Department for Environment, Food and Rural Affairs

Annual Report and Accounts 2015–16

HC 328

Department for Environment, Food and Rural Affairs

Annual Report and Accounts 2015–16

(For the year ended 31 March 2016)

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

Clare Moriarty

From water quality to waste disposal, beautiful countryside to the food on our plate, what we do in the Defra group matters to everyone in the country. Our strategy, *Creating a great place for living,* describes our goals for the current parliament. It sets out our ambitions for the environment, the food and farming industry, the rural economy and for protection from natural hazards. Alongside these impact objectives we are committed to excellent delivery and continuous improvement - always striving to do the best for our customers.

We have already met important milestones. We have released over 11,000 data sets and established the GREAT British Food Unit, bringing together Defra and UK Trade and Investment expertise in support of British food producers. We have published and begun implementing plans for rural productivity, air quality and National Parks.

The Environment Agency played a vital role in protecting homes and businesses during the wettest December on record which resulted in the highest ever levels for one in 10 English rivers and 92 severe flood warnings. The Environment Agency's response was public service at its best, with local rescue services and the military working together with our teams to support people and communities who were flooded.

The Rural Payments Agency has faced major challenges in implementing the new scheme for Common Agricultural Policy farm support payments. The decision to switch to paper claims mitigated the impact of delays in IT system development but many farmers received payments later than in 2014. I am very conscious of the impact this had on farmers already experiencing difficult economic conditions. The lessons we have learned are already underpinning a greatly improved service for 2016 payments.

During 2015–16 we have laid the foundations for our ambition to transform the Defra group into a modern, streamlined organisation. We have made progress towards a unified corporate services and common boundaries for the Environment Agency and Natural England. We want to capture the benefits of an integrated approach while retaining the strengths of individual organisations within the group. With data from the Copernicus satellite now informing what we do here on earth, we aspire to be a digital leader within Government. We are building on our strengths in open data to become a truly open organisation: focused on our customers and increasingly local.

Since becoming Permanent Secretary in August 2015 I have seen at first hand the breadth of the Defra group's activities. I have been privileged to meet dedicated people around the country, passionate about their work and committed to creating a great place – for living in, and to make a living. I am personally committed to building an open and inclusive culture where people feel supported to develop and to innovate.

The decision to leave the EU will clearly have profound implications for Defra in the years ahead. Our long term goals will remain but the means through which we deliver them will change as we create domestic policies in areas that have been heavily shaped by the EU, and develop new trading relationships. There will undoubtedly be challenges along the way but in the short time since the referendum I have been impressed by the professionalism that people around the Defra group have brought to the task. I have every confidence that we will continue to deliver successfully in a new context.

Non-Executive Directors' Report

Context

The last year was an important one in determining the future direction of Defra while at the same time continuing to deal with some of the major items that are part of its diverse portfolio. The general election and new government in the spring was followed by a vigorous review, redirection and clarification of strategy linked with the spending settlement for this parliament. The emphasis is on both delivering environmental and economic outcomes and on becoming a leaner, more integrated and more efficient organisation which is easier to deal with for its customers. At the same time, the Department has been dealing with issues which are part of its continuing remit such as the floods in the north of England in December 2015 and January 2016, the roll out of new processes for paying farmers in the first year of the new EU Common Agricultural Policy (CAP) regime, and the expansion of the plans to deal with bovine tuberculosis and the badger control operations.

There has been much change in the Board and Executive teams over the year. In the Ministerial Team there were two continuing and two new members; a new Permanent Secretary took up her role in the summer; appointments have been made to new roles including Chief Finance Officer and Group Chief Technology Officer. The composition of the Board changed at the end of 2015, with Iain Ferguson and Sir Tony Hawkhead retiring at the end of their second terms of appointment, Peter Bonfield appointed as non-executive director (NED) and Steve Holliday as lead NED. The Chairs of Natural England (NE) and the Environment Agency (EA) also joined the Board as ex officio members.

Strategy and the Single Departmental Plan

While the overall strategy and the policies to deliver it are entirely the preserve of ministers supported by the civil service team, the whole Board including NEDs has a role to play in the operational strategy of how to deliver. We commented in earlier years on the 'One Business' programme which was exploring options for organisational change. The initial work was useful as input to the spending review. To be effectively implemented, it needed considerable refinement and redefinition. Some good groundwork was undertaken by the Executive Committee (ExCo) in the autumn and now more impetus is being given to creating momentum as a change programme to build a new Defra group under new leadership. This will be a critical transformation programme for the future success of the Department with many challenges and is central to the Single Departmental Plan.

We believe the NEDs have played a useful role throughout the year both with ExCo and their supporting teams in reviewing and challenging approaches to development of the plans, providing advice and emphasising the importance of being realistic about the up-front resources, talent and finances, required to achieve results.

The Defra Group

In delivering the strategy for a more integrated Defra, the objective must remain to remove barriers to better working so as to deliver improved outcomes, value for money and to be an organisation that is easier to deal with for its stakeholders and customers. It also offers the opportunity to make better use of the potential and talents of the people across the Defra group.

This is a transformational agenda and is still at an early stage. Good work is being done in the ExCo which now has a group-wide view and is where major operational decisions can now be taken effectively. Much has been done to bring together corporate services across the group. A target operating model is under development which will provide a blueprint for how integration will be delivered. Challenges to be resolved include how boards of delivery bodies continue to fulfil their legal obligations whilst operating within an integrated group and how people can move role easily between organisations. The prize of success is considerable for stakeholders, employees and the tax payer.

The NEDs have played a useful role throughout the year in continuing links with individual key delivery bodies. The Board and ExCo now have a broader perspective and this has been extended through changes in composition of the Defra Audit and Risk Committee (ARC) to include the chairs of the ARCs at EA, NE, the Animal and Plant Health Agency and the Rural Payments Agency.

Talent

There has been a successful start to better managing senior talent across the Defra group, particularly selecting skills from the bigger delivery bodies for roles at a group level. As commented on in previous years, commercial experience, technology skills and delivery of major projects all have limited talent pools available within Defra and recruitment has sometimes been difficult. There will also be challenges to retaining the right skills and experience as overall staffing levels are reduced through the transformation programme.

The NEDs have played an important role in the Nominations Committee (through the Lead NED) which oversees top level talent management and in participating in the selection processes for key roles including the new Permanent Secretary, the CEO of EA, the Chief Technology Officer and NEDs in some delivery bodies.

Major Projects

Four Defra major projects sit in the Infrastructure and Projects Authority (IPA) portfolio – CAP delivery, Thames Tideway Tunnel, UnITy (provision of new IT infrastructure and systems) and Thames Estuary Asset Management (TEAM) 2100 (a flood alleviation programme in the Thames Estuary led by EA). There are also a number of significant contracts and capital programmes across the group which are important parts of the Defra group's delivery activities.

The ambitious CAP delivery programme has featured in previous years' reports and faced some difficult challenges and decisions at the end of last year. Some of the issues and causes have been highlighted in reports by the National Audit Office and Public Accounts Committee and lessons must be learned by both Defra and other government departments on managing high risk projects involving extensive Information Systems changes. Since the spring of 2015, a firmer control has been taken of delivering essential requirements for the Basic Payment Scheme (BPS) and payments have been successfully made on time to the majority of farmers. There is still much to be done to realise efficiencies in the BPS processes and to deliver the systems to support the Countryside Stewardship Schemes, while striving to minimise any disallowance penalties imposed by the European Commission.

The Thames Tideway Tunnel project has progressed well with the successful appointment during the year of a licensed infrastructure provider. Construction is due to start in autumn 2016. Defra's continuing involvement will essentially be monitoring progress and any potential financial risks that could fall upon the government.

The UnITy project is in its early stages and ramping up quickly. This will be critical to the effective and seamless working of the Defra group in the future and the NEDs are focusing on the Department's risk management of the project and that lessons learned from other IS projects are applied. It is likely that the transformation programme for the Department will also fall under the IPA and the progress and risks from that programme are firmly on the Board's agenda.

TEAM 2100 is progressing well, with CH2M contracted to deliver a 10-year programme of capital flood risk management works for London and the Thames Estuary.

Risk Management

The Defra group has a wide range of risks on its strategic and major operational risk register. As well as its lead government role on environmental and natural risks such as flooding and plant or animal diseases, there are operational risks such as the implementation of the CAP delivery programme, disallowance risk, and those risks arising from the Transformation and UnITy projects.

Risk management processes have been mostly at delivery body/Core Department levels, with co-ordination at ExCo level and oversight by the Board. With the changes to organisation structure that arise out of the transformation programme, decisions will need to be made on where executive responsibility for risk management should be in the future, how Board oversight will be maintained and any changes needed to processes across different organisations.

Board Effectiveness

The pattern and attendance at Board meetings was affected by competing demands for ministers' time either side of the election, as commented upon in last year's report. From late 2015 onwards, new arrangements have been implemented whereby the Board will comprise the Ministerial Team, the Permanent Secretary and her Chief Operating Officer and Chief Finance Officer, the four NEDs together with the chairs of EA and NE in an ex officio capacity. The Board will meet four times a year, interspersed with three meetings between the NEDs and the full group ExCo. There are also regular meetings between ministers and ExCo. While much of the valuable work of NEDs will continue to be outside of the Board meetings, the recent board review will result in recommendations to ensure the various layers of governance are appropriate and effective.

Steve Holliday
Peter Bonfield
Catherine Doran
Paul Rew

Chapter 1 – Overview

Strategic Objectives and Delivery Priorities

The Defra Strategy sets out a shared vision and a set of strategic objectives for the whole of Defra for the period up to 2020. It is intended to provide employees across the whole group of Defra organisations (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear, shared framework. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan (SDP)[1].

Defra's goals are focused on four impact objectives, which explain ambitious, long term aims, and the positive differences Defra will make to the UK by 2020.

- A cleaner, healthier environment benefiting people and the economy.
- A world-leading food and farming industry.
- A thriving rural economy, contributing to national prosperity and wellbeing.
- A nation better protected against floods, animal and plant diseases and other hazards, with strong response and recovery capabilities.

There is one delivery objective, which describes the high levels of service and value for money for the taxpayer for which Defra will strive.

- Excellent delivery on time and to budget and with outstanding value for money.

The strategy sets out two organisational objectives outlining how Defra is organised to deliver, and what Defra will be like: a Defra that will act together, be more efficient, avoid duplication, maximise impact, and embrace digital and data.

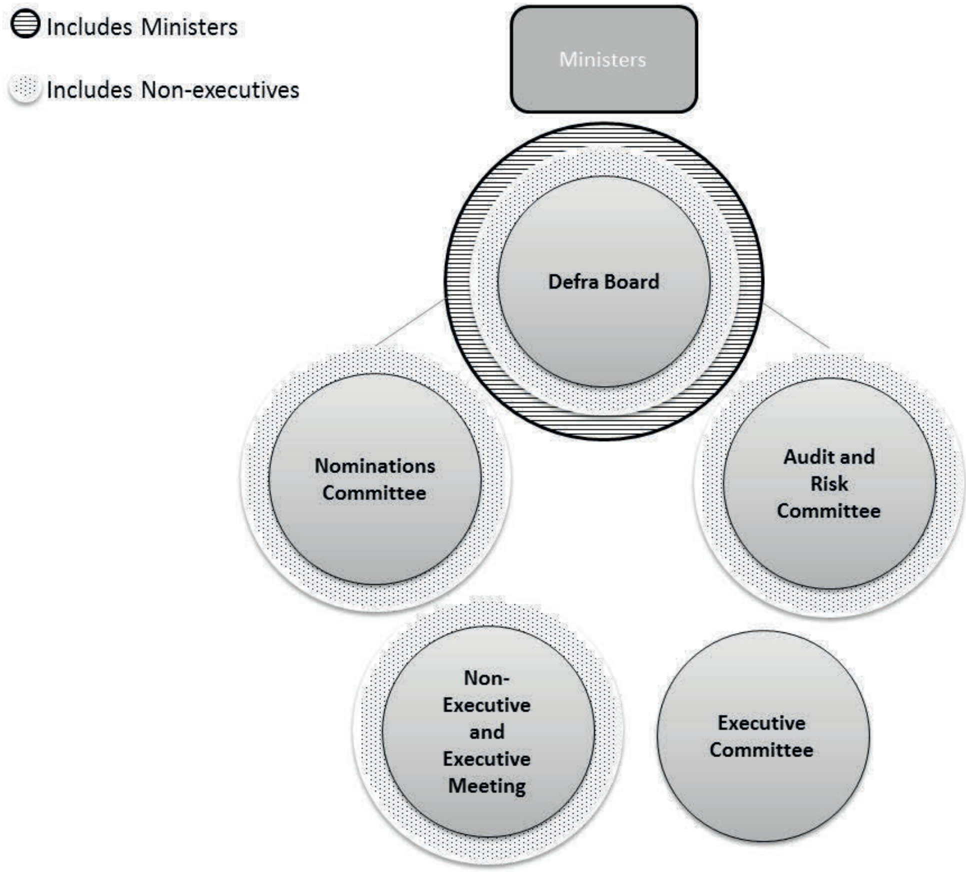
- An organisation continually striving to be the best, focused on outcomes and constantly challenging itself.
- An inclusive, professional workforce where leaders recognise the contribution of people, and build capability to deliver better outcomes.

Four themes in the strategy are critical to achieving Defra's objectives and will deliver important outcomes in their own right: better use of data; increasing productivity; better regulation; and working internationally.

[1] https://www.gov.uk/government/publications/defra-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020

Governance Structure

The governance structure of the Department is illustrated below. Interactions between the subcommittees are achieved by shared membership and are run as described by the corporate governance code.



The Defra Board

The Defra Board provides collective strategic and corporate leadership to the Department with Board meetings held quarterly. The Defra Board is composed of the Ministerial Team, board executives, non-executive directors (NEDs) and ex officio members. During 2015–16, changes were made both to the composition of the Board and individual members.

The Ministerial Team

From May 2015	Until May 2015
Rt Hon Elizabeth Truss MP Secretary of State	**Rt Hon Elizabeth Truss MP** Secretary of State
George Eustice MP Minister of State for Farming, Food and the Marine Environment	**George Eustice MP** Parliamentary Under-Secretary of State for Farming, Food and the Marine Environment
Rory Stewart MP Parliamentary Under-Secretary of State for Environment and Rural Affairs	**Dan Rogerson MP** Parliamentary Under-Secretary of State for Water, Forestry, Rural Affairs and Resource Management
Lord Gardiner Defra Spokesperson in the House of Lords	**Lord de Mauley** Parliamentary Under-Secretary of State for Natural Environment and Science

Board Executives

In October 2015 the composition of the Board was changed. The details are outlined below.

From November 2015	Until October 2015
Clare Moriarty Permanent Secretary	**Clare Moriarty (appointed August 2015)** Permanent Secretary *Bronwyn Hill (Until July 2015)*
Betsy Bassis Director General, Chief Operating Officer	**Betsy Bassis** Director General, Chief Operating Officer
Mark McLaughlin Chief Finance Officer	**Nick Joicey** Director General, International and Biosecurity
	Sonia Phippard Director General, Policy Delivery
	Professor Ian Boyd Chief Scientific Adviser
	Alastair Bridges Director, Finance and Performance

Board Non-Executive Directors

Four NEDs bring external experience and expertise to the Department through the Board and its subcommittees as follows:

From January 2016	Until December 2015
Steve Holliday Lead Non-Executive Director Chair of the Nominations Committee *(from 1 February 2016)*	**Iain Ferguson** Lead Non-Executive Director Chair of the Nominations Committee
Paul Rew Chair of the Audit and Risk Committee	**Paul Rew** Chair of the Audit and Risk Committee
Peter Bonfield	**Sir Tony Hawkhead**
Catherine Doran	**Catherine Doran**

Ex Officio Members

From October 2015 two ex officio members were appointed to the Defra Board to build relationships and develop networks with the wider Defra bodies. These appointments are for the duration of their tenure as Chair of the Environment Agency (EA) and Natural England (NE). They are:

Emma Howard Boyd
Acting Chair of the Environment Agency
Sir Philip Dilley (until January 2016)

Andrew Sells
Chairman of Natural England

The Defra Board has three subcommittees.

- **The Audit and Risk Committee (ARC)** is a non-executive subcommittee. It supports and advises the Defra Board and the Accounting Officer on issues of risk management, control and governance. It comprises independent members (including, in addition to the chair, another Defra Board NED, Catherine Doran). From April 2016 the ARC membership has been changed to include the ARC Chairs of EA, NE, the Rural Payments Agency (RPA) and the Animal and Plant Health Agency (APHA).

- **The Nominations Committee** scrutinises incentives and rewards for executive board members and the senior civil service, succession planning for NEDs, other Defra Board members and other key appointments. It is chaired by the Lead NED, and includes the Permanent Secretary, the Director of Human Resources and the Head of Talent Management.

- **The Non-Executive and Executive Meeting (NEEM)** supports the work of the Defra Board and the Executive Committee (ExCo). It was newly formed in February 2016 and will meet three to four times a year undertaking policy and strategic risk deep dives. The NEEM will include all the members of ExCo and the four NEDs.

Executive Committee

ExCo operates a four-weekly cycle of meetings covering strategy implementation, finance and performance (including investment decisions), transformational change and people issues. The membership of ExCo is:

- Permanent Secretary;
- DG Chief Operating Officer;
- DG Strategy, International, Food and Farming;
- DG Environment and Rural;
- DG Chief Veterinary Officer;
- DG Chief Scientific Adviser;
- Group Strategy Director;
- Chief Finance Officer;
- CEO Rural Payments Agency;
- CEO Animal and Plant Health Agency;
- CEO Environment Agency; and
- CEO Natural England.

Defra Group

The delivery of Defra group’s policies is largely delegated to its delivery bodies, comprising of executive agencies, non-departmental public bodies (NDPBs) and other public bodies, and through working with local government, the voluntary sector and other organisations. Moving forward, there will be more integrated working across the Defra group, integrating corporate services and working together better at a local level.

Defra’s executive agencies operate within a framework of direct accountability to the Department and to ministers, who remain accountable for their overall performance. The Chief Executive Officer (CEO) is appointed as the Accounting Officer for each agency.

The DG Chief Operating Officer oversees all of the executive agencies, providing line management for the CEOs (with the exception of the CEO of RPA where line management responsibility lies with the Permanent Secretary), holding them to account for performance measured against targets and agency internal processes, and taking a longer term strategic view of the agencies’ interaction with Defra.

Performance management information on each agency was collated quarterly. Each agency has a management board, which may be chaired by either the agency CEO or lead NED and includes other NEDs and the agency senior team. A senior Defra official is also a member of each executive agency’s management board, bringing an understanding of Defra and wider government policy to the agency.

In February 2016, Defra’s SDP was published which describes the objectives and shared vision of the entire Defra group. As the Department moved to reporting against the SDP, the Board management information has developed and delivery bodies performance is being reported in the context of delivery against the plan. In 2016–17, this will be developed further.

Defra's executive NDPBs have been established through legislation, which specifies each NDPB's purpose and functions, what powers are invested in it, and how it should be financed. Each has its own board, chairman and executive management team, with the CEO designated as the Accounting Officer for that organisation. NDPBs are not under day-to-day ministerial control, but ministers agree funding and key objectives for each NDPB and hold them to account. The larger NDPBs provided quarterly performance reports to the Defra Board.

Each executive agency and NDPB publishes its own Annual Report and Accounts. A list of these bodies can be found in Note 21 and further information can be found on their websites.

New Body: Flood Re

The Water Act 2014 and subsequent regulations introduced Flood Re which became operational on 4 April 2016. The body will help homeowners whose houses were built before 2009, and are at the highest risk of flooding with the cost of the part of their home insurance which relates to flood risk. Flood Re will be a not for profit reinsurance body, run and managed by the insurance industry. As Flood Re will charge insurers a levy in order to create a reserve to pay claims, its tax raising powers are likely to mean that it is formally classified as a public body by the Office for National Statistics. The decision is not expected until late 2016 or early 2017.

Flood Re's net expenditure/income is classified as Annually Managed Expenditure and in accordance with the requirements of the Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, is consolidated into these accounts. For 2015–16, this has included around £6m of set-up costs which have been incurred since Flood Re Regulations were passed on 10 November 2015.

Flood Re is a transitional scheme and has a duty to manage the transition to risk reflective prices by 2039. In doing this, Flood Re is required to publish a transition plan at least every five years and they published their first plan in February 2016.

Transformational Change

Over the last parliament, change across the Defra group delivered a more efficient and joined up model of operating. Following the 2015 Spending Review, Defra is continuing to transform to reduce costs, improve capability and resilience, and develop better, integrated systems to support delivery.

Defra will become a smaller, more capable, data driven department with shared corporate services. Its delivery bodies will be brought together into a more integrated Defra group while valued brands such as EA and NE will be preserved. This will enable Defra to reduce costs whilst continuing to deliver its ambitions to improve the natural environment; support our world-leading food and farming industry; sustain a thriving rural economy and protect the country from floods and animal and plant diseases.

Defra has recently published its strategy and its SDP. In order to deliver the vision set out in these documents, a Target Operating Model (TOM) for the whole Defra group is being developed. The TOM will articulate how the Defra group will look in the future and how the organisation will deliver against its objectives. This includes everything from deciding organisational structures to defining the culture of the organisation, how Defra makes decisions and interacts with customers. Put simply, this means setting out what we do and how we do it, who we are and how we behave.

The TOM will also help us design the right portfolio of change programmes to deliver the transformation.

Risk Management

Defra takes a proactive approach to risk management at all levels of the organisation.

In delivering an integrated Defra group, a review of strategic risk management is currently being carried out. This will refresh the strategic risks to ensure there is a clear line of sight on both strategic and major operational risks, clarity around risk appetite, agreed criteria for escalation, and a common risk language used across the Defra group.

A strategic risk register developed with ExCo and the Defra Board was monitored on a quarterly basis over the year. The portfolio includes a range of policy delivery risks (such as Common Agricultural Policy (CAP) implementation), natural/hazard risks (such as flooding), operational risks (such as Health and Safety) and risks with major financial consequences (such as the Thames Tideway Tunnel).

The Board has not developed a departmental statement of risk appetite. Risk tolerance for the Department has been indicated by agreeing target levels of risk for each strategic risk and by setting the strategic framework for the main policy, delivery, corporate and commercial decisions.

The Defra ARC has reviewed a number of operational delivery risks, including: those associated with CAP implementation; the move to a Single Operating Platform (for Finance, HR and procurement); health and safety in Defra's laboratories; and the risks associated with Defra's transformation plans (linked to implementing the 2015 Spending Review settlement).

The responsibility for the management of a number of Defra's top risks is delegated to executive agencies and NDPBs, where many of Defra's operational, financial and reputational risks lie. CEOs of delivery bodies are responsible for ensuring that effective approaches to risk management are in place locally. In the case of executive NDPBs and the Forestry Commission (a non-ministerial department), independent boards hold the executive team to account for their performance, including their management of risk.

Chapter 2 – Our Performance

Defra is focused on delivery of its strategic priorities, with a Single Departmental Plan (SDP) underpinned by a coherent business plan for the whole Defra group and a clear performance framework.

The data and information presented below outlines progress against objectives, covering manifesto commitments and summary details of the indicators by which Defra will measure its performance. The indicators are available in Defra's SDP on gov.uk.

Projects within the Government Major Project Portfolio (GMPP) are highlighted. These are part of Defra's portfolio of major projects[2] and are subject to assurance and approvals supported by the Infrastructure and Projects Authority (IPA). The GMPP projects are also subject to quarterly reporting to IPA and details published annually alongside the IPA's Annual Report[3].

A cleaner, healthier environment benefiting people and the economy

The country's prosperity, security and wellbeing depend on a healthy natural environment including our landscapes, forests, air, fresh and marine waters and soils and the habitats and wildlife they support (also known as our natural capital). We want everyone to have the opportunity to enjoy and benefit from these.

Defra is working with the Natural Capital Committee (NCC) to develop a long term plan for the environment which will provide an effective approach to driving environmental improvement, tailored to the needs of our country that has a powerful and permanent impact.

Delivery of the plan will be supported by better use of data and technology, including by opening up Defra data for public access and through a more intelligent, risk-based approach to monitoring, regulation and enforcement.

The development process was launched in October 2015 and workshops with technical experts were completed in November 2015. The output is being used in ongoing discussions with the NCC on the content of the plan. We had originally anticipated publishing a framework for the plan in the summer of 2016 and a full plan by the end of the year. These timings did not take into account the decision to leave the EU. The Government remains committed to developing a long term plan for the environment and we now have the opportunity to consider a long-term vision for the type of environment we want in Britain following the EU referendum vote.

Alongside work on the plan, Defra is making good progress on its environmental objectives, many of which were reflected in the Government's manifesto. As promised, the Secretary of State has extended the life of the NCC to 2020 and new members were appointed in February 2016.

Defra is investing in cleaner air and tackling air pollution. The Department launched a public consultation in September 2015 on the UK air quality plan for reducing nitrogen dioxide emissions. The plan was published and submitted to the European Commission in December 2015.

Defra is also cleaning up our rivers and waterways, and awarded a project licence to Bazalgette Tunnel Limited in August 2015 to design, build, finance, operate and maintain the Thames Tideway Tunnel (part of the GMPP). The project will address the problem of combined sewer overflows into the Thames in London, and is on track to commence construction in autumn 2016.

The Government has committed to spend £3bn to enhance England's countryside. The Countryside Stewardship Scheme was launched in July 2015, providing financial incentives for land managers to look after

[2] Projects exceeding Departmental Expenditure Limits or other HM Treasury controls and requiring HM Treasury approval at each business case stage
[3] https://www.gov.uk/government/publications/government-major-projects-portfolio-data-for-defra-2015

their environment through activities such as conserving and restoring wildlife habitats and flood risk management.

The Department has made a strong start on contributing to the network of marine protected areas, completing the second tranche of designated Marine Conservation Zones around England in January 2016.

Defra has taken action to tackle litter, through the Unauthorised Deposit of Waste (Fixed Penalties) Regulations, which were laid on 11 March 2016 and came into force on 9 May 2016. These regulations allow local authorities to issue fixed penalty notices for fly tipping, providing them with an alternative to prosecution.

A 5p carrier bag charge was introduced in England on 5 October 2015, aiming to reduce the amount of plastic bags issued by 80 percent in supermarkets and 50 percent on the high street. The charge is expected to raise £730m for good causes over the next 10 years.

Defra SDP indicators

Defra will measure the following.

Air Quality: Public exposure to nitrogen dioxide (NO_2) and particulate matter ($PM_{2.5}$).

Water Quality: Kilometres of fresh watercourses enhanced each year in England.

Woodland creation: Progress against the commitment to plant 11 million trees this parliament. As part of the Rural Development Programme for England over 640,000 trees were planted in 2015–16.

Protected sites:

- The percentage of protected sites on land in a favourable, or unfavourable but recovering, condition. This was 95.7 percent in 2015–16.
- The extent of protected areas at sea.

Sustainable Development

Defra is committed to providing the most sustainable future for our country, ensuring the long-term health of our economy, society and the environment. The Department is strengthening environmental protection, including through the long term plan for the environment. In recognition of the interdependent nature of our economy, society and the environment, Defra will continue to improve the impact on all three areas when developing policies in line with HM Treasury's Green Book guidance.

Defra leads innovative, evidence-based work applying a sustainable approach across government, for example:

- Supporting the reconstituted NCC which reports to the Economic Affairs Committee.
- Working with HM Treasury on the Green Book refresh process to improve the consideration of natural capital within it.
- Developing national natural capital accounts in partnership with the Office for National Statistics.

- Developing with the Department of Energy and Climate Change (DECC) and other departments a practical and proportionate means of assessing risks and opportunities for natural capital from carbon mitigation measures under the Fifth Carbon Budget[4].

- Researching how well sustainable development and environmental guidance is incorporated in impact assessments, highlighting good practice and where improvement is needed. Defra is working with other government departments (OGDs) to take forward the report conclusions.

- Leading, and publicly reporting cross-government performance against the Greening Government Commitments (GGCs), working with partners across government to develop a new set of GGCs for this parliament.

Defra's performance can be viewed in the GGC annual report[5] and is summarised in Annex 2. In 2015–16 across the Defra group there was a Greenhouse Gas reduction of 28.2 percent; waste reduction of 35.4 percent; water reduction of 26.5 percent; domestic flights reduction of 24 percent; and a paper reduction of 39 percent.

Defra Procurement is continuing to promote sustainable procurement through standing instructions within its policies and processes to consider all elements of good procurement practice including consideration of the Public Services (Social Value) Act; the Public Sector Equality Duty; and the Small and Medium Enterprise (SME) Agenda amongst others. Where Defra Procurement leads on procurements, at the strategy stage, a sustainability appraisal is undertaken and, where possible, Government Buying Standards applied.

Multidisciplinary specialists work closely with Defra policy teams to ensure that evidence is properly considered and used in policy development. Defra's policy development cycle was updated in November 2015 with new guidance on sustainable development to provide an essential assurance mechanism. The Department seeks to improve its capability to evaluate policies from a multidisciplinary perspective, integrating 'the three pillars' of sustainability.

A world-leading food and farming industry

The food and drink industry is central to our long-term economic plan, providing jobs, growth and opportunity. It contributes over £100bn to the UK, around 7 percent of the total economy. Food accounts for 17 percent of all UK manufacturing.

Since summer 2015, Defra has been working with the food, farming and fisheries interests to develop a 25-year plan to make British food and farming a world leader. The intention had been to publish the final plan in summer 2016, but since the decision to leave the EU has significant implications for our food and farming industry, it is right that we now take stock and review the next steps.

It remains absolutely essential that the UK has a thriving food and farming sector with high animal welfare and environmental standards, access to international markets and a long term commitment to boosting productivity through innovation and skills. We are now focused on taking forward the actions that support these objectives, whilst continuing to develop our long term vision, in a different context.

Alongside this work Defra is making good progress on its food and farming objectives, many of which were reflected in the Government's manifesto.

In November 2015, Defra launched the Great British Food Campaign, establishing a group of food and drink industry pioneers and partners to champion the 2016 year of Great British Food and establish the foundations of a 5-year strategic campaign both domestically and internationally.

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[4] The Climate Change Act 2008 requires the Government to set the Fifth Carbon Budget, a five-year cumulative limit on the level of the net UK carbon account over the period 2028-32.
[5] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487751/ggc-annual-report-2014-2015.pdf

This was followed in January 2016 with the creation of the Great British Food Unit to support British food producers and suppliers around the world and open up new export markets. Protected name products will be branded GREAT. Defra is supporting the national 'Exporting is GREAT' campaign through ministerial visits and trade fairs.

The Government committed to reduce regulatory burdens on food businesses, including by reducing the number of farm inspections and coordinating these through a single point of contact. The Rural Services Helpline was launched by the Rural Payments Agency (RPA) and the Animal and Plant Health Agency (APHA) in September 2015, making it simpler and easier for farmers in England to get advice and guidance from government.

Government has further supported the industry through the creation of 17 Food Enterprise Zones since the beginning of 2015. These have shared £830,000 of government funding to help fast track the expansion of food and farming businesses.

In response to difficult market conditions, EU funding was secured to help dairy farmers in the UK. A one-off payment was made to those eligible in November/December 2015 to help with cash flow problems caused by volatile prices. A total of £26.6m of support was provided to 13,372 farmers across the country by the end of March 2016.

Defra SDP Indicators

Defra will measure the following.

Exports: Value of food and drink exports (contribution to the Government's commitment to increase the value of UK exports). This was £18bn in 2015.

Apprenticeships: Number of food and farming apprenticeships in England, with the aim of trebling from 6,000 to 18,000 during this parliament. There were 4,800 apprenticeship starts between August 2015 and January 2016 (the first six months of the 2015–16 academic year).

Farm visits: Reduction in the number of farm inspection visits, with a target of 20,000 fewer visits by 2020.

A thriving rural economy, contributing to national prosperity and wellbeing

As a one nation government, England's rural areas are of huge importance to us, contributing substantially to the economy, wellbeing and national life.

Defra will support our rural areas through the Government's 10-point plan for boosting productivity in rural areas[6], set out by the Secretary of State for Environment, Food and Rural Affairs and the Chancellor of the Exchequer in August 2015. This complements the government's wider efforts to promote growth with the aim of harnessing the enormous economic potential England's rural areas have to offer, both for the prosperity of those living in rural areas and for the benefit of the UK economy overall.

This rural productivity plan requires collaboration across government, as well as with business and other providers of services. It covers broadband and mobile services; transport infrastructure; access to high quality education and training; better regulation and improved planning for rural businesses; more housing; increased availability of affordable childcare; and devolution of power on which the Department for Communities and Local Government leads.

Defra is monitoring implementation of the plan, where specific deliverables are reflected in lead departments' SDPs.

[6] https://www.gov.uk/government/publications/towards-a-one-nation-economy-a-10-point-plan-for-boosting-rural-productivity

As part of wider efforts to promote local growth, 80 Local Action Groups are open and offering funding as part of the LEADER[7] scheme. Nearly £25m from the Rural Development Programme Growth Programme has been made available to rural businesses to drive growth and productivity.

Defra SDP Indicators

Defra will measure rural productivity: Gross Value Added (GVA) per workforce job in rural areas.

Rural Proofing

The Government published its response to Lord Cameron of Dillington's review on the effectiveness of its rural proofing on 17 December 2015[8]. The review sought to identify the extent to which departments were designing their policies in order to deliver effective outcomes in rural areas.

The response covers all of the recommendations made by Lord Cameron and his review team. The actions Defra is taking include the following:

- Development of improved guidance on rural proofing to be used as part of the impact assessment process.
- Establishing a Cabinet Office led oversight of rural proofing across government.
- Creating an online rural data and evidence hub for rural proofing practitioners to use when developing policies and programmes.
- Rolling out a training package for departments, including advice on better use of the Government's urban/rural classification.
- Creating a new 'rural ambassador' role operating across government departments.
- Having ministers representing rural issues on cross government implementation task forces on identified priority issues such as housing, broadband and childcare.

A nation better protected against floods, animal and plant diseases and other hazards, with strong response and recovery capabilities

Defra has a critical role in providing the UK with security against a range of natural threats and hazards, including floods and coastal erosion, droughts, animal and plant pests and diseases, and invasive non-native species (e.g. Japanese knotweed). In fulfilling this role, the Department will better align risks and incentives to share responsibility between government and others.

A key part of this role involves coordinating and managing the Government's central response to major emergencies involving flooding, animal or plant disease outbreaks, and other areas where Defra is the lead government department.

By the end of March over 54,000 households were better protected as a result of the Department's investment in flood defences. Process improvements for responding to flooding were implemented, including a single emergency room for Defra and the Environment Agency (EA). Regulations were laid to ensure affordable and available flood insurance for domestic properties in areas of flood risk, meaning that from 4 April 2016 insurers were able to offer flood insurance using the Flood Re scheme.

[7] LEADER is part of the Rural Development Programme for England. It is a French acronym which roughly translates as 'Liaison among Actors in Rural Economic Development'.
[8] https://www.gov.uk/government/publications/rural-proofing-government-response-to-lord-camerons-review

Defra and EA responded swiftly and effectively to the unprecedented rainfall and consequent major flooding in December 2015. The Department contributed to over £200m of government funding to help those affected by the floods, and support the recovery and repair of affected communities. Defra and EA have been working closely with Cabinet Office on the National Flood Resilience Review, which will report shortly.

Through the Thames Estuary Asset Management 2100 project (part of the GMPP), CH2M have been contracted to deliver a 10-year programme of capital flood risk management works for London and the Thames Estuary. The programme is now in the delivery phase and is acting as a pilot within EA for a different way of delivering large capital projects with significant efficiency gains.

Fulfilling a manifesto commitment on animal welfare, the Welfare of Animals at Time of Killing Regulations (WATOK) in England came into force in November 2015.

Defra helps businesses and individuals to be better protected against animal and plant pests and diseases. This includes action taken to eradicate bovine tuberculosis (bTB) in England. Cattle measures have been strengthened and biosecurity promoted on farm and when trading, with a joint government/industry bTB biosecurity communications campaign launched in November 2015.

Effective licensed badger control in three areas where bTB is rife (Somerset, Gloucestershire and Dorset) was successfully completed for the year by October 2015. As part of the strategy, ministers announced in December 2015 that the Government wants to see badger control over a wider number of areas from 2016 in line with the Chief Veterinary Officer's advice.

Defra SDP Indicators

Defra will measure the following:

Flooding: Progress against the target of 300,000 homes being better protected (i.e. moving into a lower category of risk) from flooding and coastal erosion by 2021. 54,469 more households were better protected in 2015–16. 93 flood and coastal erosion defence schemes were completed and construction started in a further 91.

bTB: The proportion of cattle herds in England which are not experiencing an incident of bTB. 93.7 percent of herds in England were officially bTB free at the end of March 2016.

