



Environment Agency

**Annual report and accounts for the financial year
2024 to 2025**

Environment Agency

Annual report and accounts for the financial year 2024 to 2025

For the period 1 April 2024 to 31 March 2025

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(as amended)

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Environment Agency Annual Report and Accounts 2024-25

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

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

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

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Chair's Foreword

The Environment Agency exists to protect and enhance the environment, as well as to contribute to sustainable development.

Our remit covers:

- 13 million hectares of land
- 22,000 miles (35,000 km) of river
- 3,100 miles (5,000 km) of coastline seawards to the three-mile limit, which includes 2 million hectares of coastal waters

As part of my role as Chair, I have the great pleasure of travelling around the country to see the brilliant work we do to protect and enhance the environment.

In 2024-25, I was delighted to have been able to host a visit by the Emperor of Japan to the Thames Barrier, one of the largest movable flood barriers in the world and part of a set of defences that protect over 1.42 million people and residential property worth more than £321 billion.

I visited and officially opened a number of different projects and schemes including the Lower Otter Restoration Project in South Devon, Salisbury River Park and the Colwick Fish Pass near Nottingham.

I have continued close partnership working and engagement with other Arm's Length Bodies, notably during a trip to Merseyside with Natural England and the Forestry Commission.

I also visited some of the lesser known but fascinating teams at the Environment Agency including our landscape architects, archaeologists, seagrass specialists, and experts in our fish laboratories.

None of the projects which we deliver would be possible without the work of our dedicated staff. I thank them for all the work they have done, and continue to do, to make the environment a better place. I continue to be so proud of the work they do representing us and the communities they serve.

Our staff are vital in helping us make progress on our key targets.

In 2024-25:

- We carried out over 4,600 inspections of wastewater treatment sites, pumping stations and storm overflows, and we plan over 10,000 such inspections in 2025-26.
- We carried out over 4,000 farm inspections.
- We delivered our cumulative target of 113,272 properties better protected from flooding
- We found that 97% of environmental permits were compliant.

In 2024-25 I have continued a programme of engagement with our key partners and stakeholders, including those from across the water sector, agricultural groups, eNGOs, MPs, Metro Mayors, industry and infrastructure. Lots of these conversations have helped shape our new corporate strategy, which was published in July 2025.

As we look ahead through 2025-26 and beyond, the Environment Agency will continue to engage with government on the implementation of recommendations from the Corry review, Hancock review and the Independent Water Commission. We will seek to accelerate the government's Growth agenda.

We will continue to drive meaningful action through our new corporate strategy, EA2030, which sets out priorities to deliver healthier air, land and water, support nature's recovery, enable sustainable growth, and build national resilience to climate change.

All of these present us with opportunities to improve how we deliver our strategic aims and legal responsibilities.

I look forward to leading the Environment Agency through the year ahead.

Alan C Lovell

Alan Lovell, Chair

24 October 2025



Performance report

Chief Executive's Statement

I am pleased to present the Environment Agency's Annual Report and Accounts for the year 2024-25. This has been a year of strong, focused delivery as the Agency continued to improve its performance to become the confident, effective EA that the country needs.

This year we considerably strengthened our work on water pollution, exceeding our targets for inspections of both farms and water company assets, and building new teams and capabilities for this work. We are collaborating closely with the government on the Water (Special Measures) Act 2025 which will further strengthen our response in this area. We delivered 19,000 separate recommendations for environmental improvements to Ofwat for their December 2024 Price Review and secured significant uplifts, with progress on phosphorus pollution a notable highlight.

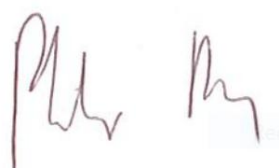
We were pleased to meet our targets for homes protected from flooding, following another demanding winter. Events over new year 2025 were particularly challenging, and I am proud of the way our teams responded. We are continuing to learn lessons and improve our forecasting and modelling for flood in our warming climate.

We have taken robust action on waste offending and non-compliance this year, exceeding our target to close illegal waste sites, working with partners on the closure of Walley's Quarry, and responding to a Ministerial Direction at Hoad's Wood.

Internally we have strengthened our capability to manage transformational change and mapped out the next steps for improving our IT and raising the use of artificial intelligence in our business. We delivered £35 million of efficiencies this year.

In July 2025, we published our corporate strategy, EA2030, for the years ahead, recommitting to our purpose and setting out how we want to be as a public service, partner organisation and employer. And, in the same month, the government announced that following the Independent Water Commission's review of the water sector it would consult on proposals later in 2025 for changes in water regulation.

We will work with the government to make any changes smoothly and effectively. We are proud of the capabilities we have built this year across our activities, including water regulation, which will stand the nation in good stead whatever the future brings.



Philip Duffy, Chief Executive and Accounting Officer
24 October 2025



About the Environment Agency

The Environment Agency is a regulator, operator, adviser, responder and research centre. It was established by the Environment Act 1995 to:

- Protect and enhance the environment as a whole
- Contribute towards sustainable development

The Environment Agency is a non-departmental public body (NDPB). NDPBs are public bodies that, although not part of government departments, perform duties on behalf of the sponsoring departments that finance and oversee their work. NDPBs operate independently from their sponsoring departments and are classified as 'arm's length' organisations.

The government provides most of the Environment Agency's funding, primarily for flood resilience, and approximately one quarter comes from other parties including charge payers. Annual expenditure for the financial year ended 31 March 2025 was £2.1 billion. The average number of full-time equivalent staff in 2024-25 was 13,331. For more information on our business model or organisational structure, please refer to the accountability report.

The Environment Agency's principal sponsoring department is the Department for Environment, Food and Rural Affairs (Defra), which oversees the environmental policy framework within which the Environment Agency operates in England. The Environment Agency also carries out work on behalf of other government departments, this includes our work on the UK Emissions Trading Scheme on behalf of the Department for Energy Security & Net Zero.

This annual report covers the final year of the Environment Agency's previous corporate strategy, EA2025. The sections below provide further details on our organisational performance against that strategy's goals as well as examples of the outcomes we have achieved.

In July 2025, we launched our new five-year strategy [EA2030: Change for a better environment](#). EA2030 builds upon EA2025 by setting three long-term goals for the country:

- healthy air, land and water supporting nature's recovery
- sustainable growth
- a nation resilient to climate change

EA2030 also describes how we will transform systems across four areas of focus: people, digital and technology, ways of working, and funding. This transformation will enable us to deliver our responsibilities more effectively and efficiently in the years to, and beyond, 2030.

In July 2025, the government announced it will create a new water regulator, merging the water-related functions of Ofwat, Drinking Water Inspectorate, the Environment Agency and Natural England. The government's proposals will be consulted on this autumn and will form the basis of a new Water Reform Bill. We will work with Defra to take this forward. Our approach will prioritise better protections for the environment and better outcomes for the economy.

The Government Strategic Framework and Defra's Outcome Delivery Plan

Our vision is set by EA2030, which builds on 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 - environment, net zero for natural resources sectors and flood risk management, resilience and climate adaptation. Our metrics that support the delivery of these outcomes are mapped into the Defra ODP. For more detail on the Defra Outcome Delivery Plan, please refer to the Defra group annual report and accounts.

Performance explained

This report summarises performance against the 2024-25 corporate scorecard (CSC), developed to track delivery against the EA2025 Action Plan for the financial year 1 April 2024 to 31 March 2025. The scorecard includes 20 measures assessed using a red, amber, green (RAG) system.

Overall performance summary

Of the 20 measures assessed:

- Green (on or above target): 12 measures
- Amber (slightly below target): 5 measures
- Red (below target): 3 measures

The 2024-25 corporate scorecard was refreshed to focus on the Environment Agency's key priorities. Nine measures remain unchanged from 2023-24, four have been improved, seven new ones have been added and two removed. The new measures focus on innovation in flood resilience, sewage treatment compliance, inspections of water companies and farms, carbon reduction, and efficiency savings. Revised ones improve how we assess incident response, air quality, permits, and illegal waste. Two measures were removed: financial budget management as this is covered by internal and external financial reporting, as well as watercourse enhancements, to instead focus on the Environment Agency's activities that make the biggest impact to the water environment.

2024-25 corporate scorecard

Success measure	Units	2024-25 Target	2024-25 Actual	2024-25 RAG rating	2023-24 Performance
Number of properties better protected from flooding (Unchanged)	Number of properties better protected	113,272	115,815	Green	Green
We maintain our flood and coastal risk management assets at or above the target condition (Unchanged)	% of high-risk assets at target condition	94.5%	92.8%	Red	Red
Innovation actions provided in flood and coastal resilience to adapt to a changing climate (New)	% of FCERM innovation actions on track or completed	80%	94%	Green	Not previously a CSC measure
Resilience in our capacity to respond to incidents (Revised)	Daily status reports for incident cells	Green	Amber	Amber	Measure was different last year
Reduction in priority air pollutants (Revised)	Tonnes (Sulphur oxides, SO _x ; nitrogen oxides, NO _x ; fine particulate matter, PM _{2.5} ; and non-methane volatile organic compounds, NMVOCs)	4 out of 4	4 out of 4	Green	Amber
Hectares of habitat created or restored creating net gain (Unchanged)	Hectares	1,250	730	Red	Green
Permit compliance (Revised)	% compliance of permitted sites	97%	97%	Green	Green
We reduce the number of serious environmental incidents from permitted sites and activities and sources we regulate directly (Unchanged)	Number of serious category 1 & 2 environmental incidents	150	164	Amber	Green
Sewage treatment works brought into compliance (New)	% compliance of water quality permitted sites	90%	83%	Amber	Not previously a CSC measure

Water company inspections (New)	Number completed	4,000	4,626	Green	Not previously a CSC measure
Local authority planning applications influenced (Unchanged)	% of local authority planning decisions	97%	97%	Green	Green
Percentage of development consent orders (DCOs) for nationally significant infrastructure projects (NSIPs) that we successfully influence (New)	% of DCOs that we successfully influence	97%	100%	Green	Not previously a CSC measure
Industry compliance reduces carbon emissions (New)	% of compliance returns received	80%	87%	Green	Not previously a CSC measure
Number of farm inspections (New)	Number completed	4,000	4,540	Green	Not previously a CSC measure
We stop illegal waste sites (Revised)	Number of high-risk illegal waste sites stopped	90	143	Green	Green
Net zero carbon by 2030 (Unchanged)	Tonnes of carbon	250,697	261,414	Amber	Green
Efficiency savings (New)	£m	£23.6m	£35.1m	Green	Not previously a CSC measure
We have a diverse workforce: The percentage of our staff who are from a Black, Asian and Minority Ethnic background (Unchanged)	% of staff	7.6%	6.5%	Red	Red
We have a diverse workforce: The percentage of senior staff (executive managers) who are female (Unchanged)	% of staff	50%	48%	Amber	Amber
Minimised time lost to work related injuries (Unchanged)	Lost time incident (LTI) frequency rate per 100,000 hrs worked	0.11	0.09	Green	Green

Performance highlights and challenges

The following sections highlight key achievements and challenges across our strategic priorities, as reflected in the corporate scorecard out-turn and categorised by EA2025 Goals.

Strategic goal 1: A nation resilient to climate change

Aim 1: By 2025 we will have created more climate resilient places and infrastructure, by ensuring the nation is prepared for flooding, coastal change and drought

Number of properties better protected from flooding (Green)

115,815 properties were better protected, exceeding the annual target of 113,272. This includes major schemes such as Pevensy Defences and Thames Delivery. A total of 27,543 properties were better protected in 2024-25. This represents 53% of the two-year target of 52,000, set by Defra Secretary of State covering years 2024-25 and 2025-26.

Percentage of flood assets at target condition (Red)

92.8% of high-risk flood assets were at the required condition, below the 94.5% target. Despite missing the target, this represented an underlying improvement in overall condition from the previous year where only 92.6% of assets were at required condition. An additional £36 million was repurposed for maintenance and repair in 2024-25, and £72 million has been allocated for 2025-26.

Aim 2: By 2025 we will be a stronger leader on climate adaptation and resilience, encouraging others to act now on the climate emergency

Innovation actions delivered in flood and coastal resilience (Green)

94% of programme actions were on track or completed, exceeding the 80% target. Two projects remain off-track but are being actively managed.

- Project Groundwater (Lincolnshire) has been marked as 'off track' due to a change in scope - specifically, the construction element can no longer be delivered within the project's timeframe.
- Tees Tidelands is also 'off track' because of ongoing uncertainty around a key part of the project.

These two projects are now back on track as of the beginning of 2025-26.

Aim 3: By 2025 we will be a recognised and trusted incident management organisation responding rapidly to environmental emergencies to protect people and the environment

Resilience in our capacity to respond to incidents (Amber)

84% of incident response cells were fully resilient, with 14% partially resilient and 2% not meeting standards. Challenges included staffing shortages and increased operational demand during peak periods.

Strategic goal 2: Healthy air, land and water

Aim 4: By 2025 our air will be cleaner and healthier

Reduction in priority air pollutants (Green)

All four priority pollutants (SO_x, NO_x, PM_{2.5}, NMVOCs) showed reductions compared to the previous year. This reflects the effectiveness of permit reviews and compliance efforts across regulated sectors.

Aim 5: By 2025 our rivers, lakes, groundwater and coasts will have better water quality and will be better places for people and wildlife

Aim 6: By 2025 our air, land and water is better protected and enhanced

Hectares of habitat created or restored (Red)

730 hectares of habitat were created or restored, falling short of the 1,250 hectare target.

Overall, 285 projects were delivered, contributing to biodiversity and climate resilience. Delivery was slowed to manage within budget constraints, and a lack of major schemes meant the target was not met. We issued new guidance to teams in February 2025 to improve reporting consistency. The measure will be redefined in 2025-26 to reflect EA's direct control.

Permit compliance (Green)

97% of permitted sites were compliant, meeting the target. Improvements in training, transparency, and digital systems supported this performance.

Reduce incidents from sites we regulate (Amber)

164 serious incidents were recorded, exceeding the ceiling of 150. Wet weather and increased inspections contributed to the higher numbers, particularly in the landfill and water sectors. Increased rainfall led to higher odour reports from landfill sites and incidents at sewage treatment works, impacting storm overflows and pumps.

Sewage treatment works brought into compliance (Amber)

83% of failing sites were brought back into compliance, below the 90% target. The remaining 18 sites require significant investment. Heightened scrutiny has revealed additional non-compliances, and revised measures in 2025-26 will expand regulatory powers, including Compliance Action Plans (CAPs).

Water company compliance inspections (Green)

4,626 inspections were completed, surpassing the target of 4,000. Strong performance was observed across all regions. The target will increase to 10,000 in 2025-26. Increased regulatory activity and staffing supported this outcome.

Strategic goal 3: Green growth and a sustainable future

Aim 7: 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

Local authority planning applications influenced (Green)

97% of planning decisions aligned with Environment Agency advice. Over 19,000 residential units were facilitated through resolved objections.

Influence on Nationally Significant Infrastructure Projects (Green)

100% of Development Consent Orders (DCOs) included all 35 requested environmental requirements. All 61 applications in 2024-25 were successfully influenced.

Industry compliance reduces carbon emissions (Green)

87% of compliance returns were received, exceeding the 80% target. Proactive outreach and digital systems supported this performance.

Number of farm inspections (Green)

4,540 inspections were completed, exceeding the target of 4,000. A total of 6,889 improvement actions were issued, with 827 enforcement responses.

Aim 8: By 2025 we will have cut waste crime and helped develop a circular economy

Number of high-risk illegal waste sites stopped (Green)

143 high-risk illegal waste sites were stopped, exceeding the target of 90. This supports national waste crime reduction strategies.

Aim 9: By 2025 we will be on track to deliver our sustainable business commitments, including to be net zero by 2030

Reduce our carbon emissions (Amber)

Emissions totalled 261,414 tonnes, exceeding the target of 250,697. While construction emissions were within budget, emissions from IT, travel, and indirect sources were over target. Emissions

were 4% above baseline, with construction activity remaining the largest contributor. Emissions decreased by 3% from the previous year but remain 5% above the 2019-20 baseline.

Efficiency savings (Green)

Over £35 million in savings were achieved, exceeding the £23.6 million target. Gains were realised through project delivery, resource optimisation, and transformation initiatives.

Enabling aims

We have a diverse workforce:

Percentage of staff from ethnic minority backgrounds (Red)

Representation was 6.5%, below the 7.6% target. This is an improvement on representation compared to the previous year (where representation was 6.1%).

Percentage of senior staff who are female (Amber)

Female representation at the executive level was 48%, just below the 50% target. This is the highest number of female Executive Managers to date.

Lost time incident frequency rate (Green)

The rate was 0.09 incidents per 100,000 hours, below the target of 0.11. A total of 22 incidents occurred in 2024-25, down from 25 the previous year.

Performance on better regulation

Latest Environment Agency Chief Regulator's report

The Environment Agency reports annually on the performance of those we regulate and our regulatory activities.

In March 2024, the Environment Agency appointed a new Chief Regulator. [The first Chief Regulator's Report](#) and evidence annex was published in January 2025 covering 2023-24. 2024-25 data will be available in the Chief Regulator's Report due to be published in the Autumn of 2025.

The report summarises the performance of those we regulate, focuses on our own performance as a regulator, and identifies the changes needed to help respond to a changing environment and to support government priorities. The evidence annex provides information about emissions from those we regulate; the number of serious pollution incidents and sectors responsible; compliance with environmental permits; and the enforcement action we take when a business or individual does not comply.

Risk management

In 2024-25, one risk was escalated to Defra's Executive Committee from the corporate risk register.

Risk	Description	Status
Major and successful cyber-attack	There is a risk that the EA suffers from major cyber security incidents due an increasing threat landscape.	This risk is being actively managed in partnership with our critical partners in Defra Corporate Services - Digital, Data, Technology and Security (DDTS). The threat landscape remains challenging due to geopolitics, with nation states and organised crime taking advantage and developing even more advanced ways to commit cyber-crime.

EDT continued to manage risks which have been identified.

Risk	Description	Status
Staff health, safety and wellbeing	There is a risk of not sufficiently managing the health, safety and wellbeing of Environment Agency colleagues.	Mitigation is progressing through the development and phased embedding of a structured safety management system aligned to external accredited standards, aiming to strengthen consistency, ownership, capability and assurance across all levels.
Strategically 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
Responding to high impact, low probability incidents.	The focus on flooding incidents could negatively impact our preparedness for environmental incidents, resulting in an ineffective response.	We have a programme of continuous improvement in place to incrementally reduce the likelihood of this risk materialising. This includes changes to how we triage environmental incidents and how we subsequently respond to them.
Water quality & 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 Cunliffe Review, which we have been actively involved in, has made recommendations that will likely transform the water sector regulatory system and reduce this risk further.

Two new risks were identified during 2024-25.

Risk	Description	Status
New Enterprise Resource Platform (ERP)	There is a risk to delivery of business outcomes due to the mandated implementation of a new ERP across several government departments.	We are working closely with Defra and government bodies and have identified the EA business critical requirements for the transition to mitigate risks on delivery. We are optimistic the new ERP should introduce an improved user experience, better ways of working and the chance to rationalise areas of our IT estate.
Regulatory reviews	There is a risk that legislation relating to regulation becomes more complex, putting conflicting legal pressures on the EA's regulatory role and statutory functions.	We will minimise adverse outcomes to the environment by actively engaging with each review sharing our data and experience on regulation, relationships with other regulators, and responsibilities to the public and environment.

Our Risk Management Framework covers both risks and issues. An issue is a risk that has already materialised and is impacting on our ability to deliver our objectives. There is one issue on the 2024-25 register, relating to the resilience of our incident management service. The volunteer model for incident roles could create insufficient numbers to respond to significant or concurrent incidents, but we do have a transformation programme in place to improve how we respond to incidents.

Five risks were de-escalated from the corporate risk register during 2024-25. These include Climate Adaptation (see TCFD section for how we manage these risks), increased scrutiny, achieving net zero, and transformation and regulatory challenges. All were deemed to be sufficiently well managed at a lower level within the organisation.

Fraud risk management

The Environment Agency is committed to protecting public resources and as such takes all allegations of fraud seriously. All employees must follow the code of conduct and all other relevant procedures and policies. All cases of suspected fraud, bribery and corruption are thoroughly investigated and dealt with appropriately.

In 2024-25, fraud and error of £1,490,723 was detected relating mainly to charge evasion and salary overpayments. Of this £685,000 has been recovered to date. (In 2023-24 £1,069,687 was detected and £86,950 was recovered.)

The increase in detected levels is a result of improved reporting rather than increase fraud and error activity.

In 2024-25, no fraud or error was reported in any grant schemes administered by the EA. We are conducting retrospective checking to identify any losses which were not previously detected or reported.

We are working with the Defra Grants Hub to improve reporting in this area and review fraud controls in our grant programmes.

We are continuing to refresh fraud risk assessments across the organisation, ensuring we are identifying and monitoring our fraud risks and ensuring that our mitigation actions are appropriate and proportionate.

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. During this year we have worked to improve compliance with the Government Counter Fraud Standard by issuing a new Counter Fraud Strategy and Fraud Response Plan.

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.

All employees must follow the code of conduct and all other relevant procedures and policies. All cases of suspected fraud, bribery and corruption are thoroughly investigated and dealt with appropriately.

Sustainability in the Environment Agency

eMission is the Environment Agency's sustainability plan. It describes how we deliver the goals set out within our corporate strategy EA2030 in the most sustainable way possible. It covers how we deliver our responsibilities as a regulator, responder, operator, advisor and research centre.

eMission shares our core sustainability commitments in the following areas:

- Supporting nature recovery by halting biodiversity loss and helping nature to recover
- Tackling climate change and being resilient to a changing climate.
- Delivering social value and protecting those who work for and with us.
- Transitioning to a circular economy by reducing consumption, regenerating resources and keeping them in use, while minimising waste and pollution.

Delivering against our ambitious eMission plan will also deliver against the Greening Government Commitments. Our performance against GGC is wrapped up into Defra Group's overall performance. This will be published later this year.

Reducing our emissions to mitigate climate change

Since 2019, we have had an organisational commitment to stop contributing to climate change through our own operational emissions. We have a near term target to cut emissions across our direct, indirect and supply chain emissions (Scopes 1,2 and 3) by 45% by 2030 and by 90% by

2045 to 2050. We use a baseline set in 2019 which is an average of the previous 10 years which allows us to screen out the fluctuations we see due to changes in weather related emissions as a result of our need to pump water for flood risk or drought management purposes. We felt this approach was the most fair and transparent as it ensures we do not unfairly benefit from a high emission baseline in a year of flooding or are penalised by have a particularly low emission baseline facilitated by a warm winter for instance. At the end of this year our total emissions were 261,414 tonnes which is 5% higher than the baseline year. This profile is as we anticipated as our capital programme delivery has ramped up. We know we will need to bend the emissions curve down significantly in the coming years to hit our 2030 mid-term target of a 45% reduction from the baseline.

