

Environment Agency

**Annual report and accounts for the financial
year 2025 to 2026**

HC 257

Environment Agency

Annual report and accounts for the financial year 2025 to 2026

For the period 1 April 2025 to 31 March 2026

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Environment Act 1995

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Chair's Foreword

This year marks the Environment Agency's 30th anniversary. It is an opportunity to reflect on what has been achieved – stronger protection for communities from flooding, reductions in pollution, and support for sustainable development alongside improvements for nature. These are firm foundations on which to build.

2025-26 was a strong year for us, as the Chief Executive sets out in his statement, we delivered well against our objectives.

But we must go further. Expectations of us are rightly high, and the challenges we face are growing. During the year, we published our new five-year strategy, setting out three long-term goals: healthy air, land and water supporting nature's recovery; sustainable growth; and a nation resilient to climate change. Alongside these goals, our guiding principles are clear about how we will deliver.

A key part of this will be making better use of technology. We are investing in modern systems to support our business, improving the way we work with customers, and using digital tools including remote monitoring and advanced analytics to enhance and target our regulatory activity. At the same time, we are ensuring that our thinking on key strategic issues, including chemicals and water supply, is well advanced, clearly articulated and underpinned by robust science.

Supporting sustainable economic growth was part of the Environment Agency's founding purpose and it has never been more important. Over the past year, we have made a concerted effort to improve our performance on planning advice and environmental permitting, recognising the need for timely, clear and proportionate decisions.

We are also working with the government on regulatory approaches, including the rollout of the Lead Environmental Regulator model, as well as more freedoms for trusted partners to carry out works without needing to apply for multiple permissions at every step of a project. These approaches focus on enhancement and efficiency of regulatory services to support economic growth, simplifying services for customers and allowing us to focus effort on regulating activities that have the greater environmental risk.

The choices we make now – about infrastructure, development and the use of natural resources – will shape the country for decades to come. The Environment Agency has an essential role in ensuring those choices support both economic growth and environmental protection. Getting that balance right is critical.

It remains a privilege to serve as Chair of the Environment Agency. The commitment of our people, the importance of our mission, and the impact we have continue to make this a role which brings delight every day. This report highlights what has been achieved, but it also underlines the scale of what remains to be done.



A handwritten signature in dark ink that reads "Alan C Lovell". The signature is written in a cursive style.

Alan Lovell, Chair

06 July 2026

Performance Report

Chief Executive's Statement

I am pleased to present the Environment Agency's Annual Report and Accounts for the year 2025-26. This was the first year of our new corporate strategy, EA2030, and it represented a step change in ambition for us as an organisation. We have responded with a strong set of results.

Water quality remains a key public concern. The Agency, working with Government and Ofwat, has significantly improved its effectiveness as a water regulator. We undertook more than 10,500 (2024-25 - 4,500) inspections of wastewater treatment works, pumping stations and storm overflows, and scrutinised delivery of new investments to protect the environment. There are early signs that this inspection regime, and the transparency it is bringing, are having an impact on the industry's performance. Farm pollution must also be tackled, and we carried out more than 4,200 farm inspections, helping farmers meet water quality standards. We have also worked much more closely with Water Services Regulation Authority (Ofwat), Department for Environment, Food and Rural Affairs (Defra) and the Drinking Water Inspectorate (DWI) on water resources, and planning for the introduction of a new water regulator.

Supporting sustainable growth is one of our statutory goals. We responded to 98% of local planning applications within 21 days, exceeding our 95% target. We have also built new partnerships with major programmes, key housing projects and the Office for Investment. We are delivering on the commitments we have made as part of the Chancellor's Regulatory Action Plan. We are embedding a less risk averse and more outcome focussed culture, and we welcome the Secretary of State's recent Strategic Policy Statement in this area.

Over the last two years, we better protected nearly 62,000 homes and businesses from flooding against a target of 52,000. We also maintained 93% of flood defence and coastal risk management assets to the required condition, exceeding our target by 1% despite a wet winter.

Waste regulation and waste crime have been priority areas over the last year. We stopped 224 high risk illegal waste sites, exceeding our target of 90 and prevented more than 82,000 tonnes of waste being illegally exported. But we know that the Agency will need to shift gear and go upstream to prevent the penetration by organised crime of our waste system and reduce the risk of more horrendous waste dumps appearing.

We have published more information on the risks and are investing in greater intelligence and audit capabilities. We will not hesitate to suspend, or revoke permits from actors in the waste system who fail to discharge their duties.

Modernising our services and maximising the benefits of new technology must be central to how we work in future. This year we were pleased to roll out new systems for our planning casework, and Freedom of Information responses. We are bringing Artificial Intelligence tools into many aspects of our work and continuing to invest in our flagship programmes to modernise casework and environmental monitoring. Later this year we intend to set out an efficiency plan for the years ahead, and to conduct work on productivity benchmarks for the Agency.

Lastly, I wanted to thank all my colleagues across the Agency, and our many partners, for everything they have done to achieve these results over the last year. Their hard work and determination are a great asset both to the Agency and the country and I know I can count on them in the year ahead as we seek to further improve our performance.



A handwritten signature in blue ink, appearing to read 'Philip Duffy'.

Philip Duffy, Chief Executive and Accounting Officer
06 July 2026

About the Environment Agency

We're here to protect homes and habitats – not just to safeguard what exists, but to create places of resilience and renewal, where nature returns and futures can take root. We're regulators, engineers, ecologists and incident responders. And we work right around the country, along rivers and coasts, at flood defences, waste sites, wastewater works, incinerators, factories and nuclear facilities. What unites our diverse organisation is our focus on actions, backed by evidence. Our remit primarily covers England, but our influence and collaboration extend across the UK and beyond.

England has approximately:

- 13 million hectares of land that supports communities, agriculture and industry while facing changing weather patterns
- 22,000 miles of rivers to provide our growing water demands, while supporting habitats and recreation
- 3,100 miles of coastline that supports marine life, leisure and trade, despite pressure from storms and erosion

It's an important job, and too complex to tackle alone. We collaborate with Defra and other government departments, communities, the private sector, environmental non-government organisations and many other partners. But we operate independently, led by science and public duty, and always using public money wisely.

Our head office is in Bristol (Horizon House, Deanery Road, Bristol, BS1 5AH). We have offices across England, divided into 14 areas. See a [map of our areas](#).

Defra's Strategic Plan

We support two out of the four Defra strategic outcomes – Restoring nature while supporting development, and Reforming our water system so it drives growth, protects consumers and enhances the environment. We also support Resilience and Security in the Outcomes Framework including resilience to flooding and climate change adaptation. Our metrics that support the delivery of these outcomes are mapped into the Defra Outcomes Framework via the Arm's Length Bodies (ALB) Chair's letters. For more detail on the Defra Strategic Plan, please refer to the Defra group annual report and accounts.

Our performance explained

This report summarises performance against the Environment Agency 2025-26 corporate scorecard (CSC), which tracks our activities against our 2030 strategic goals: [Change for a better environment](#) for the financial year 1 April 2025 to 31 March 2026. Our CSC assesses 18 measures using a red, amber, green (RAG) system, and is [published online](#). Previous versions of the scorecard are available here: [Environment Agency corporate scorecard - GOV.UK](#)

Overall performance summary

Of the 18 measures assessed in 2025-26:

- Green (on or above target): 10 measures
- Amber (slightly below target): 7 measures
- Red (below target): 1 measure

Our 2025–26 CSC was refreshed to focus on our key priorities. While similar to 2024–25, it has a stronger focus on regulation and supporting growth in line with our 2030 strategy. It includes more challenging targets covering increased water company inspections (from 4,000 to 10,000); and four new permitting targets, replacing our previous single target. Targets for 2025–26 were deliberately more stretching, reflecting government priorities and increased ambition, including in the scale and pace of our regulatory activity.

Performance highlights and challenges

The following sections highlight key 2025–26 achievements and challenges across our strategic priorities, as reflected in our CSC and [our 2030 strategy](#).

Strategic goal 1: Healthy air, land and water supporting nature's recovery

Water company compliance inspections

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Water company compliance inspections	Number of water company inspections completed	10,000	10,784	Green	Target 4,000 Actual 4,626 Green

We recognise the level of public concern about water company performance. A 'green' status on this measure reflects delivery against a significantly more ambitious inspection regime rather than resolution of underlying issues. We dramatically increased our annual water company inspection target from c.1,000 three years ago to over 10,000 following increased regulatory investment, completing 10,784 inspections in 2025–26.

Weekly monitoring helped us maintain delivery at this increased scale, even during periods of high operational demand. The expanded inspection programme helped to both identify compliance issues and intervene earlier, strengthening our oversight of water company performance. This included targeted inspections of wastewater treatment works, pumping stations and storm overflows to address high-risk compliance issues.

Sewage treatment works brought into compliance

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Sewage treatment works brought into compliance	% compliance of water quality permitted sites	90%	80%	Amber	Target 90% Actual 83% Amber

We brought 80% of sewage treatment works back into compliance, falling short of our target because a small number of complex sites required further investigation. We continued to use compliance action plans and other regulatory tools to support sites in returning to compliance and to secure longer-term improvements. This included targeted activity at higher-risk sites to identify and address the causes of non-compliance.

Number of farm inspections

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Number of farm inspections	Number completed	4,000	4,410	Green	Target 4,000 Actual 4,540 Green

We completed 4,410 farm inspections, exceeding our target and maintaining strong performance across all areas. These included inspections focused on reducing diffuse pollution from agricultural sources, to help reduce pollution risks and support better farming practices. Weekly updates showed consistent progress through the year.

Bathing water monitoring

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Bathing water monitoring	Percentage of bathing water quality monitoring samples collected and analysed	98%	100%	Green	Not previously a CSC measure

We sampled and analysed 449 of 451¹ designated bathing waters during the bathing season, exceeding our target. This maintained a reliable national dataset, supported continued bathing water quality assessments at designated sites, and helped local partners prepare for improvements before the next bathing season. All statutory results were published on [Swimfo](#), enabling the public to find them by bathing water name or location.

Number of high-risk illegal waste sites stopped

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Number of high-risk illegal waste sites stopped	Number of high-risk illegal waste sites stopped	90	224	Green	Target 90 Actual 143 Green

We demonstrated our firm commitment to tackling waste crime by stopping 224 high-risk illegal waste sites during the year. We maintained strong performance throughout the year and significantly exceeded our target. Delivery of the 10-point Waste Crime Action Plan is accelerating our response, enabling earlier intervention and minimising environmental harm.

We will continue to use our powers and resources to prevent and disrupt waste crime, strengthen detection and pursue waste criminals. While this activity-based measure focuses on our impact at the highest-risk sites, it forms a key part of our broader regulatory approach to reduce waste crime.

¹ Two sites included in our original target were closed during the bathing season.

Strategic goal 2: Sustainable growth

Planning applications determined in 21 days

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Planning applications determined in 21 days	Percentage of planning application consultations and pre-application enquiries responded to within 21 days	95%	98%	Green	Not previously a CSC measure

We responded to 98% of planning consultations within 21 days, surpassing our target and supporting sustainable growth. Despite operational pressures our performance remained steady, ensuring that local authorities received timely advice, and environmental protections remained clear and consistent.

Percentage of permits issued within timescales (category 1 permits)

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Percentage of permits issued within timescales (category 1 permits)	Percentage of category 1 permit applications determined within target timescales	95%	95%	Green	Not previously a CSC measure

Category 1 permits are the simplest and highest volume permitting decisions. We achieved our target to issue 95% of these permits within 35 days. Our performance reflected case complexity and system constraints but stabilised by the end of 2025–26.

Percentage of permits issued within timescales (category 2 permits)

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Percentage of permits issued within timescales (category 2 permits)	Percentage of category 2 permit applications determined within target timescales	70%	66%	Amber	Not previously a CSC measure

Category 2 permits cover simple permitting decisions such as administering existing permits, surrender of ownership and minor changes to the activities covered by a permit. We fell slightly short of our target in this area, as increased application volumes and more detailed checks affected timeliness. Our planned improvements in this area include clearer processes and enhanced digital support.

Percentage of permits issued within timescales (category 3 permits)

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Percentage of permits issued within timescales (category 3 permits)	Percentage of category 3 permit applications determined within target timescales	70%	69%	Amber	Not previously a CSC measure

Category 3 permits cover standard rules permits, most flood risk activities, and many standard water quality and resources applications. Our performance in this area fell 1% short of our target, influenced by our specialist capacity and case complexity. Targeted interventions helped us to reduce older case backlogs and our performance improved slightly towards the end of the year.

Percentage of permits issued within timescales (category 4 permits)

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Percentage of permits issued within timescales (category 4 permits)	Percentage of category 4 permit applications determined within target timescales	55%	55%	Green	Not previously a CSC measure

Category 4 permits relate to more complex applications. They involve bespoke assessments, including wide consultation, pollution modelling and specialist technical input. We worked consistently and met our target in this area despite continued high application volumes in some areas, thanks to validation improvements and more stable workflows.

Strategic goal 3: A nation resilient to climate change

Number of properties better protected from flooding

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating
Number of properties better protected from flooding	Number of properties better protected	52,000	61,898 of which 27,543 in 2024-25 and 34,355 in 2025-26	Green

We know how devastating and costly flooding can be for communities and businesses. Over the last two years, we better protected 61,898 properties from flooding, exceeding our two-year target of 52,000. In 2025–26, we better protected 34,355 properties despite challenging weather. Careful programme planning helped us maintain progress across the country and strengthen resilience for homes and businesses. This included delivering major schemes such as the Canvey Island flood scheme, which benefits more than 6,000 properties.

Innovation actions provided in flood and coastal resilience

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Innovation actions provided in flood and coastal resilience to adapt to a changing climate	% of FCERM (flood and coastal risk management) innovation actions on track or completed	80%	100%	Green	Target 80% Actual 94% Green

We completed 100% of our FCERM innovation actions during the year, supporting long-term climate resilience. Projects helped test new approaches, improve modelling and support better decision-making, and included developing nature-based approaches to flood resilience.

Percentage of flood assets at target condition

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
We maintain our flood and coastal risk management assets at or above the target condition	% of high-risk assets at target condition	92%	93%	Green	Target 94.5% Actual 92.8% Red

Both inland and around the coast, we kept 93% of our high-risk flood assets at their required condition – slightly surpassing our target. Strong collaboration between our operational teams and supply chain partners supported essential inspection and maintenance work. As weather conditions worsened, we paid particular attention to higher-risk sites.

The target of 94.5% was reduced for 2025-26 to 92% reflecting asset deterioration and inflationary impacts on available resource for maintenance. We over-achieved against the revised target benefitting from a period of relative stability as a result of the flexibility adopted over the last two years, with additional capital funding re-prioritised to address asset condition.

Resilience in our capacity to respond to incidents

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Resilience in our capacity to respond to incidents	Daily status reports for incident cells	Green Status	Amber	Amber	Target Green Actual Amber

This measure demonstrates our capability to respond appropriately to flooding and other environmental incidents with sufficient resources in a timely and effective way.

Each day, if we are in incident mode, response cells around the country indicate their resilience based on availability of response staff and equipment:

- a green response denotes a specific cell has the staff and resources available
- an amber indicates partial resilience, with critical roles covered
- a red indicates the cell cannot function to the standards required to provide an effective response to the incident

Incident response capacity was under sustained pressure during the year due to prolonged flooding, storm events and drought preparedness. While daily incident reporting processes remained in place, reliance on redeployed staff and stretched specialist rotas limited resilience against the measure definition. Improvements to rostering and recruitment helped stabilise capacity, but not sufficiently to achieve green status, resulting in an amber year-end position.

People, culture and ways of working

Lost time incident frequency rate

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Minimised time lost to work related injuries	Lost time incident (LTI) frequency rate per 100,000 hrs worked	<0.11	0.16	Amber	Target <0.11 Actual 0.09 Green

Our lost time incident (LTI) frequency rate fell short of our target, based on a broader definition than in previous years. In 2025–26 this measure included all work-related incidents resulting in more than one day (or shift) off work, while maintaining the previous target.

The most common LTI categories were musculoskeletal/manual handling (31%), slips, trips and falls on the same level (21%), and vehicle, plant, equipment or machinery related incidents (10%). We will continue to improve our safety leadership and encourage proactive risk management.

Percentage of staff from ethnic minority backgrounds

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
The percentage of our staff who are from a Black, Asian and Minority Ethnic background	% of staff	7.6%	7.1%	Amber	Target 7.6% Actual 6.5% Red

We have a long-term priority to build a more diverse and inclusive workforce, to better reflect the communities we serve. Our workforce representation of staff from ethnic minority backgrounds fell 0.5% short of our target, although this was a slight improvement on 2024–25. Our recruitment and progression expanded candidate pools in several areas but we will continue to improve our performance in this area.

Percentage of senior staff who are female

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
The percentage of senior staff (executive managers) who are female	% of staff	50%	46.8%	Amber	Target 50% Actual 48% Amber

We also fell short of our target to achieve gender equal representation among our senior staff – a key element of our wider inclusion strategy. Leadership development and fair recruitment activities supported our performance, though local turnover affected some areas.

Reduce our carbon emissions

Success measure	Units	2025-26 Target	2025-26 Actual	2025-26 RAG rating	2024-25 Performance
Reduce our carbon emissions (Unchanged)	Tonnes of carbon	<198,916	245,222	Red	Target <250,697 Actual 261,414 Amber

Carbon emissions totalled 245,222 tonnes, exceeding the target of less than 198,916 tonnes. We saw an increase in non-construction supply chain emissions (from consultancy/professional services firms who support capital programme appraisal and design work).

Despite this, we have made clear and important progress in several key areas. Direct emissions (scope 1 e.g. burning fuel like gas or diesel) and electricity-related emissions (scope 2) together fell by 1% compared to last year. And whilst construction activity remains the dominant driver of emissions, reflecting the scale of capital delivery, we met our annual target for construction emissions. Looking ahead, we will review our top suppliers' emissions and will continue to work on energy reduction and lower carbon delivery.

Performance on better regulation

Latest Environment Agency Chief Regulator's report

Over the past year, in addition to our performance measures we strengthened regulation in line with our 2030 vision, continuing to develop as a modern, data-driven and risk-based regulator. The annual [Chief Regulator's Report](#) and [evidence pack](#)² provide transparent performance data and explain how we are providing clearer standards and improving systems and processes to support compliant businesses and focus effort where environmental risk is highest. We are clamping down on poor performance through targeted inspections and tougher action on non-compliance, while maintaining open engagement with regulated sectors.

² 2025–26 data will be published in autumn 2026.

Risk management

Our corporate risks reflect both the challenges we face in delivering our statutory responsibilities and the risks to the public, environment and economy that we are responsible for managing. These include risks arising from major environmental incidents (such as flooding and pollution), cyber security, asset reliability, organisational capacity and our ability to achieve environmental outcomes.

Throughout 2025–26 we monitored these risks closely and took action to strengthen controls, improve national preparedness and maintain alignment with EA2030 outcomes. Our principal risk profile remained broadly stable over the year.

At the end of 2025–26, most principal risks remained elevated relative to the levels we aim to operate within, with the exception of Strategically Important Assets. This reflects the scale and complexity of the risks we manage, as well as external pressures and the time required for mitigations to take full effect. It should also be noted that the corporate risk register focuses on those risks that, due to their high likelihood and/or impact on objectives require action and oversight at the highest levels of the organisation; significant risks that are well controlled are managed at the appropriate business level.

This position is consistent with the nature of our role, where we are required to manage significant national and environmental risks which cannot always be reduced quickly. We are satisfied that appropriate mitigations, controls and governance are in place, and that there is a clear trajectory to reduce exposure over time. Several risks are expected to move closer to the levels we aim to operate within during 2026–27 as key programmes mature, including incident management transformation, cyber resilience improvements and further embedding of our Health, Safety and Wellbeing Strategy.

We continue to play a central role in managing a number of risks identified in the UK National Risk Register and National Security Risk Assessment, particularly those relating to flooding, severe weather and environmental incidents. During the year we strengthened arrangements that directly support the public, including flood forecasting and warning services, incident response capability and national coordination through the National Operations Centre.

We support this through the use of national risk frameworks, including the Incident Management Hazard Assessment and Reporting Tool (IM HART), which draws on the National Security Risk Assessment (NSRA). This enables us to assess, prioritise and respond consistently to nationally recognised hazards at both national and local levels, strengthening our contribution to cross-government resilience arrangements.

Key improvements during the year included replacing legacy IT systems to reduce cyber vulnerabilities; launching our Health, Safety and Wellbeing Strategy; strengthening national incident readiness; and continuing development of asset health methodologies to prioritise investment in critical infrastructure. We also supported implementation of the Water (Special Measures) Act 2025 and strengthened our regulatory oversight of water companies. These actions improve our ability to manage both internal risks and those we mitigate on behalf of society.

The government's A New Vision for Water White Paper, published in January 2026 following the Independent Water Commission report, proposes significant reforms to the regulation of the water sector and the wider water environment. This includes the establishment of a new water regulator and new legislation which could have a significant impact on the EA's future role. This is currently being managed through specific programme and governance arrangements and is reflected within our risks relating to regulatory performance and delivery of clean and plentiful water.

The table below summarises our principal risks, their strategic linkages and the main actions taken in-year.

Climate change is a significant, long-term driver of many of the risks set out below, particularly flooding, water availability, environmental incidents and asset performance. These influences are reflected across our principal risks where they have material impact in the short to medium term.

During the year we strengthened our approach by introducing strategic risk categories, including climate change, to improve how we identify, assess and manage cross-cutting risks within our framework, and to recognise climate change as a key strategic driver underpinning multiple principal risks. A more detailed assessment of longer-term climate-related risks and opportunities is provided in the TCFD section of this report.

We continue to monitor our overall level of risk and changes in the wider environment to make sure our approach stays appropriate and responsive.

Risk	Action taken in 2025–26	Strategy link
A major and successful cyber-attack stops key business activities	Strengthened cyber resilience by identifying vulnerabilities and replacing unsupported systems, reducing exposure and preparing for future Cyber Assessment Framework implementation	Digital and Technology Enabling strategies
Failure to effectively manage the health, safety and wellbeing of colleagues, delivery partners and the public arising from our activities	Launched our Health, Safety and Wellbeing Strategy and reviewed assessment methods to support safer behaviour and stronger decision-making	People Enabling strategies
We fail to achieve expectations for achieving clean and plentiful water	Advised Defra on Water White Paper delivery, strengthened oversight of water company investment and maintained strong regulatory focus including under the Water (Special Measures) Act 2025	Healthy air, land and water supporting nature's recovery A nation resilient to climate change
Change capacity	Consolidated our governance and oversight of major change programmes and improved our sequencing of change alongside operational delivery	Ways of Working Enabling strategies
Risk of inadequate response to major environmental incidents	Embedded the National Tactical Advisor role, improved triage tools and piloted critical incident management to support rapid deployment of specialist expertise	A nation resilient to climate change

Risk	Action taken in 2025–26	Strategy link
Failure of a strategically important asset to operate when required	Developed an asset health methodology to aid prioritised investment for repair and maintenance of such assets	A nation resilient to climate change
Capacity and resilience to respond to incidents	Increased our response capability by strengthening our National Operations Centre and centralising our forecasting and warning functions	A nation resilient to climate change

Effectiveness of risk management

In 2025–26 we strengthened how we identify, assess and manage our principal risks to ensure they are visible, consistently scored and effectively controlled across our organisation. Our risk management framework aligns with HM Treasury’s Orange Book and ISO 31000, providing a clear and proportionate approach for identifying and responding to risks at all organisational levels.

We improved the consistency of risk scoring by updating our impact matrix to better reflect the operational nature of our work. This helped teams to assess both likelihood and impact in a more comparable way. We also invested in our capability by expanding our network of trained risk champions and practitioners, increasing awareness throughout our organisation and supporting colleagues to embed risk thinking in day-to-day decisions.

We continued to enhance our governance, with executive managers maintaining directorate-level risk registers, and our Executive Director Team and Risk Assurance Committee reviewing tier 1 and 2 risks (those with the most potential to affect our objectives) each quarter. This ensured timely oversight and a balanced picture of risk exposure, consistent with NAO good practice expectations.

We also improved our integration of risk information by engaging with the Defra group risk community and external government risk networks. This contributed to us introducing strategic risk categories before setting future risk appetites in line with our 2030 strategy.

Progress in managing risks is monitored through established governance processes.

Overall, we consider our risk management arrangements to be effective and proportionate, with improvements underway to address areas where risks remain elevated.

Fraud and Error risk management

The Environment Agency is committed to protecting public resources and operates a zero-tolerance approach to fraud. All colleagues are required to follow the Code of Conduct and relevant counter-fraud policies. We work closely with the Public Sector Fraud Authority, Core Defra and other Defra arm’s-length bodies to share intelligence, strengthen controls, and embed good practice.

In 2025–26, we detected fraud and error totalling £5,515,847, of which £4,174,246 has been recovered to date. The majority of this related to payments made in advance of need for certain grant schemes, where an overpayment was declared and subsequently recovered from the grantee.

This compares with £1,490,723 detected and £685,000 recovered in 2024–25.

Improvements to reporting from grant schemes continued to increase the amount of detected and recovered fraud, error or overpayment in these areas. We are working with the Defra Grants Hub to assess fraud risks across grant expenditure and to ensure controls remain proportionate and effective.

During the year we refreshed fraud risk assessments across the organisation. This work helps ensure that our fraud risks are identified, monitored and managed through appropriate mitigation plans. We are increasing activity in areas assessed as higher risk, but where low levels of detected fraud and error suggest the need for enhanced preventative or detection activity, including procurement related spend. This supports transparent and effective management of fraud risk in line with government expectations.