Adapting to Climate Change

The Department has continued to:

- Lead across government on climate change adaptation, taking action to ensure that relevant policies account for the risks of climate change and are robust to changing weather, extreme events and sea level rise.
- Implement its own actions, and drive the implementation of others, in the National Adaptation Programme (NAP), working with other departments, local government and other non-governmental, business, charitable and voluntary sector partners.
- Support voluntary reporting on preparedness for climate change and extreme weather by large infrastructure operators and public organisations including some of Defra's own delivery bodies.
- Assess the risks to the UK of a changing climate, sponsoring the preparation by the Committee on Climate Change Adaptation Sub-Committee (ASC) of a synthesis of available evidence to underpin the Government's second statutory Climate Change Risk Assessment due in January 2017.
- Co-fund (with DECC) the Met Office Hadley Centre Climate Programme, providing up to date, robust and traceable scientific advice to HM Government on climate variability and climate change.

Defra has published formal responses on behalf of Government to the Environmental Audit Committee's 2015 adaptation inquiry report and the ASC's first statutory report to Parliament on the implementation of the NAP.

Excellent delivery on time and to budget and with outstanding value for money

A summary of the Departmental budget is described in the Performance Analysis section in Chapter 3.

Defra delivers a wide and diverse set of services to businesses and the public. This includes administering over £2bn of EU payments each year to support farmers and the rural economy.

Defra issues around 67,000 animal export certificates and 12,000 plant export certificates each year. This enables British businesses to sell their produce internationally whilst controlling animal and plant disease.

Defra contributes to decisions on over 30,000 planning applications each year, so that Britain can keep building the infrastructure and housing we need, whilst reducing environmental risks including flooding and coastal erosion.

Sound public finances are vital to our economic security and Defra is planning to save money for the taxpayer and for business by progressively simplifying licences and other transactions. The Department is doing this by designing services around the needs of users, making full use of digital technologies and rationalising the underlying IT.

During the last parliament, Defra made the single largest contribution to the previous government's Red Tape Challenge. Building on this success, Defra is developing a portfolio of projects to support the government's £10bn target for reducing regulation. The Defra group aims to save businesses £470m over this parliament.

Defra SDP Indicators

Defra will measure the following:

Common Agricultural Policy (CAP): Percentage of CAP Basic Payment Scheme (BPS) payments made by December and January each year (pending any review of the government's approach to agricultural payments). 76.7 percent of all claims were paid by the end of January 2016.

Exports: Percentage of export health certificates/licences issued within agreed service standards. 99.1 percent of export health certificates were issued on time as of March 2016.

Planning: Performance against target of responding to 95 percent of planning application consultations from local authorities within 21 days, or agreed deadlines. 94 percent of responses were made on time as of March 2015.

Reducing regulatory burdens: Defra will publish a report of its progress in reducing regulatory burdens to business in summer 2016. This will include as indicators of performance:

- Net annual savings to business, based (where relevant) on impact assessments independently verified by the Regulatory Policy Committee.
- Number of regulations improved or abolished as well as the overall net reduction in the number of individual pieces of legislation.

CAP Delivery

CAP delivery is currently part of the GMPP. The primary objective of the programme is to procure a solution for the application processing, payment and accounting of claims for funding from all schemes.

In 2015, the first year of the BPS, RPA paid 33,376 claims on the first day of December, the opening of the payment window, and by the end of the month 50.9 percent of claims were paid, totalling over £424m. By the end of March 2016, the totals had increased to 84.8 percent and £1.2bn, reflecting a significant increase in performance. Bridging payments were made to those claimants that did not receive their BPS payments before the end of April 2016. Hardship payments to the value of £4.7m were made to 344 claimants who required immediate assistance, prior to the receipt of their full BPS claim being paid.

During 2015–16, RPA made BPS 2015 payments net of certain system calculated reductions. RPA will assess the validity of these reductions as part of the planned reconciliation process commencing in the summer of 2016. A provision for this additional expenditure of £25.3m has been recorded in the accounts, along with corresponding accrued income to be reimbursed by the European Commission.

Following the launch of the new Countryside Stewardship scheme in July 2015, around 3,000 applications were received resulting in 413 Higher Tier agreements (covering the most environmentally significant sites, commons and woodlands) and 1,894 Mid-Tier agreements (offering environmental improvements in the wider countryside) starting on 1 January 2016.

Defra is committed to making timely, accurate payments to farmers and minimising disallowance. We have developed a Disallowance Strategy to proactively identify and, where cost effective, mitigate current and future disallowance risks. This includes investment to improve Defra's mapping data, which is historically the biggest disallowance risk.

Information and Communications Technology (ICT)

UnITy (part of the GMPP) is a programme that has been established to exploit the opportunity presented from the expiry, within the next two years, of Defra's two largest ICT contracts. The aim is to develop a common ICT operating model and work was undertaken to provide an updated business case for HM Treasury and Cabinet Office approval. Programme objectives include reduced running costs for in scope ICT services; compliance with government and Defra ICT policies; and improvement and standardisation of services. It is a key enabler of wider transformation and business change in Defra.

An organisation continually striving to be the best, focused on outcomes and constantly challenging itself

To develop the Target Operating Model (see Transformational Change section in Chapter 1) the Department has had to reassess how it currently operates. At the core of this analysis was gaining a deeper understanding of the needs of customers and the future activities of the group to deliver its outcomes. This has enabled us to build a detailed and comprehensive understanding of Defra's activities and customer interactions at group level and identify opportunities to modernise the way the Department operates. The result will be a more modern and open department that serves its customers and deliver its outcomes in the most efficient way possible with the resource available.

In addition Defra has continued to work with the Cabinet Office, HM Treasury and OGDs to deliver transformational change in key areas, including:

- Developing digital solutions that meet common standards set by the Government Digital Service and utilise cross-government platforms such as gov.uk Verify, gov.uk Pay or gov.uk Notify as part of departmental digital services wherever this demonstrates the best value for money solution for government.

- Rationalising Defra's estate in a joined-up way, looking to develop 'government hubs' with other government departments, releasing land for housing where possible and participating in the development of the new commercial property model.

- Delivering savings in commercial relationships including through spend on common goods and services, delivered in partnership with Crown Commercial Services. Continuing to build commercial capability and working with Crown Commercial Services to deliver the government's 33 percent commitment of spend with SMEs by 2020.

- Working in partnership with: the Cabinet Office to deliver arms-length body transformation plans; IPA on major projects programmes and prioritisation; and reducing losses through fraud and error alongside developing a debt management strategy.

An inclusive, professional workforce where leaders recognise the contribution of people, and build capability to deliver better outcomes

See People and Culture section in Chapter 5.

Chapter 3 – Performance Analysis

Financial Summary

The Statement of Parliamentary Supply shows that Defra's total voted funding for the 2015–16 financial year was £2,845m. This consisted of £2,375m in Departmental Expenditure Limits (DEL), £460m in Annually Managed Expenditure (AME) and £10m outside of the Department's budgetary boundary.

DEL is the budget total, issued by HM Treasury on behalf of Parliament, that Defra uses to fund its strategic objectives, including an allowance for the consumption of assets over time (depreciation). Budgets within these totals are issued to business units across the Defra group to fund ministerial outcomes.

Defra's Resource DEL Budget includes the administrative costs of running the Core Department and its delivery bodies and programme spend on operational services including waste, animal disease, health and welfare, natural environment and floods. Defra's gross spending in the economy is twice the size that its DEL Budget would suggest mainly because it includes payments made, mainly to farmers, in respect of Common Agricultural Policy (CAP) and rural development schemes, for which income is received from the European Commission (EC).

Defra receives income of £2.3bn from the EC, mainly in relation to the CAP of which £633m is paid to the devolved administrations. Other sources of income include grant income, fees, levies and licences payable to some of Defra's delivery bodies. Further information can be found in Note 5 along with the relevant delivery bodies' accounts.

Defra's Resource AME Budget is mainly for movements in provisions, including for CAP disallowance, Environment Agency (EA) pension funds, and some impairments. The levy funded bodies are also included within AME.

Defra's Capital Budget covers the Core Department and its delivery bodies and includes expenditure on non-current assets net of sales, and the payment of capital grants.

The final area of Defra funding, called Non-Budget, is used to account for expenditure and income relating to CAP payments on behalf of the devolved administrations and Prior Period Adjustments.

Financial Management

The Department has delivered the savings and reforms set out in the 2010 and 2013 Spending Reviews.

The Resource DEL Outturn has continued to decrease in 2015–16 and is £130m lower than 2014–15 mainly due to an £83m in year cut along with efficiencies from the Spending Review 2010 being made. The Resource AME Outturn is significantly higher in 2015–16 than previous years, which is predominantly due to the increase in the Metal Mines and Foot and Mouth Disease provisions, following a decrease in the discount rate used for valuing provisions as per HM Treasury guidelines.

Capital DEL has increased since 2013–14 reflecting additional investment in flood management. Whilst 2015–16 shows lower expenditure than 2014–15, this is due to the majority of additional funding announced in the 2012 Autumn Budget Statement and the 2014 Budget being allocated to the 2014–15 financial year.

Continuous improvements in financial management contributed to an Outturn of around 99 percent of the non-ring-fenced Resource DEL Budget. In addition to this, the Department was also able to achieve the following.

- Manage an in year cut of £83m, as announced in the June 2015 budget, to Defra's Resource DEL budget through strong financial management.

- Following the winter floods in 2015–16, urgent work was required within EA to repair damaged defences and keep homes protected.

- Defra supported the rural economy with £1,247m (of which £25m has been included in the provision figure) in CAP Basic Payment Scheme (BPS) expenditure in England, plus £406m from the EC for rural development schemes, along with a further £65m from Exchequer funding for rural development.

- The Department successfully mitigated the foreign exchange risks associated with the operation of the EC schemes by entering into a hedging contract for the euro amount of the EU funding.

- The Department spent 98 percent of its Capital DEL Budget. This was achieved by rigorous prioritisation of investment, largely in vital infrastructure projects to protect communities at risk of flood and coastal erosion.

The Capital Budget has contributed to essential maintenance of Defra's estate, improvement to science laboratories and Information and Communications Technology related business change programmes.

Outturn Against Control Totals

The Department's final Outturn against the budgets within its control was £2,306m in DEL and £391m in AME. This equates to an underspend in the Department's key Resource DEL control total of £8m, equivalent to 0.4 percent, after taking account of ring-fenced underspends for disallowance (£34m) and depreciation (£18m). There was also a £9m underspend against Capital DEL.

The underspend of £69m against AME budgets was due to the following items.

- £23m of this relates to disallowance where lower than expected provisions were required in year.

- £24m underspend against property impairments.

- £10m underspend relating to lower than anticipated impairment of flood defence assets following storms Desmond and Eva.

- The remaining variance of £12m represented various movements in other provisions.

The underspend of £10m against Non-Budget, expenditure outside of the Department's budgetary boundary, primarily reflected an underspend against the EC funded schemes in the devolved administrations, due to small exchange rate gains this year.

Net Cash Requirement (NCR)

Defra's Outturn against its Estimate for the 2015–16 NCR is an underspend of £897m. This represents the closing bank balances for the Core Department and its executive agencies. For reasons explained below, a prudent estimate has to be taken when calculating the NCR to mitigate the risk of any of these entities going overdrawn. Although the unspent balance was significant this year, the majority is still held within the Government Banking Service, therefore ensuring good value for the Exchequer as a whole and ensuring the Debt Management Office has access to the funds.

The variance is due to the following.

- £484m underspend, held within the Rural Payments Agency (RPA) and the Core Department, mainly relating to uncertainties with forecasting payments under BPS. 2015 was the first year for payments under BPS (the replacement for the Single Payment Scheme (SPS)). This necessitated the development of operational systems in each of the UK paying agencies to administer the claims and assign payment values in time for the payment window to open on 1 December 2015. Difficulties were experienced across all paying agencies when developing the claim systems, resulting in generally reduced levels of payments when compared to SPS. Accurate forecasting of outturns proved difficult, but as each paying agency sought to deliver payments to customers, funding was secured in January 2016, via the Supplementary Estimate, to meet a requirement which was not ultimately reached. Funds had to be available to deliver the scheme, and the prudent action was to draw down funds to meet the highest possible demand. Residual funds continue to be spent in 2016–17.

- £199m underspend in the RPA's euro account. This primarily relates to advances held for the Rural Development Programme for England scheme, which are retained to mitigate foreign exchange exposure on repayment, as per the Hedging Committee decision. In addition to this, there is a euro balance relating to BPS payments. Euros were purchased in November 2015 for euro denominated payments, mainly for the Scottish Government, but these were not all used due to reduced levels of payments.

- £159m underspend due to uncertainty around the timing of the EC receipt that was due from the European Agricultural Fund for Rural Development at the end of March 2016. In previous years, Defra experienced staged payments which led to concerns over the payment due in March 2016. A prudent approach had to be taken to mitigate the risk of this receipt slipping into April. The full receipt was received prior to the end of March 2016.

- £55m underspend against the other executive agencies, which includes the Forestry Commission.

Consolidated Statement of Financial Position

Over the 2015–16 financial year, Defra's total assets less liabilities increased by £380m.

- Non-current assets increased by a net £182m over the year, with a number of new additions and revaluations across the network (including flood defences, plant and machinery and Royal Botanic Garden Kew's heritage assets). This was partially offset by total depreciation and amortisation charged in year on non-current assets. The main increase was caused by revaluing the infrastructure assets. We have also increased our investments by investing in Eco Business Fund as part of our commitment to the International Climate Fund.

- Current assets increased by £1.127bn due to an increase in cash balances of £751m mainly relating to slower processing of EC following the new CAP scheme, and an increase in trade and other receivables of £404m, where accrued income relating to EU funding is £459m higher because of expected reimbursement from the EC for the European Agricultural Fund for Rural Development schemes.

- Current liabilities (i.e. liabilities due in less than 1 year) increased by £938m. Trade and other payables increased by £849m, mainly due to an increase in the Consolidated Fund received but not yet spent in year.

- Non-current liabilities (i.e. liabilities due in more than 1 year) decreased by £9m, with the main movement being a £333m decrease in the long term net pension liability. This is offset by an increase in long term provisions of £278m mainly relating to Metal Mines and Foot and Mouth Disease sites. These are due to the changes in discount factors advised by HM Treasury.

Other Information

CAP Disallowance

Along with every other Member State, the UK incurs disallowance as a result of financial corrections applied by the EC where they take the view that EC regulations for payments funded through European schemes, including the CAP, have not been applied correctly. The financial correction typically materialises as a deduction by the EC from a UK claim for reimbursement under European schemes – in essence, a penalty. Defra only accounts for disallowance relating to England, the Devolved Administrations account for disallowance relating to their regions.

Disallowance is accounted for in Defra's accounts in three stages.

- Stage 1: Money is initially set aside for disallowance (via a provision) when there is sufficient evidence, following an EC audit, that a penalty is likely, but not certain, to be incurred in a future accounting period. These amounts are held on the Statement of Financial Position (SoFP) as current liabilities (provisions).

- Stage 2: Disallowance penalties are confirmed in the accounts (via an accrual) when the proposed disallowance has been formally communicated to the Department by the EC and will not be contested. These amounts, typically unwinding a previous provision, are held on the SoFP as current liabilities (accruals). Both Stage 1 and Stage 2 transactions result in charges to Resource (either AME or DEL), and are therefore charged to the Statement of Comprehensive Net Expenditure (SoCNE), as shown in the following table 'Charges to the SoCNE for CAP Disallowance'.

- Stage 3: Disallowance penalties are finally transacted when the EC decides to deduct the owed amount from a claim for reimbursement under European schemes made by the UK, typically some time after the penalty has been confirmed (and therefore accrued). Stage 3 payments are accounted for purely through the SoFP, exchanging a current liability for a current asset and so are not shown on the SoCNE.

The creation of an accrual at stage 2 may be skipped, and occasionally transactions can move from provision to payment within the same financial year. These transactions would still impact on the DEL budget and pass through the SoCNE. The balances from the SoFP for EC Disallowance table shows the accumulation over time of Stage 1, 2 and 3 transactions in Defra's accounts.

Charges to the SoCNE for CAP Disallowance

	2015–16		
£m	**DEL**	**AME**	**Total**
Stage 1: Allowance created in year for anticipated liabilities due in over 12 months' time (provisions)	-	17	17
Stage 2: Provisions unwound in year for liabilities expected to materialise within 12 months (accruals)	64	(64)	-
Stage 2: New accruals where no previous provision existed[1]	2	-	2
Gross charge	**66**	**(47)**	**19**
Write back in previous accrual/provision (credit)[1]	-	-	-
Net charge	**66**	**(47)**	**19**

During 2015–16 Defra made gross charges to the SoCNE of £19m (2014–15, £80m). New provisions were required for 2015–16 relating to the Fruit and Vegetable Trader Schemes for 2012–15, Rural Development Axis 1 and 3 along with a small amount for debt management.

Balances from the SoFP for CAP Disallowance

£m	Total as at 31 March 2016	2015–16	2014–15	2013–14	Up to 2012–13
Stage 1: Provisions outstanding at year end on SoFP[2]	**18**	18	65	84	133
Stage 2: Accruals outstanding at year end on SoFP[3]	**139**	139	167	89	165
Stage 3: Cash payments made to EC	**504**	94	3	105	302
Cumulative total for disallowance as at 31 March 2016	**661**				

1. Note 4, EU disallowance.
2. Note 15, CAP disallowance closing balance at 31 March.
3. Note 14, as part of the Core Department and agencies accruals and deferred income £677m (2014–15, restated £613m).

Defra's accounts have included cumulative transactions for disallowance penalties totalling £661m in relation to CAP schemes since 2005. Of this total, £504m has been paid to the EC over time (Stage 3), £139m remains accrued for future liabilities and is awaiting deduction by the EC (Stage 2), and £18m remains in provisions for possible future deductions pending resolution of confirmed liability. There is currently no provision for disallowance relating to EC audits not yet completed in respect of legacy schemes or for the new CAP scheme and this will be accounted for going forward once audits have taken place and reliable estimates are available. Until an estimate can be made, an unquantified remote contingent liability is disclosed within the accountability section.

Investment Management Strategy

Assets that are no longer required for the Department's activities are sold in accordance with the principles of HM Treasury's *Managing Public Money*.

Clare Moriarty 12 July 2016

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

Accountability Report

Chapter 4 – Corporate Governance

Directors Report

Our Ministers and Senior Officials

Details of Defra's ministers and senior officials can be found in Chapter 1.

Pension Liabilities

Details of pension liabilities can be found in Note 16 to the accounts.

Conflicts of Interest

Details of procedures in relation to conflicts of interest can be found in the Governance Statement.

Charities Act

Section 70 of the Charities Act sets out a power for ministers to give financial assistance to charitable, benevolent or philanthropic institutions. Defra and its delivery bodies are required to report to Parliament annually any financial assistance given to any charitable institution under the Charities Act. For 2015–16 no such payments were made by Defra or its delivery bodies (2014–15, £Nil).

Personal Data Related Incidents

The Defra Security and Information Assurance Group[9] works to identify and address information risks, and to promote good and consistent practice. The Defra group monitors the use of removable media devices on Defra laptop computers to protect information. Web blocking and monitoring is in place to block access to undesirable and potentially harmful sites. The Defra group regularly tests the robustness of the Information and Communications Technology Network and annually conducts a code of compliance exercise enabling Defra's continued connection to the Public Services Network. All employees are required to read and accept the Personal Commitment Statement, which details how to comply with Defra's Security and Information Assurance policies. Defra's approach recognises that the vast majority of information handled by the Department is not classified or sensitive, and that information is held in a number of different systems across the network. Defra complies with Her Majesty's Government information assurance standards and the requirements of the Security Policy Framework.

All government departments are required to publish information about any serious data related incidents, which have to be reported to the Information Commissioner. There were no protected personal data related incidents formally reported to the Information Commissioner's Office in 2015–16.

Incidents recorded centrally within the Department that were deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office are set out in the following table. Small, localised incidents are not recorded centrally. The following table includes the Core Department, executive agencies, non-departmental public bodies (NDPBs) and the Forestry Commission (FC).

[9] The Defra Security and Information Assurance Group includes the Core Department, Rural Payments Agency (RPA), Environment Agency (EA), Marine Management Organisation (MMO), Natural England (NE), Animal and Plant Health Agency (APHA), Centre for Environment, Fisheries and Aquaculture Science (Cefas), and Veterinary Medicines Directorate (VMD).

Summary of Other Protected Personal Data Related Incidents in 2015–16		
Category	**Nature of Incident**	**Total**
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	1
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	20
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-
IV	Unauthorised disclosure	9
V	Other	3

Employee Health and Safety

A total of 1,338 Accident Reports were received by health and safety teams across the Defra group for the period of 1 April 2015 to 31 March 2016.

RIDDORS[10] and Lost Time Incidents[11] are lower across the Defra group when compared with the same time period for 2014–15.

The most common cause of all RIDDOR and lost time incidents was slips, trips and falls followed by carrying/lifting and poor posture. At organisational level, steps are taken to address common causes to prevent further accidents. This includes local and group level campaigns and review of control measures and protective clothing and equipment.

	FTE	RIDDORs Reported to the HSE	Lost Time Accidents/ Injuries	Minor Accidents/ Injuries	Total Accidents	*Total Accident/ Incident Rate*[12]	Near Miss/ Concerns Reported
Defra	1,827	-	-	19	**19**	*10.40*	22
APHA	2,164	3	3	124	**130**	*60.07*	442
Cefas	512	1	-	27	**28**	*54.69*	219
RPA	1,882	2	12	113	**127**	*67.48*	28
VMD	153	-	-	3	**3**	*19.61*	-
EA	10,270	8	31	670	**709**	*69.04*	4432
NE	1,976	9	4	98	**111**	*56.17*	177
MMO	278	-	-	15	**15**	*53.96*	2
Kew	917	6	5	53	**64**	*69.79*	39
CCW	67	-	-	3	**3**	*44.78*	-
FC	1,145	7	78	10	**95**	*82.97*	806
NFC	18	-	-	1	**1**	*55.56*	-
SFIA	80	-	-	5	**5**	*62.50*	1
AHDB	504	1	-	22	**23**	*45.63*	13
JNCC	174	-	-	5	**5**	*28.74*	10
TOTAL	**21,967**	**37**	**133**	**1,168**	**1,338**	***60.91***	**6,191**

Employees are also encouraged to proactively report all 'near miss'[13] incidents and safety concerns. Investigating near misses enables lessons to be learned, shared and applied to prevent more serious incidents (possibly resulting in injury or ill health) occurring in the future.

[10] Incidents reportable to the Health and Safety Executive under the 'Reporting of Injuries Diseases and Dangerous Occurrences Regulations' (RIDDOR)
[11] Injuries/ill health which are not RIDDOR reportable but resulted in between one and seven days absence
[12] AIR = Number of accidents per 1000 employees (Total Accidents / FTE x 1000) means number of accidents per 1000 employees
[13] Incidents defined as uncontrolled hazards, unsafe acts etc. resulting in no injury

Across the group, on average, one in every four employees reported a near miss or hazard during the reporting period reflecting a positive reporting culture overall.

No Crown Improvement, Prohibition or Censure Notices were served on Defra bodies during the reporting period. The incident reported in 2014–15 has been resolved.

Employee Wellbeing

The Defra Wellbeing Programme promotes a joint approach to maximise the benefit and coverage to Defra's employees while allowing organisations to adapt health and wellbeing activities to their specific needs and organisational risks.

Campaigns are aligned to national and civil service themes with initiatives such as workshops, blogs and site events offered to raise engagement and awareness of wellbeing topics. The Defra group Wellbeing Network (with members from 12 Defra organisations) meets regularly and a health kiosk tour offering an electronic health check covered 16 Defra locations in 2015.

Complaints to the Parliamentary and Health Service Ombudsman (PHSO)

Complaints are received and dealt with at three levels within the Core Department.

- Level one – at the point where the problem occurred.
- Level two – at a senior level within the relevant business unit.
- Level three – by the Defra Service Standards Complaints Adjudicator.

Most complaints are resolved at levels one and two. Complainants who remain dissatisfied after level three can take their complaint to the PHSO. Of the investigations carried out by PHSO for the Defra group in 2015–16, 17 were either upheld or partially upheld. From these, eight cases involved payments ranging from £5,000 up to £42,000 and were centred on payments made under a scheme and the processes followed and communications used. The remaining nine cases involved small consolatory payments and were generally related to the handling and granting of applications and licences.

Defra's complaints procedure can be found online[14]. Each part of Defra's group has its own complaints procedures which can be viewed on its website.

Learning from complaints is a key priority for all of the Defra group. The Defra group is sharing information on ways of working and lessons learnt and working with PHSO to improve complaints handling.

Between April 2015 and March 2016, 11 complaints were accepted for investigation by the PHSO relating to the Defra group. Please see the breakdown below.

[14] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/complaints-procedure

Complaints about the Defra group between 1 April 2015 and 31 March 2016						
Body	**Complaints accepted for investigation**	**Investigations upheld**	**Investigation partly upheld**	**Investigations not upheld**	**Number of Ombudsman recommendations complied with**	**Number of Ombudsman recommendations not complied with**
Defra	1	-	-	-	-	-
APHA	1	-	-	-	-	-
RPA	3	6	7	4	13	-
EA	3	-	3	5	2	-
MMO	1	-	-	-	-	-
FC	2	-	1	1	1	-
Total	**11**	**6**	**11**	**10**	**16**	**-**

These figures are a snapshot of complaints with PHSO between April 2015 and March 2016. Not all complaints accepted for investigation in that period will be resolved in the same period and some cases resolved will have been accepted for investigation in the previous year.

Research and Development

In 2015–16 the Core Department and agencies spent £49m on research and development, and an additional £33m was directly commissioned by the other bodies.

Departmental investment maintained a balanced portfolio of evidence for policy, aligned to ministerial priorities. Its analysis and research directly informed policy delivery and operations, supporting effective outcomes from policies.

Defra continues to operate in line with the Evidence Strategy published in June 2014[15]. This strategy covers Defra and its delivery bodies. It sets out the Department's evidence priorities and the scope of co-operation within the network and with external providers to maximise access to evidence.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (GRAA), HM Treasury has directed the Department for Environment, Food and Rural Affairs to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the Department (inclusive of its executive agencies) and its sponsored NDPBs designated by order made under the GRAA by Statutory Instrument 2015 no. 632 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 21 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource Outturn, application of resources, changes in taxpayers' equity and cash flows of the Departmental Group for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by NDPBs;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and

[15] https://www.gov.uk/government/publications/evidence-strategy-for-defra-and-its-network

- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department for Environment, Food and Rural Affairs. In addition, HM Treasury has appointed an additional Accounting Officer to be accountable for those parts of the Department's accounts relating to the Forestry Commission. Flood Re, a new public body that became fully operative from April 2016, but had set-up costs from November 2015, has an independently appointed Chief Executive who acts as Senior Responsible Officer (SRO) with Accounting Officer responsibilities for the body. Flood Re's SRO is directly accountable to Parliament for its income and expenditure. However, because its accounts consolidate into the Core Department's, Flood Re must provide assurance to Defra's Accounting Officer through its independent auditors that they represent a 'true and fair view' and comply with propriety and regularity expectations as contained in Managing Public Money. These appointments do not detract from the Head of Department's overall responsibility as Accounting Officer for the Department's accounts.

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

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

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

The Accounting Officer is required to confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and that she takes personal responsibility for the Annual Report and Accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance Statement

This statement evaluates the effectiveness of the Department's governance arrangements, risk management, and the system of internal control for 2015–16. Defra's executive agencies and NDPBs publish their own governance statements, so this report contains information material to the Departmental Group as a whole. Overall, the governance structures and processes, risk management and internal controls within the Defra group including the delivery bodies sponsored by the Department comply with HM Treasury guidelines and were effective during 2015–16, as confirmed by assurance and audit findings cited in this Governance Statement.

Internal Audit Opinion

Our Group Chief Internal Auditor has confirmed in his Assurance Opinion for 2015–16, that he is able to provide moderate assurance that the Defra group including the delivery bodies sponsored by the Department had adequate and effective risk management, control and governance processes in operation in respect of the year ending 31 March 2016. There was one notable scope limitation relating to the shared services (SSCL) where assurance had been provided on the transactions processing, but no opinion given on the wider governance, risk management and control of the management oversight of SSCL from the Cabinet Office. His Assurance Opinion for the Common Agricultural Policy Delivery (CAPD) programme is also moderate overall.

Governance Arrangements

Governance Structures

The Department's governance structures are described in detail in Chapter 1. Board membership changes in 2015–16 include the appointment of two new ministers following the May 2015 General Election and the appointment of Clare Moriarty in August 2015 as Permanent Secretary, in succession to Bronwyn Hill. Two non-executive directors (NEDs) (described as Non-Executive Board Members in the Corporate Governance Code) were appointed to replace retiring members, and two ex officio members, the Chair of Natural England (NE) and Chair of the Environment Agency (EA), were invited to join the Board to support more integrated working across the Defra group. The ex officio appointments are for the duration of their tenure as Chair of NE and EA. There have been changes to the executive membership of the Board; from November 2015 onwards the Board Executives are the Permanent Secretary, Director General Chief Operating Officer and Chief Finance Officer.

The Defra Board met three times during 2015–16. Members attended all meetings with the following exceptions: Elizabeth Truss, Secretary of State, September 2015; George Eustice, Minister of State for Farming, Food and the Marine Environment, September 2015; Rory Stewart, Parliamentary Under-Secretary of State, September 2015 and January 2016; Lord Gardiner, Defra Spokesperson in the Lords, September 2015 and March 2016; Betsy Bassis, Director General, Chief Operating Officer January 2016; Mark McLaughlin, Chief Finance Officer, March 2016; Emma Howard Boyd, ex officio member, Acting Chair of the EA, January 2016; Tony Hawkhead, NED, September 2015; Catherine Doran, NED, January 2016, and Peter Bonfield, NED, March 2016.

The Board has three subcommittees, the Audit and Risk Committee (ARC), the Nominations Committee and from February 2016 the Non-Executive and Executive Meeting (NEEM). During 2015–16 the ARC's work included scrutiny of the Department's Annual Report and Accounts; internal and external audit arrangements and results; and the Department's risk assurance processes and selected specific strategic risks. In 2015–16 the Nominations Committee considered senior appointments, the Defra Senior Civil Service pay award, review of talent management and succession planning for NEDs and senior civil servants. The NEEM discussed the experience of managing the December 2015 floods, the transformation programme and Defra group performance reporting.

In October 2015, the Network Executive Committee became the Executive Committee (ExCo) and moved to weekly meetings, chaired by the Permanent Secretary. Four CEOs representing the largest organisations within the Defra group continued as members and the Group Strategy Director joined as a member. Since then, it has been providing collective leadership across the group, steering the transformation work and considering key business cases. ExCo has invested significant time in team development, and in testing and challenging the transformation programme over the year, with support from the Organisation Design and Development Expert Service.

Quality of Information Used by the Board

A performance report is normally provided to the Defra Board meetings, comprising the Permanent Secretary's report, a performance summary reporting against the business plan and most recently the Single Departmental Plan (SDP), and group financial reports. The information is under review as part of developing integrated performance reporting arrangements for the SDP. The majority of the performance information in the reports is derived from organisational reports, which are quality assured through mechanisms within each contributing organisation. The Department is putting in place an extra layer of assurance as part of its performance framework with the development of common definitions for each dataset. These set out accountabilities, sign off arrangements, data standards, targets, thresholds and tolerances where appropriate.

The Performance of the Board

This has been a year of change for the Defra Board with two new NEDs, the inclusion of two ex officio members, and a number of changes to the ministerial and executive members. In this context, the Board effectiveness review recognised that the Board had made limited progress against the agreed action plan from 2015 due to the level of change. However, although it is judged too early to conclude on the successes of the new Board and NEEM meeting arrangements, there are some promising signs. The relationship between the NEDs and the executive directors has matured and deepened, with both team and individual sessions being held regularly. In order to build on the revised Board arrangements, the review proposed actions to determine a clear list of matters reserved for the Board and those that can be delegated; to ensure at least four meetings a year are held with sufficient time to allow adequate discussion; and to build an appropriate forward agenda.

Conflicts of Interest

Defra has in place procedures that follow the requirements of the Corporate Governance Code to handle conflicts of interest for all Board members. Board members are required on appointment to provide details of any interests that could emerge as a conflict of interest. There is a standing agenda item at the start of every Board meeting on declarations of interest. Board papers are not circulated to Board members who have declared a specific conflict of interest and Board members with a specific conflict of interest leave the meeting during discussion of that item. A conflict of interest register is maintained for Board members, and during 2015–16 two conflicts of interest were identified and managed in line with these procedures, relating to the Thames Tideway Tunnel project and to the River Thames Flood Alleviation Scheme (Datchet to Teddington). Beyond the Board, arrangements in this area at operational levels of the Department are developing as part of the transformation of Defra services.

Compliance with Corporate Governance Code

Defra complies with the good practice requirements of the Corporate Governance Code for central government departments, except for one area where non-compliance requires explanation. The Code stipulates that the Nominations Committee should advise on and scrutinise the Department's implementation of corporate governance policy. However, Defra's Board have asked the ARC to take on oversight of governance, as they consider that this is better aligned with the ARC's remit than the Nomination Committee's. It is noted that in a number of areas where the Board is responsible for advising, in particular on the Department's capability to deliver, this has largely been subsumed in their strategic steer on the Department's transformation work.

Delivery Bodies

Clear and effective line management and performance management structures are in place. Each body has its own established governance structures and all bodies produce their own governance statement as part of their Annual Report and Accounts. Group issues are escalated to ExCo and the Board. The delivery bodies' governance statements are supported by the audit report and opinions of the Heads of Internal Audit for each body and by Defra's Group Chief Internal Auditor's Opinion.

Risk Management

Defra's risk profile covers complex environmental systems (e.g. air, waste, soil, water, marine). Some of these risks have a strong emergency response component, where Defra has a lead department role (e.g. flooding and animal or plant disease outbreaks). Many have important elements that are outside the Department's direct control, and therefore rely on Defra's ability to influence decision makers, stakeholders and partners or to handle scientific uncertainty or gaps in evidence. Throughout 2015–16, Defra's risk environment has remained challenging, as the Department and its delivery bodies and partners have had to manage risks with fewer resources and deal with a number of significant environmental risks and events including extensive flooding. Defra's risk profile is a combination of its identified 26 strategic risks and the operational risks identified and managed within the Defra group delivery bodies. These were collated and mapped against Defra's strategic objectives in March 2016 providing a complete risk landscape.

Defra's risk management processes are described in Chapter 1. Whilst there is more to be done in the areas of risk management and governance, there has been a renewed approach to the identification and management of strategic risk at departmental level.

Between April and September 2015, the Defra Risk Panel reviewed planned mitigations for a number of Defra's strategic risks, including where progress was categorised as 'Red'. Since September 2015 ExCo has taken responsibility for reviewing strategic risks pending the development of future arrangements for reviewing and challenging the handling of Defra's top risks as part of the work to define a new operating model for the Defra group. A review of strategic risk management is currently being carried out as part of the wider transformation programme. This will refresh the strategic risks to ensure there is a clear line of sight to operational risks, clarity around risk appetite, agreed criteria for escalation and a common risk language used across the Defra group.

The Department is responsible within Government for four projects that form part of the Government's Major Projects Portfolio: Thames Estuary Asset Management 2100, led by EA; Thames Tideway Tunnel, led by Thames Water Utilities Ltd.; the CAPD Programme, led by Defra; and the Unity Programme (to procure new ICT contracts for the Defra group), led by Defra. ExCo has been responsible for signing off business cases for these projects prior to submission to HM Treasury for approval.

ExCo oversees significant projects and other investment decisions; in this capacity it identified the need to clarify and strengthen arrangements for the scrutiny and approval of business cases with consistent use of HM Treasury's five case model for development of business cases. In addition the Department reinvigorated its process for scrutiny of business cases, convening a group of independent subject matter experts (typically finance, economics, legal, commercial) to review business cases against HM Treasury's Accounting Officer tests (Regularity, Propriety, Value for Money, Affordability and Feasibility) and to provide assurance to inform an investment decision. As part of the work on a new target operating model, consideration is being given to the establishment of an investment approvals panel.

Financial Control and Use of Resources

The effectiveness of Defra's financial controls was tested during the year by the need to ensure that the Department remained within its HM Treasury financial control totals following a 5 percent (£83m) reduction in RDEL announced in the 2015 Budget. The Department acted quickly to identify and implement special measures to reduce expenditure, while protecting frontline delivery of services. To enable delivery of the necessary savings the financial control framework was strengthened and approved by ExCo. Controls included restrictions on budget holders' authority to commit resources and a gateway process to review all uncommitted expenditure.

Flood Re

Flood Re only incurred set-up costs in 2015–16 and did not commence reinsurance business until 4 April 2016. Flood Re is directly accountable to Parliament, with its Chief Executive designated as Responsible Officer. Flood Re has its own governance structure, including an Audit and Compliance Committee. Defra will draw assurance from Flood Re's independently audited accounts. Flood Re's Chief Executive has also received formal training on Managing Public Money and his responsibilities as an Accounting Officer. Defra officials will provide initial help and advice on propriety and regularity issues during the early stages of Flood Re's operations in order to help them build confidence in their understanding of the issues and how compliance is achieved.

