Environment Agency

Annual report and accounts for the financial year 2019 to 2020

Environment Agency
Annual Report and Accounts for the financial year 2019-20

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

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

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

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

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Chair’s Foreword

This year has been dominated by the coronavirus pandemic. Most of the period covered by this report is from before that, but it is worth noting that during the first lockdown, we developed safe ways of working enabling more that 90% of flood and coastal erosion protection schemes across the country to continue, and our minds are now focussed on building a greener, fairer and more resilient country after the second wave.

The Environment Agency’s core functions, as an operator (building and maintaining flood structures like the Thames Barrier and moving water between catchments), and a key regulator (regulating the waste, water, nuclear and carbon intensive industries and protecting fish) are vital to the Prime Minister’s ambition to “build back better, build back greener, build back faster”.

The impacts of the climate emergency are part of the picture however these plans take shape. Rising seas, wetter winters and drier, hotter summers are now inevitable, but the value of nature and people’s access to clean green and blue spaces never depreciates. Our resolve to help Government and business achieve a green recovery is steadfast, and our Flood Strategy and 5 Year Action Plan, both published in July, explain how we plan to help deliver the Government’s 25 Year Environment Plan, their world-leading pledge to deliver Net Zero by 2050 and the Prime Minister’s recent 10 Point Plan for a Green Industrial Revolution.

Most of our funding comes from the Government. In these difficult times, with the extra pressure dealing with COVID-19 has put on budgets, we are aware of demands on the public purse. It remains the case that the EA will play its role in helping to recover from this pandemic in the best way possible with the funds allocated to it, with protecting the environment always at the fore.

We also have a unique ability to help the private sector scale up activities that help the natural world. We have launched a programme to finance nature-based solutions with Defra, the Esmée Fairbairn Foundation and Triodos Bank. One project is the building of leaky dams, the creation of bog, and the rewetting of peat, on 70 hectares of the River Wyre catchment by the Rivers Trust to reduce flooding for properties, create new habitats, and store greenhouse gases. Our intention is to demonstrate the commercial viability of such projects and catalyse the scaling up of further similar projects around the world.

The Environment Agency Pension Fund is also leading the way. Environmental and social governance is embedded in our investment strategy, and as well as being environmentally beneficial, we’ve delivered 9.7% average annual investment returns over the last 5 years, with a funding ratio of 103% in March 2019.

The coronavirus pandemic has highlighted many inequalities in society, and the Environment Agency is still a long way off being as diverse as the communities we serve. We will work to make accessing science, technology, engineering and mathematics more inclusive. This report covers some of the actions we are already taking to address these interconnecting problems, but I am committed to doing more in 2020-21.

If the first year of “the climate decade” is anything to go by, we will have to keep our energy up in the next 9 years. The dedicated people of the Environment Agency are up to it. My thanks, as always, to them.

Emma Howard Boyd, Chair

10 December 2020

Performance report

Chief Executive’s statement

2019-20 was another big year for the Environment Agency.

Last year saw us deal with a range of major incidents, from drought to severe flooding, and at the end of the year, the impact of a global pandemic. Climate change is bringing more extreme weather events, which in turn means we will need to respond to more – and more severe – incidents. We have 6,000 staff ready and trained to do so. Our approach is simple: *Think Big, Act Early*.

But the year was about much more than responding to incidents that threaten people or the environment. Our job is to create a better place, and we have done that too. In 2019-20 we:

- Created a healthier water environment, with over 1,700km of rivers improved.
- Increased biodiversity, creating or restoring over 3,000 hectares of habitat, much of it blanket bog (which has another benefit: it captures carbon).
- Cut serious pollution incidents, down to 443 for the year as a whole.
- Reduced the number of high risk illegal waste sites, down to 233, the lowest since 2013-14.
- Ensured a further 48,000 homes are better protected against flooding by our defences, keeping us on course to hit our 300,000 target by April 2021.
- Successfully influenced planning decisions to protect the environment and support sustainable growth, with nearly all (97%) in line with our advice.

We have also tackled the biggest challenge of all: the climate emergency. Our regulation of industry is helping cut the greenhouse gas emissions which drive climate change. Our response to flooding and drought is helping manage the consequences. And our flood defence construction, placemaking and planning work is helping make the country more resilient in the face of a changing climate.

We are seeking to walk the walk ourselves. In October 2019 we set ourselves the goal of becoming a net zero organisation by 2030. This does not mean that we will stop building flood defences, pumping water around the country to alleviate drought, or all the other things we do to protect lives and livelihoods. It does mean we will need to find ways to do these things which produce less – and ultimately zero - carbon. We are making progress and are confident that we can get there.

I am proud of what the Environment Agency does. I am equally proud of how we do it. Health, Safety and Wellbeing are at the heart of everything we do, and for the third successive year we secured the Mind Index Gold standard for supporting mental health. We aspire to embrace difference and include everyone. We have made progress here too, but we still have a lot more to do. Whilst 43% of our senior managers are now women, little more than 4% of our staff are Black, Asian and Minority Ethnic. We have redoubled our efforts to improve that. We will only be the best we can be when we are an organisation that truly reflects all of modern Britain.

No organisation is perfect, and we must always strive to improve. But we have achieved a huge amount over the last year. There is a single reason for that: the skill, professionalism and commitment of the 10,000 Environment Agency staff who work around the country, day in day out, for the people and places we serve. They are unsung heroes. I am hugely grateful to every one of them. We should all be.

J.D. Bevan

James Bevan, Chief Executive

10 December 2020

About the Environment Agency

The Environment Agency is the leading public body for protecting and improving the environment in England. Our vision is to create a better place for people and wildlife. We have 3 main business areas:

- flood and coastal erosion risk management
- water, land and biodiversity
- regulation of industry

We work with government, local councils, businesses, civil society groups and communities. Staff in our local offices work closely with organisations and communities to improve the local environment and encourage sustainable development. Appendix A provides more information about the history of the Environment Agency.

On 31 March 2020 we had 10,791, full time equivalent employees. Our annual expenditure for the financial year ended 31 March 2020 was £1.4 billion. The Department for Environment, Food and Rural Affairs (Defra) is the government department that is responsible for our activities and provides most of our funding.

What we do

This year marks the final year of our Action Plan: 'Creating a better place: our ambition to 2020', which has set out what we wanted to achieve from 2016 to 2020. The next five year Action Plan, EA2025, was launched this summer to continue the focus on our priorities.

Our objectives are clear: a cleaner, healthier environment which benefits people and the economy; a nation better protected against natural threats and hazards with strong response and recovery capabilities; and higher visibility, stronger partnerships and local choices.

Our plan sets out how our work will support the Defra strategy that we helped to develop and contains our success measures.

We use 3 principles to inform all our choices:

- **Put people and wildlife first:** our goal is to create a better place for them.
- **80/20:** focus on the 20% of things that make 80% of the difference.

- **Support local priorities:** every place and community has its own needs.

Our Action Plan recognises that the challenges of a growing population, more extreme weather, and budget pressures require us to innovate, focus on the things which make the biggest difference and work more closely with our partners.

Our success relies on a positive culture where our staff are trusted and confident to make decisions. To ensure this, we've set out the culture we want - how we will do things in the Environment Agency:

- Yes, if: we will take this approach in all that we do
- Think big, act early, be visible
- Seek partnership and show leadership
- Focus on outcomes not processes
- Embrace difference: include everyone
- One team: support and trust each other to do the right thing
- Stay safe and grow: we will invest in the wellbeing and development of all our staff

In addition to our culture and principles, in the future we will concentrate on making sure our workplace feels right and that it's a life-enhancing place to work. We will have the right people in the right places and offer the right packages to recruit and retain them.

We want our people to embrace and manage risk rather than avoid it. And we will empower them to make the right decisions, using evidence and technology to produce sound solutions. We will also work more closely with the Defra group for the public good.

The Government Strategic Framework

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

The strategy provides a clear unifying framework for how together we will design and deliver our goals, track delivery and measure success across the whole of Defra. At the heart of the strategy is our shared vision for the Defra group: creating a great place for living.

Defra group goals are focused on four impact objectives, which explain our ambitious, long term aims, and the positive differences we have made to the UK up to 2020. We have one delivery objective which describes the high levels of service and value for money for the taxpayer which we will strive for.

The strategy sets out two organisational objectives outlining how we organise ourselves to deliver, and what Defra will be like: a Defra that will act together, be simpler, avoid duplication, maximise impact, and harness the power of data and digital working.

In addition to Defra, we work with a number of other government departments. These include the Department for Business, Energy & Industrial Strategy on growth and regulation, the Ministry of Housing, Communities & Local Government on planning issues and the Foregin, Commonwealth and Development Office on the UN Climate Change Conference (COP26).

Sustainability in the Environment Agency

Sustainable development lies at the heart of what we do. We aim to carry out our activities, and encourage those of our partners, to be as sustainable as possible, minimising the impacts on people and the environment associated with them whilst taking any opportunities to enhance the natural environment. We include environmental performance measures in our corporate reporting cycle. We have included our sustainability report in Appendix B. This gives a comprehensive overview of important environmental factors such as greenhouse gas emissions and waste figures. This reporting is required to be 'fair, balanced and understandable', therefore we show the past three years to give a transparent view of our performance against these measures.

Net Zero by 2030

In October 2019 our Board agreed that we should be a Net Zero Carbon organisation by 2030. We have chosen the most robust definition of this. We will reduce the emissions from all our operations, including our commuting and our supply chain, by a minimum of 45%. We will then invest in projects and measures to balance the residual emissions which we have not yet eliminated. Over the coming year we will develop our roadmap of how we will achieve this, in partnership with our supply chain and others.

Natural Capital

In the government's 25 year plan for the environment (published in 2018) the use of a Natural Capital approach was highlighted to better understand the benefits of work for the environment. A Natural Capital approach considers the air, water, soil and ecosystems that support all forms of life, and puts this into a financial account that looks at the longer term benefits for people, protecting and improving the environment. This is an evolving area of work and the Environment Agency is committed to supporting the development of Natural Capital Accounting across the Defra group. On pages 20 to 23 you can find our Natural Capital account for all of the Environment Agency's land assets.

UN Sustainable Development Goals

The UN has developed 17 goals 'to transform our world, end poverty, protect the planet and ensure prosperity for all'. This naturally aligns with the Environment Agency's core aims 'to create better places for people and wildlife and to support sustainable development'. We have looked at the aims and performance objectives of the Environment Agency and they align closely with the UN Sustainable Development Goals (SDGs).

For more information on the SDGs please see the United Nations website giving more details on the 17 goals: https://www.un.org/sustainabledevelopment.

In our Performance report we link the SDGs to each of our Performance measures. For each of our Performance measures we have presented the most significant SDG applicable (Primary) alongside other goals that it also meets (Secondary).

Performance Measures

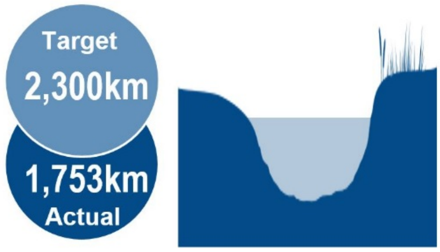
This performance report outlines the Environment Agency's performance against our priorities for the financial year from 1 April 2019 to 31 March 2020 (referred to throughout as 'this financial year'). It follows the structure of our corporate scorecard (reported quarterly) and includes examples of how we are meeting our objectives. A summary of the performance against these measures and their targets are shown in Appendix C. Our Action Plan and corporate scorecard are on GOV.UK (www.gov.uk).

Protecting and improving the environment

The water environment is healthier

Primary

Secondary



The water environment is healthier

In 2019-20 we set an ambitious target of enhancing 2,300km of the water environment, a major increase from last year's target of 2,000km. We have achieved significant outcomes this financial year in very challenging circumstances. We have reported 1,753km of enhancements against this target. This measure has an over-arching multi-year target to achieve over 8,000km of enhancements cumulatively from 2016 to March 2021. We are on track to exceed this 8,000km cumulative target by the end of 2020-21. This will be a great achievement and a great outcome for the environment.

A large proportion of enhancements come from work with partners focussed on reducing the impact of sources of pollution and improving physical conditions. Notable examples of projects include works to Settle fish pass, in Lancashire, enhancing around 40km of river environment for fish, and influencing partners to plant fields with cover crops to reduce the risk of nitrates affecting 36km of groundwater flow into rivers.

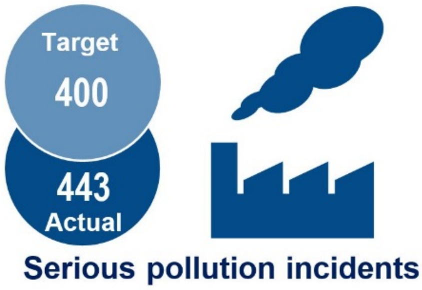
Many of the enhancements have come from Environment Agency regulatory work. This includes work tackling sources of pollution by driving improvements to infrastructure in urban and rural communities.

The results for this measure show good progress in enhancing many waterways, which contributes to improving the quality of the water environment. While this is good news, the wider picture for the water environment in England is more challenging. Only 14% of England's rivers are achieving the Water Framework Directive's "good ecological status" measure.

We protect people, the environment and wildlife by reducing serious environmental incidents

Primary

Secondary



In 2019-20 our data records 443 serious and significant pollution incidents. This is a reduction in incidents compared with 520 reported last year. Whilst this is above the ambitious target of 400 incidents or fewer, this still represents one of the lowest annual totals for this measure ever recorded. The less extreme weather of summer 2019 is likely to make up part of this reduction when compared to last year. For example the number of incidents from natural causes such as algal blooms halved. We work throughout the year to prevent incidents.

Incidents reduced for the following sectors: water companies (from 63 to 55), illegal waste (from 77 to 68), agriculture - particularly intensive farming - (from 59 to 47) and 'other non-regulated' sectors (129 to 97). We are working across these sectors to review how we regulate company performance, to prevent and disrupt illegal activities, implement actions from Defra's Resource and Waste Strategy and to raise understanding of regulations.

The number of incidents from other regulated industry sectors and those where we haven't identified the source have both increased this year, by 9% and 10% respectively. For unknown, non-waste and non-permitted events the most common identified pollutant was oils and fuels then contaminated water. We worked with Water UK to head the 'Love Water' campaign with partners and continue to support the Oil Care Campaign to promote the safe storage, handling and recovery of oils and Water UK's 'Connect Right' initiative.

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

Primary

Secondary

In 2019-20 we exceeded our target of 1,280 hectares of new or restored priority habitats, delivering 3,147 hectares. 817ha of that was newly created priority habitat. We define priority habitats as those most threatened and requiring conservation action under the UK Post-2010 Biodiversity Framework. Our work includes flood and coastal risk management, river restoration maintenance projects, and environmental regulation. Habitat creation and restoration projects also reduce soil erosion and provide recreation and climate change adaptation in addition to their primary role.

This year we have continued to work with our partners. These include Natural England, local authorities, the RSPB, wildlife trusts, and water companies. Our partnerships in the South West, Midlands and the North created 531 hectares of blanket bog and restored a further 2,148 hectares. Projects such as Moors for the Future, the Pennine Peat Partnership, and the South West Peatland Partnership have many benefits including reducing downstream flood risk. This slows the flow, whilst also filtering the water, meaning water companies can use less chemical treatment. These projects will also lead to an increase in biodiversity, to promote our native species and help store carbon to mitigate the impacts of climate change.

Moors for the Future: Restoring and re-creating peatland habitats

As part of creating and improving habitats that increase biodiversity and achieve environmental benefits we have restored and re-created the degraded blanket bog (or peatland) habitat at numerous locations throughout the South Pennine Moors through working with our partners.

Peatlands are a type of wetlands which are among the most valuable ecosystems on Earth: they are critical for preserving global biodiversity, providing safe drinking water, minimising flood risk and helping address climate change. Damaged peatlands are a major source of greenhouse gas emissions, so by protecting and improving them we are delivering a wide range of benefits for both wildlife and our local communities.

To achieve these multiple benefits, working with the Moors for the Future Partnership was vital. The Partnership consists of the Peak District National Park Authority, National Trust, Natural England, RSPB, United Utilities, Yorkshire Water and Severn Trent Water and we worked alongside them to identify and maximise the benefits that have been achieved. Over the last year, this has resulted in >950ha of created & restored habitat and >30km of improvements to our rivers.

By restoring our iconic peatlands, we have contributed to managing flood risk by restoring & emulating the natural regulating function of the rivers draining the uplands. The picture above shows an initial shelter stage with heather brash bags. Ties cut from elsewhere on the moor were used as a stabiliser to stop the peat eroding and washing away. Taking this approach to natural flood risk management is particularly important for protecting our communities who are at risk from flooding in areas where hard flood defences are not feasible.

We reduce the number of high risk illegal waste sites

Primary

Secondary

Our priority is to reduce the impact of waste crime on local communities and to ensure a level playing field for legitimate businesses.

During 2019-20 we saw a reduction in high risk illegal waste site numbers from 260 to 233 which represents the lowest total of such sites since 2013-14. This continues to be an improvement on performance compared to 2018-19. Although this is not as big a reduction as we were aiming for, the pace continues with over 50% of all new illegal waste sites being stopped in 90 days or less.

The total number of illegal waste sites has reduced to its lowest since 2016-17. All illegal waste sites (which include lower risk sites) have seen a reduction from 691 to 536. The continued downward trend across most of the country reflects the hard work, innovative tactics and on-going benefit of the additional staff funded by extra money received from government to help us tackle waste crime. We made 59 successful waste crime prosecutions in 2019-20. This work resulted in 5 prison sentences, 11 suspended sentences and total fines of over £530k.

In January 2020 we launched the Joint Unit for Waste Crime (JUWC), a new taskforce dedicated to tackling serious and organised waste crime. The JUWC will for the first time bring together law enforcement agencies, environmental regulators, HM Revenue and Customs and the National Crime Agency in the war against waste crime. By working together, the Joint Unit partners can more easily share intelligence and resources to take swifter action when investigating criminal waste operations and other connected illegal activities, such as money laundering and human trafficking.

We reduce the risk of flooding for more households

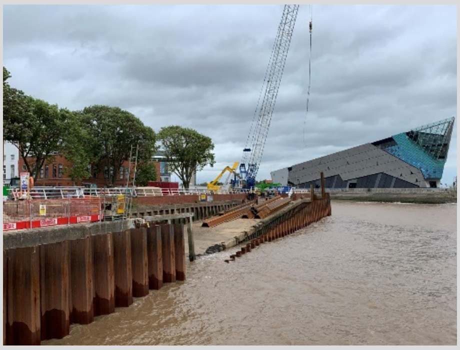
Primary Secondary

This financial year work on 176 schemes has resulted in 48,739 homes better protected in England. This brings the total since the start of our 6 year capital programme in April 2015 to 242,343, exceeding our cumulative delivery target of 240,000 to this point in time. We remain on track to meet our 6 year programme target of 300,000 homes better protected by 31 March 2021. While the COVID-19 pandemic has introduced considerable uncertainty, we have been doing all we can to achieve the target by prioritising efforts on schemes that better protect the most homes. Work on approximately 90% of schemes continued largely unaffected by the pandemic.

One of the biggest contributors this year was the Humber: Hull Frontage scheme in East Yorkshire, which has better protected 14,750 homes from coastal flooding. A final phase of the scheme forecasts a further 11,344 homes better protected in 2020-21. On a smaller scale, a new 525 metre wall along the banks of Hell's Ditch in Godalming in Surrey has better protected 90 properties from flooding. An additional removable barrier can be put in place when there is a risk of road flooding.

These achievements were against the backdrop of devastating winter flooding. South Yorkshire had its wettest November on record with 257% of average rainfall (185 mm). Despite this, fewer than 5,000 properties flooded and nearly 130,000 were protected. Schemes completed in the past few years, such as in Godalming, Burton-on-Trent, and Salford, have ensured that communities that would have flooded in the past, didn't flood again.

Humber Hull Frontages: better protecting a city from tidal flooding



The Humber Hull Frontage Flood Defence Improvement scheme has reduced the risk of flooding for 14,750 homes and businesses, as well as key infrastructure, from tidal flooding from the Humber estuary in 2019-20. The scheme covers approximately 7km of the frontage and will upgrade tidal flood defences at eight locations. A total of 113,000 properties will be at reduced risk of tidal flooding once the scheme is finished.

The scheme is an excellent example of partnership working, not only with Hull City Council and other stakeholders as well as Highways England. Highways England contributed £2m to the scheme from its Environment Designated Fund as the scheme also better protects an important route in and out of the city.

Where possible we have chosen to finish the new flood defence walls in-keeping with the local area such as at the riverside housing development at Victoria Dock Village, and also used glass panels to maintain views of the estuary at locations including the historic Victoria Pier area. We have worked closely with the community, including a group who established a large community sculpture to honour the city's lost trawlermen. We have worked a ship's hull design into the flood defences, in which the sculpture will now sit. We are using a hydraulic non-vibration method when the piles are being installed within close proximity to buildings to reduce noise and vibration as much as possible.

In the past 65 years, there have been three major tidal events in Hull. The most significant of these occurred in December 2013 when 264 properties were flooded when the existing defences were overtopped. Sea level rise on the Humber in the next 100 years is predicted to potentially exceed one metre, resulting in an increase in the likelihood of flooding from the tide. Ensuring protection now for infrastructure, businesses and residents means that they are better protected from these rising tides and extreme weather events in the future.

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

Primary

Secondary

We maintained 96.12% of flood risk management assets at their required condition against a target of 98% this year. The shortfall reflects the damaging impact of the multiple significant floods which occurred in 2019 and early 2020. The vast majority of our assets - the flood walls, embankments, flood gates and other structures that reduce flood risk – remained in the required condition despite the impacts of significant winter flooding. Others required repairs. Work began immediately in November 2019 on a recovery programme to ensure that flood risk is effectively managed until the assets are fully repaired or replaced, and to repair assets, support impacted communities, capture flood data and share learning.

In the March 2020 Budget, government announced £120 million for the Environment Agency to repair assets that we maintain which were damaged by the winter floods. Working closely with local authorities and multi-agency recovery groups, we completed over 14,000 inspections of affected assets between 12 February 2020 and 31 March 2020. While delivery of our inspection, repair and maintenance activities has been impacted by restrictions due to the COVID-19, we have made significant progress in identifying a programme that includes 1,000 assets that need repairs and over 550 projects to better protect communities. This work will continue into 2020-21.

We have a first class incident response capability – number of staff who are trained and ready to respond to incidents

Primary

Secondary

We have continued to exceed our target of 6,000 trained and capable people ready to respond to incidents. It has been an exceptionally busy year for incident response with the national incident room operating at an enhanced level for over 100 days. Prolonged dry weather was followed by significant flooding across the country. The winter of 2019-20 was exceptionally wet - the fifth wettest winter on record, with unprecedented levels of rainfall for the month of February. During this period, throughout storms Ciara and Dennis, we helped to protect over 128,000 properties across England through our actions and defences.

We continued our close partnership working across local resilience forums preparing for leaving the EU in January 2020 and COVID-19 response in March 2020 and subsequently.

Over 39,800 new customers signed up to our flood warning service in 2019-20. Over 1.6 million properties can now receive our flood warnings.

We respond to planning application consultations within 21 days

Primary

Secondary

This measure considers how successful we are at influencing local planning authorities' (LPAs) decisions on development proposals. The advice we provide as a planning consultee helps LPAs make informed decisions on planning applications. Using our knowledge and expertise we assess the potential harm and risk from environmental factors, to life and property. Where proposals are likely to have adverse impacts on people or the environment we will make suggestions to improve the proposed development and mitigate or negate potential harm. We often request planning conditions to make proposals acceptable. But where the environmental harm is too great we will object to planning applications.

In 2019-20 we sampled around 20% of responses and were successful in influencing 96.4% of planning proposals. This was against a target of 97%. We reviewed a sample of 2,400 planning applications. Our influencing has resulted in the creation of resilient, connected communities, which helps to meet our goal of creating a better place for people and wildlife.

Our review of the 2,400 planning consultations facilitated the sustainable development of over 60,000 new residential units, supporting the government's housing growth ambition. Development creates new jobs and increases economic output and our influence ensures that this is achieved sustainably without adverse impact on the environment. Our advice ensures that we protect important environmental assets. These include drinking water supplies, priority habitats and species and designated conservation sites. We have protected the quality of our rivers and groundwater, helped bring land back into beneficial use where previously it was contaminated and ensured that new and existing land and properties are protected from the risk of flooding.

Outstanding organisation

We manage our money efficiently

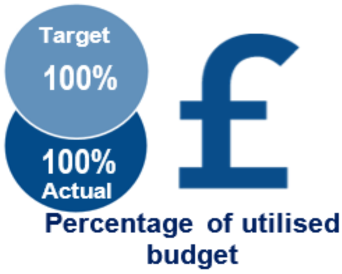
Primary

8 DECENT WORK AND ECONOMIC GROWTH

Secondary

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

16 PEACE, JUSTICE AND STRONG INSTITUTIONS



We manage our expenditure to avoid over or under-spending. This shows good financial management which in turn helps secure future funding allocations. Supplementing this, we have governance systems in place to ensure our expenditure achieves the most for the environment.

We report on this measure by monitoring the percentage of budget that we have invested. This is considered an appropriate measure, with expenditure being a proxy for delivery of environmental outcomes. We have major capital and revenue programmes and carry out detailed planning to ensure the projects within them are prioritised appropriately to maximise the best use of the budget. We are subject to a series of strong financial and governance controls that both protect this expenditure and provide a logistical challenge to delivering the programmes. The higher the percentage of budget used, the more we can achieve for the environment. The measure complements our other performance targets.

We invested £1,445m on the environment in 2019-20, with expenditure across our grant-in-aid and charge funded activities closely matching our available funding. This represented an impressive achievement given the challenges presented by the huge staff efforts and operational costs during severe flooding events experienced across the country, as well as the impact of the COVID-19 pandemic in the final quarter of the year.

We reduce our carbon footprint

Primary

Secondary

We have been making strong progress to reduce our carbon emissions. However, it must be noted at times of significant flooding that we must run pumping stations in order to keep our communities safe from flooding. This has a significant impact and as such our pumping emissions are 27% higher due to the floods. In addition, we had our three Water Resources pumps in the Ely-Ouse Transfer Scheme operational for most of the year which alone contributed to 14% of our overall emissions. We are making all efforts to improve the efficiency of our stock of pumps and our other operational assets. We are also committing to be a net zero organisation by 2030.

As we bring more electric vehicles onto the fleet and embrace new ways of working during the COVID-19 response we will see significant reductions in business travel in 2020. We saw a 5% reduction in emissions from our buildings, in line with improvement in the greening of the electricity grid. Our National laboratories were also well below their carbon target for this year. A key message of our success is that we have more than achieved our e:Mission five year target of reducing overall emissions by 45%. We actually achieved a 47% reduction over the 5 year plan from our baseline.

We have a diverse workforce

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

b) The proportion of our executive managers who are female

Primary

Secondary

% of BAME staff and % of executive manages who are female.