Estate management strategy

Where necessary, we hold land and property to support our operational activities. In line with our Functional Land Policy, we declare as surplus any assets that no longer serve an operational purpose and progress them through opportunities review and formal disposal process. To ensure ongoing alignment with operational needs and effective management of public assets, we comprehensively review all assets every five years. We assess whether each asset remains essential, identify any land management issues, and evaluate opportunities to improve value for money or reduce costs, consistent with HM Treasury's Managing Public Money guidance.

We value our operational land and building assets on an existing use basis on the valuation date. Our asset management policy prioritises ensuring that operational assets remain fully functional and correctly located to deliver their intended purpose. Valuers must exclude any alternative or speculative value that would exceed the least-cost approach to replacing an asset's service potential. Alternative use valuations are not commissioned for operational land and building assets, as they would serve no strategic purpose. We value assets that are no longer partly or wholly required for operations on a market value basis.

Sustainability in the Environment Agency

[eMission](#) is the Environment Agency's organisational sustainability strategy. It sets out the priority actions we will take so that we can deliver our corporate strategy [EA2030: change for a better environment](#) in the most sustainable way possible.

Our eMission commitments span nature, climate and the circular economy – and extend to the people and communities we work with. As we deliver our work, we have chosen three key areas which will make a difference - protecting nature, responding to the changing climate and moving towards a circular economy. These commitments are underpinned by targets which we will achieve over the course of our corporate strategy.

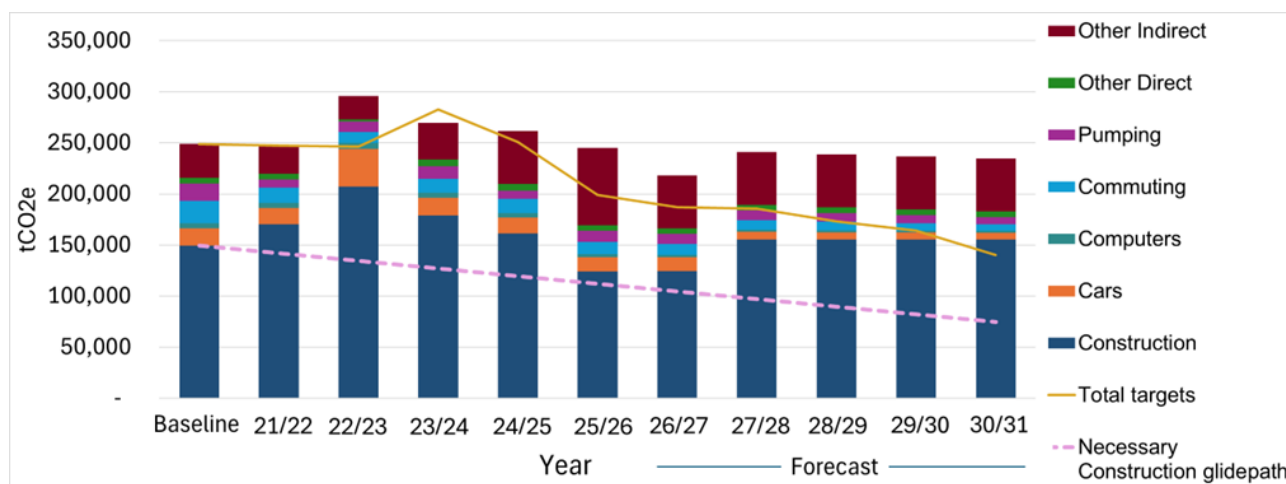
Achieving eMission requires us to embed sustainability into everything we do. To support this, we have developed a roadmap outlining the specific actions we are taking to ensure sustainability becomes a core part of how we operate. This approach is supported by our ISO14001 Environmental Management System and our [sustainability commitment statement](#).

eMission will also deliver against the Greening Government Commitments (GGC). Our performance against all GGC targets 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 maintained our organisational commitment to achieve net zero emissions across our operations and supply chain. Our targets remain to reduce Scope 1 (Direct Emissions from sources an organisation owns or controls), Scope 2 (Indirect Emissions (e.g. energy), and Scope 3 (Supply Chain Emissions) emissions by 45% by 2030 and by 90% by 2045–2050, against a 2019 baseline calculated as a 10-year average. This approach continues to account for fluctuations in operational emissions driven by weather-related activity, such as pumping during flooding or drought conditions.

Our net zero progress



At the end of 2025–26, total reported emissions were 245,222 tCO₂e against a target of 198,916 tCO₂e, exceeding the annual carbon budget by 23%. This reflects the continued expansion of our capital programme, with delivery of vital flood and coastal risk management infrastructure approximately doubling since the baseline year. However, emissions have not increased at the same rate as activity and spend.

We are making progress in reducing the carbon intensity of construction. Emissions per £10,000 of spend are 2.00 tCO₂e, less than half of what they were in 2021–22, mainly due to our methods of construction becoming more carbon efficient. This metric is based on nominal spend and is not adjusted for inflation, so it should be interpreted as an indicative measure alongside other evidence, including reductions in the carbon intensity of key materials and increased uptake of low-carbon construction methods.

Outside of construction there was a 48% increase in other indirect spend representing supply chain emissions, particularly from professional, scientific and technical services contracts supporting design and appraisal work for the capital programme (e.g. Jacobs, WSP, Mott MacDonald and AECOM).

To meet our 2030 near-term carbon reduction target, we will need to make significant further reductions by standardising best practice across schemes and embedding low-carbon delivery as a strategic objective. Our commercial contracts are set up to incentivise this, supporting our transition.

Internally scope 1 emissions reduced significantly compared with 2024–25 as our fleet continued to transition to electric vehicles. Around 80% of lease fleet mileage is now electric, with petrol and diesel mileage continuing to decline. Estate energy improvements, including increased use of biomass heating, also contributed to lower direct emissions. Scope 2 emissions remained broadly stable despite increased electricity consumption from electric vehicle charging and operational activity.

Use of Artificial Intelligence

Artificial Intelligence (AI) will have a significant impact on both the sectors we regulate and the way government operates. We see significant opportunities to become more efficient and effective through the rapid, safe adoption of AI, while supporting improved environmental outcomes.

We are actively exploring and piloting the use of AI across a range of activities, while developing our approach to its safe and effective adoption. We are also considering how advances in AI may affect the sectors we regulate and the implications for our future regulatory approach.

While AI offers significant benefits, we recognise that it can also increase demand for energy and, potentially, water and other resources. We will continue to consider how these impacts can be reflected in options appraisal and sustainability reporting, helping to ensure that the full costs and benefits of AI-enabled solutions are considered in decision-making.

Adapting to climate change

We lead the response to managing several climate risks in England, including rising flood and coastal risks, increasing pressure on water resources and quality, and ecosystems that cannot adapt as fast as our climate changes. In 2025–26 our incident management service responded to flooding and prolonged dry weather in many areas, while growing climate-driven pressures on land, water and nature continued to make nature restoration and environmental protection increasingly challenging.

Tools, skills and evidence

We published our fourth adaptation report under the Climate Change Act (2008), updating our assessment of adaptation risks and actions, and sharing them with stakeholders. We published [flood maps for planning](#) based on the National Flood Risk Assessment and continue to strengthen the evidence base on drought, estuarine water quality and lake nutrients. We are also supporting new adaptation-related standards due for publication in 2026–27.

We improved our staff's competency in relation to climate change adaptation. Around 300 more staff members completed training during the year, bringing totals to 4,475 staff who have received basic training and 682 who have received specialist training.

Adaptation plans and actions

During the year we prepared to launch the three-year £4.2 billion FCERM investment programme on 1 April 2026, targeting funding where flood and coastal vulnerability is greatest in line with updated government rules.

We started reviewing our Flood and Coastal Erosion Risk Management Strategy and published a revised National Framework for Water Resources outlining the scale of action needed for resilient water supplies. We also supported the Independent Water Commission and continue to advise government on water policy and future regulation.

We continue to modernise our incident management service to protect people, nature and the environment as climate risks grow, and expand use of nature-based solutions across water catchments and coasts.

We completed climate vulnerability and impact assessments across our estate, with each building given a climate risk rating to guide future investment, estate planning and adaptation measures.

Halt the decline of nature and support its recovery

Nature is increasingly recognised as a material financial risk, and the Environment Agency depends on healthy ecosystems to deliver its outcomes. Many of the materials we use in construction, such as sand, steel and cement, have significant impacts on nature. To manage these risks, we are continuing to develop our nature footprint, assessing 20 workstreams across our operations and supply chain. This work is helping us quantify our impacts and dependencies against the Taskforce on Nature-related Financial Disclosures (TNFD) and target action where it will make the greatest contribution to nature recovery.

This year, our Nature Literacy™ learning won the Edie Award for Staff Engagement and has been extended to our supply chain, creating a shared understanding of how we all support nature recovery. We have strengthened our approach to managing invasive non-native species through updated biosecurity learning and a new organisation wide policy. Our Sustainable Business Academy is also building the knowledge and skills needed to deliver eMission and support EA2030.

A natural capital approach is helping us better recognise the benefits nature provides and incorporate them into decisions. Across our approximately 17,000-hectare estate, tools such as the Natural Capital Register and Account Tool (NCRAT) quantify the value of services like flood mitigation, carbon sequestration, air quality regulation and recreation—estimated at over £18 million each year. Our estate sequesters more than 7,870 tonnes of CO₂e annually, and we are using natural capital evidence to guide investment and support colleagues and partners in applying this approach nationally.

This year, we also joined the National Estate for Nature Group, contributing expertise to joint delivery actions that support national nature recovery targets. We have helped shape the forthcoming Government Estate for Nature Plan, which will provide a coordinated approach for restoring nature across government land.

Water is one of the key sources that we protect and one of the key materials from nature that we rely on. This year, we have expanded the scope of our disclosures to include water abstracted under all Environment Agency abstraction licences that were active for all or part of the reporting period - see Sustainability data appendix.

The abstracted water reported under this expanded scope is not used for potable purposes, rather it enables others to use it where it is needed. It supports maintaining river flows (for subsequent abstraction by water companies), spray irrigation, fish farming, hydraulic testing, and flood risk management.

Tackling modern slavery

Modern slavery remains a serious and growing challenge in the UK, and our work spans high-risk sectors including construction, waste, agriculture and complex supply chains. To mitigate this, we provide tailored training to help our teams identify and report potential cases of modern slavery.

In October 2025 we published our [modern slavery report](#) for 2022–25, supported by our partnership with Slave Free Alliance, to report on our progress and help target our efforts effectively. Together, we shaped national guidance on assessing modern slavery risks and co-developed a Civil Service learning module on spotting the signs.

We are embedding modern-slavery risk management into our contracts and frameworks, including best practice personal protective equipment (PPE) specifications recognised by Slave Free Alliance. This learning has informed new framework schedules to ensure our procurement processes and supply chain partners clearly understand our expectations.

Support circular economy principles

We use insights from our resource consumption footprint to drive circular economy action across our organisation. Our clothing and PPE contract has expanded the use of the Responsible Choice range, which uses recycled materials and lower-emission certified cotton. Around half of our areas now reuse clothing and PPE, and we are trialling a cleaning and repair model. In our capital programme, we reuse or repurpose materials such as tubular steel and are developing methods to measure reused and circular-accredited materials.

Sustainable procurement

Our eMission sustainability strategy sets out our priorities, including those relating to our supply chain. These are reflected in Defra group's commercial policy and guidance and implemented through the procurement strategy.

Relevant procurement strategies include a completed risk management tool. We identify and manage sustainability opportunities and risks across the commercial life cycle, prioritising efforts to address high-risk/high-opportunity and high-value procurement and assigning sustainability specialists to these contracts. This year, we continued to work across major contracts to embed sustainability into supplier selection and delivery requirements.

Green information and communication technology

As a part of the Defra group, we have adopted the [Greening Government: Information \(ICT\) Communication Technology and Digital Services Strategy \(2020 to 2025\)](#). Under this strategy Defra reports on the greenhouse gas and power consumption for Defra group ICT, listing the full waste hierarchy results, including value retained and charitable donations, alongside strategy statements.

In 2025–26 the Environment Agency moved to a new contract for end user devices, which prioritises remanufacturing and refurbishing devices, reducing embodied carbon emissions associated with our devices. For more information, see the Greening Government: ICT and Digital Services annual reports.

Task Force on Climate-Related Financial Disclosures (TCFD)

TCFD Introduction

Climate change poses significant risks to the Environment Agency's strategy, operations and finances. As both operator and regulator, we must manage these risks while reducing our own environmental impact. The TCFD framework supports our assessment and management of climate risks and opportunities, and we continue to strengthen how climate considerations inform our decision-making.

TCFD Compliance Statement

The Environment Agency executive and Audit Risk and Assurance Committee (ARAC) consider climate change to be a principal risk to the organisation – meaning it is deemed a top-tier, material threat that could severely affect our business model, strategy and/or financial performance.

We have made significant progress in how we systematically address climate-related risk this year. This is represented by achieving all we set out in our previous year's disclosure, as well as addressing the new 'strategy' disclosure requirements. We set out in this statement further planned work in 2026-27 to build on this strong foundation.

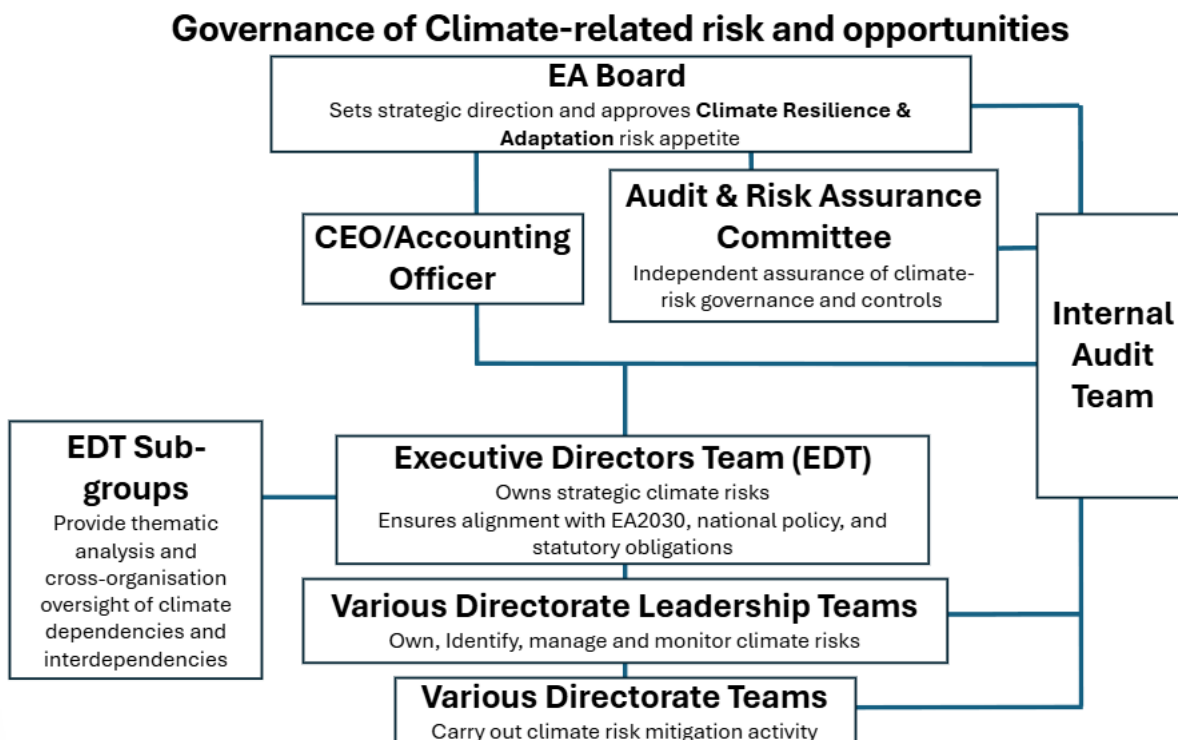
We have made disclosures consistent with HM Treasury's recommended disclosures for such an assessment, against governance, strategy, risk management, and metrics and targets. We are fully compliant with all disclosures, except for strategy disclosure c) scenario analysis, with which we are partially compliant.

Governance

To ensure effective climate risk management, we have embedded climate risk discussions into our corporate governance structures. This includes Board and executive team oversight of climate risk, discussing regularly to ensure it is embedded in our organisational decision-making and that we are progressing towards targets we've set.

Board's oversight

Our corporate governance structure is shared in the governance statement section of the report. The climate roles are overlaid in the diagram below.



Climate-related risks and opportunities form part of regular senior discussions. Climate-risk measures are reviewed quarterly by the Executive Director Team (EDT), and the board approve the performance scorecard annually. Outside of this, climate topics are brought as specific papers, resulting in a total of 6 discussions at the EA Board, 9 at ARAC and 45 at EDT in 2025-26. All papers are also required to consider how the recommendation supports climate and nature resilience.

Accountabilities are allocated to Executive Directors in relation to climate. The Executive Director for Strategy, Transformation and Assurance is accountable for TCFD reporting and corporate net zero delivery. The Executive Directors for Environment and Business and Flood and Coastal Risk Management oversee adaptation and transition-risk activity.

In the financial year 2025 to 2026, we have improved our governance related to climate by:

- Tracking the integration of our climate risks into risk registers through corporate reporting, which is reviewed by EDT
- Strengthening oversight of transition risks by enhancing the governance of the Enabling UK Net Zero Directors' Group, which leads the Agency's response to Government net zero policy

Management's role

To ensure climate risk is embedded into governance Directors are accountable for managing climate related risks in line with schemes of delegation and statutory duties.

In the financial year 2025 to 2026, we have improved the ability of management to deal with climate-related risks by:

- developing guidance to help managers identify climate-related risks and understand how they apply to their business areas; and
- completing a full design review of our carbon management system, which informs decisions affecting the carbon impact of our construction activity. The review identified opportunities to strengthen how carbon performance is managed, enabling it to be considered alongside cost at programme level and reviewed through the Delivery Programme Board.

Over the course of 2026 to 2027, we will further improve our governance and Management's role in climate-related risk as follows:

- Embedding 'transition risks' into risk registers related to how the EA enables and responds to the UK's net zero transition
- Embedding the design findings from the carbon management system design review

Strategy

This is a new disclosure requirement for the Environment Agency this year, and we have focused on assessing how climate risk affects our strategy, operations and financial planning. This includes an assessment of our corporate strategy EA2030's resilience under different climate related scenarios.

Risks, Opportunities & Time Horizons

Impacts

Climate change is already affecting our business, and we must understand both near and long-term impacts to ensure our plans remain resilient. We assessed risks and opportunities under +2°C and +4°C scenarios, noting that while the types of risks are similar, their severity increases under the higher warming scenario.

Many of our physical risks stem from the same climate hazards such as, prolonged drought, extreme rainfall and consecutive storms, which can occur simultaneously and create compound events. These interacting impacts may affect multiple parts of the organisation at once, amplifying pressures on our operations, strategy and finances. While we currently manage risks individually, the growing complexity of these climate hazards will require a more integrated approach.

Our short, medium and long-term time horizons for climate related risks are:

Short term 2020 – 2030 (near term)

Medium term 2031 – 2050 (mid-century)

Long term 2051 – 2100 (end of century)

In some areas we have detailed analysis of climate scenarios such as in our flood risk work. We account for a range of future climate scenarios in all of our development advice and FCERM projects, using UKCIP data which accounts for sea level rise, rainfall and river flooding. We also assess the performance of our FCERM projects against severe and extreme climate change scenarios to understand the sensitivity of their performance to further climate change. This analysis will inform the strategy and ultimately the solution which we deploy to meet our FCERM requirements in any given location. This is supported by long-term modelling such as our Long-Term Investment Scenarios (LTIS) which assesses future investment needs in response to climate and population change (see case study below)

How we did our scenario analysis

We assessed present-day climate (less than +2°C) and a +4°C scenario to 2100 using UKCP18 data, noting low confidence beyond 2050 due to uncertainties.

Impact on operations, strategy & finances

We have summarised our key climate-related risks and their impacts on operations, strategy and finance, supported by two case studies. Followed by outlining the opportunities presented by a changing climate.

CASE STUDY: Changes to long term investment under different climate change scenarios (Risk 9)

Our LTIS provide a national economic analysis of the flood and coastal erosion risk management outcomes for different levels of investment, under different climate scenarios. As well as climate change, LTIS also considers asset deterioration and population growth. You can see the full detail of this long-term planning [here](#).

Some of the findings of the modelling work illustrate how climate change will affect our long-term investment, for example:

- preparing for a high rather than a medium climate change scenario would increase the optimum from a long-term annual average of £860 million to £920 million
- high climate change both increases costs and limits risk reduction: property damages reduce by 4% rather than 12%

Whilst LTIS 2014 and LTIS 2019 were built on UKCP09 data we are constantly looking to improve the science that informs it. For the next iteration we will use data from:

- National assessment of flood risk from all sources
- Climate Change Projections (UKCP18)

We have considered time horizons for the risks, and we have made an assessment as to whether business operations, strategy or finances will be impacted. The Case Study below, of our projected future incident response service, illustrates this. Our process for identification, assessment and management of risks is described in the climate-related risk management section of this report.

Case Study: Impact on Business Operations, Strategy & Finance – Incident Response (Risk 5)

We know that under a +2C and even more so under a +4C scenario the changed climate will cause more frequent and more severe incidents where the Environment Agency must act to protect lives, communities and the environment. Flooding, drought, wildfires and pollution incidents will happen more often and create bigger hazards as a direct result of higher temperatures and changing weather patterns. This will challenge our operations, our resources and our funding. Our strategic response is to transform our incident management model.

Our current response model involves a small number of permanent roles, and the majority of resource moving from other activities to deliver our response. This model has served communities and taxpayers well over many years. We have minimised fixed costs whilst delivering our responsibilities as a category 1 responder under the Civil Contingencies Act. The increasing trend in incident response activity has already placed this model under stress. Overtime costs for out of hours activity are rising and other business activities are being paused too regularly. In 2023-2024 the costs of our incident management service were £81m. Our modelling shows that climate change and related population growth will increase those costs using the current response model to £107m-£124m in real terms in the next 10 years. Climate change will make the current model unsustainable both financially and operationally. Our strategic response is to transform our operational model with the introduction of additional permanent response roles that provide greater guaranteed resilience and readiness with less business disruption at a reduced cost.

Climate-related risks and impacts

The following sections summarise the Environment Agency's climate-related risks, including their potential operational, strategic and financial impacts, and mitigation response. All risks are assessed over the foreseeable 6–12 month period.

Risk 1: Failure to achieve corporate Net Zero target (mitigation risk)

A lack of targeted investment, together with issues in systems and culture, could result in the Environment Agency failing to meet its Net Zero targets, leading to an avoidable contribution to climate change and reputational harm. Operationally, this could require short-notice changes to working practices, kit or suppliers, creating a 'disorderly transition'. Strategically, it would mean failing to meet Net Zero targets, while financially it could increase whole-life costs as high-carbon assets become more expensive to run, require costly corrective measures and reduce the opportunity to secure savings from early adoption of low-carbon options. The EA's response is through the detailed, business-owned Net Zero Roadmap and the FCERM Decarbonisation Technology Accelerator programme.

Risk 2: Risk that climate-driven changes in rainfall patterns reduce our ability to ensure sufficient water for people and nature (adaptation risk)

Climate change is altering rainfall patterns and affecting the timing and availability of water across catchments, which could lead to ecological harm and service failures. This may make it increasingly difficult to balance water availability for all users and the environment, undermine delivery of the EA's strategic objectives for water resources and environmental protection, and lead to severe reputational impacts. Financially, it could increase the costs of incident response, pumping energy and asset maintenance. The EA's response includes updating future rounds of the national framework for water resources so that it better reflects climate change, regulating to sustainable abstraction standards in a changing climate, and establishing a hierarchy or priority of use for a shrinking environmental 'budget'.

Risk 3: Climate change will make it harder for us to protect water quality (adaptation risk)

Climate change will reduce the dilution capacity of water while increasing pollutant loading from run-off, flooding, accidental discharges and other sources. It will also directly alter water temperature, chemistry and nutrient cycling. While no direct operational impact has been identified, reduced water quality would represent a strategic failure for the EA and could have severe reputational impacts. Financially, it could increase incident response costs. The EA's response includes reviewing and varying permits in light of climate impacts, feeding climate risks into agricultural policy, ensuring climate change is factored into drainage water management plans, and implementing innovative monitoring technologies.

Risk 4: Climate change will make it harder for us to regulate effectively to ensure that industry can grow and the environment is protected from pollution (adaptation risk)

Climate change will increase risks from regulated sites because of greater hazards and increased environmental vulnerability. While no direct operational impact has been identified, it will make it more difficult for the EA to balance its duties for environmental protection and sustainable growth, representing a strategic failure and creating severe reputational impacts. Financially, the risk could increase incidents and response costs due to more asset failures among those the EA regulates, as well as more hot-weather incidents such as odour. The EA's response includes supporting government plans to update legislation and standards to support adaptation, and improving the capability of regulatory officers to regulate effectively in a changing climate.

Risk 5: Climate change will make it harder for us to provide an effective incident management service in a changed climate (adaptation risk)

Climate change will cause more frequent, severe and complex incidents, which could mean the EA cannot simultaneously meet demand for incident response and fulfil its other duties. This would represent a strategic failure and could have severe reputational impacts, as well as increasing incident response costs. The EA's response is to transform its incident management service so that it has sufficient capability to provide a resilient response to the increasingly frequent, complex and severe incidents foreseeable because of climate change impacts.