Local Government

The Department for Communities and Local Government's Accounting Officer provides the assurance that a core framework is in place requiring local authorities to act with regularity, propriety and value for money. Within this core framework, local authorities are responsible and accountable for the legal use of funds, and every local authority has a responsibility to make arrangements for the proper administration of their financial affairs and to ensure that one of their officers has responsibility for the administration of those affairs. A system of legal duties requires councillors to spend money with regularity and propriety. Local authorities are also required to have an annual external audit, and the certification of authorities' annual accounts by the auditor provides general assurance that the totality of their expenditure is within their legal powers. Local authority auditors also assess whether authorities have used their resources effectively. Whilst Defra grants are provided in recognition of a statutory obligation on local authorities to perform a function or provide a service, the Spending Review process provided Defra an opportunity to comprehensively reassess what it requires of local authorities during the current parliament.

Significant Issues

In accordance with the guidance provided in '*Managing Public Money*', the issues covered below are of significance to the Defra group as a whole or to a major programme, or have a material impact on the accounts, or have been highlighted by auditors.

Disallowance

Disallowance penalties are imposed by the European Commission when it takes the view that EU regulations under the Common Agricultural Policy (CAP) have not been applied correctly. More detailed background on the penalties is set out in Chapter 3.

For 2015–16, the Department has accepted and accrued £65.8m (gross) of disallowance penalties. The Comptroller and Auditor General has qualified his opinion on the regularity of Defra's accounts on the basis that the penalties represent a material loss to the UK Exchequer and fall outside Parliament's intentions in relation to proper administration of European funding.

The Department has developed a new Disallowance Strategy. This strategy reflects the recommendations of the July 2015 NAO report on 'Managing Disallowance Risk'. It is also a response to changes introduced by the European Commission to the way that disallowance is calculated, which increases the risk from historic control weaknesses that disallowance penalties for Single Payment Scheme/Basic Payment Scheme (SPS/BPS), will significantly exceed the rate that the Department has controlled disallowance at in recent years. Under the strategy the Department will continue to address historic disallowance, as well as proactively identify and, where cost effective, mitigate current and future disallowance risks. This will be done by improving the design of schemes, processes, systems and data quality. The strategy includes investment to improve Defra's mapping data, which is historically the biggest disallowance risk.

CAP Delivery Programme

Implementation of new CAP schemes started in 2014–15 and their introduction is being taken forward by the CAPD programme. Deficiencies in the governance of the programme were highlighted by the Defra Group Chief Internal Auditor and by the National Audit Office and the Public Accounts Committee (PAC) in their reports published during 2015–16[16]. The appointment in May 2015 of the CEO of the Rural Payments Agency (RPA) as the Senior Responsible Owner (SRO), with overall responsibility for delivery of the programme and for management of the budget, has clarified accountabilities and strengthened the governance, and helped to address the weaknesses identified by auditors. Defra continues to work to implement the wider

[16] http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/642/642.pdf
https://www.nao.org.uk/wp-content/uploads/2015/11/Early-review-of-the-Common-Agricultural-Policy-Delivery-Programme.pdf

recommendations made by the PAC and the formal responses to these recommendations were published on 28 April 2016[17].

There have been a number of challenges to the delivery of the new CAPD programme. A decision was taken in March 2015 to switch from online applications by farmers for the new BPS to the use of established forms and processes to complete their claims (an assisted digital approach). The decision was taken by Defra and RPA working closely together because there were performance problems with the new online interface, in particular in relation to checking and amending land details, and doubts about whether these issues could be resolved in time for the EU claims deadline in May. The European Commission subsequently offered Member States some flexibility by extending the deadline for claims to 15 June 2016. RPA was fully resourced to support farmers and input farmers' claims onto the system and was able to make payments to farmers from the start of the EU payment window in December 2015. Similar arrangements were adopted for applications for the new Countryside Stewardship scheme. The decision to switch to paper claims, in the first year of the new scheme, mitigated the impact of delays in IT system development but many farmers did receive payments later than in 2014. By the end of April 2016 RPA had made bridging payments to those who had not yet received a claim payment, while they continued to process their claims. In parallel, RPA have been working to improve their service and over 80 percent of BPS 2016 claims were submitted online. RPA have also commenced a reconciliation of 2015 BPS payments to review and test their accuracy. At the point of signing Defra's Annual Report and Accounts, RPA had not completed the provision of adequate evidence to confirm that the BPS payments are complete and accurate in order to support the finalising of RPA's Annual Report and Accounts. However, a provision of £25.3m has been made and further details can be found in Note 15.4.

The total cost of the CAPD programme to date has been £151m. As a result of the switch to the assisted digital approach in 2015, £7.4m of these costs have been impaired.

Facilities Management

Facilities Management services are provided by a third party contractor. The Department, all four executive agencies and NE are now into the seventh year of a 15-year contract. EA has just finalised a further two year extension to its own separate contract which will now end in March 2018, after beginning in 2013.

Although improvements are being made, the Department continues to carry risk particularly at specialist facilities including at the Animal and Plant Health Agency's (APHA) Weybridge site. Many issues are long-standing, in some cases reflecting underinvestment in aging facilities. Other issues are more recent in origin and have been managed in 2015–16 through Remediation Plans with the third-party provider and are subject to ongoing improvement plans. In 2015–16 there were not sufficient processes in place to plan all maintenance, understand quality criteria and provide sufficient assurance of works providing value for money and quality service. Members of the Defra group are working in partnership to drive the required improvements as part of a set of improvements including strengthening the 'intelligent client' and making considerable capital investment. Of the £150m allocated by Defra for 'critical works' across its estate over the next five years, £65m is for the facilities at APHA Weybridge and regional laboratories. The Department's estates function is working with APHA to develop detailed investment and operational plans to ensure that the remaining risks are fully addressed.

Single Operating Platform

In line with the Next Generation Shared Services Strategy (published 2012), the Cabinet Office is co-ordinating a Transformation Programme, which includes implementation of a Single Operating Platform (SOP). This requires the EA, Defra and other ISSC2 customers to migrate from their existing in-house Oracle platforms and associated systems for HR, Finance and Procurement on to an upgraded single Oracle platform. EA migrated in September 2015 and Defra (including, the Joint Nature Conservation Committee (JNCC), the Marine Management Organisation (MMO), the Veterinary Medicines Directorate (VMD), APHA and NE), the Department for Energy and Climate Change (DECC) (including Committee on Climate Change) and the Food Standards Agency (FSA) migrated in May 2016 but this has not been without risk. Defra is represented on the Cabinet Office senior governance Boards. The Defra Commercial Director is SRO for the Defra (including DECC and FSA) migration and has fully utilised a Defra Transformation Board with membership from all key

[17] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/519507/treasury_minutes_april_2016_web.pdf

customer organisations at director/CEO level to provide decision-making support and effectively manage delivery risks and issues.

Defra users of SOP have experienced some post go-live issues, which is not unexpected in a programme of this nature, particularly as the migration to SOP also requires some business change to drive efficiency. The majority of issues are being promptly diagnosed and fixed, but where this is not possible, in most cases the business impacts have so far been acceptable and workaround solutions have protected business continuity. However a number of issues across the Defra group are creating ongoing problems for financial reporting, which the Department is working to ensure are resolved as quickly as possible. The EA is still experiencing some service performance issues following its go-live, which are being managed via a targeted improvement plan. Defra and the EA continue to collaborate and share learning to mitigate future risk to delivery arising from the migration of other Departments to SOP over the next 12 months.

Other Governance Topics

Whistleblowing

The Department encourages employees to use the Whistleblowing procedures to raise concerns about past, present or imminent conduct within Defra or conflicts with the Civil Service Code. The Department implemented the Civil Service Employee Policy model policy in January 2013 across Defra and its executive agencies. The NDPBs aligned their policies with Defra's in November 2014. Defra maintain an overview of all whistleblowing cases, creating a streamlined process for raising a concern across the Defra group. All cases reported were fully investigated in accordance with whistleblowing policies. Senior management within the body concerned have ensured all recommendations resulting from the cases have been actioned. In November 2015, Defra conducted an internal audit resulting in an assurance level of 'Moderate'. The recommendations from the audit report, which were all low or medium risk, were implemented by 30 June 2016.

Information Management

Defra and its delivery bodies continue to take a proportionate approach to the management of security risks in line with the low volume of sensitive and personal information handled. Information assurance (IA) returns during 2015–16 indicated that there was further improvement in the level of IA maturity overall, proportionate to the level of data the Department handles. Defra experienced no reportable data loss incidents during the year.

Business Critical models

Defra continues to implement the recommendations of the 2013 Macpherson Review of business critical models and their quality assurance. Defra was an active contributor to the production of the Analytical Quality Assurance guide published in March 2015 and has promoted its use across the Defra group. The Department uses the guidance as part of a consistent framework for assurance of evidence across the Defra group. A list of all business critical models[18] will be publicly available by the end of 2016. Each business critical model has a SRO who is responsible for effective quality assurance.

[18] The most recent list is available here: https://www.gov.uk/government/publications/defras-annual-report-and-accounts-2014-to-2015

Chapter 5 – Remuneration and Staff Report

Remuneration Report

Remuneration Policy

The remuneration of the Senior Civil Service (SCS) is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB). The Cabinet Office advises the Department in March or April each year of the Government's response to the SSRB recommendations and produces guidance for departments to follow.

The Core Department develops its SCS Reward Strategy within the Cabinet Office Framework, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed.

Members of the SCS, excluding the Permanent Secretary, are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP), based on their performance. NCVP is paid in the financial year after that in which it was earned. During 2015–16, NCVP for 2014–15 performance was paid to approximately 25 percent of the SCS and was paid at £11,000 for deputy directors, £13,000 for directors and £15,000 for directors general. NCVP values, informed by each individual's appraisal grade, were paid within Cabinet Office guidelines.

The Permanent Secretary is eligible to be considered for a NCVP bonus award measured against achievement of objectives, which for performance in 2014–15 was subject to a maximum of £17,500. Such awards are made by the Permanent Secretaries' Remuneration Committee, which comprises the Chairman of the SSRB (who acts as Chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury.

Ministerial salaries are determined by the Cabinet Office, under the Ministerial and Other Salaries Act 1997.

Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit, on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found on the Civil Service Commission website[19]. All senior officials on the Defra Board are on permanent Civil Service contracts, with the exception of Professor Ian Boyd who is on a fixed term contract until 29 August 2017, although he left the Board on 28 October 2015.

Remuneration (Including Salary) and Pension Entitlements (Audited)

The following sections provide details of the remuneration and pension interests of the ministers and Defra Board members who were employees of the Department during 2015–16. The following tables in the Remuneration Report have been subject to audit.

[19] http://civilservicecommission.org.uk

Ministers

	2015-16 Salary	2014-15 Salary	2015-16 Pension Benefits**	2014-15 Pension Benefits**	2015-16 Total (to nearest £1000)	2014-15 Total (to nearest £1000)
	£	£	£	£	£	£
Rt Hon Elizabeth Truss MP	67,505	47,066*	22,000	16,000	90,000	63,000
George Eustice MP	30,629	22,375	10,000	8,000	41,000	30,000
Rory Stewart MP *(from 12 May 2015)*	19,849*	-	5,000	-	25,000	-
Ministers who have served during 2015-16 but were not in post as at 31 March 2016 were:						
Dan Rogerson MP *(until 8 May 2015)*	2,346*	22,375	1,000	8,000	3,000	30,000
Lord de Mauley *(until 8 May 2015)*	12,146*	105,076	7,000	24,000	19,000	129,000

*** Full year equivalent salary for Ministers who served part year with Defra:**

	2015-16	2014-15
	£	£
Rt Hon Elizabeth Truss MP	-	67,505
Rory Stewart MP	22,375	-
Dan Rogerson MP	22,375	-
Lord de Mauley	105,076	-

** The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights. Ministers' pensions are disclosed to the nearest £000.

Lord Gardiner is not paid by Defra for his role as Defra Spokesperson in the House of Lords, nor does he receive any pension benefit hence his exclusion from the ministerial remuneration tables.

Ministerial Salaries

In May 2015, the Government announced that it would impose a ministerial pay freeze for the lifetime of the parliament.

Senior Officials on the Board

	2015-16 Salary £000	2014-15 Salary £000	2015-16 Bonus Payments £000	2014-15 Bonus Payments £000	2015-16 Pension Benefits £000	2014-15 Pension Benefits £000	2015-16 Total £000	2014-15 Total £000
Clare Moriarty *Permanent Secretary (from 3 Aug 2015)*	105 - 110*	-	-	-	111	-	215 - 220	-
Betsy Bassis Director General	140 - 145	70 - 75*	-	-	22	11	160 - 165	80 - 85
Mark McLaughlin** *Chief Finance Officer (from 1 Oct 2015)*	75-80*	-	-	-	21	-	95-100	-
Senior Officials who have served during 2015-16 but were not on the Board as at 31 March 2016 were:								
Bronwyn Hill *Permanent Secretary (until 31 Jul 2015)*	50 - 55*	160 - 165	-	-	11	19	60 - 65	180 - 185
Professor Ian Boyd *Director General (until 28 Oct 2015)*	55 - 60*	95 - 100	-	-	22	37	75 - 80	135 - 140
Nick Joicey *Director General (until 28 Oct 2015)*	65 - 70*	105 - 110	-	-	44	55	105 - 110	160 - 165
Alastair Bridges *Finance Director (until 1 Oct 2015)*	40 - 45*	85 - 90	-	-	9	16	50 - 55	100 - 105
Sonia Phippard *Director General (Until 28 Oct 2015)*	75 - 80*	-	10 - 15	-	36	-	125 - 130	-

*** Full year equivalent salary for part year officials were:**

	2015-16 £000	2014-15 £000
Clare Moriarty	160 - 165	-
Betsy Bassis	-	135 - 140
Mark McLaughlin	145 - 150	-
Bronwyn Hill	160 - 165	-
Professor Ian Boyd***	95 - 100	-
Nick Joicey	110 - 115	-
Alastair Bridges	85 - 90	-
Sonia Phippard***	125 - 130	-

**Mark McLaughlin was appointed to be the Chief Finance Officer for Defra on 1 October 2015. He remained an employee of the Environment Agency (EA), and was seconded to the Core Department. Whilst his costs continue to be paid by EA, he ceased to conduct the duties of an Executive Director of Finance for EA, and he is disclosed above in Defra's remuneration report from the date of his commencement on the Defra Board.

***The full year equivalent salary for part time officials is based on a percentage of the full time equivalent.

Ex Officio Board Members

The Defra Board has two ex officio members, Emma Howard Boyd from EA, who took over from Sir Philip Dilley following his resignation on 11 January 2016, and Andrew Sells from Natural England (NE).

The ex officio members do not receive any additional payment from the Core Department for their duties on the Defra Board. For details of the remuneration of these ex officio members, please see the EA and NE Annual Report and Accounts (ARA) as they are paid by these entities.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. Mark McLaughlin was in receipt of benefits in kind during 2015–16 to the value of £1,620. No other senior officials received benefits in kind (2014–15, £Nil).

Salary

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

This report is based on accrued payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£67,060 from 1 April 2014, £74,000 from 8 May 2015) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

The information given above relates to members of the Defra Board. Equivalent information relating to the executive agencies and non-departmental public bodies (NDPBs) consolidated into the departmental accounts is given in their separate ARAs.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2015–16 relate to performance in 2014–15 and the comparative bonuses reported for 2014–15 relate to the performance in 2013–14.

Non-Executive Directors

	2015-16			2014-15		
	Fees Entitlement	Fees Paid*	Benefits in Kind	Fees Entitlement	Fees Paid*	Benefits in Kind
	£	£	£	£	£	£
Steve Holliday *(from 1 Feb 2016)*	3,333**	-	-	-	-	-
Catherine Doran	15,000	22,500	-	15,000	7,500	-
Peter Bonfield *(from 1 Dec 2015)*	5,000**	Fee waived	-	-	-	-
Paul Rew	20,000	20,000	427	20,000	20,000	548
Non-Executive Directors who have served during 2015-16, but were not in post as at 31 March 2016 were:						
Iain Ferguson *(until 30 Nov 2015)*	13,333**	18,333	1,387	20,000	20,000	1,200
Sir Tony Hawkhead *(until 30 Nov 2015)*	10,000**	13,750	945	15,000	15,000	364

****Full year equivalent fees entitlement for part year officials were:**

	2015-16
	£
Iain Ferguson	20,000
Sir Tony Hawkhead	15,000
Steve Holliday	20,000
Peter Bonfield	15,000

*Differences between the entitlements and amounts paid arise due to timing of claims. Where the amount paid exceeds the entitlement for the year, this relates to fees for previous periods.

Pension Benefits

Ministers

	Accrued Pension at Pension Age as at 31 March 2016	Real Increase in Pension at Pension Age	*CETV at 31 March 2016	*CETV at 31 March 2015	Real Increase in CETV
	£000	£000	£000	£000	£000
Rt Hon Elizabeth Truss MP	0 - 5	0 - 2.5	38	24	6
George Eustice MP	0 - 5	0 - 2.5	17	10	3
Rory Stewart MP *(from 12 May 2015)*	0 - 5	0 - 2.5	4	1	1
Ministers who have served during 2015-16, but were not in post as at 31 March 2016 were:					
Dan Rogerson MP *(until 8 May 2015)*	0 - 5	0 - 2.5	10	9	-
Lord de Mauley *(until 8 May 2015)*	5 - 10	0 - 2.5	143	136	5

*Start and end date of Cash Equivalent Transfer Value (CETV) is 31 March or date of joining or leaving the Defra Board.

The CETV at 31 March 2015 figure has changed from the 2014–15 ARA. This is due to the change in transfer factors used by the Parliamentary Contributory Pension Fund.

Lord Gardiner is not paid by Defra for his role as Defra Spokesperson in the House of Lords, nor does he receive any pension benefit hence his exclusion from the ministerial remuneration tables.

Ministerial Pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is established under statute (the regulations are set out in the Ministers' etc. Pension Scheme 2015[20]).

Those ministers who are MPs may accrue an MP's pension under the PCPF (details of which are not included in this report). A new MP's pension scheme was introduced from May 2015, although members who were aged 55 or older on 1 April 2013 have transitional protection to remain in the previous final salary pension scheme.

Benefits for ministers are payable from State Pension age under the 2015 scheme. Pensions are revalued annually in line with pensions increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1 percent and the accrual rate is 1.775 percent of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre and post 2015 ministerial pension schemes.

[20] http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc

Senior Officials on the Board

	Accrued Pension as at 31 March 2016 and Related Lump Sum	Real Increase in Pension and Related Lump Sum at Pension Age	*CETV at 31 March 2016	*CETV at 31 March 2015	Real Increase in CETV	Employer Contribution to Partnership Pension Account
	£000	£000	£000	£000	£000	Nearest £100
Clare Moriarty *Permanent Secretary (from 3 Aug 2015)*	65 - 70 no lump sum	5 - 7.5 no lump sum	1,157	1,025	90	-
Betsy Bassis Director General	-	-	-	-	-	21,800
Senior Officials who have served during 2015-16, but were not on the Board as at 31 March 2016 were:						
Bronwyn Hill *Permanent Secretary (until 31 Jul 2015)*	70 - 75 plus 210 - 215 lump sum	0 - 2.5 plus 0 - 2.5 lump sum	1,421	1,344	9	-
Professor Ian Boyd *Director General (until 28 Oct 2015)*	5 - 10 no lump sum	0 - 2.5 no lump sum	109	87	15	-
Nick Joicey *Director General (until 28 Oct 2015)*	25 - 30 plus 65 - 70 lump sum	0 - 2.5 plus 0 - 2.5 lump sum	402	356	21	-
Alastair Bridges *Finance Director (until 1 Oct 2015)*	25 - 30 plus 85 - 90 lump sum	0 - 2.5 plus 0 - 2.5 lump sum	538	502	6	-
Sonia Phippard *Director General (Until 28 Oct 2015)*	70 - 75 no lump sum	0 - 2.5 no lump sum	1,244	1,207	31	-

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

Mark McLaughlin is not shown in the pension table as he is a member of the EA pension scheme. His pension information is shown in EA's ARA.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme, or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (Classic, Premium or Classic Plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha, as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 3 percent and 8.05 percent of pensionable earnings for Classic (and members of alpha who were members of Classic immediately before joining alpha) and between 4.6 percent and 8.05 percent for members of Premium, Classic Plus, nuvos and all other members of alpha. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In nuvos, a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3 percent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 percent and 12.5 percent up to 30 September 2015, and 8 percent and 14.7 percent from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 percent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 percent of pensionable salary up to 30 September 2015 and 0.5 percent of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic Plus, 65 for members of nuvos and the higher of 65 or state pension age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha, as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.) Further details about the Civil Service pension arrangements can be found on the Civil Service pensions website[21].

Cash Equivalent Transfer Values (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from the Lifetime Allowance Tax which may be due when pension benefits are taken.

In relation to the senior officials on the Defra Board, the CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost.

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

Real Increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Pay Multiples (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the CETV of pensions.

In accordance with HM Treasury guidance, the median pay calculation is limited to employees of the Core Department and executive agencies and does not include employees of the NDPBs. The calculation is based on the annualised, full-time equivalent of staff in post as at the reporting date. Similarly, following HM Treasury guidance, the scope of the highest paid director is limited to the Core Department.

The banded remuneration of the highest paid director in the Core Department in the financial year 2015–16 was £160,000–£165,000 (2014–15, £160,000–165,000). This was 5.6 times (2014–15, 5.6 times) the median remuneration of the workforce, which was £29,210 (2014–15, £29,185).

The banded remuneration for employees in the Core Department and the executive agencies ranged from £10,000–£15,000 to £165,000–£170,000 (2014–15, £5,000–£10,000 to £160,000–£165,000). The majority of employees receiving the lowest pay in the pay range are employed as apprentices by one of Defra's executive agencies. In 2015–16, two employees (2014–15, Nil) received remuneration in excess of the highest paid director. One person is paid by Rural Payments Agency (RPA) and is their most senior official, and the other is on a temporary contract employed for their specialist knowledge.

Number of Senior Civil Service Staff (or Equivalent) by Band

	Core Department	Defra Group
SCS Permanent Secretary	1	1
SCS Payband 3	4	14
SCS Payband 2	14	53
SCS Payband 1	53	218

This table includes NDPB employees who are not civil servants in SCS paybands. Non-civil servants have been allocated into these paybands largely on the basis of salary comparison. Work is ongoing to establish a more thorough means of comparability and numbers are subject to change.

Staff Costs

Details of staff costs can be found in Note 3.

Average Number of Persons Employed (Audited)

The average number of whole-time equivalent persons employed within the Defra group during the year was as follows:

	2015-16					2014-15
	Permanently Employed Staff	Others	Ministers	Special Advisors	Total	Restated Total
Programme	**Number**	**Number**	**Number**	**Number**	**Number**	Number
Animal and Plant Health	199	3	-	-	202	211
Countryside and Nature Directorate[1]	3,479	442	-	-	3,921	4,037
Marine and Fisheries	512	10	-	-	522	542
Operations[2]	1,418	127	4	2	1,551	1,573
Resource Atmosphere and Sustainability	163	2	-	-	165	194
Water and Flood Risk Management[3]	8,814	510	-	-	9,324	9,556
Executive Agencies[4]	4,662	318	-	-	4,980	5,573
Staff engaged on capital projects[3]	1,190	109	-	-	1,299	1,189
Total	**20,437**	**1,521**	**4**	**2**	**21,964**	22,875
Of which:						
Core Department and Agencies						
NDPBs	7,000	581	4	2	7,587	8,406
	13,437	940	-	-	14,377	14,469
Total	**20,437**	**1,521**	**4**	**2**	**21,964**	22,875

1. Includes 2,237 for NE (2014–15, 2,241).
2. Operations: provides central support functions and specialist advice to allow the Department to operate effectively and deliver on its objectives. It also includes Common Agricultural Policy (CAP) disallowance.
3. Includes 10,283 for EA (2014–15, 10,357).
4. Includes 2,143 for RPA (2014–15, 2,116) and 2,169 for Animal and Plant Health Agency (2014–15, restated 2,098).

Reporting of Civil Service and Other Compensation Schemes – Exit Packages (Audited)

	2015-16			2014-15		
	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages
	Number	**Number**	**Number**	Number	Number	Number
Cost band						
< £10,000	2	31	33	9	16	25
£10,000 - £25,000	6	123	129	2	54	56
£25,001 - £50,000	2	186	188	2	53	55
£50,001 - £100,000	-	149	149	4	49	53
£100,001 - £150,000	1	9	10	-	10	10
£150,001 - £200,000	-	1	1	-	1	1
£200,001 - £250,000	-	1	1	1	1	2
Total number of exit packages by type	**11**	**500**	**511**	18	184	202
Total resource cost (£000)	**298**	**21,200**	**21,498**	647	8,063	8,710
Of which:						
Number of cases	**Number**	**Number**	**Number**	Number	Number	Number
Core Department and Agencies	3	394	397	1	28	29
NDPBs	8	106	114	17	156	173
Total	**11**	**500**	**511**	18	184	202
Resource cost	**£000**	**£000**	**£000**	£000	£000	£000
Core Departmen t and Agencies	64	17,769	17,833	62	942	1,004
NDPBs	234	3,431	3,665	585	7,121	7,706
Total	**298**	**21,200**	**21,498**	647	8,063	8,710

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure or earlier where a demonstrable commitment exists. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the Pension Scheme and are not included in the table.

People and Culture

Recruitment Practice

The Civil Service Order in Council 1995 sets out the legal basis for Defra's recruitment policies and practice. The Civil Service Commissioners' Principles for Recruitment and the Recruitment Code are mandatory and must be followed when any post is opened to competition from outside the Civil Service.

During the reporting period, the freeze on recruitment into the Civil Service resulted in Defra continuing with a process requiring director approval to recruit externally into critical business and/or frontline posts.

Diversity and Recruitment

In 2016, Defra updated its annual workforce monitoring report[22], and refreshed its equality, diversity and inclusion priorities in line with the revised Civil Service Talent Action Plan: Removing the barriers to success. The strategic priorities focus on seven priorities including; improving declaration rates, promoting inclusive behaviours, tackling discrimination, bullying and harassment, and improving career support.

The specific action on enhancing careers support is focused on recruiting and enabling employees from a diverse range of backgrounds to develop and progress on merit in an inclusive culture. For example, during a recent recruitment campaign, Defra ensured the adverts and candidate packs were appropriately worded to encourage more diverse applicants. In addition, Defra targeted people from diversity networks and organisations (e.g. Stonewall) to widen the diversity pool of applicants. Within Defra, employee networks were asked to come together to develop a diverse pool of recruitment volunteers to be called upon to be participate in recruitment panels/engagement sessions.

Defra has confirmed 23 Summer Diversity Internships for 2016 (compared to five last year). This highlights good progress in terms of the Department's ability to attract high calibre black, asian and minority ethnic, socioeconomic deprived and disabled undergraduates/graduates.

Defra continues to strengthen relationships with its employee networks, all of which are now supported by a senior champion. These are the Jobshare Network; the Lesbian, Gay and Bisexual, Transgender and Asexual Network; the Ethnic Minority Network; the Work Life Balance Network; the Womens Network; Break the Stigma (mental health network); and Disnet (a disability network). Break the Stigma won the Defra Diversity and Equality Team Awards in 2015 for the work it does providing support and information on mental health. Disnet ran a series of development workshops across Defra in 2015–16 on raising awareness and knowledge regarding line management responsibilities in relation to reasonable adjustments. The workshops were tailored to managers and employees and will continue to be provided in 2017.

Specific action on supporting talent within Defra includes promoting opportunities for employees with protected characteristics, based on clear business evidence of under-representation at the appropriate progression level. One example is the Positive Action Pathway. This development programme aims to equip participants with the skills and confidence to realise their full potential and assist with career progression.

The Department operates the 'Two Ticks' disability symbol in recruitment and employment. 'Two Ticks' is a commitment to guarantee an interview to any candidate who has disclosed a disability, as defined under the Equality Act 2010, and meets the minimum (essential eligibility) criteria for the post. All line managers are required to complete unconscious bias e-learning training. In addition, the Permanent Secretary has strongly recommended that all employees involved in recruitment should undertake face-to-face unconscious bias

[22] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/equality-and-diversity

training. The Department has ring-fenced budget and will be offering a series of closed courses to support this objective.

To further support disabled employees, disability leave enables disabled employees to take paid time off work for assessment, treatment and rehabilitation. Defra also utilises a disability passport. This is a record of agreed reasonable adjustments for employees with disabilities.

Twelve percent of Defra's overall workforce is made up of employees who identify themselves as disabled. The table below details Defra employees at each grade who identify themselves as disabled.

Grade	Disabled
AA	18%
EO	11%
HEO/SEO	9%
G7/G6	8%
SCS	***

To protect the confidentiality of individual employees, percentages based on five or fewer individuals are not reported and shown as ***.

The Department will build on its progress thus far by adopting good practices and lessons from successful recruitment practices, partnering with Civil Service Resourcing to pilot more inclusive recruitment approaches and by incorporating stronger messages on avoiding unconscious bias into manager guidance.

Employee Composition

Defra continues to monitor the makeup of its workforce by gender which is described in the table below. During recruitment and selection processes applications are anonymised up until the interview stage; interview panel members are required to undertake unconscious bias training; and single gender selection panels are allowed by exception only.

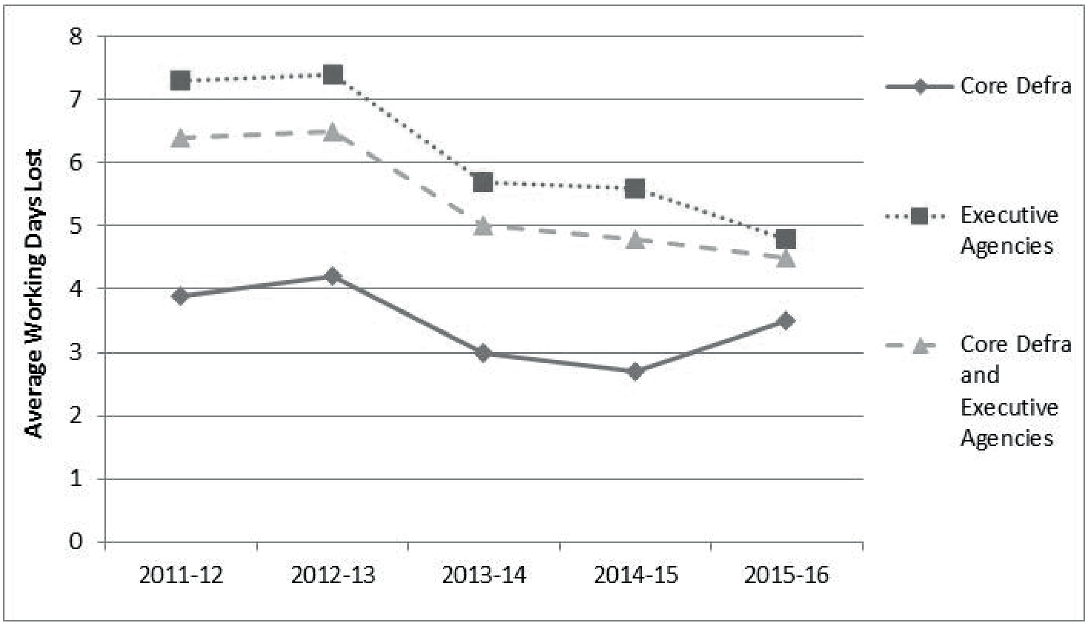
Gender Split	Male	Female
Senior officials on the Defra Board	1	2
Ex Officio on the Defra Board	1	1
Ministers	3	1
Non-Executive Directors	3	1
Management employees (SCS grade or equivalent) for the Defra group[1] (excluding senior officials on the Defra Board)	185	98
All other employees for the Defra group	10,782	9,970
Total	10,975	10,073

1. Defra group includes the Core Department, executive agencies, NDPBs, levy bodies and NFC. Figures are by headcount.

Managing Attendance

A corporate strategy for managing attendance is in place in Defra to support employee recruitment and retention, which involves closely monitoring sickness absence, conducting return-to-work interviews, providing advice from occupational health professionals, and providing counselling and other advisory services through an employee assistance programme.

For the Department and its executive agencies, an average of 4.5 working days per employee was lost to sickness absence during the year to 31 March 2016, compared with 4.8 days in the year to 31 March 2015. There has been a small increase for the Core Department, but there has been a considerable reduction in the number of working days lost per employee since 2009–10, when it was 5.7 days.



Defra continues to demonstrate its commitment to the Corporate Social Responsibility agenda encouraging employees to take advantage of the special leave that is available for volunteering. Defra employees are offered up to three days special leave with pay each year to use their skills to help others by volunteering individually, or as part of a team, for charitable or non-profit making organisations serving the public.

Off-Payroll Appointments

Information on senior off-payroll engagements is set out in the following table. Off-payroll means anyone who is working for the Department or a delivery body but is not paying PAYE (Pay As You Earn) or National Insurance via the departmental payroll, i.e. working for Defra but not a civil servant.

Off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months

	Core Department	Executive Agencies		Other Delivery Bodies				Total
	Defra	APHA	RPA	EA	FC	RBG Kew	MMO	
Number of existing engagements as of 31 March 2016	48	8	33	118	4	5	3	219
Of which:								
Number that have existed for less than one year at time of reporting	14	2	8	53	0	3	2	82
Number that have existed for between one and two years at time of reporting	15	5	16	28	2	2	1	69
Number that have existed for between two and three years at time of reporting	15	0	6	5	0	0	0	26
Number that have existed for between three and four years at time of reporting	3	1	3	9	1	0	0	17
Number that have existed for four or more years at time of reporting	1	0	0	23	1	0	0	25

Delivery bodies not listed in the table above provided a nil return.

All existing off-payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance needs to be sought that the individual is paying the right amount of tax and, where necessary, that assurance has been sought. Going forward, the Department will also be reviewing each engagement on a six-monthly basis to ensure the assurances are still valid.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months

	Core Department	Executive Agencies		Other Delivery Bodies					Total
	Defra	APHA	RPA	EA	CCW	FC	RBG Kew	MMO	
Number of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	24	5	17	59	1	2	6	3	117
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	24	5	17	59	1	2	6	3	117
Number for whom assurance has been requested	23[1]	5	17	59	1	2	6	3	116
Of which:									
Number for whom assurance has been received	23	5	17	59	1	2	6	3	116
Number for whom assurance has not been received	0	0	0	0	0	0	0	0	0
Number that have been terminated as a result of assurance not being received	0	0	0	0	0	0	0	0	0

Delivery bodies not listed in the table above provided a nil return.

1. As at 31 March 2016, the remaining worker had not yet been in the organisation for six months.

Off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2015 and 31 March 2016

		Number of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year[1]	Total number of individuals both on payroll and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year. This figure should include both on-payroll and off-payroll engagements.
Core Department	**Defra**	0	14[2]
Executive Agencies	**APHA**	0	13
	Cefas	0	15
	RPA	0	20
	VMD	0	6
Delivery Bodies	**AHDB**	0	25
	CCW	1[3]	13
	EA	0	21
	FC	0	16
	JNCC	0	14
	RBG Kew	0	8
	MMO	0	15
	NE	0	7
	NFC	0	6
	SFIA	0	13

1. Senior Officials with significant financial responsibility are defined as all board-level executives, non-executive directors and finance directors.

2. Includes Mark McLaughlin, who spent six months with EA (as Executive Director of Finance) and then six months with Defra (as Group Chief Finance Officer).

3. CCW had an off-payroll senior official who was an agency employee covering the Head of Corporate Services role. They started on 30 March 2015 and covered the post until a permanent appointment was made. They did not sit on the board and although they had financial responsibility, this lasted for less than six months.

Consultancy and Temporary Staff Expenditure

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

£000	2015-16			2014-15		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Restated Departmental Group
Consultancy expenditure	3,321	3,928	13,878	9,283	10,309	24,433
Temporary staff expenditure	11,181	28,811	47,001	12,020	27,359	40,759
Total	**14,502**	**32,739**	**60,879**	**21,303**	**37,668**	**65,192**

Overall expenditure on consultancy and temporary staff has decreased compared with the prior year. Spend in the Core Department has decreased due to a reduction in consultants working on the CAP Delivery Programme. The remaining reduction in consultancy spend relates to EA where in the previous year more consultants were used in response to the winter floods.

The increase in temporary staff within the Core Department and agencies relates to RPA where temporary staff were required to help process the BPS payments. The majority of the remaining increase in expenditure on temporary staff costs for the Departmental Group relate to EA, to cover work on flooding incidents.

People Survey

The Department and its executive agencies participated in the Civil Service People Survey in October 2015. Summary results are provided in the table below.

The engagement index measures the extent to which employees are motivated to contribute to the overall success and performance of the organisation. This decreased by 4 points to 50 percent for the Core Department compared with a decrease of 1 point to 58 percent for the Civil Service. For the Core Department and executive agencies, the overall engagement index decreased by 1 point to 49 percent.

