b>	<b>44.1</b>	<b>38.9</b>	<b>226.7</b>
Capital expenditure	2.0	2.2	4.5	-	8.7
Assets commissioned in year	0.4	0.7	1.4	-	2.5
Disposals	(2.6)	(3.6)	(5.1)	(3.4)	(14.7)
Reclassification to held for sale	-	-	-	-	-
Revaluation	12.1	7.5	7.2	0.9	27.7
Impairment	-	-	-	-	-
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	18.4	0.2	15.5	(3.7)	30.4
Impact of transition to DRC	-	-	-	-	-
<b>At 31 March 2023</b>	<b>101.6</b>	<b>79.4</b>	<b>67.6</b>	<b>32.7</b>	<b>281.3</b>

<b>As at 31 March 2023</b>	<b>Plant and machinery Restated</b>	<b>Vehicles Restated</b>	<b>Furniture, fittings and equipment Restated</b>	<b>IT hardware</b>	<b>Total Restated</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>Depreciation</b>					
<b>At 1 April 2022</b>	<b>48.6</b>	<b>49.7</b>	<b>27.3</b>	<b>31.6</b>	<b>157.2</b>
Charged during the period	5.2	7.2	2.5	2.7	17.6
Disposals	(2.5)	(3.2)	(5.0)	(3.0)	(13.7)
Revaluation	6.5	4.2	4.1	0.6	15.4
Impairment	-	-	-	-	-
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	7.1	0.1	6.8	(2.6)	11.4
Impact of transition to DRC	-	-	-	-	-
<b>At 31 March 2023</b>	<b>64.9</b>	<b>58.0</b>	<b>35.7</b>	<b>29.3</b>	<b>187.9</b>
<b>Net book value at 31 March 2023</b>	<b>36.7</b>	<b>21.4</b>	<b>31.9</b>	<b>3.4</b>	<b>93.4</b>

The useful economic life of these assets is:

<b>Asset type</b>	<b>Useful economic life</b>
Furniture, fittings & equipment	3 - 15 years
IT hardware	3 - 15 years
Plant and equipment	3 - 25 years
Vehicles	3 - 25 years

### **Recognition and valuation**

Other PPE is recognised when it is probable that the future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably. These assets are valued on a Modified Historic Cost basis, whereby they are revalued annually using relevant ONS Producer Price Indices (PPIs) which are a series of economic indicators that measure the price movement of goods bought and sold by UK manufacturers.

### **Depreciation**

These assets depreciated on a straight-line basis over their remaining useful life.

## **7.4 Assets under construction**

Assets under construction comprises of assets that are not operationally live. Directly attributable assets under construction are recorded at cost and are not revalued and are not subject to adjustment until after they have been completed and transferred to the appropriate PPE asset category.

### **Capitalisation approach**

When an asset is completed and, in the location and condition necessary for it to be capable of operating in the manner intended by management, it is transferred from assets under construction to the relevant asset category. A review of the costs is carried out to ensure that they meet the capitalisation threshold requirements of IAS 16 and 38.

The top three major projects included in assets under construction at the balance sheet date were:

<b>Project</b>	<b>31 March 2024</b>	<b>31 March 2023 Restated</b>
	<b>£ million</b>	<b>£ million</b>
River Thames scheme	41.7	25.4
Keadby pumping station	28.5	27.3
Canvey Island revetment	27.5	-

## 8. Right of use assets

<b>At 31 March 2024</b>	<b>Land £ million</b>	<b>Buildings £ million</b>	<b>Vehicles £ million</b>	<b>Total £ million</b>
<b>Cost or valuation</b>				
<b>At 1 April 2023</b>	<b>1.8</b>	<b>51.5</b>	<b>15.3</b>	<b>68.6</b>
Assets commissioned in year	0.1	13.2	16.5	29.8
Disposals	-	(0.5)	(0.6)	(1.1)
Revaluation	0.3	-	-	0.3
Reclassification	-	-	-	-
Impairment	-	-	-	-
<b>At 31 March 2024</b>	<b>2.2</b>	<b>64.2</b>	<b>31.2</b>	<b>97.6</b>
<b>Depreciation</b>				
<b>At 1 April 2023</b>	<b>-</b>	<b>9.9</b>	<b>4.3</b>	<b>14.2</b>
Charged during the year	-	7.6	7.2	14.8
Disposals	-	(0.1)	(0.6)	(0.7)
Reclassification	-	-	-	-
<b>At 31 March 2024</b>	<b>-</b>	<b>17.4</b>	<b>10.9</b>	<b>28.3</b>
<b>Net book value at 31 March 2024</b>	<b>2.2</b>	<b>46.8</b>	<b>20.3</b>	<b>69.3</b>

Under IFRS 16, all qualifying leases will recognise a right of use (ROU) asset and lease liability. As a result, former operating leases have now been recognised on the statement of financial position (SOFP). The statement of comprehensive net expenditure (SOCNE) reflects related charges for the depreciation of the right of use asset and interest on the lease liability in place of rental expenses and continues to reflect VAT as cost where applicable on any leases.

This means that the Environment Agency does not own the underlying asset but recognises the value of the right of use. Note 14 provides further detail on the lease liability that has been recognised on the SOFP.

<b>At 31 March 2023</b>	<b>Land £ million</b>	<b>Buildings £ million</b>	<b>Vehicles £ million</b>	<b>Total £ million</b>
Initial adoption of IFRS 16 on 1 April 2022	0.2	39.5	8.5	48.2
<b>Cost or valuation</b>				
<b>At 1 April 2022</b>	<b>0.2</b>	<b>39.5</b>	<b>8.5</b>	<b>48.2</b>
Assets commissioned in year	-	2.0	6.8	8.8
Revaluation	(0.3)	4.9	-	4.6
Reclassification	2.2	5.1	-	7.3
Impairment	(0.3)	-	-	(0.3)
<b>At 31 March 2023</b>	<b>1.8</b>	<b>51.5</b>	<b>15.3</b>	<b>68.6</b>
<b>Depreciation</b>				
<b>At 1 April 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Charged during the year	-	7.6	4.3	11.9
Reclassification	-	2.3	-	2.3
<b>At 31 March 2023</b>	<b>-</b>	<b>9.9</b>	<b>4.3</b>	<b>14.2</b>
<b>Net book value at 31 March 2023</b>	<b>1.8</b>	<b>41.6</b>	<b>11.0</b>	<b>54.4</b>

## 9. Intangible assets

At 31 March 2024	Software licences	Websites	Other IT	Assets under construction	Total
	£ million	£ million	£ million	£ Million	£ million
<b>Cost or valuation</b>					
<b>At 1 April 2023</b>	<b>66.2</b>	<b>20.1</b>	<b>131.0</b>	<b>23.6</b>	<b>240.9</b>
Capital expenditure	-	-	-	10.8	<b>10.8</b>
Assets commissioned in year	1.4	-	1.4	(2.8)	-
Disposals	-	(0.7)	(1.1)	-	<b>(1.8)</b>
Revaluation	1.9	0.6	5.3	-	<b>7.8</b>
Impairment	-	-	0.4	(2.7)	<b>(2.3)</b>
Reclassification	(1.0)	-	0.4	0.6	-
<b>At 31 March 2024</b>	<b>68.5</b>	<b>20.0</b>	<b>137.4</b>	<b>29.5</b>	<b>255.4</b>
<b>Amortisation</b>					
<b>At 1 April 2023</b>	<b>42.9</b>	<b>18.2</b>	<b>88.1</b>	-	<b>149.2</b>
Charged during the year	2.1	0.5	12.6	-	<b>15.2</b>
Disposals	-	(0.7)	(0.7)	-	<b>(1.4)</b>
Revaluation	1.3	0.5	2.8	-	<b>4.6</b>
Impairment	-	-	0.2	-	<b>0.2</b>
Reclassification	-	-	-	-	-
<b>At 31 March 2024</b>	<b>46.3</b>	<b>18.5</b>	<b>103.0</b>	-	<b>167.8</b>
<b>Net book value at 31 March 2024</b>	<b>22.2</b>	<b>1.5</b>	<b>34.4</b>	<b>29.5</b>	<b>87.6</b>

The top three major projects included in assets under construction are as follows:

Project	31 March 2024 £ million	31 March 2023 £ million
Licensing service	7.8	6.0
Flood warning improvement programme	1.7	-
Development planning system	1.2	-

<b>At 31 March 2023</b>	<b>Software licences Restated</b>	<b>Websites</b>	<b>Other IT</b>	<b>Assets under construction Restated</b>	<b>Total</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>Cost or valuation</b>					
<b>At 1 April 2022</b>	<b>63.6</b>	<b>21.5</b>	<b>135.1</b>	<b>14.9</b>	<b>235.1</b>
Capital expenditure	-	-	-	13.0	<b>13.0</b>
Assets commissioned in year	1.2	-	1.5	(2.7)	-
Disposals	-	(2.0)	(5.5)	-	<b>(7.5)</b>
Revaluation	1.6	(0.9)	3.3	-	<b>4.0</b>
Transfers	-	-	-	-	-
Impairment	0.1	1.5	-	(3.2)	<b>(1.6)</b>
Reclassification	(0.3)	-	(3.4)	1.6	<b>(2.1)</b>
<b>At 31 March 2023</b>	<b>66.2</b>	<b>20.1</b>	<b>131.0</b>	<b>23.6</b>	<b>240.9</b>
<b>Amortisation</b>					
<b>At 1 April 2022</b>	<b>38.3</b>	<b>18.6</b>	<b>79.7</b>	-	<b>136.6</b>
Charged during the year	4.4	5.2	13.1	-	<b>22.7</b>
Disposals	-	(2.0)	(4.8)	-	<b>(6.8)</b>
Revaluation	0.4	(5.0)	2.8	-	<b>(1.8)</b>
Impairment	0.1	1.4	0.9	-	<b>2.4</b>
Reclassification	(0.3)	-	(3.6)	-	<b>(3.9)</b>
<b>At 31 March 2023</b>	<b>42.9</b>	<b>18.2</b>	<b>88.1</b>	-	<b>149.2</b>
<b>Net book value at 31 March 2023</b>	<b>23.3</b>	<b>1.9</b>	<b>42.9</b>	<b>23.6</b>	<b>91.7</b>

Intangible assets with a value of £5,000 or more are capitalised and are then revised annually through the use of suitable indices to fair value.