Risk 6: Climate change will make it harder for us to support nature recovery (adaptation risk)

Climate change will affect habitats and alter species survival and composition, including that of vulnerable fish species, making it harder for the EA to support nature recovery and conserve species for which it has statutory duties. Operationally, the EA could take ineffective or counter-productive action if restored habitats become ill-suited to a changed climate. Strategically, this would represent a failure for the EA and could have severe reputational impacts, although no direct financial impact has been identified. The EA's response includes improving the integration of adaptation measures into nature recovery work and enhancing ecosystem resilience, for example through the Restoring Meadow, Marsh and Reef initiative.

Risk 7: Climate change will make it harder for us to perform our strategic flood and coastal risk duties effectively (adaptation risk)

Climate change will increase overall flood risk and make it harder for the EA to provide accurate and reliable information on flood and coastal risks. This will increase incident response activity and could represent a strategic failure, with severe reputational impacts and increased incident costs. The EA's response is to appraise and account for a range of climate scenarios in all development advice and FCERM projects, using UKCIP data.

Risk 8: Climate change will affect our operational effectiveness by increasing our workload and restricting our ability to carry out work safely and effectively (adaptation risk)

Climate change will increase the EA's operational workload, while more extreme weather will add restrictions to how work can be carried out. This could increase incident response, asset maintenance and fieldwork demands, restrict site access, affect supply chains and prevent operations because of health, safety and wellbeing concerns. Strategically, this could mean the EA fails to carry out its core duties, representing an operational and strategic failure with significant reputational impacts. Financially, it could increase incident costs and supply chain costs where projects take longer and cost more. The EA's response is to improve its understanding of the risk by factoring climate change into business impact analyses.

Risk 9: Climate change will affect asset effectiveness and increase asset construction and maintenance, refurbishment and replacement costs (adaptation risk)

Climate change will place additional demands and stress on new and existing assets by increasing their performance requirements and causing damage during extreme weather. Operationally, EA assets may be unable to meet the increasing demands of a future climate. Strategically, asset failure or rising operating costs could put EA objectives at risk, while financially increased construction, maintenance, refurbishment and replacement costs could have serious consequences. The EA's response includes transforming asset management by adopting planned, preventative approaches to maintenance, using updated National Flood Risk Assessment data to inform decision-making, and updating LTIS 2019 to bring together its understanding of long-term investment scenarios for FCERM using an expanded range of climate change scenarios.

Risk 10: The transition to a net zero economy will require the deployment of new technologies and innovations which may need regulating to protect the environment (transition risk)

The EA's ability to regulate net zero technologies and innovations may be hampered by a lack of capacity and capability. Operationally, the EA may lack staff with the knowledge and skills needed to regulate these technologies. Strategically, the EA may be seen as a barrier to net zero and growth, while financially it may need to invest in building capacity and capability to respond to new net zero technologies and innovation. The EA's response will be set out through the Enabling UK Net Zero Plan, which will show how Directors are responding to these risks in each policy area, with specific technology or sector-based risks embedded into Director and Deputy-Director risk registers.

Risk 11: The transition to a net zero economy will require the deployment of new technologies and innovations which will pose new risks and hazards to the environment (transition risk)

Net zero technologies and innovations will present new and unknown risks to the environment. Operationally, the EA may be unable to assess potential risks and hazards from these technologies because of a lack of information. Strategically, this may prevent the EA from making sound regulatory decisions or carrying out its duties for net zero, while financially it may need to find resources for additional research and knowledge gathering to support regulatory decisions. The EA's response will be set out through the Enabling UK Net Zero Plan, which will show how Directors are responding to these risks in each policy area, with specific technology or sector-based risks embedded into Director and Deputy-Director risk registers.

Our climate-related opportunities

Type of Opportunity	Description	Potential Benefits
Energy Sources	Deployment of low carbon energy sources and technologies such as electrification of fleet and plant and building heating	Reduced operating costs from cheaper energy as well as increased resilience from energy security (including self-generated energy) and insulation from price shocks from volatile high carbon fuel sources. Additional benefits to clean air.
Resource efficiency	Energy efficient systems and buildings will use less power. Optimising design of flood risk assets for low carbon using nature-based solutions or less material	Reduced operating costs and reduced capital costs. Increased use of electric arc furnace steel reduces reliance on volatile imports.
Operational Resilience	Understanding the vulnerability of our property will inform our property strategy	We can continue to discharge our duties in the face of a warming climate with physical impacts as well as reduce whole life costs from avoided damages.

Scenario Analysis

We have undertaken a preliminary scenario analysis, using UKCP data associated with a +2C by 2050 scenario to assess the vulnerability of our strategy's 2050 outcomes to climate change. This revealed that climate change poses substantial risks to the achievement of our longer-term outcomes and that we will need to take systematic centrally co-ordinated action (including with partners) to manage these risks. We have determined that we are only partially compliant in this area as further work is needed to understand how our specific material risks respond under different scenarios.

In the financial year 2025-26 we have developed this area so that our risk identification and analysis can inform our strategies.

- We have begun drafting climate resilience guidance which will be applicable to all EA strategy development so that it is informed by our understanding of climate-related risks.

Over the course of 2026-27 we will further improve this area by:

- Continuing to iterate our climate resilience guidance and embedding within our strategy development process as well as ensuring the technical expertise is available to support the application of these principles.
- We will undertake further work to improve our financial impact understanding from a qualitative one to a more informed quantitative one.
- We will assess how our material risks respond under different climate scenarios

Risk Management

This section builds on our organisational risk management framework described on page 19 of this report. We have integrated climate-related risk into this framework and expand on the climate-risk specific elements in this section.

Risk identification & Assessment

To understand risks to our statutory duties, we assessed how each duty could be affected by acute and chronic climate hazards. Risks were described using a cause-event-consequence approach and scored for likelihood and impact using our standard matrix. We tested these scores against two climate scenarios, enabling us to prioritise actions where risks exceeded agreed thresholds. All risks, regardless of severity, were entered into risk registers for ongoing monitoring.

This process identified 67 adaptation risks, which we grouped into eight strategic adaptation risks and two transition risks. Originally developed for the Fourth Adaptation Report under the Climate Change Act, this approach is now embedded in our business-as-usual risk management.

Reputational Risks from needing to reduce carbon emissions

The EA has committed to net zero by 2045 to 2050. Risks have been identified by looking across the Business to understand sources of emissions and target hotspots for reduction based on quantity of emissions and our ability to affect them.

Physical Risks to our operations

We are conducting Climate Change Vulnerability Impact Assessments (CCVIA) for all our corporate property using a tool we developed to identify sites that are vulnerable now and under future climate scenarios. We are aligning our methodology with best practice from the Office of Government Property (OGP) adaptation framework and ISO 14090 / 14091. We are prioritising the sites that will have adaptation plans based on vulnerability on a Red, Amber, Green (RAG) basis, with a climate score across 3 scenarios of:

- current climate
- future climate +2°C by 2100 Global Warming Pathway
- future climate +4°C by 2100 Global Warming Pathway.

Transition Risks

Transition risks have been identified by mapping the EA's functions and operations against the Government's legally binding net zero target by 2050. For functional and policy risks, the EA has analysed the Government's Carbon Budget Delivery and Growth Plan (CBDG), which sets out how the government will meet its commitment to carbon budgets. We have identified risks associated with 10 strategic areas of action where the EA is required to do things differently to support government's net zero plans.

In the financial year 2025-26 we have focussed on making the work we did for ARP4 (Adaptation Reporting Power - 4th round) integrated into business as usual and making it a part of our risk management framework. We have done this by:

- Introducing a Climate Resilience and Adaptation category to our risk management framework, which will help us see the picture of overall climate risk for the business
- Built on the ARP 4 methodology, we have developed guidance for deputy directors (who own business risks under our scheme of delegation) to help them identify climate-related risks and as a result consider how they will mitigate those risks.

Over the course of 2026-27 we will further improve this process by:

- Refining the Climate Resilience and Adaptation Key Risk Category with our executive (EDT) and agreeing the Risk Appetite for this category
- Building insights from this category to share with EDT and ARAC to provide assurance on controls and mitigations being put in place
- Refining and monitoring 'transition risks' embedded in Director and Deputy-Director risk registers.

Risk Management & Overall integration

Please see the section on Risk Management on page 19 for a detailed explanation of our risk management framework.

In the financial year 2025-26 we have improved our integration and management of climate-related risks by:

Managing climate risk like any other risk and integrating it into our corporate risk framework, using the intelligence from ARP4.

Over the course of 2026-27 we will further improve our approach to risk management by:

- Embed the remaining risks
- Having embedded the identified climate risks on individual Director's risk registers in 2025-26, managers (Deputy Directors) will be required to annually review climate risks and implement risk mitigation actions to bring the risk score down, in line with our corporate process on risk. This will enable us to track an overall position on climate risk and present that aggregate picture to ARAC for quarterly assurance
- We will track the 8 aggregate adaptation risks and 2 transition risks at executive level along with associated mitigation responses

Metrics & Targets

We have existing measures that track our climate-related risks and opportunities, and we have done additional work this year to put in place new metrics aligned to our key risks.

In the financial year 2025 to 2026 we have improved our use of metrics to track climate-related risks and opportunities:

We identified existing scorecard metrics linked to key climate risks and created new metrics to better understand risk exposure across our operational workplaces. Our corporate scorecard can be found [here](#)

Metric Category & relevant risk	Description	Unit of measurement	2025-26 performance / target	2024-25 Performance
Carbon Emissions (Risk 1)	Carbon emissions from our operational activities are reduced by 45% from baseline (by 2030/31)	Tonnes of CO ₂ GHG equivalent	123% / 45% from baseline (by 2030/31)	104%
Carbon Intensity (Risk 1)	The average carbon intensity per £ spent	Tonnes of CO ₂ GHG / £10K	2 / Maintain improving trend	2.81 (improved from 4.17 in 2021/22)
Fleet De-carbonisation (Risk 1)	% of car fleet which is electrified	% of fleet vehicles	74% / 100% electrified	72%
Water Quality (Risk 3)	% of bathing waters meeting standards	% of water bodies	92.9% / 98% meet the standards	98%

Metric Category & relevant risk	Description	Unit of measurement	2025-26 performance / target	2024-25 Performance
Resilience in our capacity to respond to incidents (Risk 5)	Resilience of incident response rosters during incidents (CSC)	RAG	Amber RAG / Green	Amber RAG
Resilience in our capacity to respond to incidents (Risk 5)	Proportion of incident standby rota slots filled over 7 day rolling period	%	83% / 90%	84%
Nature Recovery (Risk 6)	Hectares of habitat created or restored delivering Environmental Net Gain Goals	Hectares	1206 / 683 hectares	730 / 1250 hectares
Flood Risk (Risk 7)	Number of properties better protected from flooding (CSC)	Number of properties	61,898/52,000 (2 year target of which 27,543 in 2024-25 and 34,355 in 2025-26)	
Flood Warnings (Risk 5 & 7)	Total flood warnings issued each year - new metric	Number of alerts, warnings and severe warnings issued	981 / No target (tracks effort)	1,864
Flood Warnings (Risks 5 & 6)	Flood warnings issued within timescales	% within SLA	71% / 63%	50%
Adaptation of Operational Estate (Risk 8)	% of EA operational workplaces assessed as high risk, that have adaptation plans in place and signed off by accountable owners	% of priority properties with plan in place	New metric – assessments currently being undertaken / 50% by Mar 2028 & 100% by Mar 2029	N/A

Metric Category & relevant risk	Description	Unit of measurement	2025-26 performance / target	2024-25 Performance
Effectiveness of Assets (Risk 9)	Percentage of flood and coastal risk management assets at target condition (CSC)	%	93% / 92%	92.8%
Adaptation innovation (Risk 9)	Innovation actions delivered in flood and coastal resilience to adapt to a changing climate (CSC)	% of projects on track	100% / 80%	94%

We also measure and report our waste, water and energy use in line with the Greening Government Commitments. Detailed breakdowns and multi-year trends are included in the sustainability data appendix.

Over 2026–27 we will further improve our approach by:

- Developing more targeted and forward-looking metrics that isolate key drivers and better track climate-related and transition risks.
- Introducing metrics that capture climate-related opportunities, including renewable energy generation from our estate.

Decarbonising our business – a journey

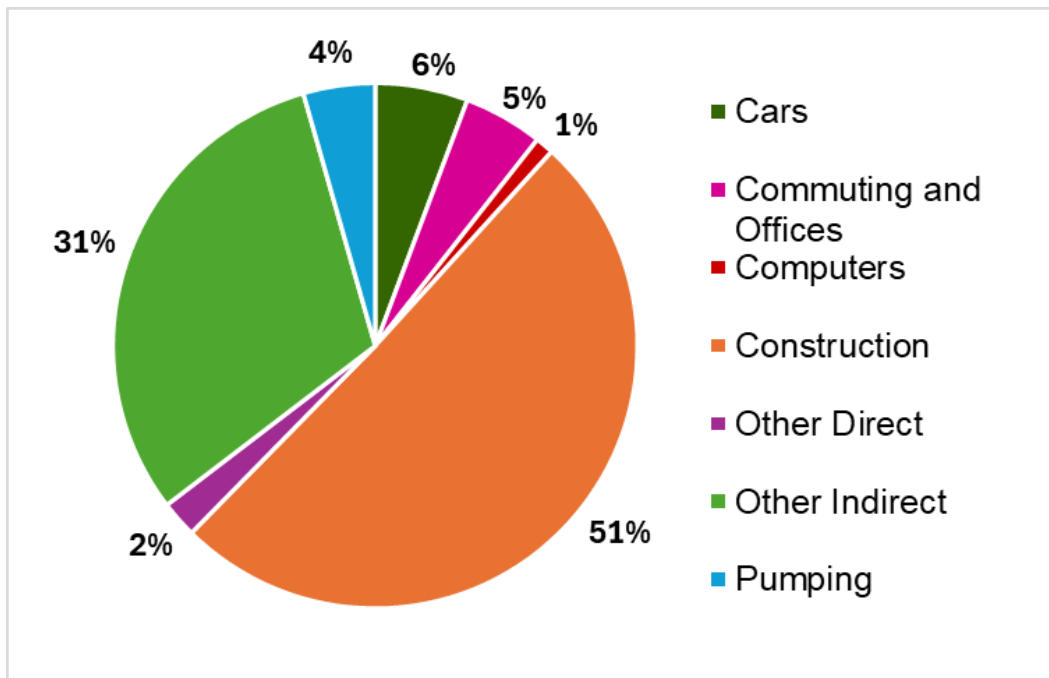
Since 2006-07 we have worked to reduce carbon emissions from our operations. In 2017 we expanded this work by calculating our Scope 3 emissions, confirming that most of our footprint sits within our supply chain.

We set our first Net Zero target in 2019–20 and developed our Net Zero Roadmap, later updating the target in 2024-25 using detailed modelling and sector-specific decarbonisation pathways. Reducing emissions remains essential to limiting our climate impact, and evidence from our construction activity shows that prioritising emissions reduction can also lower project costs.

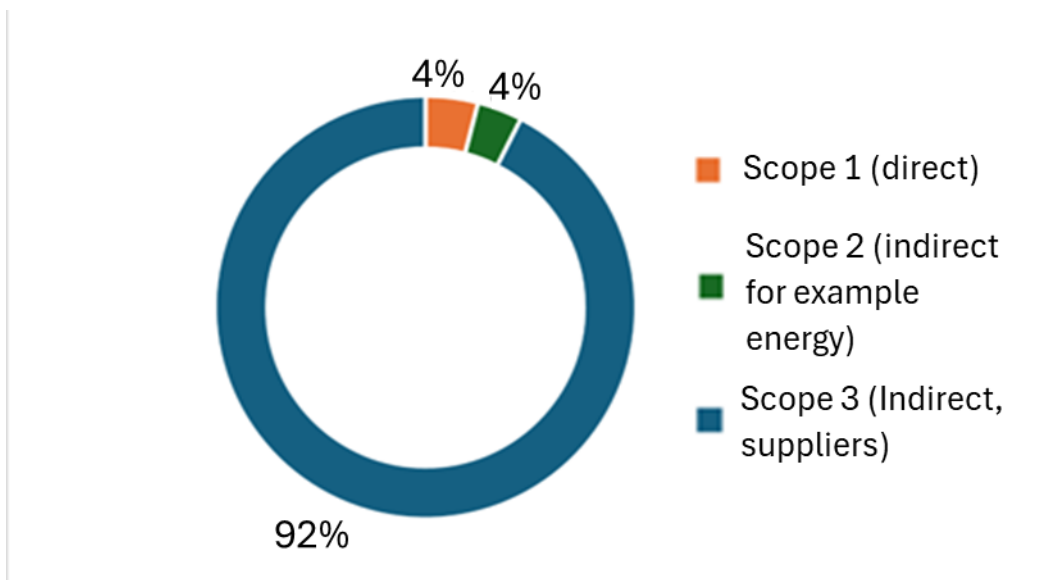
Our emissions distribution

Scope 3 dominates our emissions – with construction being the dominant category. The volume of spend and nature of the activity results in 55% of our emissions being from construction.

The Environment Agency's carbon emissions by activity



The Environment Agency's carbon emissions by scope



Our approach to decarbonisation

Our Net Zero Roadmap sets out the actions we need across the business to reduce carbon emissions. Individual business units develop and embed their own actions into their plans, which are then brought together and overseen centrally.

We are continuing to cut emissions, particularly from construction. Within flood and coastal risk management, our Net Zero Carbon for Infrastructure (NZC4I) programme is embedding whole life carbon assessment, improving carbon management systems, and mandating low carbon materials such as cement free concrete across all new projects. This work aligns with PAS 2080, which we aim to be accredited to by 2027.

Alongside this, our Decarbonisation Technology Accelerator (DTA) is accelerating the uptake of low carbon innovations—such as modern construction methods, optimised earthworks, and lower carbon steel and concrete alternatives—with early pilots already achieving significant CO₂e savings. Together, these programmes reduce embedded and operational carbon in our capital programme and support progress towards our 2030 and long-term net zero targets.

Decarbonisation progress

Our progress in emissions reduction can be seen below with a projection towards our short term 2030 target. Over this time increasing levels of construction activity have affected our emissions.

Environment Agency's glidepath to 2030

Our emissions performance for 2025-26 can be seen in the sustainability appendix of this report. During this time, we have also been tracking the carbon intensity of our construction delivery, and we can see a clear decoupling of activity and emissions. The table below shows how over recent years we have halved the carbon intensity of our delivery.

EA Carbon intensity in construction delivery

Year	2021-22	2022-23	2023-24	2024-25	2025-26
t CO ₂ / £10K (nominal)	4.17	3.30	2.69	2.81	2.00

TCFD Conclusions

The climate emergency affects every part of our organisation, so we are integrating climate-related risks and opportunities into governance, strategy, risk management and performance. We aim to make climate considerations a routine part of decision-making, strengthening our resilience, efficiency and overall effectiveness.

Review of financial performance and funding

Our audited financial statements show that our gross expenditure for the year ended 31 March 2026 was £2,262.8 million compared to £2,121.8 million in the previous year.

Of our total funding, 74% (2024-25 - 75%) came in the form of funding from Defra. The other 26% (2024-25 - 25%) largely came from fees and charges. Net expenditure for the year after deducting income was £1,621.6 million (2024-25 - £1,534.7 million).

The parliamentary accountability and audit report details the activities funded by fees and charges and grant-in-aid.

External income

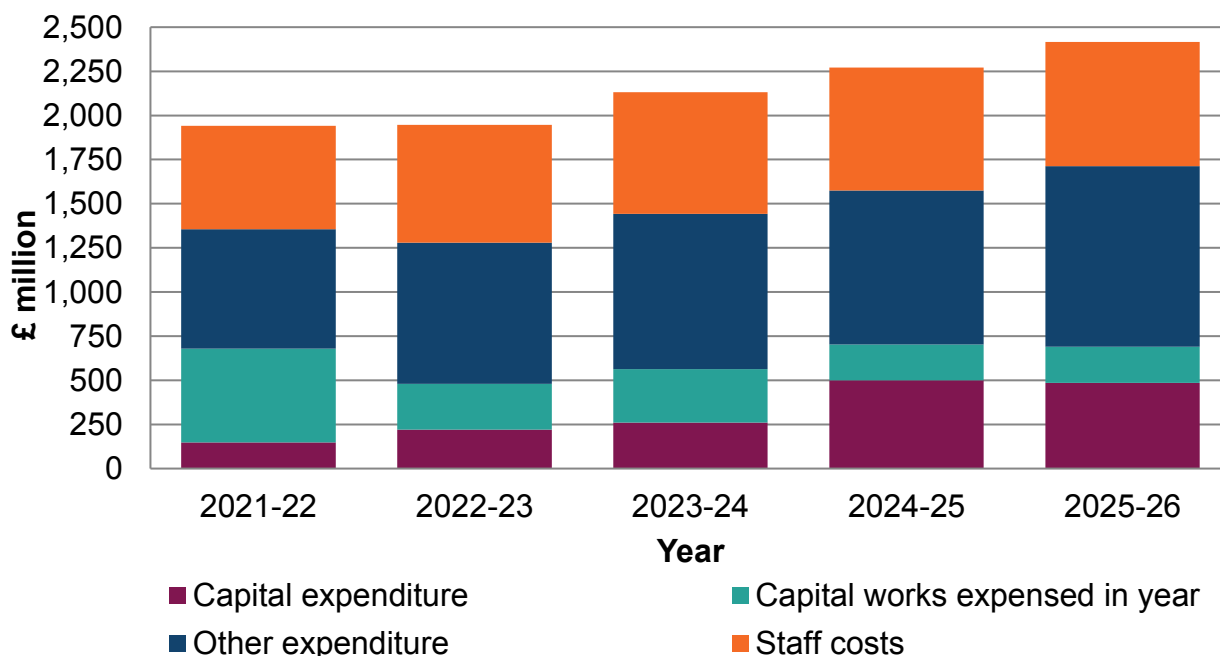
As detailed in note 5 of the financial statements, our overall level of income increased by 9.2%. This was primarily driven by increases in charge income (as described in the parliamentary and accountability report).

In 2025-26, we continued our good income collection performance with 97.1% of billed income (invoices due less insolvencies) collected within the financial year.

Expenditure

The expenditure shown below is gross expenditure excluding depreciation and amortisation, plus expenditure capitalised on the statement of financial position. On this measure, expenditure has increased compared to the prior year by £144.2 million (6.3%) and is presented below showing the changes to the makeup of the key elements.

Five-year summary of total 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 2, 3 and 4 respectively.

In 2025–26, there was £484.7 million of capital additions recognised in the accounts, alongside £204.6 million of Capital Works Expensed in-Year (CWEIY) which combined total £689.3 million.

The £484.7 million of capital additions can be reconciled directly to notes 6 and 7 of the accounts, comprising £425.3 million of tangible assets and £59.4 million of intangible assets. A proportion of this spend relates to assets under construction, which captures multi-year investment in major flood alleviation schemes and other complex infrastructure until they become operational.

CWEIY of £204.6 million (2024–25: £202.5 million) represents capital works undertaken by the Environment Agency where the resulting asset is controlled by a third party. This includes projects delivered for local authorities or private individuals, and therefore the expenditure is treated as expenditure in line with accounting requirements rather than being capitalised on the balance sheet.

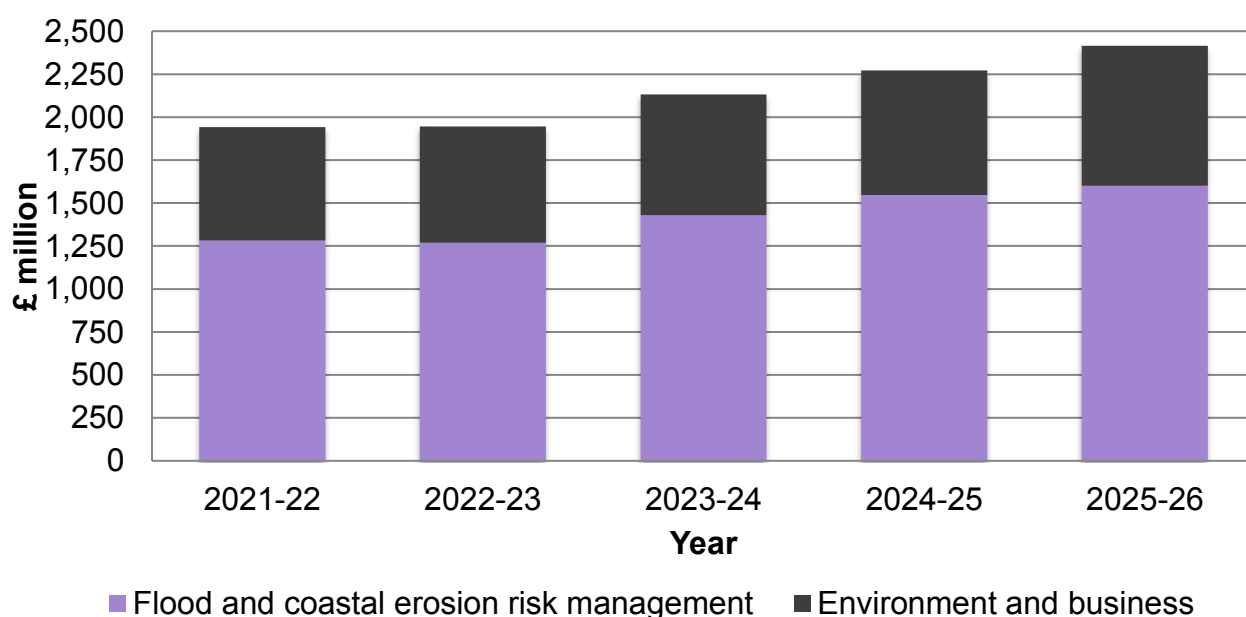
Other expenditure - which includes grant expenditure, hired and contracted services, and the Defra group Corporate Services charge - has increased by £150.6 million from £873.7 million to £1,024.3 million. The increase in expenditure is driven by additional grant expenditure of £47.5 million, and a net increase in provisions expensed of £80.1 million where there is a present obligation to complete future works.