The sustainability data of this report shows our Scope 1,2 and 3 emissions. This year we are able to report our Scope 1 and 2 emissions as we always have, as well as all of our Scope 3 emissions to give a total picture. In previous years we have reported just the Scope 3 emissions associated with Business Travel. This revised approach allows us to provide maximum transparency of the totality of our emissions and also allows us to harmonise our annual report and accounts figures with those reported in the public domain on our corporate scorecard.

Addressing emissions across all three scopes means we are looking at emissions not only from the energy we use and the fuel we burn but also the indirect emissions associated with the goods and services we buy and our supply chain.

For us the biggest element of our emissions is from the construction of flood schemes. This year we have focused in hard on gathering the intelligence we need from our supply chain to help us target our reductions. We have made supplying us with data a requirement of performance. Over and above that we have continued to embrace and standardise new methods and technology. For example, we have made low carbon concrete a minimum requirement, where it meets our specification.

We are trialling new innovations such as:

- Eco sheet piles made from 100% recycled steel and produced using renewable energy.
- Using hydrogen fuel cells instead of diesel generators at three of our projects.

We have reduced our direct operational emissions by more than a third since 2019 by:

- Transitioning our fleet to electric. 72% of the lease fleet is now electric and 19% of the commercial fleet is electric. Our target is to achieve 100% by end of 2027 for our cars and vans.

The highlights above are part of a comprehensive roadmap for how we will deliver net zero. This roadmap is reviewed on an annual basis as technology, and our business evolve.

A key roadmap commitment over the last few years, has been to successfully educate our people in carbon literacy. We were the first government organisation to become a gold accredited, carbon literate organisation. Over 7,700 members of Environment Agency staff have 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.

Adapting to climate change

As well as taking action to mitigate the effects of climate change, we know we will have to prepare to adapt our operations to climate change. As part of that:

Our estate

A key area for us to put climate change adaptation into practise is across our estate. This year we conducted vulnerability and impact assessments for all our buildings. Each building has been given a RAG status according to its climate vulnerability and impacts for multiple climate hazards. We will use this to influence strategic investment and workplace planning decisions. This is enabling us

to understand what our future property strategy needs to account for - where we may need to be located and what adaptation measures we need to put in place to be resilient to a changed climate.

Supporting nature recovery

Our people are our greatest asset in supporting nature recovery as part of operating a sustainable business. In recognition of this, in October 2024 we launched Nature Literacy™ learning for all staff, establishing for the first time a common grounding in the state of nature in England and the Environment Agency's role in halting biodiversity loss and helping nature recover. Accredited and endorsed by professional institutes IEMA and CIEEM, the learning forms part of our contribution to complying with the Biodiversity Duty.

Through 2025-26 we will be rolling out this training to our supply chain.

Work also began on measuring the Environment Agency's nature and biodiversity footprint for the first time and will continue throughout 2025-26. As with our carbon footprint, this evidence base on the embedded and net impacts of our organisation will provide us with a new tool to focus and optimise our work. Our aim is to be able to use the footprint to set evidence-based targets and drive sustainable behaviours throughout our own operations and those of our supply chain. The nature and biodiversity footprint will also form the foundations of our future ability to make disclosures aligned to Taskforce for Nature-related Financial Disclosures (TNFD) recommendations, enhancing the Environment Agency's capacity to manage strategically important nature-related risks and opportunities.

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 benefits for people.

The Environment Agency is fortunate to have a large stock of natural capital assets across our estate which comprises approximately 17,000 hectares including 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 our 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 £17.9 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 7,875 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.

Tackling modern slavery

Tackling modern slavery is a key priority for us. We continue to draw value from our partnership with Slave Free Alliance (SFA), a social enterprise owned by the global anti-slavery charity Hope for Justice. The independent gap analysis they carried out in March 2024 is helping us to understand where our biggest risks are and has shaped our 3-year action plan. We are working as part of a wider forum to share learning and more efficiently tackle issues that are better addressed at a Defra group scale. We are also working with our supply chain and commercial colleagues to improve how we manage modern slavery risks at the procurement stage.

Transitioning to a circular economy

As part of our ambition to move towards a circular economy and design waste and pollution out of our operations, we have completed 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 have focused on specific products we want to find alternatives to or significantly reduce the consumption of. We are going to focus on our environmental monitoring area as data tells us this is an area where we consume a lot of single use items.

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. We have also worked closely with a university to carry out research across our capital work on how net zero can support the transition to circular approaches.

The Environment Agency is developing its capacity to re-use resources. At least six of the fourteen Environment Agency Areas have informal schemes for the re-use of personal protective equipment. There is also an informal 'construction swap shop' to enable the reuse of construction materials and equipment.

A perceived constraint to expanding the re-use of materials is the risk of breaching waste regulations. Legal clearance was recently received to donate unused wellington boots to community payback teams working on our behalf to improve the environment.

Over the next year we will be working with our regulatory teams to explore routes for overcoming any legal constraints to the re-use of materials. In addition, we will work to place the informal schemes on a more formal footing to achieve wider participation.

Sustainable procurement

The Environment Agency's sustainability plan eMission 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 / high-opportunity and high value procurements and sustainability specialists will be assigned to these contracts. This year we have worked across several major contracts to ensure that not only were the supplier selection criteria partly based on sustainability performance but that elements of the contract had sustainability delivery requirements built into them. Supplier performance against Social Value KPIs is reported for contracts over £5 million total value.

Rural proofing

The agriculture sector is facing unique challenges: adapting to the effects of a changing climate; efficient food production for food security that turns a profit; reducing its impact on water quality

and quantity and enhancing the environment. We are working with the sector to deliver sustained development and growth whilst protecting and enhancing the environment. Work on improved slurry storage helps build climate and economic resilience in the sector, our work on permitted farms is driven by efficiency gains through new techniques and technologies and our work through the Environmental Land Management Scheme has delivered funding to 37,000 farms, all working towards environmental targets. We will continue to focus on opportunities that deliver both environmental opportunities and sustainable development.

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. As part of this 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 where we work with farms, who may not have been visited by the Environment Agency before, who are often keen to achieve compliance through collaboration. We also use our enforcement powers when it becomes necessary.

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. As a sector, compliance levels with environmental permits are typically very high. During 2024, 98% of permitted sites fell within the highest two levels of compliance (band A and B sites) indicating a low level of risk to the environment. Sites are inspected once in every three years by the Environment Agency and annually in intervening years by the Pig and Poultry Assurance Scheme. The assurance scheme gathers 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 and deliver the schemes, based on feedback from the sector, to ensure they are attractive to farmers, comply with regulations, and 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.

The Environment Agency's 'National assessment of flood and coastal erosion risk in England 2024' report highlights that climate change could increase the percentage of agricultural land at risk of flooding. The report shows that currently around 13% of all agricultural land and about 59% of grade 1 agricultural land is at risk of flooding from rivers and the sea. If we apply climate change projections, this rises by nearly 5% by mid-century, which translates to around 13.8% of all agricultural land at risk of flooding.

Through our FCERM Strategy Roadmap, we work 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 spray irrigation restrictions on water abstraction during drought conditions. Farmers can voluntarily reduce their consumption, reducing the need for, at least delaying the time before, the implementation of partial restrictions or total bans. We recognise the impact this can have on crop production and agriculture. Government funding of agriculture water resources planning is helping to better quantify and integrate the needs of agriculture including in Regional Water Resources Plans. We are strengthening local water resources planning by supporting farmers to establish Water Abstractor Groups (WAGs) and to identify, screen and prioritise collaborative "Local Resource Option" solutions such as reservoirs and water rights sharing to improve water supply resilience.

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.

Taskforce on Climate-related Financial Disclosures (TCFD)

TCFD introduction

Our staff play a pivotal role in preparing communities and the environment for a changing climate. The risk 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.

TCFD compliance statement

The Environment Agency has analysed its internal processes and procedures and has reported on climate-related financial disclosures consistent with HM Treasury's TCFD-aligned disclosure application guidance, which interprets and adapts the framework for the UK Public Sector. The Environment Agency has not deemed climate change a principal risk but has instead embedded climate risk into other risks.

Compliance Summary

We are compliant against the 8 disclosures of TCFD required this year. A summary of our compliance assessment is set out below against the Governance, Risk Management and Metrics and Targets pillars of TCFD. These sections also provide more detail on our disclosures and progress across all four pillars.

Strategy

Our corporate strategy, EA2030, which was launched July 2025 sets “a nation resilient to climate change” as one of its three long term goals.

Our strategy disclosure requirements on physical risks are fulfilled through our ministerial adaptation reports under paragraph 62 of the Climate Change Act.

These will form the basis of our future disclosures on strategy in line with requirements.

Governance Recommended Disclosures:

a) The Board’s oversight of climate-related risks and opportunities - Compliant

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 the Executive Director Team (EDT) must include a section on climate and nature resilience, which includes details how the recommendations outlined in the paper will help manage or improve climate and nature resilience.

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 measures 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.

b) Management’s role in assessing and managing climate-related issues - Compliant

The Environment Agency incorporates climate risk management into its governance arrangements, so that individual directors are accountable for managing their own climate risks in accordance with the Environment Agency’s financial and non-financial Schemes of Delegation and statutory duties.

The Executive Director for Strategy Transformation and Assurance (STA) is accountable for overseeing climate mitigation and adaptation plans within our own estate and operations.

Risk Management Recommended Disclosures:

Climate as a significant component of other principal risks

In October 2024, we reviewed a materiality assessment with ARAC. The assessment considered external material issues that may have the potential to impact the work of the Environment Agency in 10 years’ time.

The Environment Agency and Defra are currently tackling issues posed by four of the top 10 global risks that were identified by World Economic Forum in 2014 - extreme weather events, climate action failure, biodiversity loss and ecosystem collapse, and water crisis.

In addition to this, there are four areas that are ‘persistent concerns’ - these are risks that have repeatedly shown up in the top 10 global risks since 2014. It is proposed that material issues are reviewed every 2 years by ARAC and deep dives are carried out into areas of focus annually.

See information about the Environment Agency’s Risk Management Framework (RMF) under the Governance statement section.

To note, under the ‘Effectiveness of risk management section’, the summary reflects the RMF continuous improvement. The changes proposed will help us to identify, assess and manage Climate Change related risks. Introducing an environment impact category, supported by other tailored impact categories, will enable us to assess and manage climate-related risks.

External Risk Management Frameworks

The National Security Risk Assessments (NSRA), consider the environmental impact and scale of response required from us as a Category 1 Responder, as well as how they affect us as an organisation in terms of potential business and reputational impacts.

The EA has embedded the ISO14090 standard for climate change adaptation into its e-Mission sustainability strategy for all the EA's business including its supply chain. The EA entire management systems and e-Mission delivery are audited to ISO14001 for independent assurance that the strategic objectives and CCA standards are delivered.

Many of the Environment Agency's physical climate risks are related to risks in the National Adaptation Programme and Climate Change Risk Assessment, for example concerning flood risk, drought management, and risks to ecosystems. We use the Committee on Climate Change's (CCC) analyses as an evidence base to inform our risk assessments, whilst reframing risks to reflect our statutory duties.

a) Process for identifying climate-related risks – compliant

We have undertaken a risk management exercise to identify climate-related risks for the Environment Agency, through the work on our Fourth Adaption Report under the Climate Change Act. Having done this initial assessment we will build on it across 2025-26 to ensure it is integrated into our risk management practice for delivery of our business outcomes. Climate Change Risk is integrated into our Principal risks within the Environment Agency, rather than being stand-alone, demonstrating climate change risks are considered across our delivery

b) Process for managing climate-related risks – disclosure compliant: risk management processes under improvement to fully manage and integrate climate-related risks.

We are compliant here in as far as we have made a disclosure. However, the drive of this disclosure is to ensure that we systematically manage climate risk. We have ongoing work to change the way we manage risk, which will include climate risk. Actions we will take in 2025-26 are; introducing a specific climate change impact risk category, embed physical risks identified in the adaptation report into risk registers in accordance with EA's Non-Financial Scheme of Delegation, on an annual basis review opportunities to mitigate climate risks through our net zero roadmap to reduce our operational emissions, and annual updates to our net zero plan (supporting UK climate transition).

c) Integrating climate-related risks into overall risk management – disclosure compliant: risk management process under improvement to fully integrate climate-related risks.

We are compliant here in that we have made a disclosure. However, this section requires us to "Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management". Our new risk management framework and approach to integrate climate change risk into our other principal risks is still embedding. We have not yet fully completed the integration of climate risks into risk registers. However, we intend to fully embed climate related risks and improve our risk management framework in 2025-26 to enhance the identification and impact of climate change risks. When this is complete, we will not only be disclosure compliant but also compliant with the thrust of this disclosure.

Metrics and Targets

a) Recommended disclosure: Metrics used by the organisation to assess climate-related risks and opportunities - compliant

The key metrics we use to measure climate related risks and opportunities are described below and relate to the condition of our assets to deal with climate-related risks, our ability to respond to extreme weather events and our overall net zero target.

This year we have made a huge step in our understanding in incorporating the UK Climate Projections into our assessment of future flood and erosion risk. We have built a new National Flood Risk Assessment (NaFRA). It provides a single picture of current and future flood risk from rivers, the sea and surface water for England. It accounts for the latest UK climate projections

(UKCP18) and the potential impact of climate change on flood and coastal erosion risk. Under future warming scenarios, the projection of properties in areas at flood risk and coastal erosion are likely to increase. This climate risk is measured through our following metrics;

- F04 – Percentage of flood & coastal risk management assets at target condition. This assesses the condition of our assets in high consequence flood systems. We monitor the condition of our assets to ensure that they meet their required target condition. Where they fail to meet their target condition, we initiate further actions to inspect and repair the asset or other mitigations. With a changing climate and more frequent flooding our assets are being tested more regularly, and it is therefore important that we maintain them at required condition.
- F101 – Incident Resilience. This measures how resilient our incident response rosters and incident response structures are during incidents. Resilience is determined by regular reporting from areas and national on whether the parts of the incident response structure that are scaled up have sufficient numbers of incident roles to function effectively, and that there are no current health, safety, and wellbeing concerns. We know that the changing climate will mean an increasing number of incidents for us to deal with, so we track how well prepared we are to respond to those.
- X02 – We reduce our carbon emissions. This covers emissions from Environment Agency operations and our supply chain (Scopes 1, 2 and 3). Our targets are aligned to the Science Based Targets Initiative and we aim to reduce our Scope 1,2 and 3 emissions by 90% by 2045-50. We have a nearer term target of a 45% reduction by 2030. Our scope 3 emissions are heavily dominated by construction activity (for flood risk management primarily) delivered through our supply chain partners.

We also measure and report on our waste, water, and energy use aligned to the Government Greening Commitments. These measures, including further detailed breakdown, are included in the sustainability data appendix at the end of this report. This also shows the multi-year trends for these metrics.

We are developing further metrics for reporting in future years around the physical climate-related risks we are exposed to such as the number of our buildings with detailed vulnerability assessments.

We are also looking at wider climate risks and have identified 72 climate-related risks. We plan to have a metric that tracks how many of these have been embedded into other risk registers as described by the risk management process above.

Our work into next year will collate all our metrics into one holistic system to give a complete picture of how successfully we are managing climate risk.

b) Recommended disclosure: Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks - compliant

The Appendix of this annual report details emissions totals within each scope category in line with the GHG Protocol to calculate our emissions. Our net zero targets are in alignment with the Science Based Targets Initiative.

Our baseline year for emission is 2019-20. We have been tracking our carbon emissions since 2006-07. We used the proceeding 10 years to 2019-20 to calculate an average baseline. Our emissions are significantly affected by weather events, where we pump water for floods or for drought, and so by taking a long-term view we have avoided having a fortuitous or unfair snapshot baseline year. We have an annual process to review our baseline in line with the latest science and intelligence as better data becomes available. For this reporting year 2024-25 we have made no change to our baseline

Our net zero emissions performance is reported on quarterly to our Executive via our corporate scorecard. Progress is reported to the Board on an annual basis. The report includes management actions to address performance issues.

c) Recommended disclosure: Targets – compliant

Our performance against the metrics detailed above is as follows:

- a) F04 – 92.8% of our assets in high consequence flood systems were at target condition. Our target was 94.5%
- b) F101 – 84% of the roles required are filled. Our target was to have 90%
- c) X02 Reduce our carbon emissions – 104% of targeted emissions. Our emissions target was 250,697 tonnes, our performance at year end was 261,414 tonnes. This is an absolute reduction target as part of our net zero glidepath. Public declaration of this can be viewed [here](#). We have a programme in place to continue to bring our emissions down, particularly around our construction activity. Within flood and coastal risk management, we are delivering this through the Net Zero Carbon for Infrastructure (NZC4I) programme, which is embedding whole-life carbon assessment, improving carbon management systems, and mandating low-carbon materials such as cement-free concrete across all new construction projects, in line with the approach set out in the 2024–25 FCERM national report ([section 4.1.1, Mitigation](#)). In parallel, our Decarbonisation Technology Accelerator ([DTA](#)) is fast-tracking the adoption of innovative low-carbon solutions, including modern methods of construction, optimised earthworks, and lower-carbon steel and concrete alternatives, with early pilots already demonstrating multi-thousand tonne CO₂e savings. Together, these programmes are reducing embedded and operational carbon in our capital programme, supporting a credible trajectory to meet our interim 2030 target and long-term net zero goal.

In addition to this comprehensive programme across our construction activity we have an organisation-wide net zero roadmap that has actions covering every part of our organisation from HR to fleet, to property. Those actions are tracked as referenced in b) above where we saw 90% on track this year. We have begun a process of refreshing that roadmap as the business has evolved and technology has changed.

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. We recognise that we have an opportunity to further develop our approach and make it more holistic so that climate change is part of how we make decisions and not just an additional task we have to do. We believe taking this approach will make us more resilient, efficient and effective as an organisation.

Review of financial performance and funding

Our audited financial statements show total gross expenditure for the year ended 31 March 2025 was £2,121.8 million compared to £2,202.2 million in the previous year (restated).

Of our total funding, 75% (2023-24 - 76% restated) came in the form of funding from Defra. The other 25% (2023-24 - 24% restated) largely came from fees and charges.

Net expenditure for the year after deducting income was £1,534.7 million (2023-24 - £1,703.0 million restated).

Income

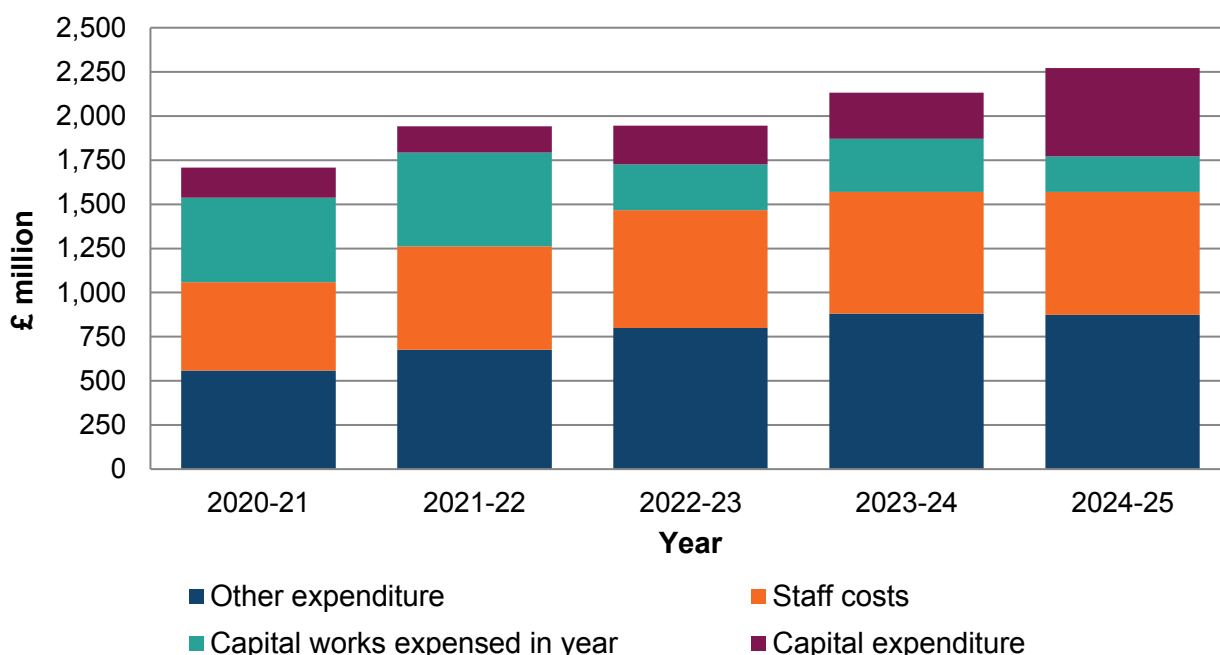
As detailed in note 6 of the financial statements, our overall level of income increased by 17.5%. this was mainly due to increases in the charge rates for the main EPR schemes and water abstraction charges.

In 2024-25, we continued our good income collection performance with 98.2% of billed income (invoices due less insolvencies) collected within the financial year and 94.6% of all billed income collected. 99.1% of all income billed during the prior year has now been collected.

Expenditure

The expenditure shown below is gross expenditure excluding depreciation and amortisation, plus expenditure capitalised on the statement of financial position. Our expenditure has increased compared to the prior year by £139.6m (6.6%) and is presented below showing the changes to the makeup of the key elements.

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 decreased this year to £202.5 million, from £302.3 million in 2023-24. This relates to work where the activity undertaken by the Environment Agency is capital in nature but is in relation to assets where the intention is to pass control to a third party, such as a local authority or private individual, once construction is complete.

The decrease of £99.8 million in CWEIY has been more than offset by an increase of £239.3 million in capital (AUC) expenditure, representing an overall increase in the capital investment programme of £139.5 million as it comes closer to the end of the 5-year cycle.