In common with other leading employers, we continue to set targets showing our desire to have a workforce which reflects the UK working age population. In 2019-20 we implemented an Equality, Diversity & Inclusion action plan focussed on improving organisational accountability, governance, recruitment through outreach and diverse assessors, retention and employee networks. Within the Environment Agency we currently have 21 formal employee networks which fall under the Equality Act 2010. We also continued with learning & network initiatives such as the '30 Club' mentoring scheme and learning focussed on EDI and disability, and reverse mentoring schemes amongst staff and senior managers. During 2019-20 we have seen an increase in the proportion of Black, Asian and Minority Ethnic (BAME) employees to 4.4% in the

Environment Agency. Our target of 14% reflects the BAME proportion of the working population of England. We choose this rather than a lower target reflecting the mix of our locations across England. The proportion of our executive managers who are female has increased significantly to 43% against our 50% target.

We provide a safe place to work

Primary

Secondary

Throughout the EU exit preparations, extensive flood incidents and latterly the COVID-19 response, our priority has remained the health, safety and wellbeing of our people and the public. Recognising that we had less capacity than usual to absorb new health and safety requirements, we carefully prioritised the improvements we put in place, emphasising the importance of wellbeing and mental health. Our measure of safety uses a very conservative definition of lost time incident, and we set a very challenging aspiration of less than 0.11 injuries per 100,000 hours worked: for much of the year we achieved 0.09 injuries. For the third successive year we maintained the Mind Index Gold standard for our management and support of colleagues' mental health.

Our Safe and Well programme delivered a range of improvements in our health and safety arrangements. Notably we introduced a new mental health support package to our Field Operations teams; took further steps to reduce the risk of violence and aggression to our staff and revised our approach to managing the risks of lone working.

Our Safe and Well programme seeks to deliver high standards of health and safety for the public and our suppliers, as well as our employees. Our audit intervention strategy focussed on our construction and maintenance activities, and in particular the SMEs that support our maintenance activities. This has delivered a measurable improvement in the health and safety performance of this group of businesses. The number of injuries sustained by members of the public at our assets was our lowest ever.

There was little regulatory interest from the Health and Safety Executive (HSE) compared to previous years. There were no formal investigations of any injuries reported to the HSE, and their inspectors undertook two inspections of our construction sites. No enforcement action was taken. We continue to work collaboratively with the HSE, sharing good practice to help both organisations ensure the health, safety and wellbeing of our staff.

Natural Capital

The natural capital of the Environment Agency estate

In order to deliver our water resources, navigation and flood and coastal risk management functions, the Agency owns a range of landholdings, many of which can be deployed for a secondary purpose to maximise value for money. Our estate is exceptionally diverse, comprising around 17,400 hectares of coastal plains, river corridors, farmland, woodlands, wetlands and brownfield sites, depots and offices, and thousands of operational assets. We each year acquire an average of 50ha / £230,000 of land to support infrastructure programmes; manage and let large areas to deliver our functions; and dispose of an average of 20 ha / £1 million of land considered surplus to current operational requirements.

Our land can make a vital contribution to delivery of our e:Mission commitments and Nature and Species Recovery programmes for example, by optimising the management of our land to be resilient to climate change and absorb carbon; to support environmental net gain and to benefit people and communities.

We are also working with partners to explore how a natural capital approach can help us develop joint strategic and local priorities for a place, develop better cases for investing in nature and identify joint funding. This is shaping the work we do with partners on place making, nature recovery networks, water investment planning and local natural capital plans.

Natural capital accounting

A natural capital account sets out a register of natural assets for a place, quantifying the flows of services from the assets and estimating an economic value for the benefits derived. This value represents the longer term benefits for people from protecting and improving the environment.

Using our *Natural Capital Register and Account Tool* we have produced a natural capital account for the Environment Agency estate following the accounting framework set out by the Government's Natural Capital Committee. This account helps us to better understand what natural assets we have now and to identify the potential to grow the natural capital value of our estate and the ecosystem services and benefits that it can provide.

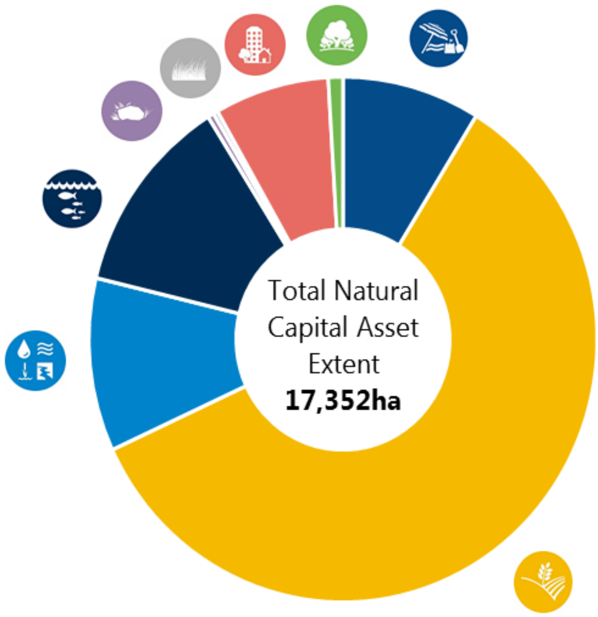
Natural capital account summary 2019/20

The Environment Agency's natural capital account of its landholdings shows that approximately 17,400 ha of land (freshwater, farmland, woodland and urban area) provides significant quantifiable benefits for flood mitigation, recreation, air quality, agriculture and carbon sequestration, valued at approximately £13m annually. Annual operating and maintenance costs are approximately £1.5m, so the annual net natural capital value is conservatively estimated at approximately £11.5m. Note that this excludes the flood protection benefits from damages avoided by constructed (non-natural) flood defence assets. A summary is presented below.

Natural Assets

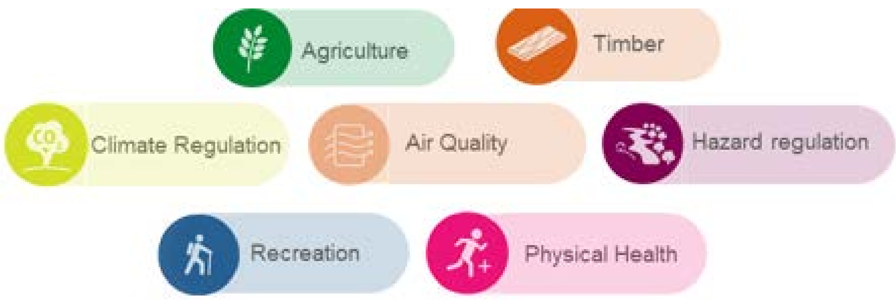
The major habitats for the Environment Agency estate are enclosed farmland which makes up nearly 60% of the estate. The estate also comprises 12% marine habitats, 10% freshwaters and wetlands and urban space, a small percentage of which is urban green space

- Enclosed Farmland – 10,294 ha
- Coastal margins – 1,524ha
- Freshwater, Openwaters, Wetlands and Floodplains– 1,851 ha
- Urban – 1,265 ha
- Woodland – 161 ha
- Marine – 161 ha
- Mountains, Moorlands and Heaths – 68 ha
- Semi natural Grassland – 51 ha



Ecosystem Services and Benefits

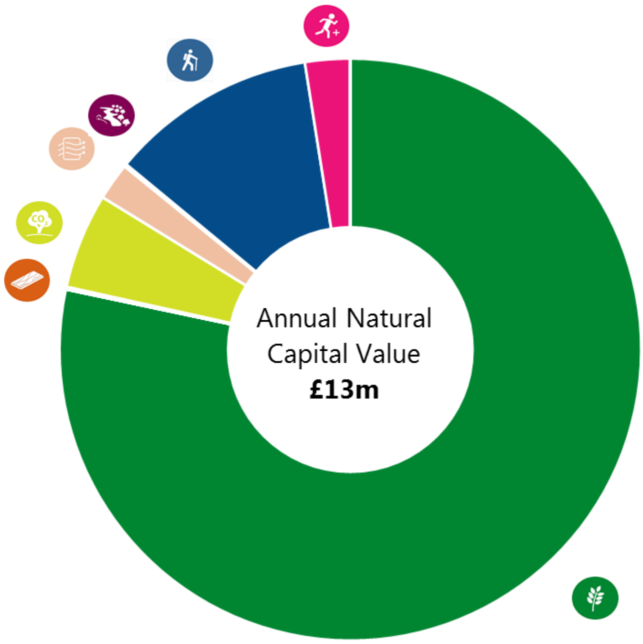
This summary focuses on **7** broad services and benefits that we get from the natural assets in the EA Estate. Agriculture – Production of wheat, dairy and livestock from farmland; Timber – Provision of timber-based products by woodland; Climate regulation - Carbon sequestered by habitats; Air quality - Removal of air pollutants (PM2.5, SO_2, NO_2, O_3) by habitats; Hazard regulation - Flood storage provided by woodland; Recreation - Recreational visits to open green space; Physical health – Health benefits of active visits to green space



Valuing EA Estate Natural Capital

The ecosystem services have been quantified, with a highly conservative estimated benefit value of £13m annually

- Agriculture - £10,450,000
- Recreation - £1,530,000
- Climate regulation - £710,000
- Physical health - £330,000
- Air Quality - £280,000
- Timber - £20,000
- Hazard Regulation - £20,000



Benefits statement

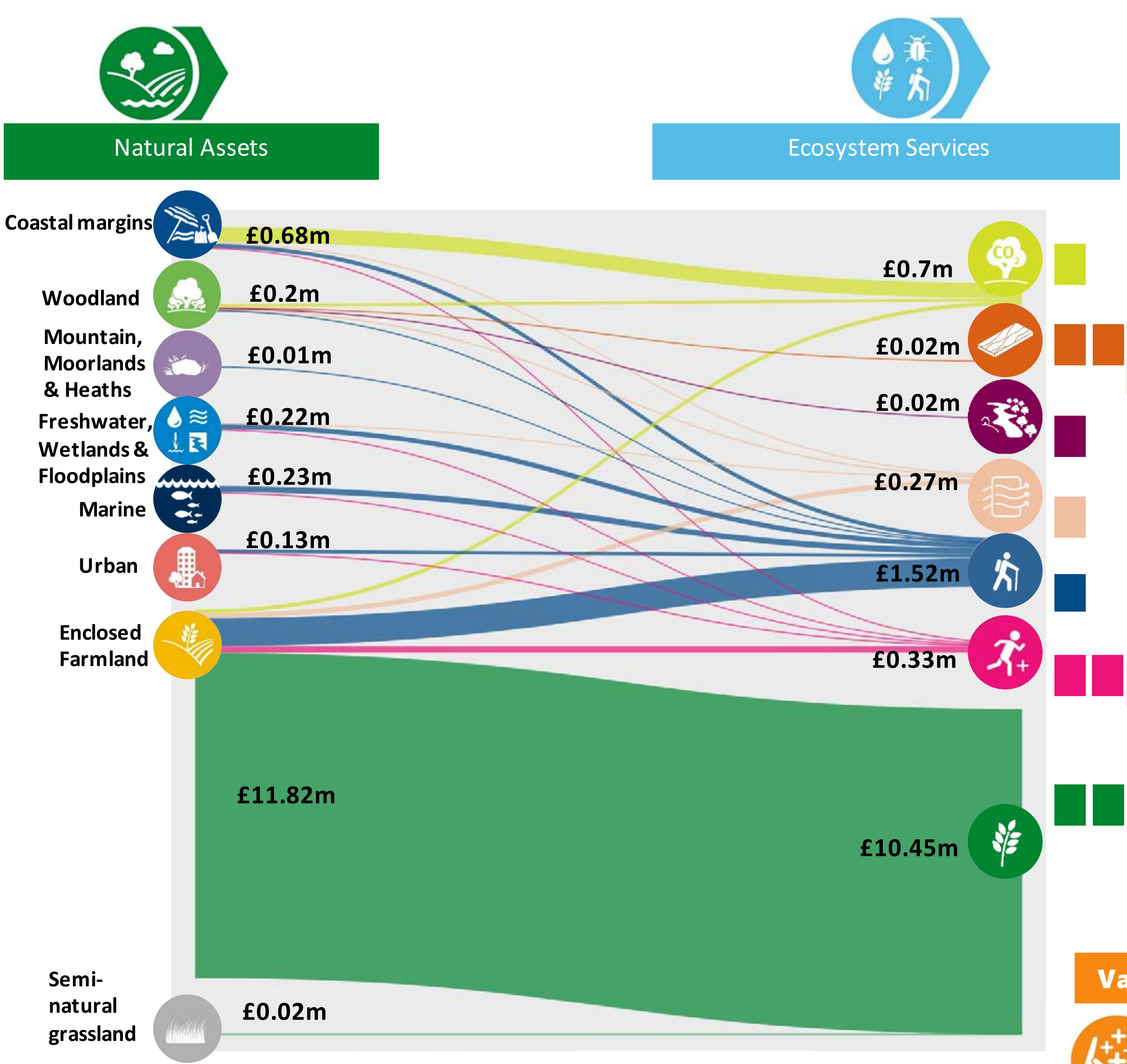
We have estimated the flows of ecosystem services that are derived from EA estate natural assets, then estimated the value of the benefits those services provide. The analysis is not exhaustive and does not include all assets, services and benefits.

We have indicated the confidence we have in the valuation as:

High

Medium

Low



Benefits

Climate regulation: The value of more than 6,500 tonnes/year of carbon being sequestered from habitats, mainly from saltmarsh and woodland. Climate change affects the social and environmental determinants of health

Timber: The net value of sustainably managed timber from over 161 hectares of woodland across EA estate

Hazard regulation: The estimated value of 44,000 m3/year of flood storage provided by woodlands across EA estate

Air quality: Avoided health damage costs due to the removal of 722tonnes/year of air pollutants

Recreation: Welfare value from recreation of 476,000 visitors/year to open green space across EA Estate

Physical Health: Health benefits of active visits to green space

Agriculture: Agriculture production from over 10,294 hectares of farmland

76% arable land by area
24% pasture land by area

Value

£439 million - Net present value of these services over the next 100 years

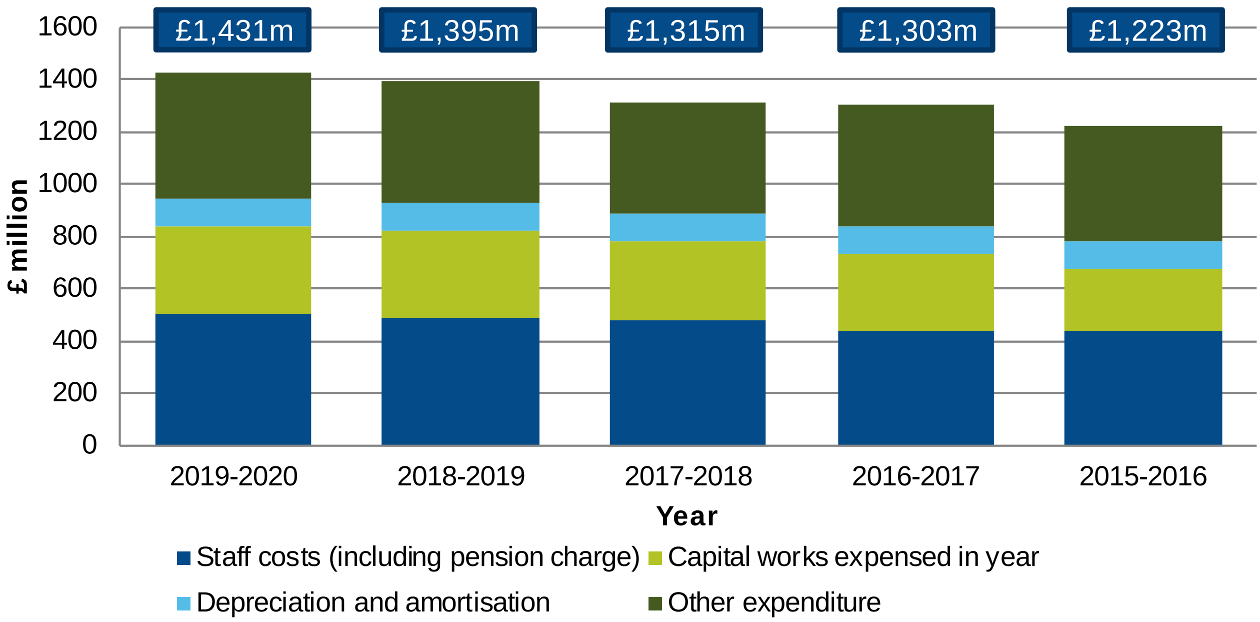
£11.5 million - Net annual value of services after maintenance costs

Review of financial performance and funding

Our total gross expenditure for the financial year ended 31 March 2020 was £1,431 million, higher than the £1,395 million in the previous year. Of our total income, 66% came in the form of funding from Defra. The other 34% of income largely came from fees and charges.

Net expenditure for the year after deducting income was £978 million. We are required to treat grant-in-aid cash receipts of £880 million from Defra as a financing contribution rather than income as it was provided by our sponsoring body. Therefore, we credit this directly to the general reserve and do not include it in our net expenditure in the financial statements.

Figure 1: 5-year summary of our expenditure as reported in the financial statements



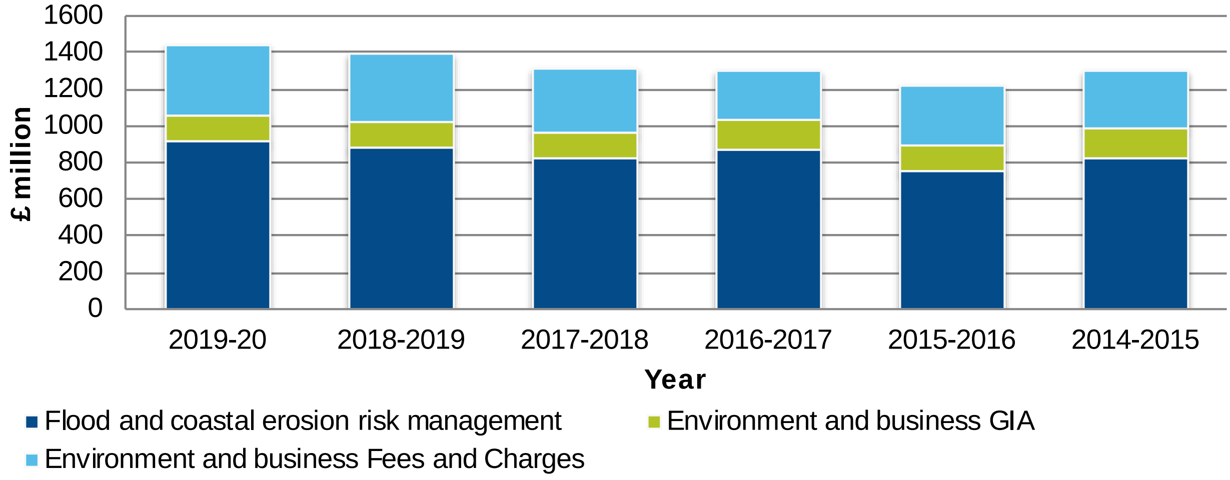
More detail on staff costs, capital works expensed in year and other expenditure is provided in the financial statements in notes 3, 4 and 5 respectively.

Expenditure

Our expenditure by funding stream is shown in figure 2. Environment and business comprises water, land and biodiversity, and regulated industry business areas and is split between fees and charges and grant-in-aid funded work. Further details on fees and charges can be found in table 15 of the Parliamentary accountability and audit report.

The government makes decisions about Defra funding through HM Treasury's spending review process and a proportion of this funding is then allocated to us by Defra each year. This process sets funding for all government departments. The latest spending review covers the period up to March 2021, and a new spending review set budgets for 2021-22. We receive adjustments to our grant-in-aid funding each year as part of the Defra group planning process.

Figure 2: Expenditure by funding stream



Non-current assets

Non-current assets have increased in value by £73 million compared to 31 March 2019. This increase is due to investment in capital assets, such as major flood risk alleviation schemes and revaluation, both net of disposals and impairment. The value of our non-current asset base at 31 March 2020 was £3.3 billion.

We are required to carry out an independent 5-yearly revaluation of our freehold land, including operational land, and buildings. A revaluation was carried out in March 2016 and we have used indices to revalue our assets to March 2020 values. Due to the COVID-19 pandemic, there is some risk attached to the accuracy and quality of the relevant indices. Despite this, we consider the overall value of land and buildings held in our accounts is not significantly different to their market value at 31 March 2020. The Environment Agency will monitor the impact of the pandemic as economic factors evolve and will undertake its next revaluation exercise in 2021.

For operational assets, which have no market value, for example the Thames Barrier, our policy is to use a Depreciated Replacement Cost (DRC) to give the most appropriate valuation. In practice we use a modified historic cost as a proxy for DRC.

Plant and machinery, fixtures and fittings, vehicles and IT hardware are recognised at cost with a suitable index applied in the intervening years.

Going concern

The statement of financial position at 31 March 2020 shows taxpayers' equity of £2.8 billion (at 31 March 2019 this was £2.3 billion). The future funding for our liabilities will be primarily grant-in-aid from Defra and other income, mainly from fees and charges. Parliament approves this funding annually.

65% of 2020-21 funding is from grant-in-aid and 35% is from other income, based on our opening budgets.

We have received approval for our grant-in-aid resource funding for 2020-21. Our funding for future years will be agreed as part of the government’s comprehensive spending review.

The Chancellor of the Exchequer on 11 March 2020 announced a government long term commitment to our flood and coastal erosion risk management capital expenditure budget for the six years commencing 2021-22, amounting to £5.2 billion.

We billed around £223 million of subsistence charges income in April 2020 relating to permits and licences for the 2020-21 financial year. As a result of the COVID-19 pandemic and the on-going challenges business are facing, some customers have requested longer to pay their invoices and we are agreeing to such requests where appropriate.

We expect to see an increase in bad debts due to a higher level of business failures, arising from the COVID-19 restrictions on economic activity. It is difficult to estimate the level of increase, however at the time of approving these financial statements we estimate that such an increase would not be material to the Environment Agency's status as a going concern.

We have taken steps to reduce several areas of expenditure in order to adjust to the expected reduced income in 2020 to 2021.

We have prepared these financial statements on a going concern basis.

J.D. Bevan

Sir James Bevan, Chief Executive **10 December 2020**

Accountability report

The accountability report consists of the corporate governance report, the directors' report, the remuneration and staff report and the parliamentary accountability and audit report. The corporate governance report sets out the Environment Agency's governance arrangements and risk management approach. The Directors' report mainly sets out the Board and the Executive Directors. The remuneration and staff report highlights the people and pay committee role, executive remuneration and the staff composition of the Environment Agency. The parliamentary accountability and audit report covers the main activities of the Environment Agency, information on fees and charges raised, losses and special payments and contingent liabilities. These sections provide key accountability information to Parliament and show the Environment Agency follows corporate governance best practice and norms.

Corporate governance report

Statement of Accounting Officer's responsibilities

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

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the government financial reporting manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State and HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the government financial reporting manual have been followed and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis
- confirm that the annual report and accounts as a whole is fair, balanced and understandable

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

The Comptroller and Auditor General, Head of the National Audit Office (NAO), is the statutory external auditor of the Environment Agency. The NAO received no remuneration for non-audit services in the year to March 2020, the same as in the previous year. The fee for the statutory audit is £255,000.

As far as the Accounting Officer is aware, there is no relevant audit information of which the Environment Agency's auditor is unaware. Supported by the Finance Director and the Finance function, the Accounting Officer has taken all steps to make himself aware of any relevant audit information and to establish that the Environment Agency's auditor is aware of that information.

The Accounting Officer also takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

1. Introduction

The Chief Executive is responsible for maintaining a good system of internal control that supports our aims and objectives, and prevents attempted fraud, corruption or bribery, and relies on his executive directors' team to support him in delivering his responsibilities.

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

2. Effectiveness of governance arrangements

2.1 The governance framework

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

- we fulfil our statutory duties
- we follow the directions provided by the Secretary of State
- we operate with propriety and regularity
- the Environment Agency is an efficient and effective organisation

As of March 2020, ten independent non-executive Board members, including the Chair, sit on the Board. The Chief Executive also sits on the Board. The Board, Executive Directors' team and senior managers review our performance across all our activities and discuss it with Defra. The Chair and Chief Executive meet with the Secretary of State and other Defra ministers regularly. This financial year, the topics discussed during ministerial meetings included:

- Water management
- Climate change
- Agriculture
- Fisheries
- Flood risk management

2.2 Board duties and responsibilities

The board of directors are responsible for the following:

- Agreeing strategic direction
- Agreeing objectives, policies and strategies and the performance of executive management
- Agreeing internal governance arrangements and structure
- Controlling and monitoring the financial status of the Environment Agency and its performance
- Ensuring an adequate system of financial and other controls are in place and operating effectively
- Ensuring sound and proper policies in relation to risk management, health and safety and corporate governance are in place
- Ensuring adequate succession and remuneration arrangements are in place

2.3 Committee structure, including Regional Flood and Coastal Committees

The Board has established 5 committees to help shape and steer our operational duties and functions. Our committee structure is included in Figure 3. The chair of each committee gives an update at Board meetings and raises specific issues to the Board as necessary. The remuneration report lists the members of each committee and Appendix E shows Board members' attendance at meetings, which remains high.