Five-year summary of our expenditure by segment

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

- flood and coastal erosion risk management (FCERM)
- environment & business (E&B)

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



The increase in Environment and business gross expenditure is driven by the cost of regulatory work increasing by £65.0 million which is covered by increased charge income, alongside £40.9 million of provisions raised where there is a present obligation to complete future works.

Statement of financial position overview

Our net asset position has increased compared to the prior year, with the value of all assets less liabilities increasing by £80.8 million to £9,612.2 million (2024-25 - £9,531.4 million).

In terms of the most significant changes compared to the prior year, the valuation of non-current assets increased by £107.1 million. This was due to additions to assets under construction (£317.0 million net increase) offset by depreciation and revaluations. The increase to assets under construction represents continued investment in multi-year FCERM projects, which will continue to be supported by the launch of the new three-year £4.2 billion programme covering the period from April 2026 to March 2029.

The surplus position in the Environment Agency's active pension continues to be capped to zero in 2025-26 (in line with IFRIC 14). As explained in note 15.5 to the financial statements this is due to an asset ceiling being applied to the underlying £1,526.5 million surplus held by the scheme (2024-25 - £1,361.0 million 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 2026 shows taxpayers' equity of £9,612.2 million (31 March 2025 - £9,531.4 million).

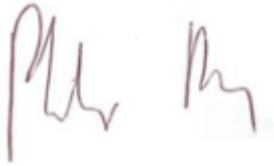
The future funding for our liabilities will be primarily grant-in-aid from 2026-27, with other income predominantly from fees and charges. Defra have delegated our budget settlement, including grant-in-aid, for 2026-27. We have indicative budget delegations for 2027-28 and 2028-29 which will be formally delegated in those years.

The fees and charges are statutory and recurring, including inflationary increases under cost of service, with the risk of reduced income arising if there is a substantial reduction in economic activity in sectors we regulate. 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 recommending the creation of a new integrated water regulator, combining the all water-related functions of Ofwat and the Drinking Water Inspectorate, as well as water related activities of the Environment Agency and Natural England. The Secretary of State accepted this in principle.

Since then, we have worked closely with DEFRA on the design of the new water regulator, which is intended to have a broad strategic overview of the water system as a whole. The interactions between this new organisation and the EA will be extensive and much of the detail remains to be confirmed by Government. Nevertheless, given that we judge it likely that the Environment Agency will retain significant statutory responsibilities across environmental regulation and flood risk management, we consider it a going concern, with its functions expected to continue.

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



Philip Duffy, Chief Executive and Accounting Officer

06 July 2026

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 2026, 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

Our Chief Executive is the Accounting Officer for the Environment Agency. He is responsible for maintaining a good system of internal control to support our aims and objectives, and to prevent attempted fraud, corruption, or bribery. He relies on our Executive Directors to support him in delivering his responsibilities.

This governance statement sets out how we have managed and controlled our resources in 2025–26. It provides assurance on how we conducted our corporate governance, managed significant organisational risks and addressed control issues.

We have a structured risk management framework aligned to HM Treasury's Orange Book principles that has been cascaded and adopted across all areas of the organisation with the most significant risks recorded in the corporate risk register. Our approach to risk management, including our principal risks and how they are managed, and our assessment of the effectiveness of these arrangements, is described in the Performance Report (pages 8 - 45). This includes an overview of our risk management framework, key risks and the actions taken during the year to strengthen controls. This Governance Statement complements that information by setting out how risk management is embedded within our governance arrangements and internal control framework, in line with HM Treasury's Orange Book.

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
- follow the directions provided by the Secretary of State
- operate with propriety and regularity
- are an efficient and effective organisation

During 2025–26, our Board comprised nine independent non-executive members (including the Chair). Our Board is responsible for setting our strategic direction and approving the mechanisms for its delivery. It is also responsible for ensuring we maintain a system of risk management and adequate internal management and financial controls.

Operational leadership and day-to-day responsibility for our governance and risk management are delegated to our Executive Team, led by our Chief Executive and Executive Directors. Our Chief Executive is accountable to Parliament through Defra's Principal Accounting Officer, the Permanent Secretary, for the stewardship of public resources.

Our Board, Executive Director Team and senior managers regularly review our performance across all activity areas and discuss this with Defra as part of ongoing oversight and assurance. Our Board and Executive Director Team have the authority and responsibility for directing and controlling our major activities.

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

- waste crime, including our operational response to prevent and tackle it
- delivery of our permitting regime
- agriculture and our farm inspection regime
- regulation of chemicals, including per- and polyfluoroalkyl substances
- water management, including regulation of water companies and our response to drought

Board duties and responsibilities

Our Board is responsible for:

- Developing and approving our short- and long-term strategy, and the means for strategy implementation, to meet our 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 our Strategy and Business Plan and our Annual Report and Accounts.
- Approving proposed charging schemes.
- Approving various capital works programmes.
- Approving projects, contracts and consultancies, etc. as required by the Financial Memorandum and our Scheme of Delegation.
- Approving the Schemes of Delegation.
- Monitoring our performance, finances, conduct and propriety of affairs to ensure that we are an inclusive, efficient and effective, healthy and safe organisation with effective internal environmental management.
- Providing scrutiny of specific topics relevant to our role as expected in the oversight of a non-departmental public body.
- Managing our Superannuation Funds to safeguard the interests of our 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 RFCCs to help shape and steer our operational duties and functions (see below). The chair of each committee gives an update at Board meetings and raises specific issues to the Board as necessary. Our 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 RFCCs. These committees raise levies to fund local priority projects, 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 the public is welcome to attend them.

Executive Director Team

Our Executive Director Team (EDT) comprises our Executive Directors, and other executives and staff members invited by our Accounting Officer. Its membership as of 31 March 2026 is:

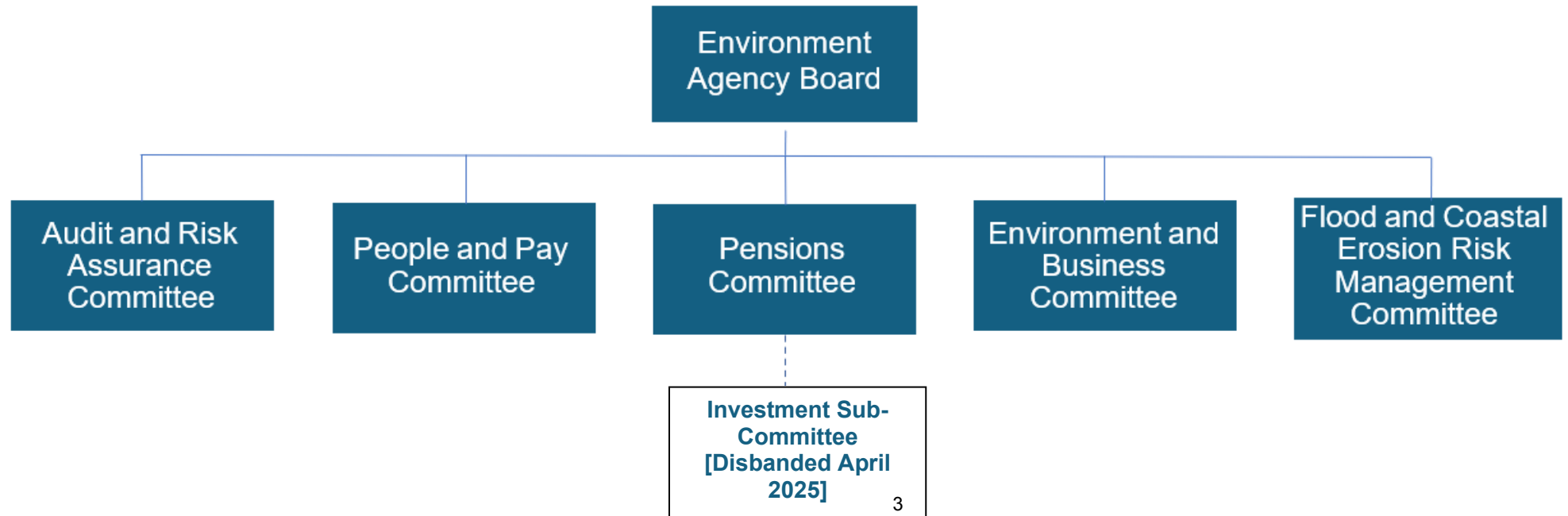
- Chief Executive (Accounting Officer)
- Executive Director of Local Operations
- Executive Director of Strategy, Transformation and Assurance
- Executive Director of Environment and Business
- Executive Director of Flood and Coastal Risk Management
- Director of Finance
- Director of Legal and Audit Services
- Director of Strategy
- Director of Operations
- Deputy Director of Communications
- Director of People and Assurance
- Deputy Director of Governance, Government Relations and Private Office
- Equity, Diversity and Inclusion Ethnic Minority Representative

The EDT's purpose is to manage our day-to-day operations. The team (see the organogram below) is responsible to the Board for all aspects of our performance and risk management. It also supports our Chief Executive in establishing and maintaining an effective system of internal control within our organisation. In fulfilling its purpose, the EDT duly considers:

- our organisation's role 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 our organisation to deliver for the public, customers and other stakeholders while planning our 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

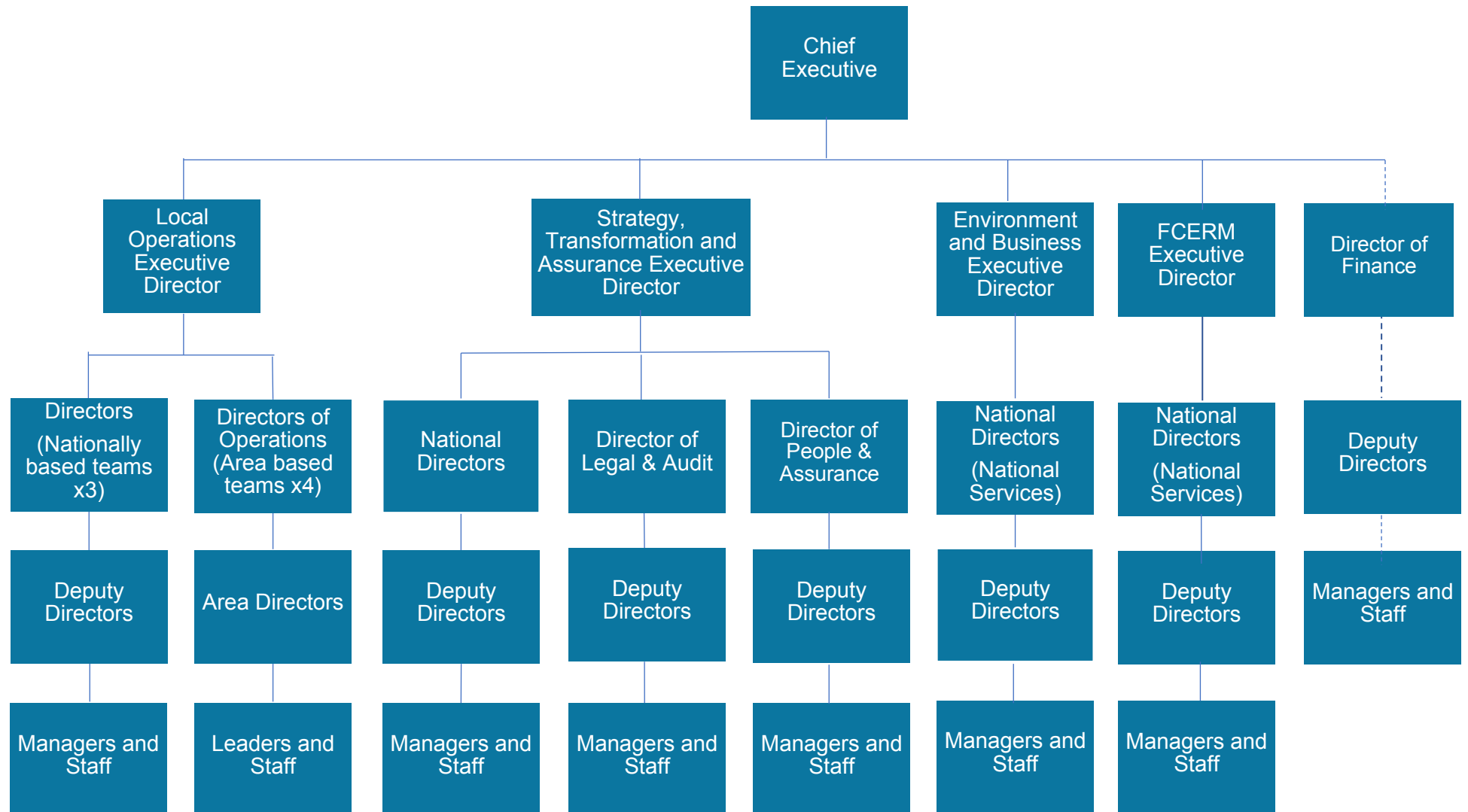
Our EDT meets weekly to discuss operational updates and decisions, and for one full day a month to consider and make strategic decisions on managing our organisation. During incidents the team may meet more frequently, as required.

Environment Agency committee structure



³ At the 26 March 2025 Pensions Committee meeting, a Board recommendation was agreed to remove the Pension Fund Investment Sub-Committee (ISC) and transition it to an Investment Oversight Group (IOG) of the Pensions Committee from 1 April 2025, chaired by our Chief Pensions Officer. The ISC role was to oversee the implementation of our investment strategy, including making decisions on new investments and recommendations to the Pensions Committee on how to evolve our investment strategy. Under this new structure, our Pensions Committee retains overall control for strategy and decision making in this area. The changes in pooling arrangements from April 2026 mean that investment decisions will be passed to Local Pension Partnership Investments (our new Local Government Pension Scheme investment pool). The timing was therefore right to alter the status, responsibility and membership of the ISC, while ensuring that the IOG meets the expected high standards of oversight and assurance.

Environment Agency organisational reporting lines



Structures and governance

Our corporate governance framework provides our EDT with strategic oversight and assurance of its key priorities. Five Executive Director-led EDT sub-groups are central to this:

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

These groups bring together the right skills and resources from across our organisation to allow Executive Directors to take rapid decisions to enable us to meet our environmental priorities. We have streamlined our underpinning governance groups and structures 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 efficient, agile and inclusive.

Defra group Corporate Services

Environment Agency financial, HR and operational IT processes and controls are delivered by Defra group Corporate Services, with accountability held by the Executive Director of Strategy, Transformation and Assurance.

Shared Services

In 2025–26 the Cabinet Office managed the finance, commercial and HR shared-services contract with Shared Services Connected Limited (SSCL) on behalf of the Environment Agency. An ISAE 3402 (International Standard on Assurance Engagements 3402) review by PwC provided assurance over SSCL's controls, confirming that key controls operated effectively, with a small number of exceptions managed through established governance processes.

Compliance with the corporate governance code

We follow best practice for corporate governance and comply with HM Treasury's corporate governance code, which informs our handbook for Board members. Our Board members are required to make bi-annual declarations of their membership of other organisations' Boards and any conflicts of interest. For further transparency, we also ask our Executive Directors to make annual declarations of interest. We ask all our managers and staff to complete an annual disclosure of interests, and discuss any disclosures and potential conflicts of interest with their line manager.

We take the management of interests and conflicts very seriously. We have robust processes and guidance to manage potential and actual conflicts for our Board members, senior executives and staff.

The requirements for our Board members are set out in the Environment Act 1995. They provide updates on declarations at each Board meeting as a standing item, recorded in the minutes. Board members must also 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 agenda items before every meeting they attend. We hold a register of Board member and Executive Director declarations, available to view on gov.uk. Our Board's ARAC reviews the details of Board member and Executive Director declarations annually.

Effectiveness of EDT and the Board

Our EDT held its annual review on 28 April 2026. Since the previous review in 2024, our EDT has continued to mature and has established its first sub-groups under our Executive Governance Review. This 2026 review confirmed that our executive governance framework is operating effectively and coherently.

One-to-one engagement with our Executive Directors and sub-group chairs highlighted positive collaboration, clearer remits and alignment, and an improved flow of advice to decision-makers, while also identifying opportunities to further strengthen our effectiveness. As a result, our EDT agreed improvement actions focused on: clarity of purpose and decision-making authority; strategic alignment and forward planning; communication of outcomes; and pre-meeting preparation.

Our Board will undertake its annual review in the first quarter of 2026–27.

Overview of the internal control system

A positive compliance culture underpins our internal control environment. This includes respecting policies and procedures, challenging concerns appropriately, and supporting a consistent focus on doing the right thing.

We follow HM Treasury guidance on internal control to provide reasonable assurance over the propriety and regularity of our expenditure. This approach is proportionate and cannot remove all risk, so our Accounting Officer provides reasonable – rather than absolute – assurance in this respect.

Our internal controls are designed to identify and prioritise risks to our objectives, assess their likelihood and impact, and ensure they are managed effectively. We publish our resource plans in our business plan, and report progress against our objectives, performance targets and budget. Our CSC and the performance report section of this annual report contain key performance information in relation to our delivery. We hold ourselves to high standards of conduct and have a clear policy of compliance with the law.

We maintain a robust internal control environment to support value for money. Our Board delegates control over income and expenditure through a financial scheme of delegation, setting limits for approvals, and requiring consultation with senior Finance, Commercial and HR colleagues. Higher value decisions may require approval from Defra, HM Treasury or the Cabinet Office.

Projects over £100,000 undergo an independent assurance review using clear investment and appraisal criteria, with additional scrutiny of major projects from RFCCs or the Infrastructure and Projects Authority. Our Commercial teams support procured expenditure and subject it to compliance checks, with any government procurement card spend approved by line managers.

Overview of the internal control system - internal audit assurance

Every year, our EDT and ARAC approve a risk-based internal audit plan compiled by our Head of Internal Audit. This responds to emerging risks, with changes agreed by EDT and ARAC. Our Head of Internal Audit and audit managers also sit on the boards of most of our major projects, and advise as required.

Our audits reports and corresponding action plans are agreed with relevant teams and approved up to Executive Director level. We share audit findings with our Accounting Officer, EDT and leadership teams through monthly summaries and in-person quarterly progress updates. Our Head of Internal Audit and ARAC Chair regularly engage with each other, and the former attends every ARAC.

Every year, our Head of Internal Audit provides an overall opinion to our EDT and ARAC on our control environment. Our opinion for 2025–26 is moderate (yellow on a red, amber, yellow, green scale) – a marked improvement on the ‘limited’ (amber) opinion given in 2024–25. This reflects stronger implementation of agreed actions, improved risk understanding and management, better aligned strategies, and stronger second-line controls. Significant change has already occurred to address key risks and make improvements, but in some instances it will take considerable time to manage risks to an acceptable level.

Opportunities for improvement identified in 2025–26 include clearer accountability, enhanced data quality (supported by programmes such as Aurora), improved role-specific training, and competency management.

External certification and accreditation

We maintain certification to ISO 9001 for our Quality Management System and ISO 14001 for our Environmental Management System. In July 2025 we successfully recertified both certifications for a further three years following an integrated audit covering our corporate functions, directorates and operational hubs. This audit identified several opportunities for improvement, which we have addressed by updating our management systems.

Our National Laboratory Service retained its ISO 17025 accreditation following a successful annual UK Accreditation Service audit in June 2025 at our Leeds and Starcross sites. We also manage ISO 14001 certification for Defra Facilities Management under our partnership agreement. This certification was renewed in 2025, confirming continued compliance with the standard.

Government Functional Standards

Government Functional standards are mandated for use across central government. Our Accounting Officer holds overall accountability for our compliance with these 13 standards, supported by our Deputy Director of Risk and Assurance.

We receive corporate services from Defra across eight functional areas. Defra benchmarks these services against cross-government Functional Standards to identify areas for improvement and inform future investment. Recent assessments rated around half of the services we receive as 'good' or above.

We work closely with Defra group Corporate Services to review and strengthen our corporate service provision, supported by a shared performance and assurance framework.

We lead self-assessments for five Functional Standards. Three of these are currently rated as 'good', 'better' or 'best', and two as 'in development'. We have improvement action plans in place and expect to move these two areas to 'good' at the point of reassessment.

NAO Value for money reviews

In 2025–26, the NAO carried out two value-for-money reviews focussing on the Environment Agency.

Regulating for investment and outcomes in the water sector (April 2025) examined how government and regulators oversee investment and performance in that sector. The report concluded that Defra and the regulators need to ensure that water companies are incentivised to deliver the expected performance level, sustainably and over the long term. We have expanded and professionalised our water industry regulation and are working with the other water regulators, the Water Services Regulation Authority (OFWAT), Drinking Water Inspectorate and Natural England on a joint improvement programme.

Environmental Regulation (January 2026) found that regulators have increased their focus on improving regulatory approaches since 2024, and that recent government reviews have added reform momentum. The NAO noted that substantial change is required and highlighted the importance of a focused and integrated approach, ensuring sufficient skills and capacity, and modernising digital systems. We are transforming our approach by: supporting regulatory reforms; implementing a consistent framework of outcome-based regulatory control plans; improving skills and development across our regulatory profession; and making the best use of digital opportunities throughout.

Data and Information Security

We work with Defra group Security to ensure appropriate protection of our data and information. Our Data Protection team provides guidance and policies and conducts data protection impact assessments. The team also delivers annual security training, which was completed by 94% of our staff in 2025–26 (2024–25: 78%).

We updated our Data and Information Ownership policy in line with government guidance and have mandated training for executive managers in 2026–27. We support data owners through enhanced tools to ensure they manage data securely and confidently.

In 2025–26, we reported three personal data breaches to the Information Commissioner's Office (2024–25: four). Of these, two are closed with no further action and we await the Information Commissioner's Office outcome for the third. In all cases we complete lessons learned to help prevent future incidents.

Data Quality

Our Board recognises that high-quality, trustworthy data is essential for effective decision-making. In 2025–26 we strengthened how we manage, assure and use data through a coordinated programme focused on delivering accurate, reliable information.

We are adopting an organisation-wide data governance framework aligned with government standards, to be implemented in 2026–27. Data Quality and Data Standards Centres of Excellence now provide tools, guidance and expertise to help our staff identify and resolve issues.

We have incorporated learning from external reviews, including NAO recommendations on flood risk investment data, and findings from the Independent Water Commission on improving long-term evidence and water data consistency.

Following the removal of the final qualification on our accounts (2024–25) we continue to improve our asset data. We manage an annual data improvement plan, focusing on improving existing data and populating missing data. This further enhances our decision making and operational asset valuation.

We continue to modernise through programmes such as our Regulatory Services Platform and Environment Monitoring and Planning programme, which improve the quality and consistency of our regulatory and environmental monitoring data.

We provide assurance in this field through internal audit, NAO year-end reviews, and our externally audited certifications under ISO9001, ISO14001 and ISO55001.

Ministerial directions

We received no ministerial directions in 2025–26.

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

In 2025–26 we paid over £369 million in grants to multiple schemes, supporting flood and coastal erosion risk management across England. These grants improved protection for communities, businesses and agricultural land, maintained key flood-risk assets and expanded nature-based solutions. Many programmes sit within multi-year investment cycles, with benefits realised as projects progress. All grants are administered in line with government standards and legislative requirements.

Section 16 - Flood and Water Management Act 2010 Grants

Risk Management Authority Programme

In 2025–26 we issued over £286 million in grants to support flood and coastal erosion risk management by local authorities, internal drainage boards and other risk management authorities. This funding supported new and refurbished flood-defence assets, resilience measures and natural flood management, improving long-term protection for communities, businesses and agricultural land. Our projects follow the Section 16 grant memorandum, form part of multi-year investment cycles, and require technical and financial approval.

Natural Flood Management Programme

Launched in 2023, this £25 million programme continued to fund 40 projects in 2025–26. Delivered by local authorities, charities, community groups and landowners, these projects use nature-based measures – such as water storage, flow attenuation and habitat restoration – to reduce flood risk while providing wider benefits for biodiversity, water quality and climate adaptation. Monitoring and evaluation are ongoing.

Internal Drainage Board Storm Recovery and Asset Improvement Fund

Established in 2024 to help internal drainage boards (IDBs) recover from 2023–24 winter storms and modernise their assets. The fund has increased from £75 million to £91 million due to demand, maintaining a strong benefit cost ratio of around 1:13. When this programme ended in March 2026, 277 projects had been delivered across 94 IDBs. Early analysis indicates resilience benefits for over 450,000 hectares of agricultural land, and 250,000 homes and businesses. Evaluation continues.

Other Grant Schemes

Under Section 78 of the Natural Environment and Rural Communities Act 2006 and the Agriculture Act 2020, we administer additional schemes supporting environmental improvement, water quality and sustainable land management. We release funding upon receiving evidence of eligible expenditure, with limited advances permitted to support mobilisation (subject to further assurance).