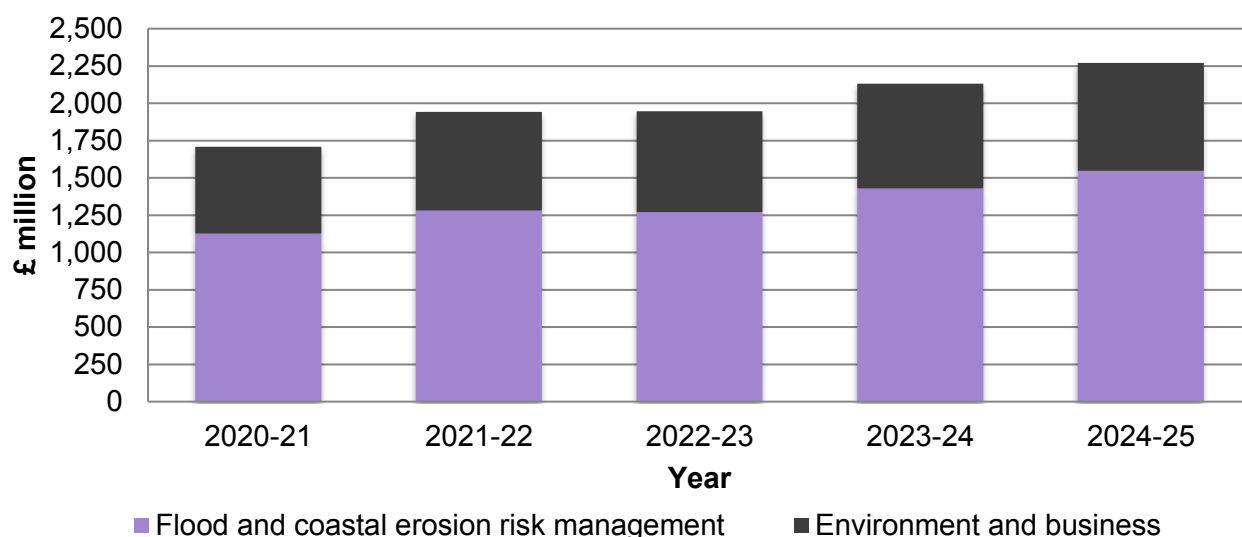
We spent £499.5 million on capital expenditure for asset purchases and additions to assets under construction in 2024-25 - £451.4 million on tangible and £48.1 million on intangible. The breakdown can be seen in notes 7 and 9 of the accounts. Assets under construction is where we hold construction costs of assets which take longer than one year to construct and so will include major flood alleviation schemes and other specialist asset complexes.

Other expenditure - which includes grant expenditure, hired and contracted services, and the Defra group Corporate Services charge - has decreased slightly from £880.5 million to £873.7 million.

Our expenditure by operating segment is shown below.

Five-year summary of our expenditure by operating segment

The graph included below shows expenditure by operating segment over the past five years on staff costs, CWEIY, other expenditure and capital expenditure. It does not include depreciation and amortisation costs.



Alongside the increases in environment and business income due to increases in charge rates, grant-in-aid has increased for environment and business and flood and coastal erosion risk management over the past five years.

The parliamentary accountability and audit report details the activities funded by fees and charges and grant-in-aid (see page 61).

Statement of financial position overview

The net asset position has decreased compared to the prior year, with the value of all assets less liabilities falling by £122.6 million to £9,531.4 million (2023-24 - £9,654.0 million restated). This is the movement on the restated net asset position, as described in the prior period adjustment disclosure (note 1.8).

In terms of the most significant changes compared to the prior year, the valuation of non-current assets increased by £634.5 million (excluding pension assets). This was due to additions to assets under construction and also to the indexation applied to the asset base.

On the other hand, the surplus position in the Environment Agency's active pension fund has been capped to zero in 2024-25 (in line with IFRIC 14), whereas an asset of £797.1 million was recognised in 2023-24. As explained in note 17.6 to the financial statements this is due to an asset ceiling being applied to the underlying £1,361.0 million surplus held by the scheme (2023-24 - £797.1 million surplus fully recognised as an asset).

The underlying surplus is reflective of the continued strong performance of the pension fund, 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 other organisations.

The determination of the asset ceiling involves significant estimation uncertainty, particularly concerning the assumptions used to project future service contributions and the potential for there to be reductions in these contributions. We note the potential for the results of the triennial actuarial valuation as at 31 March 2025, which will be included in the 2025-26 financial statements, to lead to a change in discount rate and service contributions which may mean in the future an asset ceiling would not cap the surplus.

Going concern

The Environment Agency is a going concern under the continued provision of service basis from the government's Financial Reporting Manual.

The statement of financial position as at 31 March 2025 shows taxpayers' equity of £9,531.4 million (31 March 2024 - £9,654.0 million restated).

The future funding for our liabilities will be primarily grant-in-aid from Defra, with other income predominantly 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 2025-26. Our grant-in-aid funding for 2026-27 and beyond will be agreed later in 2025.

We expect billed income collection to remain strong and, 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 2025-26 based on our income collection and bad debt experience.

In July 2025, the Independent Water Commission, led by Sir Jon Cunliffe, published its final report, following a review on the water sector and how it is regulated. The headline recommendation is for the creation of a new water regulator, merging the water-related functions of the Environment Agency, alongside Ofwat, the Drinking Water Inspectorate, and Natural England.

The Secretary of State for Environment, Food and Rural Affairs has accepted the principle of this recommendation.

Our expectation is that the government will publish a full response to the Commission's final report along with a transition plan, and white paper in autumn 2025. We await the white paper to understand the impact on the Environment Agency as an organisation.

Based on all these considerations, we have prepared the financial statements on a going concern basis.



Philip Duffy, Chief Executive and Accounting Officer

24 October 2025

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 2025, 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 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.

During 2024-25, the Board consisted of 11 independent non-executive members (including the Chair). It is responsible for setting the organisation's strategic direction and approving the mechanisms for its delivery. The Board is responsible for ensuring a system of risk management and adequate internal management and financial controls are maintained. Operational leadership and day-to-day responsibility for governance and risk management are delegated to the executive team, led by the Chief Executive and Executive Directors. The Chief Executive also serves as the Accounting Officer and is accountable to Parliament through Defra's Principal Accounting Officer, the Permanent Secretary, for the stewardship of public resources.

Performance across all areas of activity is regularly reviewed by the Board, the Executive Director Team, and senior managers, and is discussed with Defra as part of ongoing oversight and assurance. The Board and the Executive Director Team have the authority and responsibility for directing and controlling the major activities of the Environment Agency.

The Chair and Chief Executive regularly meet the Secretary of State and Responsible Minister for the Environment Agency for performance meetings. They meet other Defra ministers regularly to discuss various subjects. In 2025-26, topics discussed during ministerial meetings included:

- Water management, including the Water (Special Measures) Act 2025, and its implementation.
- Flood risk management, including asset maintenance, the flood investment programme, the frequently flooded allowance, and response and recovery from recent storms.
- Regulating industry and for the circular economy, including waste crime and Control of Major Accident Hazards (COMAH).
- Planning and sustainable growth, including supporting major developments.
- Land management and agriculture, including the Environment Agency's farm inspections.
- Environment Agency's corporate strategy, performance, targets, and funding, including charging schemes.
- Industrial action, pay, staffing levels, and inclusion.

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 Flood and Coastal Committees (RFCCs) 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 below. 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)

EDT is comprised of Executive Directors and other Executives and staff as invited by the Accounting Officer. The current membership is as follows:

- Chief Executive (Accounting Officer)
- Executive Director of Local Operations
- Executive Director of Strategy, Transformation and Assurance
- Executive Director of Environment and Business
- Executive Director of Flood and Coastal Risk Management
- Director of Finance
- Director of Legal and Audit Services
- Director of Strategy
- Director of Operations
- Deputy Director of Communications
- Deputy Director Human Resources

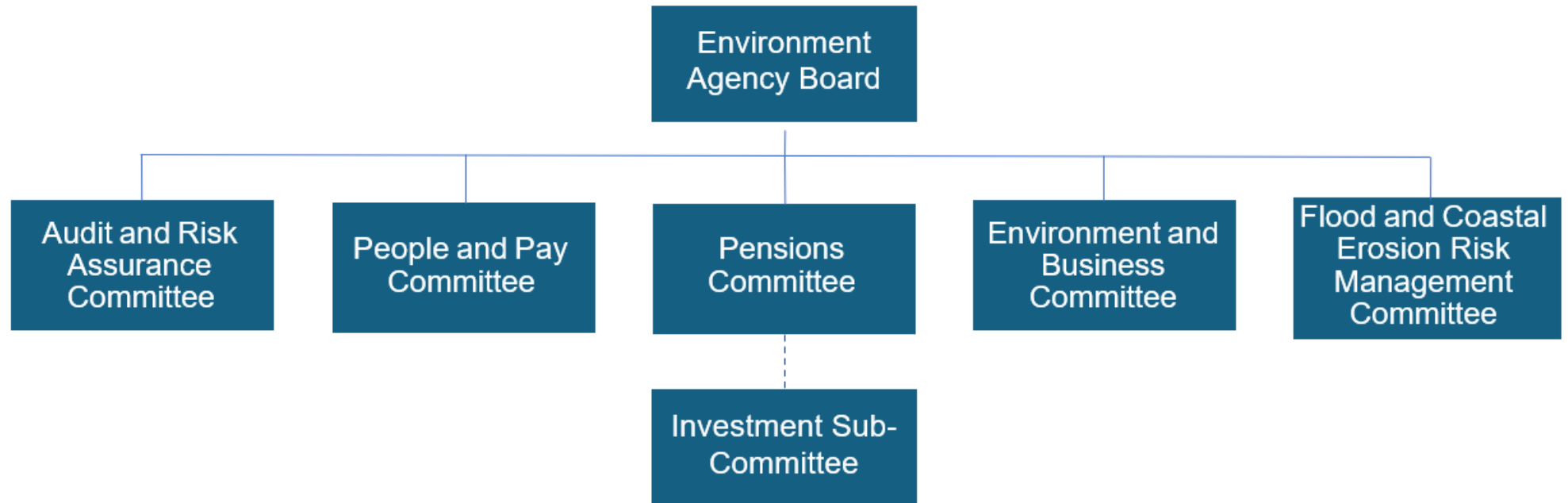
- Deputy Director of Governance and Engagement
- EDI representative

The purpose of the EDT is to manage the day-to-day operations of the Environment Agency. 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. In fulfilling its purpose, the EDT gives due consideration to:

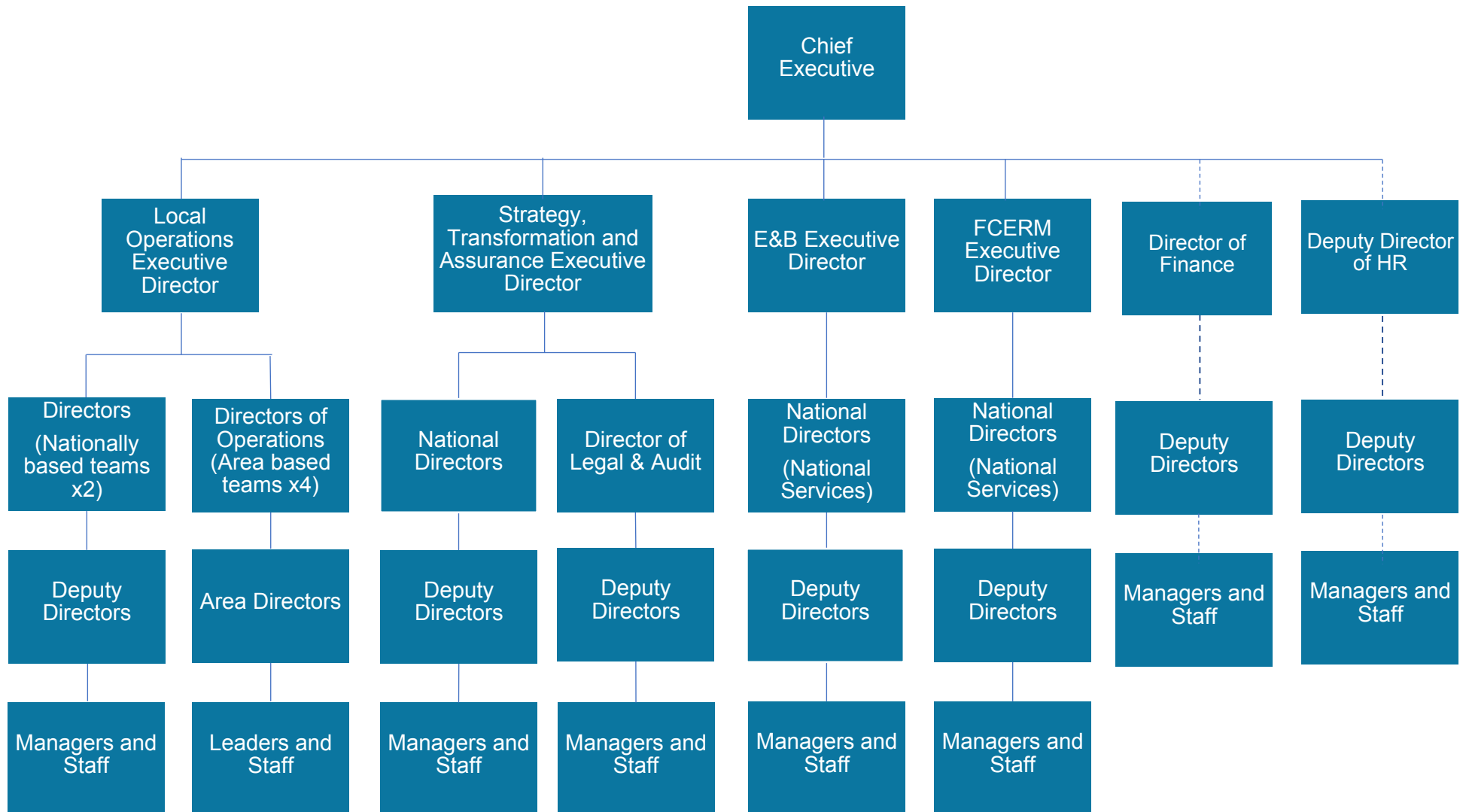
- The role of the Environment Agency as set out in the Environment Act and other legislation.
- The Nolan principles of public life: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.
- Leading the organisation to deliver for the public, its customers and other stakeholders whilst planning the organisation's future development.
- Leading in the wider landscape of government, Defra and other stakeholders.
- Working together and effectively as a leadership team, inspiring, motivating and constructively challenging each other and others to deliver.

The EDT 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. The team can be seen in the figure below.

Environment Agency committee board structure



Environment Agency organisational reporting lines



Structures and governance

The Environment Agency's corporate governance framework provides the Executive Directors' team with strategic oversight and assurance of its key priorities. Central to this is five Executive Director-led EDT sub-groups:

- People and Inclusion
- Transformation
- Capital Programme and Maintenance
- Environment and Regulation
- Operations Delivery

These groups bring 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. Our governance model adheres to relevant standards and fully enables effective assurance and decision making, but is also one that is efficient, agile, and inclusive.

Defra group Corporate Services

EA financial, HR and operational IT processes and controls are designed and operated by Defra group on our behalf, in close collaboration. Accountability for the overall partnership with Defra group Corporate Services in the Environment Agency sits with the Executive Director of Strategy Transformation and Assurance.

Shared Services

In 2024-25 the Cabinet Office managed the finance, commercial and HR shared services contract with Shared Services Connected Ltd (SSCL) on behalf of the Environment Agency. Assurance came from the Government People Group's Framework Authority Audit Plan, PricewaterhouseCoopers (PwC) internal audits, and audits by the Government Internal Audit Agency (GIAA).

PwC issued a "Reasonable Assurance" opinion on SSCL's system of internal control. GIAA issued a "Moderate" rating. This reflects a reduction in the risk level compared to the previous year.

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

The EDT will hold its annual review in October 2025. In March 2025, the Environment Agency commissioned an externally facilitated review of Board effectiveness. The review covered the period from January 2024 to May 2025 and offered an independent assessment of the Board's performance, focusing on its overall structure, committee composition, Terms of Reference, processes, behaviours, and culture. It involved a review of key documents, interviews with Board members and the Executive Leadership Team, observation of the Board meeting held on 17 March 2025, and benchmarking against governance best practices.

The review presented a highly positive assessment of the Board, highlighting its progressive leadership, strong governance, strategic oversight, and collaborative culture. In these areas, the Board compares favourably with those of other Arm's Length Bodies and Public Sector Organisations of similar size and budget.

While the findings were overwhelmingly commendatory, a small number of recommendations were made to further strengthen effectiveness. These included enhanced Board training, expanding the scope of annual committee evaluations, prioritising public sector leadership experience in future appointments, and formalising stakeholder engagement to support the delivery of EA2030.

In response to these recommendations, an action plan has been developed that includes updated training provisions, revisions to the Terms of Reference for Board sub-committees, and new mechanisms to strengthen and capture stakeholder engagement activity.

Effectiveness of risk management

We are strengthening our approach to risk management across the Environment Agency. Following the approval of our Corporate Risk Management Framework (RMF) in 2023-24, we are embedding its principles into strategy, planning, governance, and decision-making.

Aligned with the Defra Group Risk Strategy and informed by HM Treasury's Orange Book, the RMF supports consistent risk management across our workforce - including staff, contractors, and volunteers by setting out expectations, processes, and responsibilities.

We are building capability through training, guidance, and a growing network of risk champions and practitioners who help embed risk thinking into operational delivery.

Core structures are in place, including Corporate and Strategic Risk Registers and regular reporting to the Executive Directors Team (EDT) and Audit and Risk Assurance Committee (ARAC). We are refining impact categories and thresholds and plan to introduce category-level risk appetite settings to improve alignment with EA2030.

Ongoing engagement with the Defra Risk Group and the Government Risk Profession informs our development. We are learning from stakeholders to better understand risk interdependencies and integrate enterprise-wide and specialist approaches.

An Operational Instruction sets out a clear process to identify, describe, assess, respond, and monitor risks. We also advocate the use of a Political, Economic, Sociological, Technological, Legal and Environmental (PESTLE) analysis in an annual review of risks. Climate-related risks are scored using a standard likelihood and impact matrix. Our approved RMF aligns to basic risk management practice, with risks being managed by either Treat, Tolerate, Transfer, Take Opportunity or Terminate, aligned to ISO31000.

In most cases, if a risk is outside appetite, then it will be treated with mitigations appropriate to the level of the risk. Our risk appetite is set to 'cautious'. Corporate and Strategic Risk Registers have been established and continue to be owned and managed by Executive Directors with quarterly reports presented to EDT and the Board's Audit and Risk and Assurance Committee (ARAC).

We remain committed to continuous improvement and fostering a positive, informed risk culture that supports effective decisions and long-term resilience.

External Risk Management Frameworks

In addition to internal frameworks, we use the Incident Management Hazard Assessment & Reporting Tool (IM HART). This strategic tool stores and visualises hazard assessments from the National Security Risk Assessment (NSRA) at national and area levels.

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, EDT and ARAC are advised on internal control matters through a monthly summary with full internal audit reports attached and at least quarterly progress reports presented in person. A year end opinion is provided to these parties giving an overall opinion on the control environment, providing the key findings from our work including trends and key themes and the progress of agreed actions.

Internal Audit conducted a programme of activity from 1 April 2024 to 31 March 2025, reviewing the Environment Agency's arrangements for corporate governance, risk management and internal control. Positively, we have seen significant buy in to agreed management actions from our reports resulting in prompt implementation when issues are identified and discussed. We have also seen a significant improvement in the creation and use of management information by both senior management and staff. Improvements are needed regarding data quality, using intelligence and information to inform regulatory planning and reviewing the effectiveness of regulatory controls. Accountability also needs to be improved both in terms of clarity of people's requirements and people taking personal responsibility for their expected actions.

National Audit Office value for money reviews

In 2024-25, the NAO did not conduct any value for money reviews specifically focused on the Environment Agency, with its main reports relevant to the EA covering topics such as managing conflicts of interest, government grant schemes, and Defra's Farming and Countryside Programme - none of which included specific actions for the EA.

External certification and accreditation

Our environmental performance and quality standards are certificated to ISO standards through annual audits. These ISO audits make recommendations for the future conformance and improvement of our management systems for all the EA's services & products, which aligns to best practice.

The Environment Agency's management systems were successfully certified to the international standard for ISO 9001 (Quality Management) and 14001 (Environment Management) in an integrated audit during November 2024, which covered all areas of the external standards. We received three minor non-conformances and seven opportunities for improvement (OFI). All corrective action to address these areas is in progress.

Pursuant to strategic transformation through Project Aurora, we are pausing ISO55001 certification to focus on embedding long-term capability across capital delivery and whole-life asset management. The ISO, Asset Management framework has recently evolved, and we are maturing our structure, PMO, and asset systems to meet the updated requirements for all EA asset classes (FCRM, Navigation, WLB). This pause also reflects current resource capacity, as we embed a revised, organisation-wide Asset Management Strategy across multiple business areas. We will reapply from a position of greater maturity, in 2028, ensuring future ISO55001 certification reflects our resilience, integration, and sustained excellence in asset management.

Our National Laboratory Services UKAS Accreditation to ISO 17025 continues to be maintained after successful completion of the four yearly renewals in 2024.

Government Functional Standards

The EA receives corporate services from the Defra Core department in several areas. As part of the services delivery model, the Core department and its Heads of Profession conduct regular benchmarking and assessments against cross government Standards. These are used to determine future development areas and investment bids and requirements. Assessments have shown that for services received, half are rated as "Good" or above ("Better", or "Best"). The EA and Defra Group Corporate Services continue to collaborate and review the corporate services provision, informed by a new performance framework and assurance activity.

The EA is responsible for leading the completion of self-assessments for five Government Functional Standards. Assessments have shown that three are rated as 'good', 'better' or 'best', with two assessed as 'in-development'. Improvement action plans are in place and are expected to move these two areas into a rating of 'good' at the point of reassessment.

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](#).

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.

Data and information security

The Environment Agency works with Defra group Security to ensure that there is appropriate security in place to protect our data and information. Working with Defra group we are taking forward work to better codify roles and responsibilities within the group Corporate Services offer. We continue to refresh our service catalogue between the two parties to reflect this.

The Environment Agency's 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 quarterly mandatory security and personal data training over the 2024-25 financial year for all staff to help ensure compliance with regulations, enhance awareness of data security, information protocols and enhance our cybersecurity posture.

In the financial year 2024-25, we reported four personal data breaches to the Information Commissioner's Office (ICO). The ICO took no specific action in each case, other than providing advice. In each case, we took action to prevent or reduce the risk of similar personal data breaches in future.

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's third-party administrator has advised that no evidence of the exfiltrated data has been leaked online, and they continue to monitor the surface and dark web for any evidence of data being leaked from the incident. Following the comprehensive support EAPF offered its members, further assurances with the administrator were sought following the completion of the third-party data analysis and investigation reports. This assurance took the form of a multi-client bulk Cyber Security Review led by external cyber security professionals. This review was completed, and the results communicated to the EAPF in November 2024. The review reported that the third-party administrator was graded the maximum rating of advanced across all security domains that were part of the questionnaire. The conclusion was that clear improvements have been made regarding cyber security following the incident.

Following the ICO judgement on the cyber incident to not take further action against the Fund (February 2024), the ICO continues to engage with the third-party administrator while the investigation continues. The ICO has not provided the administrator with a timescale for completion of their enquiries.

The EAPF continues to take steps to mitigate its own cyber security risk and has engaged with multiple cyber security initiatives. The EAPF continues to address cyber security with the utmost importance, with help from various specialists and advisors.

Ministerial directions

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 and continues to provide the Secretary of State with fortnightly updates.

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 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. All projects require technical and financial approval, and all studies and schemes must adhere to the grant memorandum under Section 16 of the Flood and Water Management Act 2010.

All grant recipients submit interim claim forms to draw down their grant. Interim grant claims do not have to be evidenced, however, we can ask to inspect records relating to the project. 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.

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.

