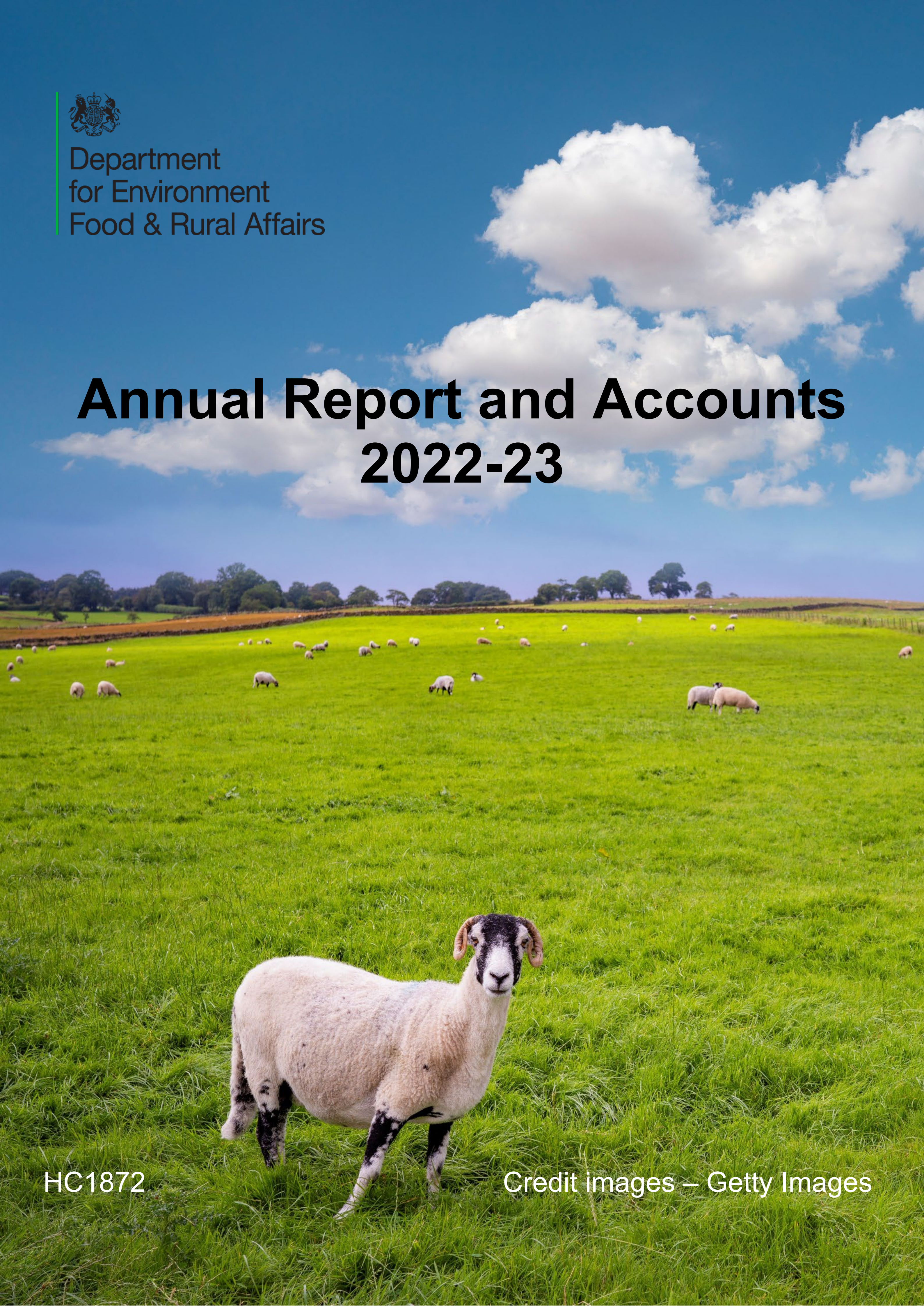
Department
for Environment
Food & Rural Affairs

Annual Report and Accounts
2022-23



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Department for Environment, Food and Rural Affairs

Annual Report and Accounts 2022-23

(For the year ended 31 March 2023)

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This is part of a series of departmental publications which, along with the Main Supply Estimates 2023-24 and the document Public Expenditure: Statistical Analyses 2023, present the Government's Outturn for 2022-23 and planned expenditure for 2023-24.

This publication is available at www.gov.uk/official-documents

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Contents

Performance Report

Chapter 1 – Overview

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

Rt. Hon. Dr Thérèse Coffey **Tamara Finkelstein**

We are very proud of what Defra group has achieved across its diverse, challenging, and exciting portfolio.