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

2.4 Executive Directors' Team (EDT)

The Chief Executive manages a team of Executive Directors who provide leadership and strategic direction to the organisation (see Figure 3). There is an executive director responsible for each of our three main directorates:

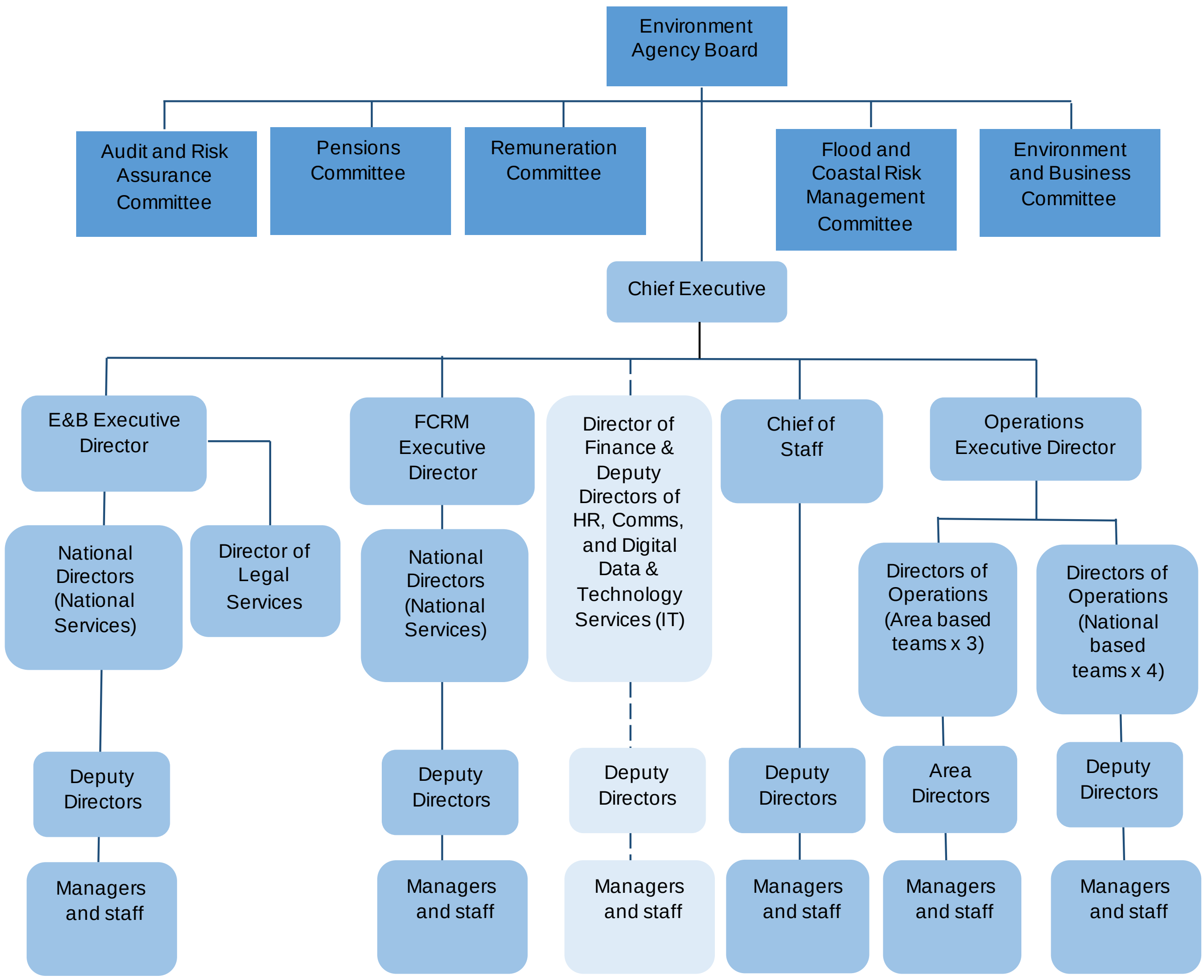
- Flood and Coastal Risk Management
- Environment and Business
- Operations

The Chief of Staff reports to the Chief Executive and is responsible for the Chief Executive's directorate, and oversight of corporate services delivered by Defra and various other organisation wide responsibilities.

Typically, the Chief Executive and his team meet weekly and for a full day each month to consider and make decisions on managing the Environment Agency. During incidents and at the start of the COVID-19 lockdown this was much more frequent and done virtually. They are responsible to the Board for all aspects of performance and risk management. EDT supports the Chief Executive in establishing and maintaining an effective system of internal control within the organisation.

EDT meetings include the Chief of Staff, Director of Legal Services, Deputy Director of Governance and Engagement, as well as the lead business partners of Defra Corporate Services, which includes the Director of Finance, and Deputy Directors of Human Resources, Communications and Digital, Data and Technology Services (DDTS), as shown in the chart below. (Defra Corporate Services colleagues are represented by a dotted line and lighter shading). In addition, to increase the equality, diversity and inclusion of EDT and to provide development opportunities, other senior leaders join. This year, the Deputy Director (Chief Prosecutor) of Legal Services, Director of FCRM Strategy & National Adaptation and Director of Digital & Skills continued their membership on the leadership team.

Figure 3: Environment Agency organisational reporting lines, including committee board structure



Deputy Directors are the primary senior budget managers in the Environment Agency, responsible to their Directors and Executive Directors for the ongoing management of the majority of spend.

2.5 Evolving structures and governance

Management and governance structures continue to evolve to meet changing organisational needs.

The Environment Agency has business boards which bring together national and operations directors to ensure national and operational teams work together effectively. There are now two business boards – Flood and Coastal Risk Management and Environment and Business, and these form a key part in the Environment Agency's internal oversight processes. The Environment and Business business board was established during the year, bringing together the work previously conducted by the Regulated Industry and Water, Land and Biodiversity business boards.

In addition, during this year, we have consolidated responsibility for incident management into the Operations directorate.

2.6 Defra Group Corporate services

Governance of the partnership with Defra Group Corporate Services in the Environment Agency has continued to operate through the Corporate Business Forum (CBF). This brings together the Chief of Staff, senior representatives from across the Environment Agency and the corporate services executive manager business partners supporting the organisation. The CBF meets monthly and oversees corporate and cross cutting matters, including the management of risks that are owned by either the EA or Defra and require substantial activity or co-ordination by Defra Group corporate services. The Partnership Agreement of 2017 between Defra and the Environment Agency remains at the heart of the relationship.

The Defra Group Corporate Services leadership has continued work to integrate the diverse services and organisations it inherited from across the group. Achieving this whilst maintaining service, achieving efficiencies and meeting new demands is a complex and challenging task. Although delayed as a result of EU Exit, the transformation programme has made good progress in establishing new structures and work is underway to transform ways of working.

Areas of progress in the partnership include agreeing a set of Key Performance Indicators that will enable objective reviews of the service that focus discussions in the right areas. HR and the Environment Agency worked well together to deliver the complex and challenging 2019-20 pay award and manage and ultimately defuse the risk of industrial action. The Contract Management Capability Programme has made positive progress in strengthening the capability of Environment Agency people alongside assurance of large Environment Agency contracts to support robust future management. There has also been a strong focus on driving improvements with key suppliers, including SSCL and the Environment Agency's buildings services provider.

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

2.7 Compliance with the corporate governance code

We follow best practice for corporate governance and have complied with HM Treasury's corporate governance code. Our handbook for Board members reflects this guide, and they are required to make an annual declaration of memberships of other organisations' boards and any conflicts of interest. They also declare any conflicts of interest in relation to specific items on the agenda before every meeting that they attend.

All managers and staff are asked to complete an annual disclosure of interests and discuss any disclosures and potential conflicts of interest with their line manager.

3. Effectiveness of EDT and the Board

EDT held their annual evaluation exercise in June 2019 to review their effectiveness over the year and agree focus areas and ways of working for the year ahead.

Based on this discussion, EDT agreed:

- A new process for ensuring decisions are quickly disseminated through the business after meetings;
- To spend more time discussing strategic items, including those that are crosscutting or transformational in how the organisation operates;
- To build in a requirement for all discussion items to consider the climate emergency;
- To implement a new system to triage agenda items to ensure decisions are being made in the right forum;
- That the existing meeting format should continue, with monthly meetings continuing as the strategic decision making forum, and weekly catch ups being both operational and tactical, with no formal decisions being made.

In July 2019, the Board met to evaluate its collective effectiveness as a group. The Board considered successes and areas for improvement across three themes: Strategic thinking, influencing and ways of working.

The Board discussed outcomes of the evaluation exercise and agreed;

- To work more collaboratively as a group and in representing the Board at key events and engagement opportunities;
- To move towards more sustainable ways of working, including adopting a ‘paperless’ meeting culture and better using technology platforms to share information and collaborate on ideas;
- That bringing more voices and perspectives to meetings would add great value;
- To build relationships with other Boards and collaborate more on issues.

3.1 Data quality

Our data approach supports Directors in understanding and improving the quality of priority data; being the data they are basing their decisions on. The Board is satisfied with the quality of information being used for important decisions, based on its own review and use of the data, as well as comfort provided from internal audits during the year and conclusions of the NAO in its year-end audit completion report around the data that supports the financial statements. In addition, the Environment Agency has externally audited certification to ISO9001 (quality management) and ISO140001 (environmental quality).

Our accreditation under ISO55001 requires that we have a data management system suitable for our asset management strategy, plan and outcomes, which enables efficient and effective asset management and risk based decision making. The 2019 ISO55001 asset management audit included a review of the IT, data and information systems supporting maintenance activities; no non-conformities were identified, and the audit acknowledged the ongoing work in this area which includes targeted data improvement plans supported by wider business change and IT developments.

Our recertification audit was conducted between February and March 2020. It did not raise concerns about quality of data.

4. Effectiveness of risk management

4.1 Risk management framework

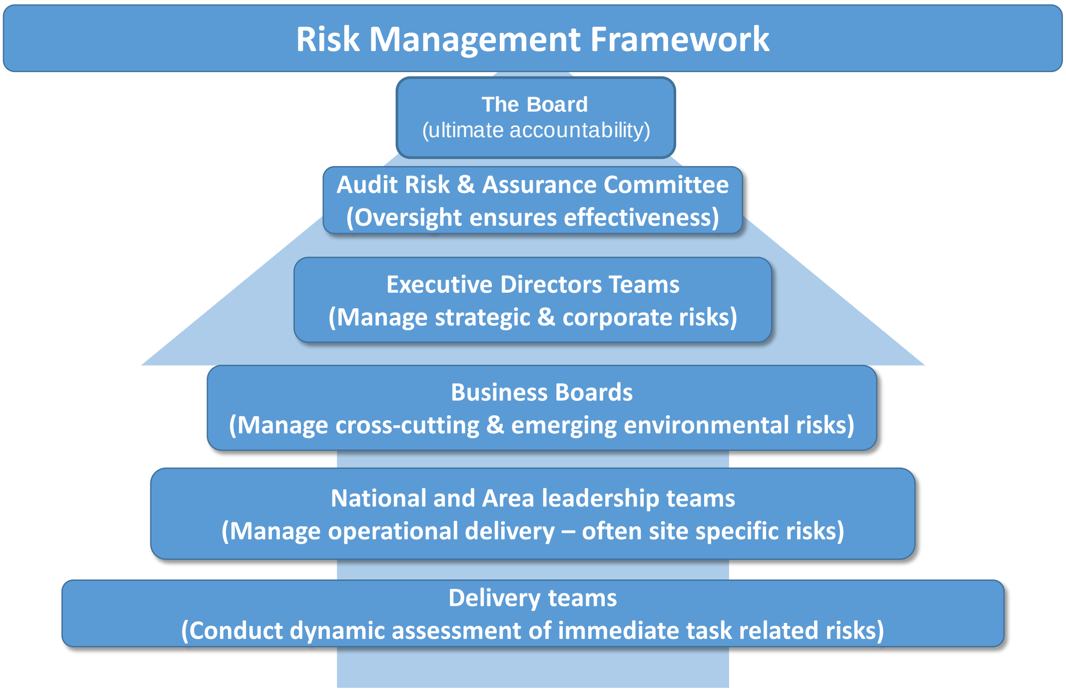
Our approach to risk management is approved by the Board and Executive Directors. EDT assesses, prioritises and manages risks throughout the year and individual directors are responsible for the risks within their business area. However, strategic risks or other risks with the potential to disrupt the organisation as a whole are managed by EDT. Executive directors own the corporate risk register. They are responsible for developing, formally reviewing and updating their risk assessments every quarter. Risk management forms a regular agenda item at quarterly meetings during the year. The Audit and Risk Assurance Committee (ARAC) has an important role in identifying, advising on and monitoring the management of these significant organisational risks.

In addition, weekly EDT catch-ups provide a mechanism to ensure all senior managers are briefed on emerging issues and can respond promptly, including reprioritising and redeploying resources as needed. Where the demands of managing a risk are high or impacts are expected to be significant, the organisation can be moved into incident mode and initiatives such as “stop and slow” can be implemented swiftly to ensure resources are directed to immediate priorities. During 2019-20 these approaches were used successfully to manage prolonged dry weather, serious flooding and the early stages of the COVID-19 incidents.

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

Many risks, generally those relating to operational activities and that are immediate to short-term in nature, require dynamic assessment. These are managed as part of day to day work by team leaders and all employees, who have the ability to “red flag” specific jobs. “Red flags” may be raised on any work activity recognised as posing a danger until proper safety measures can be taken. The consistently low staff turnover in the organisation leads to a high degree of corporate knowledge retention which is an important component of the effectiveness of our risk management. Allied with the learning and development programme this provides us with well trained and experienced people with a high degree of corporate discipline, good understanding of our corporate risk appetite, who are well able to exercise their own judgement.

As we develop closer working relationships across the Defra group, we have adapted our risk management procedures to fit within an integrated group approach to strategic risks. This includes a common risk language and consideration of legal, operational, policy, financial and reputational risks. As well as reviewing risks, we also consider future opportunities.



4.2 Risk appetite

As an organisation we want to strengthen our innovative culture. There is no innovation without experimentation, no experiment without failure, and no chance of ambitious outcomes without at least some risk. So we want to embrace and manage risk not avoid it. For our people to manage risk effectively, it is essential that they understand what our appetite for different sorts of risks is. We have zero appetite for taking risks with the safety of our staff and the public. But we are keen to encourage greater risk-taking in other areas such as experimenting with new ways of working or giving staff greater freedom to make choices. It is impossible to spell out how much risk we accept in every circumstance: each situation is different. We ask leaders at every level across the organisation to articulate for their own teams where there is scope for more ambition and so risk and where there is not; we want leaders and teams across the country to keep talking to each other so we collectively manage major risks; and we ask all our staff to use their own good judgement in making decisions.

We believe our staff are confident that we will back them if things go wrong, provided they have followed these principles and actively sought to manage the risks and maximise the benefits. We recognise and reward leaders, teams and individuals who seek ambitious outcomes, and who innovate and manage risk to achieve them. We celebrate achievements and ensure lessons are shared right across the organisation.

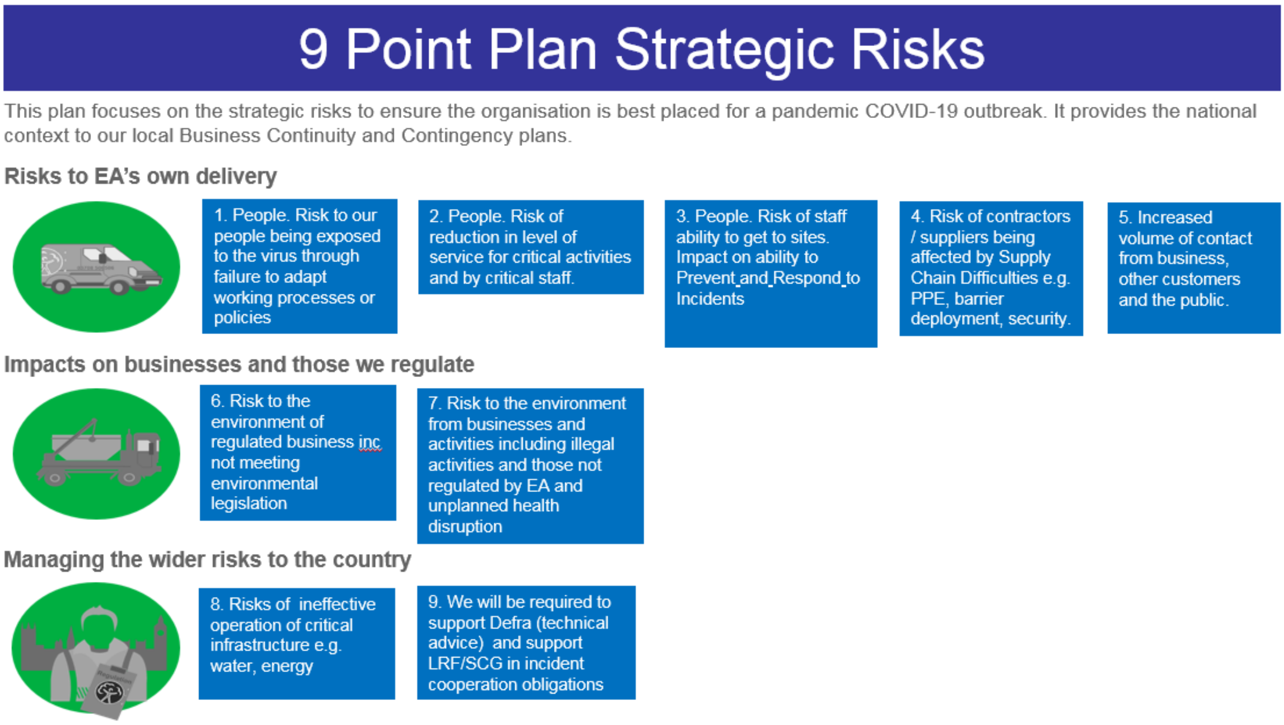
4.3 Effectiveness of risk management

We have a consistent approach to risk management across the organisation. Risk registers and maps are in place for business boards and area leadership teams, which include risk assessments, mitigating measures and an identified person who is accountable for managing each risk.

2019-20 has been an eventful year with many employees responding to prolonged dry weather, winter flooding and now COVID-19 incident management. To relieve some of the pressure, lower priority work and exercises that could be postponed have been subject to a “stop and slow” initiative. This included our usual annual review of risk across the organisation and the Board’s risk workshop. During the year we have sought to engage more closely with those involved in risk management and provide them with support to ensure leadership teams and business boards manage their risks effectively.

A number of changed priorities have been identified for our corporate risk register this year, with some risks being expanded and others redefined. New risks relating to water quality and water insufficiency were considered and have been incorporated into a new climate emergency risk, which also incorporates our long standing risk on the adverse impacts of major flooding.

In March 2020, the Environment Agency moved into incident response in response to the COVID-19 national emergency and developed a 9 point action plan to address the main risks identified for the organisation.

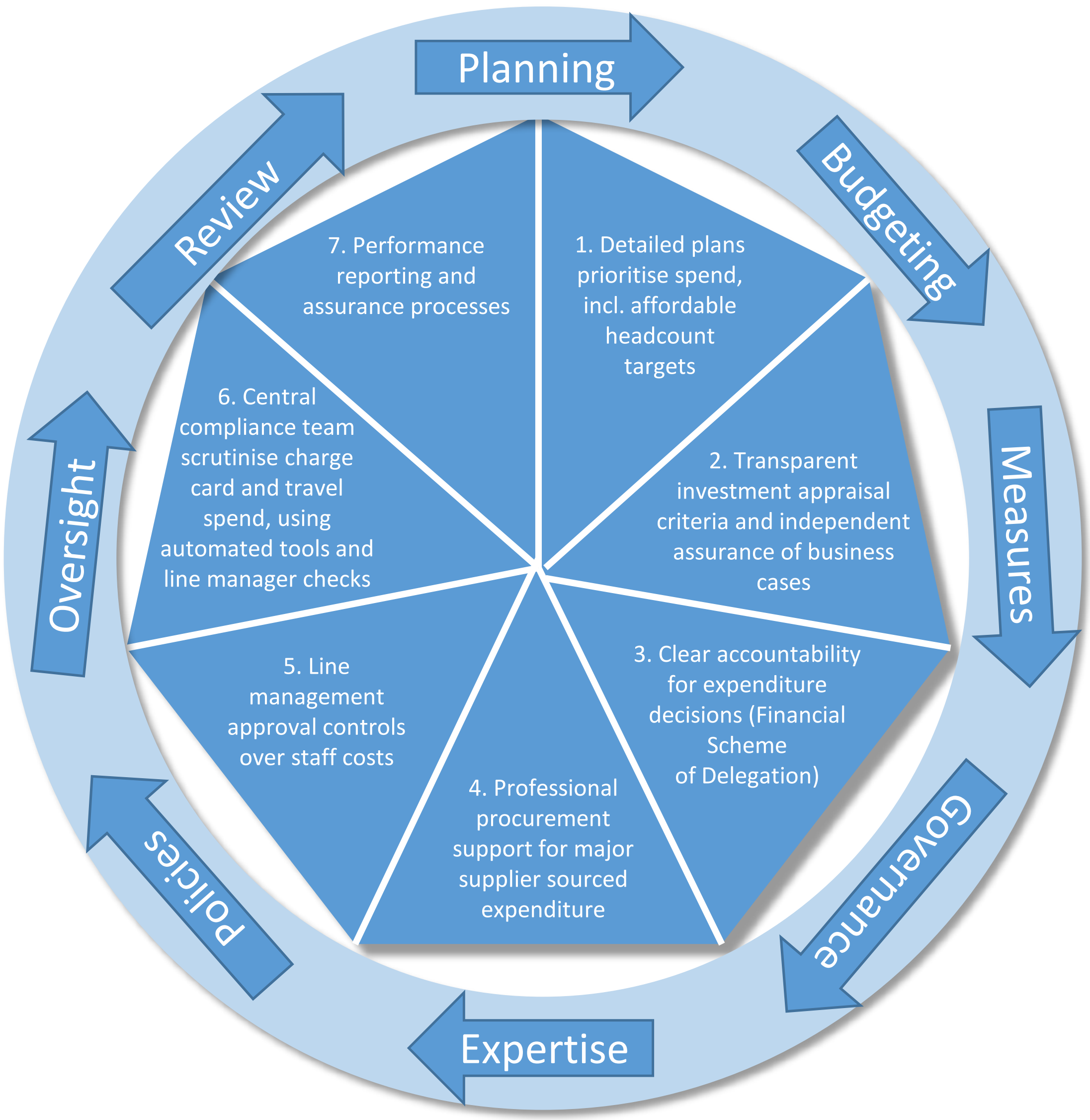


5. Effectiveness of the internal control system

5.1 Overview of the internal control system

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

- identify and prioritise the risks affecting our business aims and objectives
- evaluate the likelihood of those risks happening and their likely impact
- manage those risks efficiently and effectively.



Our resource allocation is published in our corporate plan and we report on our in-year progress against objectives, performance targets and budget in our corporate scorecard. The performance report section of this annual report summarises our performance in delivering environmental outcomes and provides assurance on how we have used our resources this financial year.

The Environment Agency's internal control environment is illustrated in the diagram above. Other controls we have to ensure we deliver value for money include:

- all projects over £100k go through an assurance process with review by qualified persons from the appropriate area of expertise using clear investment and appraisal criteria. They are independent of both the proposer and the approver of the expenditure
- external scrutiny of substantial levels of capital expenditure is provided via:
    - Regional flood coastal committees on local investment plans.
    - Reviews by the Infrastructure and Projects Authority of our largest projects.
- The Board has delegated its powers of control over income and expenditure through a financial scheme of delegation (FSOD), which establishes the limits within which individual officers are allowed to approve spending. The FSOD requires consultation with senior business partners from Finance, HR and Commercial. Larger items of expenditure must be referred to and approved by external parties such as the Defra permanent secretary, HM Treasury or Cabinet Office.
- Approximately 85% of procured expenditure goes through our Commercial teams or the frameworks they have provided. Of the other 15% approximately half is made up of fixed items like rent, service charges and reservoir operating agreements. The other half is made up of some central contract expenditure vetted by a finance compliance team and items procured via government procurement cards subject to line manager approval and sample testing by the compliance team.

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

5.2 Internal Audit assurance

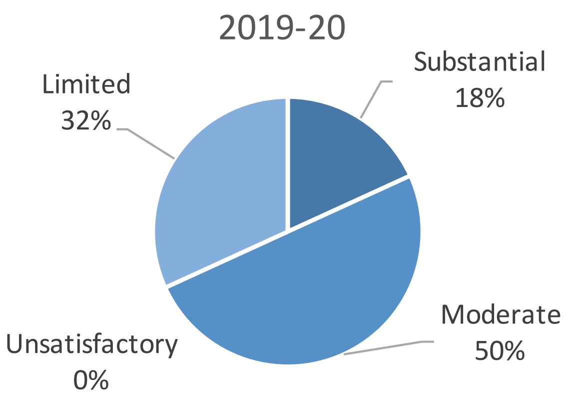
Each year EDT and the ARAC agree the annual internal audit plan, taking a risk-based and prioritised approach to identify aspects of the business that should be audited.

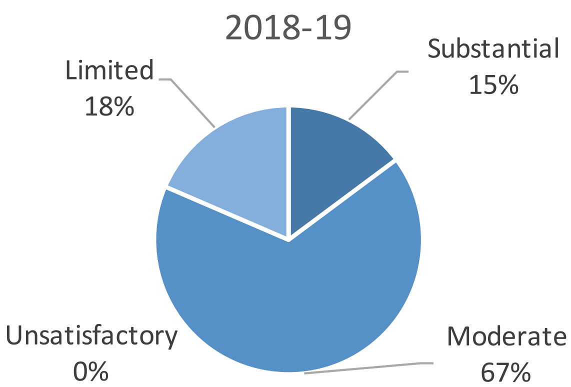
The Accounting Officer is advised on internal control matters through audit reports (and other papers and presentations at Executive Directors' meetings). The ARAC also reviews and acts on our internal audit reports. A large number of audit reports within the audit programme consider matters of compliance and propriety and provide assurance on good governance.

The Head of Internal Audit submits an assurance statement to the Chief Executive each year, outlining the adequacy and effectiveness of our risk management, internal control and governance processes, based primarily on our internal audits.

The Internal Audit team provided assurance on the management of risks associated with over 35 business work areas in 2019-20. The team provided an overall ‘moderate’ assurance rating on the adequacy and effectiveness of our arrangements for corporate governance, risk management and internal control. ‘Moderate’ means that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

Internal Audit assurance opinions, compared with previous year





Each year the Internal Audit team oversees the self-reporting by Executive Directors to the Chief Executive on their stewardship over selected work areas. However, there were no stewardship statements prepared during 2019-20 due to the additional pressures arising from incident response and EU exit preparations.

Agreed management actions arising from internal audit work are followed up to ensure that they have been properly implemented by their due dates. Similar to 2018-19 Internal Audit noted:

- that there has been an increase in requests for extensions to implementation dates, often as a result of EU exit pressures and the associated 'stop and slow' principle adopted by EDT; and
- that we are working with Defra group Corporate Services to ensure there is clarity of ownership for individual actions so that progress can be tracked effectively.

5.3 National Audit Office value for money reviews

We act on the recommendations made by the NAO in their audit completion reports and their value-for-money reviews, for instance those from the water study carried out in 2019-20. We are working with Defra and Ofwat to review water companies' progress on tackling leakage and reducing consumption during the coming planning cycle through the annual review of water resources management plans. We hold regular liaison meetings with key high risk companies, Defra and Ofwat to ensure they are implementing plans.

We keep the planning processes for both business plans and Water Resources Management Plans (WRMPs) under constant review for continued improvement. For example, this year we have been reviewing the water resources planning guidelines (WRPG), which detail how a company should form a WRMP. In developing this guidance, we involve water companies as well as other regulators to ensure alignment with other processes. The new WRPG will be a joint publication with Ofwat, Natural England, Drinking Water Inspectorate and Natural Resources Wales and the Welsh Government. The WRPG will be released shortly for publication consultation. Future targets supporting Defra's 25 Year Environment Plan and this area of work continues to be developed with Defra colleagues. Ofwat control the guidance for business plans.

The NAO published their report evaluating the government's approach to managing the risks of flooding in November 2020. The report examined whether its current risk management arrangements provide strong and effective oversight, challenge and direction, what government has achieved in the period 2015–2021 and government's preparedness to manage and reduce flood risk when a new expanded investment programme begins in 2021.