In May 2024, the EA and Defra launched the IDB (Internal Drainage Board) Storm Recovery and Asset Improvement Fund. A new grant scheme to support IDBs to recover from the impacts of the very wet winter (2023-24) and modernise their asset base to improve flood resilience for rural communities and agricultural land. The fund originally had a budget of £75m, but due to the demand for support from IDBs and the success of the scheme this was increased to £91m in April 2025. To date 199 projects have been completed with a further 78 projects ongoing and will complete by March 2026. In total, the fund is forecast to improve water level management across 400,000 hectares of agricultural land which includes over 91,000 homes and businesses. Both agricultural land and properties will benefit from improved flood and land drainage assets.

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.

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. 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 Defra group Grants Hub, a centre for grants assurance and advice.

Apart from grants administered under Section 16 of the Flood and Water Management Act 2010 all other grant programmes require claimants to provide supporting evidence to draw down funding, except for some advances being allowed at the start of projects, which is subsequently evidenced prior to additional funding being claimed.

Public correspondence

We received 4,053 pieces of correspondence in 2024-25 compared to 4,601 in 2023-24.

Our Chief Executive and Chair received 597 enquiries. The top three issues raised to our executive team through these enquiries were about flood and coastal risk management, water quality and corporate which includes queries about our finances, corporate performance and human resources matters.

We received 2,059 complaints, compared to 1,646 received in 2023-24. The top three areas of complaint were waste management, flood and coastal risk management and water quality. We responded to 70% of complaints within 20 working days. Commendations increased to 142 compared to 123 last year.

Complaint handling at the Environment Agency

The Environment Agency's [complaints procedure](#) is published on GOV.UK. 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 complaint bodies - the Parliamentary and Health Service Ombudsman, the Local Government and Social Care Ombudsman, or the Office for 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.

A dedicated project will be launched to design a new process for reviewing complaints and sharing outcomes, best practices and lessons learned. This will help us strengthen our organisational learning and enhance the quality of our customer service. These efforts will reinforce our commitment to embracing complaints as opportunities for growth, ensuring they are addressed thoroughly, fairly and transparently, while fostering a culture of continuous improvement.

Independent complaints bodies

Parliamentary and Health Service Ombudsman

The Environment Agency had a slightly busier business year with the Parliamentary and Health Service Ombudsman in 2024-25 with nine new complaints referred compared to seven in 2023-24. There were three decisions but no detailed investigations. Two cases were closed early in the Ombudsman's process. A third was closed, but the Ombudsman felt our communication could have been clearer. A lessons learned review was conducted and actions taken.

A complaint closed in 2023 was reopened following a request by the complainant for a review of the decision. The Ombudsman did not change her decision on review but asked the Environment Agency to look at how it managed 'Unacceptable Behaviour' correspondence. This review is ongoing. Six cases were carried through to 2025-26.

As mentioned in 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. We do not now expect a view from the Public Administration and Constitutional Affairs Committee and will take steps to bring this long-running case to a close in 2025-26. If any future Ombudsman investigation

finds against the Environment Agency, our usual lessons learned review process will be completed, with the outcomes cascaded within the organisation.

Office for Environmental Protection (OEP)

One of the OEP's functions is to receive and investigate complaints of alleged failures of public authorities to comply with environmental law. The OEP can also self-initiate assessments and investigations where they find potential issues through complaints or intelligence.

During 2024-25, two new cases were referred to the Environment Agency. One of those two cases is still being assessed by the OEP, and the other is at the early stages of an OEP-initiated investigation into Defra and the Environment Agency in relation to suspected failures to comply with the Water Framework Directive (WFD) Regulations. During 2024-25 we also assisted the OEP in their assessment of several ongoing cases, and 5 cases were closed by the OEP with no further action. The OEP's investigation of the Environment Agency, OFWAT and Defra into the regulation of combined sewer overflows (CSOs) was ongoing during 2024-25 but on 23 July 2025 the OEP announced that it will conclude the investigation and not proceed to court action but will continue to monitor to ensure actions are progressed. We continue to provide the OEP with bi-annual updates on their intervention on the Environment Agency's duty to provide a Public Register that meets the requirements of the Environmental Permitting (England and Wales) Regulations (EPR) 2016.

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. We continue to liaise with the OEP on its other functions.

Whistleblowing

Internal whistleblowing

Whistleblowing has been regularly communicated, especially how to report concerns and we encourage employees to do so. Our employees are asking for reporting to be made easier via electronic forms and we are making this happen. Disclosures made have improved health, safety and wellbeing; addressed concerns about better regulation and have led to greater fairness within more robust practices and procedures.

All concerns raised are treated seriously, carefully assessed and investigated.

For the period 1 April 2024 to 31 March 2025, 47 cases were considered:

- 9 were closed as unable to be progressed through lack of information.
- 12 had no merit or were not qualifying disclosures, but useful learning resulted in management action from them.
- 11 had merit and resulted in actions or recommendations for the business.
- 15 are under investigation.

External whistleblowing

The Environment Agency is a prescribed person and has an obligation to act on qualifying third-party disclosures made to us and to publish an annual report. [The latest one](#) covered the year ending 31 March 2024, featured 32 qualifying disclosures and a link to a new confidential portal for whistleblowers that had been launched.

In the year to 31 March 2025, we received 340 reports. Those not within our remit were shared with the appropriate body. We assessed 228 of the reports as qualifying disclosures and needed an operational response such as site visits or intelligence reporting. Our Major Investigations work has benefitted from intelligence received. Assurance reporting is provided to Executive Directors and the ARAC regularly.

Money laundering and compliance

Anti-money laundering activity in 2024-25

We have moved responsibilities for Anti-money Laundering Compliance and Reporting to the Assurance and Risk department to sit alongside counter fraud, code of conduct and whistleblowing handling. During 2024-25, we have continued to deliver against our standard action plan which identifies the key risks and maintains an e-learning package which is available to all employees.

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). A small number of concerns were raised but have been determined not to be related to money laundering and have been handled by other processes. It is pleasing to see potential concerns being brought forward as well as receiving queries about money laundering. This level of engagement is encouraging and reduces the risk of money laundering and committing accidental criminal offences. Compliance continues to be heavily dependent on a few specialised activities such as transactions related to estates, income, payments and countering proceeds of crime. The teams handling these activities have awareness and understanding of the need to undertake assurance activity and make reports as needed.

Comptroller and Auditor General's (C&AG) audit opinion

In 2022-23, we delivered our first Depreciated Replacement Cost (DRC) valuation. 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 of 31 March 2023. For this reason, the C&AG qualified the valuation of operational assets.

During 2023-24 and into 2024-25, 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. During 2023-24 we also began a multi-year national programme of asset dimensional data improvements led by our National Data Team. The work continued 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.

In 2024-25 we have refined our approach to the DRC valuation, ensuring robust judgements had been applied to the significantly improved asset data which the valuation is based on. We have used the improved valuation and data to restate our comparative periods, removing genuine movements in the data and removing the impact of inflation.

Three years of data improvement works by our asset management teams, as well as the refinement of our approach to the valuation completed collaboratively by our asset management and finance teams, has meant that the C&AG has been able to remove the qualification on the valuation. This is a significant milestone for the Agency as we lay an Annual Report and Accounts with an unqualified audit opinion for the first time since 2018-19.

Directors' report

Board and Executive Directors

We employ four Executive Directors in addition to the Chief Executive and 10 other Board members - please refer to the remuneration and staff report for a full list. The notice period for Executive Directors is at least three months.

None of the Executive Directors or Board members had company directorships or other significant interests which could have conflicted with their responsibilities in the financial year 2024-25.

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 31,000 members, who are current and former employees of the EA, Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL).

The active fund received employer contributions equivalent to 19% from the Environment Agency and between 5.5% and 12.5% from its employees during 2024-25.

Every three years, the active fund carries out a formal valuation under Regulation 62 of the LGPS Regulation 2013, in conjunction with the Scheme Actuary. The next valuation is due as at the 31 March 2025 and one of the key outcomes will be the setting of employer contributions for the next three years from 1 April 2026. The most recent formal valuation, as at 31 March 2022, resulted in a funding level of 103% for the active fund (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 was 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%).

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

Since 31 March 2024, markets continued to be disrupted by geopolitical factors including disruptions to supply chains, armed conflicts and trade conflicts and also inflationary pressures. This impacts on the investment returns achieved by the fund's assets. Continued high levels of inflation in the UK, have resulted in a higher-than-expected LGPS benefits payable, with an increase in 2024 of 6.7% (2023 - 10.1%). Despite this, the annual accounting funding level remains strong as at 31 March 2025 due to the high-interest rate environment which reduces the value placed on the fund's liabilities.

However, the surplus position in the Environment Agency's active pension fund has been capped to zero at 31 March 2025. As explained in note 17.6 to the financial statements this is due to an asset ceiling being applied to the underlying £1,361 million surplus held by the scheme (2023-24 - £797 million surplus fully recognised as an asset).

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 to meet this obligation. The Board approved becoming a shareholder in Brunel in July 2017, following a rigorous assurance

process. The EAPF continues to adhere to its own investment strategy, and retain control of its own assets, but with the aim to benefit from reduced costs from pooling investments. Around 63% of the fund's assets are managed by Brunel at 31 March 2025.

In November 2024, the government set out its proposed pooling reforms with the aim of establishing a world-class LGPS made up of large pools of professionally managed capital, held to account by Administering Authorities who have confidence in robust and transparent governance structures and who are delivering the best value to members. It focused on the benefits of scale, long-term resilience and value for money.

As a result of this consultation, the EAPF has been invited to look for a new pooling provider, to meet the new objectives set by the government. The Pension Fund is therefore working closely with its pooling partner funds, advisers and committees to explore the optimal solutions available to the Pension Fund and its members.

As reported previously, 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 bulk of the pensioner rectification phase was completed by January 2025 following member notification and correction to their pensions. Phase two of the project is now underway which concentrates on any affected deferred scheme members, who may have also been impacted by the same final pay error. The rectification work with Capita will follow an agreed structure for correcting member records and notifying the in-scope population.

We are also the statutory administering authority for the Environment Agency Closed Pension 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. Defra provides cash funding to the closed fund to pay any liabilities, and the closed fund is reported within the annual report and accounts of Defra.

Creditor payment policy and statistics

We aim to meet the level of performance for paying creditors in 'British Standard 7890: Method for achieving good payment performance in commercial transactions' and relevant HM Treasury guidance.

During the year, we paid 98% of invoices from suppliers within five days of receipt and registration (2023-24 - 98%).

Creditor days, calculated on an average basis for the year, was 2.6 days during 2024-25 (2023-24 - 3.8 days).

Remuneration and staff report

The People and Pay Committee

The PPC comprises five non-executive Board members and is led by the Environment Agency's Chair. The PPC met five times during 2024-25.

It agreed the Chief Executive's performance rating and objectives and during the year also considered:

- 2024 pay review and pay remit.
- Executive Managers 2023-24 performance decisions and pay review.
- Board member and Executive Director team expenses.
- Gender pay gap and pay gap reporting.
- People strategy.
- Flexible working.
- Career entry strategy.
- Business Appointment Rules.

Under section 1 of the Environment Act 1995, Board members are appointed by the Secretary of State for Environment, Food and Rural Affairs. Under the Act, the Environment Agency is able to remunerate its Board members, and the level of remuneration is determined and reviewed by the appropriate minister.

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.

Executive Director	Position	Period of appointment
Philip Duffy	Chief Executive	1 July 2023 to present
Tamara Bruck	Executive Director of Strategy, Transformation and Assurance	4 March 2024 to present
Sarah Chare	Executive Director of Local Operations	1 March 2024 to present
Caroline Douglass	Executive Director of Flood and Coastal Risk Management	1 April 2021 to present
John Leyland	Executive Director of Environment and Business	17 October 2022 to present

Board members' remuneration (audited)

The emoluments of Board members in the last two financial years

Board member	Remuneration in 2024-25 (£5,000 banded range)	Taxable expenses in 2024-25 (to nearest £100)	Total 2024-25 (£5,000 banded range)	Remuneration in 2023-24 (£5,000 banded range)	Taxable expenses in 2023-24 (to nearest £100)	Total 2023-24 (£5,000 banded range)
Alan Lovell (Chair)	100-105	-	100-105	100-105	-	100-105
Judith Batchelar (Deputy Chair) (note b)	25-30	-	25-30	25-30	-	25-30
Stewart Davies (note a, d)	15-20	1,100	15-20	15-20	500	15-20
Ines Faden da Silva (note a, c)	20-25	-	20-25	15-20	900	15-20
Robert Gould (note b)	25-30	600	25-30	25-30	400	25-30
Brittany Harris	15-20	-	15-20	-	-	-
Maya Leibman	15-20	-	15-20	-	-	-
John Lelliott (note b)	20-25	400	20-25	20-25	700	20-25
Lilli Matson (note a)	15-20	200	15-20	15-20	500	15-20
Sarah Mukherjee	15-20	100	15-20	15-20	-	15-20
Mark Suthern (note d)	15-20	400	15-20	15-20	500	15-20

Details of the attendance of Board members are provided below.

Non-executive Board members have no entitlement to performance-related pay and did not receive any pension contributions or benefits in kind. 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. Taxable expenses relate to refunds of certain travel costs incurred by non-executives in the course of their EA duties. Since these are taxable, they are processed through payroll at grossed-up amounts to ensure the individual receives a full refund. The amounts in the table are stated on a net basis.

Notes

- a) Stewart Davies, Ines Faden da Silva, and Lilli Matson were reappointed for a further 18 months from 1 February 2025.
- b) John Lelliott was reappointed for a further six months from 1 October 2024. His term ended on 31 March 2025. Judith Batchelar and Robert Gould's terms also ended on this date.
- c) Ines Faden da Silva was appointed Deputy Chair from 1 April 2025.
- d) Mark Suthern and Stewart Davies increased their time commitment to five days per month from 1 April 2025.
- e) Jon Watts was appointed on 1 April 2025 for a three-year term and will also serve as Chair of the Audit and Risk Assurance Committee.
- f) Caroline Mason received £16,800 in remuneration during 2023-24 but none in 2024-25 as she left her role on 31 March 2024.

Board member appointments

Board member	Latest date of appointment or reappointment	Period of appointment (months)	Latest time commitment (days)
Alan Lovell	26 September 2022	36	3.5 per week
Judith Batchelar (Deputy Chair)	30 September 2021	42	5 per month
Stewart Davies	1 February 2025	18	4 per month
Ines Faden da Silva	1 February 2025	18	5 per month
Robert Gould	30 September 2021	42	6 per month
Brittany Harris	1 April 2024	36	4 per month
Maya Leibman	1 April 2024	36	4 per month
John Lelliott	1 October 2024	6	5 per month
Lilli Matson	1 February 2025	18	4 per month
Sarah Mukherjee	10 January 2022	48	4 per month
Mark Suthern	10 January 2022	48	4 per month

Subcommittees

- ARAC - Audit and Risk Assurance Committee
- EB - Environment and Business Committee
- FCERM - Flood and Coastal Erosion Risk Management Committee
- PC - Pensions Committee
- PCISC - Pensions Investment Sub Committee
- PPC - People and Pay Committee

Board members' attendance (Not subject to audit)

Member	Board	ARAC	EB	FCERM	PC	PCISC	PPC
Alan Lovell	10 of 10	-	-	-	-	-	5 of 5
Judith Batchelar	10 of 10	4 of 5	3 of 4	-	-	-	4 of 5
Stewart Davies	9 of 10	4 of 5	4 of 4	-	-	-	5 of 5
Ines Faden da Silva	9 of 10	4 of 5	-	5 of 5	-	-	-
Robert Gould	10 of 10	5 of 5	-	5 of 5	4 of 4	4 of 4	5 of 5
Brittany Harris	7 of 9		1 of 1				
Maya Leibman	9 of 9	2 of 2		2 of 2	2 of 2	2 of 2	
John Lelliott	10 of 10	5 of 5	-	4 of 5	4 of 4	-	-
Lilli Matson	8 of 10	-	-	2 of 5	-	3 of 4	-
Sarah Mukherjee	10 of 10	-	4 of 4	0 of 1	-	-	5 of 5
Mark Southern	9 of 10	5 of 5	4 of 4	5 of 5	-	-	-

Executive Directors' emoluments (audited)

Total emoluments and benefits in kind of Executive Directors during the last two financial years

For the year ended 31 March 2025

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	180-185	10-15	-	60	250-255
Tamara Bruck	140-145	-	-	43	185-190
Sarah Chare	130-135	5-10	6,300	100	245-250
Caroline Douglass	150-155	5-10	-	68	225-230
John Leyland	135-140	0-5	-	66	205-210

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

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	130-135	-	-	39	170-175
John Leyland	130-135	-	-	36	165-170
John Curtin	110-115	10-15	-	(35)	90-95
Caroline Douglass	140-145	-	-	54	195-200
Lucy Hunt	50-55	5-10	-	26	85-90
Sarah Chare	125-130	-	8,900	51	185-190
Nicola Lawton	40-45	0-5	-	12	55-60
Tamara Bruck	10-15	-	-	3	10-15

Notes

Philip Duffy was appointed on 1 July 2023. His full year equivalent pay is in the range £175,000 to £180,000. The figures disclosed above reflect the amounts received during 2023-24.

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.

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.

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. The benefit in kind is in relation to a company car.

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.

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. The figures disclosed above reflect the amounts received during 2023-24.

Performance related pay policy

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

Pension benefits of Executive Directors during the last two financial years (audited)

Executive Director	Accrued pension at 31 March 2025 (£5,000 range)	Increase/ (decrease) in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2025 (£5,000 range)	Increase/ (decrease) in lump sum during year (£2,500 range)	CETV at 31 March 2024 (£000s)	CETV at 31 March 2025 (£000s)	Real increase/ (decrease) in CETV (£000s)
Philip Duffy	5-10	2.5-5	-	-	34	87	30
Tamara Bruck	0-5	2.5-5	-	-	3	46	26
Sarah Chare	60-65	5-7.5	60-65	2.5-5	1,006	1,132	78
Caroline Douglass	25-30	2.5-5	-	-	352	433	52
John Leyland	30-35	2.5-5	-	-	374	444	42
John Curtin	-	-	-	-	1,409	-	-
Lucy Hunt	-	-	-	-	556	-	-
Nicola Lawton	-	-	-	-	620	-	-

Notes

John Curtin, Lucy Hunt and Nicola Lawton left their roles during 2023-24. The CETV disclosed above for these individuals at 31 March 2024 reflects the CETV at their departure dates.

Pension entitlements disclosed above relate to the rights accrued in the Environment Agency Active Pension Fund only and does not include entitlements from any other civil service employment.

The Environment Agency remunerates its employees in line with standard public sector pay and pension policies. The accrued pension at 31 March 2025 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 2025. 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.

The CETV disclosed is the 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.

Average number of full-time equivalent staff employed during the year (audited)

	2024-25	2023-24
Directly employed	12,795	12,407
Contractors and agency staff	536	663
Total	13,331	13,070

In both 2024-25 and 2023-24, all contractors were employed on a temporary basis. In 2024-25, 304 directly employed staff were employed on a temporary basis (2023-24 - 314).

Staff seconded out

Grade	2024-25	2023-24
Deputy director	-	3
Nuclear Grade 2	-	1
Grade 7	1	3
Grade 6	3	5
Grade 5	3	6
Grade 4	1	1
Grade 3	-	1
Total	8	20

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

Staff seconded in

Grade	2024-25	2023-24
Grade 6	2	2
Grade 5	2	3
Grade 4	-	2
Total	4	7

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

Executive manager headcount

At 31 March 2025, the Environment Agency employed 124 executive managers (equivalent to senior civil servant grades). A breakdown of these by level is shown below.

Grade	31 March 2025	31 March 2024
Chief Executive Officer	1	1
Executive Directors	4	4
Directors	25	20
Deputy Directors	94	92
Total	124	117

The above does not include the EA Chair or any non-executive directors.

Gender

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

Gender split - At 31 March 2025

Headcount	Male	Female
Executive managers	64	60
All other staff	7,202	6,203
Total	7,266	6,263

Gender split - At 31 March 2024

Headcount	Male	Female
Executive managers	64	53
All other staff	7,182	6,076
Total	7,246	6,129

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 - women made up 44.0% of employees in the highest paid quarter and 39.9% in the lowest paid quarter. Women's average hourly pay was 0.4% higher than men's (compared to 0.3% in the previous year). This is significantly lower than the civil service gender pay gap average of 7.4%.

Equality, diversity and inclusion

Our ambition is to be the best employer for equality, diversity and inclusion in the UK.

Our strategy sets out how we will achieve this from 2022 to 2025. We will concentrate on four key objectives to help us deliver our ambition:

1. Build and develop an inclusive and respectful culture that allows everyone to be their best selves at work.
2. Increase the diversity of our workforce.
3. Ensure equity of opportunity in performance, development, progression and pay.
4. Increase our ability to protect and improve the environment for all communities.

It aligns with the Defra group strategy and builds on great work by our employee networks, human resources and employees.

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 a number of separate support networks and Executive Manager champions assist these networks, working together with them and others from across the wider Defra group, sharing knowledge and experience to improve the day to day working environment for employees with disabilities.

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 2024-25 was 6.1% (2023-24 - 5.7%).

Sickness absence data

An average of 7.8 days per full time equivalent employee was lost to sickness absence in 2024-25 (2023-24 - 6.0 days). This does not include contractors or agency staff.

Staff engagement

A full employee survey was conducted in 2024, with a 71% response rate. This was last run in 2021. The overall employee engagement score stayed the same at 68%. There were three themes covered within the survey, which scored as follows:

	2024	2021
Involvement	69%	65%
Alignment	63%	67%
Loyalty	72%	72%
Overall	68%	68%

Positive themes highlighted in the survey included job satisfaction, understanding of personal objectives and development actions, and pride in working for the Environment Agency.

Between full employee surveys, we run regular pulse surveys to evaluate our key metrics for staff engagement.

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, temporary workers and contractors over the past two years.

Expenditure on temporary workforce

	2024-25 £ million	2023-24 £ million
Consultancy	88.6	104.1
Temporary workers and contractors	17.1	13.1
Total	105.7	117.2

Off-payroll appointments

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

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.

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

	31 March 2025	31 March 2024
Between six months and one year	18	-
Between one and two years	-	1
Between two and three years	1	5
Between three and four years	5	-
Four years or more	2	2
Total	26	8

Off-payroll workers engaged at any point during the year, earning £245 per day or greater

	2024-25	2023-24
Number of off-payroll workers engaged during the year		
Not subject to off-payroll legislation	-	-
Subject to off-payroll legislation and determined as in-scope of IR35	-	-
Subject to off-payroll legislation and determined as out-of-scope of IR35	26	8
Total	26	8
IR35		
Number of engagements reassessed for compliance or assurance purposes during the year	8	8
Of which: number of engagements that saw a change to IR35 status following review	-	-

There were 17 Board members or senior officials with significant financial responsibility over the organisation during the financial year (2023-24 - 19). None are engaged as off-payroll workers.