A key achievement in January 2023 was the publication of the Environmental Improvement Plan (EIP). Building on the 25 Year Environment Plan and putting into law new statutory environmental targets, this sets out how we will work with landowners, communities, and businesses to deliver each of the ten goals, matched with stretching interim targets to measure progress. Taking these actions will help us restore nature, tackle environmental pollution, and increase the prosperity of the country.

The England Trees Action Plan aims to increase tree planting rates to 7,500 hectares per year by the end of this Parliament and transform the forestry sector to support tree planting. Since last year, tree planting rates have increased by 40 per cent, reaching 3,128 hectares, despite challenging conditions due to drought, which made it more difficult for young trees to establish.

Peatlands are vital habitats for species and hold significant carbon. This year, the Nature for Climate Fund has provided over £33 million to restore 20,000 hectares of peatlands, and £5 million through Defra's Discovery Grant for planning and preparation for the restoration of over 51,000 hectares.

Improving water quality is vital to delivering Defra’s goals to recover nature and to protect the people who enjoy UK waters. We published the Storm Overflows Discharge Reduction Plan in August 2022, which included targets that will drive an ambitious programme to tackle storm sewage discharges. By 2035, water companies must eliminate 70 per cent of the environmental impacts of 3,000 storm overflows, affecting protected sites and bathing waters. By 2040, 40 per cent of all discharges will be eliminated, and by 2050, 80 per cent.

Water companies must accelerate these timelines while balancing consumer impact and strict limits on storm overflow usage.

To support those experiencing flooding, we established a £100 million Frequently Flooded Allowance to support communities experiencing flooding but unable to secure funding. Additionally, the Flood and Coastal Resilience Innovation Programme has invested £150 million to support 25 projects tackling flood and coastal change. We also launched the Coastal Transition Accelerator Programme, which will provide up to £36 million in funding to North Norfolk and the East Riding of Yorkshire to prepare and adapt to coastal change.

The UK experienced significant drought events last summer. We supported water companies in enacting drought management plans for localised areas in response to immediate impacts. We also coordinated drought planning for England through the National Drought Group to ensure we mitigate any water shortfalls in 2023.

A cleaner, healthier environment benefits people and the economy. Defra aims for the UK to achieve world-class air quality, and Clean Air Zones are designed to help us deliver this. Clean Air Zones were implemented by local authorities in Bradford, Bristol, Tyneside, and Sheffield. A range of polluting single-use plastic items will be banned in England from October 2023.

Defra has made significant progress in implementing new schemes under the Farming and Countryside Programme to support farmers in producing food and reducing environmental impact. These include the Sustainable Farming Incentive Offer for 2022 and prospectus for 2023, funding for 22 Landscape Recovery projects, improving Countryside Stewardship and farming regulation, launching an animal health and welfare review, and confirming outcomes we will deliver through farming reforms in the EIP.

To support the food and farming industry impacted by the Ukraine conflict, domestic workforce shortages, and rising wages and costs for food manufacturers, restrictions on feed imports and requirements for labelling of oils were relaxed. Ministers commissioned an independent review of labour shortage in the food supply chain and worked with the Home Office to increase the horticulture visa allocation to 55 thousand for 2023 and 2024. And to address the high price of fertiliser, action was taken to provide regulatory flexibility and improve cash flow through accelerated payments to farmers and to ensure that GB imports of ammonium nitrate can continue.

In parallel, we supported food and farming sectors amidst associated impacts of high energy prices through measures in the Energy Bill Relief Scheme and its successor, the Energy Bills Discount Scheme. Both schemes support Defra sectors by providing discounts on wholesale gas and electricity prices.

We continued to support the poultry industry in managing the outbreak of Avian Influenza through strategic redeployment of policy and veterinary capacity to support frontline efforts to tackle the disease outbreak. We also brought in private vets and locums to increase vet capacity and introduced an online reporting tool for dead wild birds. Furthermore, we established a cross government and industry task force to explore the potential for vaccination as a preventive measure.

The Science Capability in Animal Heath (SCAH) is a 15-year, £1 billion plus programme to redevelop the animal science laboratories at Weybridge, which deliver cutting edge science critical to current UK trade in products of animal origin worth £12 billion per year and to future growth in trade. The £200 million first phase of the programme, to 2024-25, is underway now, delivering a series of projects, from demolitions, renovations, and infrastructure work, to prepare the site for the main construction phase after 2025.