Water Environment Improvement Fund

Since 2017, Water Environment Improvement Fund grants have supported projects delivering River Basin Management Plan and Environmental Improvement Plan objectives. These grants continued to help local authorities, catchment partnerships and third sector groups improve river habitats, water quality and ecological resilience, contributing to wider nature recovery and catchment-scale flood resilience.

Natural Environment Investment Readiness Fund

Over five years we administered £14 million of Natural Environment Investment Readiness Fund grants to help organisations develop investable nature recovery and climate adaptation projects. The programme concluded in March 2026.

Landscape Recovery Scheme

Since 2022, we and Natural England have jointly administered Landscape Recovery Scheme development grants. In 2025–26, this supported 28 projects to design long-term proposals for habitat restoration, water management and climate mitigation. Development work established governance, technical assessments and delivery plans for future implementation by Natural England, leading to future multi-million pound projects spanning over 20 years.

Lowland Agriculture Peat Water Discovery Pilot

From 2023 to 2026, we administered grants supporting collaborative water management approaches in lowland peat areas. Funding enabled partners to gather evidence, test methods and build shared understanding of how water management can support climate mitigation, agricultural productivity and environmental outcomes. Findings will inform future policy and programme design.

Public correspondence

Executive correspondence and complaints

In 2025–26, we received 4,477 pieces of correspondence (2024–25: 4,053). Our Chief Executive and Chair received 543 enquiries (2024–25: 597). The most common issues raised were flood and coastal erosion risk management, water quality and waste regulation. We received 1,758 complaints (2024–25: 2,059), most commonly relating to waste regulation, flood and coastal erosion risk management, and navigation. We also received 93 commendations (2024–25: 142). Some of this year on year reduction may be due to changes in how we record commendations.

Complaint handling

We take complaints seriously. Our [Customer Service Commitment](#) explains what customers can expect when they raise concerns about our decisions, policies, processes or staff, which may include investigation and action. If people are still unhappy after completing our two-stage complaints process, we direct them to the right independent body: the Parliamentary and Health Service Ombudsman, the Local Government and Social Care Ombudsman or the Office for Environmental Protection.

In partnership with Defra, we launched a new [British Sign Language version of our Complaints Procedure](#) – a video with a clear, accessible explanation of our complaints process. We also introduced a new internal process for reviewing complaints and sharing outcomes, best practice and lessons learned to help us improve as an organisation and deliver better customer service. It shows our commitment to treating complaints as learning and improvement opportunities, and to handling them thoroughly, fairly and transparently.

Independent complaints bodies

Parliamentary and Health Service Ombudsman

Our work with the Parliamentary and Health Service Ombudsman was quieter in 2025–26. We only received five new enquiries, none of which became investigations. We made four decisions during the year. One related to a 2024–25 investigation that was not upheld, two complaints were closed following initial enquiries, and the fourth was closed at the Ombudsman's Assessment stage. We carried five cases through to 2026–27.

As mentioned in previous annual reports, the Ombudsman referred one of our cases to Parliament in 2022, under section 10(3) of the Parliamentary Commissioner Act 1967 because we were unable to fully meet one recommendation from a 2015 investigation. Since a meeting with our Chief Executive in July 2025 and follow-up correspondence, we have had no further contact from the complainant or their MP so we consider the matter closed. Following Ombudsman feedback, we reviewed our guidance on managing unacceptable customer behaviour and will introduce an update on this in early 2026–27.

Office for Environmental Protection

The Office for Environmental Protection (OEP) investigates complaints about public authorities' potential non-compliance with environmental law or investigates information about potentially serious non-compliance.

During 2025–26, the OEP referred five new cases to us. The OEP is still assessing two of these, one is at the OEP validation stage and one was closed with no further action. The remaining case, about how we assess the impact of ammonia pollution on protected sites, has moved into the OEP's informal resolution process (an 'intervention').

We also supported the OEP with two ongoing cases. The first began in 2024–25 and focuses on how we regulate the export of waste tyres to India. The OEP is treating this as an intervention.

The second case, which started in 2023–24, relates to the Gilberdyke Landfill Site and has two parts. The first part, about how the site is regulated, has been closed, with recommendations added to the Waste Inspections Report. The second part, about financial provision, has moved into the OEP's intervention process, and the OEP continues to monitor progress.

The OEP's own investigation into the Environment Agency and Defra for possible failures to comply with the Water Framework Directive Regulations continued during 2025–26. We have responded to the Statutory Information Notice.

The OEP's investigation of us, OFWAT and Defra into the regulation of combined sewer overflows continued during the year. The OEP was satisfied with progress and positive steps taken to address the concerns raised, so closed the case in July and issued its final reports in December.

We continued providing the OEP with bi-annual updates about our duty to provide a Public Register that meets the requirements of the Environmental Permitting (England and Wales) Regulations (EPR) 2016. The OEP will review the frequency of our updates in April 2026.

We shared feedback and learning from our work with the OEP with relevant teams and senior leaders. We are improving how we engage with the OEP across our organisation and how we share data and reporting. We continue to work with the OEP on its other activities.

Whistleblowing

Internal whistleblowing

To ensure our colleagues feel safe to raise concerns, we continue to promote our whistleblowing routes. In December 2025, we launched a SpeakUp webform to make reporting easier, alongside ongoing awareness-raising communications. SpeakUp complements our other whistleblowing channels and allows anonymous reporting.

Concerns raised through these routes have helped us to identify and address issues relating to health, safety and wellbeing, discrimination and regulatory matters. Insights from disclosures have also informed improvements to our whistleblowing processes. We will make further changes in April 2026 to reflect new legislative requirements on handling concerns about sexual harassment.

We assess all whistleblowing concerns and investigate them where appropriate. In 2025–26, we received 19 disclosures that met our criteria for further assessment or investigation.

These progressed to further assessment or investigation, with some cases including multiple disclosures.

During the year we closed 26 cases, including some opened in previous years. Of these:

- 4 could not be progressed due to insufficient information
- 9 did not meet whistleblowing or public interest criteria but resulted in management learning
- 13 led to actions or recommendations for improvement

External whistleblowing

The Environment Agency is a prescribed person under whistleblowing legislation and must act on qualifying disclosures made to us by third parties, and also publish an annual report. Our latest report, covering the year ending 31 March 2025, recorded 340 disclosures during the first full year of our new confidential reporting portal, which increased accessibility for whistleblowers.

In the year to 31 March 2026, we received fewer reports (257). This partly reflects our improvements to help ensure concerns are directed to the correct prescribed body. Of the reports received, we assessed 209 as qualifying – primarily relating to the waste sector (85).

We assess all external whistleblowing reports and either direct them to operational teams for review, log them to build our intelligence or refer them to another organisation if they fall outside our remit. In 2025–26 the overall trend remained consistent with previous years, with concerns largely relating to waste disposal, storage and management.

Money laundering reporting and compliance

We continued to deliver our anti-money laundering (AML) action plan during the year, including our eLearning package for all employees. One report was made to the National Crime Agency under the Defence Against Money Laundering process, following concerns raised by operational colleagues. This demonstrates good awareness of reporting obligations and how to escalate concerns appropriately.

We strengthened AML knowledge and awareness across our organisation, supported by a session for key staff delivered by the National Crime Agency. This has improved understanding of reporting requirements and strengthened our working relationship with that organisation. Further tailored training is planned for 2026.

An internal assurance review of AML guidance, staff awareness and training found that our teams who are likely to encounter potential AML issues have good awareness of the relevant procedures and how to report concerns. We incorporated several recommendations into our AML action plan, including updated guidance, training and reporting system improvements, and developing a forum to support knowledge sharing and learning across teams. Our Money Laundering Reporting Officer maintains oversight of this action plan.

Directors' report

Board and Executive Directors

We employ four Executive Directors in addition to the Chief Executive and 9 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 2025-26.

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 nearly 32,000 members, who are current and former employees of the EA, Natural Resources Wales (NRW), Shared Services Connected Limited (SSCL) and Tialis.

The Active Fund received employer contributions equivalent to 19% from the EA and between 5.5% and 12.5% from its employees during 2025-26.

Every three years, the Active Fund undertakes a valuation in conjunction with the Scheme Actuary. The latest triennial revaluation as at 31 March 2025 was completed by the statutory deadline of 31 March 2026. The results of this valuation were allowably not included in the 2024-25 IAS 19 pensions valuation. This is a mandatory review, where the fund's assets are measured against its liabilities to ensure sufficient funds exist to pay pension benefits. The results confirmed that the Pension Fund was 143% funded, meaning the fund's assets outweigh its liabilities. By comparison, the funding level at the last valuation, 31 March 2022, was 103%.

The 2025 valuation position is positive with the Active Fund reporting a significant improvement in funding over the preceding three years, driven mostly by higher expected future investment returns on the Fund's assets which offset lower than assumed investment returns over the previous three years to maintain 100% funding, the Active Fund needs a 3.7% annual investment return (2022: 3.0%), the likelihood of achieving that is estimated at more than 95% (2022: 80%).

Another important outcome of the valuation process is to set Employer contribution rates at a level which ensures there are sufficient funds to pay the current and future payment of member benefits. These employer contribution rates remain amongst the lowest across the LGPS. The EA remains committed to protecting members' pensions and ensuring the Fund maintains its excellent funding position going forward. 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.

Markets continue to be disrupted by geopolitical factors including disruptions to supply chains, armed conflicts, trade conflicts and inflationary pressures. This impacts on the investment returns achieved by the fund's assets. Despite this, the annual accounting funding level remains strong as at 31 March 2026 due to the higher-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 2026. As explained in note 15.5 to the financial statements this is due to an asset ceiling being applied to the underlying £1,526.4 million surplus held by the scheme (2024-25 - £1,361.0 million surplus). Applying this cap is for prudent financial accounting purposes only and does not change the value of the assets or the strength of the pension funds.

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 required LGPS Funds to pool investments to improve efficiency and reduce costs of investment management. Brunel Pension Partnership Ltd (Brunel) was created and became operational from 1 April 2018. It comprises the EAPF and nine other LGPS funds. Around 68% of the fund's assets are managed by Brunel at 31 March 2026.

In November 2024, the government set out its proposed pooling reforms with the aim of establishing a world-class LGPS, focusing on benefits of scale, long-term resilience and value for money.

The EAPF and our other Brunel partner funds received a joint ministerial letter from HM Treasury and MHCLG on 9 April 2025 stating that Brunel had not met the Government's vision for the future of the LGPS inviting us to identify a new pool to partner with from 1 April 2026.

The EA went through significant due diligence to compare its pooling options. Having scrutinised the legal, governance, financial and investment implications of this change the decision was made at 25 March 2026 Pensions Committee, to wind down Brunel and join the Local Pension Partnership Investments (LPPI) from 1 April 2026. This decision was supported by the EA Board.

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 British Standard 7890 and relevant HM Treasury guidance in our performance for paying creditors in commercial transactions. In 2025–26, we paid 98% of supplier invoices within five days of receipt and registration (2024–25: 98%). Creditor days, calculated on an average basis for the year, were 2.5 days during 2025–26 (2024–25: 2.6 days).

Remuneration and staff report

People and Pay Committee

This committee comprises five non-executive Board members and is led by the Environment Agency's Chair. It met three times in 2025–26.

During the year, this committee agreed the Chief Executive's performance rating and objectives, and also considered:

- 2025 pay review and pay remit
- executive managers' 2024–25 performance decisions and pay review
- Board member and Executive Director team expenses
- gender pay gap and pay gap reporting
- people strategy
- people- and pay-related risks and internal audits
- staff survey
- succession planning
- retention of specialists

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

Non-executive Board members are not eligible for membership of our 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 our 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)**Board members' emoluments in the last two financial years**

Board member	Remuneration in 2025-26 (£5,000 banded range)	Taxable expenses in 2025-26 (to nearest £100)	Total 2025-26 (£5,000 banded range)	Remuneration in 2024-25 (£5,000 banded range)	Taxable expenses in 2024-25 (to nearest £100)	Total 2024-25 (£5,000 banded range)
Alan Lovell (Chair)	100-105	-	100-105	100-105	-	100-105
Stewart Davies	20-25	-	20-25	15-20	1,100	15-20
Ines Faden da Silva	25-30	-	25-30	20-25	-	20-25
Brittany Harris	15-20	-	15-20	15-20	-	15-20
Maya Leibman	15-20	-	15-20	15-20	-	15-20
Lilli Matson	20-25	-	20-25	15-20	200	15-20
Sarah Mukherjee	15-20	-	15-20	15-20	100	15-20
Mark Suthern	20-25	-	20-25	15-20	400	15-20
Jon Watts	20-25	-	20-25	-	-	-

Details of Board members' attendance are below.

Non-executive Board members have no entitlement to performance-related pay and did not receive any pension contributions or benefits in kind. Their remuneration is in the form of salary. The figures in this table are total emoluments received and are not shown on a full-time equivalent or full year basis. Taxable expenses relate to refunds of travel costs incurred in the course of their Environment Agency 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 this table are stated on a net basis.

Notes

- (a) Alan Lovell was reappointed for a further term from 26 September 2025 to 31 December 2025 and was then reappointed again to 21 June 2026.
- (b) Stewart Davies, Lilli Matson and Mark Suthern increased their time commitment from four to five days per month from 1 April 2025.
- (c) Ines Faden da Silva was appointed Deputy Chair from 1 April 2025.
- (d) Jon Watts was appointed to the board on 1 April 2025.

- (e) Mark Suthern and Sarah Mukherjee were reappointed for a further 12 months from 10 January 2026.
- (f) Judith Batchelar received a banded range of 25-30 in remuneration during 2024-25 but none in 2025-26 as she left her role on 31 March 2025.
- (g) Robert Gould received a banded range of 25-30 in remuneration during 2024-25 but none in 2025-26 as he left his role on 31 March 2025.
- (h) John Lelliott received a banded range of 20-25 in remuneration during 2024-25 but none in 2025-26 as he left his role on 31 March 2025.

Board member appointments

Board member	Latest date of appointment or reappointment	Period of appointment	Latest time commitment (days)
Alan Lovell (Chair)	1 January 2026	5 months and 3 weeks	3.5 per week
Stewart Davies	1 February 2025	18 months	5 per month
Ines Faden da Silva	1 February 2025	18 months	5 per month
Brittany Harris	1 April 2024	36 months	4 per month
Maya Leibman	1 April 2024	36 months	4 per month
Lilli Matson	1 February 2025	18 months	5 per month
Sarah Mukherjee	10 January 2026	12 months	4 per month
Mark Suthern	10 January 2026	12 months	5 per month
Jon Watts	1 April 2025	36 months	5 per month

Subcommittees

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

Board members' attendance (not subject to audit)

Member	Board	ARAC	EB	FCERM	PC	PPC
Alan Lovell (Chair)	8 of 8			5 of 5		3 of 3
Stewart Davies	8 of 8	4 of 5	4 of 4			3 of 3
Ines Faden da Silva	8 of 8	5 of 5		5 of 5	4 of 4	
Brittany Harris	8 of 8		4 of 4			1 of 1
Maya Leibman	8 of 8	4 of 5		5 of 5	3 of 4	
Lilli Matson	8 of 8			3 of 5	4 of 4	2 of 3
Sarah Mukherjee	8 of 8		2 of 4			2 of 3
Mark Suthern	8 of 8	5 of 5	4 of 4	5 of 5		
Jon Watts	8 of 8	5 of 5	3 of 4		4 of 4	

Notes

- (i) Brittany Harris was appointed a member of the People and Pay Committee in December 2025.

Executive Directors' emoluments (audited)

Executive Directors' emoluments and benefits in kind in the last two financial years

For the year ended 31 March 2026

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	185-190	10-15	-	57	255-260
Tamara Bruck	145-150	0-5	-	43	195-200
Sarah Chare	140-145	10-15	1,900	72	225-230
Caroline Douglass	155-160	5-10	-	37	195-200
John Leyland	140-145	0-5	-	32	175-180

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

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

Notes

Sarah Chare's benefit in kind is in relation to a company car

Performance related pay policy

We award performance-related pay to our Executive Managers in line with Senior Civil Service Pay Guidance, and approved by our People and Pay Committee.

Executive Directors' pension benefits in the last two financial years (audited)

Executive Director	Accrued pension at 31 March 2026 (£5,000 range)	Increase/ (decrease) in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2026 (£5,000 range)	Increase/ (decrease) in lump sum during year (£2,500 range)	CETV at 31 March 2025 (£000s)	CETV at 31 March 2026 (£000s)	Real increase/ (decrease) in CETV (£000s)
Philip Duffy	10-15	2.5-5	-	-	87	143	29
Tamara Bruck	5-10	2.5-5	-	-	46	93	27
Sarah Chare	65-70	2.5-5	65-70	2.5-5	1,132	1,270	59
Caroline Douglass	30-35	2.5-5	-	-	433	503	27
John Leyland	30-35	2.5-5	-	-	444	503	18

Notes

Pension entitlements disclosed above relate to the rights accrued in the EAPF only, and exclude entitlements from any other civil service employment.

We remunerate our employees in line with standard public sector pay and pension policies. The accrued pension at 31 March 2026 represents the annual pension that individuals would be entitled to at their normal retirement date in the event they left our employment on 31 March 2026. 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 – pension value can reduce in real terms.

The CETV disclosed is the cash equivalent transfer value – 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 excludes 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 2 of the financial statements.

Average number of full-time equivalent staff employed in the last two financial years (audited)

	2025-26	2024-25
Directly employed	12,992	12,795
Contractors and agency staff	427	536
Total	13,419	13,331

In both 2025–26 and 2024–25, we employed all contractors on a temporary basis. In 2025–26, we employed 215 directly employed staff on a temporary basis (2024–25: 304).

Staff seconded out

Grade	2025-26	2024-25
Grade 7	4	1
Grade 6	3	3
Grade 5	6	3
Grade 4	1	1
N1B	1	-
Total	15	8

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

Staff seconded in

Grade	2025-26	2024-25
Director	1	-
Grade 6	4	2
Grade 5	3	2
Total	8	4

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

Executive manager headcount

At 31 March 2026, we employed 142 executive managers (equivalent to senior civil servant grades) – see table for a breakdown.

Grade	31 March 2026	31 March 2025
Chief Executive Officer	1	1
Executive Directors	4	4
Directors	26	25
Deputy Directors	111	94
Total	142	124

The above excludes our Chair and non-executive directors.

Gender

We monitor the gender split of our workforce.

Gender split - At 31 March 2026

Headcount	Male	Female
Executive managers	75	67
All other staff	7,294	6,463
Total	7,369	6,530

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

A gender pay gap is the difference in the average earnings between men and women.

Our mean gender pay gap remains small but widened by 0.6 percentage points to -1.0% (in favour of women). Our median gender pay gap has remained consistent since 2022 at 0%, meaning there is no difference in the middle hourly pay between men and women – both earn the same at the midpoint of their respective pay distributions.

Our bonus payments for both women and men have increased since 2024–25. The percentage of men receiving bonuses increased to 86.6% (2024–25: 80.1%) and the percentage of women receiving bonuses increased to 88.6% (2024–25: 80.8%). Our mean bonus pay gap is +3.4% in favour of men. This is 2.6 percentage points lower than in 2024–25, reflecting a positive trend towards gender parity.

Equality, diversity and inclusion

The Environment Agency exists to protect homes and habitats, today and for the future. Delivering that mission in a changing climate and an increasingly complex operating environment requires an organisation where people can contribute confidently to a shared purpose, and where a range of voices and perspectives shape our decisions.

Equality, Diversity, and Inclusion is central to how we protect homes and habitats, strengthen resilience and restore nature. It strengthens the quality of our decisions, improves our understanding of the communities we serve, and enables our people to perform at their best.

The Environment Agency EDI Strategy (2022 -2025) is being refreshed, and will build on progress made under the current objectives:

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.

The refreshed EDI Strategy (2030) is due to be launched in July, subject to approval.

We continue to encourage and support our mutual support employee networks. These networks act as ‘critical friends’, supporting us to remove all potential barriers to employees achieving their full potential in our workplace. Executive Manager champions assist these networks, working with them and others from across the Defra group, sharing knowledge and experience to improve the day-to-day working environment for our employees.

Disability

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, complemented by our disability leave policy and an employee disability passport. This passport is a confidential document to help our employees hold discussions with their line manager about the support they need. It is also a key document when an employee moves to a new team 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 job criteria, we offer them an interview.

Staff turnover

Our staff turnover in 2025–26 was 5.6% (2024–25: 6.1%).

Sickness absence data

We lost an average of 6.7 days per full-time equivalent employee to sickness absence in 2025–26 (2024–25: 7.8 days). This excludes contractors or agency staff.

Staff engagement

We conducted a full employee survey in 2024, with a 71% response rate. Since our previous survey in 2021, our overall employee engagement score remained at 68%, as shown in the table. We scored well in job satisfaction, understanding of personal objectives and development actions, and pride in working for us.

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

Between full employee surveys, we run regular pulse surveys to evaluate our staff engagement metrics. These enable us to hear how staff are coping with different ways of working and any support they need.

In February 2026 4,000 randomly selected employees received a pulse survey, resulting in 2,072 responses. Positive results included employees’ satisfaction with being able to use their skills and abilities, an increase in understanding our corporate strategy and a high percentage of people who would recommend the Environment Agency as a place to work.

Employment of consultants and contractors

The nature of our work means we require the expertise of temporary workers in addition to our permanent employees. The table below shows our recent expenditure on temporary workers and contractors.

Expenditure on temporary workforce

Type of temporary support	2025-26 £ million	2024-25 £ million
Consultants	77.9	88.6
Temporary workers and contractors	23.7	17.1
Total	101.6	105.7

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 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 we minimise their use. We include contractual clauses in appointment documents to receive assurance that the individual or their employer manages their tax and national insurance affairs appropriately.

Number of ongoing engagements at year end

Period of engagement	31 March 2026	31 March 2025
6–12 months	57	18
1–2 years	27	-
2–3 years	20	1
3–4 years	8	5
4+ years	18	2
Total	130	26

Off-payroll workers engaged during the year, earning £245 or more per day

	2025-26	2024-25
Category of off-payroll workers engaged		
Not subject to off-payroll legislation	93	-
Subject to off-payroll legislation and determined as in-scope of IR35	13	-
Subject to off-payroll legislation and determined as out-of-scope of IR35	21	26
Total	127	26
IR35		
Number of engagements reassessed for compliance or assurance purposes during the year	12	8
Of which: number of engagements that saw a change to IR35 status following review	5	-

In 2025–26, 15 individuals had significant financial responsibility over our organisation (2024–25: 17). None were engaged as off-payroll workers.

The increase in the number of existing off-payroll appointments for 2025–26 is due to the previous year's figures only including workers subject to off payroll legislation. In 2025–26 we included all workers not on our payroll, even though many were not subject to off-payroll legislation because they are engaged via umbrella companies or agencies with PAYE deducted at source.

Reporting of compensation schemes

Occasionally, external or internal changes affect our staffing requirements. In these situations, we use our Voluntary Early Release Scheme to avoid compulsory redundancies wherever possible. This scheme supports our business needs and aligns with our overall Human Resources Strategy.

We pay redundancy and other departure costs 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. We account for all departure costs in full when official notice has been served.

Exit packages during the last two financial years (audited)

There were two exit payments made during the year which included special severance payments totalling £125,100. These are also included in the special severance payments disclosure. (2024–25: one exit package valued at £10–25,000 which was not a special severance payment).

Where we agree early retirements, the Environment Agency (rather than the EAPF) pays any additional costs. Ill-health retirement costs are covered by the pension scheme and are not reported here.

Fair pay disclosure (audited)

We operate within nationally agreed pay frameworks, with salaries determined by defined bandings and periodic pay settlements. Within this structure, we monitor pay outcomes and publish relevant disclosures, including pay gap data, to ensure fairness and transparency. Our fair pay disclosures are intended to highlight any differences in pay between employee groups and demonstrate how we are addressing inequality.

Reporting bodies are required to disclose the percentage change from the previous financial year for both salary (including allowances) and performance-related pay in respect of their highest paid director and overall employees.

They must also disclose the relationship between the remuneration of their highest-paid director and their lower quartile, median and upper quartile of their workforce.

‘Salary and allowances’ includes gross salary, London weighting and any other allowances subject to UK taxation. ‘Total pay and benefits’ includes salary and allowances, any non-consolidated performance-related pay and benefits-in-kind.

The figures disclosed here exclude severance payments, employer pension contributions and pensions’ CETV. The average employee remuneration disclosed here includes contractors.

In 2025–26 no employee received remuneration in excess of our highest-paid director (2024–25: none), based on a full-time and full-year equivalent basis.

The banded remuneration for all our employees ranged from £0–5,000 to £200,000–205,000 (2024–25: £5,000–10,000 to £190,000–195,000).

In line with public sector pay remit guidance, our pay settlement effective from 1 July 2025 applied consolidated salary increases of at least 3.25%. We believe that our median pay ratio for 2025–26 is consistent with the pay, reward and progression policies for our employees.