Reporting of compensation schemes

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 during the last two financial years (audited)

There were no exit packages during 2023-24.

One exit package was agreed in 2024-25, with a value in the range £10,000 to £25,000.

Where we agree early retirements, any additional costs are paid by the Environment Agency, 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)

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.

There is also a requirement 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. The average employee remuneration disclosed below includes contractors.

No employee received remuneration in excess of the highest-paid director (2023-24 - none), based on a full time and full year equivalent basis.

The range of banded remuneration for all employees was £5,000 to £10,000 (for a committee member) up to £190,000 to £195,000 (2023-24 - £15,000 to £20,000 up to £175,000 to £180,000).

The -66.4% change in performance related pay disclosed below for the average employee has been significantly influenced by the £1,500 non-consolidated cost of living payment made in 2023-24.

In line with the public sector pay remit guidance the 2024 pay settlement, effective from 1 July 2024, applied consolidated salary increases of at least 5%. We believe that the median pay ratio for 2024-25 is consistent with the pay, reward and progression policies for the EA's employees.

Highest paid director and the whole workforce

2024-25

	Salary and allowances	Performance related pay	Total
Highest paid director (£5,000 banded range)	180-185	10-15	190-195
Mean average employee (£)	42,358	557	42,915

2023-24

	Salary and allowances	Performance related pay	Total
Highest paid director (£5,000 banded range)	175-180	-	175-180
Mean average employee (£)	40,219	1,657	41,876

Percentage increase or decrease for highest paid director and the whole workforce - 2024-25 versus 2023-24

	Salary and allowances	Performance related pay	Total
Highest paid director	2.8%	100%	8.5%
Mean average employee	5.3%	-66.4%	2.5%

Relationship of pay between highest paid director and the whole workforce

25th percentile

	2024-25 £	2023-24 £
Highest paid director (mid-point of pay band)	192,500	177,500
All employees (salary and allowances)	33,000	31,429
All employees (total pay and benefits)	33,597	33,469
Ratio (total pay and benefits)	5.7	5.3

Median

	2024-25 £	2023-24 £
Highest paid director (mid-point of pay band)	192,500	177,500
All employees (salary and allowances)	41,617	39,635
All employees (total pay and benefits)	42,202	41,675
Ratio (total pay and benefits)	4.6	4.3

75th percentile

	2024-25 £	2023-24 £
Highest paid director (mid-point of pay band)	192,500	177,500
All employees (salary and allowances)	44,725	41,002
All employees (total pay and benefits)	52,929	51,036
Ratio (total pay and benefits)	3.6	3.5

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.

	2024-25	2023-24
Number of employees who were relevant union officials	222	390
Full time equivalent	212	370

Percentage of pay bill spent on facility time

	2024-25	2023-24
Total facility time by union officials	£0.2 million	£0.3 million
Total all staff	£687.0m	£673.5 million
Percentage on facility time	0.03%	0.05%

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Total all staff pay bill disclosed above reflects wages and salaries, social security costs and pension costs as per note 3 of the financial statements.

Percentage of staff time spent on facility time

	2024-25	2023-24
Total facility time by union officials	7,422 hours	9,044 hours
Total working hours by union officials	407,357 hours	713,108 hours
Percentage on facility time	1.8%	1.3%

Percentage of individual staff time spent on trade union activities

Percentage of time	2024-25	2023-24
0% - 1%	158 employees	325 employees
1% - 50%	64 employees	65 employees

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 un-ringfenced 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 (FCERM)

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. The majority of the FCERM funding is for capital expenditure.

Fees and charges (audited)

Type of charge	Expenditure £ million	Income billed £ million	Deficit / (surplus) £ million
Abstraction charges	187.9	(189.6)	(1.7)
Navigation licence income	14.2	(10.1)	4.1
Fishing licence duties	25.0	(24.3)	0.7
EPR water quality	108.5	(115.1)	(6.6)
EPR installations	38.8	(34.9)	3.9
EPR waste	35.6	(31.9)	3.7
Hazardous waste	18.4	(18.0)	0.4
Emissions Trading and Climate Change Agreements	5.1	(4.9)	0.2
Radioactive Substances Regulation	21.6	(20.4)	1.2
Other EP charges	20.4	(21.5)	(1.1)
Total 2024-25	475.5	(470.7)	4.8
Total 2023-24	454.8	(405.3)	49.5

As explained in note 1.8 of the financial statements, there has been a change to the accounting policy pertaining to charge scheme surpluses and deficits.

Previously, any scheme surpluses or deficits were recognised as liabilities or assets, as Managing Public Money requires income streams to fully cost recover, based on all costs including current cost depreciation and a rate of return on relevant assets. Therefore, deficits were recovered either from reduced spending or increased charging, and surpluses from increased spending or reduced charges. As the recovery of surpluses or deficits occurred in a future year (or years), the balances were held on the statement of financial position.

The decision was made in 2024-25 to change this policy. This means that for 2024-25 and going forwards, any deficits or surpluses arising from charging schemes now need to be directly reflected in the financial performance and outturn against Defra's control totals in the year incurred. Any overspends on charges will need to be covered by grant-in-aid funding.

We are working towards full cost recovery through an Annual Health Check of charge schemes which is used to prioritise which schemes are reviewed and to consider options to ensure income keeps pace with external cost pressures. Options for schemes not in parity include the recently implemented cost of service review and / or making use of the ability to uplift charges by CPI to account for external cost pressures outside of our control. The cost of service review was a new approach which demonstrates our commitment to changing and improving our approach to better achieve full cost recovery.

Under recovery is an important factor in the prioritisation of charge scheme reviews. In the coming year EA has plans in place to review schemes with the largest deficits, thereby aiming to bring them into a position of full cost recovery.

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 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. This 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.

Depreciation charges allocated still use the same basis to align this analysis with the current basis of the charging model. This means that DRC-based depreciation costs are not yet used, pending charging scheme updates and due to previous data improvement works.

Regularity of expenditure (audited)

There have been no material instances of irregularity, impropriety or funding non-compliance discovered during the financial year. Instances of fraud have been reported in the 'Fraud risk management' section. The 'Overview of the internal control system' section in the governance statement discusses the controls in place to provide reasonable assurance and maintain propriety and regularity of expenditure.

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.

Losses and special payments by category

	2024-25 Number	2024-25 £ million	2023-24 Number	2023-24 £ million
Write-off of sundry debts	813	0.9	1,364	1.1
Loss of assets	95	0.5	84	0.3
Special payments	8	0.3	10	0.4
Other (cash losses, fruitless payments, unenforceable claims and gifts)	43	0.2	123	8.0
Total	959	1.9	1,581	9.8

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 was one special severance payment in 2024-25 and none in 2023-24.

There were no gifts in excess of £300,000 in 2024-25 or 2023-24.

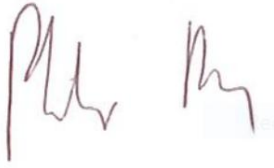
Losses and special payments individually over £300,000 (audited)

There was one loss and no special payments in excess of £300,000 in 2024-25. In 2023-24, there was one loss and no special payments in excess of £300,000.

The loss was due to the impairment of laboratory assets acquired for wastewater analysis to support the work of the Joint Biosecurity Centre during the Covid pandemic. After the laboratory was closed in March 2024, the assets were no longer of use to the Environment Agency and were of little interest to other organisations who carried out similar analysis work. They were sold for a value significantly below their carrying value with a net loss on disposal of £441,487.

Remote contingent liabilities (audited)

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

A handwritten signature in dark ink, appearing to read 'Philip Duffy', is written over a faint, light blue rectangular stamp.

Philip Duffy, Chief Executive and Accounting Officer

24 October 2025

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

Opinion on financial statements

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2025 under the Environment Act 1995. The financial statements comprise the Environment Agency's:

- Statement of Financial Position as at 31 March 2025;
- 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, the financial statements:

- give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2025 and its net expenditure after interest for the year then ended; and
- have been properly prepared in accordance with the Environment Act 1995 and Secretary of State 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 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 (2024)*. 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 2024*. 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 opinion.

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

Framework of authorities	
Authorising legislation	Environment Act 1995
Parliamentary authorities	Charging schemes with statutory force under the Environment Act 1995 in respect of fee income
HM Treasury and related authorities	Managing Public Money

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Environment Agency's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the 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 around the risk of management override of controls, or the risk of fraud in revenue recognition. In respect of these risks, my work has not identified any matters to report.

The key audit matters were discussed with the Audit and Risk Committee. Management's commentary on matters that they considered to be significant to the financial statements is set out in the Corporate Governance Report (page 29).

In this year's report the following changes to the risks identified have been made compared to my prior year report.

- I have added a key audit matter in respect of the *Depreciated Replacement Cost valuation of operational infrastructure assets*. This also had a significant effect on my overall audit strategy for the 2023-24 accounts as described in last year's report, but is reported in this section for the first time this year since I am no longer qualifying my opinion on this matter.
- I previously reported on two matters on which significant one-off exercises by management in 2023-24 allowed me to lift related qualifications of my audit opinion for the first time that year – *Land and Buildings (Environment Agency)* and *Classification of expenditure and valuation of Assets Under Construction (Environment Agency)*. On both, I still assess financial statements risk and respond to it in my audit work, but this work responds to the narrower risk of in-year valuations and project spend analysis, rather than the significant historic exercises I dealt with previously, so I no longer highlight these areas as key audit matters.
- I previously reported on my work in respect of *Revenue Recognition*. This year, management have implemented an accounting policy change through a prior period adjustment in relation to

revenue accounting, as described in Note 1.8. This represents a move away from the previous approach to IFRS 15 where expected future changes to the charging regime could result in accrued revenue. I evaluated the accounting policy change and the prior period adjustment as part of my audit. Following the change, the level of judgement in this area has significantly reduced, and I have chosen not to highlight revenue recognition as a key audit matter for 2024-25.

Depreciated Replacement Cost valuation of operational infrastructure assets

Description of risk

The Environment Agency manages a portfolio of operational infrastructure assets, predominantly to respond to risks of flooding.

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 theoretical cost of an as-new modern equivalent asset portfolio, adjusted to reflect the portfolio's actual condition.

As at 31 March 2023 the Environment Agency implemented a DRC valuation on this portfolio for the first time. I previously qualified my opinion on 31 March 2023 and 2024 figures because I was unable to obtain sufficient appropriate audit evidence arising from issues with the accuracy and completeness of source data on assets. Management's preparation of the 2024-25 accounts follows significant progress in a project aimed to improve the quality of asset data. For some assets, management has not yet captured dimensional measurements relevant to valuation; in these cases, it has applied statistical approaches, informed by management's civil engineering expertise, to arrive at reasonable 'fixed average' attribute data to apply to the population remaining unmeasured.

Building on this improved source data both on the assets held and their dimensional attributes, as well as existing costing information for which management worked with a cost estimation expert and management's own data on asset condition, the Environment Agency has updated its operational infrastructure assets valuation. At 31 March 2025 it estimates these assets' net book value at £9,066 million as disclosed in Note 7, which also describes the method of preparation and the estimation uncertainty connected with this estimate in more detail.

The Environment Agency has also applied an adjustment to apply its revised dataset and assumptions retrospectively to 31 March 2023 and 2024 figures, and the 2023-24 comparative year, through a prior period adjustment (Note 1.8). In doing so, management have relied on the relative stability of the Environment Agency's asset base, and their ability to compensate retrospectively for known additions, reclassifications, and estimated changes in current cost based on relevant construction indices.

Noting the high estimation uncertainty in respect of this estimate, I assessed an audit risk in respect of:

- a. asset source data on the quantity, nature and extent of assets within the Environment Agency's control (in respect of accuracy, rights and completeness);
- b. modelling and assumptions supporting valuation (for example, models for the replacement cost of asset types, and the derivation of fixed averages for dimensional inputs used where data for specific assets is unavailable);
- c. whether indices to bring the estimate to current cost were appropriately chosen and properly applied;

d. the depreciation factors applied to reflect an adjustment between the as-new modern equivalent asset value and the depreciated replacement cost of the actual portfolio; e. the sufficiency and accuracy of estimation uncertainty disclosures; and f. the reasonableness of management's assertion that the valuation can be applied retrospectively through a prior period adjustment, and the accuracy of that application.	
How the scope of my audit responded to the risk	My testing, including work performed in prior years which forms part of my assurance over the estimate, included: <i>Asset source data</i> • sample testing of assets to confirm their existence, and whether the threshold for the Group controlling these assets was met (which Group accounting policies I have evaluated previously framed in terms of ownership and/or responsibility for maintenance) and for the accuracy of records in relation to dimensional attributes relied on in the valuation model; • testing for the completeness of the asset base by reviewing alternative data sets on flood risk, and sampling assets marked in the Environment Agency's data as not meeting the control threshold; <i>Valuation</i> • assessing the DRC valuation methodology, to ensure compliance with RICS principles and the requirements of the financial reporting framework; • evaluating whether the Environment Agency's model has applied the valuation methodology consistently to the asset source data; • evaluating management's assumptions and methodology used to derive fixed averages from existing datasets where dimensional data was unavailable; • considering the reasonableness of cost models for a risk-based selection of asset types used in the overall model based on relevant evidence, informed by the advice of an auditor's expert; <i>Indexation</i> • assessing the appropriateness and application of indices used in the valuation model and prior period adjustment; <i>Depreciation</i> • evaluating the reasonableness of the model for the determination of a condition-responsive depreciation factor applied to different assets to reduce the modern equivalent value down to a depreciated replacement cost, and how it had been applied to data on condition scores, MEICA assessments and start dates; • checking whether condition scores were consistent with the available evidence; • assessing the reasonableness of a sample of useful economic lives used to calculate in-year depreciation and reconciling the preparation of the in-year charge;

	<i>Estimation uncertainty</i> - appraising management's disclosures, in particular in respect of how estimation uncertainty is described for both valuation and depreciation; <i>Prior period adjustment</i> - checking the reasonableness of underlying assumptions and methodology for of EA's prior period adjustment, which derives asset valuations as at 31 March 2024 and 1 April 2023 by adjusting the 31 March 2025 valuation for movements in prior periods, principally indexation; and - reperforming the arithmetic of the prior period adjustment. My work was informed in part by the advice of internal statistical specialists, and an external auditor's expert with a civil engineering specialism. Key observations I obtained sufficient assurance over this risk through my substantive testing. Management adjusted the estimate as a result of audit work in respect of costing rates and the derivation of fixed averages. I have obtained sufficient assurance over the restated balances as at 31 March 2024 and 31 March 2023. I had previously qualified my audit opinion in respect of these periods, when reporting on the 2023-24 financial statements.
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Valuation of defined benefit pension balances (Environment Agency)	
Description of risk	The Environment Agency is responsible for a significant funded defined benefit pension scheme – the Active Scheme – for which the Group discloses £2,948 million of defined benefit pension obligations and £4,309 million of recognised scheme assets. While on an IAS 19 basis the scheme is in an underlying surplus position, the Group recognises a net balance of £nil since this is the 'asset ceiling' management assess this year, in response to accounting rules (IFRIC 14) which restrict the recognition of a surplus based on the extent minimum funding requirements may prevent the entity from fully accessing its economic benefits (31 March 2024: full recognition of £797 million surplus). In light of the judgement and estimation uncertainty inherent in this area, I assessed as an audit risk the valuation of the assets and liabilities contributing to this scheme's net position, as well as the asset ceiling judgement. Management describe their key judgements in Note 17. <i>Scheme liabilities</i> 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. While membership remained broadly stable this year, liabilities decreased principally as a result of an increase in the discount rate. <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 private equity,

credit and property, 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.

Recognition of surplus

At both 31 March 2024 and 2025, the Environment Agency have considered the difference between the actuarially estimated future service costs, and the minimum employer contributions for the same periods. This calculation relies on the use of financial assumptions used in the preparation of the defined benefit obligation at the relevant balance sheet date, and is particularly sensitive to changes in discount rate, which increased during the year. As a result, while management's methodology for assessing the impact of IFRIC 14 has not changed, the underlying scheme surplus has moved from being recognised in full at 31 March 2024 to being restricted to £nil at 31 March 2025.

How the scope of my audit responded to the risk

Scheme liabilities

Using the work of an actuarially qualified expert, I examined 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.

Scheme assets

The work performed on the scheme assets included:

- vouching the alternative investment valuations to independently received statements;
- testing a sample of private equity and other alternative balances with reference to the latest audited financial statements of the funds; and
- considering the reasonableness of movements from audited accounts position to the year-end valuation where these are not coterminous, based on relevant external benchmarks.

Recognition of surplus

Having obtained management's refreshed position that the surplus did require restriction using an asset ceiling, my procedures to evaluate this judgement included:

- reviewing management's position against IFRIC 14;
- evaluating the advice prepared by management's actuarial advisors; and
- 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; and
- considering the adequacy of related disclosures.

	Key observations I obtained sufficient assurance over this risk through my substantive testing. In the course of preparing the accounts, management adjusted the asset ceiling as a result of both audit work and work with their own experts.
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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	Additional
Materiality	£118 million	£37 million
Basis for determining materiality	1% of non-current assets	1.75% of gross expenditure excluding depreciation and impairment, but including capital additions
Rationale for the benchmark applied	Non-current assets are the largest item in the Statement of Financial Position. Significant public benefit is derived from these, including flood defence assets, driving user interest in the extent and condition of those assets.	Users are additionally sensitive to misstatements in 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.
Elements of financial reporting to which the thresholds are applied	All not affected by the additional threshold. Areas assessed against overall materiality include 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.	Those which directly reflect the extent of financial activities, rather than being purely updates to valuation. Areas assessed against this additional threshold include the transactions and balances connected with revenue and cash-based expenditure. The greater part of my team's effort is applied to work against this additional threshold, and it also forms the basis of considering whether irregularities are material.

I continue to adopt a percentage of non-current assets as the overall materiality base, reflecting the significant public interest in the Environment Agency's operational infrastructure assets, which form

the majority of this balance, and are valued on a Depreciated Replacement Cost basis. Since these have built up over many decades, their value significantly exceeds annual expenditure. I also assess the need for an additional threshold reflecting user sensitivity to misstatements which reflect how funds have been applied in-year 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 the 2024-25 audit (2023-24: 70%). In determining performance materiality, I considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

Materiality figures use the same basis of determination as I applied in 2023-24. Changes since then and during the audit have been made only in response to updates in the elements of the financial statements which this basis draws on.

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. Such an example is 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 Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £0.3 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit 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 Committee would have the following net effects, on correction. I have evaluated errors in respect of different periods or reporting dates separately against the relevant materiality thresholds as described above, and for prior periods included both misstatements identified previously and those detected this year in relation to those 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. Effects on net assets and net expenditure are not always in parity due to the interaction with the prior period restatements, and a small number of misstatements where the increase/decrease in net assets would affect revaluation surplus rather than net expenditure.

	31 March 2025	31 March 2024	1 April 2023
Net assets	Decrease of £76.1 million	Increase of £10.4 million	Decrease of £16.8 million

	2024-25	2023-24
Net expenditure (before other comprehensive expenditure)	Increase of £6.3 million	Decrease of £82.6 million

Audit scope

The scope of my audit was determined by obtaining an understanding of the Environment Agency, its 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.

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.

I have nothing to report in this regard.

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 Secretary of State directions issued 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 Secretary of State directions issued 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, I have not identified material misstatements in the Performance and Accountability Report.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept by the Environment Agency or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- 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;
- preparing financial statements which give a true and fair view and are in accordance with HM Treasury directions issued under the Environment Act 1995;
- preparing the annual report, which includes the Remuneration and Staff Report, in accordance with HM Treasury directions issued 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, and reporting 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 Act 1995, Managing Public Money, and fee-charging schemes which have statutory force under the Environment Act 1995;
- 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, and/or
 - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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's 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's. The key laws and regulations I considered in this context included Managing Public Money, employment law, pensions and tax legislation, and the Environment Act 1995 (in respect of the statutory regime for fee-charging).

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;
- enquired of management, the Audit and Risk Committee and legal counsel concerning actual and potential litigation and claims;
- reviewed minutes of meetings of those charged with governance and the Board and internal audit reports; and

- addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements on estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I 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. 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

29 October 2025

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 Department for Environment, Food and Rural Affairs (the Department) is responsible for developing and implementing policy which safeguards the natural environment, supports the UK food and farming industry, and sustains the rural economy. The Environment Agency, part of the Departmental Group, 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.

Removal of qualifications

2. In recent years, I qualified my opinion on the Environment Agency and Departmental Group's accounts as a result of issues primarily relating to the valuation of the Environment Agency's assets. In my report on the 2023-24 financial statements, I described how this qualification had narrowed, following management's efforts to resolve previous issues in respect of land and buildings valuation, and the classification of expenditure and valuation Assets Under Construction. This left a single residual basis for qualification, relating to the quality of source data supporting the Environment Agency's valuation of its operational assets, which is performed on a Depreciated Replacement Cost (DRC) basis.
3. Following additional work from management to improve the quality of data in its asset database – including in respect of asset existence, maintenance responsibility, and dimensional measurements – I am pleased to have been able to lift this final qualification, and have issued an unqualified opinion on respect of the 2024-25 financial statements.
4. The DRC valuation, like other significant infrastructure valuations in central government, factors in the extent of the relevant assets, the cost to rebuild them on a current cost basis, and management's best assessment of their condition.
5. I commend management for improving their asset data to the extent that it can adequately support the Depreciated Replacement Cost estimate. Management's work builds on efforts over the longer term and has uplifted the quality of the same dataset used to support real-world decisions on asset management.

Forward look

6. The achievement of unqualified financial statements is a significant milestone for the Environment Agency. Opportunities remain in terms of financial management to:
 - a. target iterative further improvements in asset data based on the insight gained from the DRC exercise;
 - b. further improve the efficiency and resilience of procedures supporting financial reporting, building on the positive progress this year for example in respect of revenue recognition; and
 - c. create a robust plan to further improve the timeliness of the financial statements presented to Parliament, working closely with the Department; and
 - d. safeguard improvements already made by maintaining the conditions that have enabled recent progress, including appropriate resourcing and training, and leadership which promotes good data quality and continuous improvement in financial management.

Gareth Davies
Comptroller and Auditor General

29 October 2025

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

Financial statements

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2025	Note	2024-25 £ million	2023-24 £ million Restated
Expenditure			
Staff costs	3	695.8	688.6
Capital works expensed in year	4	202.5	302.3
Depreciation and amortisation	7, 8, 9	349.8	330.8
Other expenditure	5	873.7	880.5
		2,121.8	2,202.2
Income			
Revenue from contracts with customers	6	(556.6)	(472.1)
Other operating income	6	(30.5)	(27.1)
		(587.1)	(499.2)
Net expenditure		1,534.7	1,703.0
(Gain)/loss on sale of assets		(1.9)	14.1
Interest receivable		(4.9)	(4.3)
Financing on pension scheme assets and liabilities	17.3	(38.4)	(23.4)
Net expenditure after interest		1,489.5	1,689.4
Other comprehensive expenditure			
Revaluation of property, plant and equipment	7	(449.3)	(434.0)
Revaluation of right of use assets	8	-	(0.3)
Revaluation of intangible assets	9	0.5	(3.2)
Actuarial gain on pension scheme assets and obligations	17.3	840.5	(268.1)
		391.7	(705.6)
Total comprehensive net expenditure for the year		1,881.2	983.8

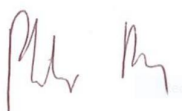
All of the Environment Agency's income and expenditure for the year was derived from continuing activities. The notes on pages 81 to 134 form part of these financial statements.