The UK and EU agreed The Windsor Framework[1] in February 2023, which aims to restore trade within the UK internal market, via a new green lane for food retailers, reduce SPS checks, and ensure consumer choice on shelves. It will also allow food produce like chilled meats and seed potatoes to move freely between the UK and Northern Ireland. The framework also aims to safeguard Northern Ireland's place in the Union and address the democratic deficit at the heart of the original Northern Ireland Protocol.

In March 2023, the UK joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), an Asia-Pacific trade bloc consisting of 11 countries. CPTPP membership will provide benefits for UK businesses, including access to high-quality food and drink produce and protections for sensitive sectors like beef, pork, chicken, sugar, and milled rice imports. We are delivering on the Prime Minister’s commitment to change the way we support farming in this country. International trade is critical to this, building on the approach we took to the CPTPP there are six principles to ensure British farming is at the heart of British trade – putting agriculture up front, protecting sensitive sectors, prioritising new export opportunities, protecting UK food standards and removing market access barriers. Our farmers contribute £127 billion to the UK’s economic prosperity in 2021, an increase of 13 per cent since 2020.

We have also made strides in negotiating Free Trade Agreements with India, aiming to reduce barriers businesses face in exporting to the country. We are also negotiating bilateral trade agreements with Canada and Mexico, as well as with the Gulf Cooperation Council to increase market access for UK exports. Additionally, the UK is negotiating with Switzerland to reduce high tariffs on products like red meat, chocolate, and baked goods to help UK firms sell their products more competitively.

The UK also played a key role in brokering a landmark deal for protecting natural environment for future generations, signed by 195 countries at the Convention on Biological Diversity (CBD) COP15 in December 2022. The deal pledges to: halt and reverse biodiversity loss, protect 30 per cent of land and ocean by 2030, halt species extinctions, increase mobilisation of resources from all sources to fund the global effort to halt nature loss, eliminate environmentally harmful subsidies, align all financial flows with the goals and targets of the Global Biodiversity Framework, agree mechanisms for holding countries to account for implementing the framework, and share benefits that arise from the use of digital sequence information on genetic resources.

Looking ahead, Defra group will continue to deliver across its remit in the coming year. This includes: developing delivery pathways for the EIP and Net Zero commitments, delivering on the government’s retained EU law ambitions, driving commitments agreed at CBD COP15, scaling up Official Development Assistance, publishing the Third National Adaptation Plan, improving water quality, implementing Environmental Land Management schemes,

[1] https://www.gov.uk/government/publications/the-windsor-framework

delivering waste reforms, Thames Tideway, flood and coastal defences, and animal health science capability, and contributing to levelling up by improving green space, rural policy, and coastal community work.

Finally, we would like to thank all Defra group staff for their unwavering professionalism and dedication across the delivery of Defra's services and outcomes.

Non-Executive Directors' Report

This year has been a year of change, following a period of stability. Several of the incumbent Non-Executive Directors (NEDs) resigned or had their terms expire, between July 2022 and 31 March 2023.

Since the present Secretary of State was appointed, the non-executive team have continued to work with policy officials on several important areas including waste, land management and food strategy. In addition, the NED team provided a focus on the delivery of agricultural and environmental reforms and consistent championing of the Union to the Board.

In my role as Audit and Risk Assurance Committee (ARAC) Chair, I have presided over three ARAC meetings and one Defra group ARAC Chairs' forum. I also attended three of Defra's ALB ARAC meetings to enhance my understanding of the issues in the ALBs. Throughout the reporting year, I have continued to attend cross-government ARAC Chairs' meetings.

I would like to express our gratitude to staff across the Defra group for their efforts over the past year.

Colin Day

Non-Executive Director, ARAC Chair.

Overview

This chapter describes how our department works, our vision, our Outcome Delivery Plan (ODP), our resources and the key risks that we face in achieving our outcomes. It includes a performance summary that shows our key performance successes across Defra group.

Who we are

Department for Environment, Food & Rural Affairs[2] (Defra) is the UK government department responsible for improving and protecting the environment. We aim to grow a green economy and sustain thriving rural communities. We also support our world-leading food, farming and fishing industries. Our broad remit means we play a major role in people's day-to-day life, from the food we eat, and the air we breathe, to the water we drink. We are a ministerial department that is supported by and works collaboratively with 34 agencies and public bodies. Together we are the Defra group.

Our structure and business model

Our Permanent Secretary, Tamara Finkelstein, has responsibility for managing the department and safeguarding public funds provided under the Defra Estimate.