5.4 External accreditation

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

In February / March 2020 the external ISO auditors, Societe Generale de Surveillance UK Ltd (SGS) conducted a re-certification audit against the revised 2015 version of the international standard for quality management (ISO9001) and the environmental management (ISO14001).

This was an in depth audit, carried out over 30 days and visiting multiple business units. The audit focused on all elements of the ISO standards, particularly the demonstration of leadership and all staff awareness of our corporate commitments to internal environmental management and quality management system.

The re-certification audit coincided with extremely challenging weather and the COVID-19 outbreak. Some visits had to be postponed to enable teams to focus on the winter flood response. The results – only 3 minor non-conformities raised, was a significant achievement in these circumstances.

The Environment Agency is also accredited under ISO55001 (asset management). In Nov/Dec 2019 SGS carried out a surveillance audit for the ISO55001 standard covering the management of our flood risk assets. The audit team confirmed our accreditation and concluded that our management system conformed to the requirements of the standard and was fit for purpose in terms of delivering our asset management policy and objectives. The audit covered a number of functional processes including organisation and people, strategy and planning, allocation of resources, risk management, stakeholder engagement and asset information which focused on making sure that the maintenance of assets was underpinned by asset management data and information. The audit identified 3 minor non-conformities which are now the subject of an action plan.

6. Significant risks and actions

During 2019-20 EDT have considered a number of corporate risks. This has led to a number of changes in our corporate risk register, including the expansion of our navigation risk to cover all operational assets and the role the climate emergency plays in many of our activities, including incident management. The following risks and concerns were identified through the processes explained above and are being actively managed through detailed action plans, each of which is sponsored by an Executive Director or the Chief of Staff. Each separate risk is introduced with a table summarising how these risks are being managed and whether or not the situation is improving. The key to symbols used to describe the changes in residual risk is given below.

Key				
	Increasing risk	↑	**Risk unchanged**	↔
	Decreasing risk	↓		

6.1 Climate emergency

Key mitigations	**Change in residual risk from 2018-19**
Planning for future climate scenarios Carbon zero commitments Using our regulatory role to help others reduce their greenhouse gas emissions Working with others	↑

We are now reporting against a risk that builds on earlier risks and that considers our combined efforts to tackle the climate emergency. This reflects the impact that climate change is having on much of our work and our authoritative voice to influence change. The risk would materialise if we have insufficiently prepared our own organisation, and failed to play our part to enable others, to adapt to a changing climate or to reduce greenhouse gas emissions in line with the UK's net zero target.

We are taking a risk-based and agile approach when planning for a range of future climate scenarios. We are preparing for a 2°C rise in global temperatures but we also need to plan for a potential 4°C rise by 2100. We are updating our strategies and plans such as the Flood and Coastal Erosion Risk Management strategy, the Water Resources National Framework and our third Adaptation Report.

In October 2019 the Environment Agency committed to becoming a net zero organisation by 2030. We've adopted a tough, internationally recognised definition of net zero: not just the carbon we produce but also the carbon produced through our supply chain. Our current carbon footprint is

180,000 tonnes a year: 44,000 tonnes from our own activities, 136,000 tonnes from our supply chain. We will need to reduce significantly all of these emissions to get to net zero. We aim to achieve this by reducing our carbon emissions by at least 45% by 2030, and addressing the effect of our remaining emissions through tree planting and other measures that will lock up carbon harmlessly and deliver multiple benefits, like reduced flood risk.

We will play our part as a regulator and adviser in the reduction of greenhouse gas emissions in line with the UK's net zero target by 2050. We will put public health and wellbeing at the centre of our response and will influence public policy such as on regulatory standards.

A climate change programme has been formed in order to better coordinate, communicate and catalyse the Agency's response to the climate emergency. We will enhance our visibility to influence how best to tackle the emergency such as through influencing public policy, informing public debate on the difficult issues ahead of us, and motivating action by partners and regulated industry. We are engaging with our staff to help them achieve our own goals and to engage widely. The work of the programme will be overseen by a new Director-level Climate Change Portfolio Board, reporting into the Environment and Business Business Board.

6.2 Staff wellbeing

Key mitigations	Change in residual risk from 2018-19
Incident Management Ready; supporting new ways of working Leadership and internal communications Wellbeing resources, network groups and TUs	⟺

Staff wellbeing is central to our ability to deliver.

The 2019-20 year had long running incidents on EU exit, drought, flooding, and most recently the ongoing COVID-19 pandemic. These inevitably have an impact on employee resilience and wellbeing. Our Incident Management Ready approach and new incident teams set up at local Area level adopted a new working model, which has helped us rapidly adapt and support people into new ways of working through incident response.

We continue to have a strong focus on leadership and internal communication. A 2020 staff survey showed positive recognition of this with 85% being satisfied with the leadership and direction of the Environment agency and 87% of staff being positive on communication channels from James Bevan and the Executive Directors Team.

Absence is an important indicator for wellbeing. The Environment Agency generally compares favourably to the rest of the public sector in absence with the average number of working days lost at 5.9 days per year. (The average level of absence in the public sector was 8 days per year in March 2020.)

On average, 30% of our overall sickness absence relates to mental health. Mental wellbeing and resilience to work in difficult circumstances is increasingly important. To supplement our normal support for staff we have produced additional employee briefing packs and offer a variety of wellbeing resources and support through our Employee Assistance Programme. Network groups and links with Trade Unions continued to be important support mechanisms, particularly during the COVID-19 pandemic.

6.3 We secure insufficient funding to meet corporate obligations and objectives

Key mitigations	Change in residual risk from 2018-19
Challenging to achieve the best possible value for money and presenting this in a compelling way Developing robust business cases for spending reviews Charge scheme proposals	↑

We expect the COVID-19 pandemic to have a material impact on the Environment Agency's charges income for 2020-21, and future years. The recession is likely to lead to more bad debts as some businesses we regulate become unable to pay their charges. We are reporting the risk of lost income arising from COVID-19 to HMT. There has been increasing pressure on our funding from other factors. There was a delay in agreeing our new water resources charges scheme as it had to be put on hold during the December 2019 General Election. There has also been a continued substantial reduction in un-ringfenced GiA funding as part of a trend since 2010-11, which funds enforcement, incident management, monitoring and planning advice activities.

The 2020 Spring Budget sought capital bids for infrastructure and we were successful in securing capital funding of £10m for one year for essential work on our Navigation and £29m over four years for Water Resources assets, as well as the £5.2bn (next six years) FCRM capital programme budget. Our 2020 Spending Review negotiations included funding for navigation assets for future years, together with funds to improve the environment and our flood risk management capabilities.

We have resumed our charges consultation on Fluorinated-Gas and Ozone Depleting Substances, and need approval to consult on Water Resources management charges. If we can secure these charge changes, it will enable improved asset condition and regulation to secure future water supplies for the nation.

We have developed a funding plan which sets out what we need to do to fund the goals in the Environment Agency 2025 Action Plan. This sets out the actions we will take as an organisation to increase further our charging income; generate a greater commercial income stream; re-focus and increase our external and partnership funding; and generate investments using green finance. We will review the plan in light of the impact of Covid-19 on our income and investments.

6.4 Asset failure

Key mitigations	Change in residual risk from 2018-19
Asset maintenance and contingency plans Focus on strategically important assets Review of specialist resources	↔

The Environment Agency owns, operates and maintains many thousands of assets including the well-known Thames Barrier and other flood risk management assets, air quality and water resources monitoring stations and various temporary flood assets such as barriers and pumps. Our assets allow us to control water levels, facilitate navigation, monitor water levels and air quality. To ensure these asset portfolios have effective asset management we have established appropriate governance and created systems including asset registers to identify and prioritise the assets critical role in terms of infrastructure or community benefit prioritised (strategically important assets). This asset data and information enables the establishment and delivery of inspection regimes for all asset classes, including appropriate monitoring, assessment and repair.

All of these asset portfolios have programmes and plans in place that ensure they are regularly inspected, maintained on a risk priority basis, and will reliably provide the function they have been designed for. This forms part of the risk based asset management assurance plan which includes, particularly in the case of strategically important assets, the implementation and review of asset contingency plans for when the asset is overwhelmed or not able to operate as expected, so that the asset function can still be delivered after the incident or flood has ended. If such an asset and its relevant contingency plan both fail this could have a significant impact on the lives and livelihoods of the local community. This is one of the reasons that the new Flood and Coastal Erosion Risk Management (FCERM) strategy has climate resilient places, infrastructure to be resilient in tomorrow's climate and climate champions as part of its objectives.

Constraints arising from the COVID-19 pandemic caused a backlog in asset inspections and maintenance works, which means that asset damage or deterioration may not have been identified or addressed. However, the weather conditions since April have been favourable so the risk of un-inspected damage is low. We have placed particular emphasis on ensuring our strategically important assets across flood risk management, water resources and navigation are able to operate as expected. Contingency plans have been reassessed and staffing levels, including resilience measures have been confirmed as adequate. We have commissioned additional assurance work across all areas to identify any new risks and support governance decision making.

The government allocated £120m of funding for emergency repairs to assets damaged during the November 2019 and February 2020 flooding incidents. This is a high priority programme of work for 2020-21. 170 projects have already been completed with a further 81 in delivery on site.

6.5 Illegal waste

Key mitigations	Change in residual risk from 2018-19
Using intelligence and information analysis to prevent and disrupt criminal activity from happening Pursuing would-be criminals and poor performers using disruption and enforcement to stop illegal activity Working in partnership with other law enforcement agencies	↔

There are high public and political expectations of the Environment Agency to address the issue of crime in the waste sector not least because of the additional funding received from Government to the EA to tackle this issue.

The safe and legal disposal of waste can be expensive because of the level of landfill tax and other processes designed to promote recycling. The profit that can be made by avoiding these costs attracts organised criminal groups into the waste management arena. While the majority of operators are responsible, complying with regulations and their permit conditions, there are some sites and activities which are not operated within this framework and which both threaten environmental harm and undercut legitimate operators.

Such illegal activity includes the indiscriminate dumping of waste, operation of sites without an environmental permit, mis-describing waste to avoid high rate tax and the illegal export of waste. Waste crime is often a significant blight on local environments; a source of pollution; a potential danger to public health and hazard to wildlife. It also undermines legitimate waste businesses and it is becoming increasingly difficult for operators acting within the law to compete.

The Environment Agency's vision is to eliminate crime and poor performance in the waste sector fits with the Home Office Serious and Organised Crime Strategy in using a 4P approach - **Prepare** by using intelligence and information analysis; **Prevent** and disrupt criminal activity from happening in the first place; **Protect** the environment and harm to human health and to **Pursue** would-be criminals and poor performers using disruption and enforcement to stop them engaging again. The Environment Agency works in partnership with other Law Enforcement agencies and the waste business to gather intelligence on crime in the waste sector across England. Such criminality is assessed according to the potential threat, risk and harm posed. This information formulates our strategic assessment of these emerging issues which is used to align the right tactical resources to tackle this crime at the front line.

6.6 Security

Key mitigations	Change in residual risk from 2018-19
Clear understanding with Defra group Corporate Services on our respective responsibilities Ensuring high levels of staff awareness on security risks	***New***

Failures in security could impact on our people or assets, including information, so that we are unable to deliver some or all of our objectives and statutory duties.

Our Corporate Management Team (CMT) is working to understand the Environment Agency's retained security responsibilities and to identify any gaps that need to be addressed. This will steer how the resource secured for 2020-21 will be directed to priority areas. Substantial funding will be needed to address longer term security risks such as those posed by legacy IT. This has been pursued via the SR20 planning process. CMT is also working to improve the visibility and reporting of security within the Environment Agency.

At a group level, Defra group (Dg) Security have demonstrated that they are able to respond effectively to major incidents but that the team's capacity is stretched. There has been a reduction in engagement with the Environment Agency, which CMT is working to reinvigorate.

Although across government there has been recognition of the impact of COVID-19 on almost all activities, we consider our overall level of risk unchanged. The pandemic and dependencies on SR20 funding have delayed improvements which could reduce risk, but equally, existing controls and encouraging increased awareness have largely been effective against changes resulting from COVID-19. Growing risks have included: an increase in phishing emails and fraud risk; an increased risk of unintended data breaches from working from home (for example through storing and disposing of printed material or using new collaboration and communication tools); a reduction of insider threat from people not being in offices; and the risk of physical attack changing with fewer people working in the field but more people working alone in depots. Our suppliers also face similar risks. In response, guidance has been issued to staff, in particular on phishing, fraud and data management. The Corporate Security Board has recommended that as part of Project Horizon, our preparations to restart business as usual, risk assessments be expanded to cover security requirements. In particular, the Environment Agency's lone worker policies could be adapted and introduced to roles that are not normally exposed to lone working. It is possible that in future public sector workers will be at increased risk from protests on prominent, topical issues.

6.7 Partnership with Defra group Corporate Services

Key mitigations	Change in residual risk from 2018-19
Having effective governance structures in place **Spending review bid to update legacy IT systems**	⟺

Changes in the services provided by Defra group Corporate Services (Dg-CS), driven by transformation, budget pressures and technology developments may not be aligned to the Environment Agency's current or future needs, causing negative impacts on our business delivery, employees and stakeholders.

During 2019-20 this risk was increased due to high levels of IT issues being experienced across the Environment Agency. A joint Task and Finish group to address this made progress during the last quarter of the year but has since been impacted by COVID-19. Remaining actions will be delivered as part of business as usual. The Unity programme continues to modernise Defra group's core IT provision. The most significant rollout, Windows 10, is happening in 2020-21. Impacts for the Environment Agency include ensuring that applications are compatible and that colleagues have the necessary skills and knowledge. A Programme Board and Team to manage this for the Environment Agency has been proposed.

COVID-19 has impacted the partnership in many ways. DDTS have been praised for implementing solutions to enable the Environment Agency to operate within Government guidelines, although individual experiences vary. Some services, including HR, have seen greater resource pressure due to colleagues being diverted to broader government work. Others such as Dg Security have focused on group-wide work with a drop in engagement with the Environment Agency. The Corporate Business Forum decided to "Stop/Slow" the Q1 review to relieve workload across the partnership but reviews resumed in Q2, with a greater focus on KPIs and satisfaction surveys. As we move from incident response to restart mode we may identify new priorities between the Environment Agency and Dg-CS. Therefore, prioritisation and focus on service offer will be of great importance.

Funding availability presents a material risk to the service the Environment Agency receives. Addressing issues such as obsolete IT and delivering future ambitions including E-Mission and Net Zero 2030 will require significant investment. The Corporate Management Team will work with business planning and Dg-CS to provide a focus on the EA's organisational requirements and its requirements of Dg-CS.

Progress is being made to improve the Environment Agency's governance on organisational matters. The Organisational Business Board met for the first time in June and will provide leadership and assurance on the delivery of the Organisational Outcome Plan. The Data and IT group is progressing as a portfolio of the board for data and IT, and the Corporate Business Forum will start to focus more specifically on the partnership. Work to establish a People portfolio is at an earlier stage.

Although some aspects of this risk are of concern, the measures in place to address these mean that we consider the overall position to be stable.

6.8 Transition period risks after leaving the EU

Key mitigations	Change in residual risk from 2018-19
Working on planning assumption of no free trade agreement **Monitoring for any delays in Statutory Instrument timetable** **Working with others to ensure understanding of changes** **Identifying opportunities to improve retained legislation**	⟷

Although the UK has left the EU, as we come to the end of the transition period there is a risk of being poorly prepared to implement the changes needed to continue to achieve positive outcomes within our expanded areas of responsibility. The UK is legally committed to the Northern Ireland Protocol (NIP) which will come into force at the end of the transition period. We continue to work to understand how the implementation of the NIP will affect our work; in particular the regulation of waste shipments, chemicals, fluorinated gases and ozone depleting substances. There will be opportunities to improve retained EU legislation following the transition period.

Our activity through the transition period may be undermined by problems in the communication and engagement needed to influence and inform. We need to ensure the new policies and laws evolving for after the transition period are beneficial for the environment, do not reduce our ability to enforce environmental law, or miss opportunities to achieve better outcomes. We are exploring the risks arising from the Northern Ireland Protocol and the potential impact of trading with the EU on World Trade Organisation terms.

On 12 June, the UK Government officially informed the EU that it would not be seeking an extension to the transition period. At the time of writing, we do not have a clear indication if a free trade agreement will be reached by the 31 December. With this in mind we are continuing to use a planning assumption of no Free Trade Agreement for our work planning for the rest of this year and beyond. Our previous work in preparation for the UK leaving the EU without an agreement provides a good basis for planning.

7. Ministerial Directions

During 2019-20, the Environment Agency did not receive any Ministerial Directions.

8. Administration of grants to local councils, internal drainage boards and civil society

We pay grants to local councils, internal drainage boards, the Highways Agency and water companies (all of whom come under the grouping of other risk management authorities) for flood and coastal erosion risk management work. All projects must have technical and financial approval and all studies and schemes must adhere to the grant memorandum.

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

Since April 2012 we have also provided grants to civil society groups and charities for work delivering the Water Framework Directive, supporting the delivery of water catchment outcomes. In 2019-20 grants were made available to each catchment partnership via the Water Environment Improvement Fund to facilitate activities towards hosting the partnerships. These host organisations were selected following an open bidding process as part of setting up the original Catchment Restoration Fund in 2013. The project manager for the fund is responsible for its assurance. We require summary reports each year to ensure that hosting and capacity building is being delivered within the financial year for which the funding is provided.

Since summer 2017 we have administered Catchment Partnership and Natural Flood Management Grants on behalf of Defra under Section 70 of the Charities Act 2006. The Catchment Partnership Grants (CPG) fund interventions which:

- manage rural pollution
- manage pollution from towns, cities and transport
- improve modified physical habitats
- manage non-native invasive species
- improve coastal and estuarine waters.

Natural Flood Management Grants (NFMG) aim to better understand and evidence the use of NFM techniques in reducing flood risk, promoting biodiversity and improving habitats by working in partnership.

We manage all of our programmes in accordance with guidance from Cabinet Office on Grant Standards.

9. Data security

In 2019-20 we reported one breach of the data protection legislation to the Information Commissioner's Office (ICO) which regulates the legislation.

- This was following an automatic notification from Share Point Online (SPOL) that a file containing records of pollution incidents had been shared externally. The file contained 11,939 rows of data relating to pollution incidents on farms from 2008-2019, including details of the reporter of the incidents.
- Further investigation established that there was no evidence that the file had been shared externally and that it was an error with the automatic notification. The organisation was provided with advice and guidance on what information should be stored on SPOL, including that it was not necessary to include the reporter details in this record.
- The ICO confirm that from the information we provided it appears that there has not been a personal data breach. They welcomed the measures that we were taking to enforce our data protection regime and would not be taking any further action.

10. Whistleblowing

10.1 Internal whistleblowing

Our arrangements for whistleblowing regarding the Environment Agency's work remain unchanged. The Director of Legal Services has responsibility for managing whistleblowing disclosures. Clear information is provided to all employees and our suppliers and contractors on how any disclosure can be made and what protections and support are in place for those who raise concerns. Assurance about our approach is provided to ARAC on a regular basis. Staff were reminded in June 2019 about our approach to whistle blowing, including how they can and should raise concerns in confidence.

All concerns raised under our policy were carefully considered and investigated. Management action was taken whenever concerns were upheld including during the year: improved guidance; improved processes; and a revised approach to regulation of a site.

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

As part of public interest disclosure law, commonly known as 'Whistleblowing', we have an obligation to act on third party disclosures made to us concerning malpractice on environmental matters. Workers who wish to make a protected disclosure, which is in the public interest, about their employer, can choose to raise their concerns with the employer directly, or otherwise through a number of other routes including directly to us for environmental concerns.

As a "prescribed person" identified in Whistleblowing regulations, in September 2019 we published our second annual report into external environmental whistleblowing. The reporting period was from 1 April 2018 to 31 March 2019. During this period, we received 20 disclosures from people, most of whom were anonymous. Some of these disclosures may have been made by employees wishing to make qualifying disclosures about their employers or other third parties.

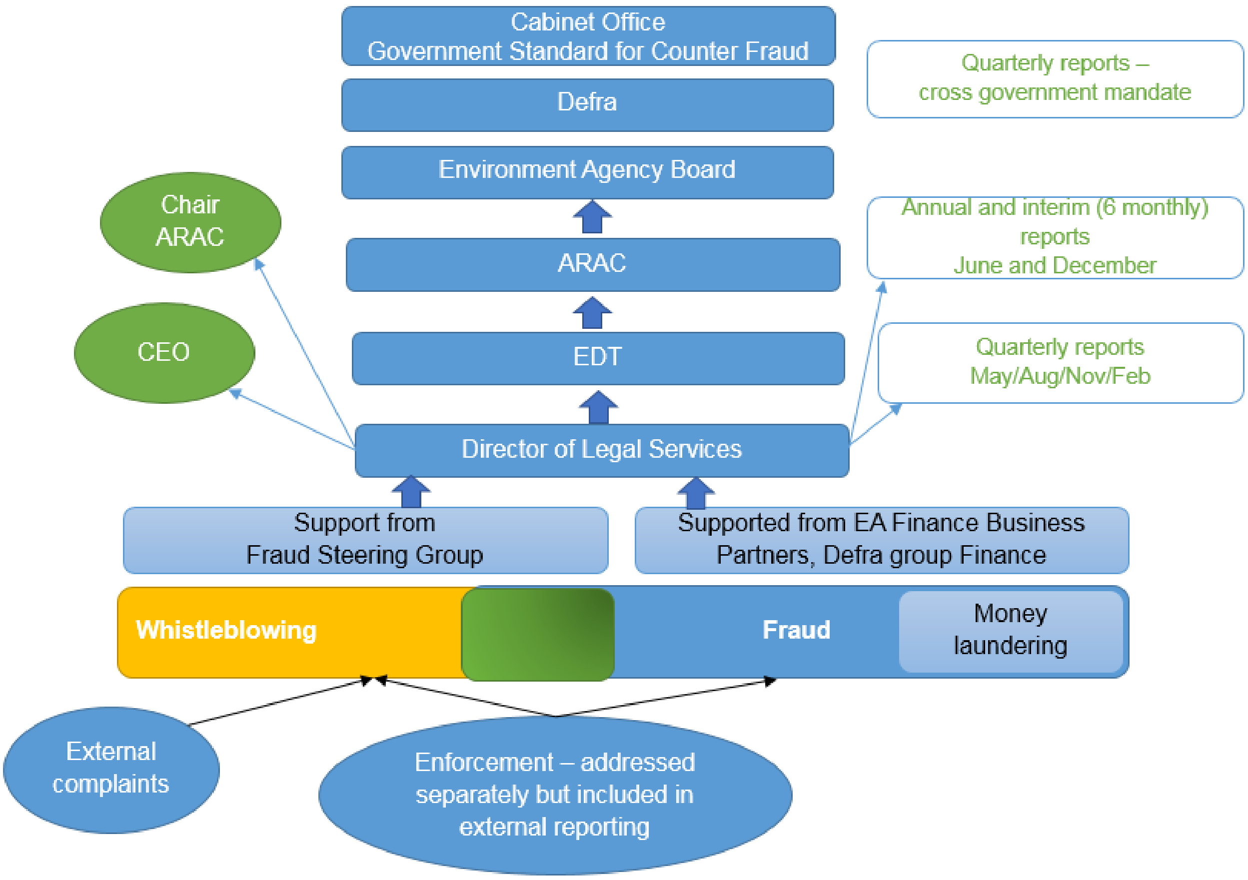
In September 2020 we published our third annual report into external whistleblowing. We received 8 qualifying disclosures between 1 April 2019 and 31 March 2020. Most disclosures were anonymous. Some of the disclosures were made by employees wishing to make qualifying disclosures about their employers or other third parties.

Our reports describe each of the cases reported to us and what action we took in consequence. They are available on the GOV.UK website and can be found here: https://www.gov.uk/government/publications/whistleblowing-annual-reports.

Further, if someone submits an Employment Tribunal claim including whistleblowing against their employer (or former employer) and that claim relates to environmental malpractice, under a separate set of regulations, the Employment Tribunal is required to share the claim form with us so that we can take any necessary action.

11. Fraud risk management

Our Director of Legal Services, working with the Director of Finance and Deputy Director of HR, is accountable for our counter fraud activity and our approach to dealing with any suspected incidents of fraud. This activity is supported by the Environment Agency Finance team in Defra Corporate Services and by a Fraud Steering Group made up of managers representing a cross section of relevant expertise.



We follow the Government's counter fraud functional standards in our approach to addressing this risk, in a way that is proportionate to the actual frauds and irregularities experienced. In July, the Cabinet Office provided feedback on our levels of compliance with the standard. They rated our performance as amber, noting two areas in which we could improve our performance:

- By developing a better understanding of our residual fraud risks
- By renewing our counter fraud strategy.

We have prioritised the development of our understanding of residual fraud risks but did not have sufficient resources to address both recommendations fully in 2019-20.

Many of our counter fraud controls are embedded in other processes, such as security checks for new staff, our revised code of conduct, procurement processes and schemes of delegation for both expenditure and authorising decisions.

Other counter fraud activity this year has centred on increasing engagement with leadership teams, increasing awareness through roll-out of training to new managers and ad hoc communications on specific issues.

Excluding thefts by third parties (where no employee involvement is suspected), and prosecutions offences where we are the regulator, during 2019-20, we identified 60 potentially fraudulent incidents. We carried out a review of a major contract. Of these, 36 were found on balance of probabilities to have been fraudulent in some way. The majority, 26, were the result of third parties abusing employees' charge cards.

Of the remaining ten, 7 were committed by external third parties and included 4 motor claims repudiated as being false or exaggerated, 2 cyber-enabled frauds, including a change in supplier payment details and there was one third party GPC abuse which was excluded from the usual indemnity provisions as the actual card and pin were intercepted between delivery and hand over to the card holder.

The 3 cases against employees were: an internal theft where it has not been possible to identify the culprit, a misuse of work time where the employee resigned during the course of the investigation and a misuse of work assets where the employee received a final written warning and agreed to other restorative measures.

The relatively small number of potentially fraudulent incidents identified makes it difficult to establish any real trends and small changes in numbers cannot be taken as either a real indicator of increases or decreases in fraud but one thing the analysis above does suggest is that our investigations are doing more to recognise incidents or behaviours which result in significant action. Disciplinary action taken where fraud is found includes dismissal.

12. Money laundering reporting and compliance

Money laundering is a real (if low likelihood) risk for the Environment Agency.

The Director of Legal Services is the appointed Anti-Money Laundering Compliance and Anti-Money Laundering Reporting Officer (MLRO) for the organisation on behalf of the Accounting Officer and is supported by a senior lawyer as Deputy Money Laundering Reporting Officer (DMLRO).

For teams with activities which include risks of money laundering, we have familiarised key team members and role holders about the risks in Environment Agency business and have an established reporting process for bringing suspicious transactions to the MLRO's attention. We have also ensured that staff are aware that it is an offence to “tip off” a party to a transaction who is suspected of money laundering, for which they too can be prosecuted individually.