The prior period restatements are described in note 1.8.

Statement of Financial Position

As at 31 March 2025	Note	31 March 2025 £ million	31 March 2024 £ million Restated	1 April 2023 £ million Restated
Non-current assets				
Property, plant and equipment	7	10,239.4	9,631.7	9,318.9
Right of use assets	8	65.8	69.3	54.4
Intangible assets	9	117.9	87.6	91.7
Pension assets	17.3	-	797.1	503.4
Total non-current assets		10,423.1	10,585.7	9,968.4
Current assets				
Assets classified as held for sale		2.0	13.1	9.6
Trade and other receivables	11	102.0	99.2	165.0
Cash and cash equivalents	12	281.1	192.4	167.5
Total current assets		385.1	304.7	342.1
Total assets		10,808.2	10,890.4	10,310.5
Current liabilities				
Trade and other payables	13	(563.5)	(523.0)	(559.9)
Provisions		(7.3)	-	-
Reservoir operating agreements	18.1	(26.5)	(25.6)	(24.3)
Lease liabilities	14	(22.9)	(20.7)	(14.0)
Total current liabilities		(620.2)	(569.3)	(598.2)
Total assets less current liabilities		10,188.0	10,321.1	9,712.3
Non-current liabilities				
Trade and other payables	13	(175.3)	(168.8)	(145.5)
Provisions		(10.8)	(36.8)	(29.2)
Reservoir operating agreements	18.1	(447.5)	(435.6)	(423.7)
Lease liabilities	14	(23.0)	(25.9)	(31.0)
Total non-current liabilities		(656.6)	(667.1)	(629.4)
Assets less liabilities		9,531.4	9,654.0	9,082.9
Taxpayers' equity				
Revaluation reserve		8,536.1	8,101.7	7,767.5
General reserve		995.3	755.2	812.0
Pension reserve		-	797.1	503.4
Total taxpayers' equity		9,531.4	9,654.0	9,082.9

The prior period restatements are described in note 1.8. The notes on pages 81 to 134 form part of these financial statements. The financial statements on pages 77 to 80 were approved by the Board on 24 October 2025 and signed on its behalf by:



Philip Duffy, Chief Executive and Accounting Officer

24 October 2025

Statement of Cash Flows

For the year ended 31 March 2025	Note	2024-25 £ million	2023-24 £ million Restated
Cash flows from operating activities			
Net expenditure before interest		(1,494.4)	(1,693.8)
Interest receivable		4.9	4.3
Depreciation and amortisation	7, 8, 9	349.8	330.8
Impairment of non-current assets	10	(8.6)	47.3
(Gain)/loss on sale of assets		(1.9)	14.1
(Increase)/decrease in trade and other receivables	11	(2.8)	65.8
Increase/(decrease) in trade and other payables	13	47.1	(13.6)
Interest on reservoir operating agreement liabilities	18.1	40.8	40.2
Increase/(decrease) in provisions		(19.2)	(3.6)
Lease interest	14.4	2.2	1.8
Non-cash pension costs		48.0	70.6
Employer contributions to pension		(91.4)	(96.1)
Donated assets		-	6.2
Net cash outflow from operating activities		(1,125.5)	(1,226.0)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(451.4)	(249.4)
Purchase of intangible assets	9	(48.1)	(10.8)
Proceeds of disposal of property, plant and equipment		5.7	1.5
Net cash outflow from investing activities		(493.8)	(258.7)
Cash flows from financing activities			
Grants from Defra	19.1	1,758.6	1,555.0
Payments towards lease liabilities	14.4	(22.6)	(18.4)
Payments towards reservoir operating agreement liabilities	18.1	(28.0)	(27.0)
Net cash outflow from financing activities		1,708.0	1,509.6
Net increase in cash and cash equivalents in the period	12	88.7	24.9
Cash and cash equivalents at the beginning of the period	12	192.4	167.5
Cash and cash equivalents at the end of the period	12	281.1	192.4

The notes on pages 81 to 134 form part of these financial statements. The prior period restatements are described in note 1.8.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2025	Note	Revaluation reserve £ million Restated	General reserve £ million Restated	Pension reserve £ million	Total reserves £ million Restated
Balance at 1 April 2023 (Restated)		7,767.5	812.0	503.4	9,082.9
Net gain on revaluation of property, plant and equipment (Restated)	7	434.0	-	-	434.0
Net gain on revaluation of right of use assets	8	0.3	-	-	0.3
Net gain on revaluation of intangible assets	9	3.2	-	-	3.2
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 (Restated)		-	(1,689.5)	-	(1,689.5)
Total recognised income and expense (Restated)		8,101.7	(799.8)	797.1	8,099.0
Grants from Defra	19.1	-	1,555.0	-	1,555.0
Balance at 1 April 2024 (Restated)		8,101.7	755.2	797.1	9,654.0
Net gain on revaluation of property, plant and equipment	7	449.3	-	-	449.3
Net gain on revaluation of right of use assets	8	-	-	-	-
Net gain on revaluation of intangible assets	9	(0.5)	-	-	(0.5)
Actuarial gain on pension scheme assets and obligations	17.3	-	-	(840.5)	(840.5)
Transfers between reserves	15.1	(14.4)	(29.0)	43.4	-
Retained deficit		-	(1,489.5)	-	(1,489.5)
Total recognised income and expense		8,536.1	(763.3)	-	7,772.8
Grants from Defra	19.1	-	1,758.6	-	1,758.6
Balance at 31 March 2025		8,536.1	995.3	-	9,531.4

The notes on pages 81 to 134 form part of these financial statements. The prior period restatements are 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 2024-25 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.

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

Non-current assets (notes 7, 8 and 9)

The valuation of the EA's property, plant and equipment, intangible assets and right of use assets, involves several judgements, including whether the EA has rights and rewards of an asset, if they will continue to provide benefits and inputs into full valuation models or the selection of an appropriate index to revalue the assets.

The depreciation is based on estimated useful economic lives of individual asset types, which may be based on the condition of the asset or expected useful life remaining.

Project accounting (notes 4, 5 and 7)

Significant judgements are made in assessing whether assets being created by the EA will ultimately be controlled by the organisation on completion and whether the costs incurred meet the definition of capital as per IAS 16 and 38 as adapted for the public sector.

Reservoir operating agreements (notes 5.3 and 18.1)

The liability recognised in relation to these agreements is calculated by discounting the estimated future cash payments that the EA will be required to make. 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).

Pension liabilities (note 17)

Independent and qualified actuaries consider 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 actuaries and therefore using expectations about the future to inform the assumptions used to value the liabilities.

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 became effective 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 very few arrangements that are likely to be within scope. We plan to do further work where there is uncertainty if arrangements come within scope.

Social benefits

The 2025-26 FReM will include new guidance on accounting for social benefits. The 2025-26 FReM will define social benefits as 'current transfers received by households (including individuals) intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education, or family circumstances.'

The Environment Agency does not administer or pay social benefits and so this change in accounting policy is not expected to have any impact on the Agency's financial statements.

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.

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

The EA runs a research and development programme which covers scientific and technical functions in environment and business, and flood and coastal erosion risk management. The purpose of the programme is to make the EA more effective and efficient, inform advice and guidance and develop innovative approaches to the challenges faced.

Expenditure on research and development is recognised in the year it is incurred and is not capitalised within our statement of financial position.

In 2024-25, £24.7 million of research and development expenditure was incurred (2023-24 - £17.8 million).

1.8 Prior period adjustment

The prior years financial statements have been restated to reflect changes to opening positions due to:

1. A change in accounting policy affecting charge scheme surpluses and deficits
2. A correction of the valuation of operational assets

Change in accounting policy affecting charge schemes

The prior period accounts have been restated to reflect the change in accounting policy affecting charge scheme surpluses and deficits.

The EA operates a number of charge schemes and has the statutory powers to update its charging regimes to ensure that schemes fully cost recover, as required by Managing Public Money.

From year to year, charge schemes may over or under recover, and these surpluses and deficits have historically been treated as deferred or accrued income, held on the statement of financial position to be utilised or recovered in future years. These positions were held as assets and liabilities with the expectation these would be settled in future years, through cost management or charge consultations.

This treatment was an override to the accounting standards (specifically IFRS 15), and the EA received specific dispensation from HM Treasury to be able to do this. The cumulative financial impact of the override was £44.6 million at 31 March 2024.

The decision was made during 2024-25 to drop this dispensation. This means that for 2024-25 and going forwards, any deficits or surpluses arising from charging schemes now need to be directly reflected in the financial performance and outturn against Defra's control totals in the year incurred, based on the charging regime in place at the time of the transaction and without anticipating future changes which may be possible. Any overspends on charges will need to be covered by grant-in-aid funding.

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.

The opening balance as at 1 April 2023 has not been restated as the value of the adjustment that would have been required under the accounting policy change was not material (31 March 2023 - £1.7m).

Correction of the valuation of operational assets

Operational assets (disclosed in note 7) were first valued under depreciated replacement cost on 31 March 2023, removing a qualification because the assets had previously been valued under a non-compliant modified historic cost basis. For the 2022-23 and 2023-24 year ends, the NAO qualified their opinion on the DRC valuation due to errors or omissions in the source data used to prepare the valuation. There has been a significant data improvement programme across the previous two financial years to rectify the errors or omissions.

As at 31 March 2025 the data improvements works were substantially complete. The asset data at this date has been used to recalculate the 2022-23 and 2023-24 balances, including movements within each year.

The PPA includes £43.7m relating to the impairment of habitat creation schemes, where the initial valuation of identifiable assets is lower than the cost to create the habitat scheme. This expenditure, previously capitalised, took place before the earliest prior period presented (1 April 2024). The impact of the change is to reduce the value of land and buildings at both 31 March 2024 and 1 April 2023, and to increase the general reserve deficit by the same amount.

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.

Statement of Financial Position (Extract) - 1 April 2023

	1 April 2023 Previously reported £ million	Prior period adjustment Charge schemes £ million	Prior period adjustment Operational assets valuation £ million	1 April 2023 Restated £ million
Property, plant and equipment	10,494.8	-	(1,175.9)	9,318.9
Revaluation reserve	8,899.7	-	(1,132.2)	7,767.5
General reserve	855.7	-	(43.7)	812.0

Statement of Changes in Taxpayers' Equity - General reserve (Extract) - 1 April 2023

	1 April 2023 Previously reported £ million	Prior period adjustment Charge schemes £ million	Prior period adjustment Operational assets valuation £ million	1 April 2023 Restated £ million
Retained deficit	(1,455.5)	-	(43.7)	(1,499.2)
Balance at 31 March 2023	855.7	-	(43.7)	812.0

Statement of Changes in Taxpayers' Equity - Revaluation reserve (Extract) - 1 April 2023

	1 April 2023 Previously reported £ million	Prior period adjustment Charge schemes £ million	Prior period adjustment Operational assets valuation £ million	1 April 2023 Restated £ million
Net gain on revaluation of property, plant and equipment	6,644.2	-	(1,132.2)	5,512.0
Balance at 31 March 2023	8,899.7	-	(1,132.2)	7,767.5

Statement of Comprehensive Net Expenditure (Extract) - 2023-24

	2023-24 Previously reported £ million	Prior period adjustment Charge schemes £ million	Prior period adjustment Operational assets valuation £ million	2023-24 Restated £ million
Depreciation and amortisation	362.5	-	(31.7)	330.8
Revenue from contracts with customers	(516.8)	44.7	-	(472.1)
Other operating income	(27.0)	(0.1)	-	(27.1)
Revaluation of property, plant and equipment	(527.2)	-	93.2	(434.0)
Total comprehensive net expenditure	877.7	44.6	61.5	983.8

Statement of Financial Position (Extract) - 2023-24

	2023-24 Previously reported £ million	Prior period adjustment Charge schemes £ million	Prior period adjustment Operational assets valuation £ million	2023-24 Restated £ million
Property, plant and equipment	10,869.1	-	(1,237.4)	9,631.7
Trade and other receivables	162.1	(62.9)	-	99.2
Trade and other payables (current)	(541.3)	18.3	-	(523.0)
Revaluation reserve	9,327.1	-	(1,225.4)	8,101.7
General reserve	811.8	(44.6)	(12.0)	755.2

Statement of Cash Flows (Extract) - 2023-24

	2023-24 Previously reported £ million	Prior period adjustment Charge schemes £ million	Prior period adjustment Operational assets valuation £ million	2023-24 Restated £ million
Net expenditure before interest	(1,680.8)	(44.6)	31.7	(1,693.7)
Depreciation and amortisation	362.5	-	(31.7)	330.8
Movement in trade and other receivables	2.9	62.9	-	65.8
Movement in trade and other payables	4.6	(18.3)	-	(13.7)

There was no net effect on the statement of cash flows, including in terms of classification between operating, investing and financial activities - the lines above reflect only the indirect effect of changes to the results and statement of financial position on movements within the operating activities section.

Statement of Changes in Taxpayers' Equity - General reserve (Extract) - 2023-24

	2023-24 Previously reported £ million	Prior period adjustment Charge schemes £ million	Prior period adjustment Operational assets valuation £ million	2023-24 Restated £ million
Retained deficit	(1,676.6)	(44.6)	31.7	(1,689.5)
Balance at 31 March 2024	811.8	(44.6)	(12.0)	755.2

Statement of Changes in Taxpayers' Equity - Revaluation reserve (Extract) - 2023-24

	2023-24 Previously reported £ million	Prior period adjustment Charge schemes £ million	Prior period adjustment Operational assets valuation £ million	2023-24 Restated £ million
Net gain on revaluation of property, plant and equipment	527.2	-	(93.2)	434.0
Balance at 31 March 2024	9,327.1	-	(1,225.4)	8,101.7

2. Segmental reporting

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.

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

- FCERM - flood and coastal erosion risk management
- Environment & business grant-in aid
- Environment & business charges

Further information on these segments is included in the parliamentary accountability and audit report.

The apportionment between the three segments is driven by a functional split built into the accounting system, agreed for each manager, team and project code.

Net expenditure by operating segment

	FCERM	E&B charges	E&B grant-in-aid	Total 2024-25	Total 2023-24 Restated
	£ million	£ million	£ million	£ million	£ million
Expenditure					
Staff costs	313.8	326.1	55.9	695.8	688.6
Capital works expensed in year	202.5	-	-	202.5	302.3
Depreciation and amortisation	257.1	48.1	44.6	349.8	330.8
Other expenditure	606.3	170.3	97.1	873.7	880.5
	1,379.7	544.5	197.6	2,121.8	2,202.2
Income					
Revenue from contracts with customers	(88.7)	(467.9)	-	(556.6)	(472.1)
Other operating income	(6.2)	(23.9)	(0.4)	(30.5)	(27.1)
	(94.9)	(491.8)	(0.4)	(587.1)	(499.2)
Net expenditure	1,284.8	52.7	197.2	1,534.7	1,703.0

Major customers

13.5% of revenue from transactions with customers is derived from Northumbrian Water Limited, totalling £71.6 million in 2024-25 (2023-24 - £47.9 million).

All the Northumbrian Water Limited income relates to the E&B segment, and the vast majority of that income relates to regulatory charges for water abstraction (see note 6). The Environment Agency's reliance on income from customers is limited, since most of its funding comes from Defra as the sponsoring department.

3. Staff costs

Staff costs	2024-25 £ million	2023-24 £ million
Wages and salaries	539.6	520.8
Social security costs	61.0	58.8
Pension charge - service cost (note 17.3)	86.4	93.9
Agency staff wages and salaries	13.2	12.5
Other staff related costs	1.8	7.1
	702.0	693.1
Less amounts charged to capital projects	(6.2)	(4.5)
Total staff costs	695.8	688.6

Amounts charged to capital projects have been re-presented to remove the effect of a grossing-up (£42.1m in 2023-24) which also affected the 'other staff-related costs' line. Amounts charged to capital projects in the table above now directly represent the net total of staff costs which are charged to the statement of financial position. The changes affect the presentation of this note only - there has been no change in the amount of staff time capitalised in the prior year.

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.

Regular contributions are made to the Environment Agency's Pension Fund (known as the active fund) to cover current and future pension liabilities. The level of employer contributions is set 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 2025. Service costs are charged to the statement of comprehensive net expenditure, taking account of the expected costs over the service periods for relevant employees, based on assumptions at the start of the financial year. 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. See note 17 for further details.

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. This is done 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)

CWEIY expenditure covers work undertaken by the Environment Agency which is capital in nature but is in relation to assets where the Agency will not have responsibility for ongoing maintenance. The expenditure classified as CWEIY in 2024-25 was £202.5 million (2023-24 - £302.3 million).

The main types of work undertaken are as follows:

Beach replenishment

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

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.

The top three major projects during 2024-25 were:

Project	2024-25 £ million	2023-24 £ million
Poole Harbour habitat scheme	13.9	9.9
Preston flood risk management scheme	13.2	16.5
Saltfleet to Gibraltar Point beach management	8.8	9.4

5. Other expenditure

Type of expenditure	2024-25 £ million	2023-24 £ million
Grants (note 5.1)	321.7	184.3
Hired and contracted services	211.0	238.9
Defra group Corporate Services charge (note 5.2 and 19.2)	105.7	88.7
Information technology	71.3	96.0
Reservoir operating agreements (note 5.3 and 18.1)	63.9	67.8
Impairment of non-current assets (note 10)	(8.6)	47.3
Other costs	32.9	31.2
Plant and equipment	31.0	36.4
Buildings, maintenance and utilities	22.1	46.0
Travel and subsistence	12.8	13.4
Lease expenditure	12.6	17.2
Training	7.9	8.6
Administration	4.9	5.5
Bad debt write-offs	5.0	1.6
Expected credit loss provision (credit)/expense (note 11)	(1.3)	1.3
Movement in provisions	(19.2)	(3.7)
Total	873.7	880.5

The categories of expenditure included above have been re-presented for the prior year, with the aim of simplifying the categories of expenditure reported - for example, by presenting all grant, IT and building expenditure into one line each, which was previously accounted for across ten separate lines. There has been no change to the overall reported amounts.

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 amounts either agreed contractually or by another form of mutual arrangement.

Debts are written off when they are 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 Grants

The Environment Agency has responsibility for administering and issuing grants to external bodies, including local councils, internal drainage boards and other risk management authorities, provided in order to fund flood and coastal erosion risk management work.

As the grants are issued without expectation of repayment and do not involve the direct receipt of goods or services by the Environment Agency, the accounting treatment falls within the scope of IAS 37.

The expenditure is recognised in the financial statements as an expense once a signed claim form is received from the grant recipient.

We also recognise the value of the grant payments the Agency has committed to make to schemes in the future (see note 16.3). The commitment is recognised once the grant award letter has been formally issued to the recipient.

The three largest grant recipients during 2024-25 were:

Project	2024-25 £ million	2023-24 £ million
East Suffolk Council	28.9	1.7
Leeds City Council	23.7	2.0
North Norfolk District Council	17.6	4.9

5.2 Defra group Corporate Services

The full year cost of Defra group Corporate Services provided to the Environment Agency for 2024-25 was £149.1 million (2023-24 - £155.4 million).

Defra charged the Environment Agency £105.7 million (2023-24 - £88.7 million) for net expenditure it incurred relating to the provision of corporate services in 2024-25. Defra group Corporate Services costs are apportioned using metrics that consider what is driving the costs so they can be split across the organisations that are served.

A breakdown of the cost by function is provided below:

Defra group Corporate Services function	2024-25 £ million	2023-24 £ million
Digital, Data, Technology and Security (DDTS)	67.1	70.8
Estates	44.2	45.7
Corporate strategy	-	2.1
Shared Services Connected Limited (SSCL)	12.3	12.7
Commercial	3.9	4.0
Human resources	6.1	4.9
Finance	10.8	10.6
Communications	4.7	4.6
	149.1	155.4
Less amounts directly incurred	(43.4)	(66.7)
Total	105.7	88.7

SSCL is Defra group's outsourced provider of payroll, finance, HR and procurement shared transactional processing services.

£43.4 million of the expenditure in 2024-25 was borne directly by the Environment Agency, where expenditure was incurred under longstanding contracts (2023-24 - £66.7 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 such costs. As external supplier contracts end and move to Defra group contracts, costs will increasingly be classified within the Defra group Corporate Services charge to the Environment Agency.

The external auditor's fee for the statutory audit in 2024-25 was £560,000 (2023-24 - £560,000). The cost of the audit is included in the corporate services charge, classified within the finance element. 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.

6. Income

	2024-25 £ million	2023-24 £ million Restated
Revenue from contracts with customers		
Abstraction charges	(185.0)	(166.3)
EPR water quality	(115.1)	(72.1)
EPR installations	(34.9)	(28.5)
EPR waste	(29.3)	(22.8)
Fishing licence duties	(24.3)	(22.8)
Hazardous waste	(18.0)	(23.3)
Radioactive substances regulation	(20.4)	(22.3)
Navigation licence income	(10.1)	(10.1)
Emissions trading and climate change agreements	(4.9)	(5.3)
Other charges	(26.0)	(29.5)
Flood risk levies	(40.9)	(37.2)
IDB precepts	(8.2)	(8.1)
Environmental improvement unit charge	-	(0.5)
Partnership funding	(39.5)	(23.3)
Total	(556.6)	(472.1)
Other operating income		
Other grants	(6.3)	(6.7)
Other income	(24.2)	(20.4)
Total	(30.5)	(27.1)
Total income	(587.1)	(499.2)

The prior period restatement is described in note 1.8.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

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 is recognised when (or as) the Environment Agency satisfies a performance obligation.

This can vary depending on the type of income. For example, with 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). As the payment is received when the application is initially made, income relating to applications not fully processed is deferred.

For subsistence income, the performance obligation is to provide the legal entitlement to carry out specific operations for the period. Subsistence income is recognised over the permit period to reflect the Environment Agency's requirement to regulate throughout the period.

Partnership funding

Income classified as partnership funding relates to contributions from external parties towards FCERM capital projects. The Environment Agency recognises partnership funding revenue in accordance with the five stages set out in IFRS 15.

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.

Revenue is recognised over the progress of the completion of the flood risk management works. 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.

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.