Defra is made up of the Core department and a network of agencies and public bodies. Defra's public bodies vary in size, type, budget, remit and level of independence. Core department and delivery bodies across Defra group work together to collaboratively deliver our outcomes. Core department sets the policy and supports delivery bodies to develop capability and to deliver new and ongoing activities. Although we need to clearly align our work in this simplified way for planning, budgeting and reporting, there are complex interactions in the delivery of our outcomes. Our outcomes have many synergies and are delivered in an integrated manner.[3]

Further information on our governance, including the Defra board and the three committees which support it, is set out in Chapter 4.

Our vision

Defra is here to make our air purer, our water cleaner, our land greener and our food more sustainable. Our mission is to restore and enhance the environment for the next generation, leaving it in a better state than we found it. Our ODP, together with the Environmental Improvement Plan (EIP) (more details below) set out in detail how we intend to achieve this.

Our Outcome Delivery Plan

The ODP is a high-level Defra group plan, covering both the Core department and delivery bodies in an integrated way. It sets out the critical real-world outcomes we are seeking to achieve as a group and how we intend to achieve them. All government departments are asked by the Cabinet Office and HM Treasury to produce two versions of their ODP; an internal facing ODP and a public ODP. These plans are refreshed annually and cover the duration of the current spending review period. In November 2022, the government agreed

[2] https://www.gov.uk/government/organisations/department-for-food-rural-affairs
[3] For more information see the Accounting Officer System Statement (AOSS) (Defra Accounting Officer system statement 2022) where Annex A shows the wide range of bodies that are included in Defra's system of accountability.

that departments would not be required to publish ODPs for 2022-23 but to concentrate on the production of ODPs for 2023-24. As a consequence, this chapter is structured around the four priority outcomes and associated key performance indicators we agreed with HM Treasury in our Spending Review 2021 (SR21) settlement.

Defra's ODP in 2022-23 consisted of four priority outcomes alongside a set of four strategic enablers that work to strengthen our corporate capacity and capability:

Priority outcome 1: Improve the environment through cleaner air and water, minimised waste, and thriving plants and terrestrial and marine wildlife.

Priority outcome 2: Reduce greenhouse gas emissions and increase carbon storage in the agricultural, waste, peat and tree planting sectors to help deliver net zero.

Priority outcome 3: Reduce the likelihood and impact of flooding and coastal erosion on people, businesses, communities and the environment.

Priority outcome 4: Increase the sustainability, productivity and resilience of the agriculture, fishing, food and drink sectors, enhance biosecurity at the border and raise animal welfare standards.

Our environment outcome is cross-cutting and includes contributions from the Department for Levelling Up, Housing and Communities (DLUHC) and the Department for Transport (DfT). The Department for Energy Security and Net Zero[4] (DESNZ) is government lead on the cross-cutting outcome which is to reduce UK greenhouse gas emissions to net zero by 2050. Our net zero outcome reflects our contribution to that outcome. The Prime Minister set out his new approach to Net Zero on the 20 September 2023. While this does not change the commitment to any of the targets, it may impact how the government will achieve them. The impact of this change in approach will be covered in the 2023-24 Annual Report and Accounts.

To deliver our priority outcomes, and reinforce the ambitions of the Declaration on Government Reform, we focused on four key strategic enablers:

- Workforce, skills and location
- Innovation, technology and data
- Delivery, evaluation and collaboration
- Sustainability.

See Chapter 2 for further detail on what we have achieved under our priority outcomes and our strategic enablers.

[4] Previously aligned to the Department for Business, Energy and Industrial Strategy (BEIS)

Defra's 25 Year Environment Plan

Five years ago, the 25 Year Environment Plan (25 YEP) set out our vision for 25 years of action to help the natural world regain and retain good health. It displayed our comprehensive and long-term approach to protecting and enhancing our natural environment for the next generation. The goals[5] of the 25 YEP inform our priority outcomes, particularly for the environment, net zero and flooding, and through our international environment work. Since then, we have laid the foundations for the future, including passing the Environment Act 2021 which sets a framework for ambitious legally binding, long-term targets to restore nature and the environment. These targets came into force in January 2023 when we launched our first revision of the 25 YEP in our Environmental Improvement Plan 2023[6] (EIP23).

EIP23 reinforced the intent of the 25 YEP: where the 25 YEP set out the framework, EIP23 sets out our plan to deliver. It details a delivery plan for each of our ten goals and stretching interim targets for the next five years towards achieving the long term legally binding targets under the Environment Act. Implementing this plan will help us restore nature, tackle environmental pollution, and increase the prosperity of our country.