Where a transaction does raise suspicions of money laundering, the MLRO reports this information to the National Crime Agency (NCA) using a special reporting mechanism called Suspicious Activity Reports (known as SARs). These SARs help the NCA and others who can access its database in their wider investigations across the law enforcement community. The NCA consider this report and determine whether the transaction can be allowed to go ahead. We have reported two suspicions so far this year to the National Crime Agency.

It is an offence for the organisation to enter into an arrangement which facilitates money laundering for which the MLRO and DMLRO have a potential for personal criminal liability.

13. Modern slavery

In 2018, the Environment Agency made a public commitment to join the fight against modern slavery. Figures from the anti-slavery charity, Hope for Justice, show that two-thirds of victims they work with are reported to have worked within the waste industry, making this one of the key areas we are most likely to interface with modern day slavery. We are working with police and enforcement agencies to eradicate this modern day slavery from the waste and recycling industry. As a first step, we worked with Hope for Justice to train over 100 waste and regulation EA officers in recognising exploitative work practices.

Whilst the majority of the waste businesses we regulate are well run, there are some operators who delve into criminal practices which harm the environment, local communities and their own work force.

As part of delivering on this commitment we:

- Routinely pass intelligence to the police where we suspect MDS may be taking place on sites we visit
- Take part in multi-agency days of action with the police and other partners to disrupt criminality including MDS at sites who are operating illegally
- Frequently work with partners to raise the profile and awareness of MDS

We will extend the original training through an online training package, which we are currently developing for all of our staff who work in regulation. This will be rolled out by the end of the year and will train officers in how to spot signs of modern day slavery during site visits and what to do if they do.

Every year we spend £633 million with suppliers, about 50% of our total operating costs. Addressing the modern slavery and wider human rights impacts associated with purchases is a core and embedded part of our approach and has been for over 15 years. We prioritise the work we do with supply markets and suppliers based on sustainability impacts, business risk and spend so that we can focus our efforts in the highest risk areas. A sustainability risk assessment which includes human rights is completed as part of commercial strategies to determine which impacts are relevant to the contract and how they will be managed throughout procurement and for the entire life of the contract. We continue to focus efforts on high risk categories including but not limited to construction, ICT, Personal Protective Equipment and Clothing. We embed requirements within contracts including the International Labour Organisation's standards, assessing and working with suppliers to reduce the risks. Our recently launched corporate sustainability plan eMission 2030 commits to protecting people from modern slavery and we will continue to develop our approach to the management of the risk working with our suppliers.

14. NAO Technical Qualification of opinion on operational fixed asset valuation approach

The government's Financial Reporting Manual requires organisations to revalue specialised operational assets using a Depreciated Replacement Cost (DRC) approach. The Environment Agency (EA) has 8,000 operational assets and has therefore used a Modified Historic Cost (MHC) method as a cost-effective proxy. This employs a cost inflation index to increase the gross book value of assets each year. The methodology applied has been in place since 1996. There has been no qualification of the Agency's accounts for applying this methodology until this year. Each year in its audits, the NAO has tested and has confirmed the application of the policy has been conducted appropriately, with reasonable indices being used.

In 2019-20, the National Audit Office raised a qualification on the EA's operational asset balances on the basis that these were not valued using a DRC approach. We note the nature of this qualification which is about how one values very unique government owned assets and is not about how we manage these assets, which the NAO consider to be effective. The longstanding approach was deemed a reasonable one for such assets that have no market value.

It was not practically feasible to obtain a DRC compliant valuation for the 2019-20 accounts due to the substantial work required for this. HM Treasury has noted the value for money and operational considerations in the EA's decision on valuation approach and recognises the practical challenges for the 2019-20 and 2020-21 financial statements. However, we are working on a plan that will enable compliance with the FReM and NAO delivery of an unqualified opinion in future. The NAO understand the logistical challenge involved with achieving this objective and that this qualification is unlikely to be removed from the 2020-21 NAO report.

Directors' report

Board and Executive Directors

We employ three Executive Directors in addition to the Chief Executive.

A full list of Executive Directors and Board members is provided in the Remuneration and staff report. The notice period for Executive Directors is at least three months.

The Board members and Executive Directors had no company directorships or other significant interests which may conflict with their responsibilities in the financial year 2019-20.

Pensions

We are a statutory member of the Local Government Pension Scheme (LGPS). We are the administering and employing authority for the Environment Agency's Active Fund. The Environment Agency Active Fund was created in 1989 for employees of the National Rivers Authority. It now provides defined benefit pension benefits to around 26,000 people, who are current and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited (SSCL). For the financial year 2019-20, the Active Fund received contributions equivalent to 18.5% from the Environment Agency and between 5.5% and 12.5% from its employees.

Every three years, the Fund undertakes a valuation in conjunction with the Scheme Actuary. Our 31 March 2019 valuation assessed the Fund's financial position with a funding level of 106% (2016: 103. Investment returns on the Fund's assets between 31 March 2016 and 31 March 2019 was 35.7% and increased the assets' value by £960 million. The 2019 valuation was positive with the Active Fund reporting an improvement in funding over the preceding three years, driven by asset outperformance. Whilst the funding level reduced as at 31 March 2020, it must be remembered that the Fund employers are able to take a long-term outlook when considering the high-level funding implications of external shocks. No one knows what the long-term impact of COVID-19 may be on the economy and ultimately on the long-term cost of funding defined benefit pensions. The EAPF continues to monitor the funding level and outlook for the long-term economy and returns on the Fund's assets on a regular basis, but will not need to revisit contribution rates for long-term employers at this stage. As reported in the Pension Fund Annual Report, the actuaries believe the pandemic will also sadly have a more real impact on the Funds' members, with mortality rates over the period to the 2022 valuation likely to be higher than in previous years. It will take time for this to be properly understood and the impact will likely not be reflected until this next actuarial valuation.

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

The Government introduced regulations in 2016 which require LGPS Funds to pool investments in order to improve efficiency. Brunel Pension Partnership Ltd. (Brunel), was created and became operational from 1 April 2018. It comprises the EAPF and 9 other LGPS Funds (predominantly based in the South West) to meet this obligation.

The Board approved becoming a shareholder in Brunel in July 2017, following a rigorous assurance process. The EAPF will continue to adhere to its own Funding Strategy, and retain control of its own assets, but will aim to benefit from reduced costs from pooling investments.

The EAPF is responsible for and provides oversight for the day to day administration of the Fund which is carried out by Capita.

The EAPF has a communication policy which identifies the Fund's key stakeholders, and how we communicate with our different categories of members. The Fund has an agreed 'digital by default' strategy for implementing a move to more electronic communication and this continues to evolve. These developments are reflected in the Fund's communication strategy. Information can be found at https://www.eapf.org.uk/

The EAPF has been identified as Best in Class in a report on Responsible Investment (RI) in the Local Government Pension Scheme (LGPS), which was an analysis of the Investment Strategy Statements of Local Government Pension Funds (LGPS) undertaken by ShareAction & UNISON. Also, in September 2019 the EAPF was recognised as a Global Leader in RI by the Principles for Responsible Investing.

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

Creditor payment policy and statistics

We aim to meet the level of performance for paying creditors in 'British Standard 7890: Method for achieving good payment performance in commercial transactions' and relevant HM Treasury guidance. During the year we paid 83% of invoices from suppliers within 10 days of receipt and registration, compared to 81% in the previous year. Creditor days, calculated on an average basis for the year, were 5 days during 2019-20 (9 days during 2018-19).

Research and development expenditure

We run a research and development programme which covers all our scientific and technical functions in environment and business, and flood and coastal erosion risk management. The purpose of the programme is to make our business more effective and efficient, inform our advice and guidance, and develop innovative approaches to the challenges we face. We record expenditure on research in the year we spend it and we do not capitalise this expense within our statement of financial position.

Remuneration and staff report

(Subject to audit)

The People and Pay Committee

The People and Pay Committee comprises five non-executive Board members and is chaired by the Environment Agency's Chair. Its name and terms of reference were updated in May 2019 and were derived from the Greenbury Code of Best Practice on Directors' Remuneration. These were adapted to the circumstances of the Environment Agency as a non-departmental public body. For the Financial year 2019-20 the Committee's terms of reference were as follows:

1. The People and Pay Committee is appointed by the Environment Agency Board with its delegated authority to consider any matters relating to the pay or remuneration of Environment Agency employees. The committee has regard to the Defra-Environment Agency Framework Document and other relevant requirements of Defra.

2. The People and Pay Committee will consider and advise the Environment Agency Board generally on matters relating to human resources.

3. The People and Pay Committee will:

a. consider and approve the overall remuneration strategy of the Environment Agency from the employees' perspective including the full benefits package

b. consider and approve periodic pay reviews for Environment Agency employees

c. consider and approve any significant policy issues involving terms and conditions other than pay

d. consider and approve any performance-related pay to executive directors based upon recommendations from the Chief Executive, approve the broad salary bands for executive directors and approve the specific remuneration of any executive director proposed to be appointed outside of those bands or with any special conditions

e. set and review all aspects of the objectives and remuneration of the Chief Executive

f. review the framework for succession planning for key posts

g. receive an annual statement of expenses incurred by Board members

h. advise the Board on any matters relating to pay, remuneration packages and benefits or general human resources matters in normal Board business.

4. The Chair of the People and Pay Committee should make a report on People and Pay Committee business to the Board meeting following each People and Pay Committee meeting. The full minutes and papers of the People and Pay Committee meetings are made available to any Board member on request. The People and Pay Committee met three times during the financial year ended 31 March 2020. It agreed the Chief Executive's performance rating and objectives.

During the year, the committee also considered:

- pensionable pay issues;
- the annual pay award and pay remit;
- Executive Directors' Team structure and executive directors' pay;
- voluntary early release scheme payments;
- the work of the committee and planned work for next year;
- the Board's own expenses.

Under Section one of the Environment Act 1995, Board members are appointed by the Secretary of State for the Environment, Food and Rural Affairs. The Act provides for the Environment Agency to pay its Board members such remuneration as may be determined by the appropriate minister. The level of remuneration is subject to review in the context of decisions taken by ministers from time to time in relation to payments of this type. Non-executive Board members are not eligible for membership of the Environment Agency pension scheme or compensation for loss of office. Board members' appointments may be terminated at any time upon giving three months' notice in writing.

Remuneration of Executive Directors

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

Table 1: Executive Directors' periods of service

Position	Executive director	Period of appointment
Chief Executive	Sir James Bevan KCMG	30 Nov 2015 – present
Executive Director of Operations	Dr Toby Willison	1 Apr 2015 – 25 Nov 2020
Executive Director of Environment and Business	Mr Harvey Bradshaw	26 Sept 2015 – present
Executive Director of Flood and Coastal Erosion Risk Management	Mr John Curtin	19 Sept 2015 – present

The notice period for Executive Directors is at least three months and the policy for their remuneration is the responsibility of the People and Pay Committee.

Board members' remunerations (audited)

Table 2: The appointment and emoluments of Board members who have received emoluments in the last 2 financial years

Board member	Subcommittee member	Latest date of appointment or re-appointment	Period of appointment (years)	Latest time commitment (days)	Remuneration in 2019-20 (£)	Remuneration in 2018-19 (£)
Emma Howard Boyd (Chair)	PC,PCISC, PPC	19 Sept 2019	3	3 per week	100,000	100,000
Richard Macdonald (Deputy Chair)	ARAC, PPC, FCRM	1 Jun 2016	4	5 per month	25,201	25,201
Maria Adebowale-Schwarte (i)	PPC, EB	1 July 2019	3	5 per month	19,952	16,800
Judith Batchelar	ARAC, EB	1 April 2018	3	4 per month	16,800	16,800
Lynne Frostick	FCRM	16 Mar 2018	3	6 per month	25,200	25,200
Robert Gould	ARAC, FCRM, PC, PCISC, PPC	1 Feb 2018	3	5 per month	21,002	18,211
John Lelliott (ii)	ARAC, FCRM, PC	1 Feb 2018	3	5 per month	18,551	16,800
Caroline Mason	PC, EB	1 April 2018	3	4 per month	16,800	16,800
John Varley (iii)	EB	1 Oct 2019	1	3 per month	12,597	12,597
Gill Weeks	ARAC, EB,PPC	8 Sept 2017	3	5 per month	21,002	21,002
Peter Ainsworth (iv)	FCRM, EB	1 Sept 2015	3	4 per month	-	5,600
Karen Burrows (v)	ARAC, PC, RC, EB	1 Sept 2015	3	7 per month	-	12,250
Joanne Segars (vi)	ARAC, PC, PCISC, RC, FCRM	1 Mar 2017	3	5 per month	-	14,001
Total					**277,105**	**301,262**

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

ARAC – Member of Audit and Risk Assurance Committee at 31 March 2020

PPC – Member of People and Pay Committee at 31 March 2020

PC – Member of Pensions Committee at 31 March 2020

PCISC – Member of Pensions Investment Sub Committee 31 March 2020

FCRM – Member of Flood and Coastal Risk Management Committee at 31 March 2020

EB – Member of Environment and Business Committee 31 March 2020

Notes:

i. Maria Adebowale-Schwarte's time commitment increased from 4 days to 5 days per month effective from 1 July 2019 when she assumed the role of Environment and Business Committee Chair. Remuneration has been prorated to reflect the in year change.
ii. John Lelliott's time commitment increased from 4 days to 5 days per month effective from 1 November 2019 when he joined the Pension's Committee. Remuneration has been prorated to reflect the in year change.
iii. John Varley's term was extended for 12 months effective from 1 October 2019.
iv. Peter Ainsworth's term ended in August 2018. His full year equivalent pay was £16,802.
v. Karen Burrow's term ended in August 2018. Her full year equivalent pay was £29,400.
vi. Joanne Segars resigned from the Board on 9 November 2018.

Executive Directors' emoluments (audited)

Table 3: Total emoluments and benefits in kind of Executive Directors in the last 2 financial years

Executive Director	Emoluments (£000 banded range)		Performance related pay (£000 banded range)		Benefits in kind (to nearest £100)		Pension benefits (to the nearest £)		Total (£000 banded range)	
	2019-20	**2018-19**	**2019-20**	**2018-19**	**2019-20**	**2018-19**	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Sir James Bevan (i)	185-190	185-190	-	15-20	-	-	10,199	7,241	195-200	210-215
Dr Toby Willison (ii)	150-155	155-160	15-20	-	-	1,700	19,002	32,791	185-190	185-190
Harvey Bradshaw (iii)	140-145	140-145	-	15-20	-	-	20,781	130,895	160-165	285-290
John Curtin	140-145	140-145	-	-	-	-	34,428	40,915	175-180	180-185

Emoluments which reflects gross salaries, and performance related pay are the amounts paid in the financial year. Details of which are included in the notes below.

i. Sir James Bevan became Chief Executive on 30 November 2015. Sir James Bevan is an employee of the Foreign and Commonwealth Office (FCO) who is seconded to the Environment Agency. The amounts shown above are the amounts reimbursed to the FCO, exclusive of VAT which is recoverable by the Environment Agency. In 2018-19, he was awarded Performance Related Pay for 2017-18 which was paid in October 2018. The pension benefits disclosed above represent the contributions the Environment Agency reimburses to the FCO in respect of Sir James Bevan's pension costs in the Principal Civil Service Pension Scheme. All other Executive Directors were members of the Environment Agency Pension Fund.
ii. In 2019-20 Toby Willison was awarded Performance Related Pay (PRP) for 2018-19 which was paid in January 2020.
iii. In 2018-19 Harvey Bradshaw was awarded Performance Related Pay (PRP) for 2017-18 which was paid in October 2018.

Table 4: Pension benefits of Executive Directors during the last 2 financial years (audited)

Executive Director	Accrued pension at 31 March 2020 (£5,000 range)	Increase in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2020 (£5,000 range)	Increase (decrease) in lump sum during year (£2,500 range)	CETV at 31 March 2019 (£000s)	CETV at 31 March 2020 (£000s)	Real increase in CETV (£000s)
Sir James Bevan (i)	85-90	0-2.5	255-260	2.5-5	2,002	2,064	11
Dr Toby Willison	65-70	0-2.5	110-115	(0-2.5)	1,233	1,284	9
Mr Harvey Bradshaw	70-75	0-2.5	130-135	(0-2.5)	1,407	1,462	13
Mr John Curtin	55-60	0-2.5	85-90	0-2.5	918	972	22

The Environment Agency remunerates its employees in line with standard public sector pay and pension policies. The accrued pension at 31 March 2020 represents the annual pension that individuals would be entitled to at their normal retirement date in the event they left employment with the Environment Agency on 31 March 2020. Changes in the lump sum calculation can fluctuate depending on changes in the final salary figures at the start and end of the period, which can sometimes result in a reduction in value.

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

(i) Sir James Bevan is on secondment from the FCO since 30 November 2015 and therefore is a member of the Principal Civil Service Pension Scheme.

Staff report

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

Table 5: Average number of full time equivalent staff employed during the year (audited)

	2019-20			2018-19		
	Permanent	**Temporary**	**Total**	**Permanent**	**Temporary**	**Total**
Directly employed	9,807	340	**10,147**	9,372	321	**9,693**
Contractors	-	518	**518**	-	536	**536**
Total	**9,807**	**858**	**10,665**	**9,372**	**857**	**10,229**

During the Financial year 2019-20 the Environment Agency workforce has increased. These increases were planned and are attributed to a number of factors:

- the completion of a national Environment Officer Recruitment Campaign
- as a result of an increase in our charge income due to the Spending Review of Charges funding project
- Increased resource required to deliver our Flood Risk Capital Programme

The number of staff employed on capital projects was 1,216 (1,134 in 2018-19).

As at 31 March 2020 the Environment Agency had 11 staff loaned out to other departments to support EU Exit. Table 6 provides a breakdown by grade. The average length of these temporary assignments was 24 months. There were no redeployments in respect of COVID-19.

Table 6: Staff on loan to support EU Exit at 31 March 2020

	Headcount
DD1	1
SG7	4
SG6	2
SG5	2
SG4	1
SG3	1
Total	**11**

In March 2020, the Environment Agency employed 91 executive managers (equivalent to senior civil servant grades). The breakdown of these by level is shown in table 7.

Table 7: Executive manager breakdown on 31 March 2020

	Headcount
Chief Executive	1
Executive Directors	3
Directors	18
Deputy directors	69
Total	**91**

All of the above are Environment Agency employees with the exception of the Chief Executive who is on a secondment from the Foreign and Commonwealth Office. Four are on secondment to other organisations, mainly Defra. We follow the Defra group Equality, Diversity and Inclusion (EDI) Strategy 2017-2020. Following consultation with our employees the Board approved five equality objectives for 2017-2020 as our response to the Equality Act's Public Sector Equality Duty.

Gender

We monitor the gender split of our workforce and have included the current numbers in table 8. This year we have again seen an improvement in the balance of men and women at each grade below executive manager level.

Table 8: Gender split on 31 March 2020

Headcount	Male	Female
Chief Executive, Executive Directors, Directors and Deputy Directors	52	39
All other staff	6,144	4,687
Total	**6,196**	**4,726**

The gender pay gap is the difference in the average hourly wage of all men and women across a workforce. We have a higher proportion of men than women in both higher paid and lower paid roles. Our gender pay gap as at March 2019 is 1.9%. This is significantly lower than the overall UK gender pay gap average of 18%.

Disability

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

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

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

Sickness absence data

We monitor staff sickness absences and have policies in place to minimise them. An average of 5.9 days per full time equivalent employee was lost to sickness absence in 2019-20 (6.2 days in 2018-19).

Employment of consultants and contractors

The nature of our work means we require the expertise of temporary workers as well as those we employ permanently. Table 9 shows how much we have spent on temporary workers and consultants over the past 2 years (Table 5 shows the numbers employed under the category "contractors").

Table 9: Expenditure on temporary workforce

	2019-20	2018-19
	£ million	£ million
Consultancy	14.0	15.1
Temporary workers and contractors	7.0	7.5
Total	**21.0**	**22.6**

Tax arrangements of public sector appointees

We provide information about appointments of consultants or staff that last longer than 6 months and where the individuals earn more than £245 per day, where we pay by invoice rather than through the payroll. We only use these arrangements where we cannot avoid them and minimise their use. We include contractual clauses in the appointment documents to enable us to receive assurance that the individual or their employer is managing their tax and national insurance affairs appropriately.

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

Table 10: Off-payroll appointments at 31 March 2020, for more than £245 per day and that last longer than 6 months

Number of existing engagements as of 31 March that have existed for:	Number
Less than one year	-
Between one and two years	2
Between two and three years	-
Between three and four years	-
Four years or more	1
Total	**3**

During this financial year, we made no new off-payroll appointments lasting more than six months.

There were fourteen Board members or senior officials with significant financial responsibility over the organisation during the financial year 2019-20. We did not pay any of them via off-payroll arrangements, other than the Chief Executive Officer, who is paid through the civil service payroll within the FCO, as described in the Remuneration report.

Reporting of compensation schemes (audited)

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

During the financial year 2019-20 it was not necessary to make any payments to employees under this scheme.

Redundancy and other departure costs are paid in accordance with our compulsory redundancy and voluntary early release schemes. Both schemes are based on the statutory redundancy scheme and take account of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006. Exit costs are accounted for in full when official notice has been served. A summary of exit costs over the past two financial years is shown below and in table 11.

Exit packages for the financial year 2019-20 (audited)

There were no payments made relating to Exit packages during the financial year 2019-20.

Table 11: Exit packages for the financial year 2018-19 for comparison (audited)

Category	Compulsory redundancy	Other departures*	Total	Compulsory redundancy	Other departures	Total
	Number	Number	Number	£ million	£ million	£ million
Under £10,000	-	1	1	-	0.0	0.0
£10,000 - £25,000	-	2	2	-	0.0	0.0
£25,001 - £50,000	-	1	1	-	0.0	0.0
£50,001 - £100,000	-	3	3	-	0.3	0.3
Total	**-**	**7**	**7**	**-**	**0.3**	**0.3**

* Other departure costs include those on voluntary early release schemes and early, flexible and ill health retirements.

Where we have agreed to a colleague taking early retirement, any additional costs have been paid by us rather than the Environment Agency Pension Fund. Ill-health retirement costs are covered by the pension scheme and are not included in the table. Redundancy and other departure costs for Executive Directors are also included in the Remuneration and staff report.

Pay multiples (audited)

In line with the Hutton Review of Fair Pay, the Environment Agency and similar 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.

The banded remuneration of the highest paid executive director, as disclosed in the Remuneration and staff report, for the financial year 2019-20 was £185,000 -190,000 (financial year 2018-19, £205,000 - 210,000). This was 5.2 times (financial year 2018-19, 5.9 times) the median remuneration of the workforce, which was £36,071 (financial year 2018-19, £34,742). The reduction in the multiple can be explained by the lower remuneration of the highest paid executive director 2019-20 due to no performance related pay being paid, as shown in Table 3.

The range of banded remuneration for employees was £15,000 to £20,000 up to £185,000 to £190,000 (financial year 2018-19, £10,000 to £15,000 up to £205,000 to £210,000). Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Relevant union officials (not subject to audit)

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

The number of employees who were relevant union officials during 2019-20 was 225 (2018-19, 187) with full-time equivalent employee numbers of 210 (2018-19, 177).

Table 12: Percentage of pay bill spent on facility time

Measures	Cost (£millions)	
	2019-20	2018-19
Total facility time by union officials	0.6	0.3
Total all staff	365.7	337
Percentage on facility time	0.2%	0.1%

Table 13: Percentage of staff time spent on facility time

Measures	Time (in hours)	
	2019-20	2018-19
Total facility time by union officials	9,674	11,923
Total working hours by union officials	404,502	341,895
Percentage on facility time	2.4%	3.5%

Table 14 - Percentage of individual staff time spent on trade union activities

Percentage of time	Employee Headcount	
	2019-20	2018-19
0%-1%	135	121
1%-50%	90	66
Total	225	187

Parliamentary accountability and audit report

Main activities of the Environment Agency Business Units

Environment and Business charges

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

Water, land and biodiversity:

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

Regulation of industry:

- EPR installations - permitting to control and minimise pollution from industrial activities.
- EPR waste - permitting for waste management and exemptions.
- Hazardous waste - licensing for producing, transporting or receiving hazardous waste.
- Emissions trading, Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and Climate Change Agreements Scheme - regulation of businesses under schemes including the EU Emissions Trading System and Climate Change Agreement Scheme. The CRC Energy Efficiency scheme closed on 31 March 2019 but compliance audits continued in 2019-20.
- Nuclear regulation - regulation of nuclear sites (radioactive substances 1 and 2), non-nuclear sites (radioactive substances 3 and 4) and nuclear new build sites.
- Other environmental protection charges - licensing for registration of waste carriers and brokers, trans-frontier shipments, producer responsibility licensing, end-of-life vehicles, polychlorinated biphenyls and regulation of businesses under such schemes as control of major accident hazards (COMAH).
- Navigation licences - charging individuals for boat licences.

Environment and Business grant-in-aid

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

- strategic direction for delivery and support to Defra
- setting our direction on environmental protection to help create a better place for people and wildlife
- provision of technical leadership
- advice to government and other organisations in England that are involved in environmental protection
- monitoring, including water quality
- strategic environment planning, including river basin and catchment restoration plans
- investigations and improvement under the Water Framework Directive
- enforcement and environmental crime work including waste crime
- incident management
- navigation and fisheries work not covered by charges
- work with local partners, communities and government
- town and country planning advice

- administration of energy efficiency/carbon reduction schemes, including the Energy Savings Opportunities Scheme (ESOS)

Flood and Coastal Risk Management

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

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

Analysis of fees and charges

Table 15 relates to income from fees and charges for the Environment and Business operating unit and is reported in line with the accounting policy for deferred and accrued income within note 1.3 of the financial statements. Income billed differs from income reported in note 6 to the financial statements due to the accounting policy on accrued and deferred income disclosed in note 1.12. The cumulative surpluses and deficits are reported in notes 10 and 12 of the financial statements.

Expenditure funded by grant-in-aid has been excluded from the table below, except for fisheries and navigation where the deficit after charges is funded by grant-in-aid. The table does not include the effect of IAS 19 pension adjustments as these are not passed on to charge payers. The financial objective for the above Environment and Business charging schemes is full cost recovery taking one year with another, based on all costs including current cost depreciation and a rate of return on relevant assets.