Assets under construction are recorded at cost and are not revalued. There was a management-imposed limitation on the 2022-23 audit in respect of assets under construction, resulting in a qualified audit opinion in this area.

Amortisation is calculated to write off the value of intangible assets on a straight-line basis over the expected useful economic lives of the assets concerned.

### Useful economic lives applied for amortisation charge on asset creation

<b>Asset type</b>	<b>Useful economic life (years)</b>
Software licences and models	3 - 25
Websites and other internally generated IT	3 - 10

### Details of valuation

Intangible assets were revalued internally at 31 March 2024 using suitable indices. The impact of revaluations is shown as revaluation and indexation in the table above. The carrying amount for intangible assets that would have been recognised had the assets been carried under the cost model as at 31 March 2024 was £81.1 million (2022-23 - £100.1 million). The revaluation surplus as at 31 March 2024 for intangible assets was £8.3 million (2022-23 - £11.7 million).

## 10. Impairment

Impairments by accounting category	31 March 2024	31 March 2023 Restated
	£ million	£ million
Property, plant and equipment	67.3	-
<b>Total charged to the revaluation reserve</b>	<b>67.3</b>	<b>-</b>
Property, plant and equipment	44.8	7.8
Intangible assets	2.5	4.0
Right of use assets	-	0.3
<b>Total impairment charge to the statement of comprehensive net expenditure</b>	<b>47.3</b>	<b>12.1</b>
<b>Total impairment as per statement of financial position</b>	<b>114.6</b>	<b>12.1</b>

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount, as a result of either a fall in value owing to market conditions or a loss in environmental (including flood defence) benefit.

In line with an adaptation in the FReM, any loss of economic benefit is recognised in full against expenditure. However, in order to align the balance in the revaluation reserve with that which would have resulted through strict application of IAS 36, an amount up to the value of the impairment is transferred to the general reserve for the individual assets concerned.

Downward revaluations, resulting from changes in market value, only result in impairment where the asset is revalued below its historical cost carrying amount. In these cases, the accounting treatment is as for any other impairment, with amounts being firstly set against any accumulated balance in the revaluation reserve, and any amount in addition to this being recognised as impairment and recorded in the statement of comprehensive net expenditure.

The impairment charge shown in notes 7 (property, plant and equipment), 8 (right of use assets) and 9 (intangible assets) reflects the charge to the statement of comprehensive net expenditure. Any impairments charged to reserves are included in the revaluation lines.

The impairment charge for 2023-24 has increase significantly due to negative indexation rates and full market-based valuations of operational land. The decreases in value have been taken to the statement of comprehensive net expenditure where there was no revaluation reserve to absorb the decrease in value.

The prior period restatement is described in note 1.8.

## 11. Trade and other receivables

	31 March 2024 £ million	31 March 2023 £ million
<b>Within one year</b>		
Trade receivables	29.7	28.5
Accrued income	91.2	93.7
Expected credit loss	(5.5)	(4.2)
	<b>115.4</b>	<b>118.0</b>
<b>Other receivables</b>		
VAT	42.5	40.1
Employee loans	1.9	1.7
Prepayments	2.3	5.2
	<b>46.7</b>	<b>47.0</b>
<b>Total</b>	<b>162.1</b>	<b>165.0</b>

The Environment Agency has statutory powers to update its charging regimes to ensure that relevant costs are recovered. Reflecting the expected use of these powers, accumulated surpluses and deficits relating to charge schemes are treated as accrued or deferred income depending on whether the charging scheme is in surplus or deficit. For example, a scheme in deficit will result in additional accrued income reflecting an expected update to the dynamic element of the charging scheme, and future updates expected which include a cost recovery element.

These adjustments are only made where the surpluses or deficits which have arisen due to factors within the broad framework of the charging model in place at the end of the reporting period, principally relating to prices (including for the cost of EA staff time) varying from the amounts expected when the most recent charging scheme was published. These factors often relate to the passage of time and will result in larger adjustments in periods following high inflation uncertainty, and/or where a charging scheme has not been updated for some time.

No such adjustments are made for factors which represent a significant departure from the framework of the current charging model, for example the addition of a substantially different stream of costs, or a substantial basis update in how costs are analysed. This is on the basis that while the Environment Agency's statutory powers make the charging framework somewhat dynamic, these factors would require a change with the characteristics of a future contract modification under IFRS 15 and so should not be accounted for unless and until that modification takes place. The possible future update of the charging regime to align to the DRC-based depreciation issued in 2023-24 is in this category and has not resulted in the recognition of income.

The accrued and deferred balances are considered when setting future years' fees and charges in order to enable a cost recovery position to be achieved in the long term, through future charge scheme reviews or cost efficiencies. As part of the charge scheme reviews, we consider what costs are ultimately recoverable.

The cumulative financial impact of the override is £44.6 million at 31 March 2024 (31 March 2023 - £1.7 million). The reasons for the movement are discussed in the parliamentary accountability and audit report.

### Debt recovery

The EA has a debt recovery process to chase outstanding debt and to resolve any related disputes. Debts are only formally written-off when this process is concluded or when we become aware of a clear reason why we would not recover the debt, such as the debtor becoming insolvent or where further pursuit of debts may not represent value for money. Expected credit losses have been calculated and provided for in accordance with IFRS 9, as described in note 18.

## 12. Cash and cash equivalents

<b>Movement during the year</b>	<b>31 March 2024</b>	<b>31 March 2023</b>
	<b>£ million</b>	<b>£ million</b>
<b>At 1 April</b>	<b>167.5</b>	<b>119.5</b>
Net change in cash and cash equivalent balances	24.9	48.0
<b>At 31 March</b>	<b>192.4</b>	<b>167.5</b>

<b>By account type</b>	<b>31 March 2024</b>	<b>31 March 2023</b>
	<b>£ million</b>	<b>£ million</b>
Government banking service	36.1	30.3
Demand accounts	156.3	137.2
<b>At 31 March</b>	<b>192.4</b>	<b>167.5</b>

Amounts held with the Government Banking Service are general funds with no bank overdraft, with interest earned being retained by the Environment Agency.

Demand accounts are for amounts held as security for permitting deposits. Permitting deposits are amounts held by the Environment Agency as security for permits issued for landfill sites, dredging lagoons, mining waste and hazardous waste facilities. These amounts are held by the Environment Agency with the Government Banking Service and in escrow accounts.

The amounts are held to ensure if there are environmental incidents, under section 57 The Environmental Permitting (England and Wales) Regulations 2016, that the agency can recover lost income. The Environment Agency cannot utilise the funds without the occurrence of an environmental incident. On the occurrence of an environmental incident, funds would be withdrawn from demand accounts and recognised as income in line with IFRS 15 as remedial actions are completed.

The amounts held reduce over the life of the closure period of the sites, reducing each year as the obligations of the permit holder decreases. They are held purely as security and on completion of obligations under site closure plans, are repayable to the permit holder.

These amounts are recognised as cash and cash equivalents as, although they require an environmental incident to be utilised, they meet the definition of cash under IAS 7. Interest earned on the accounts is payable to the permit holder.

The corresponding liability for permitting deposits is included within note 13.

## 13. Trade and other payables

	31 March 2024	31 March 2023 Restated
	£ million	£ million
<b>Within one year</b>		
Other taxation and social security	(13.1)	(11.2)
Trade payables	(18.3)	(19.1)
Trade accruals	(156.1)	(155.6)
Holiday pay accrual	(23.4)	(18.7)
Other payables	(9.7)	(7.7)
Capital accruals	(88.8)	(95.1)
Contract liabilities:		
Flood risk management (including CWEIY)	(109.1)	(101.2)
Water resources - Abstraction	-	(18.6)
Water resources - EIUC	(19.3)	(19.8)
Environment protection	(18.3)	(17.6)
Pension contribution liabilities	(4.1)	(4.9)
Customer deposits and receipts in advance	(81.1)	(90.4)
	<b>(541.3)</b>	<b>(559.9)</b>
<b>More than one year</b>		
Trade payables including accruals and other payables	(4.1)	(4.1)
Deferred capital grants	(2.8)	(4.2)
Permitting deposits	(161.9)	(137.2)
	<b>(168.8)</b>	<b>(145.5)</b>
<b>Total</b>	<b>(710.1)</b>	<b>(705.3)</b>

Included in flood risk management (including CWEIY) contract liabilities is the balance of the levy raised on local authorities ("local levy") by the Environment Agency for flood and coastal erosion risk management purposes. The local levies are subject to approval by the relevant Regional Flood and Coastal Committee and are raised to enable delivery of approved projects within that region. Funding for projects planned but not yet delivered is within contract liabilities. Delays to new projects and slippage in existing spend profiles meant that contract liabilities relating to local levy spend increased by £8.2 million this year.