Risks affecting delivery of our outcomes

Defra manages some of the most severe threats facing the UK which are recorded on the National Risk Register, including flooding, air quality, CBRN (Chemical, Biological, Radiological and Nuclear) emergency recovery, and plant and animal disease outbreaks.

We have continued to demonstrate resilience in the ever-changing risk landscape following Russia's invasion of Ukraine, including risks related to Ukraine pet imports, supply chain disruption and increased inflation. Defra has managed corporate risks associated with cyber security, IT business resilience, physical infrastructure, procurement, financial and delivery of our long-term objectives and change programmes. We have also managed risks to staff wellbeing and our professional capability.

More detail on management of our principal risks is given in Chapter 2.

Working with devolved governments

Following the UK's exit from the European Union, the UK government has been working jointly with the Scottish Government, the Welsh Government and the Northern Ireland Executive to deliver on our shared priorities. We have developed 14 provisional Common Frameworks to help ensure a common approach to managing our shared resources and fulfilling international obligations, as well as to manage any divergence.

The Inter-Ministerial Group for Environment, Food and Rural Affairs (IMG EFRA) is the highest portfolio level engagement forum between the EFRA ministers of the four UK administrations. It provides central coordination and promotes greater collaboration in areas of shared interest such as agriculture, fisheries, environment, forestry, net zero, and rural affairs, and includes policy, delivery, technical and legislative matters. During 2022-23, six

[5] There are 10 goals in the 25 YEP – see here: https://www.gov.uk/government/publications/25-year-environment-plan/25-year-environment-plan-our-targets-at-a-glance
[6] https://www.gov.uk/government/publications/environmental-improvement-plan

meetings were held covering legislation, agriculture, waste, fisheries, food supply and biosecurity. The IMG is just one of several engagement mechanisms alongside numerous ministerial bilateral and senior official meetings between Defra and the devolved governments.

In February 2023, the UK and EU reached an agreement on the future of the Northern Ireland Protocol, known as the Windsor Framework.[7] We were instrumental in supporting this deal, as part of a wider cross-government team. Our specific interests were in a new green lane (UK internal market scheme) for food retailers, the movement of chilled meats into Northern Ireland, pets travelling freely with their owners across the UK, and previously banned iconic plants moving easily within the UK (for example English oak trees and seed potatoes).

Our resources

For the financial year 2022-23, the government provided £7.55 billion of funding, known as the net parliamentary (voted) funding. This is to cover current expenditure and new investment. The funding was broken down as follows:

- Departmental Expenditure Limit (DEL) (including depreciation): £6.51 billion of which:
  - Resource DEL: £4.74 billion. This is all current expenditure, such as salaries or purchasing goods and services, and includes depreciation.
  - Capital DEL: £1.76 billion. This is expenditure for new investment (e.g. buildings or other assets for long-term use) after deducting any agreed income.
- Annually Managed Expenditure (AME): £1.04 billion. This is used mainly for movements in provisions, e.g. Common Agricultural Policy Disallowance and for expenditure by Defra group levy funded bodies and Flood Re.
- Non-Budget: £0.01 billion.

Further detail can be found in Chapter 3 – Financial Analysis.

[7] https://www.gov.uk/government/news/windor-framework-unveiled-to-fix-problems-of-the-northern-ireland-protocol

As at 31 March 2023, Defra group had 29,430.5 full-time equivalent (FTE) employees. For the same organisations, the comparable figure as at 31 March 2022 was 27,025.9. The table below shows the regional distribution for these two years.

Region	FTE 31 Mar 2023	FTE 31 Mar 2022
London	4,134.5	4,112.8
South East	3,681.7	3,360.7
East of England	2,770.9	2,611.8
East Midlands	1,503.6	1,274.4
West Midlands	2,246.8	2,095.4
Yorkshire and the Humber	3,344.1	2,898.4
North East	1,694.0	1,475.3
North West	3,547.7	3,150.4
Scotland	287.4	250.6
South West	4,739.0	4,421.1
Wales	371.4	342.3
Northern Ireland	2.0	-
Home Based	1,107.4	1,032.7
Total	**29,430.5**	**27,025.9**

The 29,430.5 FTE figure is employment as of 31 March 2023 for Agriculture and Horticulture Development Board (AHDB), Animal and Plant Health Agency (APHA), Consumer Council for Water (CCW), Centre for Environment, Fisheries and Aquaculture Science (Cefas), core Defra, Environment Agency (EA), Joint Nature Conservation Committee (JNCC), Royal Botanic Gardens Kew (RBG Kew), Marine Management Organisation (MMO), Natural England (NE,) National Forest Company (NFC), Rural Payments Agency (RPA), Veterinary Medicines Directorate (VMD) and Sea Fish Industry Authority (SFIA).
The data in the above table does not include the FTE for the Office for Environmental Protection and Forestry England which explains the differences between the numbers here and the table on page 94.