Table 15: fees and charges income (audited)

Type of charge	Expenditure (£ million)	Income billed (£ million)	Deficit or (surplus) (£ million)
Abstraction charges	123.5	(123.5)	-
Navigation licences	10.6	(10.1)	0.5
Fishing licences	21.4	(21.0)	0.4
EPR Water Quality	72.8	(72.8)	-
EPR Installations	34.0	(33.5)	0.5
EPR Waste	33.8	(33.3)	0.5
Hazardous waste	15.4	(15.9)	(0.5)
Emissions Trading and Carbon Reduction Commitment	6.3	(4.8)	1.5
Nuclear regulation	19.1	(19.8)	(0.7)
Other environmental protection charges	17.7	(17.7)	-
Total 2019-20	354.6	(352.4)	2.2
Total 2018-19	347.0	(343.3)	3.7

Losses and special payments (audited)

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

Table 16: Losses and special payments by category

	31 March 2020		31 March 2019	
Category / type	Number	£ millions	Number	£ millions
Write-off of sundry debts	203	3.3	240	2.0
Loss of assets	59	0.0*	120	0.1
Special Payments	9	0.2	3	2.0
Other (cash losses, fruitless payments, unenforceable claims, special payments and gifts)	117	0.2	159	0.5
Total	**388**	**3.7**	**522**	**4.6**

* 2019-20 loss of assets figure is £0.03m

Losses are estimated at fair value and include costs incurred in previous years. We pursue all debts and refer unpaid invoices to a debt collection agency after a certain period. Some debts become irrecoverable and need to be written off such as those due from businesses and individuals which have become insolvent.

Losses and special payments individually over £300,000

There was one loss and there were no special payments in excess of £300,000. (In 2018-19 there were no losses and one special payment disclosed). The loss relates to a debt that arose from clearing combustible waste under our powers to remove the risk of serious harm at a cost of £475k. We seek to recover these costs from those responsible in these cases and will continue to do so in this case. However, due to uncertainties over the ability of those involved to pay, due to insolvency and levels of debt, it is prudent to write off the amount.

Contingent Liabilities (audited)

There is one case currently in a judicial process relating to compensating events on flood alleviation contracts where payment to settle the dispute is probable but there still uncertainty over the outcome of the judicial process and a high degree of uncertainty over the amount that may be paid. There is also a case where waste has been illegally shipped from the United Kingdom and the Environment Agency as Competent Authority is responsible for its repatriation. The initial estimate of cost is in the region of £750k. There is uncertainty over whether payment is necessary as we have not been able to travel to the country in question and intend for the notifier to return the waste at their own cost. There is also a case in contract dispute resolution where the Environment Agency agrees it has some responsibility but the payments between the parties are not yet agreed. These three contingent liabilities are expected to be resolved during 2020-21. There are no other contingent liabilities (remote or otherwise) that require disclosure in the Annual Report and Accounts.

JD. Bevan

Sir James Bevan, Chief Executive **10 December 2020**

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

Qualified opinion on financial statements

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion, except for the effects of the matters described in the basis for qualified opinion on the financial statements paragraph:

- the financial statements give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2020 and of the net expenditure after interest 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.

Basis for qualified opinion on the financial statements

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

The Environment Agency have not correctly applied the Depreciated Replacement Cost method for valuing its Operational Assets as required by its financial reporting framework. Note 7 of the accounts, Property, Plant and Equipment, shows Operational Assets of £2.72 billion at 31 March 2020 and of £2.73 billion at 31 March 2019. I am unable to obtain sufficient appropriate evidence that the value of Property, Plant and Equipment in the Statement of Financial Position at 31 March 2020 and 31 March 2019 is free from material misstatement. I am unable to quantify the impact on the financial statements because the Environment Agency has not obtained a professional Depreciated Replacement Cost valuation as is required for an accurate valuation under the financial reporting framework. However based on the evidence obtained I consider the impact could be material.

My report includes further details of the matters leading to my qualified opinion on this matter.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Environment Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Environment Agency's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Environment Agency have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Environment Agency's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Environment Agency's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of the Environment Agency's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Environment Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Environment Agency to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

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

- in the light of the knowledge and understanding of the Environment Agency and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; 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

In respect solely of the absence of accounting records held by the Environment Agency to support the proper application of depreciated replacement cost valuation method for operational assets held, as described above:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; and
- I have not received all of the information and explanations I require for my audit.

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

- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Gareth Davies **11 December 2020**

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

EA uses operational assets to manage water resources, waterways and flood and coastal erosion risks. These assets typically include barriers, pumping stations and water monitoring assets, such as telemetry stations and boreholes. Note 7 to the financial statements states that the net book value of EA's property, plant and equipment is £3.15 billion (2018-19: £3.09 billion) which includes operational assets of £2.72 billion (2018-19: £2.73 billion). I have qualified my opinion on EA's 2019-20 annual report and accounts due to the valuation basis used for its operational assets. This report sets out my reasons for the qualification.

Operational Assets Valuation Methodology

Under the HM Treasury Financial Reporting Manual (FReM), entities are required to value their specialised assets at current value in existing use to give a true and fair position of the assets at the reporting date. As described above, EA's operational assets are specialist in nature and as a result there is no active external market to value these assets. In these circumstances, the only suitable professional valuation methodology is Depreciated Replacement Cost (DRC) which requires assets to be valued based on building a modern equivalent asset.

DRC valuation methods require periodic professional valuations with the use of appropriate indices in intervening years. In their accounting policies, EA states that it uses modified historic cost accounting (MHCA) as it considers MHCA a reasonable proxy for Depreciated Replacement Cost (DRC). MHCA involves valuing these assets on a historic cost basis revalued annually using indices.

As part of the periodic review of the valuation process, my audit identified that MHCA is not a materially accurate proxy for the DRC valuation required by the financial reporting framework. Therefore, I have not been able to obtain sufficient evidence to conclude that the valuations of operational assets in the 2019-20 financial statements and the corresponding comparative figures are free from material misstatement.

Conclusion

In my opinion, EA has not valued its assets in accordance with the HM Treasury's financial reporting requirements as set out in the FReM and this has led me to issue a qualified opinion. My work has not identified issues with the operational management or general condition of EA's flood defence assets.

Going forward, EA has agreed to undertake a DRC valuation of their operational assets. I will continue to monitor EA's progress in this area and will assess the impact of this work on my audit certificate and report in subsequent years.

Gareth Davies **11 December 2020**

Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London

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Financial statements

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2020		2019-20	2018-19
	Note	£ million	£ million
Expenditure			
Staff costs	3	506.4	491.4
Capital works expensed in year	4	333.3	328.3
Depreciation and amortisation	7,8	108.9	109.3
Other expenditure	5	482.5	465.9
		1,431.1	**1,394.9**
Income			
Revenue from contracts with customers	6	(407.2)	(394.2)
Other operating income	6	(27.0)	(25.6)
Capital grants and contributions	6	(18.5)	(22.4)
		(452.7)	**(442.2)**
Net expenditure	2	**978.4**	**952.7**
(Gain)/Loss on sale of assets		14.2	(1.5)
Interest receivable		(0.4)	(0.3)
Financing on pension scheme assets and liabilities	15.3	16.9	11.7
Net expenditure after interest		**1,009.1**	**962.6**
Other comprehensive expenditure			
Revaluation of property, plant and equipment	7,9	(54.7)	(55.3)
Revaluation of intangible assets	8,9	(11.1)	(0.5)
Actuarial loss/ (gain) on pension scheme assets and obligations	15.3	(618.2)	151.6
Total Comprehensive Net Expenditure for the period		**325.1**	**1,058.4**

All of the Environment Agency's income and expenditure for the year was derived from continuing activities.

The notes on pages 77 to 111 form part of these accounts.

Statement of Financial Position

As at 31 March 2020		31 March 2020		31 March 2019	
	Note	£ million	£ million	£ million	£ million
Non-current assets					
Property, plant and equipment	7	3,152.8		3,090.1	
Intangible assets	8	130.5		120.5	
Total non-current assets			**3,283.3**		**3,210.6**
Current assets					
Assets classified as held for resale		12.0		17.9	
Trade, contract and other receivables	10	85.8		95.7	
Cash and cash equivalents	11	131.4		108.5	
Total current assets			**229.2**		**222.1**
Total assets			**3,512.5**		**3,432.7**
Current liabilities					
Trade, other payables and contract liabilities	12	(411.9)		(365.1)	
Total current liabilities			**(411.9)**		**(365.1)**
Total assets less current liabilities			**3,100.6**		**3,067.6**
Non-current liabilities					
Provisions		(5.3)		(4.9)	
Reservoir operating agreements	16.1	(141.6)		(141.6)	
Pension liabilities	15.3	(133.3)		(655.4)	
Trade, contract, other payables and liabilities	12	(1.0)		(1.2)	
Total non-current liabilities			**(281.2)**		**(803.1)**
Assets less liabilities			**2,819.4**		**2,264.5**
Taxpayers' equity					
Revaluation reserve		1,896.3		1,908.9	
Pensions reserve		(133.3)		(655.4)	
General Reserve		1,056.4		1,011.0	
Total Taxpayers' equity			**2,819.4**		**2,264.5**

The notes on pages 77 to 111 form part of these accounts. The financial statements on pages 73 to 76 were approved by the Board on 10 December 2020 and signed on its behalf by:

J.D. Bevan

Sir James Bevan, Accounting Officer **10 December 2020**

Statement of cash flows

For the year ended 31 March 2020		2019-20		2018-19	
	Note	£ million	£million	£ million	£ million
Cash flows from operating activities					
Net expenditure after interest		(1,009.1)		(962.6)	
Depreciation and amortisation	7,8	108.9		109.3	
Impairment of non-current assets	9	17.9		6.7	
Amortisation of grants received		0.0		(0.2)	
(Gain)/Loss on sale of assets		14.2		(1.5)	
Movement in trade, contract and other receivables	10	9.9		(12.5)	
Movement in trade, other payables and contract liabilities	12	46.6		29.7	
Movement in capital payables		0.6		4.1	
Movement in provisions		0.4		(0.4)	
Pension reserve transfer	13.1	96.1		103.5	
Net cash flow from operating activities			**(714.5)**		**(723.9)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(130.2)		(111.5)	
Purchase of intangible assets	8	(21.7)		(19.1)	
Movement in capital payables	12	(0.6)		(4.1)	
Proceeds of disposal of property, plant and equipment		9.9		3.0	
Net cash from investing activities			**(142.6)**		**(131.7)**
Cash flows from financing activities					
Grant from sponsoring body	17	880.0		850.0	
Net cash from financing activities			**880.0**		**850.0**
Net movement in cash and cash equivalents in the period	11		**22.9**		**(5.6)**
Cash and cash equivalents at the beginning of the period	11		108.5		114.1
Cash and cash equivalents at the end of the period	11		**131.4**		**108.5**

The notes on pages 77 to 111 form part of these accounts

Statement of Changes in Taxpayer's Equity

For the period ended 31 March 2020		Revaluation reserve	General reserve	Pension reserve	Total reserves
	Note	£ million	£ million	£ million	£ million
Changes in taxpayers' equity					
Balance at 1 April 2018		**1,901.5**	**971.7**	**(400.3)**	**2,472.9**
Net gain on revaluation of property, plant and equipment	7,9	55.3	-	-	**55.3**
Net gain on revaluation of intangible assets	8,9	0.5	-	-	**0.5**
Actuarial gain on pension scheme assets and obligations	15.3	-	-	(151.6)	**(151.6)**
Release of Reserves		-	-	-	-
Non Cash Recharges		-	-	-	-
Transfers between reserves	13.2	(48.4)	151.9	(103.5)	-
Retained deficit		-	(962.6)	-	(962.6)
Grant from Defra	17		850.0	-	850.0
Balance at 1 April 2019		**1,908.9**	**1,011.0**	**(655.4)**	**2,264.5**
Net gain on revaluation of property, plant and equipment	7,9	54.7	-	-	54.7
Net gain on revaluation of intangible assets	8,9	11.1	-	-	11.1
Non cash Recharges and transfers		-	-	-	-
Actuarial gain on pension scheme assets and obligations	15.3	-	-	618.2	618.2
Transfers between reserves	13.1	(78.4)	174.5	(96.1)	-
Retained deficit		-	(1,009.1)	-	(1,009.1)
Grant from Defra	17	-	880.0	-	**880.0**
Balance at 31 March 2020		**1,896.3**	**1,056.4**	**(133.3)**	**2,819.4**

The notes on pages 77 to 111 form part of these accounts

Revaluation reserve - reflects the cumulative balance of revaluation and indexation of non-current assets.

General reserve - reflects the cumulative position of net expenditure and funding from sponsor bodies of the Environment Agency, together with the historical cost of the non-current assets transferred on the creation of the Environment Agency.

Pension reserve - reflects the cumulative position of the net assets or liabilities of the pension scheme.

Notes to the financial statements

1.1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2019-20 government financial reporting manual (FReM) issued by HM Treasury and are in accordance with the accounts direction issued by the Secretary of State for Environment, Food and Rural Affairs and HM Treasury under Section 45 of the Environment Act 1995.

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

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

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

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

Significant judgements

The following areas represent significant judgments that the Environment Agency has made in applying the accounting policies:

- Pension liabilities (reported in note 15). Independent and qualified actuaries assess the specific factors that influence the pension fund position, such as life expectancy and age of scheme members, prevailing interest and inflation rates, and projected returns on invested funds.
- The use of a modified historic cost as a proxy for depreciated replacement cost, which is our policy for the valuation of operational assets.
- The selection of appropriate indices to assist with the valuation of property, plant and equipment (reported in notes 1.8 and 7).
- The useful economic lives of assets that form the basis of periods over which property, plant and equipment is depreciated (reported in notes 1.8 and 7) and intangible assets are amortised (reported in notes 1.9 and 8).
- The impairment of property, plant and equipment, and intangible assets (reported in notes 5 and 9) and the categorisation of expenditure as capital works expensed in year, and tangible or intangible assets (reported in notes 4, 7 and 8).
- Revenue recognition regarding satisfaction of performance obligations on fees and charges per IFRS15 (see Note 1.3). Within receivables and payables there are accrued and deferred income balances for fees and charges where there is a surplus or deficit. Charging schemes are required to break even over a reasonable period of time and judgment is required in assessing the factors behind whether the surplus or deficit will result in a break even position over this reasonable period (reported in notes 1.12,10 and 12).
- The classification of expenditure between property plant and equipment and capital works expensed in year (reported in notes 1.7 and 4)

- The calculation of expected bad debts by income stream per IFRS 9 business model assessment and calculation of Expected Credit Losses (see Note 16).

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

1.2. Accounting convention

These accounts have been prepared on an accruals basis, under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets. The accruals basis of accounting means reporting income and expenditure when it is incurred rather than when it is received or paid. These financial statements are based on the going concern principle.

1.3. Income

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Income from Government Grants (accounted for under IAS 20: Accounting for Government Grants) and operating lease rental income are recorded as other operating income.

The Environment Agency recognises revenue from its fees and charges in accordance with the five stages set out in IFRS 15 Revenue from contracts with customers. Revenue is recognised when (or as) the Environment Agency satisfies a performance obligation.

Charges income falls into two main categories: an application for a licence or permit for which revenue is recognised at the time of the application, and the subsistence charge associated with licences and permits, which give the customer legal entitlement to carry out their operation for a period of time under the Environment Agency's regulation. Such subsistence income is recognised when billed at the point the new permit period commences. The performance obligations are therefore the processing of the application and the transfer of entitlement to operation. For applications, payment is required at the time of application. For subsistence, payment is due from the invoice date. Performance obligations are completed with the invoice or payment. Our approach to contract balances follows Managing Public Money and is described in note 1.12. For retail transactions and sale of goods, the customer simultaneously receives and consumes the benefits provided, and the revenue is recognised at a point in time.

IFRS 15 requires disclosure on determining the transaction price. For charges income this is defined by the statutory charges that the Environment Agency is able to charge under each charging scheme.

Income reported in the accounts represents revenue received and receivable during the accounting period for the permitted functions of the Environment Agency.

The income from charges for regulating businesses to monitor and control their impact on the environment is derived from a combination of applications for licences and ongoing fees and charges. Income also arises from issuing licences for activities such as fishing or navigation on designated rivers. Income is reported before an estimate is made of expected future losses in the form of bad debts by income stream, as required by IFRS 9.

1.4. Grant-in-aid

The Environment Agency receives grants that are classified as either 'revenue' (to fund operating expenditure) or 'capital' (to fund expenditure on items providing longer term benefit). These grants are treated as financing received from its controlling party, which is Defra. The receipts are recorded as a financing transaction and are credited directly to the general reserve in the statement of financial position and not through the statement of comprehensive net expenditure.

1.5. Grants and contributions received

The Environment Agency treats other grants that relate to specific capital expenditure, and that have conditions attached to the asset, as deferred grants and contributions. These are credited to the statement of comprehensive net expenditure over the period where the condition relating to the asset remains effective, but no longer than the asset's useful economic life. The specific conditions are:

- If the grant is provided on condition of construction of an asset, the grant is only repayable if the asset is not constructed; therefore the income is recognised over the period of construction of the asset.
- If the grant is provided on condition of construction of the asset and also imposes a requirement on the condition of the asset over its useful life, the income is recognised over the useful economic life of the asset. The method of apportioning the amortisation each year depends on the contract terms associated with each grant receipt.

Where there are no grant conditions imposed on the asset, the grant is recognised as income within the statement of comprehensive net expenditure at the date of receipt.

1.6. Grant expenditure

The Environment Agency has responsibility for administering and issuing grants to local councils, internal drainage boards (IDBs) and other risk management authorities for flood and coastal erosion risk management capital schemes.

The Environment Agency also has responsibility for administering grants to risk management authorities which support waste and landfill initiatives and improvements to the water environment, flood resilience, flood management and surface water mapping. The Environment Agency receives the funding from Defra as grant-in-aid and then allocates it to appropriate projects during the year. The grants are recognised in the financial statements when the agency has a present obligation to the grantee as a result of it meeting the entitlement conditions set out in the grant agreement, and it can form a reliable estimate of the expenditure.

1.7. Capital works expensed in year

Where the Environment Agency undertakes works which are capital in nature but will not receive future economic benefits, cannot reliably estimate the useful life of the asset or is restoring an asset to target condition the expenditure is reported as capital works expensed in year. This includes::

- Flood and coastal risk management assets built on land which the Environment Agency does not own but where it has permissive powers to maintain the defence.
- Assets where it is not possible to check for impairment, for example beach replenishment, so it is more prudent to write off the asset in year.

1.8. Property, plant and equipment

The Environment Agency capitalises all land regardless of value. Other categories of property, plant and equipment are capitalised if the asset has a cost of £5,000 or more.

Where the Environment Agency incurs subsequent expenditure on previously commissioned property, plant and equipment, the spend is capitalised if it meets the criteria for capitalisation. It must be probable that the Environment Agency will receive continuing economic benefit from the asset and that the cost of the expenditure can be reliably measured.

Freehold land, buildings and dwellings are reported at a ‘fair value’ which is assessed on an open market value for existing use, rather than simply market value. These assets are subject to independent professional revaluation in accordance with the Royal Institute of Chartered Surveyors valuation standards every 5 years. In the intervening years, the assets are revalued annually using suitable indices.

The vast majority of the Environment Agency’s property, plant and equipment value comprises of operational assets, as set out in Note 7.

Operational assets are used to deliver environmental outcomes. These assets are often relatively unique in nature, and function. Typically these assets include flood risk management works, such as barriers, pumping stations and flood risk management landholdings, and water resource assets, such as locks, weirs, sluices, gauging stations, pipelines and tunnels.

The FReM requires these assets to be accounted for in the statement of financial position at their Depreciated Replacement Cost. Due to the enormous logistical and technical challenge as well as substantial expenditure that would be required to obtain replacement cost professional valuations for over 8,000 operational assets, the Agency uses a Modified Historic Cost method as a proxy for Depreciated Replacement Cost. This means that an appropriate annual cost inflation index is used to revalue the gross book value of these assets each year. Section 14 of the governance statement covers action that will be taken to refine the valuation methodology for operational assets. This is in response to a qualified audit opinion, specifically limited to this technical accounting policy

Other plant and machinery, fixtures and fittings, vehicles and IT hardware are valued at cost with a suitable index applied in subsequent years.

On an annual basis the book value of non-current assets is assessed against fair value.

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

Depreciation is calculated to write off the value of plant, property and equipment on a straight line basis over the expected useful economic life of the asset concerned. Depreciation is not charged in the month of disposal or in the month of purchase, or on assets under construction.

Freehold land is not depreciated, unless it forms an essential element of an operational asset and it significantly changes its nature. There are only a small number of land assets that fall into this category and they mainly relate to habitats work. These assets are being depreciated to net realisable value over the life of the operational asset including the land that is being used, as the land is not able to be separated from the rest of the asset.

Useful economic lives applied for depreciation charge on asset creation

Asset type	Useful economic life (years)
Operational assets	15-100
Dwellings	10-60
Freehold buildings	10-60
Plant and machinery	3-25
Vehicles	3-25
Furniture and fittings	3-15
IT equipment	3-15

The range in the economic lives reflects the wide range of assets within each asset type, where individual assets remain in use after this expected life the asset will be extended accordingly on an individual basis.

Where the components of an asset are material in value to the fair value of the asset, the components are capitalised and depreciated separately. Components which are no longer used are written off.

1.9. Intangible assets

Intangible assets with a value exceeding £5,000 are initially recorded at cost and are then revised annually through the use of suitable indices to fair value, reflecting depreciated replacement cost. Amortisation is calculated so as to write off the value of intangible assets on a straight line basis over the expected useful economic lives of the assets concerned.

Useful economic lives applied for amortisation charge on asset creation

Asset type	Useful economic life (years)
Software licences and models	3 - 25
Websites and other internally generated IT	3 - 10

1.10. Assets held for sale

Non-current assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Depreciation ceases immediately on the classification of the assets as being held for sale. Assets are stated at the lower of their carrying amount and fair value, less costs to sell. They are recorded in the current assets section of the statement of financial position.

Non-current assets are only deemed to be assets held for sale if management is committed to a plan to sell and if the asset is being actively marketed at a price which is reasonable in relation to its current condition. Assets that have been sold post year end and before approval of the Financial Statements are revalued to fair value where amounts are significant.

1.11. Impairment

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount, as a result of either a fall in value owing to market conditions or a loss in environmental (including flood defence) benefit.

In line with an adaptation in the FReM, any loss of economic benefit is recognised in full against expenditure. However, in order to align the balance in the revaluation reserve with that which would have resulted through strict application of International Accounting Standard (IAS) 36, an amount up to the value of the impairment is transferred to the general reserve for the individual assets concerned.

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

1.12. Trade, contract and other receivables

Accumulated surpluses and deficits relating to water resources charges, flood risk management local levies and environmental protection charges are treated as deferred income or accrued income depending on whether the charging scheme is in surplus or deficit. These balances are only treated as deferred or accrued income where they have arisen as a result of unplanned circumstances in line with HM Treasury's Managing Public Money definition. This treatment overrides the standard revenue recognition criteria per note 1.3.

The deferred and accrued balances are considered when setting future years' fees and charges, to enable a cost recovery position to be achieved over a reasonable time period, which due to timing differences is not considered appropriate within a single financial year. Where balances are not considered to have arisen due to unforeseeable events, the Environment Agency has taken appropriate action. Deferred income includes the environmental improvement unit charges received from non-water company abstractors, to be used to fund compensation payments for the variation or revocation of abstraction licences. This change in licence conditions requires approval from the Secretary of State and the charges are used to reduce the environmental damage caused to watercourses through abstracting too much water. Charges are only raised where compensation has been assessed as likely to be paid in the future.

1.13. Leases

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. An operating lease is a lease other than a finance lease.

The determination of whether an arrangement is, or contains, a lease is based on the substance of that arrangement. This assessment is based on whether the arrangement is dependent on the use of a specific asset and conveys the right to use the asset.

Operating leases and the rentals thereon are charged to the statement of comprehensive net expenditure on a straight line basis over the term of the lease.

1.14. Cash and cash equivalents

Cash and cash equivalents include cash held in the bank with the Government Banking Service and other approved commercial bank accounts.

1.15. Provisions

The Environment Agency provides for obligations arising from past events where there is a present obligation at the date of the statement of financial position, if it is probable that it will be required to settle the obligation and a reliable estimate can be made.

1.16. Financial instruments

These comprise Financial Assets and Financial Liabilities.

Financial Assets

Loans, receivables and assets available for sale are classified as financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Fair value is usually the original invoiced amount.

Following the transition to IFRS 9, the financial assets are categorised as “Fair Value through statement of comprehensive net expenditure”.

Financial Liabilities

Financial liabilities are any contractual obligations to deliver cash or financial assets to a third party. The Environment Agency only has financial liabilities which are recognised initially at fair value and are subsequently held at amortised cost using the effective interest method. Financial liabilities are derecognised when the obligation has expired.

The Environment Agency holds certain financial instrument liabilities as a result of operating agreements with a number of water companies entered into at their privatisation. These liabilities are treated as perpetuities and recorded in the statement of financial position at amortised cost. The annual payments arising from these liabilities increase annually in line with the Retail Price Index (RPI).

The Environment Agency is exposed to the risk of changes in the rate of inflation. The RPI has fluctuated significantly over the life of these financial liabilities. This is a macro-economic risk that the Environment Agency cannot manage in any way. However the Environment Agency is able to recover the full cost of reservoir operating agreements through its charges on water abstraction.

1.17. Value added tax

By Treasury Order, the Environment Agency is classified as a body to which section 33 of the Value Added Tax Act 1994 applies. Accordingly the Environment Agency recovers tax paid on both business and non-business activities, although the recovery of VAT on exempt supplies is dependent on the threshold for exempt activities.

In all instances, where output tax is charged, or input tax is recoverable, the amounts included in these accounts are stated net of VAT.

1.18. Employee benefits

Pensions

The Environment Agency makes regular contributions to the Environment Agency’s Pension Fund (known as the active fund) to fund current and future pension liabilities. Contributions are charged to the statement of comprehensive net expenditure taking account of the expected pension costs over the service lives of the employees and are set at a level sufficient to ensure the scheme is fully funded following formal actuarial valuations of the fund. The last triennial valuation of the active fund was at 31 March 2019. Liabilities for enhancements to employees’ pension arrangements under the Environment Agency’s voluntary severance scheme are accounted for in the year in which applications for severance are approved.

Other employee benefits

The Environment Agency recognises a liability and expense for all other employee benefits, including unused annual leave, accrued at the statement of financial position date, provided these amounts are material in the context of overall staff costs.

Termination benefits are recognised as a liability when the Environment Agency has a binding commitment to terminate the employment of an employee or group of employees before the normal retirement date, or as a result of an offer to encourage voluntary redundancy.

1.19. Internal drainage boards (IDBs) under common control

The Environment Agency administers the River Arun internal drainage districts (IDDs). It is a separate legal entity which has its own budgets and reporting arrangements. Their administration is discharged through an IDB. The Environment Agency Board approves the accounts of the IDB and therefore it is classed as a subsidiary of the Environment Agency for accounting purposes as they come under the common control of the Environment Agency's Board.

The River Arun internal drainage districts' annual income and expenditure is less than £0.2m and is therefore not material to the Environment Agency's accounts so their results have not been consolidated and the plan for the future of the IDD remains under review.

1.20. Adoption of new and revised IFRS or FReM interpretations

IFRS

IAS 8 requires disclosures in respect of new IFRSs, amendments and interpretations that either 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 (IASB) that are effective for future reporting periods. The Environment Agency has not adopted any new IFRS standards early.