Highest paid director and overall workforce 2025–26

	Salary and allowances	Performance related pay	Total
Highest paid director (£5,000 banded range)	185-190	10-15	200-205
Mean average employee (£)	41,104	610	41,714

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 (£)	41,099	584	41,683

Percentage increase/decrease for highest paid director and overall workforce – 2025–26 versus 2024–25

	Salary and allowances	Performance related pay	Total
Highest paid director	2.7%	0%	5.2%
Mean average employee	0.0%	4.5%	0.1%

Relationship of pay between highest paid director and overall workforce 25th percentile

	2025-26 £	2024-25 £
Highest paid director (mid-point of pay band)	202,500	192,500
All employees (salary and allowances)	32,964	33,000
All employees (total pay and benefits)	33,344	33,531
Ratio (total pay and benefits)	6.1	5.7

Median

	2025-26 £	2024-25 £
Highest paid director (mid-point of pay band)	202,500	192,500
All employees (salary and allowances)	43,198	41,617
All employees (total pay and benefits)	43,198	42,202
Ratio (total pay and benefits)	4.7	4.6

75th percentile

	2025-26 £	2024-25 £
Highest paid director (mid-point of pay band)	202,500	192,500
All employees (salary and allowances)	44,720	46,392
All employees (total pay and benefits)	46,421	49,714
Ratio (total pay and benefits)	4.4	3.9

Figures for 2024-25, apart from highest paid director (mid-point of pay band), have restated to remove non-executive directors, and pay allowances linked to amount of time worked.

The increase in pay ratio across 25th percentile, median and 75th percentile is attributable to a 5.2% increase in the mid-point of the pay band of the remuneration of the highest paid director. The actual increase of the highest paid director's salary was 3.25% exactly, which is in line with pay guidance for Senior Civil Servants for 2025-26. The remainder of the increase related to allowances and bonus.

The median pay of all employees increased by 3.8%, which is in line with the pay settlement for Environment Agency staff for 2025-26 which ranged from 3.8% to 5.0% for consolidated pay and 3.25% for allowances.

Pension benefits

Pension benefits are provided through the Environment Agency Pension Fund (EAPF), a defined benefit scheme. Further details of the scheme, including the nature of benefits provided and the required accounting disclosures, are set out in Note 15 to the financial statements.

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. Reported income also includes other elements of water resources income.
- Environmental Permitting Regulations (EPR) relating to 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 – permits to control and minimise pollution from industrial activities
- EPR waste – permits for waste management and exemptions
- Hazardous waste – licences for producing, transporting or receiving hazardous waste.
- Emissions trading, Carbon Reduction Commitment Energy Efficiency Scheme⁴ and Climate Change Agreements Scheme – regulating businesses under schemes including the EU Emissions Trading System and Climate Change Agreement Scheme.
- Nuclear regulation – regulating nuclear sites (radioactive substances 1 and 2), non-nuclear sites (radioactive substances 3 and 4) and nuclear new build sites
- Other environmental protection charges – for registering waste carriers and brokers, trans-frontier shipments, producer responsibility licensing, end-of-life vehicles, polychlorinated biphenyls, and regulating businesses under schemes such as control of major accident hazards
- Navigation licences – charging individuals for boat licences

The majority of the charges funding we receive covers 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 people and nature thrive
- providing technical leadership
- supplying advice to government and other organisations in England involved in environmental protection
- monitoring environmental conditions, including water and air quality

⁴ This energy efficiency scheme closed on 31 March 2019 but some compliance and closure work continues.

- strategic environmental planning, including river basin and catchment restoration plans
- conducting investigations and improvement work under the Water Framework Directive
- enforcing regulations and tackling environmental crime, including waste crime
- managing incidents
- delivering navigation and fisheries work not covered by charges
- working with local partners, communities and government
- delivering town and country planning advice
- administering energy efficiency or carbon reduction schemes, including the Energy Savings Opportunities Scheme

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

Flood and coastal erosion risk management

Our FCERM operating unit's main activities are:

- capital investment strategy and delivery
- incident management and resilience, including flood warnings
- asset management
- digital and skills development

This is mainly funded by Defra grant-in-aid with some other funding sources. The majority of FCERM funding covers capital expenditure.

Fees and charges (audited)

Type of charge	Income (£ million)	Expenditure (£ million)	surplus/(deficit) (£ million)
Abstraction	200.5	(197.3)	3.2
Navigation licence	10.2	(39.6)	(29.4)
Fishing licence duties	24.8	(27.7)	(2.9)
EPR water quality	147.6	(145.0)	2.6
EPR installations	39.0	(41.5)	(2.5)
EPR waste	37.2	(39.5)	(2.3)
Hazardous waste	17.6	(16.9)	0.7
Emissions Trading and Climate Change Agreements	6.1	(8.4)	(2.3)
Radioactive Substances Regulation	23.3	(22.9)	0.4
Other charges	30.8	(27.2)	3.6
Total 2025-26	537.1	(566.0)	(28.9)
Total 2024-25 (restated)	470.7	(502.5)	(31.8)

The table shows a £66.4 million increase in income compared with 2024–25. This is due to income from new charges such as the Water (Special Measures) Act Enforcement Levy and Extended Producer Responsibility Packaging, as well as inflationary increases in charge rates resulting from cost-of-service reviews.

Any surplus or deficit arising from charge schemes is directly reflected in our financial performance and outturn against Defra's control totals in the year incurred. Any overspends on charges are covered by grant-in-aid funding in the year they arise, and we recover these where possible through a future charge review, in accordance with Managing Public Money.

We continue working towards full cost recovery through an Annual Health Check of our charge schemes. We use this process to prioritise schemes in most need of review and to consider ways to ensure our income keeps pace with external cost pressures. Options for misaligned schemes include a cost-of-service review and the ability to uplift charges in line with the Consumer Price Index to cover external cost pressures. Rarely, an ongoing grant-in-aid subsidy may be appropriate – as in the case of our navigation licences – to support the costs of improving waterways' asset infrastructure.

The 2024-25 comparative net deficit has been restated to reflect the full costs of Navigation and Fishing Licence charge schemes, including financing and asset-related charges, resulting in an increase from £4.8 million to £31.8 million, which as noted above are partially grant-in-aid funded.

The expenditure figures in the table above are based on our 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 our asset valuation and consequently the depreciation charge.

IAS 19 pension adjustments are not passed on to charge payers and so are not included here. Depreciation based on the DRC valuation has been charged to the statement of comprehensive net expenditure since 2023–24. However, charge rates will continue to reflect depreciation charges calculated on the previous modified historic cost basis until the next review of the relevant charge schemes. This means that the costs included in our fees and charges do not fully align with those in our financial statements but they do align with our current charge rate models.

Regularity of expenditure (audited)

We discovered no material instances of irregularity, impropriety or funding non-compliance during the financial year. Instances of fraud are reported in the 'Fraud risk management' section. The 'Overview of the internal control system' section in our governance statement discusses the controls we have 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 us to disclose 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 statement

	2025-26 Number	2025-26 £ million	2024-25 Number	2024-25 £ million
Cash losses	3	-	1	-
Claims abandoned	-	-	1	-
Administrative write offs	3,467	2.7	813	0.9
Fruitless payments	8	0.7	12	-
Store losses	127	0.3	124	0.7
Total losses	3,605	3.7	951	1.6
Special payments	7	2.8	8	0.3
Total	3,612	6.6	959	1.9

We estimate losses 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 that have become insolvent.

We consider the recoverability of individual debts as part of our ongoing debt collection activity. In addition, we conduct a detailed review of all remaining debt annually – normally towards the end of each financial year. No annual review took place in 2024–25 but instead one was carried out in March 2026, resulting in an unusually high number of debt write-offs in 2025–26 and an unusually low number in 2024–25.

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

In 2025–26 we had one loss and one special payment in excess of £300,000 (2024–25: one loss and no special payments in excess of £300,000).

The loss arose from a long-standing maintenance agreement that we attempted to terminate under revised contract terms. These terms were deemed enforceable and the contractor was entitled to receive £447,956 to settle legal fees they had incurred.

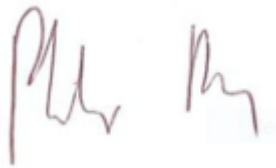
Following prior approval by Defra and HMT, a special payment of £2.3 million was made in a pre-trial settlement of a judicial review claim brought by a third party in relation to a grant dispute.

During the year, the Agency made 2 special severance payments with a total value of £125,100. In line with HM Treasury guidance, disclosures would ordinarily include the maximum, minimum and median values. However, as there are only two payments, disclosure of the highest and lowest values would directly reveal the value of each individual payment. Therefore, having considered its obligations under the Data Protection Act 2018, the Agency has not disclosed these metrics.

There were no gifts in excess of £300,000 in 2025–26 or 2024–25.

Remote contingent liabilities (audited)

We have no remote contingent liabilities that require disclosure in this annual report and accounts.

A handwritten signature in blue ink, appearing to read 'Philip Duffy', is positioned above the printed name.

Philip Duffy, Chief Executive and Accounting Officer

06 July 2026

The Certificate and Report 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 2026 under the Environment Act 1995. The financial statements comprise the Environment Agency's:

- Statement of Financial Position as at 31 March 2026;
- 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 2026 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	Environment Act 1995 (including charging schemes with statutory force under the Act, 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, and have determined that there are no other key audit matters to communicate in my certificate and report.

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 management override of controls, or fraud in revenue recognition – areas where my work has not identified any matters to report.

My assessment of audit risk is broadly consistent with my assessment last year. The key audit matters are therefore presented under the same headings as in 2024-25, although my work on the valuation of operational infrastructure assets has evolved.

The key audit matters were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on page 46.

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 operational assets should be valued at their current value in existing use. The Environment Agency implements this through 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. Note 6 to the accounts shows management's valuation of this portfolio at 31 March 2026 of £8,856 million (2025: £9,066 million), and describes in detail the method of preparation, and the related estimation uncertainty.

Briefly, the valuation relies on:

- a. data on the quantity, nature and (in some cases) dimensions of assets within the Environment Agency's control;
- b. data supporting an assessment of the condition of these assets;
- c. modelling which transforms all of these inputs into a financial estimate of both the gross replacement cost and condition-sensitive depreciated replacement cost;
- d. assumptions informing this model's operation (for example, for the design of replacement assets inherent in cost models for specific assets, and how to determine fixed averages as data replacements where real-world dimensional inputs for specific assets are unavailable); and
- e. the use of construction cost indices to update the value to current cost between five-yearly full valuations, at which the cost models are updated.

Inherent risk of misstatement exists in relation to each of these aspects. This was an interim valuation year for the Environment Agency portfolio, so my work this year drew in part on assurance from work I had performed in previous years on modelling techniques and key assumptions. This year, my assessment of audit risk focused most on the possibilities that:

- i. the Environment Agency did not control sufficient rights (either with respect to ownership, or relevant maintenance responsibilities enabled by its statutory powers) to recognise the asset;
- ii. the estimate of how much the portfolio had progressed through its useful life was not reasonable;
- iii. the portfolio had been indexed inappropriately; and
- iv. the data on dimensional measurements for control gates, moving this year from a structure-level to an element-level approach to this particular cost model, might be inaccurate.

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:

- sample testing of assets to confirm their existence, and the Environment Agency's rights over them;
- sample testing of the revised dimensional attributes for control gates;
- considering whether these revisions were treated reasonably as a prospective update to the estimate;
- assessing the appropriateness of both continuing assumptions and a new overlay assumption aimed at improving the consistency of control gate dimensional data;
- assessing the appropriateness and application of indices used for in-year revaluation;
- evaluating whether a sample of asset depreciation factors were consistent with the available evidence; and
- reviewing the continued operation of the model, including in respect of how depreciation factors are derived from source data.

My work was informed in part by the advice of an external auditor's expert with a civil engineering specialism.

Key observations

The outcomes of my procedures were satisfactory, and I noted no material issues arising from my work. Management adjusted the estimate having taken account of our audit findings on control gate dimensions.

Valuation of the defined benefit pension balances

Description of risk

The Environment Agency is responsible for a significant funded defined benefit pension scheme – the Active Scheme – for which the Environment Agency discloses £3,137 million of defined benefit pension obligations and £4,664 million of recognised scheme assets. While on an IAS 19 basis the scheme is in an underlying surplus position, the Environment Agency recognises a net balance of £nil (31 March 2025: £nil) in line with the ‘asset ceiling’ rules in IFRIC 14.

I assessed audit risk in each element as follows. Management describe their key judgements in Note 15.

Scheme liabilities

As with all defined benefit pension schemes, an actuarial estimate of the liability reflecting amounts to be paid out to members of the scheme in the future involves significant estimation in respect of key financial and demographic assumptions, applied to scheme membership data, as well as the accuracy of that data itself, and the method and model used to construct estimates of future cash flows.

Scheme assets

Rather than directly holding financial assets whose prices are quoted, the scheme principally invests through unlisted pooled investment vehicles. The majority of these by value focus on debt and equity investments; a smaller proportion, on infrastructure and property. I assessed a risk that the assets recognised might not exist, or be valued inappropriately. One aspect of valuation risk for this type of instrument is 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 2025 and 2026, the Environment Agency has 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, and the most recently enacted certificate instructing future contributions. There is a risk that this calculation might use the wrong inputs, or that the asset ceiling determination is made in a manner inconsistent with IFRIC 14.

How the scope of my audit responded to the risk

Liabilities

- Informed by the work of an actuarially qualified auditor’s expert I evaluated the appropriateness of the assumptions, the membership data used to value the defined benefit obligation, and the method and model used by management’s actuarial expert to transform these into a financial estimate of liability.

Assets

- Drawing on the work of the scheme auditor, I verified the existence of assets, including by reconciling opening to closing investment balances and testing a sample of movements.
- Through the same method, I evaluated whether the valuation of a risk-based sample of assets was reasonable, through confirmation to fund manager statements, benchmarking, assessment of reliability (e.g. using recent audited fund financial statements), and analysis of stale pricing risk.

Restriction of surplus

I reviewed management's position, informed by their actuarial expert, against IFRIC 14, and verified their calculation and inputs, informed by my work on liabilities, and the latest funding certificate issued for the scheme. I evaluated the work of management's expert, including to ensure work had been carried out according to recent industry guidance on the determination of asset ceilings for schemes in the Local Government Pension Scheme regime.

Key observations

The outcomes of my procedures were satisfactory, and I noted no material issues arising from my work. In response to my audit work, management adjusted the treatment of finance expense related to the asset ceiling in 2025-26, to better align with IFRIC 14 requirements.

Application of materiality

Materiality

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

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

	Overall materiality	Additional threshold
Materiality	£138 million	£42 million
Basis for determining materiality	1.25% of gross assets	1.75% of the 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 infrastructure – driving user interest in the Environment Agency's asset base, which reflects the extent and condition of these assets.	Users are additionally sensitive to misstatements in transactions and balances reflecting the extent of financial activity backed by taxpayers or fee-payers.
Elements of financial reporting to which the thresholds are applied	All elements 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 updating the valuation or classification of balances. Areas assessed against this additional threshold include the transactions and balances connected with revenue and cash-based expenditure. Most of my audit team's effort is applied to work against this additional threshold. It also forms the basis of considering whether irregularities are material.

This materiality approach is unchanged from 2024-25, with the exception of my having increased my overall materiality to 1.25% of gross assets (2024-25: 1%). This change reflects an updated assessment of user sensitivity.

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 2025-26 audit (2024-25: 70%). In determining performance materiality, I also considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected. 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 and Risk 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, if corrected, have had the following effects for 2025-26.

Net assets at 31 March 2026	Decrease of 8.8 million
Net expenditure for 2025-26 before OCE	Decrease of 5.0 million

Audit scope

The scope of my audit was determined by obtaining an understanding of the Environment Agency and its environment, including relevant controls, and by assessing the risks of material misstatement.

I also performed work to evaluate the extent to which transactions had occurred which did not accord with the intentions of Parliament or other governing authorities, including in respect of the Environment Agency's charging of fees.

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 are 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 Secretary of State directions issued under the Environment Act 1995;
- preparing the annual report, which includes the Remuneration and Staff Report, in accordance with Secretary of State 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 Agency's controls relating to its compliance with Managing Public Money and the Environment Act 1995 (in respect of the statutory regime for fee-charging).
- 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
 - they had knowledge of any actual, suspected, or alleged fraud; and
- 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 operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Environment Agency. The key laws and regulations I considered in this context included 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 tested them against supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports; and
- I 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.

Report

I have no observations to make on these financial statements.

Gareth Davies

09 July 2026

Comptroller and Auditor General

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 2026	Note	2025-26 £ million	2024-25 £ million
Expenditure			
Staff costs	2	702.1	695.8
Capital works expensed in year	3	204.6	202.5
Depreciation and amortisation	8	331.8	349.8
Other expenditure	4	1,024.3	873.7
		2,262.8	2,121.8
Income			
Revenue from contracts with customers	5	(596.5)	(556.6)
Other operating income	5	(44.7)	(30.5)
		(641.2)	(587.1)
Net expenditure		1,621.6	1,534.7
(Gain)/loss on sale of assets		(1.4)	(1.9)
Interest receivable		(4.6)	(4.9)
Financing on pension scheme assets and liabilities	15.3	-	(38.4)
Net expenditure after interest		1,615.6	1,489.5
Other comprehensive expenditure			
Revaluation of property, plant and equipment	6	41.1	(449.3)
Revaluation of intangible assets	7	(1.7)	0.5
Actuarial gain on pension scheme assets and obligations	15.3	73.8	840.5
		113.2	391.7
Total comprehensive net expenditure for the year		1,728.8	1,881.2

All of the Environment Agency's income and expenditure for the year was derived from continuing activities. The notes on pages 97 to 142 form part of these financial statements.

Statement of Financial Position

As at 31 March 2026	Note	31 March 2026 £ million	31 March 2025 £ million (restated)
Non-current assets			
Property, plant and equipment	6	10,319.3	10,239.4
Right of use assets		46.7	65.8
Intangible assets	7	164.1	117.9
Total non-current assets		10,530.1	10,423.1
Current assets			
Assets classified as held for sale		0.4	2.0
Trade and other receivables	9	95.5	102.0
Cash and cash equivalents	10	421.2	281.1
Total current assets		517.1	385.1
Total assets		11,047.2	10,808.2
Current liabilities			
Trade and other payables	11	(550.5)	(482.3)
Provisions	12	(60.6)	(7.3)
Reservoir operating agreements	16.1	(27.4)	(26.5)
Lease liabilities		(14.2)	(22.9)
Total current liabilities		(652.7)	(539.0)
Total assets less current liabilities		10,394.5	10,269.2
Non-current liabilities			
Trade and other payables	11	(292.2)	(256.5)
Provisions	12	(17.7)	(10.8)
Reservoir operating agreements	16.1	(459.7)	(447.5)
Lease liabilities		(12.7)	(23.0)
Pension liabilities	15.3	-	-
Total non-current liabilities		(782.3)	(737.8)
Assets less liabilities		9,612.2	9,531.4
Taxpayers' equity			
Revaluation reserve		8,490.6	8,536.1
General reserve		1,121.6	995.3
Total taxpayers' equity		9,612.2	9,531.4

The notes on pages 97 to 142 form part of these financial statements. The prior period reclassification is described in note 11. The financial statements on pages 93 to 96 were approved by the Board on 06 July 2026 and signed on its behalf by:



Philip Duffy, Chief Executive and Accounting Officer

06 July 2026

Statement of Cash Flows

For the year ended 31 March 2026	Note	2025-26 £ million	2024-25 £ million (restated)
Cash flows from operating activities			
Net expenditure		(1,621.6)	(1,534.7)
Interest receivable		4.6	4.9
Depreciation and amortisation	8	331.8	349.8
Impairment of non-current assets	8	6.8	(8.6)
(Increase)/decrease in trade and other receivables	9	6.5	(2.8)
Increase/(decrease) in trade and other payables	11	103.8	47.1
Interest on reservoir operating agreement liabilities	16.1	42.3	40.8
Increase/(decrease) in provisions		60.3	(19.2)
Lease interest		1.9	2.2
Non-cash pension costs	15	62.7	86.4
Employer contributions to pension	15	(138.4)	(91.4)
Net cash outflow from operating activities		(1,139.3)	(1,125.5)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(425.3)	(451.4)
Purchase of intangible assets	7	(59.4)	(48.1)
Proceeds of disposal of property, plant and equipment		2.0	5.7
Net cash outflow from investing activities		(482.7)	(493.8)
Cash flows from financing activities			
Grants from Defra	17.1	1,809.6	1,758.6
Payments towards lease liabilities		(18.3)	(22.6)
Payments towards reservoir operating agreement liabilities	16.1	(29.2)	(28.0)
Net cash outflow from financing activities		1,762.1	1,708.0
Net increase in cash and cash equivalents in the period	10	140.1	88.7
Cash and cash equivalents at the beginning of the period	10	281.1	192.4
Cash and cash equivalents at the end of the period	10	421.2	281.1

The notes on pages 97 to 142 form part of these financial statements. Comparative figures for 2024–25 have been restated to align the starting point of operating cash flows with ‘Net expenditure’ as presented in the Statement of Comprehensive Net Expenditure.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2026	Note	Revaluation reserve £ million	General reserve £ million	Pension reserve £ million	Total reserves £ million
Balance at 1 April 2024		8,101.7	755.2	797.1	9,654.0
Net gain on revaluation of property, plant and equipment	6	449.3	-	-	449.3
Net gain on revaluation of intangible assets	7	(0.5)	-	-	(0.5)
Actuarial gain on pension scheme assets and obligations	15.3	-	-	(840.5)	(840.5)
Transfers between reserves	13.1	(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	17.1	-	1,758.6	-	1,758.6
Balance at 1 April 2025		8,536.1	995.3	-	9,531.4
Net gain on revaluation of property, plant and equipment	6	(41.1)	-	-	(41.1)
Net gain on revaluation of intangible assets	7	1.7	-	-	1.7
Actuarial gain on pension scheme assets and obligations	15.3	-	-	(73.8)	(73.8)
Transfers between reserves	13.1	(6.1)	(67.7)	73.8	-
Retained deficit		-	(1,615.6)	-	(1,615.6)
Total recognised income and expense		8,490.6	(688.0)	-	7,802.6
Grants from Defra	17.1	-	1,809.6	-	1,809.6
Balance at 31 March 2026		8,490.6	1,121.6	-	9,612.2

The notes on pages 97 to 142 form part of these financial statements.

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.

Notes to the financial statements

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2025-26 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.

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.

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

1.1 Significant judgements

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.

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

Non-current assets (notes 6 and 7)

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 the assets will continue to provide benefits; and what inputs into full valuation models are used and the selection of appropriate indices to revalue the assets.

Depreciation is calculated based on the estimated useful economic lives (UELs) of individual asset classes. This may be based on condition of the asset or expected useful life remaining. Determining appropriate UELs requires management judgement and involves consideration of a range of factors, including the physical condition of assets, expected remaining service potential, historical performance, maintenance programmes, technological developments, operational usage patterns, and anticipated replacement strategies.

For certain specialised assets, management also considers the likelihood of asset failure, reliability data, and expected repair or refurbishment cycles when assessing the period over which future economic benefits or service potential are expected to be consumed.

Changes in assumptions regarding asset condition, utilisation, maintenance regimes, technological obsolescence, or replacement timing could result in revisions to depreciation charges in future periods. Management reviews useful economic lives annually to ensure that depreciation reflects the current expected pattern of consumption of the assets' economic benefits or service potential.

Project accounting (notes 3, 4 and 6)

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 4.3 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 15)

The accounting for the defined benefit pension scheme under IAS 19 requires the application of significant judgement in estimating the present value of scheme liabilities and the associated service and financing costs. Judgement is also required in determining the Environment Agency's share of scheme assets, including those measured at Level 3 fair value where valuations are based on significant unobservable inputs (see note 15.2).

The net position of the scheme, being the difference between the value of assets and liabilities, may result in either a surplus or a deficit. Where a surplus arises, judgement is required in applying the requirements of IFRIC 14 to assess the extent to which that surplus is recoverable by the Environment Agency, either through refunds or reductions in future contributions. Judgement is made whether surplus recognised on the Statement of Financial Position should be restricted by the asset ceiling in accordance with IFRIC 14, and whether any obligations arising from a Minimum Funding Requirement give rise to an additional liability (see note 15.5).

The valuation of scheme liabilities is undertaken by independent, qualified actuaries, who apply assumptions that reflect prevailing market conditions and demographic factors. These include, but are not limited to, life expectancy, the age profile of scheme members, and discount and inflation rates. Such assumptions are inherently uncertain and involve the use of forward-looking estimates.

1.2 Accounting convention

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

1.3 Adoption of new and revised IFRS or FReM interpretations

IFRS 18 Presentation and disclosure in financial statements and IFRS19 Subsidiaries without public accountability

Both of these standards are expected to become effective for annual reporting periods beginning on or after the 1 January 2027 for the private sector. However, the impact on the public sector is still being assessed and a decision has not yet been taken on an implementation date. We will assess any expected impact once further details are known.

Adoption of IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts has been adopted for the first time in the year ended 31 March 2026, in line with the Government Financial Reporting Manual. The Environment Agency has assessed all relevant arrangements and concluded that it does not issue any contracts that meet the definition of an insurance contract under IFRS 17. Accordingly, the adoption of IFRS 17 has had no impact on the financial position, financial performance or disclosures of the Agency, and no restatement of comparative information is required.

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 Contingent liabilities

There are no contingent liabilities that require disclosure in 2025-26. In 2024-25 there were two contingent liabilities totalling £6.5m in relation to legal claims which were being defended.

1.6 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 2025-26, £27.8 million of research and development expenditure was incurred (2024-25 - £24.7 million).

1.7 Right of use assets and lease liabilities

Leases are accounted for in accordance with IFRS 16. As a lessee, leases are recognised as right-of-use assets with corresponding lease liabilities, measured at the present value of future lease payments where applicable. Right-of-use assets are depreciated over the lease term, and lease liabilities accrue interest using an appropriate discount rate.