7. Property, plant and equipment

As at 31 March 2025	Operational assets £ million	Land and buildings £ million	Other property, plant and equipment £ million	Assets under construction £ million	Total £ million
Cost or valuation					
At 1 April 2024 (Restated)	22,561.8	351.0	300.5	534.5	23,747.8
Capital expenditure	-	14.4	12.7	424.3	451.4
Assets commissioned in year	202.0	4.1	-	(206.1)	-
Disposals	-	(8.0)	(25.1)	-	(33.1)
Revaluation	714.3	34.9	(12.4)	-	736.8
Impairment	-	1.6	3.1	-	4.7
Reclassification to held for sale	-	11.1	-	-	11.1
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	-	5.3	(5.3)	-	-
At 31 March 2025	23,478.1	414.4	273.5	752.7	24,918.7

As at 31 March 2025	Operational assets £ million	Land and buildings £ million	Other property, plant and equipment £ million	Assets under construction £ million	Total £ million
Depreciation					
At 1 April 2024 (Restated)	13,840.2	63.6	212.5	-	14,116.3
Charged during the period	278.7	4.1	26.7	-	309.5
Disposals	-	(5.0)	(24.3)	-	(29.3)
Revaluation	293.1	(0.5)	(5.1)	-	287.5
Impairment	-	(7.9)	3.2	-	(4.7)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	-	2.2	(2.2)	-	-
At 31 March 2025	14,412.0	56.5	210.8	-	14,679.3
Net book value at 31 March 2025	9,066.1	357.9	62.7	752.7	10,239.4

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As at 31 March 2024	Operational assets £ million Restated	Land and buildings £ million Restated	Other property, plant and equipment £ million	Assets under construction £ million	Total £ million Restated
Cost or valuation					
At 1 April 2023 (Restated)	21,813.5	410.9	281.3	426.0	22,931.7
Capital expenditure	-	1.8	6.3	241.3	249.4
Assets commissioned in year	126.8	1.3	-	(128.1)	-
Disposals	-	(16.6)	(18.0)	-	(34.6)
Revaluation	615.2	13.8	21.4	-	650.4
Impairment	-	(40.7)	(0.3)	(4.7)	(45.7)
Reclassification to held for sale	-	(3.4)	-	-	(3.4)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	6.3	(16.1)	9.8	-	-
At 31 March 2024	22,561.8	351.0	300.5	534.5	23,747.8

As at 31 March 2024	Operational assets £ million Restated	Land and buildings £ million Restated	Other property, plant and equipment £ million	Assets under construction £ million	Total £ million Restated
Depreciation					
At 1 April 2023 (Restated)	13,341.7	83.3	187.9	-	13,612.9
Charged during the period	271.9	4.6	24.4	-	300.9
Disposals	-	(1.6)	(11.4)	-	(13.0)
Revaluation	225.6	(15.2)	6.0	-	216.4
Impairment	-	(0.7)	(0.2)	-	(0.9)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	1.0	(6.8)	5.8	-	-
At 31 March 2024	13,840.2	63.6	212.5	-	14,116.3
Net book value at 31 March 2024	8,721.7	287.5	88.0	534.5	9,631.7

The prior period restatement is described in note 1.8.

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 boreholes, gauging stations and weirs; and navigation assets such as locks.

Out of scope assets include assets that do not meet the following criteria:

- 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.
- 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.
- Assets where the useful economic life is less than 1 year.

Operational asset categories

The net book value of operational assets can be split into categories as follows:

	2024-25 £ million	2023-24 £ million
Aids to navigation	290.8	289.4
Buildings and compounds	113.4	113.6
Channel crossings and channels	784.4	748.2
Defences	2,600.1	2,515.5
Instruments	25.5	27.0
Mechanical, electrical, instrumentation, control and automation (MEICA)	163.4	157.9
Other	225.0	101.8
Structures	3,858.1	3,800.8
Thames Barrier and Associated Gates	1,005.4	967.5
Total	9,066.1	8,721.7

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.

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

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 75 asset types and within the asset categories. These include calculations such as the expected size of a Modern Equivalent Asset (MEA) based which may include m^2 or m^3 .

Measurement is based on either the MEA size of an asset or the size of the asset that would be required for the specific site - for example a bridge has a MEA width based on its use and a site-specific length based on the size of the crossing required. Where site specific size data was not available assumptions were made based on statistical analysis of the known data points.

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. 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.

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.

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.

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.

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 - 100
Buildings and compounds	40 - 60
Channels	100
Channel crossings	40 - 100
Defence	15 - 100
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	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.
Dimensional data (to use to apply the cost model to derive the MEAV)	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. 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.
Depreciation factors - method 1 (civils based on condition data and EA deterioration curve)	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: 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. 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. Where there is no protection type or it is classified as 'surface water' protection then we have assumed that the protection type is fluvial. 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.
Depreciation factors - method 2 (MEICA assets using EA available data)	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. The assumptions where there was incomplete data were to assume the mid points for the data inputs required to generate the depreciation factor Where element LOF is 'blank' we have assumed 'Possible' Where TTR is 'blank we have assumed 'Medium
Depreciation factors - method 3 (using data on asset start dates and useful economic life (UEL))	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.

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.

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) indices have been used based on the type of asset being indexed. These were:

Index	Description
BCIS General Building Cost Index	Measures the change in costs to the building contractor for labour, plant, and materials.
BCIS Civil Engineering Cost Index	Measures the changes in the cost of labour, materials, and other inputs for civil engineering projects.
BCIS M and E Cost Index	Measures the changes in the cost of Mechanical and Electrical (M and E) services.

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 across the network of operational assets.

Revaluation movement	2024-25 £ million	2023-24 £ million
Indexation	276.0	242.5
Maintaining or changes in condition	145.1	147.2
Total	421.1	389.7

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.

There are limitations on the data included within the DRC valuation, where averages of size data have been included based on statistical analysis.

Type	DRC	Sensitivity impact DRC	Potential DRC	Variance
	£ million	£ million	£ million	%
Scenario 1: Increased Inflation Index	8,004	158	8,162	2.0%
Scenario 2: Alternative Median Average	8,004	(82)	7,922	(1.0%)
Scenario 3: Alternative Mean Average	8,004	810	8,814	10.1%
Scenario 4: Alternative condition grade - average	8,004	59	8,063	0.7%
Scenario 5: Alternative condition grade - grade 4	8,004	(165)	7,839	(2.1%)

Sensitivity	Assumption in valuation	Sensitivity
Scenario 1: Increased Inflation Index	The valuation applies a number of construction related indices to the costing rates both in full and interim valuation years. The indices used in the valuation are disclosed above.	The indexation rates used are published rates, so not in themselves judgemental. We have applied a 2% increase to rates, being the target for UK inflation, to quantify how sensitive the valuation is to increases in inflation.
Scenario 2: Alternative Median Average	The valuation has used statistical analysis to select an average based either on mean, median or an adjusted version of either to exclude statistical anomalies	Use of a pure median average across all asset types with no adjustment for statistical anomalies.
Scenario 3: Alternative Mean Average	The valuation has used statistical analysis to select an average based either on mean, median or an adjusted version of either to exclude statistical anomalies	Use of a pure mean average across all asset types with no adjustment for statistical anomalies.
Scenario 4: Alternative condition grade - average	The valuation has assumed a target condition grade where an asset does not have condition grade data.	Use of the average condition grade across all asset types.
Scenario 5: Alternative condition grade - grade 4	The valuation has assumed a target condition grade where an asset does not have condition grade data.	Use of condition grade 4 instead of the target condition grade 3.

Thames Barrier sensitivity

We have adopted a specialist methodology for valuing the Thames Barrier, resulting in the £1.0bn valuation. Three approaches to the valuation were considered: indexed historical costs, a materials and quantities estimate, and international benchmarks. Each method was assessed against the AACE International estimate maturity assessment criteria, which ranks how accurate each method is likely to be. The materials and quantities estimate was ranked to be the most accurate of the three methods. Applying the AACE expected range of accuracy for this method gives a lower-level valuation of £0.75bn and an upper-level valuation of £1.40bn.

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. The majority of these are operational land parcels but also includes several administrative land and building assets and dwellings. These are valued as part of a rolling five-year programme.

As at 31 March 2025	Operational land £ million	Freehold land £ million	Dwellings £ million	Freehold buildings £ million	Total £ million
Cost or valuation					
At 1 April 2024 (Restated)	182.9	34.2	10.0	123.9	351.0
Capital expenditure	-	14.4	-	-	14.4
Assets commissioned in year	2.0	-	-	2.1	4.1
Disposals	(0.3)	(1.3)	-	(6.4)	(8.0)
Revaluation	42.4	1.4	(2.2)	(6.7)	34.9
Impairment	4.3	0.4	(0.3)	(2.8)	1.6
Reclassification to held for sale	7.5	1.5	(0.7)	2.8	11.1
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	(0.6)	1.3	(0.1)	4.7	5.3
At 31 March 2025	238.2	51.9	6.7	117.6	414.4

As at 31 March 2025	Operational land £ million	Freehold land £ million	Dwellings £ million	Freehold buildings £ million	Total £ million
Depreciation					
At 1 April 2024 (Restated)	-	-	4.1	59.5	63.6
Charged during the period	-	-	0.2	3.9	4.1
Disposals	-	-	-	(5.0)	(5.0)
Revaluation	5.6	-	(2.0)	(4.1)	(0.5)
Impairment	(5.6)	-	(0.2)	(2.1)	(7.9)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	-	-	-	2.2	2.2
At 31 March 2025	-	-	2.1	54.4	56.5
Net book value at 31 March 2025	238.2	51.9	4.6	63.2	357.9

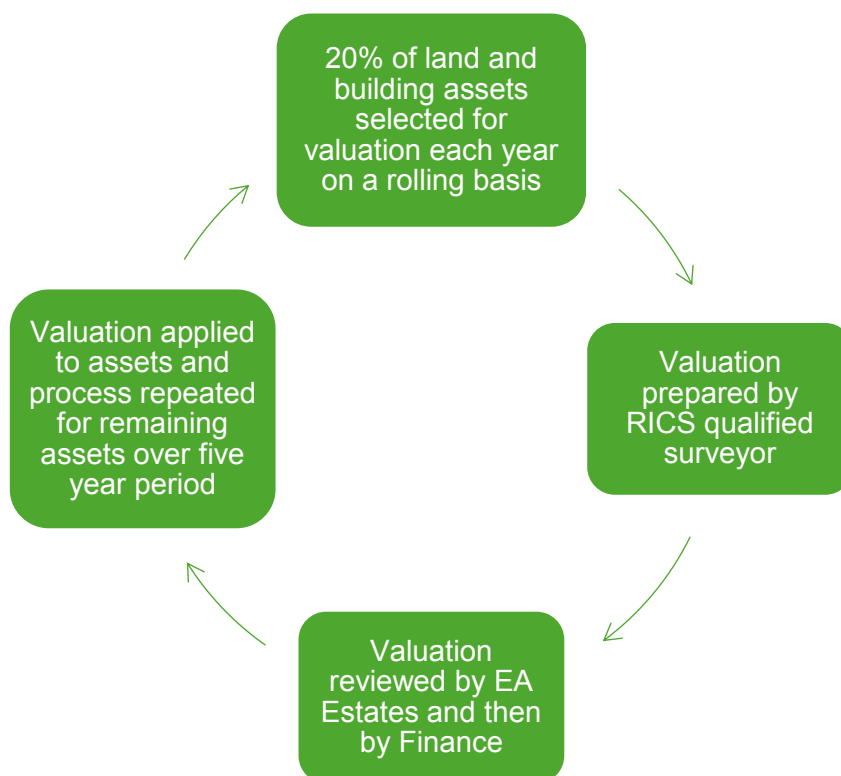
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As at 31 March 2024	Operational land £ million Restated	Freehold land £ million	Dwellings £ million	Freehold buildings £ million	Total £ million Restated
Cost or valuation					
At 1 April 2023	191.8	36.0	17.7	165.4	410.9
Capital expenditure	-	1.8	-	-	1.8
Assets commissioned in year	-	-	-	1.3	1.3
Disposals	(10.0)	(2.3)	(0.4)	(3.9)	(16.6)
Revaluation	13.7	3.2	(3.6)	0.5	13.8
Impairment	(34.3)	(4.9)	(0.6)	(0.9)	(40.7)
Reclassification to held for sale	(0.3)	(0.2)	-	(2.9)	(3.4)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	22.0	0.6	(3.1)	(35.6)	(16.1)
At 31 March 2024	182.9	34.2	10.0	123.9	351.0

As at 31 March 2024	Operational land £ million Restated	Freehold land £ million	Dwellings £ million	Freehold buildings £ million	Total £ million Restated
Depreciation					
At 1 April 2023	-	-	9.8	73.5	83.3
Charged during the period	0.1	-	0.4	4.1	4.6
Disposals	(0.1)	-	(0.3)	(1.2)	(1.6)
Revaluation	(3.9)	-	(5.7)	(5.7)	(15.2)
Impairment	(0.3)	-	(0.1)	(0.3)	(0.7)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	4.1	-	-	(10.9)	(6.8)
At 31 March 2024	-	-	4.1	59.5	63.6
Net book value at 31 March 2024	182.9	34.2	5.9	64.4	287.5

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.

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 valuation also 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 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. The EUV valuation approach for administrative land and buildings uses comparatives of market value constrained to existing use.

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.

Operational land, buildings and dwellings are valued on a rolling basis whereby a proportion of assets are valued every year. Under the rolling programme, an average of 20% of in-scope assets (above the £25k threshold) are valued each year, such that each asset is valued once over a 5-year quinquennial period. The programme is on track to value all relevant assets by March 2026. Administrative land and buildings are valued on a non-rolling revaluation basis and will be fully revalued in 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.

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 roads

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.

Useful economic life by asset type

Fencing	15 years
Freehold buildings	10 - 60 years
Dwellings	60 years
Operational buildings	60 years
Roads, car parks and walkways	60 years

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 2025	Plant and machinery	Vehicles	Furniture, fittings and equipment	IT hardware	Total
	£ million	£ million	£ million	£ million	£ million
Cost or valuation					
At 1 April 2024	96.7	90.6	79.4	33.8	300.5
Capital expenditure	7.7	(1.5)	6.5	-	12.7
Assets commissioned in year	-	-	-	-	-
Disposals	(6.3)	(4.2)	(1.4)	(13.2)	(25.1)
Revaluation	(7.3)	(2.3)	(2.6)	(0.2)	(12.4)
Impairment	2.2	(0.1)	0.8	0.2	3.1
Reclassification to held for sale	-	-	-	-	-
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	0.1	-	(5.4)	-	(5.3)
At 31 March 2025	93.1	82.5	77.3	20.6	273.5

As at 31 March 2025	Plant and machinery	Vehicles	Furniture, fittings and equipment	IT hardware	Total
	£ million	£ million	£ million	£ million	£ million
Depreciation					
At 1 April 2024	67.6	68.8	44.7	31.4	212.5
Charged during the period	7.8	11.1	7.0	0.8	26.7
Disposals	(6.2)	(4.1)	(0.8)	(13.2)	(24.3)
Revaluation	(4.0)	0.2	(1.3)	-	(5.1)
Impairment	2.2	-	0.8	0.2	3.2
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	-	-	(2.2)	-	(2.2)
At 31 March 2025	67.4	76.0	48.2	19.2	210.8
Net book value at 31 March 2025	25.7	6.5	29.1	1.4	62.7

As at 31 March 2024	Plant and machinery £ million	Vehicles £ million	Furniture, fittings and equipment £ million	IT hardware £ million	Total £ million
Cost or valuation					
At 1 April 2023	101.6	79.4	67.6	32.7	281.3
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)
Revaluation	6.8	10.7	2.8	1.1	21.4
Impairment	(0.2)	-	(0.1)	-	(0.3)
Reclassification to held for sale	-	-	-	-	-
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	(0.2)	-	10.2	(0.2)	9.8
At 31 March 2024	96.7	90.6	79.4	33.8	300.5

As at 31 March 2024	Plant and machinery £ million	Vehicles £ million	Furniture, fittings and equipment £ million	IT hardware £ million	Total £ million
Depreciation					
At 1 April 2023	64.9	58.0	35.7	29.3	187.9
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
At 31 March 2024	67.6	68.8	44.7	31.4	212.5
Net book value at 31 March 2024	29.1	21.8	34.7	2.4	88.0

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, so 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. For 2024-25, the PPI index was paused from December 2024 onward; therefore, indexation rates were applied only up to that date.

Depreciation

These assets are depreciated on a straight-line basis over their remaining useful life.

Useful economic life by asset type:

Plant and equipment	3 - 25 years
Vehicles	3 - 25 years
Furniture, fittings and equipment	3 - 15 years
IT hardware	3 - 15 years

7.4 Assets under construction

Assets under construction covers assets that are not yet operational.

These assets are recorded at cost and are not revalued and until after they have been completed and transferred to the appropriate asset category. An asset is considered to be complete when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs are reviewed to ensure that they meet the capitalisation threshold requirements of IAS 16 and IAS 38.

The top three major projects included in assets under construction at the balance sheet date were:

Project	31 March 2025 £ million	31 March 2024 £ million
River Thames scheme	53.6	41.7
Canvey Island revetment	53.3	27.5
Bridgwater tidal barrier	45.3	23.3

8. Right of use assets

At 31 March 2025	Land £ million	Buildings £ million	Vehicles £ million	Total £ million
Cost or valuation				
At 1 April 2024	2.2	64.2	31.2	97.6
Assets commissioned in year	-	5.8	14.6	20.4
Disposals	-	(1.4)	(6.0)	(7.4)
Revaluation	-	-	-	-
Reclassification	-	-	-	-
Impairment	-	-	-	-
At 31 March 2025	2.2	68.6	39.8	110.6
Depreciation				
At 1 April 2024	-	17.4	10.9	28.3
Charged during the year	-	13.7	10.1	23.8
Disposals	-	(1.5)	(5.8)	(7.3)
Reclassification	-	-	-	-
At 31 March 2025	-	29.6	15.2	44.8
Net book value at 31 March 2025	2.2	39.0	24.6	65.8

Under IFRS 16, for all qualifying leases we recognise a right of use asset and a lease liability. 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 statement of financial position.

The statement of comprehensive net expenditure reflects related charges for the depreciation of the right of use asset and interest on the lease liability.

At 31 March 2024	Land £ million	Buildings £ million	Vehicles £ million	Total £ million
Cost or valuation				
At 1 April 2023	1.8	51.5	15.3	68.6
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	-	-	-	-
At 31 March 2024	2.2	64.2	31.2	97.6
Depreciation				
At 1 April 2023	-	9.9	4.3	14.2
Charged during the year	-	7.6	7.2	14.8
Disposals	-	(0.1)	(0.6)	(0.7)
Reclassification	-	-	-	-
At 31 March 2024	-	17.4	10.9	28.3
Net book value at 31 March 2024	2.2	46.8	20.3	69.3

9. Intangible assets

At 31 March 2025	Software licences £ million	Websites £ million	Other IT £ million	Assets under construction £ million	Total £ million
Cost or valuation					
At 1 April 2024	68.5	20.0	137.4	29.5	255.4
Capital expenditure	-	-	-	48.1	48.1
Assets commissioned in year	(1.3)	-	6.2	(4.9)	-
Disposals	(18.8)	(1.9)	(25.5)	-	(46.2)
Revaluation	(0.2)	0.3	0.2	-	0.3
Impairment	-	(0.3)	(0.8)	-	(1.1)
Reclassification	-	-	-	-	-
At 31 March 2025	48.2	18.1	117.5	72.7	256.5
Amortisation					
At 1 April 2024	46.3	18.5	103.0	-	167.8
Charged during the year	3.2	0.4	12.9	-	16.5
Disposals	(18.8)	(1.9)	(25.5)	-	(46.2)
Revaluation	0.1	0.8	(0.1)	-	0.8
Impairment	0.2	(0.2)	(0.3)	-	(0.3)
Reclassification	-	-	-	-	-
At 31 March 2025	31.0	17.6	90.0	-	138.6
Net book value at 31 March 2025	17.2	0.5	27.5	72.7	117.9

Intangible assets with a value of £5,000 or more are capitalised. On an annual basis, appropriate indices are applied to ensure they held at fair value.

Assets under construction are recorded at cost and are not revalued.

Amortisation is calculated to write off the value of intangible assets on a straight-line basis over the expected useful economic lives based on the asset type.

Useful economic life by asset type:

Software licences 3 - 25 years

Websites and other IT 3 - 10 years

Details of valuation

Intangible assets were revalued internally at 31 March 2025 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 2025 was £113.5 million (2023-24 - £81.1 million).

The revaluation surplus as at 31 March 2025 for intangible assets was £4.4 million (2023-24 - £8.3 million).

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At 31 March 2024	Software licences £ million	Websites £ million	Other IT £ million	Assets under construction £ million	Total £ million
Cost or valuation					
At 1 April 2023	66.2	20.1	131.0	23.6	240.9
Capital expenditure	-	-	-	10.8	10.8
Assets commissioned in year	1.4	-	1.4	(2.8)	-
Disposals	-	(0.7)	(1.1)	-	(1.8)
Revaluation	1.9	0.6	5.3	-	7.8
Impairment	-	-	0.4	(2.7)	(2.3)
Reclassification	(1.0)	-	0.4	0.6	-
At 31 March 2024	68.5	20.0	137.4	29.5	255.4
Amortisation					
At 1 April 2023	42.9	18.2	88.1	-	149.2
Charged during the year	2.1	0.5	12.6	-	15.2
Disposals	-	(0.7)	(0.7)	-	(1.4)
Revaluation	1.3	0.5	2.8	-	4.6
Impairment	-	-	0.2	-	0.2
Reclassification	-	-	-	-	-
At 31 March 2024	46.3	18.5	103.0	-	167.8
Net book value at 31 March 2024	22.2	1.5	34.4	29.5	87.6

10. Impairment

Impairments by accounting category	31 March 2025 £ million	31 March 2024 £ million
Property, plant and equipment	75.4	67.3
Right of use assets	-	-
Intangible assets	-	-
Total charged to the revaluation reserve	75.4	67.3
Property, plant and equipment	(9.4)	44.8
Right of use assets	-	-
Intangible assets	0.8	2.5
Total impairment charge to the statement of comprehensive net expenditure	(8.6)	47.3
Total impairment as per statement of financial position	66.8	114.6

Impairments are recognised when the recoverable amount of a non-current asset falls below the carrying amount, either because of 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 the balance that would have been recognised 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, which is a credit for 2024-25 because of the reversal of previously recognised impairment charges due to subsequent upwards revaluations. Any impairments charged to reserves are included in the revaluation lines.

11. Trade and other receivables

	31 March 2025 £ million	31 March 2024 £ million Restated
Within one year		
Trade receivables	20.1	29.7
Accrued income	40.6	28.3
Expected credit loss	(4.2)	(5.5)
VAT	42.5	42.5
Employee loans	1.9	1.9
Prepayments	1.5	2.3
Other	(0.4)	-
Total	102.0	99.2

The prior period restatement is described in note 1.8.