Key achievements in 2022-23

Chapter 2 describes our group performance framework and sets out how we performed in 2022-23. Some key achievements are set out below.

- We published the government's Food Strategy, ensuring that food security is at the heart of the government's vision for the food sector.

- The value of UK food exported rose to £6.8 billion at the end of 2022-23.

- Supporting our farmers and producers to export more efficiently, we issued 99.44 per cent of export health certificates and licences within agreed timescales, against a target of 97 per cent.

- At the end of March 2023, 95.5 per cent of herds were bovine tuberculosis free (bTB) We remain confident that we can achieve our long term target of making our cattle herds bTB free by 2038.

- We published the EIP23 for England, the first revision of our 25 YEP with a suite of legally binding long-term targets to ensure we leave the environment in a better state than we found it.

- Though there is much more to do, we exceeded our target to enhance and protect the water environment – we improved 2,300 kilometres (km) against a target of 2,058 km.

- To improve the quality of our air, we met our targets for emission reductions for ammonia (with an adjustment), sulphur dioxide, nitrogen oxide and non-methane volatile organic compounds (NMVOC).

- New Clean Air Zones were launched by local authorities in Bradford, Bristol, Tyneside (Newcastle and Gateshead) and Sheffield.

- We published a set of policies and proposals through the Net Zero Growth Plan to help us deliver against our carbon budget targets.

- In pursuit of our Net Zero ambitions, we planted 3,128 hectares of new woodland and a further 499 hectares of trees outside of woodland in England in 2022-23.

- Through the Nature for Climate Peatland Grant Scheme (NCPGS), we have restored 4,323 hectares of peatlands to a natural and healthy state in 2022-23.

- Greenhouse gas emissions in the waste, land use and F (fluorinated) gas sectors continued to reduce towards our long term, challenging targets, but there was an increase in emissions from the agricultural sector.
- Delivery of 118 flood protection schemes resulted in over 59,000 households being better protected from flooding in 2022-23 This is part of our six year programme to better protect 336,000 households between 2021 and 2027.

- Maintaining our flood assets at the right condition is critical to flood prevention. At the end of 2022-23, 94.5 per cent of our flood assets were at the required condition against a target of 98 per cent.

- Responding to the Ukraine conflict we introduced biosecurity measures for pets and supported farmers by delaying restrictions and making payment advances.

Chapter 2 – Performance Analysis

This chapter is structured by the four priority outcomes in Defra's 2022-23 Outcome Delivery Plan (ODP). Under each priority outcome we explain how we intended to achieve those outcomes and the success of those intentions. We include key performance metrics, agreed at the 2021 Spending Review (SR21), to measure our success towards delivering those outcomes. Performance against these metrics was reported to the Cabinet Office and HM Treasury. A wider set of metrics was also reported quarterly to our Executive Committee (ExCo) and to Defra's board, as part of an integrated reporting cycle that brings together operational activity and risk, quarterly outcome monitoring and progress in delivering our priority portfolios and programmes.

As part of the annual business planning process, we continually refine our performance framework so that it covers both our strategic, longer-term outcomes and the metrics we use at delivery and operational level. This explains why the list of indicators may change from one year to the next. As we were not required to publish ODPs in 2022-23, this report covers the key performance indicators as agreed with HM Treasury in our SR21 settlement.

Performance by priority outcome

Priority outcome 1: Improve the environment through cleaner air and water, minimised waste, and thriving plants and terrestrial and marine wildlife.

Defra's 25 Year Environment Plan (25 YEP) sets out our approach to improving the environment through cleaner air and water, minimised waste, and thriving plants and terrestrial and marine wildlife. Under the Environment Act 2021 the 25 YEP was designated the first Environmental Improvement Plan (EIP). In December 2022, we published a suite of legally binding long-term targets and in January 2023, we published our revised EIP23 for England. It builds on the 25 YEP vision with a new plan setting out how we will work with landowners, communities and businesses to deliver each of our goals for improving the environment, matched with interim targets to measure progress. Taking these actions will help us restore nature, reduce environmental pollution, and increase the prosperity of our country.