Permitting deposits are amounts held by the Environment Agency as security for permits issued for landfill sites, dredging lagoons, mining waste and hazardous waste facilities. Further explanation of the permitting deposits and accounting policy is included within note 12.

## 14. Lease liabilities

### Finance leases

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee.

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

### Right of use assets - EA as a lessee

The Environment Agency (EA) implemented IFRS 16 with effect from 1 April 2022, using the adaptations and interpretations set out by HM Treasury in the 2022-23 Financial Reporting Manual (FReM). As mandated by the Financial Reporting Manual a cumulative catch-up basis was used and prior year comparatives were not restated.

For lessees, this transition removed the separation between operating and finance leases, instead recognising leases in scope of IFRS 16 on the statement of financial position as right of use assets and corresponding lease liabilities. Liabilities were calculated using the present value of outstanding payments due at 1 April 2022 and the opening cost of the right of use assets was calculated to equal lease liabilities, adjusted for any lease prepayments or accruals that existed immediately prior to 1 April 2022.

For 2022-23 and 2023-24, the statement of comprehensive net expenditure reflects related charges for the depreciation on the right of use asset and interest on the lease liability in place of rental expenses. It continues to reflect irrecoverable VAT where applicable on any leases, in line with HM Treasury guidance.

This treatment has been applied to all leases except those which are short-term (less than 12 months) or where the underlying asset is of low value (with the threshold set at £10k). These continue to be treated as expenditure on a straight-line basis in the statement of comprehensive net expenditure for the duration of the lease term.

With the implementation of IFRS 16, the definition of a contract was expanded in the FReM to include intra UK government agreements such as Memorandum of Terms of Occupation. The FReM also expanded the definition of a lease to those with nil consideration, or significantly below market value, such as those known as peppercorn leases.

For peppercorn leases, we have obtained a professional valuation of the asset from an appropriately qualified professional. On transition the difference between the discounted lease liability and right of use asset for peppercorn leases was included as an adjustment to the opening balance of taxpayers' equity.

For leases where we are still in occupation after the end of the lease and are "holding over", professional judgement has been applied to estimate a reasonable length for the term when calculating lease liabilities and right of use asset valuations.

The practical expedient specified in IFRS 16 has been mandated by HM Treasury and we have therefore not reassessed whether contracts contain a lease, instead transitioning former operating leases to treatment as a right of use asset and lease liability. However, peppercorn leases have been included in line with HM Treasury adaptations and the exemptions for low-value or short-term leases may be applied where appropriate.

Where the interest rate cannot be readily determined within a lease, the lease liability has been calculated using the discount rates set out in the latest HM Treasury's Public Expenditure System

paper as the incremental borrowing rate. For the calendar year 2023 this was 3.51% and 4.72% for 2024.

For leases previously treated as finance leases, the carrying value is the same under IFRS 16 as it was under IAS 17.

The subsequent measurement of right of use assets is 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 have been determined by appropriately qualified professionals in accordance with RICS guidance.

### Right of use assets - EA as a lessor

Lessor accounting has been largely unchanged by IFRS 16, with lessors continuing to distinguish between finance and operating leases. Leases which transfer substantially all the risks and economic benefits of the underlying asset have been classed as finance leases. All other leases have been classed as operating leases. Where a sub-lease has been judged to be a finance lease, we have derecognised the right of use asset and recognised a receivable for the net investment in the finance lease equivalent to discounted future income.

Occupation of the corporate estate by Defra group bodies is on a flexible shared basis with very few formal occupancy agreements in place between the leaseholder (either core department or the Environment Agency) and the occupant. Corporate estate leases have been recognised in full by the legal leaseholder unless there is a formal arrangement in place.

## 14.1 Lease liabilities

	31 March 2024 £ million	31 March 2023 £ million
<b>Land and buildings</b>		
Not later than one year	14.6	8.3
Later than one year and not later than five years	9.7	19.8
Later than five years	6.5	7.7
<b>Present value of obligations</b>	<b>30.8</b>	<b>35.8</b>
<b>Other</b>		
Not later than one year	6.1	5.7
Later than one year and not later than five years	9.7	3.5
Later than five years	-	-
<b>Present value of obligations</b>	<b>15.8</b>	<b>9.2</b>
<b>Total present value of obligations</b>		
Current	20.7	14.0
Non-current	25.9	31.0
<b>Total</b>	<b>46.6</b>	<b>45.0</b>

## 14.2 Quantitative disclosures around elements in the statement of comprehensive net expenditure

	<b>31 March 2024</b>	<b>31 March 2023</b>
	<b>£ million</b>	<b>£ million</b>
Variable lease payments not included in lease liabilities	-	-
Sub-leasing income	-	-
Expenditure related to short-term leases	2.2	4.9
Expenditure related to low-value asset leases (excluding short-term leases)	-	-

## 14.3 Quantitative disclosures around cash outflow for leases

	<b>31 March 2024</b>	<b>31 March 2023</b>
	<b>£ million</b>	<b>£ million</b>
Total cash outflow for leases	18.4	11.8

## 14.4 Lease liability movement

The table below shows the movement between the opening and closing lease liability during the 2023-24 financial year.

	<b>Land and buildings</b>	<b>Other</b>	<b>Total</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>At 1 April 2023</b>	<b>35.8</b>	<b>9.2</b>	<b>45.0</b>
Additions	2.0	16.6	18.6
Payments	(7.0)	(11.4)	(18.4)
Interest	0.4	1.5	1.9
Disposals	(0.4)	(0.1)	(0.5)
<b>At 31 March 2024</b>	<b>30.8</b>	<b>15.8</b>	<b>46.6</b>

## 14.5 Transition

On initial application of IFRS 16, the FReM required 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 meant that prior year comparatives were not restated in the Environment Agency's 2022-23 accounts. The opening cost of right of use assets equalled lease liabilities, adjusted for any lease prepayments or accruals that existed immediately prior to 1 April 2022. Lease liabilities were calculated as the present value of outstanding payments due under the lease.

The weighted average lessee incremental borrowing rate applied on transition was 1.46%, made up predominantly of the 0.95% HM Treasury rate used for land and buildings and a rate around 4% for the Group Fleet contract. In the comparison of the previous operating lease disclosure under IAS 17 to the lease liabilities, the average rate for the appropriate asset class was used.

For land and buildings, the reduced commitment reflected leases coming closer to their end dates. In the other category the outstanding liability reduced since March 2022 reflecting the profile of lease terminations.

The following IFRS 16 practical expedients were applied in 2022-23:

- Reliance on the assessment of whether any leases were onerous immediately before the date of initial application as an alternative to performing an impairment review. No leases were onerous at 31 March 2022.
- Initial direct costs were excluded from the measurement of the right-of-use asset at the date of initial application.
- Hindsight in determining the lease term where the contract contains options to extend or terminate the lease were used where appropriate.

The transition to IFRS 16 added £48 million to right of use assets and lease liabilities in the SOFP for the Environment Agency. The change when compared to the previous reporting of operating lease commitments under IAS 17 is summarised in the table below.

	<b>Land and buildings</b>	<b>Vehicles</b>
	<b>£ million</b>	<b>£ million</b>
<b>IAS 17 operating lease commitment at 31 March 2022</b>	<b>37.3</b>	<b>7.9</b>
Discounting of future cash flows	(2.9)	(0.4)
Exemptions for:		
Short-term leases	(0.1)	(0.6)
Low-value leases	-	-
Adjustment for different lease term assumptions under IFRS 16	9.5	-
Operating leases for the Corporate Estate previously reported in EA, but now reported in the core department where they are the legal leaseholder	(4.6)	-
<b>IFRS 16 lease liability at 1 April 2022</b>	<b>39.2</b>	<b>6.9</b>
Adjustment for accruals relating to rent free periods and stepped rents	(1.9)	-
Adjustment for prepayments	1.4	1.6
Asset reflects market value for peppercorns	1.0	-
<b>Right of use asset value at 1 April 2022</b>	<b>39.7</b>	<b>8.5</b>

## 15. Transfers between reserves

The transfer from the revaluation reserve to the general reserve reflects the difference between the depreciation charge based on the revalued carrying amount of the asset and the depreciation charge based on the original cost.

The transfer from the pension reserve is to ensure it reflects the cumulative position of the net assets or liabilities of the pension scheme.

### 15.1 For the year ended 31 March 2024

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Realised revalued depreciation and disposals	(103.3)	103.3	-	-
Net pension charge	-	(25.6)	25.6	-
<b>Total</b>	<b>(103.3)</b>	<b>77.7</b>	<b>25.6</b>	<b>-</b>

### 15.2 For the year ended 31 March 2023

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Realised revalued depreciation and disposals	(101.3)	101.3	-	-
Net pension charge	-	144.3	(144.3)	-
<b>Total</b>	<b>(101.3)</b>	<b>245.6</b>	<b>(144.3)</b>	<b>-</b>

## 16. Commitments

### 16.1 Capital commitments

	<b>31 March 2024</b>	<b>31 March 2023</b>
	<b>£ million</b>	<b>£ million</b>
Contracted for but not provided in the financial statements	93.3	49.1

The amounts above relate to both property, plant and equipment, and intangible fixed assets.

Commitments on capital works expensed in year at 31 March 2024 totalled £180.4 million (31 March 2023 - £165.3 million).

The majority of the significant commitments relate to the construction of flood defence schemes and the largest as at 31 March 2024 was for Poole Harbour for £29.2 million (31 March 2023 - flood risk management scheme at Preston, £21.2 million).