Debt recovery and expected credit losses

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

Movement during the year	2024-25 £ million	2023-24 £ million
At 1 April	192.4	167.5
Net change in cash and cash equivalent balances	88.7	24.9
At 31 March	281.1	192.4

By account type	31 March 2025 £ million	31 March 2024 £ million
Government banking service	110.0	36.1
Demand accounts	171.1	156.3
At 31 March	281.1	192.4

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

Demand accounts are for amounts held as security relating to 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 that if there are environmental incidents, under section 57 The Environmental Permitting (England and Wales) Regulations 2016, 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, 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 2025 £ million	31 March 2024 £ million Restated
Within one year		
Trade payables	(16.1)	(18.3)
Trade accruals	(184.3)	(156.1)
Holiday pay accrual	(22.3)	(23.4)
Other taxation and social security	(13.3)	(13.1)
Other payables	(15.7)	(9.7)
Capital accruals	(87.6)	(88.8)
Pension contribution liabilities	(4.2)	(4.1)
Contract liabilities:		
Customer deposits and receipts in advance	(86.5)	(81.1)
Flood risk management	(114.2)	(109.1)
Water resources - EIUC	(19.3)	(19.3)
	(563.5)	(523.0)
More than one year		
Trade payables, accruals and other payables	(4.0)	(4.1)
Deferred capital grants	(2.8)	(2.8)
Permitting deposits	(168.5)	(161.9)
	(175.3)	(168.8)
Total	(738.8)	(691.8)

The prior period restatement is described in note 1.8.

Included in flood risk management contract liabilities is the balance of the levy raised on local authorities 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 Committees and are raised to enable delivery of approved projects within that region.

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

Accounting for leases

A lease is an arrangement 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.

EA as a lessee

Under the relevant standard for leases, IFRS 16, we recognise in-scope leases on the statement of financial position as right of use assets and corresponding lease liabilities.

Liabilities are calculated using the present value of outstanding payments and the cost of right of use assets is calculated to equal lease liabilities, adjusted for any upfront payments or incentives, any initial direct costs, and an estimate of costs on termination of the lease.

The statement of comprehensive net expenditure reflects related charges for the depreciation on the right of use asset and interest on the lease liability.

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.

The EA has some peppercorn leases, where only nominal lease payments are due. In these instances, we have obtained a professional valuation of the asset from an appropriately qualified professional.

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.

Where the interest rate cannot be readily determined within a lease, the lease liability is 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 2025 this was 4.81% (2024 - 4.72%).

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 are determined by appropriately qualified professionals in accordance with RICS guidance.

EA as a lessor

Leases which transfer substantially all the risks and economic benefits of the underlying asset are classed as finance leases. Where a sub-lease is judged to be a finance lease, we derecognise the right of use asset and recognise 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 and the occupant. Corporate estate leases are recognised in full by the legal leaseholder unless there is a formal arrangement in place.

14.1 Lease liabilities

	31 March 2025 £ million	31 March 2024 £ million
Land and buildings		
Not later than one year	7.4	8.1
Later than one year and not later than five years	19.3	20.0
Later than five years	2.9	6.5
Less interest element	(3.7)	(3.8)
Present value of obligations	25.9	30.8
Other		
Not later than one year	9.6	8.3
Later than one year and not later than five years	11.4	9.4
Later than five years	-	-
Less interest element	(1.0)	(1.9)
Present value of obligations	20.0	15.8
Total	45.9	46.6

14.2 Quantitative disclosures around elements in the statement of comprehensive net expenditure

	31 March 2025 £ million	31 March 2024 £ million
Expenditure related to short-term leases	0.8	2.2

14.3 Quantitative disclosures around cash outflow for leases

	31 March 2025 £ million	31 March 2024 £ million
Total cash outflow for leases	22.6	18.4

14.4 Lease liability movement

The table below shows the movement between the opening and closing lease liability during the 2024-25 financial year.

	Land and buildings £ million	Other £ million	Total £ million
At 1 April 2024	30.8	15.8	46.6
Additions	5.0	14.5	19.5
Payments	(10.3)	(12.3)	(22.6)
Interest	0.4	1.8	2.2
Disposals	-	0.2	0.2
At 31 March 2025	25.9	20.0	45.9

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.

The depreciation charged on the original cost of non-current assets are transferred from the revaluation to the general reserve annually, apart from operational assets which are valued under Depreciated Replacement Cost (and under the FReM guidance, no transfer is required).

15.1 For the year ended 31 March 2025

	Revaluation reserve £ million	General reserve £ million	Pension reserve £ million	Total £ million
Realised revalued depreciation and disposals	(14.4)	14.4	-	-
Net pension charge	-	(43.4)	43.4	-
Total	(14.4)	(29.0)	43.4	-

15.2 For the year ended 31 March 2024

	Revaluation reserve £ million	General reserve £ million	Pension reserve £ million	Total £ million
Realised revalued depreciation and disposals	(103.3)	103.3	-	-
Net pension charge	-	(25.6)	25.6	-
Total	(103.3)	77.7	25.6	-

16. Commitments

16.1 Capital commitments

Capital commitments contracted for but not provided in the financial statements:

Payments the Environment Agency is committed to	31 March 2025 £ million	31 March 2024 £ million
Property, plant and equipment and intangible fixed assets	158.2	93.3
Capital works expensed in year projects	159.5	180.4
Total	317.7	273.7

The majority of the significant commitments relate to flood defence schemes. The largest as at 31 March 2025 was for the Saltfleet to Gibraltar Point beach nourishment scheme for £29.7 million (31 March 2024 - flood defence scheme for Poole Harbour, £29.2 million).

16.2 Financial commitments

Commitments under non-cancellable contracts (which are not leases) not provided in the financial statements:

Payments the Environment Agency is committed to	31 March 2025 £ million	31 March 2024 £ million
Not more than one year	7.5	16.3
More than one year and not later than five years	-	8.8
More than five years	-	-
Total	7.5	25.1

The largest commitment relates to the contract with the shared services provider, SSCL for £7.2 million (31 March 2024 - SSCL, £22.5 million).

16.3 Risk Management Authority grant commitments

Payments the Environment Agency is committed to	31 March 2025 £ million	31 March 2024 £ million
Not more than one year	272.4	178.5
More than one year and not later than five years	316.1	414.2
More than five years	0.7	4.7
Total	589.2	597.4

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. Payment is dependent on completion of works on the approved schemes.

At 31 March 2025 this included £55.0m for the Bispham coast protection works (31 March 2024 - £55.0m for the Blackpool beach nourishment scheme).

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 and is 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.

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 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 2024-25 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 2025 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 £86.4 million for the financial year (2023-24 - £93.9 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 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 2025, 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 2.75% per

annum. The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2026 will be approximately £94.2 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

	% per annum 31 March 2025	% per annum 31 March 2024
Inflation and pension increase rate	2.75	2.75
Salary increase rate	3.25	3.25
Discount rate	5.80	4.85

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

As at 31 March 2025

Scheme member	Male (Years)	Female (Years)
Current pensioners	21.5	24.1
Future pensioners (people aged 65 in 20 years)	22.5	25.8

As at 31 March 2024

Scheme member	Male (Years)	Female (Years)
Current pensioners	21.6	24.1
Future pensioners (people aged 65 in 20 years)	22.6	25.8

17.2 Fair value of employer assets

Fair value of employer assets at 31 March 2025

Asset category	Level	Active market quoted prices £ million	Non-active market quoted prices £ million	Total £ million	% of total
Equity securities:					
Common stock	1	414.5	-	414.5	10%
Other equity assets	1	2.2	-	2.2	-
Debt securities:					
UK government bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Other	-	-	-	-	-
Pooled investment vehicles:					
Equities	3	-	1,175.4	1,175.4	27%
Bonds	2	-	1,685.8	1,685.8	39%
Funds - real estate	2	-	110.0	110.0	3%
Funds - venture capital	2	-	13.2	13.2	-
Venture capital and partnerships:					
Partnerships and real estate	2	-	693.4	693.4	16%
Derivative contracts:					
Equity derivatives	-	-	-	-	-
Forward foreign exchange contracts	2	-	0.4	0.4	-
Cash and cash equivalents	1	-	213.9	213.9	5%
Total		416.7	3,892.1	4,308.8	

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
Equity securities:					
Common stock	1	542.7	-	542.7	13%
Other equity assets	1	2.4	-	2.4	-
Debt securities:					
UK government bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Other	-	-	-	-	-
Pooled investment vehicles:					
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	-
Venture capital and partnerships:					
Partnerships and real estate	2	-	666.8	666.8	16%
Derivative contracts:					
Equity derivatives	-	-	-	-	-
Forward foreign exchange contracts	2	-	(2.9)	(2.9)	-
Cash and cash equivalents	1	-	189.9	189.9	4%
Total		545.1	3,658.2	4,203.2	100%

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

Year ended 31 March 2025	Fair value of employer assets £ million	Funded defined benefit obligations £ million	Net asset / (liability) £ million
Opening position as at 1 April 2024	4,203.2	(3,406.1)	797.1
Pension benefits accrued by members during the year*	-	(86.4)	(86.4)
Change in cost of pensions from previous years' service	-	-	-
Total service cost (recognised in SOCNE)	-	(86.4)	(86.4)
Interest income on plan assets	203.7	-	203.7
Interest cost on defined benefit obligation	-	(165.3)	(165.3)
Total net interest (recognised in SOCNE)	203.7	(165.3)	38.4
Plan participants' contributions	36.3	(36.3)	-
Employer contributions	91.4	-	91.4
Benefits paid	(114.5)	114.5	-
Total cash flows	13.2	78.2	91.4
Expected closing position	4,420.1	(3,579.6)	840.5
Change in financial assumptions	-	600.0	600.0
Change in demographic assumptions	-	5.9	5.9
Other experience**	-	25.9	25.9
Return on assets excluding amounts included in net interest	(111.3)	-	(111.3)
Impact of pension asset ceiling calculation***	(1,361.0)	-	(1,361.0)
Total remeasurements recognised in other comprehensive expenditure	(1,472.3)	631.8	(840.5)
Closing position as at 31 March 2025	2,947.8	(2,947.8)	-

*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 2025 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 £28,826,000 as a result of the pension increase order being different to the previous assumption. This amount also includes an adjustment of £2.9m for the Goodwin allowance impact.

The defined benefit obligations comprised approximately £1.5 billion for employee members, £0.4 billion for deferred pensioners and £1.1 billion for pensioners as at 31 March 2025 (31 March 2024 - £1.6 billion, £0.5 billion and £1.2 billion).

***See note 17.6 for further details

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Year ended 31 March 2024	Fair value of employer assets £ million	Funded defined benefit obligations £ million	Net asset / (liability) £ million
Opening position as at 1 April 2023	3,869.5	(3,366.1)	503.4
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)
Total service cost (recognised in SOCNE)	-	(93.9)	(93.9)
Interest income on plan assets	183.9	-	183.9
Interest cost on defined benefit obligation	-	(160.5)	(160.5)
Total net interest (recognised in SOCNE)	183.9	(160.5)	23.4
Plan participants' contributions	34.3	(34.3)	-
Employer contributions	96.1	-	96.1
Benefits paid	(101.4)	101.4	-
Total cash flows	29.0	67.1	96.1
Expected closing position	4,082.4	(3,553.4)	529.0
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
Total remeasurements recognised in other comprehensive expenditure	120.8	147.3	268.1
Closing position as at 31 March 2024	4,203.2	(3,406.1)	797.1

*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).

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%	58.7
0.1% increase in salary increase rate	0%	3.2
0.1% increase in pension increase rate	2%	57.2

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 2025 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. This was included in our 2019-20 IAS 19 valuation and has been adjusted this year to £2.9m (from £3.4m), based on an estimate of 0.1% of the scheme's liabilities.

In June 2023, the UK High Court (Virgin Media Limited v NTL Pension Trustees II Limited) ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. The judgment has now been upheld by the Court of Appeal. At time of writing, the Government has not yet confirmed that they have been able to locate the actuarial confirmations from the Government Actuary's Department (GAD) for all LGPS amendments between 1997 and 2016. It's currently unclear whether any additional liabilities might arise, and if they were to arise, how they would be reliably measured. Given the uncertainty, and having sought advice, no allowance has been made for this.

There are two further court cases which may impact on the benefits of the scheme (Walker and O'Brien). It is our understanding these are unlikely to be significant judgements in terms of impact on the pension obligations of a typical employer. As a result, and until further guidance is released from the relevant governing bodies in the LGPS, no allowance has been made for the potential remedies to these judgements.

17.6 Pension surplus and interpretation of IFRIC 14

As was the case in 2022-23 and 2023-24, the EA's IAS 19 report received for 2024-25 showed a surplus (asset) of £1.3 billion (2022-23 - £0.8 billion surplus).

As with previous surplus years 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.

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.

The judgement was that while the EA 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. (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.

For future service costs, the present value is calculated over the expected life of the employer and uses the 31 March 2025 IAS 19 assumptions (being the employer's projected 2025-26 service cost). For future service contributions, these are assumed to be equal to the employer's primary contribution rate from the 31 March 2022 triennial funding valuation. This methodology considers future service costs and agreed past service contributions as a minimum funding requirement.

Based on this analysis we concluded that the economic benefit available through the future rate setting regime was not sufficient to cover the existing IAS 19 surplus and therefore concluded that it was not appropriate to recognise the full value of the net IAS 19 surplus. In 2024-25 this has been capped in the Environment Agency's financial statements at £nil due to the pension asset ceiling calculation.

The determination of the asset ceiling involves significant estimation uncertainty, particularly concerning the assumptions used to project future service contributions and the potential for there to be reductions in these contributions. We note the potential for the results of the triennial actuarial valuation as at 31 March 2025, which will be included in the 2025-26 financial statements, to lead to a change in discount rate and service contributions which may mean in the future an asset ceiling would not cap the surplus.

18. Financial instruments

These comprise financial assets and financial liabilities.

Financial assets

Loans and receivables 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. 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. There has not been a material change in the expected credit losses for any charge scheme this year.

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 2023 £ million	Finance charge 2023-24 £ million	Amounts paid 2023-24 £ million	Liability at 31 March 2024 £ million	Finance charge 2024-25 £ million	Amounts paid 2024-25 £ million	Liability at 31 March 2025 £ million	Due within 1 year £ million	Due later than 1 year £ million
Northumbrian Water	(354.0)	(35.4)	24.6	(364.8)	(36.1)	25.5	(375.3)	(24.1)	(351.2)
Severn Trent Water	(94.0)	(4.8)	2.4	(96.4)	(4.7)	2.5	(98.7)	(2.4)	(96.3)
Total	(448.0)	(40.2)	27.0	(461.2)	(40.8)	28.0	(474.0)	(26.5)	(447.5)

The fair value of the liability, calculated using the real discount rate from HMT Public Expenditure System, would be £3.1 billion (2023-24 - £3.2 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 (2023-24 - £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 £4.3 million (2023-24 - £4.2 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 using a bond agreement. These are triparty arrangements 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 an environmental incident.

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 2025 was £691.2 million (31 March 2024 - £654.0 million). During both 2024-25 and 2023-24 the value of bond agreements for which the Agency called upon the bond issuer was trivial.

There are also legal agreements in place with local authorities where they have been issued a permit to operate landfill sites. Security in the form of cash or a bond agreement is not provided in these instances, but the agreements provide assurance that the relevant local authority has ringfenced the potential funds in their budgets. The Agency has not historically had to use this mechanism.

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

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 from Defra, its controlling entity. These amounts 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.

Funding received from Defra	2024-25 £ million	2023-24 £ million
Defra environment protection grant-in-aid	251.9	220.9
Defra flood defence grant-in-aid	1,268.4	1,185.6
Defra IDB or local authority grant-in-aid	238.3	148.5
Total	1,758.6	1,555.0

19.2 Defra group Corporate Services

The Environment Agency is part of a partnership agreement whereby corporate services functions are provided centrally by Defra.

As shown in note 5.1, Defra charged the Environment Agency £105.7 million for expenditure incurred in the provision of corporate services to the Environment Agency (2023-24 - £88.7 million). This comprised mostly of staff costs for transferred former employees as well as some supplier expenditure.

19.3 Other related parties

The Environment Agency keeps a fully updated register of interests. There were no transactions where an interest should have been declared but was not.

The Environment Agency had transactions with organisations for which Board members have declared a related party interest as shown in the below table:

Board member	Related party	Income received £ million	Payments made £ million	Outstanding receivable balance at 31 March 2025 £ million	Outstanding payable balance at 31 March 2025 £ million
Judith Batchelar	UKCEH	-	2.5	-	-

The transactions with UKCEH were within the normal course of business and included advice, research and data licensing.

There were no transactions during the year with organisations for which Executive Directors have declared a related party interest

The remuneration and staff report provides further information on Board members and Executive Directors.

Alan Lovell, the Environment Agency's Chair is an ex-officio member of the Defra board. Mark Suthern was 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, during 2024-25.

The Environment Agency is the administering authority responsible for maintaining and managing the Environment Agency Pension Fund. The Environment Agency charged the fund £1.3 million for expenses incurred in administering the Fund (2023-24 - £1.4 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 Lilli Matson 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. These are all conducted within the normal course of business.

20. Events after the reporting date

In July 2025, the Independent Water Commission, led by Sir Jon Cunliffe, published its final report, following a review on the water sector and how it is regulated. The headline recommendation is for the creation of a new water regulator, merging the water-related functions of the Environment Agency alongside Ofwat, the Drinking Water Inspectorate, and Natural England.

The Secretary of State for Environment, Food and Rural Affairs has accepted the principle of this recommendation.

Our expectation is that the government will publish a full response to the Commission's final report along with a transition plan, and white paper in autumn 2025. We await the white paper to understand the impact on the Environment Agency as an organisation.

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 64 to 76.

Appendix - Sustainability data

(Not subject to audit)

Scope 1, 2 and 3 emissions	Unit	2024-25	2023-24	2022-23	2021-22	2020-21
Direct emissions (Scope 1)	tCO ₂ e	10,532	16,500	9,000	11,000	7,000
Indirect emissions from purchased energy (Scope 2)	tCO ₂ e	9,051	15,500	13,500	9,000	13,000
Indirect emissions produced by our suppliers (Scope 3)	tCO ₂ e	3,000	5,000	3,500	8,000	5,000
Total scope 1, 2 and 3 emissions	tCO₂e	22,583	37,000	26,000	28,000	25,000
Consumption as part of scope 1 and 2	Unit	2024-25	2023-24	2022-23	2021-22	2020-21
Gas consumption as part of scope 1	kWh	6,943,807	5,569,500	6,578,692	-	-
Energy consumption as part of scope 2	kWh	42,044,809	55,656,000	48,670,361	-	-
Total consumption as part of scope 1 and 2	kWh	48,988,616	61,225,500	55,249,053	-	-
Emissions from operational activities	tCO ₂ e	28,352	37,000	26,000	28,000	25,000
Carbon intensity (per £ million expenditure)	tCO ₂ e	13	16	14	18	16
Business travel	Unit	2024-25	2023-24	2022-23	2021-22	2020-21
Car and motorbike	tCO ₂ e	3,900	8,488	6,962	6,180	4,539
Rail	tCO ₂ e	864	666	289	41	50
Air	tCO ₂ e	142	68	54	5	2
Total business travel	tCO₂e	4,906	9,222	7,305	6,226	4,591
Domestic air travel	Miles	3,654	1,178	1,590	-	-
International air travel - short haul - economy	Miles	117,049	139,868	121,251	-	-
International air travel - short haul - business	Miles	6,214	1,188	467	-	-
International air travel - long haul - economy	Miles	233,884	159,633	101,712	-	-
International air travel - long haul - premium economy	Miles	15,734	-	8,918	-	-
International air travel - long haul - business		39,806	-	6,213	-	-
Total business travel	Miles	416,341	301,867	240,151	-	-
Total business travel	£ million	7.3	7.9	4.2	1.6	0.63

	Unit	2024-25	2023-24	2022-23	2021-22	2020-21
% of the car fleet classed as ultra-low emissions vehicles		72.5%	35.6%	30.4%	25.1%	-
Travel carbon intensity per full-time employee	tCO ₂ e	0.35	0.67	0.6	0.6	0.4
Office waste	Unit	2024-25	2023-24	2022-23	2021-22	2020-21
Landfill	Tonnes	0.6	10.2	8.5	0.1	0.1
Hazardous waste	Tonnes	19	3.8	9.3	1.5	0.7
Reused or recycled	Tonnes	496.2	103	113	89	57
Of which is total food waste composted from offices	Tonnes	-	1.2	0.9	4.3	-
Of which is food waste sent externally for composting or anaerobic digestion	Tonnes	176.2	11.0	8.2	34.4	41.4
Incinerated to produce energy	Tonnes	19.1	0.1	0.8	17.7	20
Incinerated without energy recovery	Tonnes	-	-	-	-	-
Reused or recycled electronic or electrical equipment	Tonnes	15.2	4.5	0.2	0.3	2
Total office waste (note 1)	Tonnes	726.3	133.8	140.9	147.3	121.2
Landfill	£	91	18,065	5,375	3,871	2,028
Reused, recycled, or incinerated	£	13,762	11,879	4,517	12,348	18,681
Total office waste (note 1)	£	13,853	29,944	9,892	16,219	20,709
Total waste (operational and office)	£	922,347	1,282,808	1,230,050	1,063,798	957,207
Pension fund investment	Unit	2024-25	2023-24	2022-23	2021-22	2020-21
Pension fund assets (note 2)	£ million	4,323	4,203	4,284	4,133	3,887
Investment in sustainable and climate solutions (note 3)	%	18	12	-	26	18
Carbon footprint of listed equities and corporate bonds (note 5)	tCO ₂ e per £ million	123	131	185	174	162
Resource consumption	Unit	2024-25	2023-24	2022-23	2021-22	2020-21
Purchased gas and purchased renewable electricity	million kWh	52	61	55	64	58

	Unit	2024-25	2023-24	2022-23	2021-22	2020-21
Purchased gas and purchased renewable electricity	£ million	12.1	15.7	9.9	5.3	7.3
Self-generated renewable energy	million kWh	0.25	0.5	0.34	0.38	0.4
Water supplied	Cubic metres	33,803	28,116	30,078	33,349	23,065
Water supplied	£	780,267	472,360	263,771	194,864	200,541
Paper from renewable or recycled sources	Reams	374	713	2,126	4,046	2,000
Percentage reduction on paper use on baseline (note 4)	%	82	-	-	-	-

Notes

1. The figure reported for tonnes of office waste for 2024-25 shows a significant increase compared to previous years. This is a result of access to better data. Previously, we could only capture data from 60 sites, whereas now we can capture data from over 200 sites - covering both offices and depots - thanks to a new facilities provider. We have reviewed the sites being recorded to check the data is accurate and are exploring whether we can make a baseline adjustment to previous totals to provide better comparability.
2. Figures reported in 2024-25 and 2023-24 include total EA pension fund assets.
3. Investment in sustainable and climate solutions value is still subject to verification by the Financial Reporting Council and will be made final when the Stewardship Code is published in the autumn.
4. We started reporting this information for 2024-25
5. The carbon footprint figure relates only to the listed equity and corporate bond portfolios which is approximately 51% of the total fund.

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