In May 2022, we published the environmental principles policy statement which set out how policymakers should apply environmental principles to support environmental protection and enhancement. The final version of the strategic policy statement was laid in Parliament on 31 January 2023 and the duty will come into force on 1 November 2023.

Air Quality

Air quality in the UK has improved significantly in recent decades with a decrease in all five major air pollutants. Emissions of fine particulate matter (PM2.5), the most damaging pollutant to human health, decreased by 18 per cent between 2010 and 2020. In January 2023, we announced ambitious new legally binding targets to reduce emissions and population exposure to fine particulate matter.

In July 2022, we opened a new £7 million round of Air Quality Grants for local authorities to find innovative ways to improve air quality and reduce the health impact of polluted air.

We announced the establishment of a new regulatory framework in August 2022 to boost industrial emissions standards and reduce air pollution.

More Clean Air Zones (CAZs) were rolled out: in Bradford (September 2022), Bristol (November 2022), Newcastle and Gateshead (January 2023) and Sheffield (February 2023).

Indicator: Key air pollutants emissions

Our long-term air quality targets remain challenging, but we are making progress. In 2021, the latest published data, the target for emission reductions for ammonia was met. While emissions in 2021 had not reduced by enough (from 2005 baseline) to meet the 2020-2029 commitment, an adjustment to the National Atmospheric Emissions inventory (NAE1) was accepted, which brought the UK into compliance. Emissions of PM2.5 reduced, but not enough to meet the 2020-2029 commitment. Projections published in March 2023 show the UK is at risk of not achieving emission reduction commitments for 2030 and that the UK will still be non-compliant with the 2020 and beyond target for PM2.5 in 2030. In 2021, the 2020-2029 target for sulphur dioxide emission reductions was met.