### 16.2 Financial commitments

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

<b>Payments the Environment Agency is committed to</b>	<b>31 March 2024</b>	<b>31 March 2023 Restated</b>
	<b>£ million</b>	<b>£ million</b>
Not more than one year	16.3	30.1
More than one year and not later than five years	8.8	20.7
More than five years	-	-
<b>Total</b>	<b>25.1</b>	<b>50.8</b>

The largest commitment relates to the contract with the shared services provider, SSCL (£22.5 million; 2022-23 - £23.1 million).

The prior year figure has been restated as the amount disclosed previously did not include the contract with SSCL, which was incorrectly included as a core Defra commitment and not the Environment Agency's.

### 16.3 Risk Management Authority grant commitments

<b>Payments the Environment Agency is committed to</b>	<b>31 March 2024</b>	<b>31 March 2023</b>
	<b>£ million</b>	<b>£ million</b>
Not more than one year	178.5	163.5
More than one year and not later than five years	414.2	393.8
More than five years	4.7	20.3
<b>Total</b>	<b>597.4</b>	<b>577.6</b>

The above amounts represent approved applications for grant payments to local councils, internal drainage boards and other risk management authorities on flood and coastal erosion risk management capital schemes, as per the expenditure type set out in note 5.4. Payment is dependent on completion of works on the approved schemes.

The largest approved scheme as at 31 March 2024 was £55.0 million for the Blackpool Beach Nourishment Scheme (31 March 2023 - £55.0 million for the Bispham Coast Protection Works).

## 17. Pension obligations

### The Environment Agency pension fund and its financial statements

The Environment Agency operates a defined benefit pension scheme for current and former employees, and transferees from predecessor organisations. We are part of the Local Government Pension Scheme (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 Environment Agency Pension Fund (EAPF) including its annual report and financial statements, are on the Environment Agency Pension Fund website ([www.eapf.org.uk](http://www.eapf.org.uk)).

The EAPF has three employers, the Environment Agency, Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL). NRW was admitted on 1 April 2013 and SSCL was admitted on 31 October 2013. NRW and SSCL are closed to new entrants and pay fixed contributions of a fixed sum and fixed percentage of pay respectively. The Environment Agency guarantees the SSCL contributions and so their position is modelled within the Environment Agency's for valuation and contribution setting.

The Environment Agency's funding arrangements are to pay 14.5% of the monthly gross salary of members to the Active Pension Fund each month, and then pay a lump sum each year to meet the equivalent employer contribution of 19%. This contribution rate is payable annually through from 2023 to 2026.

The Active Fund Funding Strategy Statement<sup>8</sup> sets out the funding strategy and objectives of the scheme.

The latest triennial actuarial valuation of the EAPF was at 31 March 2022. The assets taken at market value at that date (£4.5 billion) were sufficient to cover 103% (2019: 106%) of the value of liabilities in respect of past service benefits which had accrued to members.

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant change is future inflation. This is expected to be on average higher due to the current levels of inflation. Despite changes to the Fund's investment strategy and movements in financial markets, future investment returns are expected to be similar to the assumptions set at the 2019 valuation.

### The Environment Agency's pension expenditure and position under IAS 19

These financial statements include the disclosure requirements of IAS 19 for 2023-24 in relation to the EAPF. All calculations have been made by a qualified independent actuary and are based on the most recent actuarial valuation of the Active Fund at 31 March 2022. The assumptions underlying the calculation at 31 March 2024 are only used for accounting purposes as required under IAS 19.

The total pension charge for the Environment Agency, under IAS 19 financial reporting, was £93.9 million for the financial year (2022-23 - £184.5 million). The pension charge was assessed using the projected unit method of valuation to calculate the service costs.

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

The main difference in assumption is the discount rate used to value pension liabilities. The EAPF discount rate for funding purposes is based on a prudent expectation of the return generated from

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<sup>8</sup> [Policies | Publications | Resources | EAPF](#)

the portfolio of assets owned by the EAPF. The discount rate used in these financial statements, as required by IAS 19, is based on high quality corporate bond yields, with no additional asset performance assumption. As at 31 March 2024, the real discount rate (discount rate net of inflation) has risen compared to the previous year. This is due to the combination of a higher discount rate assumption and a lower pension increase (Consumer Price Index) assumption. This higher rate results in a lower value being placed on liabilities.

The sensitivity analysis in note 17.4 indicates the sensitivity of the Active Fund liabilities to a difference in discount rate.

A number of assumptions are made as part of the actuarial valuation process. The prudent actuarial assumptions used do not represent a view on what future pay movements may be. It has been assumed that present and future pensions in payment will increase at the rate of 2.5% per annum. The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2025 will be approximately £81.6 million.

Cash contributions paid by the Environment Agency to the EAPF will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme. The next triennial valuation will be as at 31 March 2025. The results are reviewed by the Pensions Committee and, following consultations with employers, are provided for approval by the Environment Agency Board.

The Environment Agency is also the employing authority for the Environment Agency Closed Fund which provides benefits to members of the former Water Authorities Superannuation Fund who were either pensioners or deferred members on the privatisation of the water industry in 1989. However, Defra is the financial sponsor for the Closed Fund and accounts for it within its annual report and accounts.

## 17.1 Financial and longevity assumptions

### Financial assumptions for the Environment Agency Pension Fund

	<b>% per annum 31 March 2024</b>	<b>% per annum 31 March 2023</b>
Inflation and pension increase rate	2.75	2.95
Salary increase rate	3.25	3.45
Discount rate	4.85	4.75

As noted above, the assumptions used by actuaries when financial modelling for a period of many decades ahead do not represent a view on what actual changes in pay may arise in the short-term.

At the most recent valuation the duration of the pension’s funded liabilities was 20 years.

### Longevity assumptions: average future life expectancy at age 65

<b>Scheme member</b>	<b>31 March 2024</b>		<b>31 March 2023</b>	
	<b>Male (Years)</b>	<b>Female (Years)</b>	<b>Male (Years)</b>	<b>Female (Years)</b>
Current pensioners	21.6	24.1	21.7	24.3
Future pensioners (people aged 65 in 20 years)	22.6	25.8	22.7	26.0

## 17.2 Fair value of employer assets

### Fair value of employer assets at 31 March 2024

Asset category	Level	Active market quoted prices £ million	Non-active market quoted prices £ million	Total £ million	% of total %
<b>Equity securities:</b>					
Common stock	1	542.7	-	542.7	13
Other equity assets	1	2.4	-	2.4	-
<b>Debt securities:</b>					
UK government bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Other	-	-	-	-	-
<b>Pooled investment vehicles:</b>					
Equities	3	-	1,224.5	1,224.5	29
Bonds	2	-	1,541.1	1,541.1	37
Funds - real estate	2	-	38.1	38.1	1
Funds - venture capital	2	-	0.6	0.6	-
<b>Venture capital and partnerships:</b>					
Partnerships and real estate	2	-	666.8	666.8	16
<b>Derivative contracts:</b>					
Equity derivatives	-	-	-	-	-
Forward foreign exchange contracts	2	-	(2.9)	(2.9)	-
Cash and cash equivalents	1	-	189.9	189.9	4
<b>Total</b>		<b>545.1</b>	<b>3,658.2</b>	<b>4,203.2</b>	<b>100</b>

## Fair value of employer assets at 31 March 2023

Asset category	Level	Active market quoted prices £ million	Non-active market quoted prices £ million	Total £ million	% of total %
<b>Equity securities:</b>					
Common stock	1	467.3	-	467.3	12
Other equity assets	1	3.2	-	3.2	-
<b>Debt securities:</b>					
UK government bonds		-	-	-	-
Corporate bonds		-	-	-	-
Other		-	-	-	-
<b>Pooled investment vehicles:</b>					
Equities	3	-	1,049.8	1,049.8	27
Bonds	2	-	1,487.6	1,487.6	39
Funds - real estate		-	-	-	-
Funds - venture capital		-	-	-	-
<b>Venture capital and partnerships:</b>					
Partnerships and real estate	2	-	721.8	721.8	19
<b>Derivative contracts:</b>					
Equity derivatives	1	0.3	-	0.3	-
Forward foreign exchange contracts	2	-	9.7	9.7	-
Cash and cash equivalents	1	-	129.8	129.8	3
<b>Total</b>		<b>470.8</b>	<b>3,398.7</b>	<b>3,869.5</b>	<b>100</b>

### 17.3 Change in fair value of employer assets, defined benefit obligation and net liability

Year ended 31 March 2024	Fair value of employer assets £ million	Funded defined benefit obligations £ million	Net asset / (liability) £ million
<b>Opening position as at 1 April 2023</b>	<b>3,869.5</b>	<b>(3,366.1)</b>	<b>503.4</b>
Pension benefits accrued by members during the year*	-	(93.1)	(93.1)
Change in cost of pensions from previous years' service	-	(0.8)	(0.8)
<b>Total service cost (recognised in SOCNE)</b>	<b>-</b>	<b>(93.9)</b>	<b>(93.9)</b>
Interest income on plan assets	183.9	-	183.9
Interest cost on defined benefit obligation	-	(160.5)	(160.5)
<b>Total net interest (recognised in SOCNE)</b>	<b>183.9</b>	<b>(160.5)</b>	<b>23.4</b>
Plan participants' contributions	34.3	(34.3)	-
Employer contributions	96.1	-	96.1
Benefits paid	(101.4)	101.4	-
<b>Total cash flows</b>	<b>29.0</b>	<b>67.1</b>	<b>96.1</b>
<b>Expected closing position</b>	<b>4,082.4</b>	<b>(3,553.4)</b>	<b>529.0</b>
Change in financial assumptions	-	225.8	225.8
Change in demographic assumptions	-	21.8	21.8
Other experience**	-	(100.3)	(100.3)
Return on assets excluding amounts included in net interest	120.8	-	120.8
<b>Total remeasurements recognised in Other Comprehensive Expenditure</b>	<b>120.8</b>	<b>147.3</b>	<b>268.1</b>
<b>Closing position as at 31 March 2024</b>	<b>4,203.2</b>	<b>(3,406.1)</b>	<b>797.1</b>

\*The current service cost includes an allowance for administration expenses of 0.6% of payroll.