IFRS impacts

IFRSs not yet effective	Environment Agency impact
IFRS 16 - Leases (IAS 17 replacement) EU adopted from 1 Jan 2019 Effective in UK government from 1 April 2022	The Environment Agency will adopt IFRS 16 using the cumulative restatement approach as mandated by the FReM. This standard replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It was initially planned to be adopted in UK government from 1 April 2020, however due to the need to focus urgent attention and resources on the COVID-19 pandemic, HM Treasury has agreed with the Financial Reporting Advisory Board (FRAB) to delay implementation of the standard for two years. The Environment Agency, together with Defra Group, is working with HM Treasury to see if it would be possible to adopt the standard early, from 1st April 2021. The Agency has already undertaken an initial assessment of the impact of IFRS 16, working as part of a Defra group-wide project, in readiness for the earlier implementation date. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for almost all leases. This will result in an increase in Property, Plant and Equipment and total financial debt at the commencement date. At inception the Environment Agency will assess whether a contract is, or contains, a lease. This assessment involves the exercise of judgement about whether the contract conveys the right to control the use of an identified asset for a period of time. The Environment Agency will recognise a right of use (ROU) asset and a lease liability at the commencement of the lease. The ROU is initially measured based on the present value of future lease payments. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, on a straight line basis. It will be subject to testing for impairment if there is an indicator for impairment.

	ROU assets will be included in the heading Property, Plant and Equipment and the lease liability in the heading Liabilities. Lease payments generally include fixed payments and variable payments that depend on an index (such as an inflation index). The Environment Agency has elected not to separate lease and non-lease components for leases of vehicles. Vehicle leases are recognised where substantially all of the economic benefits from use of the leased asset are judged to remain with the Agency taking account of business versus contractual eligibility and levels of personal and business usage. As mandated by the FReM, leases with terms of less than 12 months and leases with remaining terms of less than 12 months at the adoption date will not be capitalised under IFRS 16. The Environment Agency has elected not to recognise ROU assets and liabilities for leases of low value assets with a threshold of £5,000, applied to the cost of the underlying asset when new, or the current cost of buying the freehold for land leases. The Environment Agency will exempt most of its functional estate leases as being low value. These are typically small plots of agricultural land of only 1-3m^2, housing equipment such as telemetry, weather stations or boreholes. The payments for such leases will continue to be recognised in the Statement of Comprehensive Net Expenditure on a straight line basis over the lease term. For administrative properties that form part of the Defra Group shared corporate estate, the Environment Agency will recognise a ROU asset and lease liability for those properties where it is the legal leaseholder or where it holds a formal sub-lease agreement. As at 31 March 2020 the Environment Agency's leases for land, buildings and vehicles had an estimated combined present value of £50.7m. This will be an addition to ROU assets and liabilities.
IFRS 17 – Insurance Contracts	This standard will apply to all types of insurance contract and proposes a building blocks approach based on the expected present value of future cash flows to measuring insurance contract liabilities. IFRS 17 is effective for annual periods beginning on or after 1 January 2023. We do not expect a significant impact of the new standard on the Environment Agency's financial statements as we have few arrangement that are likely to be within scope. We plan to do further work where there is uncertainty if an arrangement comes within scope.

No other amendments are anticipated to have an impact on the financial statements.

FReM

Every year HM Treasury issues a new FReM, which interprets IFRS for the public sector. There are no known changes in the latest FReM which will affect the Environment Agency's financial reporting.

2. Segmental reporting

2.1. Analysis of net expenditure by segment

In accordance with IFRS 8, the Environment Agency is required to report financial and descriptive information about its operating segments. These are components about which separate financial information is available. Financial information is required to be reported on the same basis as is used internally by the Chief Operating Decision Makers (CODMs). For the Environment Agency, the CODMs are the Board and Executive Directors' team and they evaluate performance regularly using operating segments.

Definition of segments and other segmental information

The Environment Agency summarises its activities into 3 main segments which are reported to the CODMs. These are:

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

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

The Environment Agency does not rely on any single individual customer to undertake its activities.

Expenditure by operating segment

Statement of comprehensive net expenditure line	FCERM	E&B charges	E&B grant-in-aid	Total 2019-20	Total 2018-19
	£ million	£ million	£ million	£ million	£ million
Staff costs	204.8	228.3	73.3	506.4	491.4
Capital works expensed in year	320.8	1.4	11.1	333.3	328.3
Depreciation and amortisation	80.9	15.6	12.4	108.9	109.3
Other expenditure	306.7	133.1	42.7	482.5	465.9
Gross expenditure	**913.2**	**378.4**	**139.5**	**1,431.1**	**1,394.9**
Revenue from contracts with customers	(52.3)	(354.9)	-	(407.2)	(394.2)
Other income	(5.5)	(3.6)	(17.9)	(27.0)	(25.6)
Capital grants and contributions	(17.9)	-	(0.6)	(18.5)	(22.4)
Net expenditure	**837.5**	**19.9**	**121.0**	**978.4**	**952.7**

3. Staff costs

	2019-20	2018-19
	£ million	£ million
Wages and salaries	365.7	337.2
Social security costs	42.2	38.7
Normal contributions to the Active Pension Fund (defined benefit system)	58.6	51.1
	466.5	**427.0**
Other staff related costs:		
Agency staff wages and salaries	6.5	6.4
Other staff related costs	7.4	7.7
Exit package costs	-	0.3
Special contributions towards past service deficit	-	5.0
Less amounts included within the IAS 19 Pensions charge	(58.6)	(56.1)
Pensions Charge	137.5	148.2
	559.3	**538.5**
Less amounts charged to capital projects	(53.2)	(47.4)
	506.1	**491.1**
Amounts payable to Board members	0.3	0.3
Total staff costs	**506.4**	**491.4**

Note 15 provides details of the Environment Agency's pension arrangements. The Remuneration and staff report provides details of the remuneration of Board members and Executive Directors.

4. Capital works expensed in year

Type of capital works	2019-20 £ million	2018-19 £ million
Beach replenishment	17.2	10.5
Catchment flood management plans	15.6	20.2
Culverts and channel improvements	27.8	25.9
Embankments	59.5	36.3
Flood risk management strategies	13.2	45.7
Flood mapping	2.7	2.9
Piling	1.7	1.8
Restoration and refurbishment	151.7	153.4
Rock Groynes and sea walls	9.2	4.1
Capital salaries	19.1	13.6
Other	15.6	13.9
Total	**333.3**	**328.3**

The above analysis includes £2.1 million (£2.1 million in 2018-19) of costs in relation to the Public Private Partnerships (PPP) projects at Pevensey Bay and Broadlands.

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

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

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

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

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

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

Piling
This relates to the installation of piles (normally steel) along riverbanks to strengthen them and secure the adjacent land and prevent landslips into the river causing obstructions. These works are largely below ground.

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

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

Capital Salaries
Capital Salaries represent the staff costs incurred on these capital works that are expensed in year. This has been separated from ‘Other’ in the 2019-20 accounts, as the Other category had become large, and a comparator for 2018-19 has been included.

5. Other expenditure

Type of expenditure	2019-20	2018-19
	£ million	£ million
Capital grants (Note 5.4)	116.2	99.2
Hired and contracted services	61.0	66.4
Outsourced IT services	31.4	44.3
Fees and commissions	28.3	31.1
Reservoir operating agreements (note 5.3 and 16.1)	24.5	24.1
Transport and plant	18.4	16.8
Utilities	18.7	17.1
Travel and subsistence	13.1	13.2
Operating lease rentals - plant and machinery	15.8	14.8
Information technology	10.4	13.9
Defra group corporate services charge (note 5.1 and 17.2)	54.3	49.0
Buildings	13.9	15.5
Training	8.1	7.2
Operating lease rentals – other	9.0	8.3
Consumables and Materials	5.9	6.9
Grants and Contributions	11.8	7.5
Maintenance	2.6	3.4
Administration	2.5	1.5
Compensation Payments	1.2	0.8
External Auditor's remuneration: (note 5.2)	-	-
Bad debt write offs	4.3	2.5
Other	14.1	16.3
Impairment of non-current assets (note 9)	17.9	6.7
Movement in the expected credit loss (bad debt) provision (note 10)	(0.9)	(0.6)
Total	**482.5**	**465.9**

Debts are written off when considered to be irrecoverable. Expected credit losses have been calculated and provided for in accordance with IFRS 9, as described in note 16.

Compensation payments include environmental improvement unit charges compensation payments, which are made to compensate licence holders for revocation of abstraction licences due to excessive water abstraction from one location, and any claims payable to parties as a result of Environment Agency activity.

5.1. Defra Group Corporate Services

In 2017-18 the budget responsibility for corporate services was transferred to the Defra group head of function for each corporate service as part of a transformation programme intended to reduce duplication and improve effectiveness. This was formalised on 1 November 2017, in a partnership agreement between Defra and the Environment Agency defining the delivery of corporate services functions to the Environment Agency by Defra group. This included the transfer of the employment of corporate services staff from the Environment Agency to Defra. The full year cost of Defra group corporate services provided to the Environment Agency for 2019-20 was £126.5m, including £8.8m related to EU exit projects (2018-19 was £130.2m with £3m related to EU exit costs). The cost of corporate services did not reduce by more due to the demands of EU exit.

£72.2m of the expenditure for the current year was incurred directly by the Environment Agency (2018-19: £81m) but as external supplier contracts end and move to Defra group contracts, costs will in future years be classified within the Defra group corporate services charge to the Environment Agency. Defra charged the Environment Agency £54.3m (2018-19: £49.2m) for expenditure it incurred relating to the provision of corporate services to the Environment Agency in 2019-20. Further information on the transfer of corporate services to Defra is provided in note 17.

The approach to apportioning the Defra Group Corporate Service cost across the group has been refined during 2019-20. The approach seeks to find metrics driving the costs and apportion by use across the group. This has led to some rebalancing of costs across the group which explains part of the movement below. A breakdown of the cost by function, including EU exit costs, is provided below:

Defra Group Corporate Service Function	2019-20	2018-19
	£ million	£ million
Digital, Data and Technology Services	55.6	55.7
Estates	36.3	38.8
Shared Services Connected Limited (SSCL)	10.0	10.8
Finance	9.1	10.0
Human Resources	6.3	4.4
Communications	4.9	5.8
Commercial	4.3	4.7
Total	**126.5**	**130.2**

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

5.2. Auditor's remuneration

The external auditor's remuneration is the audit fee for the statutory audit of £255,000 (2018-19: £166,000). The cost of the audit is classified within the cost of finance and was included in the corporate services charge (note 5.1). No payment was made to the external auditor for non-audit work.

5.3. Reservoir operating agreements

Expenditure under reservoir operating agreements includes two components. The first and smaller component is reimbursement to water companies of their net costs of operating certain reservoirs, after deducting any income generated from hydroelectric power. The second element represents annual payments fixed at the time of the related agreements (generally in 1989 upon privatisation of water companies) as compensation for a return on reservoir assets and indexed annually by the RPI (note 16.1).

5.4. Capital Grants

The Environment Agency has responsibility for administering and issuing grants to local councils, internal drainage boards (IDBs) and other risk management authorities for flood and coastal erosion risk management capital schemes. The £116.2m expenditure can be broken down as follows:

Capital Grants	2019-20	2018-19
	£ million	£ million
Local councils	102.2	88.4
Internal Drainage Boards (IDBs)	13.7	9.4
Other risk management authorities	0.3	1.4
	116.2	**99.2**

6. Income

	FCERM	E&B Charges	E&B	Total 2019-20	Total 2018-19
	£ million	£ million	£ million	£ million	£ million
Abstraction charges	-	(121.5)	-	(121.5)	(124.2)
EPR Water Quality	-	(72.8)	-	(72.8)	(70.3)
EPR Installations	-	(34.0)	-	(34.0)	(31.9)
EPR Waste	-	(33.5)	-	(33.5)	(31.9)
Fishing licence duties	-	(21.0)	-	(21.0)	(21.9)
Hazardous waste	-	(15.4)	-	(15.4)	(15.3)
Nuclear regulation	-	(19.1)	-	(19.1)	(15.6)
Navigation licence income	-	(10.1)	-	(10.1)	(9.0)
Emissions Trading and Carbon Reduction Commitment	-	(6.3)	-	(6.3)	(6.7)
Other charges	-	(21.2)	-	(21.2)	(17.9)
Flood risk levies	(44.3)	-	-	(44.3)	(40.6)
IDB precepts	(8.0)	-	-	(8.0)	(7.9)
Environmental Improvement Unit Charge Income	-	-	-	-	(1.0)
Revenue from contracts with customers	**(52.3)**	**(354.9)**	**-**	**(407.2)**	**(394.2)**
EU grants	(0.1)	-	(0.5)	(0.6)	(0.2)
Other grants	(0.6)	(0.1)	(4.8)	(5.5)	(4.1)
Other income	(4.8)	(3.5)	(12.6)	(20.9)	(21.3)
Other operating income	**(5.5)**	**(3.6)**	**(17.9)**	**(27.0)**	**(25.6)**
Capital work expensed in year	(17.9)	-	(0.6)	(18.5)	(22.2)
Deferred grants released	-	-	-	-	(0.2)
Capital grants and contributions	**(17.9)**	**-**	**(0.6)**	**(18.5)**	**(22.4)**
Total income	**(75.7)**	**(358.5)**	**(18.5)**	**(452.7)**	**(442.2)**

Revenue from contracts with customers above includes £6.5m that had been included in the contract liability balance at the beginning of the period, comprised of £2.3m flood risk levies and £4.2m environment regulation fees and charges.

7. Property, plant and equipment

At 31 March 2020	Operational assets	Freehold land	Dwellings	Freehold buildings	Plant and machinery	Vehicles	Furniture	IT	Assets under construction	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£million	£ million	£million
Cost or valuation										
At 1 April 2019*	**5,416.4**	**47.6**	**35.2**	**68.3**	**54.8**	**63.5**	**36.5**	**77.0**	**189.4**	**5,988.7**
Capital expenditure	-	0.1	-	-	1.9	3.4	0.2	1.3	123.3	130.2
Assets commissioned in year	30.7	-	-	0.7	-	-	-	-	(31.4)	-
Disposals	(41.9)	(0.6)	-	(0.1)	(3.9)	(4.9)	(0.2)	(4.0)	-	(55.6)
Reclassification to held for sale	7.2	(2.0)	0.3	0.3	-	-	-	-	-	5.8
Revaluation and indexation	102.9	0.4	0.4	0.5	1.3	0.2	0.6	0.5	-	106.8
Impairment	(14.8)	(0.2)	-	(0.4)	-	-	-	-	(4.7)	(20.1)
Reclassification	-	-	-	-	-	-	-	-	0.1	0.1
At 31 March 2020	**5,500.5**	**45.3**	**35.9**	**69.3**	**54.1**	**62.2**	**37.1**	**74.8**	**276.7**	**6,155.9**
Depreciation										
At 1 April 2019*	**2,684.4**	**-**	**11.4**	**37.7**	**38.4**	**38.5**	**28.7**	**59.5**	**-**	**2,898.6**
Provided during the period	66.3	-	0.9	1.2	5.6	6.3	1.7	4.8	-	86.8
Disposals	(20.3)	-	-	-	(3.6)	(4.0)	(0.3)	(4.0)	-	(32.2)
Revaluation and indexation	51.6	-	0.1	0.2	(1.6)	-	0.5	(0.9)	-	49.9
Impairment	-	-	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-	-	-
At 31 March 2020	**2,782.0**	**-**	**12.4**	**39.1**	**38.8**	**40.8**	**30.6**	**59.4**	**-**	**3,003.1**
Net Book Value at 31 March 2020	**2,718.5**	**45.3**	**23.5**	**30.2**	**15.3**	**21.4**	**6.5**	**15.4**	**276.7**	**3,152.8**

At 31 March 2019	Operational assets* Restated	Freehold land	Dwellings	Freehold buildings	Plant and machinery* Restated	Vehicles	Furniture* Restated	IT	Assets under construction* Restated	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£million	£ million	£million
Cost or valuation										
At 1 April 2018	**5,210.1**	**46.1**	**35.0**	**69.9**	**56.2**	**56.2**	**35.2**	**75.8**	**209.9**	**5,794.4**
Capital expenditure	-	0.2	-	-	2.5	9.9	1.1	1.8	96.0	111.5
Assets commissioned in year	106.5	-	-	-	-	-	-	-	(106.5)	**-**
Disposals	(1.1)	(0.2)	-	(0.4)	(4.0)	(4.0)	-	(1.2)	-	(10.9)
Reclassification to held for sale	(6.3)	0.9	(0.3)	(1.9)	-	-	-	-	-	(7.6)
Revaluation and indexation	123.9	0.6	0.5	0.7	0.1	1.4	0.2	0.6	-	128.0
Impairment	(17.5)	-	-	-	-	-	-	-	(2.9)	(20.4)
Reclassification	0.8	-	-	-	-	-	-	-	(7.1)	(6.3)
At 31 March 2019	**5,416.4**	**47.6**	**35.2**	**68.3**	**54.8**	**63.5**	**36.5**	**77.0**	**189.4**	**5,988.7**
Depreciation										
At 1 April 2018	**2,564.6**	-	**10.3**	**36.0**	**36.6**	**35.2**	**26.2**	**54.3**	-	**2,763.2**
Provided during the period	63.6	-	0.9	1.4	5.5	6.3	2.3	6.0	-	86.0
Disposals	(0.4)	-	-	(0.1)	(3.8)	(3.9)	-	(1.2)	-	(9.4)
Revaluation and indexation	56.6	-	0.2	0.4	0.1	0.9	0.2	0.4	-	58.8
Impairment	(0.1)	-	-	-	-	-	-	-	-	(0.1)
Reclassification	0.1	-	-	-	-	-	-	-	-	0.1
At 31 March 2019	**2,684.4**	**-**	**11.4**	**37.7**	**38.4**	**38.5**	**28.7**	**59.5**	**-**	**2,898.6**
Net Book Value at 31 March 2019	**2,732.0**	**47.6**	**23.8**	**30.6**	**16.4**	**25.0**	**7.8**	**17.5**	**189.4**	**3,090.1**

*Prior period restatement

Certain assets were previously reported within Plant and Machinery and Furniture and Fittings that should for consistency be recorded within Operational Assets. The reported amounts on the Statement of Financial Position at 31 March 2020 and 31 March 2019 do not require any adjustment, however it is appropriate to reclassify amounts in Note 7.

The 2018-19 fixed asset note 7 has therefore been changed from the presentation per the 2018-19 annual report and accounts in the following manner: the opening Operational Assets cost or valuation has been increased by £425.1m, the opening Plant and Machinery decreased by £392.4m and the opening Furniture and Fittings by £32.7m; the opening accumulated depreciation for Operational Assets increased by £362.9m, with a £342.3m and £20.6m decrease in Plant and Machinery and Furniture and Fittings respectively. Within the 18-19 year, £6.9m of adjustments moved into Operational Assets from Plant and Machinery (£3.2m) and Furniture and Fittings (£3.7m) for cost or valuation. For depreciation the in-year movements totalled £8.1m to Operational Assets from Plant and Machinery (£6.3m) and Furniture and Fittings (£1.8m).

Details of valuation

The vast majority of the Environment Agency's assets are owned outright.

All of the Environment Agency's administrative land and buildings, including dwellings, with a book value greater than £5,000, were revalued at 1 April 2016 by the following RICS qualified external chartered surveyors: Bilfinger GVA, The Brown Rural Partnership, Dalcour Maclaren, Fisher German LLP and Stags Professional Services. Valuation was on the basis of open market value for administrative property and existing use for operational land. The exercise excluded assets under construction. Suitable indices have been used to update the values at 31 March 2020.

Intangible assets, plant and machinery, vehicles, furniture, IT hardware and operational assets were revalued internally at 31 March 2020 using suitable indices.

The impact of revaluations is shown as revaluation and indexation in notes 7 and 8 respectively for tangible and intangible assets.

Operational assets

Operational assets include £93.9 million (31 March 2019, £91.3 million) of land which forms an essential element of certain operational assets and has significantly changed its nature as a result. Operational assets include the Thames Barrier which is valued at £1,145 million (31 March 2019, £1,139 million). The Thames Barrier is expected to be in operation until 2070.

As per note 1.8, the Agency uses a Modified Historic Cost approach to value its operational assets, as a proxy for Depreciated Replacement Cost. This means that an appropriate annual cost inflation index is used to increase the gross book value of the assets each year. We have not undertaken any sensitivity analysis in relation to the indices used since this specific valuation methodology is subject to a qualified audit opinion.

8. Intangible Assets

At 31 March 2020	Software licences	Websites	Other IT	Assets under construction	Total
Cost or valuation	£ million	£ million	£ million	£ million	£million
At 1 April 2019	**84.8**	**81.7**	**138.8**	**42.7**	**348.0**
Capital expenditure	-	-	-	21.7	**21.7**
Assets commissioned in year	0.2	-	14.5	(14.7)	**-**
Disposals	-	(7.2)	(4.4)	-	**(11.6)**
Revaluation and indexation	0.9	0.5	1.1	-	**2.5**
Impairment	-	-	-	-	**-**
Reclassification	-	-	-	(0.1)	**(0.1)**
At 31 March 2020	**85.9**	**75.0**	**150.0**	**49.6**	**360.5**
Amortisation					
At 1 April 2019	**49.0**	**72.2**	**106.3**	**-**	**227.5**
Provided during the year	7.1	3.8	11.2	-	**22.1**
Disposals	-	(7.2)	(3.8)	-	**(11.0)**
Revaluation and indexation	(0.2)	(1.9)	(6.5)	-	**(8.6)**
Impairment	-	-	-	-	**-**
Reclassification	-	-	-	-	**-**
At 31 March 2020	**55.9**	**66.9**	**107.2**	**-**	**230.0**
Net Book Value at 31 March 2020	**30.0**	**8.1**	**42.8**	**49.6**	**130.5**

At 31 March 2019	Software licences	Websites	Other IT	Assets under construction	Total
Cost or valuation	£ million	£ million	£million	£ million	£million
At 1 April 2018	**84.2**	**80.0**	**131.7**	**26.2**	**322.1**
Capital expenditure	-	-	-	19.1	**19.1**
Assets commissioned in year	1.1	1.7	6.9	(9.7)	**-**
Disposals	-	(0.6)	(0.8)		**(1.4)**
Revaluation and indexation	0.6	0.6	1.1	-	**2.3**
Impairment	(0.3)	-	(0.1)	-	**(0.4)**
Reclassification	(0.8)	-	-	7.1	**6.3**
At 31 March 2019	**84.8**	**81.7**	**138.8**	**42.7**	**348.0**
Amortisation					
At 1 April 2018	**38.3**	**69.5**	**96.2**	-	**204.0**
Provided during the year	10.4	2.8	10.1	-	**23.3**
Disposals	-	(0.6)	(0.8)	-	**(1.4)**
Revaluation and indexation	0.4	0.5	0.8	-	**1.7**
Impairment	-	-	-	-	**-**
Reclassification	(0.1)	-	-	-	**(0.1)**
At 31 March 2019	**49.0**	**72.2**	**106.3**	**-**	**227.5**
Net Book Value at 31 March 2019	**35.8**	**9.5**	**32.5**	**42.7**	**120.5**

9. Impairment

Impairments by Accounting Category	31 March 2020	31 March 2019
	£ million	£ million
Property, plant and Equipment	2.2	13.9
Intangible assets	-	0.1
Total charged to the revaluation reserve	**2.2**	**14.0**
Property, plant and Equipment	17.9	6.4
Intangible assets	-	0.3
Total impairment charge to the statement of comprehensive net expenditure	**17.9**	**6.7**
Total impairment as per statement of financial position	**20.1**	**20.7**

The asset categories affected by Impairment can be seen in notes 7 & 8. In 2019-20 Operational Assets were impaired by £14.5m and Assets under construction by £4.7m. This was indicated following an annual review which showed signs of a reduction in service potential below the carrying value of the asset due to asset damage, obsolescence or aborted capital projects.

In line with an adaptation in the FReM, any loss of economic benefit is recognised in full against expenditure. However, any temporary reduction in value is recognised in the revaluation reserve with any excess in expenditure.

10. Trade, contract and other receivables

	31 March 2020	31 March 2019
	£ million	£ million
Within one year:		
Trade receivables	31.4	27.7
Accrued income	25.6	30.1
Expected Credit Loss	(4.7)	(5.5)
	52.3	**52.3**
Other receivables:		
VAT	23.5	30.4
Employee loans	1.3	1.0
Prepayments	8.7	12.0
Total	**85.8**	**95.7**

The Environment Agency has a debt recovery process to chase outstanding debt and to resolve any related disputes. Debts are only formally written-off when this process is concluded or when we become aware of a significant reason why we would not recover the debt, such as the debtor becoming insolvent. We may write-off debts in the accounts where it is prudent to, for example when an undisputed debt has been outstanding for a number of years and further pursuit does not represent value for money.

Expected credit losses have been calculated and provided for in accordance with IFRS 9, as described in note 16.

11. Cash and cash equivalents

	31 March 2020	31 March 2019
	£ million	£ million
At 1 April	108.5	114.1
Net change in cash and cash equivalent balances	22.9	(5.6)
At 31 March (as per statement of Cash Flows)	**131.4**	**108.5**

The balances were held as cash with the government banking service with no bank overdraft.

12. Trade, other payables and contract liabilities

	31 March 2020	31 March 2019
	£ million	£ million
Within one year:		
Other taxation and social security	(10.1)	(9.0)
Trade payables	(10.1)	(19.3)
Trade payables accrual	(105.6)	(103.1)
Holiday pay accrual	(7.5)	(6.9)
Other payables	(6.5)	(5.8)
Capital payables	(7.0)	(7.6)
Capital payables accrual	(80.7)	(49.2)
Contract liabilities:		
- Flood risk management	(69.6)	(71.9)
- Water resources – EIUC	(19.8)	(19.8)
- Environment protection	(3.0)	(2.9)
Pension contribution liabilities	(5.1)	(5.4)
Customer deposits and receipts in advance	(86.9)	(64.2)
	(411.9)	**(365.1)**
More than one year:		
Trade and other payables and accruals	(1.0)	(1.2)
Total	**(412.9)**	**(366.3)**

13. Transfers between reserves

13.1 For the period ended 31 March 2020

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Realised revalued depreciation and disposals	(78.5)	78.5	-	-
Net pension charge	-	96.1	(96.1)	-
Total	**(78.5)**	**174.6**	**(96.1)**	**-**

13.2 For the period ended 31 March 2019

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Realised revalued depreciation and disposals	(48.4)	48.4	-	-
Net pension charge	-	103.5	(103.5)	-
Total	**(48.4)**	**151.9**	**(103.5)**	**-**

14. Commitments

14.1 Capital Commitments

	31 March 2020	31 March 2019
	£ million	£ million
Contracted for but not provided in the financial statements	72.3	112.7

The amounts above relate to both tangible and intangible fixed assets. Commitments on capital works expensed in year at 31 March 2020 totalled £302.0 million (31 March 2019, £351.7 million). The majority of the significant commitments relate to the construction of flood defence schemes and the largest at 31 March 2020 was for the construction of defences at Great Yarmouth (£21m).