Whilst there are a number of contributors to the engagement index, ‘leadership and managing change’ is a key driver. The Core Department’s results for this item decreased by 5 points to 33 percent compared to a the Civil Service benchmark of 43 percent, unchanged from the previous year. ‘Leadership and managing change’ decreased by 2 points to 32 percent for the Core Department and agencies.

Being recognised by employees and leaders as an engaging organisation that is a great place to work is of critical importance to the Permanent Secretary and her Executive Committee and the People Survey results were therefore disappointing. The Executive Committee is committed to ensuring that people feel they are listened to and can influence the issues that affect them, creating a culture where employees feel they are empowered and valued. In response to the Survey results, the Department has therefore opened up more channels of communication to facilitate two-way conversations, and is addressing issues such as IT and the physical work environment, acknowledging how important they are to people. Additionally, there has been significant investment in Defra’s leaders at all levels, to better enable them to manage and lead the changes taking place in the Civil Service and Defra.

Throughout this year Defra will continue to increase the opportunities for employee engagement, ensuring that employees can participate in shaping the decisions that impact on what and how the Department delivers for customers. Additionally the department will maintain its investment of time and resource into its leadership and the way it manages change, supporting the continued development of skilled, capable and confident leaders.

The Executive Committee is taking a leading role in this work, agreeing a clear strategy for the Defra group and seeking to create a shared vision for the future by reaching out to employees through a variety of events and media channels such as ‘roadshows’, ‘town hall’ style events, employee networks, and digital communications such as online Q+A sessions and social media.

‘Inclusion and fair treatment’ is an important aspect of employee engagement and the Executive Committee has agreed to seven priorities to underpin Defra’s *diversity and inclusion strategy* and meet the ambitions of the Civil Service ‘to be the most inclusive employer in the UK’. There has been good progress on the priorities which means that the Department better understands the existing diversity of the workforce, is tackling unconscious bias at every opportunity, improving career support for high potential people from diverse groups, tackling discimination, bullying and harassment, and ensuring that all policies and programmes show due regard for equality, diversity and inclusion.

This summary table includes the results for 2015 and compares them with the 2014 Survey results.

	2015			***Changes from 2014***		
%	**Core Department**	**Core Department and Agencies**	**Civil Service**	***Core Department***	***Core Department and Agencies***	***Civil Service***
Response Rate	84	74	75	*-3*	*+1*	*-2*
Employee Engagement Index	50	49	58	*-4*	*-1*	*-1*
Leading and Managing Change	33	32	43	*-5*	*-2*	*0*
My Work	75	70	74	*-3*	*-2*	*-1*
Organisational Objectives and Purpose	73	76	83	*-5*	*+2*	*0*
My Manager	69	65	68	*-1*	*0*	*+1*
My Team	82	79	80	*0*	*+1*	*+1*
Learning and Development	47	43	49	*-5*	*-2*	*0*
Inclusion and Fair Treatment	75	70	74	*-2*	*-1*	*-1*
Resources and Workload	72	68	73	*-3*	*-2*	*-1*
Pay and Benefits	27	27	30	*+1*	*+1*	*+2*

1. The Core Department has seen decreases in most areas since the 2014 survey with the Core Department and agencies seeing improvements or no change in 5 of the 11 areas compared with 2014 survey in areas of engagement.
2. In 2015, the Core Department was above the Civil Service benchmark in the following areas: Response rates, My Work, Inclusion and Fair Treatment, My Manager and My Team.
3. Two of Defra’s agencies, the Centre for Environment, Fisheries and Aquaculture Science and the Veterinary Medicines Directorate, have performed well with overall engagement index scores of 63 percent.
4. Full information of all Defra’s engagement scores, including executive agencies, can be found online[23].
5. The response rate for the Civil Service is the median figure, this was the figure quoted in 2014 and for the purpose of this table this is the same figure quoted above.

Human Rights Disclosure

There has not been any successful litigation against Defra alleging a breach of the Human Rights Act 1998. There has been no Defra primary legislation during the relevant period and all Defra statutory instruments during the period which were subject to the affirmative procedure or which amended primary legislation have included a statement of compatibility with the European Convention on Human Rights. No Parliamentary Committee has adversely reported any Defra legislation for breach of the Human Rights Act 1998.

[23] https://www.gov.uk/government/publications/civil-service-people-survey-2015-results

Chapter 6 – Parliamentary Accountability and Audit Report

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

I certify that I have audited the financial statements of the Department for Environment, Food and Rural Affairs and of its Departmental Group for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2015. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

The European Commission has confirmed disallowance penalties of £65.8m. These disallowance penalties represent a material loss to the UK Exchequer. I consider that this loss falls outside Parliament's intentions in relation to proper administration of European funding and is therefore irregular.

Qualified opinion on regularity

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

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- 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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2016 and of the Department's net operating cost and Departmental Group's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Sir Amyas C E Morse 14 July 2016
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria, London SW1W 9SP

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

Introduction

The Department for Environment, Food and Rural Affairs (the Department) develops, implements and delivers policy relating to the environment, food and rural issues. It is also responsible for negotiating European agricultural and rural policy and related funding for the United Kingdom (UK) as long as the United Kingdom remains a member of the European Union (EU).

This report sets out my observations on the Department's handling of the Common Agricultural Policy (CAP), disallowance and the Basic Payment Scheme during 2015-16. It draws out successes and also areas of concern that will require further attention.

These are set in the context of the EU referendum on 23 June 2016 in which the people of the UK voted to leave the EU. At this time, the UK has not triggered the formal process or negotiations for exiting the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. At this stage, therefore, the impact on such funding is unclear.

As the Annual Report and Accounts relate to the year ended 31 March 2016, the arrangements relating to EU agricultural and rural policy funding were not affected by the referendum. CAP is the EU framework of agricultural subsidies and rural development programmes. In 2015-16, the Department received funding of some £2.3 billion (2014-15 £3.1 billion) from the European Commission (the Commission) to deliver the CAP and other initiatives. CAP schemes affecting the 2015-16 financial statements can be split into two programmes: new CAP schemes for 2014-20 that started during 2015; and old CAP schemes for 2007-13 that were being wound up. Most payments administered by Defra in 2015-16 for the Commission are under new CAP 2014-20 schemes.

CAP Regulations and Disallowance

The CAP regulations are set by the EU following proposals made by the Commission and agreed by the European Parliament and European Council. Financial penalties, known as 'disallowance' penalties, are levied by the Commission when it considers actions taken by member states to control and administer CAP payments have not complied with regulations. Disallowance can arise as a result of delays in payments to claimants, member states misinterpreting the regulations, or the Commission identifying control weaknesses that are a risk to EU funds.

Disallowance penalties are determined in light of the Commission's review of the relevant CAP scheme year and any further evidence provided by the member states in response. As this process of review and determination of the loss can take several years, penalties are not incurred in the financial year of scheme payments. The timing of the Commission's review and its outcome can therefore impact the value of disallowance in any given year.

I considered the Department's management of disallowance risk throughout CAP 2007-13 in my report 'Managing disallowance risk' (HC 306), published in July 2015. This report explained what the CAP is, how the Department administers it in the UK and how disallowance penalties arise. It also considered the underlying causes of disallowance in England, future disallowance risk and how the Department manages this risk.

Qualified opinion on regularity - financial penalties arising from Commission-funded schemes

The Department administers the Commission funding for the CAP schemes. When disallowance penalties occur, the Commission reduces its funding for the schemes and the shortfall must be met directly from taxpayer funds. This shortfall is a loss to the UK Exchequer which is outside Parliament's intentions for the proper administration of European funding and I therefore considered the use of funds to pay disallowance penalties irregular.

The Department accrues penalties in their financial statements when either the Commission confirms a penalty or the Department decides not to contest it. At this point, the value of disallowance becomes certain and I consider it to be irregular. The Department also includes a provision in its financial statements for disallowance penalties which are probable but not yet confirmed.

In 2015-16, the value of disallowance penalties accrued in year was £65.8 million, which I consider material. I have therefore qualified my opinion on regularity on the 2015-16 financial statements. Disallowance is lower than in 2014-15, when £90 million was accrued, but this relates to multiple scheme years and the amount accrued in any one year does not represent the Department's performance in that year. Of the £65.8 million, the majority (£38.6 million) related to Single Payment Scheme payments, with smaller amounts (£13.3 million) from Rural Development, (£9.9 million) Cross Compliance penalties and the remaining (£4.0 million) other schemes.

The total value of cumulative disallowance penalties incurred under CAP 2007-13 is £661 million. The Commission has carried out a small number of audits on CAP 2014-20 schemes, but the related disallowance penalties have not yet been finalised.

Future financial penalties

Almost all payments in relation to the CAP 2007-13 schemes have been made but the Commission's reviews have not yet been finalised. The Department's current expectation is that disallowance penalties related to schemes under the CAP 2007-13 will not be fully calculated and settled until 2019-20.

In addition, Commission audits of CAP 2014-20 schemes are likely to result in further disallowance penalties upon conclusion. The Department is not able to predict future Commission audit findings and therefore the value of disallowance penalties that will arise. As a result, no liability is included in the financial statements.

Tackling disallowance and the CAP Delivery programme

Tackling disallowance has been an increasing challenge for the Department as the new 2014-20 CAP schemes are more complex than CAP 2007-13. They have more stringent control requirements and penalty calculations for multiple breaches of regulations are more severe. There is therefore a risk of higher disallowance penalties relating to the new schemes.

The Department's response to this challenge consists of two principle strands: the CAP Delivery Programme; and the Disallowance Strategy.

CAP Delivery Programme

The CAP Delivery Programme incorporates the procurement, development and implementation of new systems and processes to deliver the CAP 2014-20 schemes. Successful delivery of the Programme is critical to ensuring that the Department correctly applies scheme regulations to pay claimants accurately and efficiently; and minimises disallowance penalties going forward. Issues with the systems in 2015 resulted in a large proportion of paper-based claims rather than online claims, which led to more manual interventions and delays in payments made to farmers.

I reviewed the Department's implementation of the CAP Delivery Programme in my report 'Early review of the Common Agricultural Policy Delivery Programme' (HC 606), published in December 2015. My conclusion stated that the CAP Delivery Programme had not provided value for money at that stage, and that 'significant challenges remain to make sure this year's payments are accurate, to prepare for future years, maximise Programme benefits and minimise disallowance penalties'. The extent of disallowance arising as a result will only become apparent when the schemes are audited by the Commission.

The Department stabilised the programme in 2015, enabling the majority of farmers to be paid in December 2015. It also implemented a more staggered approach to system development and was able to reintroduce online applications for the Basic Payments Scheme in 2016.

Disallowance Strategy

The Department has developed a Disallowance Strategy which is currently awaiting ministerial approval. The strategy's objective is to minimise disallowance in a cost-effective way by:

- Further analysing the underlying causes of disallowance and identify future disallowance risks.
- Tackling the identified risks in the design of schemes (including through policy choices), by improving processes and systems, as well as by improving data quality (including mapping data).
- Working with the Commission and other Member States to reduce the legislative causes of disallowance.
- Minimising historic disallowance costs through negotiation, mitigating actions, conciliation and, where they have a good case, challenge through the European Courts.

Financial Management of EU funds

The Public Accounts Committee (PAC) held an inquiry on 23 February 2016 on Financial Management in the EU. This inquiry was informed by the NAO briefing 'Financial management of the European Union budget in 2014: a briefing for the Committee of Public Accounts' (HC 799) published on 12 February 2016 and the Department was called to give evidence. The subsequent PAC report 'Financial management of the European Union budget in 2014' (HC 730), published on 27 April 2016, highlighted the level of penalties paid to the Commission due to errors in how UK bodies have spent EU funds. It also highlighted the increasing complexities of the new CAP system.

The report's key findings were that EU rules and regulations for spending EU funds are complex and that the UK government has chosen to design programmes which have added to this complexity, driving up the risk of errors and penalties further. We also reported a distinct lack of urgency by UK government departments in tackling complexity and reducing the levels of penalties incurred.

Basic Payment Scheme

I reported in December 2015[24] that there were significant challenges remaining to make sure that 2015 Basic Payment Scheme payments made under the CAP 2014-20 were accurate. Alongside this, the Department set challenging targets for making timely payments to farmers.

The Department met its first two targets for timely payments, by making the 'majority' of payments by 31 December 2015 (>50%) and the 'vast majority' (>75%) by 31 January 2016. However, the target to make 'almost all' (92-95%) payments by 31 March 2016 was not met.

The Department has stated that it is initially reviewing the accuracy of 13,000 payments, representing payments to 15% of all claimants, where claimants may be due a further €100 or more. Inaccuracies have arisen where there are differences between claim forms and the Department's systems. My testing indicates that the most common cause for differences is where the Department has not yet updated its systems to include all information provided by the farmer. Where such differences arise the Department has not paid unmatched amounts, and has applied penalties related to the scale of these unmatched amounts. This reduces the risk of disallowance penalties, but delays full payments being made to farmers.

The Department is now completing its processing to confirm whether further amounts are due to farmers, and related penalties were justified. The 13,000 claims being reviewed include both claims known by the Department to have inaccuracies, and claims notified by farmers where they believe they have been underpaid. The Department has provided £25.3 million in its accounts as an estimate of payments due in relation to claims initially paid before 31 March 2016. The Department also believes that once the 13,000 claims have been reviewed, further payments in addition to the £25.3 million already provided may be required. The Department

[24] Early review of the Common Agricultural Policy Delivery Programme (HC 606)

has not yet accurately estimated the value of these payments, but they will not be material to the Defra accounts.

Farmers will also be due to receive Financial Discipline Mechanism (FDM) refunds. The FDM allows for a small proportion of larger claims to be withheld annually to form a reserve that the Commission can use to respond to crises, with unspent funds refunded to farmers in the following year. Historically, refunds have been paid at the same time as the Basic Payment Scheme payments that they relate to. However, as a result of delays developing the appropriate functionality within the CAP Delivery Programme these have not yet been repaid. The Department expects to repay £16.9 million in respect of FDM refunds. Whilst these issues present challenges the Department must address, they do not impact on my opinion on the financial statements.

Conclusion

The Department continues to face a number of challenges to successfully manage disallowance in order to reduce the level of penalties incurred as well as ensuring the accurate transition from the old schemes to the new schemes. The potential exit from the EU does not reduce the need to tackle these challenges. I will continue to monitor progress in this area and will provide an update in my report on the Department's 2016-17 Annual Report and Accounts.

Sir Amyas C E Morse 14 July 2016
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria, London SW1W 9SP

Statement of Parliamentary Supply (Audited)

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the *Government Financial Reporting Manual* requires Defra to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show Resource Outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

Summary of Resource and Capital Outturn 2015–16

The table below includes the results for the Core Department, executive agencies, Forestry Commission, Flood Re and non-departmental public bodies (NDPBs).

		2015-16			2014-15
	Note	**Estimate Voted**	**Outturn Voted**	**Voted Outturn Compared With Estimate: Saving/ (Excess)**	Outturn Total
		£000	**£000**	**£000**	£000
Departmental Expenditure Limit					
Resource	SoPS 1.1	1,836,640	1,776,674	59,966	1,906,615
Capital	SoPS 1.2	538,005	529,472	8,533	638,011
Annually Managed Expenditure					
Resource	SoPS 1.1	457,868	390,741	67,127	77,998
Capital	SoPS 1.2	2,000	242	1,758	1,637
Total		**2,834,513**	**2,697,129**	**137,384**	2,624,261
Non Budget					
Non Budget	SoPS 1.1	10,000	(148)	10,148	5,724
Total		**2,844,513**	**2,696,981**	**147,532**	2,629,985
Total Resource	SoPS 1.1	2,294,508	2,167,415	127,093	1,984,613
Total Capital	SoPS 1.2	540,005	529,714	10,291	639,648
Total Non Budget	SoPS 1.1	10,000	(148)	10,148	5,724
Total		**2,844,513**	**2,696,981**	**147,532**	2,629,985

The 2015–16 figures above are voted totals subject to parliamentary control. In addition, although not a separate voted limit, any breach of the Administration Budget will also result in an excess vote.

There was no non-voted provision in the Estimate and no non-voted expenditure was incurred.

Net Cash Requirement 2015–16

		2015-16			2014-15
	Note	**Estimate**	**Outturn Voted**	**Voted Outturn Compared With Estimate: Saving/ (Excess)**	Outturn Total
		£000	**£000**	**£000**	£000
Net Cash Requirement	SoPS 3	3,307,863	2,411,119	896,744	2,459,253

Administration Costs 2015–16

	2015-16			2014-15
	Estimate	**Outturn Voted**	**Voted Outturn Compared With Estimate: Saving/ (Excess)**	Outturn Total
	£000	**£000**	**£000**	£000
Net Administration Costs	540,303	496,852	43,451	486,516

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

The Department has a Prior Period Adjustment (PPA) detailed in Note 20. In 2015–16 the PPA has been included within voted supply in the Estimate as Non-Budget. The table below details the impact on control totals in 2014–15 from this PPA.

	Resource/ Capital	**DEL / AME**	**Amount**
			£000
Delivery body accounts alignment and minor PPA	Resource	DEL	1,341
Delivery body accounts alignment and minor PPA	Resource	AME	(319)
Delivery body accounts alignment and minor PPA	Capital	DEL	(1,290)
Delivery body accounts alignment and minor PPA	Capital	AME	3

The notes on pages 76 – 116 form part of these accounts.

SoPS 1 - Net Outturn

SoPS 1.1 - Analysis of Net Resource Outturn by Section

	2015-16										2014-15
	Outturn Administration			Outturn Programme				Estimate			Restated
	Gross	Income	Net	Gross	Income	Net	Net Total	Net Total	Net Total Compared to Estimate	Net Total Compared to Estimate Adjusted for Virements[1]	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)											
Voted											
Food and farming	124,278	(13,810)	110,468	1,391,789	(1,272,872)	118,917	229,385	279,035	49,650	36,215	281,008
Improve the environment	26,961	(2,672)	24,289	216,690	(7,917)	208,773	233,062	265,625	32,563	3,145	242,384
Protect the country from floods	1,946	(16)	1,930	13,049	(15)	13,034	14,964	15,902	938	49	23,589
Animal and plant health	87,466	(67,261)	20,205	223,062	(23,128)	199,934	220,139	229,813	9,674	962	231,002
Marine and fisheries	23,320	(19,669)	3,651	35,174	(8,127)	27,047	30,698	34,537	3,839	1,220	31,234
Countryside and rural services	14,816	(1,502)	13,314	621,460	(427,291)	194,169	207,483	212,691	5,208	1,489	198,135
Departmental operating costs	126,144	(9,659)	116,485	26,823	(68)	26,755	143,240	80,111	(63,129)	14,425	129,100
Improve the environment (ALB) (net)	132,263	-	132,263	204,916	-	204,916	337,179	340,069	2,890	-	407,281
Protect the country from floods (ALB) (net)	69,572	-	69,572	269,741	-	269,741	339,313	358,554	19,241	1,682	341,434
Marine and fisheries (ALB) (net)	4,379	-	4,379	14,754	-	14,754	19,133	18,080	(1,053)	671	19,465
Countryside and rural services (ALB) (net)	296	-	296	1,782	-	1,782	2,078	2,223	145	108	1,983
Total	**611,441**	**(114,589)**	**496,852**	**3,019,240**	**(1,739,418)**	**1,279,822**	**1,776,674**	**1,836,640**	**59,966**	**59,966**	1,906,615
Spending in Annually Managed Expenditure Limits (AME)											
Voted											
Food and farming	-	-	-	(14,351)	(25,250)	(39,601)	(39,601)	(24,968)	14,633	21,000	1,307
Improve the environment	-	-	-	313,107	-	313,107	313,107	304,876	(8,231)	-	(44,310)
Animal and plant health	-	-	-	(2,370)	-	(2,370)	(2,370)	-	2,370	2,370	2,579
Marine and fisheries	-	-	-	1,899	-	1,899	1,899	-	(1,899)	-	1,198
Countryside and rural services	-	-	-	(497)	-	(497)	(497)	(350)	147	147	(885)
Departmental operating costs	-	-	-	91,813	-	91,813	91,813	152,353	60,540	37,651	123,245
Food and farming (ALB) (net)	-	-	-	1,682	-	1,682	1,682	(15)	(1,697)	-	459
Improve the environment (ALB) (net)	-	-	-	(11,448)	-	(11,448)	(11,448)	(14,641)	(3,193)	-	(20,584)
Protect the country from floods (ALB) (net)	-	-	-	34,335	-	34,335	34,335	40,284	5,949	5,949	12,659
Marine and fisheries (ALB) (net)	-	-	-	1,831	-	1,831	1,831	329	(1,502)	-	2,337
Countryside and rural services (ALB) (net)	-	-	-	(10)	-	(10)	(10)	-	10	10	(7)
Total	**-**	**-**	**-**	**415,991**	**(25,250)**	**390,741**	**390,741**	**457,868**	**67,127**	**67,127**	**77,998**

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

SoPS 1.1 - Analysis of Net Resource Outturn by Section continued

	2015-16 Outturn Administration			2015-16 Outturn Programme				Estimate			2014-15 Restated
	Gross	Income	Net	Gross	Income	Net	Net Total	Net Total	Net Total Compared to Estimate	Net Total Compared to Estimate Adjusted for Virements[1]	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Non Budget Expenditure Limits											
Food and farming	-	-	-	633,092	(632,975)	117	117	10,000	9,883	9,883	1,813
Prior period adjustments	-	-	-	(265)	-	(265)	(265)	-	265	265	3,911
Total	**-**	**-**	**-**	**632,827**	**(632,975)**	**(148)**	**(148)**	**10,000**	**10,148**	**10,148**	5,724
Resource Outturn	**611,441**	**(114,589)**	**496,852**	**4,068,058**	**(2,397,643)**	**1,670,415**	**2,167,267**	**2,304,508**	**137,241**	**137,241**	1,990,337
Netted off expenditure: ALB income	523	(523)	-	517,220	(517,220)	-	-				
Netted off expenditure: Other	71	(71)	-	-	-	-	-				
Intercompany transactions	178,956	-	178,956	(178,956)	-	(178,956)	-				
Capital grants	-	-	-	177,153	(37,857)	139,296	139,296				
Provisions adjustment	(3,420)	-	(3,420)	3,420	-	3,420	-				
Capital works expensed in year	-	-	-	239,717	-	239,717	239,717				
Prior period adjustment	-	-	-	265	-	265	265				
Other adjustments	(1,300)	(47,362)	(48,662)	-	-	-	(48,662)				
Net Operating Cost	**786,271**	**(162,545)**	**623,726**	**4,826,877**	**(2,952,720)**	**1,874,157**	**2,497,883**				

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

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in Chapter 3.

SoPS 1.2 - Analysis of Net Capital Outturn by Section

	2015-16 Outturn			2015-16 Estimate			2014-15 Restated
	Gross	Income	Net	Net Total	Net Total Compared to Estimate	Net Total Compared to Estimate Adjusted for Virements[1]	Net Total
	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)							
Voted							
Food and farming	28,550	(33)	28,517	25,573	(2,944)	-	43,217
Improve the environment	40,941	(1)	40,940	40,507	(433)	-	43,623
Protect the country from floods	12,353	-	12,353	12,600	247	247	11,583
Animal and plant health	8,144	(2,670)	5,474	3,340	(2,134)	-	5,660
Marine and fisheries	1,076	(94)	982	192	(790)	-	1,115
Countryside and rural services	19,582	(34)	19,548	19,130	(418)	-	20,379
Departmental operating costs	9,292	(15,203)	(5,911)	5,618	11,529	4,713	(2,750)
Improve the environment (ALB) (net)	21,822	-	21,822	25,380	3,558	3,558	24,655
Protect the country from floods (ALB) (net)	405,084	-	405,084	405,000	(84)	-	489,355
Marine and fisheries (ALB) (net)	261	-	261	276	15	15	388
Countryside and rural services (ALB) (net)	402	-	402	389	(13)	-	786
Total	**547,507**	**(18,035)**	**529,472**	**538,005**	**8,533**	**8,533**	638,011
Annually Managed Expenditure (AME)							
Voted							
Food and farming (ALB) (net)	75	-	75	1,000	925	925	1,586
Protect the country from floods (ALB) (net)	-	-	-	1,000	1,000	833	-
Marine and fisheries (ALB) (net)	167	-	167	-	(167)	-	51
Total	**242**	**-**	**242**	**2,000**	**1,758**	**1,758**	1,637
Capital Outturn	**547,749**	**(18,035)**	**529,714**	**540,005**	**10,291**	**10,291**	639,648

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

SoPS 2 - Reconciliation of Net Resource Outturn to Net Operating Expenditure

		Note	**2015-16 Outturn**	2014-15 Restated Outturn
			£000	£000
Total Resource Outturn in SoPS	Budget	SoPS 1.1	2,167,415	1,984,613
	Non Budget	SoPS 1.1	(148)	5,724
			2,167,267	1,990,337
Add:	Capital grants / income		139,296	201,069
	Capital works expensed in year		239,717	277,509
	Adjustment to IFRIC 12		(1,300)	1,374
	CFER adjustment		(47,362)	(9,616)
	Prior Period Adjustments	Resource	(1,022)	(3,087)
		Capital	1,287	198
			330,616	467,447
Net Operating Cost			**2,497,883**	2,457,784

The Non-Budget Outturn for 2015–16 includes the PPAs from 2014–15.

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

		2015-16		
	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000
Resource Outturn	SoPS 1.1	2,304,508	2,167,267	137,241
Capital Outturn	SoPS 1.2	540,005	529,714	10,291
Accruals to cash adjustments (Core and Agencies only):				
Accrual to cash basis - capital expenditure		-	10,198	(10,198)
Accrual to cash basis - capital disposals		-	(748)	748
Service concession adjustment and other finance leases		-	1,244	(1,244)
Adjustments to remove non cash items (Core and Agencies only):				
Depreciation / amortisation / impairment	4	(90,934)	(55,630)	(35,304)
New provisions and adjustment to provisions	4	(411,073)	(364,081)	(46,992)
Prior Period Adjustments		-	186	(186)
Other non cash items		(2,397)	24,399	(26,796)
Adjustments for NDPBs:				
Remove voted resource		(744,883)	(771,309)	26,426
Remove voted capital		(433,045)	(427,811)	(5,234)
Add cash Grant-in-Aid		1,024,520	993,812	30,708
Adjustments to reflect movements in working capital balances (Core and Agencies only) :				
Increase/(decrease) in inventories	SoCF	-	1,746	(1,746)
Increase/(decrease) in receivables excluding derivatives	SoCF	1,150,000	387,051	762,949
Adjustment for derivative financial instruments	SoCF	-	(77,930)	77,930
Movement in receivables affecting items not passing through the SoPS		-	4,722	(4,722)
(Increase)/decrease in payables excluding derivatives	SoCF	(156,000)	(857,519)	701,519
Movement in payables affecting items not passing through the SoPS		-	701,804	(701,804)
Use of Provisions	SoCF	127,162	143,982	(16,820)
Funding to / from other bodies	SoCF	-	22	(22)
Net Cash Requirement		**3,307,863**	**2,411,119**	**896,744**

*The Grant-in-Aid figure includes £69,900 relating to EA's closed pension scheme

Explanations of significant variances between Estimate and Outturn for Resource, Capital and Net Cash Requirement are shown in Chapter 3.

SoPS 4 - Income Payable to the Consolidated Fund

In addition to income retained by the Department, the following income is payable to the Consolidated Fund (cash receipts are shown in italic).

	Outturn 2015-16		Outturn 2014-15	
	Income	***Receipts***	Income	*Receipts*
	£000	***£000***	£000	*£000*
Income outside the ambit of the Estimate	47,362	*52,084*	9,616	*4,894*
Total income payable to the Consolidated Fund	**47,362**	***52,084***	9,616	*4,894*

Further Information Relating to Parliamentary Accountability

Losses and Special Payments - Losses Statement (Audited)

	2015-16		2014-15	
			Restated	Restated
	Core Department and Agencies	Departmental Group	Core Department and Agencies	Departmental Group
	£000	£000	£000	£000
Losses Values				
Cash losses	961	1,728	3,251	7,168
Stores losses	133	133	29	29
Administrative write-offs	-	5,160	15	4,049
Constructive losses	2,065	2,065	5,354	5,354
Claims abandoned	(147)	(147)	352	352
Total	**3,012**	**8,939**	9,001	16,952

	Core Department and Agencies	Departmental Group	Core Department and Agencies	Departmental Group
	Number	Number	Number	Number
Number of Cases				
Cash losses	344	921	727	1,336
Stores losses	1	1	27	27
Administrative write-offs	-	2,663	9	1,749
Fruitless payments	-	-	-	-
Constructive losses	2	2	2	2
Claims abandoned	446	446	1,046	1,046
Total	**793**	**4,033**	1,811	4,160

Included under ‘claims abandoned’ is a credit balance of £151,793 within the Rural Payments Agency. This is due to the release of costs accrued in previous years which were in excess of payments made in 2015–16.

Details of Cases over £300,000

An Environment Agency invoice of £324,000 was raised to recover the costs of a pollution incident. Courts ruled that the party was not liable and no other liable party could be identified, therefore, the invoice had to be written off.

Impairment costs of £2m have been incurred mainly because of technical issues or the decision not to use a number of IT features developed in the Common Agricultural Policy delivery system for operation in the year ending 31 March 2016.

Losses and Special Payments – Special Payments (Audited)

	2015-16		2014-15	
	Core Department and Agencies	Departmental Group	Core Department and Agencies	Departmental Group
Value (£000)	**775**	**775**	1,561	1,561
Number of cases	**243**	**243**	388	388

Details of Cases over £300,000

The Core Department made a payment of £475,000 as compensation for the slaughter of a goat herd and machinery being seized due to scrapie disease.

Fees and Charges (Audited)

In 2015–16 the Core Department received income of £2.8m in relation to Drinking Water Inspectorate charges. The full cost was £2.75m creating a surplus of £50,000.

Income from the Sale of Goods and Services provided by the executive agencies and NDPBs can be found in their respective Annual Reports and Accounts.

Remote Contingent Liabilities Included for Parliamentary Reporting and Accountability Purposes (Audited)

In addition to contingent liabilities reported within the meaning of IAS 37, the Department also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability.

Quantifiable

Defra has entered into the following quantifiable remote contingent liabilities by offering guarantees, indemnities or by giving letters of comfort.

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

- Indemnity signed by Defra, Canal and River Trust and British Waterways pension trustees in relation to the historic public sector pension liability. The potential liability is estimated at £125m (2014–15, £125m).

- An inconsistency in the European Commission’s (EC) recording mechanism for the Rural Development Programme for England relating to 2007, has resulted in a perceived overspend against a specific funding stream. As a result, and in theory the EC could refuse to reimburse £100m of current claims. However, this is thought to be very unlikely and the Department does not anticipate any liability.

- Small potential liabilities are estimated at no more than £9.4m (2014–15 £2.8m).

Unquantifiable

Defra has entered into the following remote contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. Due to the variable nature of these contingent liabilities they are classified as unquantifiable.

- Where Defra has assigned a previously held lease to a third party, Defra remains potentially liable to compensate the landlord where the subsequent lessee defaults and the landlord fails to achieve redress elsewhere.

- Environmental contamination arising from the use, and former use of sites which Defra controls, or formerly controlled, may give rise to a future remediation liability.

- Defra may be liable for a potential penalty following an EC cross compliance audit through the European Court of Justice.

- A lease condition of the agreement with Fera Science Limited (FSL) for Sand Hutton gives that if an insured risk eventuates that makes the premises inaccessible, there is an obligation for full rebuilding (where it is possible to do so and subject to a long-stop date of two years) and temporary relocation of the FSL facilities to allow FSL to continue to operate.

- Potential future claims (both civil and criminal) against the Core Department for pollution that may arise from foot and mouth disease farm burial grounds.

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

- Government Support Package providing contingent support for the Thames Tideway Tunnel project in certain, unlikely circumstances.

- There is an ongoing potential liability in respect of financial corrections, which at present is uncertain and unquantifiable as an EC audit has yet to take place.

- Removal of waste from sites is the responsibility of the operator or the landowner, but in exceptional circumstances (for example, where there is a serious risk of pollution) EA may remove abandoned waste. The EA will seek to recover costs from the operator or landowner but in the event of a number of cases arising where costs cannot be recovered or be met through other means identified by the EA, then funding issues may fall to Defra to resolve.

- Infringements of the Air Quality Directive could lead to fines for the Core Department to the EU. The UK has revised air quality plans to ensure compliance in the shortest possible time.

Core Tables

The Core Tables can be found in Annex 1.

Clare Moriarty 12 July 2016
Accounting Officer for the Department for Environment, Food and Rural Affairs

Financial Statements

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2016

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

		2015-16		2014-15	
	Note	Core Department and Agencies	Departmental Group	Restated Core Department and Agencies	Restated Departmental Group
		£000	£000	£000	£000
Total Operating Income	5	(2,564,454)	(3,115,265)	(3,332,939)	(3,843,496)
Staff Costs	3	350,819	858,248	369,940	862,382
Grant-in-Aid to NDPBs	4	923,912	-	1,133,657	-
Other costs	4	3,684,151	4,754,900	4,274,820	5,438,898
Total Operating Costs		4,958,882	5,613,148	5,778,417	6,301,280
Net Operating Costs		2,394,428	2,497,883	2,445,478	2,457,784
Non Operating Activities					
(Gain)/loss on transfer to/from Core Department		-	-	-	758
Net Expenditure		2,394,428	2,497,883	2,445,478	2,458,542
Other Comprehensive Expenditure					
Items that will not be reclassified to Net Operating Costs					
Net (gain)/loss on					
Revaluation of PPE	SoCTE	(20,981)	(189,127)	(52,463)	(164,788)
Charitable funds revaluation	SoCTE	-	(15,411)	-	(10,544)
Revaluation of intangibles	7	(3,816)	(4,998)	(752)	(3,023)
Pension actuarial movements	16	(26,423)	(324,252)	(11,483)	213,389
Items that may be reclassified subsequently to Net Operating Costs					
Net (gain)/loss on					
Revaluation of investments	11	-	(14)	-	-
Revaluation of hedging instruments	SoCTE	39,876	39,876	(256)	(256)
Total Comprehensive Net Expenditure for the year		2,383,084	2,003,957	2,380,524	2,493,320

EU funding for the Department totalling £2,329m (2014–15, £3,139m) is included within income totals. Further details can be found in Note 5.

Non-operating transactions occur from the transfer of assets/liabilities between government bodies.

The notes on pages 76 – 116 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2016

This statement presents the financial position of Defra. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

		31 March 2016		31 March 2015	
				Restated	Restated
		Core Department and Agencies	**Departmental Group**	Core Department and Agencies	Departmental Group
	Note	**£000**	**£000**	£000	£000
Non current assets					
Property, plant and equipment and investment properties	6.1, 6.2, 6.4	397,439	3,217,651	405,443	3,052,027
Heritage assets	6.3	-	218,075	-	215,619
Agricultural assets		-	168	-	172
Intangible assets	7	148,468	263,189	136,104	265,099
Investments	11	27,375	27,175	6,845	7,161
Net pension assets	16.2	-	3,914	-	7,600
Receivables falling due after more than one year	13	10,948	10,952	11,467	11,471
Total non current assets		**584,230**	**3,741,124**	559,859	3,559,149
Current assets					
Assets classified as held for sale		6,088	14,929	11,720	21,399
Inventories		6,369	7,073	4,623	5,188
Other financial assets	13	2,336	2,336	25,252	25,252
Trade and other receivables	13	1,119,805	1,244,911	732,235	841,080
Cash and cash equivalents	12	896,744	1,086,008	177,506	335,307
Total current assets		**2,031,342**	**2,355,257**	951,336	1,228,226
Total assets		**2,615,572**	**6,096,381**	1,511,195	4,787,375
Current liabilities					
Trade and other payables	14	(1,633,556)	(2,010,826)	(827,785)	(1,161,521)
Provisions	15.1	(77,773)	(89,431)	(86,844)	(97,683)
Net pension liability	16.2	(71,178)	(71,193)	(73,452)	(73,467)
Other financial liabilities	14	(99,884)	(99,884)	(890)	(890)
Total current liabilities		**(1,882,391)**	**(2,271,334)**	(988,971)	(1,333,561)
Non current assets plus/less net current assets/liabilities		**733,181**	**3,825,047**	522,224	3,453,814
Non current liabilities					
Provisions	15.1	(401,550)	(403,970)	(123,077)	(126,309)
Net pension liability	16.2	(499,263)	(969,054)	(582,615)	(1,301,801)
Other payables	14	(134,055)	(137,945)	(82,506)	(87,546)
Other financial liabilities	14	-	(141,600)	(3,905)	(145,505)
Total non current liabilities		**(1,034,868)**	**(1,652,569)**	(792,103)	(1,661,161)
Assets less liabilities		**(301,687)**	**2,172,478**	(269,879)	1,792,653
Taxpayers' equity and other reserves					
General fund	SoCTE	(413,291)	6,092	(413,813)	(261,759)
Revaluation Reserve	SoCTE	151,229	2,026,840	143,683	1,899,123
Hedging reserve	SoCTE	(39,625)	(39,625)	251	251
Charitable funds - restricted funds	SoCTE	-	33,143	-	22,501
Charitable funds - unrestricted funds*	SoCTE	-	146,028	-	132,537
Total equity		**(301,687)**	**2,172,478**	(269,879)	1,792,653

* The unrestricted charitable funds figure includes RBG Kew's revaluation reserve totalling £107.4m (2014–15, £92.9m).