\*\*The other experience on obligations includes an allowance for the pension increase order applied to the funded obligations at April 2024 being different to the pension increase assumption adopted in the Employer's Schedule of results at the start of the period. Within this other experience item, the funded obligations have increased by £100,319,000 as a result of the pension increase order being different to the previous assumption.

The defined benefit obligations comprised approximately £1.6 billion for employee members, £0.5 billion for deferred pensioners and £1.2 billion for pensioners as at 31 March 2024 (31 March 2023 - £1.5 billion, £0.5 billion and £1.2 billion).

<b>Year ended 31 March 2023</b>	<b>Fair value of employer assets</b>	<b>Funded defined benefit obligations</b>	<b>Net asset / (liability)</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>Opening position as at 1 April 2022</b>	<b>4,133.3</b>	<b>(4,788.0)</b>	<b>(654.7)</b>
Pension benefits accrued by members during the year*	-	(184.4)	(184.4)
Change in cost of pensions from previous years' service		(0.1)	(0.1)
<b>Total service cost (recognised in SOCNE)</b>	<b>-</b>	<b>(184.5)</b>	<b>(184.5)</b>
Interest income on plan assets	113.6	-	113.6
Interest cost on defined benefit obligation	-	(133.3)	(133.3)
<b>Total net interest (recognised in SOCNE)</b>	<b>113.6</b>	<b>(133.3)</b>	<b>(19.7)</b>
Plan participants' contributions	28.5	(28.5)	-
Employer contributions	59.9	-	59.9
Benefits paid	(84.5)	84.5	-
<b>Total cash flows</b>	<b>3.9</b>	<b>56.0</b>	<b>59.9</b>
<b>Expected closing position</b>	<b>4,250.8</b>	<b>(5,049.8)</b>	<b>(799.0)</b>
Change in financial assumptions	-	2,017.7	2,017.7
Change in demographic assumptions	-	(27.0)	(27.0)
Other experience**	(41.1)	(307.0)	(348.1)
Return on assets excluding amounts included in net interest	(340.2)	-	(340.2)
<b>Total remeasurements recognised in Other Comprehensive Expenditure</b>	<b>(381.3)</b>	<b>1,683.7</b>	<b>1,302.4</b>
<b>Closing position as at 31 March 2023</b>	<b>3,869.5</b>	<b>(3,366.1)</b>	<b>503.4</b>

## 17.4 Sensitivity analysis

### Sensitivities regarding the principal assumptions used to measure the Funds liabilities

Change in assumption	Approximate % increase in employer liability	Approximate monetary amount £ million
0.1% decrease in real discount rate	2%	72.0
0.1% increase in salary increase rate	0%	3.8
0.1% increase in pension increase rate	2%	69.6

The approach taken to quantify the impact of a change in financial assumptions is to calculate and compare the value of fund liabilities at 31 March 2024 on varying bases. The approach taken is consistent with the approach to derive the other figures in this note.

Uncertainty over life expectancy was modelled considering an increase in life expectancy of one year. This is assumed to increase costs by broadly 4%. The actual cost would depend on the structure of the revised assumption (i.e. if the change affects younger or older members). The sensitivity approach is consistent with the previous year.

## 17.5 IAS 19 provisions

When the LGPS was reformed in 2014, transitional protections were applied to certain older members within 10 years of normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new Career Average Revalued Earnings (CARE) scheme by effectively giving them the better of the benefits from the old final salary scheme and new CARE scheme.

In December 2018, the Court of Appeal upheld a ruling (McCloud) that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well.

At the end of 2018-19, an initial liability was recognised within the IAS 19 report of £28.3 million. In 2019-20 this reduced to £13.4 million following Ministry of Housing, Communities and Local Government (now called the Department for Levelling Up, Housing and Communities) consultation which set out qualifying member criteria. No further adjustment has been made.

In June 2020, a legal discrimination case (Goodwin) which related to unequal death benefit provision for male dependents of female scheme members was deemed successful. Whilst this case occurred in the Teachers' Pension Scheme, it is relevant to other public sector schemes including the LGPS. Initial analysis suggests this will affect a very small population of our membership and may result in an increase in the cost of pensions from previous years' service, estimated at around £3.4 million. For completeness this was included in our 2019-20 IAS 19 valuation with no further adjustment made since as there are no new details on the potential remedy for the Goodwin case.

There are two further court cases which may impact on the benefits of the scheme (Walker and O'Brien). Our current understanding is that these are unlikely to be significant judgements in terms of the impact on the pension obligations. As a result, and until further guidance is released, we have not made any allowance for the potential remedies to these judgements, or no changes have been made to the existing benefits structure.

## 17.6 Pension surplus and interpretation of IFRIC 14

As was the case in 2022-23, the Environment Agency's IAS 19 report received for 2023-24 showed a surplus (asset) of £0.8 billion (2022-23 - £0.5 billion surplus).

Last year, we considered whether the asset should be recognised in full or capped at an asset ceiling as per IFRIC 14, and if there were any additional liabilities to raise based on the Minimum Funding Requirement.

We noted that in forming this view we reviewed the Pensions Act and sought professional advice which noted that this legislation is not relevant to the LGPS scheme because it only applies to occupational pension schemes established under trust.

Our judgement was that while the Environment Agency lacks a unilateral right to a refund of surplus via a scheme exit because of its status as a Scheduled body, that economic benefit is available through potential reductions in future employer contributions based on the current snapshot of funding conditions. (We note that rate-setting is done with a view to both solvency and short-term stability, and that analysis of current funding conditions was performed for the purposes of analysing the asset ceiling rather than being binding on future rate-setting decisions.)

In analysing the extent of economic benefit available through this route we considered, as required by IFRIC 14, the difference between service cost and future contributions for future service. Due to the ongoing and Scheduled nature of the scheme we analysed the effect of this difference in perpetuity. Again, as instructed in IFRIC 14, where available (future contribution rates) we analysed these factors using the funding regime basis, through a hypothetical re-basing of the primary contribution rate based on advice from our actuaries. Otherwise, we have relied on IAS 19 assumptions for consistency with the DBO accounting.

Based on this analysis we concluded that the economic benefit available through the future rate-setting regime is at least sufficient to cover the existing IAS 19 surplus, and we therefore concluded that it was appropriate for the Environment Agency to recognise the full value of the net IAS 19 surplus. Were more prudent alternative assumptions to be adopted (e.g. higher future rates of contribution relevant to the Minimum Funding Requirement) the asset ceiling would be decreased, leading to a maximum effect of a full constraint of the surplus to £nil and the full amount of the surplus passing through Other Comprehensive Expenditure.

We consider that all of the above remains relevant and applicable for 2023-24.

## 18. Financial instruments

These comprise financial assets and financial liabilities.

### Financial assets

Loans, receivables, and assets available for sale are classified as financial assets.

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

IFRS 9 requires entities to estimate and account for expected credit losses for all relevant financial assets (trade, contract, and other receivables), starting from when they first acquire a financial instrument.

The Environment Agency estimate is based on our historic experience of credit losses by charge scheme over the past four financial years, updated for any known future credit issues. See note 11 for an explanation of our debt recovery process. In recent years, where the Covid-19 pandemic led to higher levels of default on more recent invoices, the expected credit loss calculation was increased to reflect the increased expected credit loss on those charge schemes on current and future debt. In 2021-22, the estimate returned to being based on historic credit losses by funding stream. There has not been a material change in the expected credit losses for any charge scheme.

### Financial liabilities

Financial liabilities are any contractual obligations to deliver cash or financial assets to a third party. The Environment Agency only has financial liabilities which are recognised initially at fair value and are subsequently held at amortised cost using the effective interest method. Financial liabilities are derecognised when the obligation has expired.

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

The Environment Agency is exposed to the risk of changes in the rate of inflation. The RPI has fluctuated significantly over the life of these financial liabilities. This is a macro-economic risk that the Environment Agency cannot manage in any way. However, the Environment Agency is able to recover the cost of reservoir operating agreement payments through its charges on water abstraction. HM Treasury have approved the increase in the liability as a result of accounting treatment (i.e. the element of the liability that will not result in a payment) as being non-recoverable.

Due to the largely non-trading nature of its activities and the way in which government bodies are financed, the Environment Agency is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies. The Environment Agency has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Environment Agency in undertaking its activities.

## 18.1 Financial liability - reservoir operating agreements

In 1989 a predecessor body to the Environment Agency, the National Rivers Authority, entered into a number of reservoir operating agreements with water companies, under section 126 of the Water Act 1989, re-enacted by section 20 of the Water Resources Act 1991.

These agreements contained two financial components. The first was for payment to the water companies of their operating costs for the reservoirs, net of income generated thereon by the companies, such as on hydroelectric power. The second was for payments for a return on investment in the reservoir assets, indexed upwards annually based on the RPI, which are payable in perpetuity. The terms of these agreements were negotiated between HM Government and the water companies and were made to enable privatisation to occur.