14.2 Financial Commitments

The Environment Agency has entered into non-cancellable contracts (which are not leases).

Payments the Environment Agency is committed to	31 March 2020	31 March 2019
	£ million	£ million
Not more later than one year	28.0	26.8
More than one year and not later than five years	12.9	16.9
More than five years	-	1.7
Total	**40.9**	**45.4**

The largest commitments relate to the Broadlands flood alleviation project (£9m, 2018-19: £12.2m), Pevensey Bay beach maintenance (£8.7m, 2018-19: £10.2m) and an outsourced IT service contract with Capgemini (£21.6m, 2018-19: £19.6m).

14.3 Commitments under Leases

The Environment Agency is committed to future minimum lease payments under operating leases.

Payments the Environment Agency is committed to	31 March 2020		31 March 2019	
	Land and buildings	Other	Land and buildings	Other
	£ million	£ million	£ million	£ million
Not more than 1 year	9.3	9.7	11.7	10.1
More than 1 year and not more than 5 years	24.3	9.3	33.9	13.9
More than 5 years	21.9	-	35.9	-
Total	**55.5**	**19.0**	**81.5**	**24.0**

The operating lease commitments above include costs that relate to the Environment Agency's proportion of occupation of Defra leasehold properties. These arrangements between the Environment Agency and Defra reflect a future commitment to reimburse Defra for the relevant portion of the underlying rentals paid to landlords for the provision of leasehold accommodation.

Defra group bodies also occupy Environment Agency buildings, and the full commitment on the leases is included above however there are arrangements to recover the portion of the underlying rentals from Defra group bodies.

Other leases mainly comprise of leases for Environment Agency vehicles.

15. Pension obligations

The Environment Agency operates a defined benefit pension scheme for current and former employees, and transferees from predecessor organisations. We are part of the LGPS, a statutory scheme primarily governed by the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014. These are subject to amendment over time. Further details on the Environment Agency Pension Fund (EAPF) including its annual report and financial statements, are on the Environment Agency Pension Fund website (www.eapf.org.uk).

The EAPF has 3 employers, the Environment Agency, Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL). NRW was admitted on 1 April 2013 and SSCL was admitted on 31 October 2013. NRW and SSCL are closed to new entrants and pay fixed contributions of a fixed sum and fixed percentage of pay respectively. The Environment Agency guarantees the SSCL contributions and so their position is modelled within the Environment Agency's for valuation and contribution setting.

Following the transfer to Defra Corporate Services (note 5.1) staff needed to make a decision about their pension. Out of a total of 845 in scope transferees, 438 (52%) elected to transfer their deferred benefit from the EAPF into the Civil Service Pension Fund. This resulted in a transfer of £63.8m during July 2019. Transferring liabilities were valued according to IAS19 assumptions and increased with interest. The assets and liabilities relating to this are included in the IAS19 disclosures below in the "Effect of settlements relating to Defra Group CS" line.

The total pension charge for the Environment Agency was £146.9m for the financial year 2019-20 (£148.2 million in 2018-19). The pension charge relating to the Fund was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs.

The Environment Agency's funding arrangements are to pay 14% of the monthly gross salary of members to the Pension Fund each month, and then pay a lump sum each year to meet the equivalent employer contribution of 18.5%.

The latest triennial actuarial valuation of the EAPF was at 31 March 2019. The assets taken at market value (£3.7 billion) were sufficient to cover 106% of the value of liabilities in respect of past service benefits which had accrued to members.

The Environment Agency accepted the independent actuary's recommendation to increase employer contributions by 0.5% from 18.5% to 19.0% from April 2020 through to March 2023. This was to maintain a prudent funding plan in light of uncertainties over the cost impacts of the McCloud ruling, leaving the European Union and climate change. Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced.

The reported net liability has reduced by around £500m during the year ending 31 March 2020. The expected closing position liability (i.e. before changes in assumptions) was around £100m higher than the opening position which is in line with last year. The reduction in net liability has been affected by changes in assumptions of around £600m – mainly reductions in inflation and pension and salary increase rates as well as a slight reduction in discount rate and average future life expectancy. Assumptions on levels of commutation, withdrawal, ill-health early retirement and similar are also made and are based on recent experience of LGPS funds. The changes in financial and longevity assumptions are provided in note 15.1.

The annual report and financial statements for the EAPF estimated that it had sufficient assets to meet 100% of its expected future liabilities at 31 March 2020 on an ongoing funding basis. The Environment Agency's share of the EAPF's liabilities as reported in these financial statements is calculated using different actuarial assumptions, required by IAS 19, to those used in the EAPF's annual report. This leads to a different funding level to that reported by the EAPF.

The main difference in assumption is the discount rate used to value pension liabilities. The EAPF discount rate for funding purposes is based on a prudent expectation of the return generated from the portfolio of assets owned by the EAPF. The discount rate used in these financial statements, as required by IAS 19 is based on high quality corporate bond yields, with no additional asset performance assumption. The real terms discount rate in these financial statements is therefore 0.2% lower than the rate used in the EAPF for funding purposes. This lower rate results in a higher value being placed on liabilities.

The sensitivity analysis in note 15.4 indicates the sensitivity of the Fund liabilities to a difference in discount rate.

A number of assumptions are made as part of the actuarial valuation process. The prudent actuarial assumptions used do not represent a view on what future pay movements may be. It has been assumed that present and future pensions in payment will increase at the rate of 2.5% per annum. The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2021 will be approximately £67.6 million.

These financial statements include the disclosure requirements of IAS 19 for 2019-20 in relation to the EAPF. All calculations have been made by a qualified independent actuary and are based on the most recent actuarial valuation of the Fund at 31 March 2019. The assumptions underlying the calculation of a net liability at 31 March 2020 are only used for accounting purposes as required under IAS 19. There is no requirement for the reported net liability to be met as a lump sum. Cash contributions paid by the Environment Agency to the EAPF will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme. The next triennial valuation will be as at 31 March 2022.

The Environment Agency is also the employing authority for the Environment Agency Closed Fund which provides benefits to members of the former Water Authorities Superannuation Fund who were either pensioners or deferred members on the privatisation of the water industry in 1989. Defra is the financial sponsor for the Closed Fund and accounts for it within its Annual Report and Accounts.

15.1 Financial and longevity assumptions

Financial assumptions for the Environment Agency Pension Fund

	% per annum 31 March 2020	% per annum 31 March 2019
Inflation and pension increase rate	1.5	2.2
Salary increase rate	2.0	2.5
Discount rate	2.3	2.4

Longevity assumptions: average future life expectancy at age 65

Scheme member	31 March 2020		31 March 2019	
	Male (years)	Female (years)	Male (years)	Female (years)
Current pensioners	22	24	23	24
Future pensioners (people aged 65 in 20 years)	23	26	24	27

15.2 Fair value of employer assets

Fair value of employer assets at 31 March 2020

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£ million	%
Equity securities				
Common Stock	464.6	-	464.6	14%
Other Equity Assets	1.0	-	1.0	0%
Debt Securities:				
UK Government Bonds	-	330.4	330.4	10%
Corporate Bonds	-	282.7	282.7	9%
Other	-	18.3	18.3	1%
Pooled Investment Vehicles:				
Equities	-	725.1	725.1	22%
Bonds	-	736.3	736.3	23%
Funds - Real Estate	-	150.3	150.3	5%
Partnerships & Real Estate	-	466.0	466.0	14%
Derivative Contracts:				
Forward FX Contracts	-	(4.9)	(4.9)	0%
Cash and Cash equivalents	-	77.6	77.6	2%
Totals	**465.6**	**2,781.8**	**3,247.4**	**100%**

Fair value of employer assets at 31 March 2019

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£million	%
Equity securities				
Common stock	560.5	-	560.5	17%
Other equity assets	34.1	-	34.1	1%
Debt securities:				
UK government bonds	-	322.2	322.2	10%
Corporate bonds	-	278.9	278.9	8%
Other	-	19.3	19.3	1%
Pooled investment vehicles:				
Equities	-	713.5	713.5	21%
Bonds	-	270.0	270.0	8%
Funds - real estate	523.4	119.3	642.7	19%
Partnerships and real estate	-	413.0	413.0	12%
Derivative contracts:				
Forward FX Contacts	-	(3.8)	(3.8)	0%
Cash and cash equivalents	-	87.1	87.1	3%
Totals	**1,118.0**	**2,219.5**	**3,337.5**	100%

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

Year ended 31 March 2020	Fair Value of Employer Assets		Defined Benefit Obligations		Net (liability)/ asset	
	£million	£million	£million	£million	£million	£million
Opening Position as at 1 April		**3,337.4**		**(3,992.8)**		**(655.4)**
Pension benefits accrued by members during the year *	-		(156.9)		(156.9)	
Change in cost of pensions from previous years' service	-		10.0		10.0	
Total service cost (recognised in SOCNE)		**-**		**(146.9)**		**(146.9)**
Effect of settlements relating to Defra group CS**	(63.8)		73.2		9.4	
Total effect of DGCS		**(63.8)**		**73.2**		**9.4**
Interest income on plan assets	79.3		-		79.3	
Interest cost on defined benefit obligation	-		(96.2)		(96.2)	
Total net interest (recognised in SOCNE)		**79.3**		**(96.2)**		**(16.9)**
Plan participants' contributions	24.6		(24.6)		-	
Employer contributions	58.3		-		58.3	
Benefits paid	(80.5)		80.5		-	
Total cash flows		**2.4**		**55.9**		**58.3**
Expected closing position		**3,355.3**		**(4,106.8)**		**(751.5)**
Change in financial assumptions	-		426.9		426.9	
Change in demographic assumptions	-		95.2		95.2	
Other experience	-		204.0		204.0	
Return on assets excluding amounts included in net interest	(107.9)		-		(107.9)	
Total remeasurements recognised in Other Comprehensive Income (OCI)		**(107.9)**		**726.1**		**618.2**
Closing position as at 31 March		**3,247.4**		**(3,380.7)**		**(133.3)**

The defined benefit obligation comprises approximately £1.6 billion, £0.6 billion and £1.2 billion in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2020 (£2.3 billion, £0.5 billion and £1.1 billion at 31 March 2019). There are no current unfunded obligations.

*Includes an allowance for administration expenses of 0.6% of payroll costs.
** Some former Environment Agency employees in Defra corporate services have elected to transfer their funds to the Civil Service Pension Scheme

Year ended 31 March 2019	Fair value of employer assets		Funded defined benefit obligations		Net (liability) or asset	
	£million	£million	£million	£million	£million	£million
Opening position at 1 April 2018		**3,063.2**		**(3,463.5)**		**(400.3)**
Pension benefits accrued by members during the year*			(127.0)		(127.0)	
Change in cost of pensions from previous years' service			(21.2)		(21.2)	
Total service cost (note 3)		**-**		**(148.2)**		**(148.2)**
Income on Fund assets	82.8		-		82.8	
Interest cost on defined benefit obligation	-		(94.5)		(94.5)	
Total net interest (recognised in SOCNE)		**82.8**		**(94.5)**		**(11.7)**
Employees' contributions	22.6		(22.6)		-	
Employer contributions	56.4		-		56.4	
Benefits paid	(72.2)		72.2		-	
Total cash flows		**6.8**		**49.6**		**56.4**
Expected closing position		**3,152.8**		**(3,656.6)**		**(503.8)**
Change in financial assumptions	-		(336.2)		(336.2)	
Other changes such as inflation rate	184.6		-		184.6	
Total remeasurements (recognised in Other comprehensive expenditure)		**184.6**		**(336.2)**		**(151.6)**
Closing position at 31 March 2019		**3,337.4**		**(3,992.8)**		**(655.4)**

* Includes an allowance for administration expenses of 0.4% of payroll costs.

15.4 Sensitivity analysis

Sensitivities regarding the principal assumptions used to measure the Funds liabilities

Change in assumption	Approximate % increase in employer liability	Approximate monetary amount (£ million)
0.5% decrease in real discount rate	11%	376
0.5% increase in salary increase rate	2%	74
0.5% increase in pension increase rate	9%	299

The approach taken to quantify the impact of a change in financial assumptions is to calculate and compare the value of fund liabilities at 31 March 2020 on varying bases. The approach taken is consistent with the approach to derive the other figures in this note.

Uncertainty over life expectancy was modelled considering an increase in life expectancy of one year. This is assumed to increase costs by broadly 3%. The actual cost would depend on the structure of the revised assumption (i.e. if the change affects younger or older members).

The sensitivity approach is consistent with the previous year.

15.5 IAS 19 Provision – McCloud and Goodwin judgments

When the LGPS was reformed in 2014, transitional protections were applied to certain older members within ten years of normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling (McCloud) that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well.

At the end of 2018-19, an initial liability was recognised within the IAS19 report of £28.3m. In 2019-20 this has reduced by £13.4m following Ministry for Housing, Communities and Local Government consultation which set out qualifying member criteria.

In June 2020 a legal discrimination case (Goodwin) which related to unequal death benefit provision for male dependents of female scheme members was deemed successful. Whilst this case occurred in the Teacher's Pension Scheme, it is relevant to other public sector schemes including the LGPS. Initial analysis suggests this will affect a very small population of our membership and may result in an increase in the cost of pensions from previous years service, estimated at around £3.4m. For completeness this has been included in our 2019-20 IAS19 valuation.

16. Financial instruments

Due to the largely non-trading nature of its activities and the way in which government bodies are financed, the Environment Agency is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies. The Environment Agency has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Environment Agency in undertaking its activities.

IFRS 9 requires entities to estimate and account for expected credit losses for all relevant financial assets (trade, contract and other receivables), starting from when they first acquire a financial instrument.

The Environment Agency estimate is based on our historic experience of credit losses by charge scheme over the past four financial years, updated for any known future credit issues. We have increased the number of years we include in our assessment of historic credit losses this year to ensure the estimate was not under-stated due to relatively low levels of credit losses from three years ago. There has not been a material change in the expected credit losses for any charge scheme.

16.1 Financial liability - reservoir operating agreements

In 1989 a predecessor body to the Environment Agency, the National Rivers Authority, entered into a number of reservoir operating agreements with water companies, under section 126 of the Water Act 1989, re-enacted by section 20 of the Water Resources Act 1991.

These agreements contained two financial components. The first was for payment to the water companies of their operating costs for the reservoirs, net of income generated thereon by the companies, such as on hydroelectric power. The second was for fixed payments, indexed upwards annually based on the RPI, which are payable in perpetuity. The terms of these agreements were negotiated between HM Government and the water companies and were made to enable privatisation to occur.

The fixed component payable to the water companies is accounted for as a financial liability. The financial liability represents the contractual liability the Environment Agency has to the water companies. The full cost of reservoir operating agreements, including the elements that give rise to these financial liabilities, is recoverable under legislation through water resources abstraction licences. Water companies who receive payments for operating reservoirs also pay the majority of the charges for water abstraction.

Details of the financial liability reported on the statement of financial position

Counterparty	Amounts paid in 2019-20	Amounts paid in 2018-19	Liability at both period ends
	£ million	£ million	£ million
Northumbrian Water	21.0	21.1	(129.2)
Severn Trent Water	3.5	3.0	(12.4)
Total	**24.5**	**24.1**	**(141.6)**

The largest payments are payable to Northumbrian Water (in relation to Kielder reservoir) and Severn Trent Water (in relation to Lake Clywedog and Lake Vyrnwy reservoirs). The liabilities are measured as perpetuities at the real terms value according to the underlying reservoir operating agreements. The discounting applied reflects the opportunity cost to the taxpayer of entering into the agreement and liability compared to other opportunities for investment. This has been set at 6%, which is the equivalent HM Treasury 'green book' rate that would have applied at the inception of the agreements. Due to this fact, the Environment Agency believes that the carrying value is not materially different to the fair value of the liability.

Because the liabilities have been calculated on an amortised cost basis and as perpetuities, they will not change from year to year except in the unlikely event of an agreement ceasing. The agreements, and obligations to pay, will only cease if the water companies cease to be the entities controlling the reservoirs. In order to assess the sensitivity of liability to the discount rate, a change of 0.5% would mean a £11 million change in the liability.

The Environment Agency does not bear liquidity, credit or interest rate risk on these financial instruments, other than the fact that annual payments are linked to the RPI.

17 Related Parties

IAS 24 requires the Environment Agency to provide information on its transactions with related parties and further guidance has also been given by HM Treasury.

17.1. Controlling parties

The Environment Agency is a non-departmental public body of Defra. Defra and other bodies within the Defra group are regarded as a related party and the results of the Environment Agency are consolidated into the Defra annual report and accounts.

Funding received from Defra	2019-20	2018-19
	£ million	£ million
Defra environment protection grant-in-aid	(75.6)	(83.1)
Defra flood defence grant-in-aid	(688.2)	(667.4)
Defra IDB or local authority grant-in-aid	(116.2)	(99.5)
Total	**(880.0)**	**(850.0)**

17.2 Defra group Corporate Services

The property portfolio of the Defra group was managed centrally by Defra during the whole of 2019-20 in a manner to maximise the efficient use of the space available. As a result, a number of properties owned by the Environment Agency were used by employees of Defra, Natural England (NE), the Rural Payments Agency (RPA) and the Animal and Plant Health Agency (APHA). Similarly, Environment Agency employees worked from offices owned by Defra. The net charge made by Defra to the Environment Agency for this property use was included within the Defra group corporate services charge (note 5.1).

On 1 November 2017 a partnership agreement was made between Defra and the Environment Agency, whereby corporate services functions of the Environment Agency were transferred to Defra as part of a transformation programme intended to reduce duplication and improve effectiveness. The functions transferred were estates, facilities management, IT, procurement, finance, human resources, shared services and communications. Defra charged the Environment Agency £54.3m (2018-19: £49.0m) for expenditure incurred in the provision of corporate services to the Environment Agency (note 5.1). This comprised mostly of staff costs for transferred former employees as well as some supplier expenditure.

The fleet function of the Environment Agency in 2019-20 provided fleet management services to Defra, NE, RPA and APHA with a cost of £0.2m. This service provision provides economy of scale efficiencies for the group as a whole.

17.3 Other related parties

The Environment Agency had no other material related party transactions with organisations in which Board members, Executive Directors or senior managers have declared an interest. The Remuneration and staff report provides further information on Board members and Executive Directors. The Environment Agency has 1 IDB which is under common control (see note 1.19).

18. Events after the reporting date

Date of authorisation for issue

The Environment Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Environment, Food and Rural Affairs. IAS 10 requires the Accounting Officer to disclose the date on which the financial statements are authorised for issue. The authorised for issue date is the date of the Comptroller and Auditor General's audit certificate on pages 67 to 72.

COVID-19 pandemic

In November 2019 a novel strain of coronavirus, COVID-19 was detected and spread rapidly, leading the World Health Organisation to declare a pandemic on 11 March 2020. The pandemic caused significant economic disruption just before the financial year end.

The ongoing disruption caused by COVID-19 has created significant economic uncertainty, and this uncertainty has continued throughout 2020. As a result, we have done a detailed review of debtors and taken a prudent approach to accruing for write-offs, reviewing our expected credit loss provision to ensure it is sufficient. We expect most of the impact to be in 2020-21 and to largely impact certain charge income streams, such as applications for environmental permits. This will be monitored throughout the year and reported in next year's Annual Report and Accounts.

Pension Liability

As shown in note 15.4, the pension fund liabilities are sensitive to changes in the discount rate and the figures presented in the accounts are based on the assumptions as at 31 March 2020. The discount rate is determined with reference to market yields on high quality corporate bonds at the reporting date as per IAS19. Since the reporting date, the markets have been volatile which affects the discount rate and in turn the defined benefit obligation and asset values. This does not affect the figures reported at 31 March 2020 but reflects changes since then; the discount rate at the end of September suggests that the liabilities would be much higher than the year-end figures.

Appendix A: History of the Environment Agency

(Not subject to audit)

The Environment Agency was established on 8 August 1995 following Royal Assent for the Environment Act 1995. We took up our statutory powers and duties on 1 April 1996, when the functions of the National Rivers Authority, Her Majesty's Inspectorate of Pollution, the Waste Regulation Authorities and several smaller units of the Department of the Environment were transferred to us. Our registered office is Horizon House, Deanery Road, Bristol, BS1 5AH.

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

During the year to 31 March 2020, our principal government sponsor remained Defra. However, the Environment Agency also works closely with other principal government departments such as the Department for Business, Energy and Industrial Strategy and the Ministry for Housing, Communities and Local Government. Defra oversees the environmental policy framework within which the Environment Agency operates in England. We operate under a financial memorandum issued by Defra.

Appendix B: Sustainability data

(Not subject to audit)

Emissions, energy and business travel	Unit	2017-18	2018-19	2019-20
Direct emissions (Scope 1)	**tCO_2e**	9,000	10,000	10.000
Emissions from purchased energy (Scope 2)	**tCO_2e**	18,000	16,000	17,000
Emissions produced by our suppliers (Scope 3)	**tCO_2e**	10,000	9,000	4,000
Total gross emissions	**tCO_2e**	**37,000**	**35,000**	**31,000**
Carbon intensity (per £ million expenditure)	**tCO_2e**	**28**	**26**	**22**

Business travel	Unit	2017-18	2018-19	2019-20
Car and motorbike	**tCO_2e**	8,017	7,598	7,613
Rail	**tCO_2e**	1,602	1,227	1,122
Air	**tCO_2e**	134	136	181
Total business travel	**tCO_2e**	**9,753**	**9,011**	**8,916**
	£ million	**23**	**21.4**	**24**
Travel carbon intensity per full-time employee	**tCO_2e**	**1.0**	**0.9**	**0.8**

Office waste	Unit	2017-18	2018-19	2019-20
Landfill	Tonnes	7	2.4	1.5
	£	27,000	18,000	14,000
Reused or recycled	Tonnes	298	316	200
Incinerated to produce energy	Tonnes	21	18	14
Reused, recycled or incinerated	£	196,000	261,000	196,000
Reused or recycled electronic or electrical equipment	Tonnes	23	22	19
Total office waste	**Tonnes**	**333**	**345**	**293**
	£	**223,000**	**279,000**	**220,000**
Waste intensity per full time employee	**kg**	**33**	**30**	**28**

Pension fund investment	Unit	2017-18	2018-19	2019-20
Pension fund assets	£ million	3,063	3,337	3,246
Investments in clean & sustainable technology	%	34	39	31(i)
Carbon footprint	tCO_2e per £ million	209	204	177

(i) Last year we had 39% of investments in sustainable assets. The reduction is due to our evolving classification of which investments we define as sustainable and a change in our Strategic Asset Allocation over the year, where an allocation was moved from equities to fixed income.

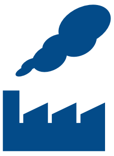
Resource consumption	Unit	2017-18	2018-19	2019-20
Purchased gas and purchased renewable electricity	million kWh	55	62	66
	£ million	5.4	7.3	7.3
Self-generated renewable energy	million kWh	1.4	0.6	0.5
Water supplied	Cubic metres	50,881	48,473	41,603
	£	293,000	265,000	230,000
Paper from renewable or recycled sources	Reams	27,000	25,000	20,000
	£	3,000	3,000	3,000

Appendix C: Performance data

(Not subject to audit)

https://www.gov.uk/government/collections/environment-agency-corporate-scorecard

Objective 2: Protecting and improving the environment

Infographic	Primary SDG	Success measure	Units	2019-20 target	2019-20 actual
	14 Life below water	2 EA 1 Rivers, lakes and coastal waters are healthier	Kilometres	2,300	1,753
	15 Life on land	2 EA 2 We protect people, the environment and wildlife by reducing serious pollution incidents	Number of incidents in the last 12 months	400	443
	15 Life on land	2 EA 3 We create new habitats	Hectares created	1,280	3,147
	16 Peace, justice and strong institutions	2 EA 4 We reduce the number of high risk illegal waste sites	Number of high risk illegal waste sites	196	233
	13 Climate action	2 EA 5 We reduce the risk of flooding for more households	Number of households better protected	240,000	242,343
	13 Climate action	2 EA 6 We maintain our flood and coastal risk management assets at or above the target condition	% of high risk assets at target condition	98.0%	96.1%
	3 Good health and well-being	2 EA 7 We have a first class incident response capability Number of staff who are trained and ready to respond to incidents	Number of people	6,000	6,541
	11 Sustainable cities and communities	2 EA 8 We successfully influence planning decisions by local authorities	% decision notices successfully influenced	97.0%	96.4%

Objective 4: Outstanding organisation

Infographic	Primary SDG	Success measure	Units	2019-20 target	2019-20 actual
		4 EA 9 We manage our money efficiently to deliver our outcomes	% spend to budget	100%	100%
		4 EA 10 We reduce our carbon footprint	Tonnes of carbon dioxide	30,876	31,217
		4 EA 11 We have a diverse workforce: a) The proportion of our staff who are from a Black, Asian and Minority Ethnic (BAME) background	% of workforce	14%	4%
		4 EA 11 We have a diverse workforce: b) The proportion of our executive managers who are female	% of workforce	50%	43%
		4 EA 12 We have the lowest possible lost time incident (LTI) frequency rate	LTI frequency rate per 100,000 hours worked	0.11	0.13

Appendix D: Board member attendance

(Not subject to audit)

Member	Board	ARAC	PC	ISC	FCRM	E&B	RC
Emma Howard Boyd (Chair)	5 of 5	1 of 1	3 of 5	3 of 5	2 of 5	-	2 of 3
Richard Macdonald (Deputy Chair)	5 of 5	4 of 4	-	-	5 of 5	-	3 of 3
Maria Adebowale-Schwarte	3 of 5	-	1 of 1	-	-	4 of 4	2 of 3
Caroline Mason	5 of 5	-	3 of 5	-	-	2 of 4	-
Judith Batchelar	3 of 5	4 of 4	-	-	-	3 of 4	-
Lynne Frostick	5 of 5	-	-	-	5 of 5	-	-
Robert Gould	5 of 5	4 of 4	5 of 5	5 of 5	5 of 5	-	3 of 3
John Lelliott	4 of 5	4 of 4	1 of 3	-	3 of 5	-	-
John Varley	4 of 5	-	-	-	-	3 of 4	-
Gill Weeks	5 of 5	4 of 4	-	-	-	3 of 4	1 of 3

Board – 5 meetings in 2019-20

ARAC – Member of Audit and Risk Assurance Committee - 4 meetings in 2019-20

PC – Member of Pensions Committee – 4 meetings and 1 closed call in 2019-20

ISC – Investment Sub Committee – 5 meeting in 2019-20

FCRM – Member of Flood and Coastal Risk Management Committee – 5 meetings in 2019-20

E&B – Member of Environment and Business Committee – 4 meetings in 2019-20

PPC – Member of People & Pay Committee – 3 meetings in 2019-20

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