The increase in cash balances of £751m relates mainly to EC payments being processed for farmers claims.
The decrease in pension liability relates to the change in discount factor advised by HM Treasury.

Clare Moriarty 12 July 2016
Accounting Officer for the Department for Environment, Food and Rural Affairs

Consolidated Statement of Cash Flows

for the year ended 31 March 2016

This statement shows the changes in cash and cash equivalents of Defra during the reporting period. It shows how Defra generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to Defra's future public service delivery. Cash flows arising from financing activities include Parliamentary Supply and other cash flows, including borrowing.

		2015-16		2014-15	
		Core Department and Agencies	**Departmental Group**	Restated Core Department and Agencies	Restated Departmental Group
	Note	**£000**	**£000**	£000	£000
Cash flows from operating activities					
Net Operating Costs	SoCNE	(2,394,428)	(2,497,883)	(2,445,478)	(2,457,784)
Adjust for non cash transactions		395,312	667,844	239,192	467,265
(Increase)/decrease in trade and other receivables excluding derivatives	13	(387,051)	(403,312)	(182,405)	(175,551)
less movements in receivables relating to items not passing through the SoCNE		-	-	16,477	16,387
Adjustments for derivative financial instruments		77,930	77,930	(19,167)	(19,167)
(Increase) / decrease in inventories		(1,746)	(1,885)	2,144	2,196
Increase / (decrease) in trade payables and other liabilities excluding derivatives	14	857,519	899,903	79,458	48,801
less movements in payables relating to items not passing through the SoCNE		(701,804)	(699,809)	90,314	88,579
Use of provisions / pension liabilities		(143,982)	(204,672)	(185,513)	(250,263)
Net cash outflow from operating activites		**(2,298,250)**	**(2,161,884)**	(2,404,978)	(2,279,537)
Cash flows from investing activities					
Purchase of PPE, heritage and agricultural assets	6.5	(16,294)	(106,623)	(13,340)	(107,926)
Purchase of intangible assets	7	(40,321)	(55,233)	(43,254)	(57,807)
Purchase of financial assets	11	(20,530)	(20,000)	-	-
Proceeds of disposal of PPE, heritage and agricultural assets		18,558	19,377	8,922	10,602
Net cash outflow from investing activities		**(58,587)**	**(162,479)**	(47,672)	(155,131)
Cash flows from financing activities					
From Consolidated Fund (Supply): current year	SoCTE	3,130,357	3,130,357	2,362,291	2,362,291
Advances from Contingencies Fund		1,900,000	1,900,000	2,400,000	2,400,000
Repayments to Contingencies Fund		(1,900,000)	(1,900,000)	(2,400,000)	(2,400,000)
Capital element in respect of service concession arrangements and		(2,176)	(3,105)	(1,707)	(2,375)
Funding to / from other bodies		(22)	25	(2)	24
Net financing		**3,128,159**	**3,127,277**	2,360,582	2,359,940
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		771,322	802,914	(92,068)	(74,728)
Payments of amounts due to the Consolidated Fund		(52,084)	(52,084)	(8,470)	(8,470)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	12	719,238	750,830	(100,538)	(83,198)
Cash and cash equivalents at the beginning of the period	12	**177,506**	**334,974**	278,044	418,172
Cash and cash equivalents at the end of the period	12	**896,744**	**1,085,804**	177,506	334,974

For the Departmental Group, the cash and cash equivalents and associated movements include a bank overdraft of £204,000 at 31 March 2016 and £333,000 at 31 March 2015 (included in Note 14).

The notes on pages 76 – 116 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

This Statement shows the movement in the year on the different reserves held by Defra. The General Fund reflects financing and balances from the provision of services, i.e. it reflects the contribution from the Consolidated Fund. The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. Other specific reserves are shown separately where there are statutory restrictions of their use. The Hedging Reserve recognises the effective portion of changes in the fair value of RPA's foreign currency derivatives that are designated and qualify as cash flow hedges. Charitable funds represent the fair value of donations, including revaluation, given to Royal Botanic Gardens Kew. Unrestricted reserves are those donations that have no restrictions on their use, or income flow.

for the year ended 31 March 2016

Departmental Group

					2015-16			
	Note	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unestricted	Total Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 31 March 2015		(257,636)	1,899,109	251	1,641,724	22,501	132,537	1,796,762
Prior Year Adjustment		(843)	14	-	(829)	-	-	(829)
Restatement - Metal Mines Provision		(3,280)	-	-	(3,280)	-	-	(3,280)
Restated Balance at 1 April 2015		**(261,759)**	**1,899,123**	**251**	**1,637,615**	**22,501**	**132,537**	**1,792,653**
Net Parliamentary Funding - drawn down	SoCF	3,130,357	-	-	3,130,357	-	-	3,130,357
Net Parliamentary Funding - deemed		177,506	-	-	177,506	-	-	177,506
Funding to / from other bodies	SoCF	25	-	-	25	-	-	25
Supply (payable) adjustment		(896,744)	-	-	(896,744)	-	-	(896,744)
Payable to the Consolidated Fund	SoPS 4	(47,362)	-	-	(47,362)	-	-	(47,362)
Net Operating Costs for the year	SoCNE	(2,506,605)	-	-	(2,506,605)	10,628	(1,906)	(2,497,883)
Non cash adjustments								
Non cash charges - auditors' remuneration	4	1,048	-	-	1,048	-	-	1,048
Movement in reserves								
Recognised in Other Comprehensive Expenditure:								
Revaluation of PPE	OCE	-	189,127	-	189,127	-	-	189,127
Charitable funds revaluation	OCE	-	-	-	-	14	15,397	15,411
Revaluation of intangibles	OCE	-	4,998	-	4,998	-	-	4,998
Revaluation of investments	OCE	-	14	-	14	-	-	14
Pension actuarial movements	OCE	324,252	-	-	324,252	-	-	324,252
Revaluation/impairments - Hedging Reserve	OCE	-	-	(143,876)	(143,876)	-	-	(143,876)
Contributions in respect of unfunded benefits		9,900	-	-	9,900	-	-	9,900
Release of reserves to SoCNE	OCE	-	-	104,000	104,000	-	-	104,000
Transfers between reserves		66,422	(66,422)	-	-	-	-	-
Transfer to General Fund - net asset transfer		4,686	-	-	4,686	-	-	4,686
Non Operating General Fund movements		4,366	-	-	4,366	-	-	4,366
Balance at 31 March 2016		**6,092**	**2,026,840**	**(39,625)**	**1,993,307**	**33,143**	**146,028**	**2,172,478**

The pension actuarial movement is as a result of the higher discount rate advised by HM Treasury which changed the actuarial assumptions and led to a reduction in the pension liability.

for the year ended 31 March 2015

Departmental Group

	Note	General Fund	Revaluation Reserve	Hedging Reserve	2014-15 Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 31 March 2014		(60,158)	1,792,076	(5)	1,731,913	16,749	125,065	1,873,727
Prior Year Adjustment		5,606	8,217	-	13,823	-	-	13,823
Restatement - Metal Mines provision		(65,340)	-	-	(65,340)	-	-	(65,340)
Restated Balance at 1 April 2014		(119,892)	1,800,293	(5)	1,680,396	16,749	125,065	1,822,210
Net Parliamentary Funding - drawn down	SoCF	2,362,291	-	-	2,362,291	-	-	2,362,291
Net Parliamentary Funding - deemed		274,468	-	-	274,468	-	-	274,468
Funding to / from other bodies	SoCF	24	-	-	24	-	-	24
Supply (payable) adjustment		(177,506)	-	-	(177,506)	-	-	(177,506)
Payable to the Consolidated Fund	SoPS 4	(9,616)	-	-	(9,616)	-	-	(9,616)
Net Operating Costs for the year	SoCNE	(2,460,464)	-	-	(2,460,464)	5,723	(3,043)	(2,457,784)
Non cash adjustments								
Non cash charges - auditors' remuneration	4	1,155	-	-	1,155	-	-	1,155
Notional recharges and other non cash items		67	-	-	67	-	-	67
Movement in reserves								
Recognised in Other Comprehensive Expenditure:								
Revaluation of PPE	OCE	-	164,788	-	164,788	-	-	164,788
Charitable funds revaluation	OCE	-	-	-	-	29	10,515	10,544
Revaluation of intangibles	OCE	-	3,023	-	3,023	-	-	3,023
Pension actuarial loss	OCE	(213,389)	-	-	(213,389)	-	-	(213,389)
Revaluation/impairments - Hedging Reserve	OCE	-	-	74,654	74,654	-	-	74,654
Contributions in respect of unfunded benefits		10,800	-		10,800	-	-	10,800
Release of reserves to SoCNE	OCE	-	-	(74,398)	(74,398)	-	-	(74,398)
Transfers between reserves		68,981	(68,981)	-	-	-	-	-
Transfer to General Fund - net asset transfer		26	-	-	26	-	-	26
Gain/(loss) on transfer of function		(758)	-	-	(758)	-	-	(758)
Non Operating General Fund movements		2,054	-	-	2,054	-	-	2,054
Restated balance at 31 March 2015		(261,759)	1,899,123	251	1,637,615	22,501	132,537	1,792,653

for the year ended 31 March 2016

Core Department and Agencies

		2015-16						
	Note	General Fund £000	Revaluation Reserve £000	Hedging Reserve £000	Taxpayers' Equity £000	Charitable Funds - Restricted/ Endowment £000	Charitable Funds - Unestricted £000	Total Reserves £000
Balance as at 31 March 2015		(409,439)	143,683	251	(265,505)	-	-	(265,505)
Prior Year Adjustment		(1,094)	-	-	(1,094)	-	-	(1,094)
Restatement - Metal Mines Provision		(3,280)	-	-	(3,280)	-	-	(3,280)
Restated Balance at 1 April 2015		**(413,813)**	**143,683**	**251**	**(269,879)**	**-**	**-**	**(269,879)**
Net Parliamentary Funding - drawn down	SoCF	3,130,357	-	-	3,130,357	-	-	3,130,357
Net Parliamentary Funding - deemed		177,506	-	-	177,506	-	-	177,506
Funding to / from other bodies	SoCF	(22)	-	-	(22)	-	-	(22)
Supply (payable) adjustment		(896,744)	-	-	(896,744)	-	-	(896,744)
Payable to the Consolidated Fund	SoPS 4	(47,362)	-	-	(47,362)	-	-	(47,362)
Net Operating Costs for the year	SoCNE	(2,394,428)	-	-	(2,394,428)	-	-	(2,394,428)
Non cash adjustments								
Non cash charges - auditors' remuneration	4	1,048	-	-	1,048	-	-	1,048
Notional recharges and other non cash items		(31,947)	-	-	(31,947)	-	-	(31,947)
Movement in reserves								
Recognised in Other Comprehensive Expenditure:								
Revaluation of PPE	OCE	-	20,981	-	20,981	-	-	20,981
Revaluation of intangibles	OCE	-	3,816	-	3,816	-	-	3,816
Pension actuarial movements	OCE	26,423	-	-	26,423	-	-	26,423
Revaluation/impairments - Hedging Reserve	OCE	-	-	(143,876)	(143,876)	-	-	(143,876)
Contributions in respect of unfunded benefits		9,900	-	-	9,900	-	-	9,900
Release of reserves to SoCNE	OCE	-	-	104,000	104,000	-	-	104,000
Transfers between reserves		17,251	(17,251)	-	-	-	-	-
Transfer to General Fund - net asset transfer		4,174	-	-	4,174	-	-	4,174
Non Operating General Fund movements		4,366	-	-	4,366	-	-	4,366
Balance at 31 March 2016		**(413,291)**	**151,229**	**(39,625)**	**(301,687)**	**-**	**-**	**(301,687)**

for the year ended 31 March 2015

Core Department and Agencies

		2014-15						
	Note	General Fund £000	Revaluation Reserve £000	Hedging Reserve £000	Taxpayers' Equity £000	Charitable Funds - Restricted/ Endowment £000	Charitable Funds - Unestricted £000	Total Reserves £000
Balance as at 31 March 2014		(391,865)	100,722	(5)	(291,148)	-	-	(291,148)
Prior Year Adjustment		(4,756)	8,137	-	3,381	-	-	3,381
Restatement - Metal Mines provision		(65,340)	-	-	(65,340)	-	-	(65,340)
Restated Balance at 1 April 2014		(461,961)	108,859	(5)	(353,107)	-	-	(353,107)
Net Parliamentary Funding - drawn down	SoCF	2,362,291	-	-	2,362,291	-	-	2,362,291
Net Parliamentary Funding - deemed		274,468	-	-	274,468	-	-	274,468
Funding to / from other bodies	SoCF	(2)	-	-	(2)	-	-	(2)
Supply (payable) adjustment		(177,506)	-	-	(177,506)	-	-	(177,506)
Payable to the Consolidated Fund	SoPS 4	(9,616)	-	-	(9,616)	-	-	(9,616)
Net Operating Costs for the year	SoCNE	(2,445,478)	-	-	(2,445,478)	-	-	(2,445,478)
Non cash adjustments								
Non cash charges - auditors' remuneration	4	1,155	-	-	1,155	-	-	1,155
Notional recharges and other non cash items		(3)	-	-	(3)	-	-	(3)
Movement in reserves								
Recognised in Other Comprehensive Expenditure:								
Revaluation of PPE	OCE	-	52,463	-	52,463	-	-	52,463
Revaluation of intangibles	OCE	-	752	-	752	-	-	752
Pension actuarial loss	OCE	11,483	-	-	11,483	-	-	11,483
Revaluation/impairments - Hedging Reserve	OCE	-	-	74,654	74,654	-	-	74,654
Contributions in respect of unfunded benefits		10,800	-		10,800	-	-	10,800
Release of reserves to SoCNE	OCE	-	-	(74,398)	(74,398)	-	-	(74,398)
Transfers between reserves		18,391	(18,391)	-	-	-	-	-
Transfer to General Fund - net asset transfer		1,561	-	-	1,561	-	-	1,561
Non Operating General Fund movements		604	-	-	604	-	-	604
Restated balance at 31 March 2015		(413,813)	143,683	251	(269,879)	-	-	(269,879)

The notes on pages 76 – 116 form part of these accounts.

Notes to the Departmental Accounts

1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2015–16 *Government Financial Reporting Manual* (FReM) issued by HM Treasury and are in accordance with directions issued by the Secretary of State for the Environment, Food and Rural Affairs.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS), as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, a judgement has been made to select the most appropriate policy to suit the particular circumstances of the Department, for the purpose of giving a true and fair view. The Department's accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

1.1 Significant Judgments and Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amount of income and expenditure. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. Where appropriate, the relevant notes to the accounts provide further detail on estimation techniques.

Details of significant judgements that management have made in the process of applying the Department's accounting policies are:

- revenue recognition – Single Payment Scheme (SPS) and Basic Payment Scheme (BPS) (see Note 1.5.1) and Rural Development Programme Expenditure (RDPE) (see Note 1.5.2);
- Environment Agency (EA) accrued and deferred income (see Note 1.12);
- EA capital works expensed (see Note 1.16);
- foreign exchange (see Note 1.18.3);
- provisions, including those for abandoned metal mines (see Note 15.5) and foot and mouth disease burial sites (see Note 15.6);
- property plant and equipment valuation (see Note 1.6.1); and
- pension liabilities (see Note 1.20). Independent and qualified actuaries assess the specific factors that influence the pension fund position.

1.2 Accounting Convention

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

1.3 Going Concern

In common with other government departments, the future financing of Defra's liabilities is to be met by future grants of supply and the application of future income approved annually by Parliament. Approval for amounts required for 2016–17 is due to be given before the parliamentary recess and there is no reason to believe that future approvals will not be made. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.4 Basis of Consolidation

These accounts comprise a consolidation of the Core Department, executive agencies and those other delivery bodies which fall within the departmental boundary as defined in the FReM and make up the 'Departmental Group'. A list of those entities within the departmental boundary is given in Note 21. This includes Flood Re, incorporated into the Departmental Group results, and the Forestry Commission (FC), which is included within the results of the Core Department and executive agencies. Transactions between entities included in the consolidation have been eliminated.

1.5 Scheme Costs and Grants

1.5.1 RPA Reported Income and Expenditure

BPS and SPS expenditure for England is managed by the Rural Payments Agency (RPA) on behalf of Defra. Defra has no managing authority status for BPS and SPS and consequently expenditure and associated European Commission (EC) income is recognised in RPA's ARA. Generally expenditure is recognised when RPA has a present obligation to make payments to claimants as a result of the completion of all substantive processes to validate each claim against EC rules for the schemes, with the amount payable being reliably measurable and probable. BPS and SPS income for England is recognised by RPA when it is probable that it will receive a reimbursement from the EC for scheme expenditure incurred and the amount to be received from the EC is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised, that is, upon the completion of all substantive processes to validate and reliably measure each claim.

Other UK Paying Agencies make payments to claimants under both the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The payments made by the other UK Paying Agencies are funded by RPA and subsequently recovered by the Agency from the EC.

Scheme expenditure in relation to funding provided by RPA is recognised when RPA has a present obligation to make payment to the other UK Paying Agencies and the amount payable is considered reliably measurable and probable. These conditions are deemed to be met upon the receipt of a funding request from the other UK Paying Agencies, adjusted for amounts unspent by the paying agencies at period end.

Scheme income in relation to funding provided to the other UK Paying Agencies is recognised by RPA when it is probable that it will receive reimbursement from the EC for scheme expenditure incurred and the amount to be received from the EC is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised.

1.5.2 Other Reported Scheme Income and Expenditure

Payments under RDPE are made by RPA on behalf of both Defra and FC. Defra's status as Managing Authority for RDPE conveys the risks and rewards associated with budget responsibility and consequently RDPE expenditure and associated EU income is recognised in the Core Department's ARA. Defra delegates authority to RPA to administer certain elements of RDPE, including validation and payments of eligible claims as authorised by Natural England (NE), FC and RPA. Generally, the amounts are recognised when Defra has a present obligation as a result of the completion of all substantive processes to validate each claim and the amount payable being reliably measurable and probable. RDPE EC income is recognised at the same time as the EC element of the expenditure is recognised.

1.6 Property, Plant and Equipment

1.6.1 Recognition and Valuation

With the exception of EA's Infrastructure Assets (see below), freehold land and buildings and, where appropriate, assets under construction, are subject to professional valuation at no more than five yearly intervals. These are carried out by professionally qualified independent valuers, who adhere to the principles outlined in the Royal Institution of Chartered Surveyors (RICS) Red Book. The most recent valuation at the Core Department was completed in December 2014 by Montagu Evans, under the guidance of a qualified director in their valuation department. Full external professional valuation exercises were also completed at both EA and NE in March 2016.

Land and buildings are stated at fair value, which in practice is either depreciated replacement cost, open market value or existing use value. Non-specialised properties are stated at existing use value. Between professional valuations, annual desk top revaluations are conducted, which have regard to prevailing local and national conditions.

EA's infrastructure asset category represents those assets used in their service delivery and are specific in either nature, location or function. It is not possible to effectively revalue these assets using market comparatives or professional valuations. These assets are held at depreciated replacement cost and are indexed annually.

In accordance with IFRS 13, Fair Value Measurement, non-property tangible assets are carried at fair value, apart from the Joint Nature Conservation Committee (JNCC) and the Marine Management Organisation (MMO), where they are stated at depreciated historic cost where assets have short useful lives or low values. Fair value for non-current assets held for their service potential is current value in existing use.

Minimum levels of capitalisation within the departmental boundary are generally in the ranges of £2,000–£10,000 although, for all land at EA, no de minimis threshold is in force.

1.6.2 Lease Breaks

The Estates Strategy states that the default position is that lease breaks are exercised. Defra undertakes a detailed annual review on the material lease exits. This has the implication of recognising the lease commitment (and any depreciation) to the lease break date. If however, the evidence suggests that it is unlikely individual lease breaks will be exercised, the commitment is until the end of the lease.

1.7 Assets Under Construction

Assets under construction are shown at accumulated cost with depreciation commencing when the asset is completed and brought into service.

1.8 Heritage Assets

NE fulfils a stewardship role in respect of National Nature Reserves (NNR). NNR land is classified as non-operational heritage assets, reported in the Statement of Financial Position (SoFP) at fair value, and is subject to professional valuation every five years, the latest being in March 2016. Between valuations, values are updated annually, where material, using a combination of indices issued by RICS and the Department for Business, Innovation and Skills. Any surplus or deficit compared to their historic cost is recognised in the Revaluation Reserve, to the value of any previous upward revaluation, and is reported in the Statement of Comprehensive Net Expenditure (SoCNE) and Statement of Changes in Taxpayers' Equity (SoCTE).

Royal Botanic Gardens Kew (RBG Kew) also holds heritage assets. RBG Kew has not capitalised heritage buildings acquired before 2001–02, as the cost of obtaining valuations for older collections and buildings is onerous compared to the benefit to the readers of the accounts. Subsequent to 2001–02, in accordance with FRS 30, Heritage Assets, additions for heritage land and buildings are recognised at cost and revalued every five years by external professionally qualified valuers, on the basis of either open market value for existing use or depreciated replacement cost. The last professional revaluation was carried out during 2011–12, by Powis Hughes and Associates, Chartered Surveyors, and Fanshawe, Chartered Quantity Surveyors. Between professional revaluations, values are updated using indices provided by the professional valuers. Heritage collections purchased subsequent to 2001–02 are recognised at cost and are neither revalued nor depreciated, but are subject to impairment review at five yearly intervals, or when circumstances dictate.

1.9 Intangible Non-Current Assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. These comprise software licences and internally developed IT software, including assets under construction.

The Department holds various software licences, which were capitalised at purchase cost where this exceeded capitalisation thresholds. Such assets are revalued only where it is possible to obtain a reliable estimate of their market value.

The Department's expenditure on research activities is written off to the SoCNE as incurred. Capitalisation of development costs is contingent on fulfilment of the criteria noted in IAS 38 (Intangible Assets).

Internally developed computer software includes capitalisation of internal IT employee costs on projects. The Department does not hold any intangible assets with an indefinite useful life. The capitalisation threshold for the Defra family ranges between £2,000 and £100,000. When fully operational in the business, internally generated computer software is stated at a proxy for fair value, which generally, if it is not income generating, is indexed depreciated replacement cost.

1.10 Depreciation and Amortisation

Depreciation and amortisation are provided using the straight line method over the estimated useful life of the asset.

Land, assets under construction, non-operational heritage assets and assets held for sale are not depreciated.

Componentisation has been adopted by certain entities within the consolidation boundary. In these instances, each component of an asset with a value deemed material to the total fair value of the asset is capitalised and depreciated separately. Where componentisation is not yet fully in place, proxy values have been estimated using the weighted average useful life method. Estimated useful lives, component values and residual values are appropriately set across the Defra group and are revised annually.

Assets are depreciated over the following timescales.

• Infrastructure assets	15 to 100 years
• Freehold and leasehold buildings	Up to 80 years or remaining life of lease
• Vehicles, plant, machinery and equipment	Up to 30 years
• Intangible assets	Up to 25 years

1.11 Impairment

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount. An impairment review is carried out on an annual basis.

Any permanent diminution in the value of an asset due to clear consumption of economic benefit or service potential is recognised in full as an impairment loss in the SoCNE. An amount up to the value of the impairment is transferred from the Revaluation Reserve (to the extent that a balance exists) to the General Fund for the individual asset concerned.

Downward revaluations, resulting from changes in market value, only result in an impairment where the asset is revalued below its historical cost carrying amount. In these cases the accounting treatment is as for any other impairment, with amounts being firstly set against any accumulated balance in the Revaluation Reserve, and any amount in addition to this being recognised as an impairment and recorded in the SoCNE.

1.12 Income

Operating income relates directly to the operating activities of the Department. Income is recognised on an accruals basis and the amounts are recorded at fair value. The method adopted for measuring the stage of completion is as described in IAS 18, Revenue.

Accrued and deferred income have been included for EA’s fees and charges balances where there is a surplus or deficit. These balances are only treated as deferred or accrued income where there is an expectation that they will be recovered over a reasonable period of time. The balances are considered when setting future years' fees and charges, to enable a break even position to be achieved over a reasonable time period, which is currently considered to be three years.

1.13 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, and short term investments.

1.14 Grant-in-Aid Funding

Grant-in-Aid from the Core Department to non-departmental public bodies (NDPBs), both in respect of capital and revenue expenditure, is treated as funding.

1.15 Administration and Programme Expenditure and Income

The classification of expenditure and income as administration or programme follows the definition set by HM Treasury. Administration costs reflect the costs of running the Department, as defined under the administration cost control regime, together with associated operating income. Income is analysed in the notes between that which is allowed to be offset against gross administrative costs and that operating income which is not. Programme costs reflect administration costs of frontline services and all other non-administration costs.

1.16 Capital Works Expensed

Expenditure which is capital in nature, but for which EA does not retain the risks and rewards in the future, or cannot reliably estimate the useful life of the assets, is expensed in year. It also includes assets where it is not possible to check for impairment, so they are written off in year.

1.17 Foreign Currency Transactions

The functional and presentational currency of the Department is sterling.

Transactions in foreign currencies, mainly relating the BPS, SPS and the Rural Development Programme, are translated into sterling using the rate at the date of the transactions. Balances held in foreign currencies are translated at the rate of exchange ruling at the date of the SoFP.

Exchange differences are recognised in the SoCNE in the period in which they arise, except for exchange differences on transactions entered in to hedge certain foreign currency risks (RPA only, see Note 1.19).

1.18 Financial Instruments

1.18.1 Financial Assets

The Department holds receivables and other financial assets (including derivatives) with a positive fair value in this category. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

1.18.2 Financial Liabilities

These comprise trade and other payables and other financial liabilities (including derivatives). They are initially recognised at fair value and are subsequently measured at amortised cost.

EA holds certain financial instrument liabilities as a result of reservoir operating agreements with two water companies entered into at their privatisation. These liabilities are treated as perpetuities and recorded in the SoFP at amortised cost. The annual payments arising from these liabilities increase annually in line with the Retail Price Index.

1.18.3 Derivative Financial Instruments

RPA enters into a variety of foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each SoFP date. The resulting gain or loss is recognised in the SoCNE immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the SoCNE depends on the nature of the hedge relationship. RPA designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset or current liability if the remaining maturity of the instrument is less than 12 months or is greater than 12 months but is expected to be realised or settled within 12 months.

1.19 Hedge Accounting

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, RPA elected to designate certain foreign currency derivatives as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within Taxpayers' Equity. The gain or loss relating to the ineffective portion is recognised immediately in the SoCNE.

Amounts previously recognised in the cash flow hedge reserve and accumulated in Taxpayers' Equity are reclassified to expenditure or income in the periods when the hedged item is recognised in the SoCNE, in the same line as the recognised hedged item.

1.20 Pensions

Generally pension benefits are provided through the civil service pension arrangements, full details of which can be found in the Remuneration Report and in Note 3.

Although the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as alpha, are unfunded defined benefit schemes, in accordance with explicit requirements in the FReM, departments, agencies and other bodies account for the schemes as if they were defined contribution plans. Costs of the elements are recognised on a systematic and rational basis over the period during which it benefits from employees' services by payment to the schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. The PCSPS and alpha pension schemes undergo a reassessment of the contribution rates by the Government Actuary at four-yearly intervals. In respect of defined contribution schemes, the Department recognises the contributions payable for the year.

Where the Department is responsible for pension schemes from delivery bodies, it has fully adopted IAS 19 Employee Benefits. The Department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the Department has a legal or constructive obligation to make good the deficit in the scheme. Scheme managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. Details of this can be found in Note 16.

1.21 Provisions

The Department provides for obligations arising from past events where the Department has a present obligation at the SoFP date, and where it is probable that it will be required to settle the obligation and a reliable estimate can be made. Where material, future costs have been discounted using the rates as directed by HM Treasury. Details of the Department's policy on disallowance provisions can be found in Chapter 3.

1.22 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, the Department discloses, for parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote.

Where the time value of money is material, contingent liabilities are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament. Further information is provided in the Remote Contingent Liabilities section in Chapter 6.

1.23 Carbon Reduction Commitment

Defra is required to purchase and surrender allowances on the basis of carbon dioxide emissions. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date.

1.24 Corporate Recharges

From 1 April 2015, Defra corporate services costs, comprising charges for legal, financial, HR, IT, estates and procurement services, were no longer invoiced to delivery bodies. Instead, delivery bodies now recognise such costs as notional charges, and the Core Department recognise the associated credit.

1.25 Impending Application of Newly Issued Accounting Standards Not Yet Effective

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. Those with relevance to the Department are outlined below. Defra has not adopted any new IFRS standards early.

IFRS 15 – Revenue from Contracts with Customers. This is effective from 1 January 2018. This standard replaces all existing IFRS guidance on revenue recognition.

IFRS 9 – Financial Instruments. This is effective from 1 January 2018. This standard brings together all three phases of the financial instruments project: Classification and Measurement; Impairment and Hedge Accounting.

IFRS 16 – Leases. This standard is effective from 1 January 2019. It will supersede all existing IFRS standards on leases. It is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed.

The Department will apply the standards upon formal adoption in the FReM. For IFRS 9 and IFRS 15, it is not anticipated that material adjustments to the financial statements will be required following the introduction of these standards. IFRS 16 is expected to have a considerable impact in financial reporting terms. This impact will be assessed when further guidance is forthcoming from HM Treasury.

2 Statement of Operating Costs by Operating Segment

The segmental analysis detailed below covers the key spending areas of the Department and is aligned with the internal reporting to the Board and Executive Committee. Defra reports regularly on this basis and performance is monitored against these areas.

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

In 2015–16 Defra received £2,329m, 75 percent of its income from the EU (2014–15, £3,139m, 82 percent), which falls mainly to the Executive Agencies and Countryside and Nature segments. Of the remaining income Defra does not rely on any one major customer.

Programme	2015-16 Gross Expenditure	2015-16 Gross Income	2015-16 Net Total	2014-15 Restated Gross Expenditure	2014-15 Restated Gross Income	2014-15 Restated Net Total
	£000	£000	£000	£000	£000	£000
Animal and Plant Health	208,505	(28,073)	180,432	220,150	(24,945)	195,205
Countryside and Nature Directorate[1]	821,253	(486,884)	334,369	859,560	(518,948)	340,612
Marine and Fisheries	106,406	(22,382)	84,024	123,481	(21,662)	101,819
Operations[2]	360,185	(100,298)	259,887	409,963	(109,445)	300,518
Resource Atmosphere and Sustainability	137,277	6	137,283	125,394	(14)	125,380
Water and Flood Risk Management[3]	1,639,240	(469,667)	1,169,573	1,414,606	(412,968)	1,001,638
Executive Agencies[4]	2,340,282	(2,007,967)	332,315	3,148,126	(2,755,514)	392,612
Net Operating Cost	**5,613,148**	**(3,115,265)**	**2,497,883**	6,301,280	(3,843,496)	2,457,784

1. The Net Total includes £137,886 for NE made up of Gross Expenditure £154,349 and Gross Income £16,463 (Net Total £173,236, Gross Expenditure £183,908, Gross Income £10,672 Restated for 2014–15).

2. Operations: provides central support functions and specialist advice to allow the Department to operate effectively and deliver on it's objectives. It also includes Common Agricultural Policy (CAP) disallowance.

3. The Net Total Includes £847,978 for EA made up of Gross Expenditure £1,267,320 and Gross Income £419,342 (Net Total £934,566, Gross Expenditure £1,340,638, Gross Income £406,072 Restated for 2014–15).

4. The Net Total Includes £146,965 for RPA made up of Gross Expenditure £2,068,541 and Gross Income £1,921,576 (Net Total £177,297, Gross Expenditure £2,831,262, Gross Income £2,653,965 Restated for 2014–15).

These operating segments will be updated in 2016–17 as reporting begins against the SDP.

3 Staff Costs

Staff costs comprise:

	2015-16 Permanent Employed Staff	2015-16 Others	2015-16 Ministers	2015-16 Special Advisors	2015-16 Total	2014-15 Total Restated
	£000	£000	£000	£000	£000	£000
Salaries and wages	692,969	63,827	132	103	757,031	762,275
Social security costs	59,926	216	13	14	60,169	58,277
Other pension costs	75,069	586	-	21	75,676	71,696
Sub total	**827,964**	**64,629**	**145**	**138**	**892,876**	892,248
Less: recoveries in respect of outward secondments	(2,815)	-	-	-	(2,815)	(3,571)
Total net costs	**825,149**	**64,629**	**145**	**138**	**890,061**	888,677

Of which:	2015-16 Charged to Administration Budgets	2015-16 Charged to Programme Budgets	2015-16 Total	2014-15 Charged to Administration Budgets	2014-15 Charged to Programme Budgets	2014-15 Total Restated
	£000	£000	£000	£000	£000	£000
Core Department and Agencies	283,193	67,626	350,819	308,030	61,910	369,940
NDPBs	78,998	428,431	507,429	76,010	416,432	492,442
Net Total SoCNE	**362,191**	**496,057**	**858,248**	384,040	478,342	862,382
Staff costs capital:						
Core Department and Agencies			195			660
NDPBs			34,433			29,206
Less: recoveries in respect of outward secondments			(2,815)			(3,571)
Total net costs			**890,061**			888,677

Board remuneration is included in the Remuneration Report.

For 2015–16, out of the total, £2.8m recoveries in respect of outward secondments have been netted off, £34.6m has been charged to capital and the balance of £858.2m has been charged in the SoCNE.

For 2014–15, out of the total, £3.6m recoveries in respect of outward secondments were netted off, £29.9m was charged to capital and the restated balance of £862.4m was charged in the SoCNE.

Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as alpha, are unfunded multi-employer defined benefit scheme. Defra is unable to identify its share of the underlying assets and liabilities. The last full actuarial valuation was carried out as at 31 March 2012. Details can be found in the Annual Accounts of the Cabinet Office: Civil Superannuation[25].

For 2015–16, employer's contributions of £69m (2014–15, restated £67.4m) were payable to the PCSPS at one of four rates in the range 20 percent to 24.5 percent of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015–16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Other Pension Schemes

Employees can opt to open a partnership pension account: a stakeholder pension with an employer contribution. For 2015–16 employer's contributions of £0.9m (2014–15, restated £0.7m) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 3 percent to 12.5 percent of pensionable earnings up to 30 September 2015, and from 8 percent to 14.75 percent of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3 percent of pensionable earnings. In addition, employer contributions of £6,000 for 2015–16 (2014–15, £17,000), 0.8 percent of pensionable pay up to 30 September 2015, and 0.5 percent of pensionable pay from 1 October 2015, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting period date were £19,000 (2014–15, £21,000). Contributions prepaid at that date were £Nil (2014–15, £Nil).

In addition to the schemes listed above, EA operates a funded defined benefit scheme, and some other NDPBs operate small defined contribution schemes. Details of these schemes can be found in the ARAs of the relevant delivery bodies.

There was one individual in the Core Department (2014–15, two) who retired early on ill health grounds. The total additional accrued pension liabilities in the year amounted to £2,000 (2014–15, £1,000).

Loans are made to employees to cover season ticket advances and to relocate. As at 31 March 2016, there were no outstanding balances to Core Department senior officials.