Short-term leases (less than 12 months) and leases of low-value assets (below £10k) are not recognised on the statement of financial position and are expensed on a straight-line basis over the lease term. Where relevant, judgement is applied in determining lease terms, including holding-over arrangements, and appropriate discount rates are used where the rate implicit in the lease cannot be readily determined.

As a lessor, finance leases are recognised as a receivable representing the net investment in the lease. Corporate estate leases are recognised by the legal leaseholder unless formal arrangements state otherwise.

Right of use assets, lease balances and related expenditure are not material to the financial statements and therefore no further disclosure is provided.

2. Staff costs

Staff costs	2025-26 £ million	2024-25 £ million
Wages and salaries	578.8	539.6
Social security costs	78.8	61.0
Pension charge - service cost (note 15.3)	62.7	86.4
Agency staff wages and salaries	14.5	13.2
Other staff related costs	3.3	1.8
	738.1	702.0
Less amounts charged to capital projects	(36.0)	(6.2)
Total staff costs	702.1	695.8

Note 15 provides details of the Environment Agency's pension and arrangements and how the pension charge is calculated. This charge represents the IAS 19 service cost of the pension fund which is different to the amount contributed to the fund as employer contributions, which was £138.4 million in 2025-26 (£91.4 million). The remuneration and staff report provides details of the remuneration of Board members and Executive Directors.

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. 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

This reflects the allowable staff costs included in the creation and improvement of the Environment Agency's assets (note 6) and in the delivery of capital works expensed in year projects (note 3).

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.

3. 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 2025-26 was £204.6 million (2024-25 - £202.5 million).

The top three largest projects by CWEIY spend during 2025-26 were:

Project	2025-26 £ million	2024-25 £ million
Natural Capital and Ecosystem Assessment Programme	18.0	0.1
Moors at Arne Coastal Change Project	16.6	12.8
Bridgwater Tidal Barrier Scheme	16.5	7.3

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.

4. Other expenditure

Type of expenditure	2025-26 £ million	2024-25 £ million
Grants (note 4.1)	369.2	321.7
Hired and contracted services	218.4	211.0
Defra group Corporate Services charge (note 4.2 and 17.2)	113.2	105.7
Information technology	77.0	71.3
Reservoir operating agreements (note 4.3 and 16.1)	55.4	63.9
Impairment of non-current assets (note 8)	6.8	(8.6)
Other costs	23.2	32.9
Plant and equipment	30.5	31.0
Buildings, maintenance and utilities	22.9	22.1
Travel and subsistence	14.5	12.8
Lease expenditure	13.7	12.6
Training	8.6	7.9
Administration	4.6	4.9
Bad debt write-offs	4.6	5.0
Expected credit loss provision (credit)/expense (note 9)	0.8	(1.3)
Movement in provisions	60.9	(19.2)
Total	1,024.3	873.7

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 16.

4.1 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 further explained in the governance report).

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 disclose the value of the grant payments the Agency has committed to make to schemes in the future (see note 14.3). The commitment is recognised once the grant award letter has been formally issued to the recipient.

The three largest grant recipients during 2025-26 were:

Recipient	2025-26 £ million
Derby City Council	29.8
Portsmouth City Council	22.5
Waveney, Lower Yare & Lothingland IDB	20.1

The three largest grant recipients during 2024-25 were:

Recipient	2024-25 £ million
East Suffolk Council	28.9
Leeds City Council	23.7
North Norfolk District Council	17.6

4.2 Defra group Corporate Services

The full year cost of Defra group Corporate Services provided to the Environment Agency for 2025-26 was £148.5 million (2024-25 - £149.1 million).

Defra charged the Environment Agency £113.2 million (2024-25 - £105.7 million) for net expenditure it incurred relating to the provision of corporate services in 2025-26. Defra group Corporate Services costs are apportioned across the organisations that are served, using metrics that consider what is driving the costs. A breakdown of the cost by function is provided below:

Defra group Corporate Services function	2025-26 £ million	2024-25 £ million
Digital, Data, Technology and Security	66.5	67.1
Estates	41.6	44.2
Shared Services Connected Limited (SSCL)	11.5	12.3
Commercial	4.5	3.9
Human resources	7.8	6.1
Finance	12.1	10.8
Communications	4.5	4.7
	148.5	149.1
Less amounts directly incurred	(35.3)	(43.4)
Total	113.2	105.7

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

£35.3 million of the expenditure in 2025-26 was borne directly by the Environment Agency, where expenditure was incurred under longstanding contracts (2024-25 - £43.4 million). These directly incurred costs are classified in other categories within note 4, 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 2025-26 was £520,000 (2024-25 - £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.

4.3 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 retail prices index (note 16.1).

5. Income

	2025-26 £ million	2024-25 £ million
Revenue from contracts with customers		
Abstraction charges	(200.5)	(185.0)
EPR water quality	(147.6)	(115.1)
EPR installations	(39.0)	(34.9)
EPR waste	(37.2)	(29.3)
Fishing licence duties	(24.8)	(24.3)
Hazardous waste	(17.6)	(18.0)
Radioactive substances regulation	(23.3)	(20.4)
Navigation licence income	(10.2)	(10.1)
Emissions trading and climate change agreements	(6.1)	(4.9)
Other charges	(30.9)	(26.0)
Flood risk levies	(33.8)	(40.9)
IDB precepts	(8.2)	(8.2)
Partnership funding	(17.3)	(39.5)
Total	(596.5)	(556.6)
Other operating income		
Other grants	(9.7)	(6.3)
Other income	(35.0)	(24.2)
Total	(44.7)	(30.5)
Total income	(641.2)	(587.1)

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.

The significant part of EA's charges income is subsistence of which £37.8m relates to applications and £396.3m to subsistence.

Partnership funding

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

Contributions from external parties are set out in legally binding agreements. These obligate the Environment Agency to carry out specific work on a project, in return for the agreed contribution. Revenue is recognised based on how far the project has progressed, by using costs incurred to date compared to the overall forecasts costs for the project to give an indication of completion. This completion level is then applied to the total contribution (the 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.

6. Property, plant and equipment

As at 31 March 2026	Operational assets £ million	Land and buildings £ million	Other property, plant and equipment £ million	AUC* £ million	Total £ million
Cost or valuation					
At 1 April 2025	23,478.1	414.4	273.5	752.7	24,918.7
Capital expenditure	-	-	15.1	410.2	425.3
Assets commissioned in year	109.1	2.6	-	(111.7)	-
Disposals	-	(1.9)	(21.6)	-	(23.5)
Revaluation	(589.6)	(3.3)	23.4	-	(569.5)
Impairment	(2.4)	(5.8)	(10.2)	-	(18.4)
Reclassification to held for sale	-	1.5	-	-	1.5
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	-	5.1	(5.0)	(2.7)	(2.6)
At 31 March 2026	22,995.2	412.6	275.2	1,048.5	24,731.5

As at 31 March 2025	Operational assets £ million	Land and buildings £ million	Other property, plant and equipment £ million	AUC £ million	Total £ million
Depreciation					
At 1 April 2025	14,412.0	56.5	210.8	-	14,679.3
Charged during the period	273.3	5.8	15.1	-	294.2
Disposals	-	(0.6)	(21.0)	-	(21.6)
Revaluation	(545.7)	(2.4)	19.9	-	(528.2)
Impairment	-	(1.4)	(10.1)	-	(11.5)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	-	3.5	(3.5)	-	-
At 31 March 2026	14,139.6	61.4	211.2	-	14,412.2
Net book value at 31 March 2026	8,855.6	351.2	64.0	1,048.5	10,319.3

* Assets under construction.

As at 31 March 2025	Operational assets £ million	Land and buildings £ million	Other property, plant and equipment £ million	AUC £ million	Total £ million
Cost or valuation					
At 1 April 2024	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	AUC £ million	Total £ million
Depreciation					
At 1 April 2024	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

* Assets under construction.

6.1 Operational assets

Operational assets are specialised assets that directly support delivery of the primary outcomes of the Environment Agency. They are not generally available on the open market and are held for their service potential.

In-scope assets include:

- Flood risk management assets (e.g. barriers, flood gates, pumping stations)
- Water, land and biodiversity assets (e.g. boreholes, gauging stations, weirs)
- Navigation assets (e.g. locks)

Assets are excluded where they:

- 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.
- Have a Modern Equivalent Asset value (MEA) below £5,000 (de minimis)
- Have a useful economic life (UEL) of less than one year

Operational asset categories

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

	2025-26 £ million	2024-25 £ million
Aids to navigation	294.7	290.8
Buildings and compounds	108.0	113.4
Channel crossings and channels	811.7	784.4
Defences	2,634.7	2,600.1
Instruments	26.2	25.5
Mechanical, electrical, instrumentation, control and automation (MEICA)	164.5	163.4
Other	168.6	225.0
Structures	3,591.8	3,858.1
Thames Barrier and Associated Gates	1,055.4	1,005.4
Total	8,855.6	9,066.1

- **Aids to navigation:** assets supporting safe navigation (e.g. locks, moorings)
- **Buildings and compounds:** operational buildings and equipment shelters
- **Channel crossings and channels:** bridges, culverts and conveyance assets
- **Defences:** assets providing flood/coastal protection (including natural defences)
- **Instruments:** monitoring and warning systems
- **MEICA:** mechanical and electrical operational equipment
- **Structures:** assets controlling or directing water flow and movement

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.

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.

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 valuation is based on the best data available at the valuation date. This includes data needed to calculate individual assets' Modern Equivalent Assets Valuations (MEAV) and depreciation factors – these are multiplied together to derive the DRC for each asset. Where there remains data 'gaps' estimated sizes or depreciation factors are calculated based on the available data within the type of assets population. The EA has a further data improvement plan in place to drive continuous improvement in the valuation.

The below provide further details of how MEAV and depreciation factors are estimated.

Modern Equivalent Asset Valuation

The MEAV is calculated with reference to cost models for each asset type which, depending on asset type:

- determine a standard build cost (where assets within that class are relatively homogenous); or
- describe, as a curve, the relationship between key dimensions for that type (e.g. the width of a control gate) and the build cost.

In either case, the cost is the expected cost of a modern asset, not necessarily matching the exact design of the existing asset, but offering equivalent service potential using modern construction techniques.

Many operational assets are in the second category since their service potential is site specific, for example flood protection from an existing water course. The approach to quantifying asset size required for each asset type varies. In some cases, not all dimensions of the real world asset are required to determine a placement on the cost model because some assumptions are made about standard practice in one or more dimensions. For example, embankment volume is based on using the length and height of existing embankments, but width is based on a set assumption, based on modern build standards.

In some cases, specific dimensions relevant to the cost model are not yet available. The Environment Agency continuously improves asset data and concentrates efforts using a risk and value-based prioritisation. In cases of incomplete dimensional data, assumptions are made based on statistical analysis of the known data points, predominantly using a median average.

The estimated cost is based on a mix of internal projects costs or where there was limited data, cost estimations provided by a third-party valuation expert. These costs are inflated each year based on indexation, as described below, and are fully refreshed every five years.

Application of depreciation adjustment to the MEAV

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 valuation. The most significant factor for the Environment 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 describing estimated condition between 0 (fully depreciated) and 1 (new).

This factor is arrived at based on one of three methods, as below. The first two are used by preference, with the date the asset entered service being used as a backstop measure. In each case, the objective is to use real world information to inform an estimate of how far an asset is through its useful life.

1. Asset condition observed through inspections

This method uses data routinely collected on asset condition and post inspection actions. It has been applied to all civil assets where condition information is available, and which belong to a type for which a deterioration curve is available. These curves model a predicted relationship between asset condition grades and the extent to which an asset is life-expired, allowing a depreciation factor to be selected. The curves also serve as a predictive tool for estimation of future asset condition and expected residual asset life, and are determined for each asset type considering characteristics related to the:

- environment, e.g. fluvial, tidal or coastal;
- material type and construction; and
- past and intended (future) maintenance practices.

Asset types are disaggregated where necessary to ensure that key differentiations can be reflected in distinct deterioration curves.

In some cases, where a suitable curve is available but an individual asset lacks recent inspection data to inform a placement on the curve, the asset is assumed to be at target condition. Target condition is the expected standard to which the asset is maintained to deliver its service potential.

2. Inspection conclusions on reliability

Applied only to mechanical and electrical (MEICA) assets, this method also 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, data is transformed through matrix tables which describe a predicted relationship between these inspection measurements and a residual life percentage. Where data is unavailable a mid-point of LOF and TTR is used as this is the expected standard to which the asset is maintained to deliver its service potential.

3. Date of first service

Where neither of the above approaches are available, principally because of a lack of recent interactions with the inspection regime, the depreciation factor is calculated based on asset start date and the expected useful economic life (see below), with the asset expected to be consumed over a straight line basis over its life. Where data is unavailable a mid-point of its useful economic life is used. This corresponds to the midpoint used in the condition approach.

In-year depreciation charge

The depreciated charged on each asset type is calculated to apportion the value of operational assets over the expected useful economic life. Depreciation is charged based on the latest MEAV. In year depreciation was straight line over the asset useful life, which is then revalued to an accumulated depreciation position based on the above three methods.

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

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 valuation is 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 above 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.

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	2025-26 £ million	2024-25 £ million
Indexation	321.4	276.0
Maintaining or changes in condition	49.0	145.1
Dimensional variances including updated averages for missing data	(436.0)	- *
Total	(65.6)	421.1

* 2024-25 was the first year that the valuation was not qualified by the National Audit Office. The dimensional data available at this date was used to calculate the comparative year valuations, therefore there is no dimensional variance between 01/04/2024 and 31/03/2025. We expect dimensional variances to appear in future valuations, as further data becomes available through the ongoing data improvement plan.

The collection of dimensional data for control gates is the primary driver of the revaluation movement. In previous years, measurements were recorded at the asset structure level, which typically resulted in larger values. This has now been refined to capture data at the asset element level, providing a more granular and therefore smaller measurement basis. This change forms part of the Environment Agency's broader programme of data quality and consistency improvements in relation to the valuation of operational assets.

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	8,855.6	157.0	9,012.6	1.8
Scenario 2: Alternative Average; Mean	8,855.6	843.0	9,698.6	9.5
Scenario 3: Alternative condition grade - average	8,855.6	0.1	8,855.7	-
Scenario 4: Alternative condition grade - grade 4	8,855.6	(126.9)	8,728.7	(1.4%)

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 Average Mean	The valuation methodology incorporates the use of averaged assumptions where specific attribute data is unavailable. These averages are derived from existing, completed attribute data within the relevant asset class. As additional attribute data becomes available, these averages are subject to change, resulting in potential fluctuations in valuations between reporting periods.	Using a mean average to calculate missing data points instead of using the median approach currently used.
Scenario 3: 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 4: 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

A specialist methodology has been applied to value the Thames Barrier, resulting in a valuation of £1.0bn. The sensitivities used for operational assets are not applicable to this approach. Instead, sensitivity has been assessed using the AACE International (AACE) estimate maturity framework, which provides an expected range of accuracy based on the classification of the materials and quantities estimate. This assessment reflects expert judgement on the maturity of the estimate. Applying the AACE accuracy range results in a valuation range of £0.75bn to £1.40bn. The corresponding DRC range has been derived by applying the same DRC to MEAV relationship used in the central valuation.

6.2 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 2026	Operational land £ million	Freehold land £ million	Dwellings £ million	Freehold buildings £ million	Total £ million
Cost or valuation					
At 1 April 2025	238.2	51.9	6.7	117.6	414.4
Assets commissioned in year	0.7	-	-	1.9	2.6
Disposals	(0.6)	(0.2)	(0.7)	(0.4)	(1.9)
Revaluation	2.6	(4.2)	0.2	(1.9)	(3.3)
Impairment	-	(0.6)	(0.2)	(5.0)	(5.8)
Reclassification to held for sale	0.3	0.1	0.8	0.3	1.5
Reclassification to intangibles / other PPE	(3.6)	3.8	-	4.9	5.1
At 31 March 2026	237.6	50.8	6.8	117.4	412.6

As at 31 March 2026	Operational land £ million	Freehold land £ million	Dwellings £ million	Freehold buildings £ million	Total £ million
Depreciation					
At 1 April 2025	-	-	2.1	54.4	56.5
Charged during the period	-	-	0.2	5.6	5.8
Disposals	-	-	(0.3)	(0.3)	(0.6)
Revaluation	-	-	(0.1)	(2.3)	(2.4)
Impairment	-	-	(0.2)	(1.2)	(1.4)
Reclassification to intangibles / other PPE	-	-	-	3.5	3.5
At 31 March 2026	-	-	1.7	59.7	61.4
Net book value at 31 March 2026	237.6	50.8	5.1	57.7	351.2

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	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 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	-	-	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 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

Recognition and valuation

Land and buildings assets are initially recorded at cost. 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. 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.

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.

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

Asset type	Range in years
Fencing	15 years
Freehold buildings	10 – 60 years
Dwellings	60 years
Operational buildings	60 years
Roads, car parks and walkways	60 years

6.3 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 2026	Plant and machinery	Vehicles	Furniture, fittings and equipment	IT hardware	Total
	£ million	£ million	£ million	£ million	£ million
Cost or valuation					
At 1 April 2025	93.1	82.5	77.3	20.6	273.5
Capital expenditure	0.5	1.2	13.4	-	15.1
Disposals	(7.4)	(12.4)	(1.8)	-	(21.6)
Revaluation	10.4	5.0	6.4	1.6	23.4
Impairment	(5.2)	(3.5)	(1.4)	(0.1)	(10.2)
Reclassification to intangibles / other PPE	(1.9)	-	(3.1)	-	(5)
At 31 March 2026	89.5	72.8	90.8	22.1	275.2

As at 31 March 2026	Plant and machinery	Vehicles	Furniture, fittings and equipment	IT hardware	Total
	£ million	£ million	£ million	£ million	£ million
Depreciation					
At 1 April 2025	67.4	75.9	48.3	19.2	210.8
Charged during the period	6.5	2.7	5.5	0.4	15.1
Disposals	(7.3)	(12.0)	(1.8)	-	(21.1)
Revaluation	9.3	4.9	4.2	1.5	19.9
Impairment	(5.2)	(3.5)	(1.3)	(0.1)	(10.1)
Reclassification to right of use asset	-	-	-	-	-
Reclassification to intangibles / other PPE	(1.6)	-	(1.8)	-	(3.4)
At 31 March 2026	69.1	68.0	53.1	21.0	211.2
Net book value at 31 March 2026	20.4	4.8	37.7	1.1	64.0

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
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 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 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

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.

Depreciation

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

Useful economic life by asset type

Asset type	Range in years
Plant and equipment	3 – 25 years
Vehicles	3 – 25 years
Furniture, fittings and equipment	3 – 15 years
IT hardware	3 – 15 years

6.4 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 2026 £ million	31 March 2025 £ million
Bridgwater Tidal Barrier Scheme	95.2	48.7
River Thames Scheme Capacity Improvements and Flood Channel Project	53.8	49.0
Rochdale and Littleborough Flood Risk Management Scheme	52.1	33.4

7. Intangible assets

At 31 March 2026	Software licences £ million	Websites £ million	Other IT £ million	AUC* £ million	Total £ million
Cost or valuation					
At 1 April 2025	48.0	18.0	117.8	72.7	256.5
Capital expenditure	-	-	-	59.4	59.4
Assets commissioned in year	-	-	40.8	(40.8)	-
Disposals	(0.2)	-	(2.7)	(0.1)	(3.0)
Revaluation	0.1	-	2.5	-	2.6
Impairment	-	-	(0.4)	-	(0.4)
Reclassification	-	-	-	2.7	2.7
At 31 March 2026	47.9	18.0	158.0	93.9	317.8
Amortisation					
At 1 April 2025	31.0	17.4	90.2	-	138.6
Charged during the year	1.8	0.2	15.4	-	17.4
Disposals	(0.2)	0.1	(2.7)	-	(2.8)
Revaluation	-	-	0.9	-	0.9
Impairment	-	-	(0.4)	-	(0.4)
Reclassification	-	-	-	-	-
At 31 March 2026	32.6	17.7	103.4	-	153.7
Net book value at 31 March 2026	15.3	0.3	54.6	93.9	164.1

* Assets under construction.

At 31 March 2025	Software licences £ million	Websites £ million	Other IT £ million	AUC* £ 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

* Assets under construction.

Intangible assets with a value of £5,000 or more are capitalised. 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

Asset type	Range in years
Software licences and other IT	3 – 25 years
Websites	3 – 10 years

Details of valuation

The value of historic revaluation surplus held in the revaluation reserve as at 31 March 2026 for intangible assets is £5.3 million.

The following table sets out the three largest individual intangible assets by net book value at 31 March 2026, together with their useful economic lives (UEL).

Asset	Useful economic life (years)	31 March 2026 £ million
Warning Service – Computer System	5	13.0
PlanIT – Computer System	5	3.7
RSP Compliance Platform – Computer System	5	3.0

8. Impairment and Depreciation

Impairments charged in year

Impairments by accounting category	31 March 2026 £ million	31 March 2025 £ million
Property, plant and equipment	34.0	75.4
Right of use assets	-	-
Intangible assets	-	-
Total charged to the revaluation reserve	34.0	75.4
Property, plant and equipment	6.8	(9.4)
Right of use assets	-	-
Intangible assets	-	0.8
Total impairment charge to the statement of comprehensive net expenditure	6.8	(8.6)
Total impairment as per statement of financial position	40.8	66.8

Depreciation charged in year

Depreciation charged in year by accounting category	31 March 2026 £ million	31 March 2025 £ million
Property, plant and equipment	294.2	309.5
Right of use assets	20.2	23.8
Intangible assets	17.4	16.5
Total depreciation charge to the statement of comprehensive net expenditure	331.8	349.8

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 6 (property, plant and equipment), and 7 (intangible assets) reflects the charge to the statement of comprehensive net expenditure. Any impairments charged to reserves are included in the revaluation lines.

9. Trade and other receivables

	31 March 2026 £ million	31 March 2025 £ million
Trade receivables	32.7	20.1
Accrued income	19.7	40.6
Expected credit loss	(5.0)	(4.2)
VAT	44.4	42.5
Employee loans	2.0	1.9
Prepayments	2.3	1.5
Other	(0.6)	(0.4)
Total	95.5	102.0

All trade and other receivables are due within one year.

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 16.

10. Cash and cash equivalents

Movement during the year	2025-26 £ million	2024-25 £ million
At 1 April	281.1	192.4
Net change in cash and cash equivalent balances	140.1	88.7
At 31 March	421.2	281.1

By account type	31 March 2026 £ million	31 March 2025 £ million
Government banking service	237.4	110.0
Demand accounts	183.8	171.1
At 31 March	421.2	281.1

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 11.

11. Trade and other payables

	31 March 2026 £ million	31 March 2025 £ million (restated)
Within one year		
Trade payables	(19.2)	(16.1)
Trade accruals	(196.3)	(184.3)
Holiday pay accrual	(28.0)	(22.3)
Other taxation and social security	(16.1)	(13.3)
Other payables	(14.0)	(15.7)
Capital accruals	(116.6)	(87.6)
Pension contribution liabilities	(2.3)	(4.2)
Contract liabilities:		
Customer deposits and receipts in advance	(101.0)	(86.5)
Flood risk management	(37.7)	(33.0)
Water resources – EIUC	(19.3)	(19.3)
	(550.5)	(482.3)
More than one year		
Trade payables, accruals and other payables	(16.9)	(4.0)
Flood risk management	(88.7)	(81.2)
Deferred capital grants	(2.8)	(2.8)
Permitting deposits	(183.8)	(168.5)
	(292.2)	(256.5)
Total	(842.7)	(738.8)

Deferred income (contract liabilities)

Deferred income primarily relates to amounts received in advance for flood risk management activity, including partnership funding, local levies and commuted sums.

The classification of deferred income between current and non-current liabilities requires judgement. In applying IAS 1, the Environment Agency has considered both:

- the expected timing of income recognition; and
- whether the Agency has an unconditional right to defer settlement for at least 12 months after the reporting date.

Flood risk management, being local levy balances, are managed through Regional Flood and Coastal Committees and are allocated to projects for delivery in subsequent periods. These balances are classified between current and non-current based on agreed forward allocations.

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 and are not expected to be recognised as income in the short term. These are therefore presented as non-current liabilities. Further detail is provided in Note 10.

Prior period reclassification

During 2025–26, the Environment Agency reviewed the presentation of deferred income to better reflect the expected timing of settlement and the nature of the underlying obligations. Following this review, £81.2 million previously reported within current liabilities at 31 March 2025 has been reclassified to non-current liabilities. This reflects Local levy balances managed through Regional Flood and Coastal Committees allocated for funding beyond 12 months. A third statement of financial position has not been presented based on the materiality of the reclassification, which would have restated £69.0m from current to non-current liabilities at 31 March 2024.

Comparative balances presented have been restated accordingly within flood risk management from current to non-current liabilities.

This reclassification affects presentation only and has no impact on net expenditure for the year, total net liabilities, taxpayers' equity; or net cash flows.

12. 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.

Provisions are charged as an expense movements in provisions within other expenditure (note 4) in the year that the Environment Agency becomes aware of the obligation. They are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Provisions are determined to be short or long term dependent on when settlement is expected. As a majority of the provisions for operational and legal provisions are due within one year, the discounting of them is considered immaterial.