The return on asset component payable to the water companies is accounted for as a financial liability. The financial liability represents the contractual liability the Environment Agency has to the water companies. The cash payments for reservoir operating agreements are 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. Net increases to the liability (i.e. the extent the finance charge exceeds the cash payments) have been approved by HM Treasury as being non-recoverable from charge payers.

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

Counterparty	Liability at 1 April 2022	Finance charge 2022-23	Amounts paid 2022-23	Liability at 31 March 2023	Finance charge 2023-24	Amounts paid 2023-24	Liability at 31 March 2024	Due within 1 year	Due later than 1 year
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Northumbrian Water	(341.9)	(35.4)	23.3	(354.0)	(35.4)	24.6	(364.8)	(23.2)	(341.6)
Severn Trent Water	(91.5)	(4.7)	2.2	(94.0)	(4.8)	2.4	(96.4)	(2.4)	(94.0)
<b>Total</b>	<b>(433.4)</b>	<b>(40.1)</b>	<b>25.5</b>	<b>(448.0)</b>	<b>(40.2)</b>	<b>27.0</b>	<b>(461.2)</b>	<b>(25.6)</b>	<b>(435.6)</b>

The fair value of the liability, calculated using the real discount rate from HMT Public Expenditure System, would be £3.2 billion (2022-23 - £3.4 billion). If we change the PES rate for every year in the future by +0.5% or -0.5% then the fair value of the liability increases or decreases by £0.7 billion. The difference between fair value and carrying value is due to the prevailing discount rate (around 1%, being the rate applicable to RPI-linked cash flows stated in current cost) being significantly lower than the Effective Interest Rate set at initial recognition of the instrument, as well as inherent differences between amortised cost accounting and a snapshot of fair value.

The largest payments are payable to Northumbrian Water (in relation to Kielder and Cow Green reservoirs) and Severn Trent Water (in relation to Lake Clywedog and Lake Vyrnwy reservoirs). The liabilities are initially recognised at fair value and subsequently measured at amortised cost and are measured as perpetuities. The effective interest rate method is used to calculate the amortised cost and the interest expense (the finance charge in the table above). The method involves calculating the net present value of the estimated future cash flows discounted at the internal rate of return. The effective interest rate is recalculated each year which reduces the impact of variation in the RPI.

Historically, the current RPI had been used as an estimate for the future RPI, in order to estimate the future cash flows relating to the agreements. In 2022-23, we considered that the levels of inflation in the UK were not indicative of the expected future levels of inflation. We opted instead to use the OBR five-year forecast rates of RPI and assumed that the rate at the end of five years would be representative of RPI beyond this point in time. This change in accounting estimate was applied prospectively and not retrospectively, in line with accounting standards.

The Environment Agency does not bear liquidity, credit, or interest rate risk on these financial instruments, other than the fact that annual payments are linked to the RPI. We have carried out a sensitivity analysis to ascertain the responsiveness of the liability to changes in the RPI index. If we change the RPI assumption for every year in the future by +1% or -1% then the value of the liability (and the cost) increases or decreases by £4.2 million (2022-23 - £4.0 million).

## 18.2 Permitting deposits

The Environment Agency holds security for permit holders as described in note 12.

Security can be provided by permit holders by way of cash (note 12) or by way of bond agreement. These are triparty bond agreements between the permit holder, the Environment Agency and banking organisations. Under the bond agreements, the Environment Agency can only call on the banks to provide cash in the event of environmental incidents.

The bonds are financial guarantees under IFRS 9 but unless and until they crystallise, they do not meet the recognition criteria because they are contingent on uncertain future events. On the event of an environmental incident and call of the bond, the cash received would be recognised as a liability and released to income once the required actions had been completed, in line with IFRS 15.

The value of bond agreements in the Environment Agency's favour on 31 March 2024 was £654.0 million (2022-23 - £606.5 million). Until 2022-23, these amounts were not disclosed in the financial statements as the Environment Agency did not believe they were financial instruments. This was purely a disclosure omission as controls were in place to ensure security was obtained from permit holders to limit environmental risk.

During both 2023-24 and 2022-23 the value of bond agreements for which the Agency called upon the bond issuer was trivial.

The Environment Agency is required by statute to check that waste importers and exporters have sufficient financial guarantees in place when it processes relevant applications for consent. This guarantee is designed to remediate any non-compliance with delivery and processing or due to waste being illegal. The year end value of the guarantees which could be called upon is immaterial and as with other guarantees disclosed above, these do not meet the criteria for recognition and the possibility of conversion is extremely remote; no calls have been made in recent years to convert the guarantees.

## 19. Related parties

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

### 19.1 Controlling parties

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

The Environment Agency receives grants that are treated as financing received from Defra, its controlling entity. The receipts are recorded as a financing transaction and are credited directly to the general reserve in the statement of financial position and not through the statement of comprehensive net expenditure.

<b>Funding received from Defra</b>	<b>2023-24</b>	<b>2022-23</b>
	<b>£ million</b>	<b>£ million</b>
Defra environment protection grant-in-aid	(220.9)	(193.1)
Defra flood defence grant-in-aid	(1,185.6)	(927.9)
Defra IDB or local authority grant-in-aid	(148.5)	(179.0)
<b>Total</b>	<b>(1,555.0)</b>	<b>(1,300.0)</b>

### 19.2 Defra group Corporate Services

The property portfolio of the Defra group was managed centrally by Defra during the whole of 2023-24 in order to maximise the efficient use of the space available. As a result, a number of properties owned by the Environment Agency were used by employees of Defra, Natural England,

the Rural Payments Agency and the Animal and Plant Health Agency. Similarly, Environment Agency employees worked from offices owned by Defra. The net charge made by Defra to the Environment Agency for this property use was included within the Defra group Corporate Services charge (note 5.1).

The Environment Agency is part of a partnership agreement whereby corporate services functions are provided centrally by Defra. In 2023-24, Defra charged the Environment Agency £88.7 million (2022-23 - £85.9 million) for expenditure incurred in the provision of corporate services to the Environment Agency (note 5.1). This comprised mostly of staff costs for transferred former employees as well as some supplier expenditure.

The fleet function of the Environment Agency in 2023-24 received £6.8 million of income from other Defra arm's length bodies for the provision of fleet management services (2022-23 - £6.4 million). At 31 March 2024, the amount owed to the Environment Agency was £1.6 million (31 March 2023 - £1.5 million).

### 19.3 Other related parties

The Environment Agency keeps a fully updated register of interests.

There were no transactions during the year with organisations for which Board members or Executive Directors have declared a related party interest.

No Board member or Executive Director has undertaken any material transaction with the Environment Agency for which they have not declared an interest. The remuneration and staff report provides further information on Board members and Executive Directors.

In addition to the above disclosures, Alan Lovell, the Environment Agency's Chair is an ex-officio member of the Defra board, our parent department which provides the majority of the Environment Agency's funding.

Mark Suthern is also a non-executive member of the Audit and Risk Assurance Committee for the Rural Payments Agency, an arm's length body under the control of Defra.

The Environment Agency is the administering authority responsible for maintaining and managing the Environment Agency Pension Fund. The Environment Agency charged the fund £1.4 million for expenses incurred in administering the Fund (2022-23 - £1.0 million).

Following Government recommendations to pool the management and investment of pension scheme assets, the Environment Agency and nine other partner LGPS funds are shareholders in and working together with, Brunel Pension Partnership Ltd to realise savings and efficiencies. Environment Agency Board member Robert Gould is also Chair of the Brunel Oversight Board.

In addition, the Environment Agency has had various material transactions with other government departments and other public bodies. The majority of the value of these transactions have been with HM Revenue and Customs, Leeds City Council and Portsmouth City Council.

## 20. Prior period adjustments - Impact of adjustments

The prior years financial statements have been restated to reflect changes to opening positions due to:

1. A review of how project spend has been classified
2. Corrections of inappropriate historic valuations of operational and freehold land assets.

### Review of project spend

During 2022-23 and 2023-24, we performed an in-depth review of project accounting, firstly covering capital works expensed in year (CWEIY) spend and later capital additions to assets under construction.

For CWEIY spend, this was initially driven by a change in the agreement with HMT regarding what could be classified as CWEIY, effective from 1 April 2022. This change meant that CWEIY expenditure had to be capital, as per the International Accounting Standard (IAS) 16 on property, plant and equipment. This significantly reduced the amount of project spend that fell under CWEIY, as previously repairs and maintenance costs could be included.

Later, the review work moved onto the valuation of assets under construction, as part of our efforts to resolve the issues that lead to the audit limitation of scope (that was in place for 2021-22 and 2022-23). Again, costs included within assets under construction have been reviewed to ensure that they meet the definition of capital as per the accounting standards and that, once completed, the EA will maintain the assets that have been created.

These reviews have generated prior period adjustments, and the 2023-24 financial statements show the restated positions for 2022-23 and the impact on the Statement of Financial Position as at 1 April 2022.

These adjustments have predominantly been attributable to the following:

- Costs previously classified as CWEIY, where the spend was correctly assessed as capital but was incurred creating assets the EA ultimately maintained and so should have been included within assets under construction
- Costs previously classified as CWEIY, where the spend was not capital in nature and so should have been accounted for as resource expenditure
- Costs previously included within assets under construction, where the spend was correctly assessed as capital but was incurred creating assets the EA ultimately would not maintain and so should have been included within CWEIY
- Costs previously included within assets under construction, where the spend was not capital in nature and so should have been accounted for as resource expenditure
- Costs that had remained within assets under construction but where the assets were already live, and so should have been transferred to operational assets. This also required an adjustment to the revaluation reserve in 2022-23 to reflect that these assets had been included within the Depreciated Replacement Cost valuation.