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

4 Expenditure

	2015-16 Core Department and Agencies	2015-16 Departmental Group	2014-15 Restated Core Department and Agencies	2014-15 Restated Departmental Group
	£000	£000	£000	£000
Rentals under operating leases	17,306	43,874	10,930	41,766
Interest charges	292	292	326	326
Travel, subsistence and hospitality	16,614	40,050	17,634	40,973
Off balance sheet PFIs and other service concession arrangement service charges	1,240	10,611	187	9,536
Research and development expenditure	48,546	81,498	72,023	108,238
Veterinarian Costs	25,170	25,170	27,841	27,841
Consumables	11,350	27,122	21,632	39,152
IT service costs	112,939	189,787	100,140	222,617
Vessels	5,131	5,131	5,348	5,348
Estate management	62,093	95,637	58,162	100,685
Consultancy	3,928	13,878	10,309	24,433
Hired and contracted services	-	50,205	-	58,174
Training	3,635	11,517	4,208	11,405
Publicity, marketing and promotion	827	17,148	711	14,179
Stationery and printing	1,172	3,250	1,748	4,001
Office services	16,030	17,306	5,540	7,009
Early retirement	17,044	19,780	1,621	3,879
Exchange rate (gains)/losses - realised	(1,333)	(1,333)	(790)	(789)
Exchange rate (gains)/losses - unrealised	1,857	1,847	7,405	7,405
NAO auditors' remuneration	-	573	-	589
Other audit fees	2,234	2,234	2,473	2,473
Internal audit fees	217	634	357	691
Flood and coastal defence works	-	232,533	-	272,570
Operational maintenance	-	13,665	-	18,089
Fees and commissions	16,039	36,234	11,454	29,245
Reservoir operating agreements	-	21,215	-	21,218
Transport and plant costs	-	18,462	-	16,906
Aerial, surface and satellite surveillance	-	1,824	-	2,073
EU disallowance	1,722	1,722	52,560	52,560
Levy collection costs	-	927	-	911
Forestry Commission subsidy to FEE	20,519	20,519	8,800	8,800
Corporation tax paid by NDPBs	-	14	-	17
Bad debt expense	493	4,748	58	3,744
Flood Re Net Expenditure	-	6,086	-	-
Other	78,375	109,135	96,279	122,699
Non cash items				
Depreciation	24,429	112,592	27,618	112,328
Amortisation	22,337	50,442	37,832	64,273
Profit on the disposal of PPE and financial investments	(2,811)	(1,755)	(31,014)	(31,097)
Loss on the disposal of PPE and financial investments	466	901	17,144	18,308
Impairment	8,864	18,704	88,434	103,151
NAO auditors' remuneration	1,048	1,048	1,155	1,155
Pensions provided for in year/(written back)	22,682	134,550	30,484	125,751
Non pension liability provided for in year/(written back)*	341,399	342,348	64,575	70,825
Unwinding of discount on provisions	-	-	45	45
Capital Grant-in-Kind	1,640	1,640	-	-
Other non cash items	(31,947)	-	-	67
Grants and subsidies: EU				
Current grants - Basic / Single Payment Scheme	1,221,482	1,221,482	1,545,901	1,545,901
Current grants - Rural Development Programme for England	405,744	405,744	469,310	469,310
Current grants - payments to other paying agencies	633,092	633,092	1,079,046	1,079,046
Other EU current grants	32,198	32,841	27,602	27,602
Unrealised (gains)/losses	3,577	3,577	4,849	4,849
Derivative ineffectiveness	-	-	(128)	(128)
Grants and subsidies: other				
Capital grants	51,351	175,513	72,629	224,262
Current grants - Grant-in-Aid to NDPBs	923,912	-	1,133,657	-
Current grants - Rural Development Programme for England	64,589	64,589	68,541	68,541
Other current grants	420,571	434,297	253,841	275,946
Total	**4,608,063**	**4,754,900**	5,408,477	5,438,898

*Included in the above is £25m (2014–15, £Nil) relating to the Basic / Single Payment Scheme. The total charge to the SoCNE for the Basic / Single Payment Scheme is £1,247m (2014–15, £1,546m).

Flood Re Net Expenditure includes a £20,000 audit fee and £33,400 for non-audit services provided by Ernst & Young.

Other audit fees do not relate to National Audit Office (NAO) work undertaken on the audit of the ARA but, primarily, to the Agricultural Funds audit.

5 Income - Analysis of Operating Income

	2015-16		2014-15	
	Core Department and Agencies	**Departmental Group**	Restated Core Department and Agencies	Restated Departmental Group
	£000	**£000**	£000	£000
Sales of goods and services				
Scientific advice, analysis and research	17,690	17,945	34,970	35,293
Animal disease surveillance and diagnostics	5,869	5,869	6,397	6,397
Veterinary research and development	2,370	2,370	2,797	2,797
Scientific products	834	834	876	876
Ofwat licence fee	5,000	5,000	5,060	5,060
TB compensation salvage receipts	21,050	21,050	19,405	19,405
Covent Garden Market income	9,954	9,954	-	-
Sale of other goods	4,504	10,004	3,413	7,731
Other services (including Defra Network)	65,966	118,696	59,632	96,542
Income payable to the consolidated fund	47,362	47,362	9,616	9,616
Fees, levies and charges				
Veterinary medicines authorisations	7,327	7,327	7,251	7,251
Veterinary medicine residues surveillance	4,098	4,098	3,751	3,751
Plant health inspections and seeds charges	7,943	7,943	3,186	3,186
Environmental protection charges	-	168,170	-	157,333
Abstraction charges	-	119,906	-	116,661
Flood risk levies	-	30,172	-	36,177
Agriculture and horticulture levies	-	58,696	-	57,435
Sea Fish industry levies	-	7,979	-	8,301
EU funding				
Basic / Single Payment Scheme	1,278,175	1,278,175	1,576,362	1,576,362
Income payable to other paying agencies	632,975	632,975	1,077,233	1,077,233
Structural fund / RDPE income	405,744	405,744	469,310	469,310
TSE surveillance	386	386	530	530
Fisheries guidance	8,132	8,132	6,329	6,329
Other services	86	825	4,555	5,525
Other EU income	2,557	2,752	3,527	3,703
Licences				
Fishing licence duties	-	21,129	-	21,172
Navigation licence income	-	8,093	-	7,853
Marine and coastal licencing	-	3,110	-	2,028
Other licences	-	656	-	721
Other income				
Current grant income - EU	-	964	-	3,401
Current grant income - non EU	-	5,599	-	7,170
Capital grant income - non EU	225	37,857	2,475	23,193
Charity income	-	28,854	-	27,383
Recoveries for secondments outside Defra Network	26	26	92	92
Other interest receivable	-	233	1	164
APHA income from devolved administrations	34,660	34,660	31,973	31,973
Other income	1,521	1,720	4,198	5,542
Total operating income	**2,564,454**	**3,115,265**	3,332,939	3,843,496

Included above is £47m (2014–15, £10m) payable to the Consolidated Fund (see SoPS 4).

6 Property, Plant and Equipment (PPE)

6.1 Non-Current – Departmental Group

	Land	Buildings Excluding Dwellings	Dwellings	Infrastructure Assets	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or valuation										
At 1 April 2015 (Restated)	88,234	362,968	26,451	3,963,382	81,823	192,126	573,351	42,528	107,131	**5,437,994**
Additions	383	5,124	-	-	1,263	2,424	7,498	11,457	63,129	**91,278**
Transfers	(1,256)	1,685	-	-	78	-	-	-	470	**977**
Disposals	(4,293)	(6,296)	(456)	(111)	(1,899)	(251)	(2,660)	(422)	(2,656)	**(19,044)**
Impairment	(793)	(1,197)	(565)	(4,910)	-	(1)	(1,752)	-	(5,239)	**(14,457)**
Reclassifications	1,259	241	344	24,768	-	769	835	-	(28,666)	**(450)**
Reclassified as held for sale	(1,565)	(666)	-	1,019	-	-	-	-	-	**(1,212)**
Revaluation	(5,339)	16,613	(747)	255,668	1,068	1,694	7,930	785	-	**277,672**
At 31 March 2016	**76,630**	**378,472**	**25,027**	**4,239,816**	**82,333**	**196,761**	**585,202**	**54,348**	**134,169**	**5,772,758**
Depreciation										
At 1 April 2015 (Restated)	-	39,993	3,624	1,732,923	51,674	105,876	438,843	30,163	-	**2,403,096**
Charges in year	-	11,788	727	55,517	5,843	14,208	16,384	4,570	-	**109,037**
Disposals	-	(1,143)	(68)	-	(1,867)	(251)	(2,514)	(395)	-	**(6,238)**
Impairment	-	(931)	(60)	582	-	11	189	-	-	**(209)**
Reclassifications	-	-	-	-	-	90	(90)	-	-	**-**
Revaluation	-	2,276	6	43,405	318	819	15,625	487	-	**62,936**
At 31 March 2016	**-**	**51,983**	**4,229**	**1,832,427**	**55,968**	**120,753**	**468,437**	**34,825**	**-**	**2,568,622**
Net Book Value 31 March 2016	**76,630**	**326,489**	**20,798**	**2,407,389**	**26,365**	**76,008**	**116,765**	**19,523**	**134,169**	**3,204,136**
Net Book Value 31 March 2015 (Restated)	88,234	322,975	22,827	2,230,459	30,149	86,250	134,508	12,365	107,131	3,034,898
Assets financing										
Owned	76,630	326,489	20,798	2,407,389	26,365	76,008	116,219	19,523	134,169	**3,203,590**
Finance leased	-	-	-	-	-	-	546	-	-	**546**
Net Book Value 31 March 2016	**76,630**	**326,489**	**20,798**	**2,407,389**	**26,365**	**76,008**	**116,765**	**19,523**	**134,169**	**3,204,136**
Of which:										
Core Department and Agencies	30,272	275,559	-	-	1,781	44,852	21,500	192	10,210	**384,366**
NDPBs	46,358	50,930	20,798	2,407,389	24,584	31,156	95,265	19,331	123,959	**2,819,770**
Total	**76,630**	**326,489**	**20,798**	**2,407,389**	**26,365**	**76,008**	**116,765**	**19,523**	**134,169**	**3,204,136**

	Land	Buildings	Dwellings	Infrastructure Assets	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2014	82,077	417,868	23,876	3,729,282	77,173	185,942	567,816	41,358	160,759	5,286,151
Additions	785	4,645	-	-	9,013	8,888	14,331	1,625	60,304	99,591
Transfers	(1,096)	(7,705)	-	-	5,401	(197)	(8,220)	8	(1,958)	(13,767)
Disposals	(204)	(1,608)	-	(1,100)	(11,604)	(17,337)	(11,912)	(1,391)	-	(45,156)
Impairment	(8,466)	(55,109)	-	(400)	-	(2,142)	(1,968)	-	(5,660)	(73,745)
Reclassifications	(2,646)	(6,542)	-	87,000	29	15,272	(34)	34	(106,314)	(13,201)
Reclassified as held for sale	542	(677)	(397)	(5,900)	-	-	-	-	-	(6,432)
Revaluation	17,242	12,096	2,972	154,500	1,811	1,700	13,338	894	-	204,553
At 31 March 2015 (Restated)	88,234	362,968	26,451	3,963,382	81,823	192,126	573,351	42,528	107,131	5,437,994
Depreciation										
At 1 April 2014	-	64,390	2,481	1,616,869	55,827	109,050	423,020	25,997	-	2,297,634
Charges in year	-	11,988	769	53,392	6,692	13,460	17,951	4,630	-	108,882
Transfers	-	(1,701)	-	-	(1,704)	(184)	(6,352)	12	-	(9,929)
Disposals	-	(915)	-	(275)	(10,275)	(17,085)	(5,850)	(1,139)	-	(35,539)
Impairment	-	(579)	-	-	-	(123)	(339)	-	-	(1,041)
Reclassifications	-	-	29	-	-	-	-	-	-	29
Revaluation	-	(33,190)	345	62,937	1,134	758	10,413	663	-	43,060
At 31 March 2015 (Restated)	-	39,993	3,624	1,732,923	51,674	105,876	438,843	30,163	-	2,403,096
Net Book Value 31 March 2015 (Restated)	88,234	322,975	22,827	2,230,459	30,149	86,250	134,508	12,365	107,131	3,034,898
Net Book Value 31 March 2014	82,077	353,478	21,395	2,112,413	21,346	76,892	144,796	15,361	160,759	2,988,517
Assets financing										
Owned	88,234	322,975	22,827	2,230,459	30,149	86,250	134,053	12,365	107,131	3,034,443
Finance leased	-	-	-	-	-	-	455	-	-	455
Net Book Value 31 March 2015	88,234	322,975	22,827	2,230,459	30,149	86,250	134,508	12,365	107,131	3,034,898
Of which:										
Core Department and Agencies	34,406	262,740	-	-	2,832	52,327	25,463	248	11,401	389,417
NDPBs	53,828	60,235	22,827	2,230,459	27,317	33,923	109,045	12,117	95,730	2,645,481
Total	88,234	322,975	22,827	2,230,459	30,149	86,250	134,508	12,365	107,131	3,034,898

Plant and machinery includes vessels owned by Cefas with a Net Book Value of £7m (2014–15, £9m). Infrastructure assets include flood defences owned by EA, including the Thames Barrier with a Net Book Value of £1,058m (2014–15, £1,061m).

Additions include a non-cash element represented by payables and transfers.

6.2 Right of Use Assets – Service Concession Arrangements

Defra has entered into a contract with IBM for the supply of IT services. The contract is for a term of eight years from February 2010. The contract falls within the scope of IFRIC 12 and is disclosed within the accounts as a service concession arrangement. The following related infrastructure assets, comprising laptops, servers and hardware, are included in the SoFP under Property, Plant and Equipment and Investment Properties, together with those assets detailed in Notes 6.1 and 6.4.

Departmental Group

	2015-16	2014-15
	£000	£000
At 1 April	3,899	5,666
Transfer of Right of Use Asset	-	(29)
Depreciation	(1,377)	(1,470)
Adjustment to the service concession arrangement	(957)	(268)
At 31 March	**1,565**	3,899
Of which:		
Core Department and Agencies	1,123	2,796
NDPBs	442	1,103
Total	**1,565**	3,899

6.3 Heritage Assets

A heritage asset is a tangible asset with historical, artistic, scientific, chronological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage assets are held by both NE and RBG Kew. NE's heritage assets comprise National Nature Reserves, whilst RBG Kew's heritage assets comprise land and buildings and collections. Further details regarding the stewardship functions relating to these heritage assets can be found in their respective ARAs.

During 2015–16, all of RBG Kew's acquisitions of £12m (2014–15, £5m) were funded by grants and donations, much of which was spent on restoration work.

Of the £165m of heritage assets relating to RBG Kew, £32m are represented in restricted reserves. These represent funds given for specific purposes by donors.

Departmental Group

	2015-16			2014-15		
	Operational	**Non Operational**	**Total**	Operational	Non Operational	Total
	£000	**£000**	**£000**	£000	£000	£000
Valuation						
At 1 April	177,219	71,668	248,887	156,863	70,006	226,869
Additions	11,515	-	11,515	5,145	4,161	9,306
Transfers	-	1,291	1,291	2,417	102	2,519
Disposals	-	-	-	(508)	-	(508)
Impairment	-	1,662	1,662	-	(5,358)	(5,358)
Revaluation	17,389	(24,411)	(7,022)	13,302	2,757	16,059
At 31 March	**206,123**	**50,210**	**256,333**	177,219	71,668	248,887
Depreciation						
At 1 April	33,268	-	33,268	28,839	-	28,839
Charged in year	2,178	-	2,178	1,976	-	1,976
Revaluation	2,812	-	2,812	2,453	-	2,453
At 31 March	38,258	-	38,258	33,268	-	33,268
Net Book Value at 31 March	**167,865**	**50,210**	**218,075**	143,951	71,668	215,619
Net Book Value at 1 April	143,951	71,668	215,619	128,024	70,006	198,030
Assets financing						
Owned	167,865	50,210	218,075	143,951	71,668	215,619
Net Book Value 31 March	**167,865**	**50,210**	**218,075**	143,951	71,668	215,619
NDPBs	167,865	50,210	218,075	143,951	71,668	215,619
Total	**167,865**	**50,210**	**218,075**	143,951	71,668	215,619

The Net Book Value of Heritage Assets was £198m and £179m at 31 March 2014 and 31 March 2013 respectively.

6.4 Investment Properties

The following assets are included in the SoFP under Property, Plant and Equipment and Investment Properties, together with those detailed in Notes 6.1 and 6.2.

	2015-16	2014-15
	£000	£000
Cost at 1 April	13,230	-
Impairments	(1,730)	-
Transferred from PPE	450	13,230
Balance at 31 March	**11,950**	13,230

The investment properties mainly relate to the Department's freehold ownership of Sand Hutton Estate which was previously occupied by Fera. At 31 March 2015 the site was reclassified as an investment property following the transfer of Fera to Fera Science Ltd, a joint venture with Capita. An additional property at Aberystwyth has been transferred from PPE during the year.

Sand Hutton site is a freehold property which is held at fair value in accordance with the FReM, with valuations being completed by the independent valuer Montagu Evans. For tenants on the site a market rent is charged. In 2015–16 this generated £8.4m. For elements of the site that are vacant the running costs are met by Defra, which in 2015–16 this equated to £1.6m.

6.5 Cash Additions

Cash additions (adjusted for capital accruals) for property, plant and equipment, heritage assets and agricultural assets amount to £107m (2014–15, £108m) as per the Consolidated Statement of Cash Flows (SoCF).

7 Intangible Assets

Departmental Group

	2015-16				2014-15 (Restated)			
	Internally Generated Software	**Purchased Software**	**IT CIP**	**Total**	Internally Generated Software	Purchased Software	IT CIP	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Cost or valuation								
At 1 April	612,164	88,162	55,395	755,721	582,602	57,526	116,654	756,782
Additions	139	505	47,384	48,028	24,648	373	38,235	63,256
Disposals	(305)	(1,759)	-	(2,064)	(23,233)	(4,709)	-	(27,942)
Impairments	(1,892)	-	(151)	(2,043)	(23,361)	31	(9,518)	(32,848)
Transfers	14,912	3,212	(18,238)	(114)	(10,019)	2,132	(707)	(8,594)
Reclassifications	48,334	807	(49,713)	(572)	58,547	30,722	(89,269)	-
Revaluation	11,339	1,039	-	12,378	2,980	2,087	-	5,067
At 31 March	**684,691**	**91,966**	**34,677**	**811,334**	612,164	88,162	55,395	755,721
Amortisation								
At 1 April	462,082	28,540	-	490,622	443,901	20,511	-	464,412
Charged in year	38,489	11,953	-	50,442	54,621	9,652	-	64,273
Disposals	(305)	(1,419)	-	(1,724)	(22,584)	(4,437)	-	(27,021)
Impairments	1,858	139	-	1,997	(11,253)	-	-	(11,253)
Transfers	-	-	-	-	(3,771)	1,938	-	(1,833)
Reclassifications	(572)	-	-	(572)	86	(86)	-	-
Revaluation	7,092	288	-	7,380	1,082	962	-	2,044
At 31 March	**508,644**	**39,501**	**-**	**548,145**	462,082	28,540	-	490,622
Net Book Value at 31 March	**176,047**	**52,465**	**34,677**	**263,189**	150,082	59,622	55,395	265,099
Net Book Value at 1 April	150,082	59,622	55,395	265,099	138,701	37,015	116,654	292,370
Assets financing								
Owned	176,047	52,465	34,677	263,189	150,082	59,622	55,395	265,099
Net Book Value 31 March	**176,047**	**52,465**	**34,677**	**263,189**	150,082	59,622	55,395	265,099
Of which:								
Core Departmentand Agencies	142,825	1,011	4,632	148,468	99,697	2,049	34,358	136,104
NDPBs	33,222	51,454	30,045	114,721	50,385	57,573	21,037	128,995
Total	**176,047**	**52,465**	**34,677**	**263,189**	150,082	59,622	55,395	265,099

The Net Book Value for internally generated software includes:

- £84m for the Common Agricultural Policy Delivery programme held by the Core Department with a remaining amortisation period of nine years. £0.8m is also included within Construction in Progress (CIP);
- £18m for the Genesis system held by the Core Department with a remaining amortisation period of eight years. Genesis is the IT system used by NE to deliver Environmental Stewardship Schemes; and
- The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model is £104m for the Core Department.

Cash additions (adjusted for capital accruals) shown in the SoCF amount to £55m (2014–15, restated £58m).

8 Impairments

		2015-16		2014-15	
				Restated	Restated
		Core Department and Agencies	**Departmental Group**	Core Department and Agencies	Departmental Group
	Note	**£000**	**£000**	£000	£000
PPE - including investment properties		6,821	14,664	70,407	81,556
Intangibles		2,043	4,040	18,027	21,595
Total Impairment charge for the year	4	**8,864**	**18,704**	88,434	103,151
of which:					
Amount released from Revaluation Reserve to General Fund		-	-	2	2

9 Financial Commitments

9.1 Capital Commitments

Departmental Group

	2015-16	Restated 2014-15
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made:		
PPE	54,610	73,588
Intangible assets	799	1,465
Total	**55,409**	75,053
Of which:		
Core Department and Agencies	3,409	5,071
NDPBs	52,000	69,982
Total	**55,409**	75,053

9.2 Commitments under Leases

9.2.1 Operating Leases

The total future minimum lease payments under operating leases are given in the table below.

	2015-16		2014-15	
				Restated
	Core Department and Agencies	**Departmental Group**	Core Department and Agencies	Departmental Group
	£000	**£000**	£000	£000
Land and Buildings				
Not later than one year	55,795	68,308	18,718	30,985
Later than one year and not later than five years	58,190	91,014	69,115	105,200
Later than five years	26,782	61,017	69,483	103,369
Total	**140,767**	**220,339**	157,316	239,554
Other				
Not later than one year	610	11,492	476	5,131
Later than one year and not later than five years	768	11,683	917	9,601
Total	**1,378**	**23,175**	1,393	14,732

The consolidated land and buildings figures within this note show the costs related to properties leased by Defra, net of the proportion occupied by entities outside the Department's accounting boundary. These arrangements between the occupier and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation.

Included within the above figures is a commitment of £24.8m in respect of 3–8 Whitehall Place for 2015–16 (2014–15, £29m). Although the current legal title is with Defra, in economic reality the Department for Energy and Climate Change (DECC) enjoy complete beneficial occupation. This is further reflected in that the Government Property Unit and the Cabinet Office view the building as DECC property for various property returns. DECC is recharged with the total costs of this site.

9.2.2 Right of Use Assets – Service Concession Arrangements

The imputed finance lease charge for the Departmental Group at 31 March 2016 is £6m (2014–15, £10m)

Details of the service charge commitments are disclosed in Note 9.4 Other Financial Commitments.

The total amount charged to the SoCNE, in regard to the service element, is shown in Note 4.

9.3 Commitments under Private Finance Initiative (PFI) Contracts

9.3.1 Off–balance Sheet

The majority of PFI contracts associated with Defra are funded by NDPBs and public corporations.

An off–balance sheet contract was signed by the Department in February 2001. The scheme involved the grant of a 129 year ground lease to a PFI partner who constructed an office building for Defra, occupied in 2003, subject to a 30 year lease to 31 March 2033. The building is not an asset of the Department and will not revert to Defra at the end of the lease term. The freehold land subject to the ground lease is a Defra asset. Defra occupies 0.4 percent (2014–15, 0.4 percent) of the building and recharges other occupiers for their share of the costs, with NE occupying 16.9 percent (2014–15, 16.9 percent) of the site, APHA occupying 1.5 percent (2014–15, 1.5 percent) and RPA occupying 1.3 percent (2014–15, 1.3 percent).

In addition, EA has entered into two Public-Private Partnership contracts, the Broadland Flood Alleviation Project and Pevensey Bay beach maintenance. Contracted future commitments are £14m (2014–15, £13m) and £14m (2014–15, £17m), respectively. Full details of these Public-Private Partnership contracts can be found in EA's ARA.

9.3.2 Charge to the Statement of Comprehensive Net Expenditure and Future Commitments

The total amount charged to the SoCNE, in respect of off-balance sheet (SoFP) transactions is shown in Note 4. The total payments to which the Department is committed are as follows:

Departmental Group

	2015-16	2014-15
	£000	£000
Not Later than one year	4,790	4,536
Later than one year and not later than five years	18,113	18,939
Later than five years	26,947	29,764
Total	**49,850**	53,239
Number of off-balance sheet PFI contracts	3	3
Total	**3**	3
Estimated capital value of off-balance sheet PFIs	178,338	178,886
Of which:		
Core Department and Agencies	3,662	3,844
NDPBs	46,188	49,395
Total	**49,850**	53,239

9.4 Other Financial Commitments

The Department has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements). The payments to which the Department is committed are as follows:

	2015-16		2014-15	
	Core Department and Agencies	**Departmental Group**	Restated Core Department and Agencies	Restated Departmental Group
	£000	**£000**	£000	£000
Not later than one year	213,516	300,704	205,751	298,377
Later than one year and not later than five years	672,284	711,685	684,714	793,148
Later than five years	1,606,327	1,611,244	1,514,176	1,520,042
Total	**2,492,127**	**2,623,633**	2,404,641	2,611,567

Within the other financial commitments disclosure, £241m (2014–15, £281m) relates to facilities management costs associated with the occupation of buildings that are either owned or leased by Defra or specialised properties held on executive agencies' SoFPs. These commitments are net of the proportion occupied by entities outside the Department's accounting boundary, where the commitments are consistent with arrangements containing a lease as defined by IFRIC 4.

Also included for the Departmental Group is the commitment of £114m (2014–15, £151m) to pay IBM for IT maintenance.

The Core Department entered into a seven year contract with Shared Services Connected Ltd. (SSCL) in November 2013 for the provision of shared services across HR, payroll and finance. The future commitment is £15m (2014–15, £20m).

The Core Department has agreements with local authorities on 25 Waste Infrastructure Grant Projects (formerly Waste PFI projects) that are receiving grant payments. Defra will continue to support these projects while they meet the terms of their agreement with Defra. Future commitments are £2,090m (2014–15, £1,883m).

EA has a commitment of £55m (2014–15, £128m) for an outsourced ICT service contract with Capgemini. Full details regarding the contract can be found in EA's ARA.

The Core Department is committed to £47m (2014–15, £62m) with regards to the Fera joint venture 10 year framework agreement for provision of scientific services to Defra and other parts of government. The commitment only relates to the first five years of the framework agreement.

10 Financial Instruments

IFRS requires disclosures in the financial statements that enable users to evaluate the significance of financial instruments to the financial position and performance, and the nature and extent of risks arising from financial instruments to which Defra is exposed during the year and at the financial year end, and how those risks are being managed.

As the cash requirements of the Department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk, except where detailed below.

10.1 Categories of Financial Instruments

Details of financial instruments held by the Department are included in Notes 12, 13 and 14 (non-financial instrument balances relating to taxation, accruals and prepayments are also included in these notes). Further details are given below only where the risks are significant.

10.2 Exposure to Risk

10.2.1 Credit Risk

A significant proportion of the Department's customers and counterparties are other public sector organisations. Minimal credit risk arises from these organisations.

For those customers and counterparties that are not public sector organisations the Department has policies and procedures in place to ensure credit risk is kept to a minimum.

The Department is not exposed to material credit risk.

10.2.2 Liquidity Risk

Excluding RPA, there is no significant exposure to liquidity risk, as the Department's Net Resource Outturn is financed through resources voted annually by Parliament.

RPA has maintained liquidity, wherever possible, through timely submission of funding claims to the European Commission (EC). RPA does not undertake borrowing of funds other than from HM Treasury. Such borrowing, arising from short term in-year fluctuations in expenditure, if required, would be effected by Defra drawing monies from HM Treasury's Contingencies Fund on behalf of RPA. This facility is the subject of a formal standing arrangement agreed by HM Treasury. Drawings are repayable within the financial year.

10.2.3 Market Risk - Foreign Currency Risk

Excluding RPA, there is no significant foreign currency risk.

RPA's activities expose it to the financial risks of changes in foreign currency exchange rates. RPA enters into forward foreign exchange contracts to manage its exposure to foreign currency risk relating to euro denominated receipts from the EC for the Basic Payment Scheme, SPS and RDPE scheme expenditure (including Scotland, Wales and Northern Ireland, in addition to England).

From January 2003, in accordance with Commission Regulation (EC) No. 1997/2002 (as amended), non-Eurozone member states, such as the UK, are reimbursed by the EC in euros. However, the majority of distributions by RPA are paid in sterling, which creates an exposure to gains or losses from fluctuations in foreign exchange rates between the euro and sterling. RPA has managed its exposure to this risk through the purchase of forward foreign currency contracts. RPA holds derivative assets and liabilities for the purpose of managing foreign currency risk.

The carrying amounts of RPA's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	31 March 2016	31 March 2015	**31 March 2016**	31 March 2015
	£000	£000	**£000**	£000
Euro denominated	**977,749**	141,230	**121,884**	61,481

The large increase on currency assets from prior year is due to the larger closing balance for EC debtor and the higher EUR bank balance compared to last year. This is due to this year's delayed payment profile for BPS.

The following table details RPA's, and therefore the Department's, sensitivity to a 10 percent increase and decrease in sterling against the euro.

	Impact of Movement in Euro/Sterling Rate		**Impact of Movement in Euro/Sterling Rate**	
	Sterling Appreciates by 10%		**Sterling Depreciates by 10%**	
	31 March 2016	31 March 2015	**31 March 2016**	31 March 2015
	£000	£000	**£000**	£000
Net Operating Cost *	**(127,733)**	(44,563)	**127,733**	44,563
Derivative instruments:				
Net Operating Cost **	**39,733**	41,282	**(38,585)**	(39,792)
Other equity ***	**102,507**	2,661	**(101,360)**	(2,661)

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

** This is the result of the changes in fair value of derivatives instruments held for trading.

***This is the result of the changes in fair value of derivatives instruments designated as cash flow hedges.

10.2.4 Market Risk - Inflation

EA is exposed to the risk of changes in the rate of inflation as a result of the reservoir operating agreements. The Retail Price Index has fluctuated significantly over the life of these financial liabilities. For example, the average rate over the 25 years following 1989 was 3.3 percent, however the range in this period is between 10 percent and -1 percent. This is a macroeconomic risk that EA cannot manage in any way. However EA is able to recover the full cost of reservoir operating agreements through its charges on water abstraction.

10.2.5 Market Risk – Investments

As at 31 March 2016 the Department has £27.2m in investments, £20m of this is invested in the Eco-Business Fund and the majority of the remainder is a shareholding in Fera Science Limited. Further information is in Note 11.

For further information on financial instruments see RPA's and EA's ARAs.

11 Investments

	Stocks and shares Other	Joint Venture Fera Science Limited	Loans RBG Kew Voted Loan	Total
	£000	£000	£000	£000
Departmental Group				
Balance at 1 April 2014	491	-	-	491
New Shareholding	-	6,670	-	6,670
Balance at 31 March 2015	491	6,670	-	7,161
Balance at 1 April 2015	491	6,670	-	7,161
Additions	20,000	-	-	20,000
Revaluations	14	-	-	14
Balance at 31 March 2016	**20,505**	**6,670**	**-**	**27,175**
Of which:				
Core Department and Agencies	20,175	6,670	530	27,375
NDPBs	330	-	(530)	(200)
Balance at 31 March 2016	**20,505**	**6,670**	**-**	**27,175**

The Department invested £20m in the Eco-Business Fund in December 2015, comprising an initial subscription of £10m for 288.6834 shares and a further binding obligation of another £10m for a number of shares to be confirmed at the execution date (15 August 2016). This investment formed part of the Department's Official Development Assistance spend.

The Department has a 25 percent equity shareholding in Fera Science Limited. The remaining 75 percent is held by Capita. The shares are, under IFRS 13, classed as level 3 unobservable inputs, as there is no principal market for the shares. The value reflects current market expectations regarding discounted future cash flows. There was no effect on either net expenditure or other comprehensive expenditure during 2015–16.

The Core Department issued museum loans to RBG Kew. These loans eliminated upon consolidation and therefore no assets or liabilities show for the Departmental Group.

12 Cash and Cash Equivalents

	2015-16		2014-15	
	Core Department and Agencies	**Departmental Group**	Core Department and Agencies	Restated Departmental Group
	£000	**£000**	£000	£000
Balance at 1 April	177,506	335,307	278,044	418,172
Net change in cash balance	719,238	750,701	(100,538)	(82,865)
Balance at 31 March	**896,744**	**1,086,008**	177,506	335,307
The following balances at 31 March are held at:				
Government Banking Services	894,364	1,015,230	176,238	292,341
Commercial bank accounts and cash in hand	2,380	65,317	1,268	38,609
Short term investments	-	5,461	-	4,357
Balance at 31 March	**896,744**	**1,086,008**	177,506	335,307

For further information see the Net Cash Requirement section of Chapter 3.

13 Trade Receivables, Financial and Other Assets

	31 March 2016		31 March 2015	
			Restated	Restated
	Core Department and Agencies	**Departmental Group**	Core Department and Agencies	Departmental Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
Trade receivables	22,261	73,681	20,531	51,428
Bad debt impairment	(2,784)	(14,337)	(2,487)	(10,254)
Deposits and advances	340	450	508	512
Other receivables	28,264	31,692	73,110	76,068
VAT	12,580	37,931	9,110	40,511
Prepayments and accrued income	131,329	187,592	163,648	213,571
Accrued income relating to EU funding	927,815	927,902	467,815	469,244
Trade and other receivables	**1,119,805**	**1,244,911**	732,235	841,080
Current part of derivative financial instrument asset	2,336	2,336	25,252	25,252
Other financial assets	**2,336**	**2,336**	25,252	25,252
Amounts falling due after one year				
Trade receivables	14	14	12	12
Deposits and advances	-	-	-	-
Other receivables	10,907	10,911	11,406	11,410
Prepayments and accrued income	27	27	49	49
Derivative financial instrument asset	-	-	-	-
Receivables due after more than one year	**10,948**	**10,952**	11,467	11,471
Total receivables	**1,133,089**	**1,258,199**	768,954	877,803

14 Trade Payables and Other Current Liabilities

	31 March 2016		31 March 2015	
			Restated	Restated
	Core Department and Agencies	**Departmental Group**	Core Department and Agencies	Departmental Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
VAT	1,752	2,828	936	2,114
Other taxation and social security	5,014	16,448	5,935	16,481
Trade payables	21,436	37,078	10,863	30,265
Other payables:				
EU	5,547	5,550	208	208
Other	23,656	104,769	12,183	85,749
Bank overdraft	-	204	-	333
Accruals and deferred income	676,701	943,495	612,706	840,382
Current part of finance leases	2,706	3,710	2,726	3,761
Amounts issued from the Consolidated Fund for supply but not spent at year end	896,744	896,744	177,506	177,506
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund Receivable	-	-	4,722	4,722
Trade and other payables	**1,633,556**	**2,010,826**	827,785	1,161,521
Current part of derivative financial instrument liability	99,685	99,685	890	890
Other financial liabilities	199	199	-	-
Other financial liabilities	**99,884**	**99,884**	890	890
Amounts falling due after more than one year				
Other payables, accruals and deferred income	131,767	134,849	77,724	80,958
Finance leases	2,288	3,096	4,782	6,588
Other payables	**134,055**	**137,945**	82,506	87,546
Derivative financial instrument liability	-	-	3,905	3,905
Environment Agency reservoir agreement	-	141,600	-	141,600
Other financial liabilities	**-**	**141,600**	3,905	145,505
Total payables	**1,867,495**	**2,390,255**	915,086	1,395,462

15 Provisions for Liabilities and Charges

15.1 Provisions for Liabilities and Charges (Excluding Pension Liabilities)

	CAP Disallowance	Basic Payment Scheme	Metal Mines	FMD Sites	Other Provisions	Total
	£000	£000	£000	£000	£000	£000
Departmental Group						
Balance at 1 April 2014	83,829	-	65,340	-	116,147	265,316
Provided in the year	18,123	-	7,070	38,644	33,094	96,931
Provisions not required written back	(9,498)	-	-	-	(16,608)	(26,106)
Provisions utilised in year	(27,941)	-	(1,660)	-	(82,593)	(112,194)
Unwinding of discount	-	-	-	-	45	45
Balance at 31 March 2015 (Restated)	64,513	-	70,750	38,644	50,085	223,992
Provided in the year	17,224	25,250	200,494	83,993	18,353	**345,314**
Provisions not required written back	-	-	-	-	(2,966)	**(2,966)**
Provisions utilised in year	(64,099)	-	(1,854)	(1,000)	(5,986)	**(72,939)**
Balance at 31 March 2016	**17,638**	**25,250**	**269,390**	**121,637**	**59,486**	**493,401**

	CAP Disallowance	Basic Payment Scheme	Metal Mines	FMD Sites	Other Provisions	Total
Of which:	£000	£000	£000	£000	£000	£000
31 March 2015						
Core Department and Agencies	64,513	-	70,750	38,644	36,014	209,921
NDPBs	-	-	-	-	14,071	14,071
Total	64,513	-	70,750	38,644	50,085	223,992
31 March 2016						
Core Department and Agencies	17,638	25,250	269,390	121,637	45,408	**479,323**
NDPBs	-	-	-	-	14,078	**14,078**
Total	**17,638**	**25,250**	**269,390**	**121,637**	**59,486**	**493,401**

There is no longer a provision for South West Water as this is now treated as an accrual.

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

			2015-16			
	CAP Disallowance	Basic Payment Scheme	Metal Mines	FMD Sites	Other Provisions	Total
	£000	£000	£000	£000	£000	£000
Departmental Group						
Not later than one year	17,638	25,250	1,760	1,000	43,783	**89,431**
Later than one year and not later than five years	-	-	7,321	4,160	13,172	**24,653**
Later than five years	-	-	260,309	116,477	2,531	**379,317**
Total	**17,638**	**25,250**	**269,390**	**121,637**	**59,486**	**493,401**
Of which:						
Core Department and Agencies	17,638	25,250	269,390	121,637	45,408	**479,323**
NDPBs	-	-	-	-	14,078	**14,078**
Total	**17,638**	**25,250**	**269,390**	**121,637**	**59,486**	**493,401**

The timing of cash flows for the provisions requires management to make estimates and assumptions. All estimates for provisions are based upon knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. Some of the assumptions made have limitations that will mean that the actual timings of cash flows could vary significantly from these estimates.