	IFRS16 Dilapidation £ million	Operational £ million	Corporate £ million	Total £ million
Balance at 1 April 2025	(12.2)	(5.5)	(0.4)	(18.1)
Provided in the year	(1.8)	(43.4)	(22.1)	(67.4)
Provisions not required written back	1.7	3.5	0.2	5.4
Provisions utilised in the year	1.6	-	-	1.6
Unwinding of discount	0.1	-	-	0.1
Balance at 31 March 2026	(10.6)	(45.4)	(22.3)	(78.3)

Analysis of expected timing of discounted flows:

	IFRS16 Dilapidation £ million	Operational £ million	Corporate £ million	Total £ million
Not later than one year	(1.2)	(39.4)	(20.0)	(60.6)
Later than one year and not later than five years	(8.2)	(6.0)	(2.3)	(16.5)
Later than five years	(1.2)	-	-	(1.2)
Balance at 31 March 2026	(10.6)	(45.4)	(22.3)	(78.3)

In March 2026, Defra and the Environment Agency announced the Waste Crime Action Plan (WCAP). This includes proposals from Government to clear waste from certain waste sites. Defra has developed criteria to identify those sites eligible for clearance. The Environment Agency has assessed the implications of the WCAP and concluded that it does not give rise to a present obligation at 31 March 2026, as the criteria for site specific intervention are set by Defra and the Environment Agency has no legal responsibility to remediate sites.

Provisions are recognised only where a specific decision to remediate has been made and approved. At the reporting date, this applies to two sites Hoads Wood (which the Secretary of State directed the Environment Agency to clear) and Kidlington (Advice from the Fire and Rescue Services indicated the increased possibility of a fire on site. The scale of this fire risk set this case apart from other illegal waste dumps in England and presented an overriding public imperative. An exceptional decision was made to progress works to entirely clear the site of waste). A provision of £20.0 million has been recognised within operational provisions for these sites. The wider implications of the WCAP are considered at a departmental level and disclosed in the Defra Group accounts.

13. 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).

13.1 For the year ended 31 March 2026

	Revaluation reserve £ million	General reserve £ million	Pension reserve £ million	Total £ million
Realised revalued depreciation and disposals	(6.1)	6.1	-	-
Net pension charge	-	(73.8)	73.8	-
Total	(6.1)	(67.7)	73.8	-

13.2 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	-

14. Commitments

14.1 Capital commitments

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

Payments the Environment Agency is committed to	31 March 2026 £ million	31 March 2025 £ million
Property, plant and equipment and intangible fixed assets	185.1	158.2
Capital works expensed in year projects	130.4	159.5
Total	315.5	317.7

The majority of the significant commitments relate to flood defence schemes. The largest as at 31 March 2026 was River Thames Scheme, £23.8m. (31 March 2025 - Saltfleet to Gibraltar Point beach nourishment scheme, £29.7 million).

14.2 Financial commitments

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

Timing of payments the Environment Agency is committed to	31 March 2026 £ million	Restated 31 March 2025 £ million
Not more than one year	16.0	12.3
More than one year and not later than five years	10.5	-
More than five years	-	-
Total	26.5	12.3

The largest commitment relates SSCL, £22.2m (31 March 2025 - SSCL, £7.5 million). The commitments as at 31 March 2025 have been restated to include a commitment for £4.8 million that was omitted in error.

14.3 Risk Management Authority grant commitments

Timing of payments the Environment Agency is committed to	31 March 2026 £ million	31 March 2025 £ million
Not more than one year	203.9	272.4
More than one year and not later than five years	351.8	316.1
More than five years	35.4	0.7
Total	591.1	589.2

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.

15. 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, including transferees from predecessor organisations. The scheme forms part of the Local Government Pension Scheme (LGPS), a statutory pension scheme governed mainly by the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014.

The LGPS provides final salary benefits for membership up to 31 March 2014 and career average revalued earnings (CARE) benefits for membership from 1 April 2014. Benefits are based on members' length of service and pensionable pay. For CARE membership, a proportion of pensionable pay is built up each year and revalued in line with inflation. The scheme provides a pension payable for life, an option to exchange part of the pension for a tax-free lump sum on retirement, and benefits for dependants in the event of death.

The Environment Agency Pension Fund (EAPF) has four employers: the Environment Agency, Natural Resources Wales (NRW), Shared Services Connected Limited (SSCL) and Tialis. Tialis became an employer in the Fund from 1 September 2025 following the award of the Defra group information technology services contract to Atos in March 2025, which was sub-contracted to Tialis from 1 September 2025. A closed admission agreement has been put in place, under New Fair Deal arrangements, to allow a small number of transferring employees to retain access to the LGPS. The agreement was signed in May 2026 and membership was backdated to September 2025.

NRW, SSCL and Tialis are closed to new entrants. NRW pays fixed contributions as a set monetary amount, while SSCL and Tialis pay contributions as a fixed percentage of pensionable pay. The Environment Agency guarantees SSCL contributions and Defra guarantees Tialis contributions. For valuation and contribution-setting purposes, both guarantees are modelled through the Environment Agency.

The Environment Agency pays monthly contributions of 14.5% of the gross salary of active members and an annual lump sum to bring the total employer contribution to the equivalent of 19%. This contribution rate applies for the period from 2023 to 2026.

The Environment Agency's pension expenditure and position under IAS 19

These financial statements include the disclosures required by IAS 19 for 2025-26 in relation to the EAPF. The calculations have been prepared by a qualified independent actuary and are based on the most recent actuarial valuation of the active Fund at 31 March 2025. The assumptions used at 31 March 2026 are for accounting purposes only, as required by IAS 19. The Environment Agency consolidates around 90% of the pension fund for IAS 19 reporting, based on the proportion of Fund employees who are employed by the Environment Agency.

The total pension charge recognised under IAS 19 was £62.7 million for 2025-26 (2024-25: £86.4 million). The pension charge was calculated using the projected unit method of valuation to determine service costs.

The Environment Agency's share of the EAPF liabilities reported in these financial statements is measured using IAS 19 actuarial assumptions. These differ from the funding assumptions used in the EAPF's own annual report and therefore result in a different reported funding position.

The main difference is the discount rate used to value pension liabilities. For funding purposes, the EAPF discount rate is based on a prudent expectation of returns from the Fund's investment assets. Under IAS 19, the discount rate used in these financial statements is based on high-quality corporate bond yields and does not include an additional assumption for asset performance. At 31 March 2026, the real discount rate, being the discount rate net of inflation, was higher than in the previous year. This reflected both a higher discount rate and a lower pension increase assumption based on the Consumer Price Index. A higher real discount rate reduces the value placed on pension liabilities.

Note 15.4 shows the sensitivity of the Fund's liabilities to changes in the main actuarial assumptions, including the discount rate.

The EAPF uses asset-liability matching strategies to help manage pension risk. This includes a liability matching portfolio with BlackRock. The Fund has also reduced its exposure to global equities in recent years as part of a strategic de-risking of its investment portfolio.

A number of assumptions are required as part of the actuarial valuation process. These long-term actuarial assumptions do not represent a forecast of short-term pay movements. Pensions in payment and deferred pensions are assumed to increase by 3.0% per annum. The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2027 is approximately £79.1 million.

Cash contributions paid by the Environment Agency will continue to be set by reference to the assumptions agreed at each triennial actuarial valuation of the scheme. The next triennial valuation will be as at 31 March 2028. The results will be reviewed by the Pensions Committee and, following consultation with employers, provided to the Environment Agency Board for approval.

Contribution rates are determined by the Fund actuary in accordance with the Funding Strategy Statement. They are based on assumptions about investment returns, inflation, longevity and other financial and demographic factors. Contributions are set to ensure that the Fund can meet its future liabilities. They usually include a primary rate, for the cost of benefits building up in future, and a secondary rate, which may be a percentage of pay or a monetary amount, to address any funding deficit or surplus over an appropriate period.

The Court of Appeal judgment in McCloud and Sargeant found that transitional protection arrangements introduced as part of the 2015 public service pension reforms gave rise to unlawful age discrimination. A remedy has been implemented for eligible EAPF members. For the period from 1 April 2014 to 31 March 2022, benefits are calculated on the more favourable of the career average or final salary scheme provisions, known as the “underpin”. The impact of this remedy is reflected in the pension liabilities disclosed in Notes 15.1 to 15.5.

As a defined benefit scheme, the EAPF exposes the Environment Agency to financial and demographic risks. The most significant financial risks are that investment returns are lower than assumed, which could increase employer contributions; market conditions change the discount rate used to value liabilities; or inflation is higher than expected, increasing the value of inflation-linked benefits.

The Fund is also exposed to risks from its maturing membership profile. As the proportion of pensioners increases relative to active members, cashflow demands may increase. Demographic risks include members living longer than expected, resulting in pensions being paid for longer, and changes in retirement patterns.

These risks are managed through the Fund’s funding and investment strategies, including diversification of assets, liability matching investment strategies and regular actuarial valuations. The Environment Agency bears a significant concentration of risk as the principal employer in the Fund and consolidates a substantial proportion of the Fund’s liabilities in these financial statements.

The Environment Agency is also the employing authority for the Environment Agency closed fund. The closed fund provides benefits to former Water Authorities Superannuation Fund members who were pensioners or deferred members when the water industry was privatised in 1989. Defra is the financial sponsor for the closed fund and accounts for it in its own annual report and accounts.

15.1 Financial and longevity assumptions

Financial assumptions for the Environment Agency Pension Fund

	% per annum 31 March 2026	% per annum 31 March 2025
Inflation and pension increase rate	3.00	2.75
Salary increase rate	3.50	3.25
Discount rate	6.30	5.80

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 21 years.

Longevity assumptions: average future life expectancy at age 65

	As at 31 March 2026	As at 31 March 2026	As at 31 March 2025	
Scheme member	Male (Years)	Female (Years)	Male (Years)	Female (Years)
Current pensioners	22.2	24.7	21.5	24.1
Future pensioners (people aged 65 in 20 years)	23.1	26.2	22.5	25.8

15.2 Fair value of employer assets

Pension assets are classified into three levels, based on the quality and reliability of the information used to determine their fair value.

Level 1 assets are valued using unadjusted quoted prices in active markets for identical assets or liabilities. This includes quoted equities, quoted fixed-interest securities, quoted index-linked securities and unit trusts. Listed investments are shown at bid price, based on the relevant stock exchange quotation.

Level 2 assets are valued using observable market data where market prices are not directly available. This may apply where an instrument is traded in a market that is not considered active, or where valuation techniques are used with inputs based significantly on observable market data such as Fixed Interest securities.

Level 3 assets are valued using inputs where at least one input that could have a significant effect on the valuation is not based on observable market data. These assets include private market investments such as infrastructure, private equity and debt.

The 2024-25 classification between levels has been amended to ensure comparability with 2025-26 reporting. This has resulted in £1175.4m moving from Level 3 to Level 2 (bonds) and £816.6m moving from Level 2 to 3 (venture capital and real estate).

Fair value of employer assets at 31 March 2026

Asset category	level 1 £million	Level 2 £million	Level 3 £ million	Total £ million	% of total
Equity securities:					
Common stock	364.7	-	-	364.7	8%
Pooled investment vehicles:					
Equities	-	949.7	-	949.7	20%
Bonds	-	2,196.0	-	2,196.0	47%
Funds - real estate	-	-	128.2	128.2	3%
Funds - venture capital	-	-	34.7	34.7	1%
Venture capital and partnerships:					
Partnerships and real estate	-	-	782.0	782.0	17%
Derivative contracts:					
Forward foreign exchange contracts	-	(3.1)	-	(3.1)	0%
Cash and cash equivalents	211.7	-	-	211.7	4%
Total	576.4	3,142.6	944.9	4,663.9	100%

Fair value of employer assets at 31 March 2025

Asset category	level 1 £million	Level 2 £million	Level 3 £ million	Total £ million	% of total
Equity securities:					
Common stock	414.5	-	-	414.5	10%
Other equity assets	2.2	-	-	2.2	0%
Pooled investment vehicles:					
Equities	-	1,175.4	-	1,175.4	27%
Bonds	-	1,685.8	-	1,685.8	39%
Funds - real estate	-	-	110.0	110.0	3%
Funds - venture capital	-	-	13.2	13.2	0%
Venture capital and partnerships:					
Partnerships and real estate	-	-	693.4	693.4	16%
Derivative contracts:					
Forward foreign exchange contracts	-	0.4	-	0.4	0%
Cash and cash equivalents	213.9	-	-	213.9	5%
Total	630.6	2,861.6	816.6	4,308.8	100%

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

Year ended 31 March 2026	Fair value of employer assets £ million	Funded defined benefit obligations £ million	Effect of the Asset Ceiling* £ million	Net asset / (liability) £ million
Opening position as at 1 April 2025	4,308.8	(2,947.8)	(1,361.0)	-
Pension benefits accrued by members during the year*	-	(62.7)	-	(62.7)
Change in cost of pensions from previous years' service	-	-	-	-
Total service cost (recognised in SOCNE)	-	(62.7)	-	(62.7)
Interest income on plan assets	250.3	-	(250.3)	-
Interest cost on defined benefit obligation	-	(170.3)	170.3	-
Total net interest (recognised in SOCNE)	250.3	(170.3)	(80.0)	-
Plan participants' contributions	38.3	(38.3)	-	-
Employer contributions	136.5	-	-	136.5
Benefits paid	(125.8)	125.8	-	-
Total cash flows	49.0	87.5	-	136.5
Expected closing position	4,608.1	(3,093.3)	(1,441.0)	73.8
Change in financial assumptions	-	135.8	-	135.8
Change in demographic assumptions	-	(6.0)	-	(6.0)
Other experience**	(20.7)	(173.9)	-	(194.6)
Return on assets excluding amounts included in net interest	76.5	-	-	76.5
Impact of pension asset ceiling calculation***	-	-	(85.5)	(85.5)
Total remeasurements recognised in other comprehensive expenditure	55.8	(44.1)	(85.5)	(73.8)
Closing position as at 31 March 2026	4,663.9	(3,137.4)	(1,526.5)	-

*The current service cost includes an allowance for administration expenses of 0.7% of payroll.

**Within this other experience item, the funded obligations have increased by £25,102,000 as a result of the pension increase order being different to the previous assumption. This amount also includes the impact of the 2025 actuarial valuation. An allowance for the Goodwin allowance impact has already been made within the liabilities.

***See note 15.5 for further details.

Year ended 31 March 2025	Fair value of employer assets £ million	Funded defined benefit obligations £ million	Effect of the Asset Ceiling* £ 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	(111.3)	631.8	(1,361.0)	(840.5)
Closing position as at 31 March 2025	4,308.8	(2,947.8)	(1,361.0)	-

*The current service cost includes an allowance for administration expenses of 0.6% of payroll.

**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.

***See note 15.5 for further details

15.4 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%	54.1
1 year increase in member life expectancy	4%	125.4
0.1% increase in salary increase rate	0%	3.4
0.1% increase in pension increase rate	2%	50.7

The impact of changes in financial assumptions has been estimated by recalculating the value of Fund liabilities at 31 March 2026 on alternative bases and comparing the results. This is consistent with the approach used to prepare the other figures in this note.

Uncertainty over life expectancy has been modelled by assuming that members live one year longer. This is estimated to increase liabilities by broadly 4%. The actual impact would depend on how the revised assumption affects different groups of members, including younger and older members. The sensitivity approach is consistent with the previous year.

15.5 Pension surplus and interpretation of IFRIC 14

The IAS 19 valuation at 31 March 2026 reported a surplus of £1.5 billion (2024-25: £1.3 billion). As in previous years, the Environment Agency considered whether the surplus could be recognised in full or whether it should be restricted by the asset ceiling under IFRIC 14. It also considered whether any additional liability arose from a Minimum Funding Requirement.

Legal advice confirmed that the Pensions Act does not apply to the LGPS because it is not a trust-based occupational scheme. As a scheduled body, the Environment Agency does not have a unilateral right to receive a refund of surplus. Any economic benefit is therefore limited to potential reductions in future employer contributions. The average future contribution rate for the next three years is 17.4%. To assess the recoverable economic benefit under IFRIC 14, the Environment Agency compared the present value of future service costs with future service contributions. Given the ongoing nature of participation in the LGPS, this assessment was carried out on a long-term basis.

Future service costs were estimated using IAS 19 assumptions at 31 March 2026. Future contributions were based on the primary contribution rate set at the 31 March 2025 triennial valuation. This approach reflects both future service costs and committed deficit contributions as a minimum funding requirement. The analysis showed that the economic benefit available through potential contribution reductions is not sufficient to recover the reported IAS 19 surplus. The surplus has therefore been restricted to £nil in the financial statements in accordance with the asset ceiling requirements (2024-25: £nil).

The asset ceiling assessment is subject to significant estimation uncertainty, particularly assumptions about future funding levels and employer contributions. Future triennial valuations may change those assumptions and could lead to a different conclusion in future reporting periods.

16. 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 9 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.

16.1 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 as at 31 March 2026:

Counterparty	Liability at 31 March 2025 £ million	Finance charge 2025-26 £ million	Amounts paid 2025-26 £ million	Liability at 31 March 2026 £ million	Due within 1 year £ million	Due later than 1 year £ million
Northumbrian Water	(375.3)	(37.4)	26.6	(386.1)	(24.9)	(361.2)
Severn Trent Water	(98.7)	(4.9)	2.6	(101.0)	(2.5)	(98.5)
Total	(474.0)	(42.3)	29.2	(487.1)	(27.4)	(459.7)

Details of the financial liability as at 31 March 2025:

Counterparty	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	(364.8)	(36.1)	25.5	(375.3)	(24.1)	(351.2)
Severn Trent Water	(96.4)	(4.7)	2.5	(98.7)	(2.4)	(96.3)
Total	(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 £2.7 billion (2024-25 - £3.1 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 decreases by £0.6 billion or increases by £0.8 billion (2024-25 – increase and decrease of £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 £4.7 million (2024-25 - £4.3 million).

16.2 Permitting deposits

The Environment Agency holds security for permit holders as described in note 11.

Security can be provided by permit holders by way of cash (note 11) 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 2026 was £711.6 million (31 March 2025 - £691.2 million). During both 2025-26 and 2024-25 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.

17. Related parties

17.1 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	2025-26 £ million	2024-25 £ million
Defra environment protection grant-in-aid	245.7	251.9
Defra flood defence grant-in-aid	1,308.2	1,268.4
Defra IDB or local authority grant-in-aid	255.7	238.3
Total	1,809.6	1,758.6

17.2 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 4.1, Defra charged the Environment Agency £113.2 million for expenditure incurred in the provision of corporate services to the Environment Agency (2024-25 - £105.7 million). This comprised mostly of staff costs for transferred former employees as well as some supplier expenditure.

17.3 Other related parties

The Environment Agency maintains a comprehensive register of interests which is published [here](#).

Appropriate governance arrangements are in place to manage conflicts of interest, including ensuring that individuals with a declared interest are excluded from relevant decision-making processes.

All declared interests are assessed for related party disclosure purposes. Transactions are disclosed in these financial statements only where they meet the requirements of IAS 24, including where the related party relationship involves significant influence or control.

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 served as a Non-Executive Member of the Audit and Risk Assurance Committee of the Rural Payments Agency (an arm's-length body of Defra) during 2024–25, with his appointment ending in May 2025.

The Environment Agency is the administering authority responsible for maintaining and managing the Environment Agency Pension Fund. The Environment Agency charged the fund £1.5 million for expenses incurred in administering the Fund (2024-25 - £1.3 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.

18. Events after the reporting date

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 81 to 92.

Appendix - Sustainability data

(Not subject to audit)

Scope 1, 2 and 3 emissions	Unit	2025-26	2024-25	2023-24	2022-23	2021-22
Direct emissions (Scope 1)	tCO ₂ e	8,800	10,532	16,500	9,000	11,000
Indirect emissions from purchased energy (Scope 2)	tCO ₂ e	10,600	9,051	15,500	13,500	9,000
Indirect emissions produced by our suppliers (Scope 3) (Note 1)	tCO ₂ e	2,800	3,000	5,000	3,500	8,000
Total scope 1, 2 and 3 emissions	tCO₂e	22,200	22,583	37,000	26,000	28,000
Consumption as part of scope 1 and 2	Unit	2025-26	2024-25	2023-24	2022-23	2021-22
Gas consumption as part of scope 1	kWh	4,962,744	6,943,807	5,569,500	6,578,692	-
Energy consumption as part of scope 2	kWh	48,981,273	42,044,809	55,656,000	48,670,361	-
Total consumption as part of scope 1 and 2	kWh	53,944,017	48,988,616	61,225,500	55,249,053	-
Emissions from operational activities	tCO ₂ e	27,000	28,352	37,000	26,000	28,000
Carbon intensity (per £ million expenditure)	tCO ₂ e	13	13	16	14	18

Business travel	Unit	2025-26	2024-25	2023-24	2022-23	2021-22
Car and motorbike	tCO ₂ e	3,042	3,900	8,488	6,962	6,180
Rail	tCO ₂ e	987	864	666	289	41
Air	tCO ₂ e	163	142	68	54	5
Total business travel	tCO₂e	4,192	4,906	9,222	7,305	6,226
Domestic air travel	Miles	5,629	3,654	1,178	1,590	-
International air travel - short haul - economy	Miles	106,601	117,049	139,868	121,251	-
International air travel - short haul - business	Miles	3,534	6,214	1,188	467	-
International air travel - long haul - economy	Miles	275,491	233,884	159,633	101,712	-
International air travel - long haul - premium economy	Miles	11,511	15,734	-	8,918	-
International air travel - long haul - business	Miles	-	39,806	-	6,213	-
Total business travel	Miles	402,766	416,341	301,867	240,151	-
Total business travel	£ million	7.4	7.3	7.9	4.2	1.6
% of the car fleet classed as ultra-low emissions vehicles	%	80.3%	72.5%	35.6%	30.4%	25.1%
Travel carbon intensity per full-time employee	tCO ₂ e	0.31	0.35	0.67	0.6	0.6

Municipal and Other waste	Unit	2025-26	2024-25	2023-24	2022-23	2021-22
Landfill	Tonnes	1.3	0.6	10.2	8.5	0.1
Hazardous waste	Tonnes	3.2	19.0	3.8	9.3	1.5
Reused or recycled	Tonnes	713.0	496.2	103	113	89
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	66.2	176.2	11.0	8.2	34.4
Incinerated to produce energy	Tonnes	-	19.1	0.1	0.8	17.7
Reused or recycled electronic or electrical equipment	Tonnes	16.7	15.2	4.5	0.2	0.3
Total municipal and other waste	Tonnes	800.4	726.3	133.8	140.9	147.3
Landfill	£	3,607	91	18,065	5,375	3,871
Reused, recycled, or incinerated	£	7,448	13,762	11,879	4,517	12,348
Total municipal and other waste	£	11,055	13,853	29,944	9,892	16,219

Total major mineral waste (Operational waste)	Unit	2025-26	2024-25	2023-24	2022-23	2021-22
Landfill	Tonnes	0.1	1.1	1.3	-	-
Reused or recycled	Tonnes	206.9	396.1	543.6	-	-
Of which is total food waste composted from offices	Tonnes	-	-	-	-	-
Of which is food waste sent externally for composting or anaerobic digestion	Tonnes	-	-	-	-	-
Incinerated to produce energy	Tonnes	91.2	13.2	27.8	-	-
Other major mineral waste	Tonnes	2,129.6	1,801.6	2,838.1	-	-
Total major mineral waste	Tonnes	2,427.8	2,212.0	3,410.8	-	-
Total waste (operational and municipal) (note 2)	Tonnes	3,228.2	2,938.3	3,544.6	-	-
Total waste (operational and municipal)	£	1,013,484	922,347	1,282,808	1,230,050	1,063,798

Pension fund investment	Unit	2025-26	2024-25	2023-24	2022-23	2021-22
Pension fund assets (Note 3)	£ million	4,622	4,309	4,203	4,284	4,133
Investment in sustainable and climate solutions (Note 4)	%	-	18	12	-	26
Carbon footprint of listed equities and corporate bonds (Note 5)	tCO2e per £ million	125	123	131	185	174
Resource consumption	Unit	2025-26	2024-25	2023-24	2022-23	2021-22
Purchased gas and purchased renewable electricity	million kWh	58	52	61	55	64
	Unit	2025-26	2024-25	2023-24	2022-23	2021-22
Purchased gas and purchased renewable electricity	£ million	13.4	12.1	15.7	9.9	5.3
Self-generated renewable energy	million kWh	0.49	0.25	0.5	0.34	0.38
Total water supplied	Cubic metres	54,114	33,803	28,116	30,078	33,349
Total water abstracted (Note 6)	Cubic metres	19,734,454	37,159,484	110,152,128	-	-
Water supplied	£	578,289	780,267	472,360	263,771	194,864
Percentage reduction on paper use on baseline (Note 7)	%	97	82	-	-	-

Notes

1. Full scope 3 figure is ~226,000 tCO₂e; it includes the footprint from all our activities.
2. Total major mineral waste (operational waste) volumes is only reported from 2023-24, due to variance in data reporting before this point.
3. The 2024/25 pension fund asset value has been updated to reflect changes made to the calculation of our IAS19 actuarial reports in the prior year's audit cycle.
4. This is calculated annually as part of the pension fund's Stewardship Code submission to the Financial Reporting Council. The submission date for this has now moved to October, when we will report the 2025/2026 figures. We will update the 2025/2026 figures in next year's annual report.
5. The carbon footprint figure relates only to the listed equity and sterling corporate bond portfolios which represent approximately 39% of the total fund.
6. 2025/26 abstraction data is available between late June and early July 2026, so we have reported a year in arrears.
7. Of the total there were 68 A4 reams and one A3 ream.

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