The effect of these adjustments on the primary statements has been detailed below. For true and fair comparative purposes a restated prior year position has been used throughout the financial statements.

### Correction of the valuation of land and buildings

During 2023-24, we improved the data on land the EA holds and, as part of this, reviewed the valuation techniques applied.

In some cases, parcels of land owned by the Agency had been significantly valued upwards by external, third-party valuers, based on what the land might be sold for on the open market. However, this was using market rates for prime land parcels for development.

On review by in-house specialist surveyors, with expert knowledge of the land the Agency owns, it was noted that some of these pieces of land did not have development potential and therefore had been valued incorrectly. We have opted to revalue these assets downwards, utilising the revaluation reserve previously created when the assets had been revalued above their purchase cost.

### Statement of Comprehensive Net Expenditure – For the year 2022-23

For the year ended 31 March 2023	2022-23 Previously reported	Prior period adjustment Project accounting	Prior period adjustment Land and buildings	2022-23 Restated
	£ million	£ million	£ million	£ million
<b>Expenditure</b>				
Staff costs	666.8	14.8	-	681.6
Capital works expensed in year	306.5	(48.0)	-	258.5
Depreciation and amortisation	124.1	-	-	124.1
Other expenditure	800.0	57.0	-	857.0
	<b>1,897.4</b>	<b>23.8</b>	<b>-</b>	<b>1,921.2</b>
<b>Income</b>				
Revenue from contracts with customers	(456.8)	-	-	(456.8)
Other operating income	(39.1)	(6.4)	-	(45.5)
	<b>(495.9)</b>	<b>(6.4)</b>	<b>-</b>	<b>(502.3)</b>
<b>Net expenditure</b>	<b>1,401.5</b>	<b>17.4</b>	<b>-</b>	<b>1,418.9</b>
Loss on sale of assets	18.5	-	-	18.5
Interest receivable	(1.6)	-	-	(1.6)
Financing on pension scheme assets and liabilities	19.7	-	-	19.7
<b>Net expenditure after interest</b>	<b>1,438.1</b>	<b>17.4</b>	<b>-</b>	<b>1,455.5</b>
<b>Other comprehensive expenditure</b>				
Revaluation of property, plant and equipment	(6,864.7)	192.1	28.4	(6,644.2)
Revaluation of right of use assets	(4.6)	-	-	(4.6)
Revaluation of intangible assets	(5.8)	-	-	(5.8)
Actuarial (gain)/loss on pension scheme assets and obligations	(1,302.4)	-	-	(1,302.4)
	<b>(8,177.5)</b>	<b>192.1</b>	<b>28.4</b>	<b>(7,957.0)</b>
<b>Total comprehensive net (income) / expenditure for the year</b>	<b>(6,739.4)</b>	<b>209.5</b>	<b>28.4</b>	<b>(6,501.5)</b>

## Statement of Financial Position – As at 31 March 2023

As at 31 March 2023	31 March 2023 Previously reported £ million	Prior period adjustment Project accounting £ million	Prior period adjustment Land and buildings £ million	31 March 2023 Restated £ million
<b>Non-current assets</b>				
Property, plant and equipment	10,752.0	(149.8)	(107.4)	10,494.8
Right of use assets	54.4	-	-	54.4
Intangible assets	111.8	(20.1)	-	91.7
Pension assets	503.4	-	-	503.4
<b>Total non-current assets</b>	<b>11,421.6</b>	<b>(169.9)</b>	<b>(107.4)</b>	<b>11,144.3</b>
<b>Current assets</b>				
Assets classified as held for sale	9.6	-	-	9.6
Trade, contract, and other receivables	165.0	-	-	165.0
Cash and cash equivalents	167.5	-	-	167.5
<b>Total current assets</b>	<b>342.1</b>	<b>-</b>	<b>-</b>	<b>342.1</b>
<b>Total assets</b>	<b>11,763.7</b>	<b>(169.9)</b>	<b>(107.4)</b>	<b>11,486.4</b>
<b>Current liabilities</b>				
Trade and other payables	(559.9)	-	-	(559.9)
Reservoir operating agreements	(24.3)	-	-	(24.3)
Lease liabilities	(14.0)	-	-	(14.0)
<b>Total current liabilities</b>	<b>(598.2)</b>	<b>-</b>	<b>-</b>	<b>(598.2)</b>
<b>Total assets less current liabilities</b>	<b>11,165.5</b>	<b>(169.9)</b>	<b>(107.4)</b>	<b>10,888.2</b>
<b>Non-current liabilities</b>				
Provisions	(29.2)	-	-	(29.2)
Reservoir operating agreements	(423.7)	-	-	(423.7)
Pension liabilities	-	-	-	-
Trade and other payables	(142.7)	(2.8)	-	(145.5)
Lease liabilities	(31.0)	-	-	(31.0)
<b>Total non-current liabilities</b>	<b>(626.6)</b>	<b>(2.8)</b>	<b>-</b>	<b>(629.4)</b>
<b>Assets less liabilities</b>	<b>10,538.9</b>	<b>(172.7)</b>	<b>(107.4)</b>	<b>10,258.8</b>
<b>Taxpayers' equity</b>				
Revaluation reserve	9,199.2	(192.1)	(107.4)	8,899.7
General reserve	836.3	19.4	-	855.7
Pension reserve	503.4	-	-	503.4
<b>Total taxpayers' equity</b>	<b>10,538.9</b>	<b>(172.7)</b>	<b>(107.4)</b>	<b>10,258.8</b>

## Statement of Financial Position – As at 1 April 2022

As at 1 April 2022	1 April 2022 Previously reported	Prior period adjustment Project accounting	Prior period adjustment Land and buildings	1 April 2022 Restated
	£ million	£ million	£ million	£ million
<b>Non-current assets</b>				
Property, plant and equipment	3,775.7	69.3	(79.0)	3,766.0
Right of use assets	-	-	-	-
Intangible assets	128.2	(29.6)	-	98.6
Pension assets	-	-	-	-
<b>Total non-current assets</b>	<b>3,903.9</b>	<b>39.7</b>	<b>(79.0)</b>	<b>3,864.6</b>
<b>Current assets</b>				
Assets classified as held for sale	8.7	-	-	8.7
Trade, contract, and other receivables	110.5	-	-	110.5
Cash and cash equivalents	119.5	-	-	119.5
<b>Total current assets</b>	<b>238.7</b>	<b>-</b>	<b>-</b>	<b>238.7</b>
<b>Total assets</b>	<b>4,142.6</b>	<b>39.7</b>	<b>(79.0)</b>	<b>4,103.3</b>
<b>Current liabilities</b>				
Trade and other payables	(540.7)	-	-	(540.7)
Reservoir operating agreements	(21.1)	-	-	(21.1)
Lease liabilities	-	-	-	-
<b>Total current liabilities</b>	<b>(561.8)</b>	<b>-</b>	<b>-</b>	<b>(561.8)</b>
<b>Total assets less current liabilities</b>	<b>3,580.8</b>	<b>39.7</b>	<b>(79.0)</b>	<b>3,541.5</b>
<b>Non-current liabilities</b>				
Provisions	(10.6)	-	-	(10.6)
Reservoir operating agreements	(412.3)	-	-	(412.3)
Pension liabilities	(654.7)	-	-	(654.7)
Trade and other payables	(3.2)	(2.8)	-	(6.0)
Lease liabilities	-	-	-	-
<b>Total non-current liabilities</b>	<b>(1,080.8)</b>	<b>(2.8)</b>	<b>-</b>	<b>(1,083.6)</b>
<b>Assets less liabilities</b>	<b>2,500.0</b>	<b>36.9</b>	<b>(79.0)</b>	<b>2,457.9</b>
<b>Taxpayers' equity</b>				
Revaluation reserve	2,425.4	-	(79.0)	2,346.4
General reserve	729.3	36.9	-	766.2
Pension reserve	(654.7)	-	-	(654.7)
<b>Total taxpayers' equity</b>	<b>2,500.0</b>	<b>(36.9)</b>	<b>(79.0)</b>	<b>2,457.9</b>

## Statement of Cash Flows – For the year 2022-23

	2022-23 Previously reported	Prior period adjustment Project accounting	Prior period adjustment Land and buildings	2022-23 Restated
For the year ended 31 March 2023	£ million	£ million	£ million	£ million
<b>Cash flows from operating activities</b>				
Net expenditure before interest	(1,439.7)	(17.4)	-	(1,457.1)
Interest receivable	1.6	-	-	1.6
Depreciation and amortisation	124.1	-	-	124.1
Impairment of non-current assets	10.4	1.7	-	12.1
Loss on sale of assets	18.5	-	-	18.5
(Increase)/decrease in trade and other receivables	(54.5)	-	-	(54.5)
Increase/(decrease) in trade and other payables	192.6	-	-	192.6
Interest on reservoir operating agreement liabilities	40.1	-	-	40.1
Increase/(decrease) in provisions	19.0	-	-	19.0
Lease interest	1.0	-	-	1.0
Non-cash pension costs	204.2	-	-	204.2
Employer contributions to pension	(59.9)	-	-	(59.9)
Donated assets	-	-	-	-
<b>Net cash outflow from operating activities</b>	<b>(942.6)</b>	<b>(15.7)</b>	<b>-</b>	<b>(958.3)</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(233.9)	26.4	-	(207.5)
Purchase of intangible assets	(2.3)	(10.7)	-	(13.0)
Less movements in capital payables and accruals	(37.3)	-	-	(37.3)
Proceeds of disposal of property, plant and equipment	1.4	-	-	1.4
<b>Net cash outflow from investing activities</b>	<b>(272.1)</b>	<b>15.7</b>	<b>-</b>	<b>(256.4)</b>
<b>Cash flows from financing activities</b>				
Grants from Defra	1,300.0	-	-	1,300.0
Payments towards lease liabilities	(11.8)	-	-	(11.8)
Payments towards reservoir operating agreement liabilities	(25.5)	-	-	(25.5)
<b>Net financing</b>	<b>1,262.7</b>	<b>-</b>	<b>-</b>	<b>1,262.7</b>
<b>Net increase in cash and cash equivalents in the period</b>	<b>48.0</b>	<b>-</b>	<b>-</b>	<b>48.0</b>
Cash and cash equivalents at the beginning of the period	119.5	-	-	119.5
<b>Cash and cash equivalents at the end of the period</b>	<b>167.5</b>	<b>-</b>	<b>-</b>	<b>167.5</b>