15.3 Disallowance Provisions

The European Commission (EC) can apply financial corrections if Defra (through RPA) does not comply with EC regulations for payments funded through CAP. Any amounts disallowed depend on the assessed severity of the breach of regulations and on subsequent clarification negotiations with the EC, in accordance with the Commission's clearance of accounts procedure. If disallowance is imposed by the EC this materialises as ‘cash refused’ by the EC (i.e. a deduction) in the UK’s claim for reimbursement of claims under CAP. This results in Defra being liable for the amount of deduction.

Liabilities exist for all schemes for which the results of external EC audit have indicated that a financial correction is likely, and have given enough of an indication of the severity of the issues leading to that correction to enable an estimate to be made. The final estimates reflect the best information available at the year end.

Liabilities which are expected to impact in future accounting periods are disclosed as provisions, covering all relevant schemes. Where a cash refusal is expected within the next 12 months, the liability is disclosed as an accrual in resource terms. Finally, the point at which the ‘cash refused’ is physically transacted may come sometime after the accrual point and typically in a later accounting period. Therefore it is important to recognise that liabilities for disallowance can cover a number of scheme years and do not just reflect any disallowance imposed in the financial year covered by any single year's accounts.

There is an ongoing contingent liability in respect of financial corrections, which at present is uncertain and unquantifiable as an EC audit has yet to take place following the new CAP scheme coming into operation but it is expected that under the new regulations the flat rate correction for the Basic Payment Scheme (BPS which is the successor to SPS) will significantly increase from the 2 percent the Department has experienced previously.

For further information on the Disallowance provision, please refer to Chapter 3.

15.4 Basic Payment Scheme Part Payment Adjustment Provision.

Scheme provisions include an amount of £25.3m relating to BPS. During 2015–16, RPA made BPS 2015 payments net of certain system calculated reductions. RPA will assess the validity of these reductions as part of the planned reconciliation process commencing in the summer of 2016. This provision represents the Agency's best estimate of the additional amounts to be paid to customers as a result of this planned reconciliation activity. It is anticipated that all amounts due will be paid during 2016.

All amounts which are to be paid to customers as a result of the planned reconciliation activity are expected to be reimbursed by the EC. Hence RPA has recorded accrued income for the same amount (£25.3m) as at 31 March 2016. This is included within trade receivables and other current assets in Note 13.

15.5 Abandoned Metal Mines Provision

Abandoned metal mines are a pollution threat, discharging mine water containing heavy metals and other pollutants into rivers and aquifers, as when the mines are closed, pumps are switched off and the groundwater level subsequently rises until it reaches the surface or discharges into overlying aquifers. As per the Pollution Prevention and Control Act 1999, owners/operators of mines cannot be held responsible for discharges made at abandoned metal mines before 31 December 1999.

The Department funds the ongoing running costs of water treatment schemes built at three abandoned metal mine sites. These schemes clean polluted water which flows out of the abandoned mines and into water bodies, thus helping to meet Defra’s objectives for good water body status under the EU’s Water Framework Directive. The Wheal Jane scheme has been running since 2000, with Force Crag coming into operation in 2014 and Saltburn Gill in 2015.

The mine water treatment provision represents the ongoing future liabilities relating to remediating mine water pollution arising from abandoned metal mines. The provision is calculated over 100 years as conditions for causing pollution are likely to continue, and there is no foreseeable option to dispense with treatment schemes.

Updates to the discount rates for provisions as advised by HM Treasury have caused the liability to increase significantly.

Defra is committed to reviewing operations and new technologies, and alternative preventative schemes to reduce this ongoing liability as part of value for money initiatives.

15.6 Foot and Mouth Disease (FMD) Burial Sites Provision

Since the FMD outbreak in 2001, the Department has responsibility for managing several burial sites across the UK. The provision for FMD sites represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites. There are significant uncertainties as to the time period over which conditions for causing pollution will continue at the sites, the provision has therefore been estimated based on 100 years from burial with 85 years remaining. Updates to the discount rates for provisions as advised by HM Treasury have caused the liability to increase significantly.

The Department is committed to reviewing operations and alternative technologies at FMD sites, to reduce this ongoing liability as part of value for money initiatives.

The Core Department continues to disclose a remote unquantifiable contingent liability for FMD sites, relating to claims for contamination for onsite farm burials (Chapter 6).

15.7 Other Provisions

The Core Department, executive agencies and NDPBs have a total of £59.5m relating to smaller provisions, none of which have an individual value greater than £10m.

16 Pension Liabilities

16.1 Pension Schemes Managed by the Department

The Department contributes to the PCSPS and CSOPS, known as alpha, as reported in Note 3.

The following pension schemes are managed by and included within the Core Department's disclosures (the liabilities reported under the Core Department and executive agencies solely relate to the Core Department).

- EA Pension Liability (Closed Scheme) (funded)
- Nature Conservancy Council Pension (by-analogy)
- Former Countryside Agency Pension Schemes (Rural Community Council and Ex-Chairmen Schemes) (by-analogy)
- Horticultural Research International Pension Scheme (by-analogy)

The following pension schemes are managed by and included within the NDPB disclosures.

- Home Grown Cereals Authority Pension Scheme (funded)
- EA Active Pension Scheme (funded)
- NE Pension Scheme (by-analogy)
- Sea Fish Industry Authority (funded)
- Meat and Livestock Commission (MLC) Pension Scheme (funded)

All by-analogy schemes are unfunded schemes.

The details for the material schemes are noted below, full details for the other schemes can be found in the delivery bodies' ARAs where appropriate.

Net liabilities represent the gap between the money held by the scheme and the total present value of the funded and unfunded obligations. The assumptions underlying the calculation of the net liability are only used for accounting purposes as prescribed under IAS 19. In particular, IAS 19 has no impact on the level of cash contributions paid by the Department and there is no requirement for the net liability to be met as a lump sum or otherwise. Cash contributions will continue to be set by reference to assumptions agreed at each actuarial valuation of the scheme.

16.1.1 EA Pension Liability (Closed Scheme)

The EA Closed Fund (the Fund) is vested in EA by Regulation 2(1) of the Local Government Pension Scheme Regulations 1996 and Environment Act 1996 and is maintained for the purposes of Section 7 of the Superannuation Act 1972. The Secretary of State has the function conferred by Section 173 of the Water Act 1989 (the Act) to make such payments into the Fund as may be considered appropriate in respect of the actual and contingent liabilities falling from time to time. This was reaffirmed through the Memorandum of Understanding between the Accounting Officers of Defra and EA, 17 May 2005. These are met out of the Fund to persons who were ex-employees of regional water authorities and other water industry bodies at the time of water privatisation in 1989 (the Closed Fund members).

All calculations have been made by a qualified independent actuary. As required under IAS 19, the projected unit credit method of valuation has been used. The last formal valuation of the Fund was carried out as at 31 March 2013, the results of this valuation have been projected forward to 31 March 2016 using approximate methods.

The estimated sponsor's contributions for the year to 31 March 2017 will be approximately £78m.

16.1.2 EA Active Pension Scheme

EA operates a defined benefit pension scheme for employees and transferees from the former Defra, National Rivers Authority, Her Majesty's Inspectorate of Pollution, London Waste Regulation Authority and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008. It is contracted out of the State Second Pension.

EA has awarded a contract to SSCL, who participate in the Fund on a risk sharing basis. To reflect the risk sharing agreement between EA and SSCL:

- the value of the assets and liabilities for SSCL have been included in EA's IAS 19 position;
- contributions paid by SSCL have been included as contributions made by EA to the fund; and
- the SSCL membership statistics have been included with the membership statistics of EA.

All calculations have been made by a qualified independent actuary. As required under IAS 19, the projected unit credit method of valuation has been used. The last formal valuation of the Fund was carried out as at 31 March 2013, the results of this valuation have been projected forward to 31 March 2016 using approximate methods.

The estimated employers' contributions for the year to 31 March 2017 will be approximately £46.1m.

16.1.3 MLC Pension Scheme

The MLC pension scheme closed to new entrants following the creation of the Agriculture and Horticulture Development Board (AHDB). This scheme is a contributory pension scheme. Contributions to the scheme are charged to AHDB's SoCNE and are determined by a qualified actuary on the basis of annual valuations using the projected unit method.

The expected contributions for the year to 31 March 2017 is £500,000 (£300,000 employer contributions, £200,000 scheme participants' contributions).

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

as at 31 March 2016		**Core Department and Agencies**			**Departmental Group**				**Pension Asset MLC Pension Scheme**			
		Assets	**Liabilities**	**Net (liability) /asset**	**Assets**	**Liabilities**	**Adjustment**	**Net (liability) /asset**	**Assets**	**Liabilities**	**Adjustment**	**Net (liability) /asset**
	Note	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fair value of employer assets		213,000	-	213,000	2,693,687	-	-	2,693,687	217,400	-	-	217,400
Present value of funded liabilities		-	(729,000)	(729,000)	-	(3,920,856)	-	(3,920,856)	-	(207,900)	-	(207,900)
Present value of unfunded liabilities		-	(140,067)	(140,067)	-	(144,638)	-	(144,638)	-	-	-	-
Less irrecoverable surplus		-	-	-	-	-	(3,461)	(3,461)	-	-	(1,900)	(1,900)
Opening position as at 31 March 2015		**213,000**	**(869,067)**	**(656,067)**	**2,693,687**	**(4,065,494)**	**(3,461)**	**(1,375,268)**	**217,400**	**(207,900)**	**(1,900)**	**7,600**
Service cost												
- Current service cost		-	-	-	-	(86,047)	-	(86,047)	-	(1,100)	-	(1,100)
- Past service cost (including curtailments)		-	-	-	-	(1,459)	-	(1,459)	-	-	-	-
- Other expenses		(900)	-	(900)	(918)	-	-	(918)	-	-	-	-
Total service cost		**(900)**	**-**	**(900)**	**(918)**	**(87,506)**	**-**	**(88,424)**	**-**	**(1,100)**	**-**	**(1,100)**
Net interest												
- Interest income on plan assets		7,600	-	7,600	87,076	-	-	87,076	6,800	-	-	6,800
- Interest cost on defined benefit obligation		-	(29,382)	(29,382)	-	(132,191)	-	(132,191)	-	(6,500)	-	(6,500)
- Impact of asset ceiling on net interest		-	-	-	-	-	(111)	(111)	-	-	(100)	(100)
Total net interest		**7,600**	**(29,382)**	**(21,782)**	**87,076**	**(132,191)**	**(111)**	**(45,226)**	**6,800**	**(6,500)**	**(100)**	**200**
Total defined benefit cost recognised in profit or (loss)		**6,700**	**(29,382)**	**(22,682)**	**86,158**	**(219,697)**	**(111)**	**(133,650)**	**6,800**	**(7,600)**	**(100)**	**(900)**
Cashflows												
- Plan participants' contributions		-	-	-	22,232	(22,232)	-	-	200	(200)	-	-
- Employer contributions		69,900	-	69,900	129,332	-	-	129,332	300	-	-	300
- Contributions in respect of unfunded benefits		9,900	-	9,900	9,900	-	-	9,900	-	-	-	-
- Benefits paid		(67,900)	69,985	2,085	(141,259)	143,360	-	2,101	(11,100)	11,100	-	-
- Unfunded benefits paid		(9,900)	9,900	-	(9,900)	9,900	-	-	-	-	-	-
Expected closing position		**221,700**	**(818,564)**	**(596,864)**	**2,790,150**	**(4,154,163)**	**(3,572)**	**(1,367,585)**	**213,600**	**(204,600)**	**(2,000)**	**7,000**
Remeasurements												
- Change in demographic assumptions		-	971	971	-	1,128	-	1,128	-	2,700	-	2,700
- Change in financial assumptions		-	3,283	3,283	-	323,700	-	323,700	-	3,900	-	3,900
- Other experience		-	24,469	24,469	-	51,139	-	51,139	-	2,500	-	2,500
- Return on assets excluding amounts included in net interest		(2,300)	-	(2,300)	(48,330)	-	-	(48,330)	(14,300)	-	-	(14,300)
- Changes in asset ceiling		-	-	-	-	-	(185)	(185)	-	-	2,000	2,000
Total remeasurements recognised in Other Comprehensive Expenditure (OCE)		**(2,300)**	**28,723**	**26,423**	**(48,330)**	**375,967**	**(185)**	**327,452**	**(14,300)**	**9,100**	**2,000**	**(3,200)**
Fair value of employer assets		219,400	-	219,400	2,741,820	-	-	2,741,820	199,300	-	-	199,300
Present value of funded liabilities		-	(668,100)	(668,100)	-	(3,652,228)	-	(3,652,228)	-	(195,500)	-	(195,500)
Present value of unfunded liabilities		-	(121,741)	(121,741)	-	(125,968)	-	(125,968)	-	-	-	-
Less irrecoverable surplus		-	-	-	-	-	(3,757)	(3,757)	-	-	-	-
Closing position as at 31 March 2016		**219,400**	**(789,841)**	**(570,441)**	**2,741,820**	**(3,778,196)**	**(3,757)**	**(1,040,133)**	**199,300**	**(195,500)**	**-**	**3,800**
Of which:												
Environment Agency Closed Scheme (within Core Department)	16.3				219,400	(753,900)	-	(534,500)				
Environment Agency Active Scheme (within NDPB)	16.3				2,462,257	(2,921,733)	-	(459,476)				
Other (all other schemes)	16.3				60,163	(102,563)	(3,757)	(46,157)				
					2,741,820	**(3,778,196)**	**(3,757)**	**(1,040,133)**				

Within the Departmental Group there is a small asset of £114,000 which, when incorporated with the MLC asset (£3,800,000), agrees to the pension asset of £3,914,000 as reported on the Statement of Financial Position.

as at 31 March 2015		Core Department and Agencies			Departmental Group				Pension Asset MLC Pension Scheme			
		Assets	Liabilities	Net (liability) /asset	Assets	Liabilities	Adjustment	Net (liability) /asset	Assets	Liabilities	Adjustment	Net (liability) /asset
	Note	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets		165,800	-	165,800	2,311,636	-	-	2,311,636	204,500	-	-	204,500
Present value of funded liabilities		-	(749,700)	(749,700)	-	(3,352,608)	-	(3,352,608)	-	(192,500)	-	(192,500)
Present value of unfunded liabilities		-	(140,400)	(140,400)	-	(144,768)	-	(144,768)	-	-	-	-
Less irrecoverable surplus		-	-	-	-	-	(1,357)	(1,357)	-	-	(2,300)	(2,300)
Opening position as at 31 March 2014		**165,800**	**(890,100)**	**(724,300)**	**2,311,636**	**(3,497,376)**	**(1,357)**	**(1,187,097)**	**204,500**	**(192,500)**	**(2,300)**	**9,700**
Service cost												
- Current service cost		-	(11)	(11)	-	(68,937)	-	(68,937)	-	(1,000)	-	(1,000)
- Past service cost (including curtailments)		-	-	-	-	(5,691)	-	(5,691)	-	-	-	-
- Effect of settlements		-	-	-	(701)	685	-	(16)	-	-	-	-
- Other expenses		(600)	-	(600)	(626)	-	-	(626)	-	-	-	-
Total service cost		**(600)**	**(11)**	**(611)**	**(1,327)**	**(73,943)**	**-**	**(75,270)**	**-**	**(1,000)**	**-**	**(1,000)**
Net interest												
- Interest income on plan assets		7,200	-	7,200	99,589	-	-	99,589	8,600	-	-	8,600
- Interest cost on defined benefit obligation		-	(37,073)	(37,073)	-	(149,570)	-	(149,570)	-	(8,000)	-	(8,000)
- Impact of asset ceiling on net interest		-	-	-	-	-	-	-	-	-	(100)	(100)
Total net interest		**7,200**	**(37,073)**	**(29,873)**	**99,589**	**(149,570)**	**-**	**(49,981)**	**8,600**	**(8,000)**	**(100)**	**500**
Total defined benefit cost recognised in profit or (loss)		**6,600**	**(37,084)**	**(30,484)**	**98,262**	**(223,513)**	**-**	**(125,251)**	**8,600**	**(9,000)**	**(100)**	**(500)**
Cashflows												
- Plan participants' contributions		-	-	-	23,406	(23,406)	-	-	200	(200)	-	-
- Employer contributions		74,300	-	74,300	135,520	-	-	135,520	400	-	-	400
- Contributions in respect of unfunded benefits		10,800	-	10,800	10,800	-	-	10,800	-	-	-	-
- Benefits paid		(72,500)	74,634	2,134	(148,827)	150,976	-	2,149	(10,500)	10,500	-	-
- Unfunded benefits paid		(10,800)	10,800	-	(10,800)	10,800	-	-	-	-	-	-
Expected closing position		**174,200**	**(841,750)**	**(667,550)**	**2,419,997**	**(3,582,519)**	**(1,357)**	**(1,163,879)**	**203,200**	**(191,200)**	**(2,400)**	**9,600**
Remeasurements												
- Change in financial assumptions		-	(34,540)	(34,540)	-	(505,391)	-	(505,391)	-	(20,700)	-	(20,700)
- Other experience		-	7,204	7,204	-	22,397	-	22,397	-	3,600	-	3,600
- Return on assets excluding amounts included in net interest		38,800	-	38,800	273,690	-	-	273,690	14,600	-	-	14,600
- Transfers in		-	19	19	-	19	-	19	(400)	400	-	-
- Changes in asset ceiling		-	-	-	-	-	(2,104)	(2,104)	-	-	500	500
Total remeasurements recognised in Other Comprehensive Expenditure (OCE)		**38,800**	**(27,317)**	**11,483**	**273,690**	**(482,975)**	**(2,104)**	**(211,389)**	**14,200**	**(16,700)**	**500**	**(2,000)**
Fair value of employer assets		213,000	-	213,000	2,693,687	-	-	2,693,687	217,400	-	-	217,400
Present value of funded liabilities		-	(729,000)	(729,000)	-	(3,920,856)	-	(3,920,856)	-	(207,900)	-	(207,900)
Present value of unfunded liabilities		-	(140,067)	(140,067)	-	(144,638)	-	(144,638)	-	-	-	-
Less irrecoverable surplus		-	-	-	-	-	(3,461)	(3,461)	-	-	(1,900)	(1,900)
Closing position as at 31 March 2015		**213,000**	**(869,067)**	**(656,067)**	**2,693,687**	**(4,065,494)**	**(3,461)**	**(1,375,268)**	**217,400**	**(207,900)**	**(1,900)**	**7,600**
Of which:												
Environment Agency Closed Scheme (within Core Department)	16.3				213,000	(829,100)	-	(616,100)				
Environment Agency Active Scheme (within NDPB)	16.3				2,418,943	(3,126,206)	-	(707,263)				
Other (all other schemes)	16.3				61,744	(110,188)	(3,461)	(51,905)				
					2,693,687	**(4,065,494)**	**(3,461)**	**(1,375,268)**				

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

as at 31 March 2016	Environment Agency Closed Scheme (within Core Department)			Environment Agency Active Scheme (within NDPB)			Other (all other schemes - excluding MLC)			
	Assets	Liabilities	Net (liability) /asset	Assets	Liabilities	Net (liability) /asset	Assets	Liabilities	Adjustment	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	213,000	-	213,000	2,418,943	-	2,418,943	61,744	-	-	61,744
Present value of funded liabilities	-	(729,000)	(729,000)	-	(3,126,206)	(3,126,206)	-	(65,650)	-	(65,650)
Present value of unfunded liabilities	-	(100,100)	(100,100)	-	-	-	-	(44,538)	-	(44,538)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(3,461)	(3,461)
Opening position as at 31 March 2015	**213,000**	**(829,100)**	**(616,100)**	**2,418,943**	**(3,126,206)**	**(707,263)**	**61,744**	**(110,188)**	**(3,461)**	**(51,905)**
Service cost										
- Current service cost	-	-	-	-	(85,583)	(85,583)	-	(464)	-	(464)
- Past service cost (including curtailments)	-	-	-	-	(1,459)	(1,459)	-	-	-	-
- Other expenses	(900)	-	(900)	-	-	-	(18)	-	-	(18)
Total service cost	**(900)**	**-**	**(900)**	**-**	**(87,042)**	**(87,042)**	**(18)**	**(464)**	**-**	**(482)**
Net interest										
- Interest income on plan assets	7,600	-	7,600	77,571	-	77,571	1,905	-	-	1,905
- Interest cost on defined benefit obligation	-	(28,000)	(28,000)	-	(100,652)	(100,652)	-	(3,539)	-	(3,539)
- Impact of asset ceiling on net interest	-	-	-	-	-	-	-	-	(111)	(111)
Total net interest	**7,600**	**(28,000)**	**(20,400)**	**77,571**	**(100,652)**	**(23,081)**	**1,905**	**(3,539)**	**(111)**	**(1,745)**
Total defined benefit cost recognised in profit or (loss)	**6,700**	**(28,000)**	**(21,300)**	**77,571**	**(187,694)**	**(110,123)**	**1,887**	**(4,003)**	**(111)**	**(2,227)**
Cashflows										
- Plan participants' contributions	-	-	-	22,092	(22,092)	-	140	(140)	-	-
- Employer contributions	69,900	-	69,900	58,802	-	58,802	630	-	-	630
- Contributions in respect of unfunded benefits	9,900	-	9,900	-	-	-	-	-	-	-
- Benefits paid	(67,900)	67,900	-	(70,513)	70,513	-	(2,846)	4,947	-	2,101
- Unfunded benefits paid	(9,900)	9,900	-	-	-	-	-	-	-	-
Expected closing position	**221,700**	**(779,300)**	**(557,600)**	**2,506,895**	**(3,265,479)**	**(758,584)**	**61,555**	**(109,384)**	**(3,572)**	**(51,401)**
Remeasurements										
- Change in demographic assumptions	-	-	-	-	-	-	-	1,128	-	1,128
- Change in financial assumptions	-	3,000	3,000	-	317,902	317,902	-	2,798	-	2,798
- Other experience	-	22,400	22,400	-	25,844	25,844	-	2,895	-	2,895
- Return on assets excluding amounts included in net interest	(2,300)	-	(2,300)	(44,638)	-	(44,638)	(1,392)	-	-	(1,392)
- Changes in asset ceiling	-	-	-	-	-	-	-	-	(185)	(185)
Total remeasurements recognised in Other Comprehensive Expenditure (OCE)	**(2,300)**	**25,400**	**23,100**	**(44,638)**	**343,746**	**299,108**	**(1,392)**	**6,821**	**(185)**	**5,244**
Fair value of employer assets	219,400	-	219,400	2,462,257	-	2,462,257	60,163	-	-	60,163
Present value of funded liabilities	-	(668,100)	(668,100)	-	(2,921,733)	(2,921,733)	-	(62,395)	-	(62,395)
Present value of unfunded liabilities	-	(85,800)	(85,800)	-	-	-	-	(40,168)	-	(40,168)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(3,757)	(3,757)
Closing position as at 31 March 2016	**219,400**	**(753,900)**	**(534,500)**	**2,462,257**	**(2,921,733)**	**(459,476)**	**60,163**	**(102,563)**	**(3,757)**	**(46,157)**

as at 31 March 2015	Environment Agency Closed Scheme (within Core Department)			Environment Agency Active Scheme (within NDPB)			Other (all other schemes - excluding MLC)			
	Assets	Liabilities	Net (liability) /asset	Assets	Liabilities	Net (liability) /asset	Assets	Liabilities	Adjustment	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	165,800	-	165,800	2,091,318	-	2,091,318	54,518	-	-	54,518
Present value of funded liabilities	-	(749,700)	(749,700)	-	(2,544,001)	(2,544,001)	-	(58,907)	-	(58,907)
Present value of unfunded liabilities	-	(102,900)	(102,900)	-	-	-	-	(41,868)	-	(41,868)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(1,357)	(1,357)
Opening position as at 31 March 2014	**165,800**	**(852,600)**	**(686,800)**	**2,091,318**	**(2,544,001)**	**(452,683)**	**54,518**	**(100,775)**	**(1,357)**	**(47,614)**
Service cost										
- Current service cost	-	-	-	-	(68,506)	(68,506)	-	(431)	-	(431)
- Past service cost (including curtailments)	-	-	-	-	(5,691)	(5,691)	-	-	-	-
- Effect of settlements	-	-	-	(701)	685	(16)	-	-	-	-
- Other expenses	(600)	-	(600)	-	-	-	(26)	-	-	(26)
Total service cost	**(600)**	**-**	**(600)**	**(701)**	**(73,512)**	**(74,213)**	**(26)**	**(431)**	**-**	**(457)**
Net interest										
- Interest income on plan assets	7,200	-	7,200	90,119	-	90,119	2,270	-	-	2,270
- Interest cost on defined benefit obligation	-	(35,300)	(35,300)	-	(109,874)	(109,874)	-	(4,396)	-	(4,396)
Total net interest	**7,200**	**(35,300)**	**(28,100)**	**90,119**	**(109,874)**	**(19,755)**	**2,270**	**(4,396)**	**-**	**(2,126)**
Total defined benefit cost recognised in profit or (loss)	**6,600**	**(35,300)**	**(28,700)**	**89,418**	**(183,386)**	**(93,968)**	**2,244**	**(4,827)**	**-**	**(2,583)**
Cashflows										
- Plan participants' contributions	-	-	-	23,266	(23,266)	-	140	(140)	-	-
- Employer contributions	74,300	-	74,300	60,592	-	60,592	628	-	-	628
- Contributions in respect of unfunded benefits	10,800	-	10,800	-	-	-	-	-	-	-
- Benefits paid	(72,500)	72,500	-	(73,681)	73,681	-	(2,646)	4,795	-	2,149
- Unfunded benefits paid	(10,800)	10,800	-	-	-	-	-	-	-	-
Expected closing position	**174,200**	**(804,600)**	**(630,400)**	**2,190,913**	**(2,676,972)**	**(486,059)**	**54,884**	**(100,947)**	**(1,357)**	**(47,420)**
Remeasurements										
- Change in financial assumptions	-	(31,400)	(31,400)	-	(463,934)	(463,934)	-	(10,057)	-	(10,057)
- Other experience	-	6,900	6,900	-	14,700	14,700	-	797	-	797
- Return on assets excluding amounts included in net interest	38,800	-	38,800	228,030	-	228,030	6,860	-	-	6,860
- Transfers in	-	-	-	-	-	-	-	19	-	19
- Changes in asset ceiling	-	-	-	-	-	-	-	-	(2,104)	(2,104)
Total remeasurements recognised in Other Comprehensive Expenditure (OCE)	**38,800**	**(24,500)**	**14,300**	**228,030**	**(449,234)**	**(221,204)**	**6,860**	**(9,241)**	**(2,104)**	**(4,485)**
Fair value of employer assets	213,000	-	213,000	2,418,943	-	2,418,943	61,744	-	-	61,744
Present value of funded liabilities	-	(729,000)	(729,000)	-	(3,126,206)	(3,126,206)	-	(65,650)	-	(65,650)
Present value of unfunded liabilities	-	(100,100)	(100,100)	-	-	-	-	(44,538)	-	(44,538)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(3,461)	(3,461)
Closing position as at 31 March 2015	**213,000**	**(829,100)**	**(616,100)**	**2,418,943**	**(3,126,206)**	**(707,263)**	**61,744**	**(110,188)**	**(3,461)**	**(51,905)**

16.4 History of Experience Gains and Losses

	EA Closed Scheme (funded)					EA Active Scheme (funded)					MLC Scheme (funded)				
Year Ended :	31/03/16	31/03/15	31/03/14	31/03/13	31/03/12	31/03/16	31/03/15	31/03/14	31/03/13	31/03/12	31/03/16	31/03/15	31/03/14	31/03/13	31/03/12
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	219,400	213,000	165,800	166,800	152,500	2,462,257	2,418,943	2,091,318	2,114,191	1,849,112	199,300	217,400	204,500	205,100	197,900
Present value of defined benefit obligation	(753,900)	(829,100)	(852,600)	(879,600)	(899,200)	(2,921,733)	(3,126,206)	(2,544,001)	(2,492,059)	(2,074,092)	(195,500)	(207,900)	(192,500)	(198,000)	(185,500)
(Deficit)/surplus	(534,500)	(616,100)	(686,800)	(712,800)	(746,700)	(459,476)	(707,263)	(452,683)	(377,868)	(224,980)	3,800	9,500	12,000	7,100	12,400
Experience gains/(losses) on assets	(2,300)	38,800	(10,600)	10,900	22,000	(44,638)	228,030	78,494	161,386	(41,465)	(14,300)	14,600	1,500	7,200	(19,500)
Experience gains/(losses) on liabilities	22,400	6,900	24,900	(3,900)	(20,200)	25,844	14,700	(130,360)	-	(21,606)	2,500	3,600	1,700	(2,000)	(1,700)
Actuarial gains/(losses) on employer assets	(2,300)	38,800	(10,600)	10,900	22,000	(44,638)	228,030	78,494	161,386	(41,465)	(14,300)	14,600	1,500	7,200	(19,500)
Effect of limit of asset ceiling											2,000	500	3,000	5,100	30,500
Actuarial gains/(losses) on obligation	25,400	(24,500)	(24,400)	(31,200)	(25,100)	343,746	(449,234)	(177,053)	(302,810)	(83,193)	9,100	(17,100)	3,900	(13,400)	(11,600)
Actuarial gains/(losses) recognised in SoCTE	23,100	14,300	(35,000)	(20,300)	(3,100)	299,108	(221,204)	(98,559)	(141,424)	(124,658)	(3,200)	(2,000)	8,400	(1,100)	(600)

16.5 Fair Value of Assets in the Fund

The assets in the scheme and the expected rate of return were:

	EA Closed Scheme	EA Active Scheme	Pension Asset MLC Pension Scheme
as at 31 March 2016	**£000**	**£000**	**£000**
Equities	-	1,363,123	55,804
Bonds	205,000	848,535	-
Property	-	196,286	-
Cash	14,400	54,313	199
Insurance policy	-	-	143,297
Total 31 March 2016	**219,400**	**2,462,257**	**199,300**

Percentage of Closing Fair Value	**%**	**%**	**%**
Equity	-	55	28
Bonds	93	35	-
Property	-	8	-
Cash and insurance policy	7	2	72
Total	**100**	**100**	**100**

as at 31 March 2015	**£000**	**£000**	**£000**
Equities	-	1,573,387	75,655
Bonds	199,900	701,513	-
Property	-	97,097	-
Cash	13,100	46,946	217
Insurance policy	-	-	141,528
Total 31 March 2015	**213,000**	**2,418,943**	**217,400**

Percentage of Closing Fair Value	**%**	**%**	**%**
Equity	-	65	35
Bonds	94	29	-
Property	-	4	-
Cash and insurance policy	6	2	65
Total	**100**	**100**	**100**

16.6 Financial Assumptions

The major financial assumptions used by the actuary when providing the assessment of the accrued liabilities as at the following dates.

	EA Closed Scheme	EA Active Scheme	Pension Asset MLC Pension Scheme
	% pa	% pa	% pa
as at 31 March 2016			
Inflation/pension increase rate (CPI)	2.2	1.9	2.0
Salary increase rate	-	3.4	3.0
Discount rate	3.6	3.5	3.3
as at 31 March 2015			
Inflation/pension increase rate (CPI)	2.2	2.1	2.0
Salary increase rate	-	3.5	3.0
Discount rate	3.6	3.2	3.2

16.7 Mortality Assumptions

There is also uncertainty around the life expectation of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment. The mortality assumptions used by the Actuary were:

	EA Closed Scheme		EA Active Scheme		Pension Asset MLC Pension Scheme	
	Male	Female	Male	Female	Male	Female
Average future life expectancies at age 65						
Current pensioners (years)	20.8	22.7	22.6	24.5	22.9	25.1
Future pensioners (years)	21.5	24.4	24.7	27.0	24.5	26.8

16.8 Sensitivity Analysis

IAS 1 requires the disclosure of the sensitivity of the results to the methods and assumptions used. Any changes in assumptions would impact on the EA pension schemes.

The sensitivities regarding the principal assumptions used to measure the EA Closed scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2016	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in real discount rate	4	30,988
1 year increase in member life expectancy	3	22,618
0.5% increase in pension increase rate	4	31,266

The sensitivities regarding the principal assumptions used to measure the EA Active scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2016	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in real discount rate	12	346,376
1 year increase in member life expectancy	3	87,652
0.5% increase in salary increase rate	5	140,327
0.5% increase in pension increase rate	7	199,154

The sensitivities regarding the principal assumptions used to measure the MLC Pension Scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2016	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in discount rate	7.4	14,467
0.25% increase in RPI price inflation	2.4	4,692
1% decrease in salary growth	(0.4)	(782)

17 Contingent Liabilities and Contingent Assets

17.1 Contingent Liabilities

17.1.1 Quantifiable

The Department has the following quantifiable contingent liabilities at 31 March 2016.

- Liability for landfill sites that do not reach the standards required by the Environmental Permitting regulations and where the permit holder becomes insolvent, and cases where ongoing management is required and there is no permit holder. Potential liability to the Core Department is estimated at £20–30m (2014–15, £15–30m).

- The Core Department has a potential liability of £19m (2014–15, £21m) in relation to dilapidations for failing to maintain properties in accordance with the terms of their leases.

- An application for Judicial Review (JR) has been made against Defra's decision to withdraw the payment of outstanding Waste Infrastructure Grant. Were Defra to ultimately lose the JR, Defra would be required to reinstate payments totalling £147.5m over the remaining 20 years of the PFI Contract. In this eventuality, the sum of outstanding payments as at 31 March would total £11.4m. Permission to proceed with a JR has been refused by the High Court, both on the papers and at an Oral Permission Hearing, and more recently at the Court of Appeal based on the papers. The appellant has subsequently sought an Oral Permission Hearing at the Court of Appeal and this is due to take place on 23 November 2016.

- Small potential liabilities against Defra, its executive agencies and NDPBs are estimated at no more than £2.4m (2014–15, £1.4m).

17.1.2 Unquantifiable

The Department has the following contingent liabilities which are unquantifiable due to their variable nature.

- Infringements of the Urban Waste Water Treatment Directive could lead to substantial fines for the Core Department from the EU.

- As part of the revised contract with Defra's facilities management providers it has been agreed that under certain conditions arising from the rationalisation of the estate and subsequent reduction in demand, any restructuring costs such as redundancies or early retirement will be recharged to the Core Department.

- RPA is currently in receipt of appeals from scheme claimants against the non-payment of claims covering the Single Payment Scheme and trader related schemes. If the appeals are successful they could either result in a liability for EU or Exchequer funded payments.

- An HMRC audit of the Forestry Commission's treatment of VAT and income tax is underway. An unquantifiable contingent liability is disclosed to recognise the possibility of future non-compliance liabilities arising from the audit.

- There is an ongoing independent assessment which was set up following recommendations in a report from the Parliamentary and Health Service Ombudsman, in relation to a claim for maladministration.

- An application for judicial review has been made against Defra's plans to reduce NO2 concentrations on the basis they do not deliver compliance with EU legislation in the shortest possible time.

- There is a potential liability in respect of financial corrections, however this is unquantifiable at present as we have not received notification from the EC.

17.2 Contingent Assets

At 31 March 2016, the main items under this heading were as follows.

- The Core Department is entitled to a future share of enhancement in value on a number of properties and land previously sold. These enhancements generally arise from the planning and development process and are based on a number of trigger points, planning thresholds and increased values (unquantifiable).

- RPA expects to make future additional payments to customers in relation to land claimed under the Single Payment Scheme. It is anticipated that some of this will be reclaimable from the European Commission, but the value of the reimbursement is subject to future events and decisions that are not wholly within the control of RPA. Accordingly, RPA has established a contingent asset of £11m representing the best estimate of the value which will be recovered from the Commission in relation to these claims.

- The Department has other potential small assets, with an estimated value of £2m (2014–15, £2.9m).

18 Related Party Transactions

The Department is the sponsor of the executive agencies, NDPBs and levy funded bodies, all of which are within the departmental accounting boundary, shown in Note 21. Public corporations are outside the accounting boundary, and are shown in Note 22. All the bodies above are regarded as related parties with which the Department has had various material transactions during the year. These bodies also trade with each other and have had material transactions during the year.

In addition, the Department has had a number of transactions with other government departments and the Devolved Administrations.

A number of Defra Board members, or other related parties, claim CAP scheme payments as detailed below. Where this is the case, the standard EU terms and conditions for these schemes apply.

Lord Gardiner (Defra spokesman in the House of Lords) received £37,270 in respect to Basic Payment Scheme.

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

Other than those disclosed above, none of the Defra Board members or other related parties have undertaken any material transactions with the Department during the year.

19 Events After the Reporting Period

Defra's Financial Statements are laid before the House of Commons by HM Treasury. IAS 10: *Events after the reporting period* requires Defra to disclose the date on which the accounts are authorised for issue.

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

More details on the Department's financial interaction with the EU can be found in the Performance Analysis section in Chapter 3.

The Annual Report and Accounts were authorised by the Accounting Officer for issue on the date of the Comptroller and Auditor General's audit certificate.

20 Prior Period Adjustments

The prior year Consolidated Accounts were aligned to reflect the delivery bodies' final published Annual Report and Accounts, together with some minor adjustments in the Core Department, including an adjustment relating to the ongoing future liabilities to remediate mine water pollution arising from abandoned metal mines (see Note 15.5 for further information).

20.1 Effect on the Consolidated Statement of Net Expenditure

The adjustments resulted in an overall increase to departmental net expenditure of £1.0m (Core Department and Agencies £1.1m.)

Total Comprehensive expenditure increased by £0.9m (Core Department and Agencies £1.1m.).

20.2 Effect on the Consolidated Statement of Financial Position

Total assets decreased by £2.7m (Core Department and Agencies £1.0m).

Total liabilities increased by £1.4m (Core Department and Agencies £3.4m).

The resulting changes in the reserves can be seen in the Consolidated Statement of Changes in Taxpayers' Equity.

21 Entities within the Departmental Boundary

The entities within the departmental boundary during 2015–16 comprise supply financed agencies and those entities listed in the Designation and Amendment Orders presented to Parliament.

Executive Agencies

Animal and Plant Health Agency
Centre for Environment, Fisheries and Aquaculture Science
Rural Payments Agency
Veterinary Medicines Directorate

The executive agencies' ARAs have been prepared under the direction of HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000 and are published separately.

Forestry Commission (FC) is a non-ministerial department but is included in Defra's Estimate and therefore is fully consolidated and included within the results for the Core Department and executive agencies.

Executive NDPBs

Consumer Council for Water
Environment Agency
Joint Nature Conservation Committee
Marine Management Organisation
Natural England
Royal Botanic Gardens, Kew

Levy Funded Bodies

Agriculture and Horticulture Development Board
Sea Fish Industry Authority

Non-profit institution within the public sector, specifically Central Government

National Forest Company

Other

Flood Re is a not-for-profit reinsurance body, run and managed by the insurance industry. Its net expenditure/income is classified as Annually Managed Expenditure and in accordance with the requirements of the Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, is consolidated into these accounts. It is awaiting classification by Cabinet Office and the Office for National Statistics.

Executive NDPBs, levy funded bodies, National Forest Company and Flood Re's ARAs are published separately.

Advisory NDPBs (Defra Funded)

Advisory Committee on Releases to the Environment
Independent Agricultural Appeals Panel
Science Advisory Council

Veterinary Products Committee

Tribunal NDPBs (Defra Funded)

Plant Varieties and Seeds Tribunal (dormant)

The advisory and tribunal NDPBs do not produce a separate ARA as they are accounted for as part of the Core Department accounts.

22 Entities outside the Departmental Boundary

The public sector bodies which have not been consolidated in these accounts, but for which Defra's ministers had lead policy responsibility during the year, are as follows:

Public Corporations

Covent Garden Market Authority

Other Bodies

National Parks Authorities (x9)
Water Services Regulation Authority (Ofwat)
British Wool Marketing Board
Broads Authority

Annexes

These annexes do not form part of the financial statements and have not been subject to audit.

Annex 1: Core Tables 2015–16

The tables provide an explanation of what Defra spends money on. The analysis shows departmental expenditure split between resource consumption and capital investment.

HM Treasury publishes a glossary in the Public Expenditure Statistical Analyses Report (CM 8902)[26] that explains the majority of the terms used in the Core Tables and in the commentary below so these are not all repeated here.

Details of the Parliamentary Main Estimate[27] and Parliamentary Supplementary Estimate are published separately[28].

Tables 1 and 2 – Defra's Resource and Capital Budget

Table 1 sets out a summary of the Resource and Capital Budget expenditure for the Department, covering the period from 2011–12 to 2019–20. It shows Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) elements separately for control purposes. Future years' figures reflect the budgeted figures agreed with HM Treasury for the Department.

Table 2 shows the Administration costs of running the Department in more detail. The Administration Budget includes employee costs, resource expenditure on accommodation, utilities and services etc., where they are not directly associated with front-line service delivery. The commentary on Administration costs is included in the detailed analysis below, but in general terms, the Administration Budget reflects the savings required by the 2010 Spending Review (SR10), the 2013 Spending Round (SR13) and the 2015 Spending Review (SR15).

These tables follow the layout of the Part II Table of the 2015–16 Supplementary Estimate and have been produced from HM Treasury's Online System for Central Accounting and Reporting (OSCAR) database and are on the same basis as the Statement of Parliamentary Supply.

Resource Budget (Programme and Administration) DEL

Food and farming

The changing profile of spend is primarily due to the profile of Common Agricultural Policy (CAP) disallowance payments. The CAP Disallowance Budget has been transferred between years to match the expected profile of payments. These transfers were agreed with HM Treasury and are in line with the SR10, SR13 and SR15 settlements to allow flexibility between years to handle the timing of disallowance costs which are outside the Department's control, being dependent on the timing of European Commission (EC) decisions. There are also reductions in later years due to the expected completion of the development of the CAP delivery programme in 2016–17.

Improve the environment

The 2011–12 Outturn included one off resource funding for the International Climate Fund (ICF), which is included within the 'Food and farming' Capital DEL for the years 2012–13 onwards. The increase from 2016–17 reflects the additional budget for Official Development Assistance.

Protect the country from floods

The increase from 2012–13 reflects funding of new burdens on local authorities (which commenced in 2011–12) under the Flood and Water Management Act 2010 and the Flood Risk Regulations 2009, with grants being provided directly to Lead Local Flood Authorities. The decrease in 2015–16 reflects a reducing profile as a result of the SR13 allocations, including planned reductions in Local Service Support Grant to Lead Local Flood

[26] https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2014
[27] https://www.gov.uk/government/collections/hmt-main-estimates
[28] https://www.gov.uk/government/collections/hmt-supplementary-estimates

Authorities and the end of a number of schemes in 2014–15 including the Community Pathfinder Grants and Land Management schemes. The decrease from 2016–17 onwards is due to a transfer of budget to the Department for Communities and Local Government for Lead Local Flood and Sustainable Drainage Systems.

Animal and plant health

The increase from 2013–14 is primarily due to an increase in measures to tackle endemic animal disease. The decrease from 2016–17 onwards is due to the transfer of the corporate services budget from the network into the centre.

Countryside and rural services

The changing profile of spend is mainly due to the Rural Development Programme England (RDPE). The RDPE scheme provides a degree of flexibility over the percentage split between Exchequer and EU funded payments across years, as long as the overall total is in line with the scheme rules. There was also a planned decrease in RDPE spend through SR10 as several RDPE schemes came to an end and fewer new agreements were signed.

Departmental operating costs

The one off decrease in Administration costs in 2014–15 relates to the sale of 75 percent of Fera Science Limited to Capita plc following the creation of the new joint venture. The increase from 2015–16 to 2016–17 is primarily due to the budgets for Network Corporate Services. These costs are held centrally within budgets, but actual outturn reflects a notional recharge to reallocate corporate service costs to the relevant body. There is a smaller increase in 2016–17 due to increased investment in estates and IT, as per the 2015 spending review settlement. The depreciation budget also increases from 2016–17 due to some assets being held centrally. There are further increases to depreciation towards the end of the SR period in respect of the increased asset investment. There is also an increase from 2017–18 due to evidence budgets being held centrally. They will be allocated across the business in line with priorities, once they have been reviewed. After taking all these budget changes into account, the underlying trend shows a decrease in departmental operating costs, including administration costs.

Improve the environment (ALB)(Net)

The downward trend from 2013–14, reflects savings identified by an internal efficiency programme. The decrease in 2015–16 reflects the creation of a centralised Network Corporate Services function, which reduced budget allocations to delivery bodies, as explained above.

Protect the country from floods (ALB)(Net)

The increases from 2014–15 reflect the additional funding allocated to flood management announced in the 2014 and the 2016 Budgets.

Resource Budget AME

Resource AME balances vary greatly over the years due to the volatility of provisions recorded as AME. A debit (a positive) is recorded as provisions are created, and a credit (a negative) recorded when a provision is utilised.

Food and farming

As described in the DEL section earlier, the changing profile of spend in this area is primarily due to the profile of the CAP disallowance provision. Budget has been transferred between years so that the AME credit entries recorded here match the expected profile of the payments recorded under Resource DEL. In addition to this, any revaluations to the CAP disallowance provision are recorded in this section. Debit balances are seen where increases to the provision are higher than payments made in that particular year. As with the timing of disallowance payments, changes in the value of the provision are also reliant on EC decisions.

Improve the environment

The increase in 2012–13 is due to the creation of the provision for South West Water to cover a commitment to provide financial assistance to domestic customers of South West Water. The decrease in 2013–14 is due to the utilisation of this provision. The increase in 2014–15 is due to the reallocation of the Environment Agency (EA) closed pension scheme provision AME entries from the Core Department to EA, in line with HM Treasury's guidance.

The increase in 2015–16 is due to the increase in the Metal Mines provision following a decrease in the discount rate used for valuing provisions, as per HM Treasury guidance, and an increase due to an accrual being raised to cover Defra's commitments in relation to South West Water for the financial years 2016–2020.

Departmental operating costs

The increase in 2014–15 is primarily due to property impairments across the Defra Estate, as a result of the quinquennial property valuation and also the change in classification of the Sand Hutton site to an investment property. In addition to this, a provision has been created for Foot and Mouth Disease Burial sites which represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites. In 2015–16 this provision was revalued following a decrease in the discount rate used for valuing provisions, as per HM Treasury guidance.

Improve the environment (ALB)(Net)

The decrease from 2014–15 onwards is mainly due to the reallocation of the EA closed pension scheme provision AME entries from the Core Department to EA in line with HM Treasury's guidance. Partially offset by an increase following the reallocation of the EA open pension fund provision between EA Environmental Protection and EA Flood.

Protect the country from floods (ALB)(Net)

The decrease in 2014–15 is due to the EA Open Pension Fund provision now being allocated between EA Environmental Protection and EA Flood. The increase in 2015–16 is partially due to the set up costs of Flood Re, with the increase from 2016–17 onwards reflecting the budget for the maximum impact Flood Re can have on Public Sector Net Borrowing.

Capital Budget DEL

The largest element of the Capital DEL Budget relates to flood management and a ring-fenced budget for the ICF.

Food and farming

The increase from 2013–14 relates to the investment on the CAP delivery programme which is expected to be completed in 2016–17.

Improve the environment

The decrease in 2012–13 is due to the end of the Waste Infrastructure Capital Grants to local authorities, a scheme under the Waste Programme and the transfer of the Canal and River Trust capital grants to Countryside and Rural services. This is partially offset by an increasing profile relating to the ring fenced budget for ICF. This increase continues to the end of the SR10 period and is then maintained for future years.

Protect the country from floods

The 2014–15 and 2015–16 Outturn included claims on the Reserve for the Repair and Renew Grant scheme, for households affected by the 2013–14 winter floods, which closed in 2015–16.

Countryside and rural services

The increase from 2012–13 is due to the transfer of the Canal and River Trust capital grants from 'Improve the environment'.

Departmental operating costs

The reduction in spend from 2014–15 is due to various projects completing within the Defra network estate and an increased level of capital income in 2014–15, following the sale of various properties. The increase from 2016–17 relates to the increase to the estates budget to fund critical and invest to save works in the science estate and also in IT infrastructure. This additional investment will lead to efficiencies in future running costs.

Improve the environment (ALB) (Net)

The increase from 2017–18 onwards is partially due to the increased investment in the science estate.

Protect the country from floods (ALB)(Net)

The increase from 2013–14 reflects additional investment in flood management. This includes additional funding announced in the 2012 Autumn Budget Statement and the 2014 Budget, the majority of which was allocated to 2014–15. The profile from 2016–17 onwards reflects the funding profile following the SR15 settlement and the increased funding announced in the 2016 Budget.

Table 1 - Defra's Resource and Capital Budget

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Plans £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Resource DEL									
Food and Farming	334,735	227,366	221,331	281,008	229,385	265,163	226,288	181,067	163,044
Improve the environment	337,851	241,845	265,528	242,384	233,062	260,256	255,989	251,077	252,756
Protect the country from floods	5,798	19,504	21,449	23,589	14,964	1,903	1,908	1,908	1,908
Animal and plant health	175,164	206,481	226,193	231,002	220,139	177,402	156,007	144,900	140,324
Marine and fisheries	43,426	40,846	35,927	31,234	30,698	31,737	25,802	25,291	24,784
Countryside and rural services	300,467	331,574	245,816	198,135	207,483	208,252	215,037	206,015	204,387
Departmental operating costs	175,154	170,778	145,755	129,100	143,240	286,775	333,203	305,874	295,590
Food and farming (ALB) (net)	(2,186)	(845)	(837)	-	-	-	-	-	-
Improve the environment (ALB) (net)	444,534	461,966	454,386	407,281	337,179	322,463	297,464	280,729	256,562
Protect the country from floods (ALB) (net)	343,789	318,288	305,578	341,434	339,313	371,894	365,686	347,784	337,675
Marine and fisheries (ALB) (net)	29,994	27,876	24,755	19,465	19,133	16,520	14,696	14,217	11,851
Countryside and rural services (ALB) (net)	3,899	3,258	2,319	1,983	2,078	2,611	2,611	2,611	2,601
Total Resource DEL	**2,192,625**	**2,048,937**	**1,948,200**	**1,906,615**	**1,776,674**	**1,944,976**	**1,894,691**	**1,761,473**	**1,691,482**
Resource AME									
Food and Farming	26,007	(1,925)	(54,362)	1,307	(39,601)	(29,968)	(12,968)	28,032	42,032
Improve the environment	(35,702)	72,468	(80,480)	(44,310)	313,107	(43,415)	(43,615)	(44,015)	(42,415)
Animal and plant health	(435)	10,065	10,252	2,579	(2,370)	-	-	-	-
Marine and fisheries	(858)	800	(351)	1,198	1,899	-	-	-	-
Countryside and rural services	586	(2,264)	25	(885)	(497)	(550)	(550)	(550)	(550)
Departmental operating costs	(4,698)	(4,864)	6,314	123,245	91,813	49,423	50,403	50,403	50,403
Food and farming (ALB) (net)	(4,621)	(3,060)	2,149	459	1,682	(15)	(15)	(15)	(15)
Improve the environment (ALB) (net)	(12,533)	4,031	(4,786)	(20,584)	(11,448)	(12,341)	(9,541)	(6,341)	(3,141)
Protect the country from floods (ALB) (net)	(18,003)	11,310	28,841	12,659	34,335	121,284	121,284	121,284	121,284
Marine and fisheries (ALB) (net)	(2,887)	(1,999)	(96)	2,337	1,831	61	61	61	61
Countryside and rural services (ALB) (net)	(236)	21	(3)	(7)	(10)	-	-	-	-
Total Resource AME	**(53,380)**	**84,583**	**(92,497)**	**77,998**	**390,741**	**84,479**	**105,059**	**148,859**	**167,659**
Total Resource Budget	**2,139,245**	**2,133,520**	**1,855,703**	**1,984,613**	**2,167,415**	**2,029,455**	**1,999,750**	**1,910,332**	**1,859,141**
Of which:									
Depreciation - AME	2,677	20,410	21,453	88,560	12,058	467	467	467	467
Depreciation - DEL	210,250	188,999	196,692	190,249	168,304	210,571	243,919	240,730	239,140
Total Depreciation[1]	212,927	209,409	218,145	278,809	180,362	211,038	244,386	241,197	239,607
Capital DEL									
Food and Farming	6,232	8,818	30,807	43,217	28,517	11,200	400	-	-
Improve the environment	33,488	25,576	30,461	43,623	40,940	36,000	39,870	41,470	37,270
Protect the country from floods	-	-	-	11,583	12,353	-	-	-	-
Animal and plant health	9,619	11,888	13,208	5,660	5,474	1,430	583	547	290
Marine and fisheries	1,744	700	874	1,115	982	1,530	2,425	1,435	850
Countryside and rural services	850	14,841	17,578	20,379	19,548	21,853	25,022	32,200	25,500
Departmental operating costs	(995)	12,026	14,351	(2,750)	(5,911)	75,803	103,010	61,768	15,769
Improve the environment (ALB) (net)	42,028	51,076	37,408	24,655	21,822	22,147	36,648	34,532	26,302
Protect the country from floods (ALB) (net)	290,859	289,489	336,586	489,355	405,084	404,000	442,000	465,000	372,000
Marine and fisheries (ALB) (net)	448	567	493	388	261	-	-	-	-
Countryside and rural services (ALB) (net)	939	(756)	324	786	402	-	-	-	-
Total Capital DEL	**385,212**	**414,225**	**482,090**	**638,011**	**529,472**	**573,963**	**649,958**	**636,952**	**477,981**
Capital AME									
Food and farming (ALB) (net)	19	(1,502)	(836)	1,586	75	1,000	1,000	1,000	1,000
Marine and fisheries (ALB) (net)	16	228	91	51	167	-	-	-	-
Total Capital AME	**35**	**(1,274)**	**(745)**	**1,637**	**242**	**1,000**	**1,000**	**1,000**	**1,000**
Total Capital Budget	**385,247**	**412,951**	**481,345**	**639,648**	**529,714**	**574,963**	**650,958**	**637,952**	**478,981**
Total departmental spending[2]	**2,311,565**	**2,337,062**	**2,118,903**	**2,345,452**	**2,516,767**	**2,393,380**	**2,406,322**	**2,307,087**	**2,098,515**
Of which:									
Total DEL	2,367,587	2,274,163	2,233,598	2,354,377	2,137,842	2,308,368	2,300,730	2,157,695	1,930,323
Total AME	(56,022)	62,899	(114,695)	(8,925)	378,925	85,012	105,592	149,392	168,192

1. Includes impairments

2. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

These tables now reflect the Prior Period Adjustment (PPA) and therefore the 2013–14 figures are different from those published in the 2014–15 Annual Report and Accounts (ARA).

The plans figures for 2016–17 are different to those published in the 2016–17 Main Estimate as they do not include the Machinery of Government changes or the Research and Development re-recording of expenditure.

The 2016–17 to 2019–20 plans figures are based on provisional allocations and are subject to change, following further business planning decisions.

Table 2 - Defra's Administration Costs

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Plans £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Resource DEL									
Food and Farming	106,028	106,787	105,852	116,799	110,468	99,485	94,176	91,734	89,321
Improve the environment	32,446	30,668	31,783	30,906	24,289	26,192	30,368	22,263	21,481
Protect the country from floods	1,658	1,622	1,939	2,119	1,930	1,283	1,283	1,283	1,283
Animal and plant health	(7,941)	(118)	(3,830)	7,051	20,205	38,962	37,106	36,443	35,936
Marine and fisheries	(1,438)	2,968	2,666	2,243	3,651	7,331	6,796	6,632	6,311
Countryside and rural services	17,265	21,121	17,957	14,188	13,314	9,026	8,779	8,727	8,317
Departmental operating costs	166,131	153,287	133,025	104,864	116,485	190,280	174,719	182,645	194,910
Food and farming (ALB) (net)	(2,186)	(845)	(837)	-	-	-	-	-	-
Improve the environment (ALB) (net)	169,285	149,171	158,765	133,776	132,263	74,171	70,176	67,676	64,861
Protect the country from floods (ALB) (net)	105,145	79,949	73,829	69,803	69,572	61,804	50,726	40,018	30,318
Marine and fisheries (ALB) (net)	4,545	5,038	4,875	4,444	4,379	2,290	2,090	2,047	1,896
Countryside and rural services (ALB) (net)	988	801	327	323	296	403	403	403	393
Total administration budget	**591,926**	**550,449**	**526,351**	**486,516**	**496,852**	**511,227**	**476,622**	**459,871**	**455,027**

These tables now reflect the PPA and therefore the 2013–14 figures are different from those published in the 2014–15 ARA.

The plans figures for 2016–17 are different to those published in the 2016–17 Main Estimate as they do not include the Machinery of Government changes or the Research and Development re-recording of expenditure.

Annex 2: Commentary on Sustainable Performance

Defra Group Summary Greening Government Commitments (GGC) Performance

	Performance achieved 2015–16	**Target**
Greenhouse Gas Reduction (GHG)	28.2% reduction	25% reduction
Waste Reduction	35.4% reduction	25% reduction
Water Reduction	26.5% reduction	Reduce from Baseline
Domestic Flights Reduction	24% reduction	20% reduction
Paper Reduction	39% reduction	10% reduction

Background

The environmental data and associated financial costs presented in the following pages are consistent with the requirements of HM Treasury's Public Sector Annual Reports: Sustainability Reporting Guidance 2015–16.

The information contained within this annex has not been subject to audit and does not form part of the auditors' opinion on the accounts.

Introduction

This annex sets out Defra's performance against the sustainability objectives of its estate and operations.

This report focuses on the most significant estate and travel impacts identified through the Defra group's Environmental Management Systems measured against the GGC targets. These targets are for reductions in GHG emissions, waste arisings, water use and for increasing procurement of more sustainable goods and services. The targets ran to March 2016.

Other aspects of the Defra group's operations contribute to its environmental impact including the embedded carbon and water of purchased items, supplier transport, waste handling and water supply. These impacts are not captured by this report but some of these are mitigated through sustainability criteria stipulated in procurement and services contracts. Data to report these impacts is not always readily available.

The following targets are measured from a 2009–10 baseline.

- Reduce GHG from the whole estate and business related transport by 25 percent.
- Reduce the amount of waste generated by 25 percent.
- Reduce water consumption and report on office water use against best practice benchmarks.
- Reduce the number of domestic flights by 20 percent.
- Ensure that more sustainable and efficient products are bought and undertake engagement with suppliers to understand and reduce the impacts of the supply chain.
- Cut paper use by 10 percent.

Performance against these targets is defined using the following terms.

- Exceeding target: the target has been exceeded.

- On target: performance has met the target.
- Behind target: performance has not reached the required level and therefore needs to improve in order to meet the target.
- Increase from baseline: no reduction made and performance in this area has worsened since the baseline year.
- Continues to exceed target: where a target was completed before 2015 and yet performance is still being measured and is exceeding the original target requirement.

Assurance and data

The data in Table 1 presents the GHG, energy consumption, water use and waste arisings figures as reported as part of the GGC and reports performance for 1 April 2015 to 31 March 2016. Cost data is not reported as part of the GGC, therefore all financial data presented in this report is sourced from accounting records for this period.

Energy and water data is primarily taken from supplier invoices. In most cases, the data in these invoices is informed by manual meter readings or half hourly Smart Meter readings. All consumption and cost data is also subject to validation and verification by Defra's Utility Bureau. These processes provide a high level of assurance that reported data is accurate and robust. The Environment Agency, Royal Botanic Gardens, Kew and the Forestry Commission have their own data assurance processes and produce their own Annual Report and Accounts.

Waste data is derived from figures provided by the Defra group's waste contractors. Wherever possible actual weights are used but where this is not possible waste data is calculated using a metric based on the number of bins emptied. Internal audits have been undertaken to validate and improve the accuracy of this data for common waste streams, using a number of key sites to establish the average weights and waste ratios. This estimation methodology will result in a small margin of error. It is not currently cost effective to weigh all waste streams.

Defra Group Performance[29]

This section of the report provides an overview of Defra group performance against the GGC targets. For the purposes of GGC reporting the Defra group comprises the following bodies.

- Defra Core Department
- Executive Agencies
  - Animal and Plant Health Agency (APHA)
  - Centre for Environment, Fisheries and Aquaculture Science (Cefas)
  - Rural Payments Agency (RPA)
  - Veterinary Medicines Directorate (VMD)
- Non-Departmental Public Bodies
  - Environment Agency (EA)
  - Marine Management Organisation (MMO)
  - Natural England (NE)
  - Royal Botanic Gardens Kew (RBG Kew)

[29] The data contained in this annex is reported as absolute values. It has not been normalised against metrics such as full time equivalent (FTE) staff, financial turnover or metre squared floor space. The diverse business delivery across the Estate is influenced by numerous factors such as weather, scientific undertakings and tourism numbers. This makes it difficult to report trends and make comparisons to other organisations.

- Forestry Commission (FC)
- Other Defra delivery bodies and other government departments (under the 'major occupier' rule, Defra reports the environmental impact of other government departments which occupy its buildings. Also included are some of delivery bodies which do not meet the threshold for GGC reporting, but are of insufficient materiality to remove from the departmental dataset).

Governance

Progress against the GGC targets is reported to the Estates Director on a quarterly basis.

Quality assurance is managed through the central Estates team who are responsible for producing the Defra group sustainability reports. These have been subject to internal audit in the past and found to be compliant with GGC and HM Treasury guidelines.

The Department's Director of Estates is the Senior Responsible Officer for Defra's participation in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), European Union Emissions Trading System and is signatory for the Department's Environmental Policy.

GGC Performance and Future Strategy

The Defra group aims to keep sustainability at the heart of its business delivery and operations. This means that it strives to operate in the most sustainable and environmentally responsible manner: improving the way we use our work spaces; reducing energy and water use; reducing the amount of waste generated; making strategic energy and waste savings from IT services; and assessing the products and services that are purchased to support all operational activities.

The Department's transformation programme is developing a business model across the Defra group which is more strategic, flexible and resilient and will drive sustainability improvements. One strand of the programme, the creation of a Defra group Corporate Services directorate in October 2014, has given Defra the opportunity to take a group wide approach to the way it delivers its services, embedding sustainability best practice in strategic decision making and service delivery across estates, procurement and information services.

- A key element of transformation is making more efficient use of space, reducing the number of buildings where possible, thereby driving performance improvements and savings from its built environment.

- The Future of Science delivery programme is looking at how the Defra group can deliver its science from a smaller footprint. Science currently accounts for 33 percent of Defra group's GHG foot print and minimising this impact will deliver significant efficiency savings.

Estates

Business activities in the Defra group's buildings are the most significant contributor to overall environmental impact. The Defra group's portfolio comprises a diverse mix of properties which includes office buildings, storage facilities, pumping stations, forestry facilities, botanic gardens, experimental farms and complex laboratory campus facilities.

The wide range of activities undertaken presents considerable challenge in delivering savings in energy and water used and waste generated. The following section details performance and also outlines future plans for meeting all of the GGC targets.

Targets and Performance

	Current Reductions	Target	Current Performance
GHG Reduction 2015–16 vs. Baseline	28.2% reduction	25% reduction	Exceeding target
Waste Reduction 2015–16 vs. Baseline	35.4% reduction	25% reduction	Exceeding target
Water Reduction 2015–16 vs. Baseline	26.5% reduction	Reduce from baseline	Exceeding target
Domestic Flights Reduction 2015–16 vs. Baseline	24% reduction	20% reduction	Exceeding target
Paper Use Reduction 2015–16 vs. Baseline	39% reduction	10% reduction	Exceeding target

Performance against the GHG target has improved during the 2015–16 year. This has been partly driven by a monitoring and targeting system that uses automatic meter data to spot opportunities for savings.

Defra is committed to reduce expenditure on energy costs and following a tender exercise via the Re:Fit framework it has entered into a contract with Breathe Energy. The project is currently in the phase of identifying the necessary measures in 13 selected sites with the view that if the savings versus the investment are material works should commence in 2017–18. The 13 sites include a mix of offices and laboratories in order to maximise the opportunities for energy reductions.

In addition, further rationalisation of the estate will bring more carbon, waste and water reductions in the long term making Defra's portfolio more sustainable.

During 2015–16 EA trialled air source heat pumps at two of their offices. The heating and cooling equipment at the offices had reached the end of their shelf life and it was decided to trial an innovative technology to help reduce both carbon and cost whilst maintaining a comfortable building temperature. The air system transfers heat from outside to inside a building, or vice versa, reducing energy use by up to 75 percent when compared to conventional forms of heating and cooling. The two pumps will reduce carbon production by 32 tonnes per annum.

The Defra group has made a 26 percent reduction in water consumption. The water reduction target requires an absolute reduction on baseline consumption

The Defra group currently has an average performance of $5.6m^3$ of water per FTE per annum within the office estate. An average of $6m^3$ or less per FTE per annum represents good practice against the GGC benchmark.

There is no target for scope 1 water reduction.

Future GGC targets, to replace the April 2016 targets, are expected to be announced later in 2016.

Environmental Management System

A certified ISO14001:2004 Environmental Management System covers 36 sites on the Defra group estate. These are the larger sites and those which carry the most significant environmental risk across the portfolio. Achieving and retaining the standard recognises continuing commitment to reducing environmental impact, implementing sound environmental practice and ensuring environmental policy is taken into account when making decisions and delivering projects across the estate. There are a number of grounds maintenance and land management regimes at Defra properties that aim to enhance biodiversity including: reducing the frequency of mowing regimes and leaving grassland patches to grow wild providing food and shelter for pollinators; incorporating features such as bird and bat boxes, indigenous planting and maintenance and care of wild flower meadows/areas at the Sand Hutton and Alnwick sites.

NE directly manages and maintains 143 National Nature Reserves (NNR) across England of which approximately 64,000 hectares are directly managed by NE. NE's own Annual Report and Accounts contains more information on NNR management.

Green Information and Communications Technology (ICT)

Defra is committed to reducing the sustainability impacts of the ICT services it uses and through encouraging greater use of those services it seeks to reduce the wider sustainability impacts for the organisation as a whole in line with the Greening Government Commitment programme. It also leads a cross-departmental group on the development and implementation of the Greening Government ICT Strategy, carrying out annual assessments across departments and publishing annual reports on progress.[30] [31]

Following achievement in 2013–14 of the two key targets set by that strategy for each central department, Defra has progressed further in 2014–15 to achieving an average level of 3.4 out of 5 Green ICT maturity and achieving 12 of the 14 key target outcomes from deploying best practices in delivering those services.

2014–15 saw a further reduction in the energy footprint of IBM services of 152kWH, taking the total footprint to 999 kWh per employee.

Defra continues to drive down its non-recyclables from disposal of its ICT assets. When IT hardware is no longer required, Defra's strategic supplier of ICT services (IBM) seeks to reuse it across the Department. Items that cannot be reused are then collected by its subcontractor Northern Realisation for reuse by schools and charities, recycling of components and materials and as a last resort sent for incineration. For 2014–15 the amount incinerated was 1.65 percent.

Following a promotion campaign the number and length of internal webinars held has significantly increased, from June 2015 to January 2016 some 6,000 sessions were held, an increase of 5,600 over the same period in the previous year. With the impending move to digital telephony services and increasing pressure on travel budgets it is expected that use will continue to increase, further reducing the need for employee travel, improving the timeliness of collaboration and thus the quality of decisions and final outputs.

Transparency Reporting

In addition to the high level GGC targets, the Defra group also publishes a transparency statement as part of its commitment[32]. This covers Climate Change Adaptation, Biodiversity and Natural Environment, Procurement of Food and Catering Services, Sustainable Construction and People.

Further information

Quarterly updates on the Defra group's performance towards the GGC can be found online[33].

This report should be read in conjunction with the Annual Report and Account Sustainability Reports produced by each of the department's delivery bodies.

GGC reporting processes use the Department of Energy and Climate Change reporting standards. All energy and carbon reporting in this document uses the conversion factors described in this document.

[30] https://www.gov.uk/government/publications/greening-government-ict-strategy
[31] https://www.gov.uk/government/collections/ict-strategy-resources#greening-government-ict
[32] https://whitehall-admin.production.alphagov.co.uk/government/uploads/system/uploads/attachment_data/file/139525/defra-ggc-performance.pdf
[33] https://www.gov.uk/government/organisations/Department-for-environment-food-rural-affairs/about/our-energy-use

Sustainability Data – Table 1

ENERGY			Baseline	2012-13	2013-14	2014-15	2015-16
Non financial indicators **(kWh)**	Energy consumption	Total energy consumption	292,168,310	264,937,353	263,559,507	231,813,923	235,753,106
		Total electricity	137,243,716	122,830,212	114,626,912	101,024,730	110,354,825
		Electricity: standard	32,111,236	14,173,807	11,105,976	11,399,995	3,649,962
		Electricity: green	105,006,340	107,656,220	102,726,592	88,717,470	105,709,823
		Electricity: Purchased CHP	126,140	1,000,185	794,344	907,265	995,040
		Gas	115,674,941	93,426,642	104,085,078	106,837,214	104,446,882
		Oil	23,701,612	30,180,394	35,090,862	15,487,272	13,076,858
		Biomass	2,604,841	3,043,271	1,600,098	2,682,458	3,404,249
		CHP	10,727,109	14,336,557	6,566,350	4,580,520	2,620,297
		Whitehall district heating system (WDHS)	343,300	-	-	-	-
		Self generated renewables	149,084	590,897	721,749	510,597	666,018
		LPG	555,812	529,380	643,462	536,181	434,071
		Other	1,167,895	-	224,996	154,951	749,906
Financial indicators **(£000)**	Total energy costs		17,202	18,634	17,896	17,149	17,537

WASTE		Baseline	2012-13	2013-14	2014-15	2015-16
Non financial indicators **(000 kgs)**	Total waste	8,454	6,807	5,712	5,798	5,514
	Hazardous waste	1,063	356	116	93	86
	Recycled	2,947	2,748	2,292	2,616	2,309
	Reused	n/a	n/a	n/a	n/a	n/a
	Composted	n/a	n/a	n/a	48	50
	Incinerated with energy recovery	1,309	1,858	1,338	1,742	1,606
	Incinerated without energy recovery	568	689	631	459	508
	Landfill	3,587	1,512	1,356	844	974
Financial indicators **(£000)**	Total disposal cost	3,374	3,750	3,580	4,083	4,572
	Hazardous waste	n/a	611	918	892	690
	Reused, recycled, composted (combined)	n/a	789	401	266	475
	Incinerated with energy recovery	n/a	87	70	229	372
	Incinerated without energy recovery	n/a	n/a	n/a	n/a	n/a
	Landfill	n/a	322	249	31	169

WATER			Baseline	2012-13	2013-14	2014-15	2015-16
Non financial indicators **(m3)**	Water Consumption	Total scope 2 water consumption	711,610	597,835	718,367	548,194	523,247
		Supplied (office estate scope 2)	126,867	103,769	111,120	99,198	84,928
		Supplied (non office estate scope 2)	584,743	494,066	607,246	448,996	438,319
		Abstracted (scope 1)	n/a	15,984,722	21,584,846	28,000,000	n/a
Financial indicators **(£000)**	Water supply costs		1,492	1,409	1,807	1,502	1,402

GREEN HOUSE GAS EMISSIONS		Baseline	2012-13	2013-14	2014-15	2015-16
Non financial indicators **(000 kgs CO2e)**	Scope 1: direct emissions	44,313	38,288	43,818	36,926	32,229
	Scope 2: indirect emissions	67,855	59,246	51,064	49,932	51,173
	Scope 3: emissions from official business travel	21,772	14,539	14,515	13,506	12,565
	Total emissions	133,940	112,073	109,397	100,364	95,967
	Emissions eligible for CRC scheme	n/a	80,111	76,262	55,885	n/a
Financial indicators **(£000)**	Carbon Reduction Commitment (CRC)	n/a	961	915	944	n/a
	Expenditure on official business travel	23,359	29,698	30,535	25,328	24,137

OTHER TARGET AREAS		Baseline	2012-13	2013-14	2014-15	2015-16
Non financial indicators	Number of domestic flights	3,351	2,230	3,128	3,412	2,429
	Paper use (reams)	151,529	120,947	114,924	106,643	92,200

Notes

(i) Under GGC reporting, areas of a building occupied by non-government occupants are not included. Where this is the case buildings have been apportioned according to floor space occupancies.

(ii) 'Scope 3: Emissions from Official Business Travel' data does not include international travel in accordance with the GGC reporting requirements.

(iii) The abstracted water figure for 2015–16 is not available at the time of publication.

(iv) Gas used in CHP units is not included in the 'gas' figure as GGC reporting guidance states that this energy is reported as CHP output.

(v) Payment for 2015–16 CRC is not due to be made until September 2016.

(vi) All consumption data presented in this report reflects reported GGC figures. Cost figures reflect the accounting records for the respective year.

(vii) Data for waste component categories do not always equal the total waste figure. This is due to additional waste streams that are not required to be reported. Additionally, hazardous waste is included in the landfill waste figure as per GGC reporting.

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

(ix) Some previous years' data has been revised from last year's publication to incorporate any corrections and adjustments. For this reason tables and performance may appear differently to previous year's reports.

(x) Some baseline data has been revised from previous publications to reflect the data reported for the purposes of GGC. This includes some data from various years where data from 2009–10 was not available. In such instances data from subsequent years was substituted as per the GGC guidance. For this reason performance may appear differently to previous year's reports.

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

(xii) Composted and reused waste data was not available across the Defra group as a separate stream to recycled waste prior to 2013–14. From 2013–14 some parts of the Group provide separated compost and reused waste figures but these do not cover the entire Defra group.

(xiii) Emissions from electricity are captured across scope 2 and 3 as electricity generated and supplied to the national grid and due to losses in transmission and distribution of electricity through the national grid to the consumer, as defined by the GHG Protocol.

(xiv) Public transport emissions are captured within the scope 3 emissions. For the purposes of taxi travel, mileage is estimated from the spend on taxis using a rate of £2.39 per mile.

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