## Statement of Changes in Taxpayers' Equity – General reserve – As at 31 March 2023

For the year ended 31 March 2023	31 March 2023 Previously reported	Prior period adjustment Project accounting	Prior period adjustment Land and buildings	31 March 2023 Restated
	£ million	£ million	£ million	£ million
<b>Balance at 1 April 2022</b>	<b>729.3</b>	<b>36.9</b>	-	<b>766.2</b>
Adoption of IFRS16	(0.5)			(0.5)
Net gain on revaluation of property, plant and equipment	-	-	-	-
Net gain on revaluation of intangible assets	-	-	-	-
Net gain on revaluation of right of use assets	-	-	-	-
Actuarial gain on pension scheme assets and obligations	-	-	-	-
Transfers between reserves	245.6	-	-	245.6
Retained deficit	(1,438.1)	(17.5)	-	(1,455.6)
<b>Total recognised income and expense</b>	<b>(463.7)</b>	<b>19.4</b>	-	<b>(444.3)</b>
Grants from Defra	1,300.0	-	-	1,300.0
<b>Balance at 31 March 2023</b>	<b>836.3</b>	<b>19.4</b>	-	<b>855.7</b>

## Statement of Changes in Taxpayers' Equity – Revaluation reserve – As at 31 March 2023

For the year ended 31 March 2023	31 March 2023 Previously reported	Prior period adjustment Project accounting	Prior period adjustment Land and buildings	31 March 2023 Restated
	£ million	£ million	£ million	£ million
<b>Balance at 1 April 2022</b>	<b>2,425.4</b>	-	<b>(79.0)</b>	<b>2,346.4</b>
Net gain on revaluation of property, plant and equipment	6,864.7	(192.1)	(28.4)	6,644.2
Net gain on revaluation of intangible assets	5.8	-	-	5.8
Net gain on revaluation of right of use assets	4.6	-	-	4.6
Actuarial gain on pension scheme assets and obligations	-	-	-	-
Transfers between reserves	(101.3)	-	-	(101.3)
Retained deficit	-	-	-	
<b>Total recognised income and expense</b>	<b>9,199.2</b>	<b>(192.1)</b>	<b>(107.4)</b>	<b>8,899.7</b>
Grants from Defra	-	-	-	-
<b>Balance at 31 March 2023</b>	<b>9,199.2</b>	<b>(192.1)</b>	<b>(107.4)</b>	<b>8,899.7</b>

## 21. Events after the reporting date

### Date of authorisation for issue

There are no events after the reporting date to be disclosed.

The Environment Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Environment, Food and Rural Affairs.

IAS 10 requires the Accounting Officer to disclose the date on which the financial statements are authorised for issue. The authorised for issue date is the date of the Comptroller and Auditor General's audit certificate and report on pages 88 to 104.

## Appendices

### Appendix A - Sustainability data (Not subject to audit)

<b>Emissions</b>	<b>Unit</b>	<b>2023-24</b>	<b>2022-23</b>	<b>2021-22</b>	<b>2020-21</b>	<b>2017-18</b>
Direct emissions (Scope 1)	tCO <sub>2</sub> e	16,500	9,000	11,000	7,000	9,000
Gas consumption as part of Scope 1 *	kWh	5,569,500	6,578,692	-	-	6,378,927
Indirect emissions from purchased energy (Scope 2)	tCO <sub>2</sub> e	15,500	13,500	9,000	13,000	18,000
Energy consumption as part of Scope 2 *	kWh	55,656,000	48,670,361	-	-	48,321,333
Indirect emissions produced by our suppliers (Scope 3) (i)	tCO <sub>2</sub> e	5,000	3,500	8,000	5,000	10,000
Emissions from the EA's operational activities	tCO <sub>2</sub> e	37,000	26,000	28,000	25,000	37,000
Carbon intensity (per £ million expenditure)	tCO <sub>2</sub> e	16	14	18	16	28
<b>Business travel</b>	<b>Unit</b>	<b>2023-24</b>	<b>2022-23</b>	<b>2021-22</b>	<b>2020-21</b>	<b>2017-18</b>
Car and motorbike	tCO <sub>2</sub> e	8,488	6,962	6,180	4,539	8,017
% of the Environment Agency's car fleet classed as ultra-low emissions vehicles		35.6%	30.4%	25.1%	-	
Rail	tCO <sub>2</sub> e	666	289	41	50	1,602
Air	tCO <sub>2</sub> e	68	54	5	2	134
Domestic air travel *	Miles	1,178	1,590	-	-	26,567
International air travel - short haul - economy *	Miles	139,868	121,251	-	-	186,465
International air travel - short haul - business *	Miles	1,188	467	-	-	
International air travel - long haul - economy *	Miles	159,633	101,712	-	-	533,244
International air travel - long haul - premium economy *	Miles	-	8,918	-	-	32,504
International air travel - long haul - business *		-	6,213	-	-	
Total business travel	tCO <sub>2</sub> e	9,223	7,305	6,226	4,591	9,753
	£ million	7.9	4.2	1.6	0.63	10.1
Travel carbon intensity per full-time employee	tCO <sub>2</sub> e	0.67	0.6	0.6	0.4	1.0

<b>Office waste</b>	<b>Unit</b>	<b>2023-24</b>	<b>2022-23</b>	<b>2021-22</b>	<b>2020-21</b>	<b>2017-18</b>
Landfill	Tonnes	10.2	8.5	0.1	0.1	4
	£ (vi)	18,065	5,375	3,871	2,028	6,066
Hazardous waste	Tonnes	3.8	9.3	1.5	0.7	6.1
Reused or recycled	Tonnes	103	113	89	57	298
Of which is total food waste composted from offices	Tonnes	1.2	0.9	4.3	0	0
Of which is food waste sent externally for composting or anaerobic digestion	Tonnes	11.0	8.2	34.4	41.4	5.2
Incinerated to produce energy	Tonnes	0.1	0.8	17.7	20	21
Incinerated without energy recovery	Tonnes	-	-	-	-	0.1
Reused, recycled, or incinerated	£	11,879	4,517	12,348	18,681	22,876
Reused or recycled electronic or electrical equipment	Tonnes	4.5	0.2	0.3	2	26
Total office waste	Tonnes	113	125	107	79	349
	£	29,944	9,892	16,219	20,709	28,942
Total waste (operational and office)	£	1,282,808	1,230,050	1,063,798	957,207	1,369,772
<b>Pension fund investment</b>	<b>Unit</b>	<b>2023-24</b>	<b>2022-23</b>	<b>2021-22</b>	<b>2020-21</b>	<b>2017-18</b>
Pension fund assets	£ million	4,203	4,284	4,133	3,887	3,413
Investment in sustainable and climate solutions	%	12 (iv)	(ii)	26	18	(v)
Carbon footprint	tCO <sub>2</sub> e per £ million	131 (iii)	185	174	162	197
<b>Resource consumption</b>	<b>Unit</b>	<b>2023-24</b>	<b>2022-23</b>	<b>2021-22</b>	<b>2020-21</b>	<b>2017-18</b>
Purchased gas and purchased renewable electricity	million kWh	61	55	64	58	55
	£ million	15.7	9.9	5.3	7.3	5.4
Self-generated renewable energy	million kWh	0.5	0.34 (vi)	0.38	0.4	1.4
Water supplied	Cubic metres	28,116	30,078	33,349	23,065	50,881
	£	472,360	263,771	194,864	200,541	804,322
Paper from renewable or recycled sources	Reams	713	2,126	4,046	2,000	27,000

**Notes**

We are always looking to improve our data sets which will impact the calculated figures. Therefore, for some data sets there is no historical comparable data. The financial data has been reviewed for all comparison years to improve consistency.

\* New measures from 2022-23

- i) Scope 3 categories used include purchased goods and services, capital goods, fuel and energy related activities, waste generated in operations, business travel, employee commuting and upstream leased assets.
- ii) In this year we are using a new hybrid approach for calculating investment in sustainable and climate solutions in line with best practice. As a result, it is not possible to give a total percentage for our portfolio, but the breakdown is available on page 50 of our submission to the UK Stewardship Code.
- iii) Slight methodological changes in calculated figure.
- iv) Transitioning taxonomies mean that this year we are reporting climate solutions only.
- v) There is no comparable figure for 2017-18 because the composition of the figure has changed over time.
- vi) The information provided is reliant on us obtaining meter readings from sites, and we do not estimate missing readings if reports aren't provided. This may explain variances in the reported values between years.
- vii) There is no separate financial data on landfill costs, this figure is based on costs of other waste disposal that is not recycled.
- viii) Total waste includes operational and office waste.

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