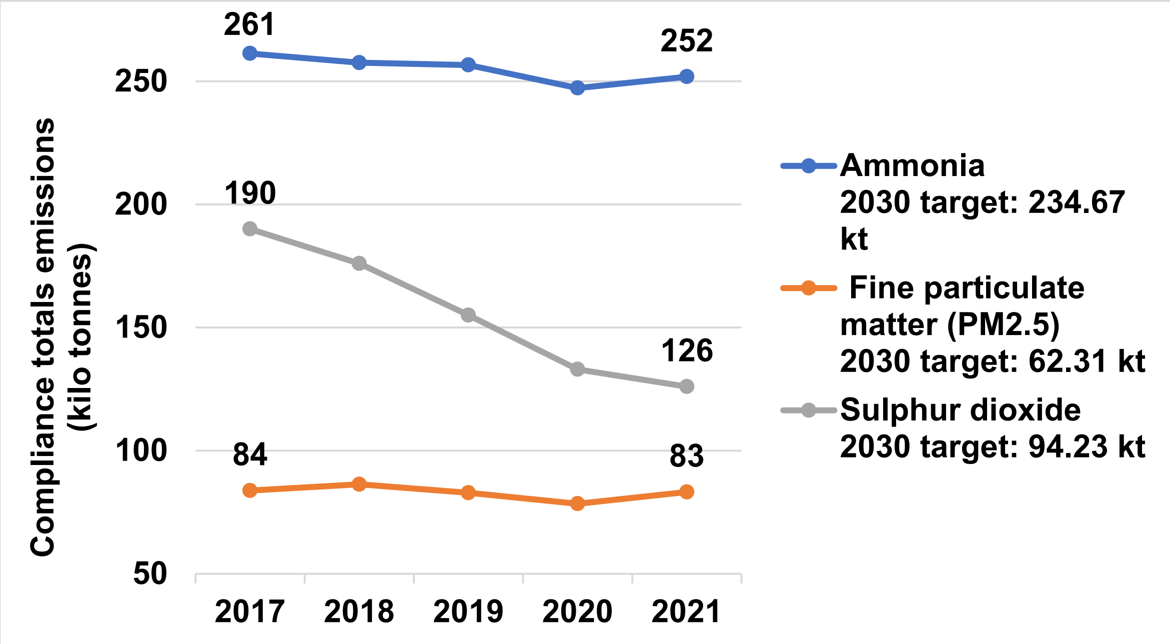


Figure 1: Air quality: emissions of ammonia, PM2.5 and sulphur dioxide

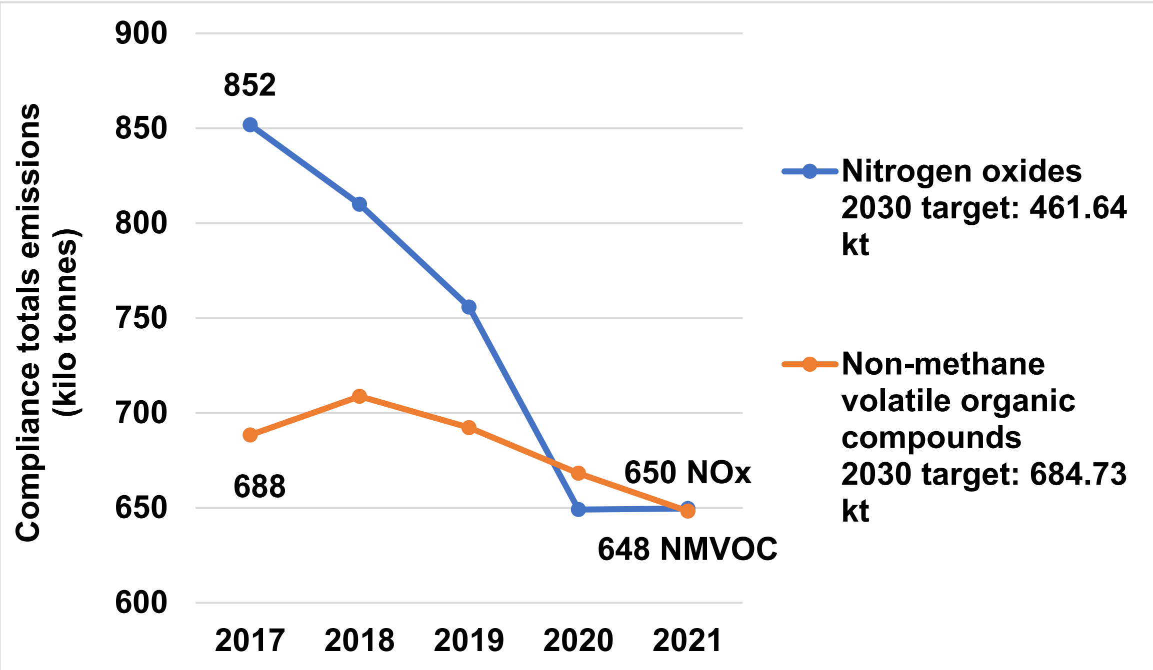


Figure 2: Air quality: emissions of nitrogen oxides and non-methane volatile organic compounds.

In 2021, the 2020-2029 target for nitrogen oxide and NMVOC (non-methane volatile organic compound) emission reductions were met. Projections published in March 2023 showed that with the existing 'firm and funded' policies and measures planned, the UK is on track to achieve the emission reduction commitments in 2030.

Water quality and resource

In January 2023, we published legally binding targets for water, including reducing river pollution from agriculture and abandoned metal mines and reducing public water supply usage. Our new Integrated Plan for Water will bring together actions already taken and new policies to transform management of the water system. This will make sure water companies speed up their infrastructure upgrades, bringing forward £1.6 billion for work to start between now and 2025.

We have already introduced targets for water companies to tackle sewage, and published our storm overflows discharge reduction plan,[8] setting new targets to protect people and the environment. In October 2022, we increased water company pollution penalties from £250,000 to £250 million.

The Secretary of State has challenged every water and sewerage company to set out plans to improve Britain's water infrastructure. In January 2023, we published a review of sustainable drainage systems, a legal requirement for new developments. Through the EIP23 we launched our roadmap on water efficiency in new developments and retrofits, to be delivered over the next decade.

In July 2022, we announced plans for improving reservoir safety through reforms to the regulatory regime and modernisation of the Reservoirs Act 1975.

Over 2022-23, we funded an expansion of the Environment Agency's (EA) agricultural inspections, enabling them to reach the target of 4,000 inspections.

Indicator: Percentage of bathing waters reaching minimum standard

In 2022, 97.1 per cent of bathing waters in England met minimum standards (2021: 99 per cent). Every designated bathing water in England is monitored for Escherichia coli and intestinal enterococci throughout the bathing season (15 May to 30 September).

[8] https://www.gov.uk/government/publications/storm-overflows-reduction-plan?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=2c46a888-8ca6-456a-92a7-4ee28d79beff&utm_content=daily#full-publication-update-history

Indicator: Number of kilometres of enhanced and protected water

Enhancements to English rivers and groundwaters have come from improvements to the environment under the Countryside Stewardship Programme, adopting new treatment processes, improving storm tanks, implementing measures to reduce invasive species and rectifying misconnections. We exceeded our 2022-23 target to enhance 2,058 km of waterbodies, enhancing a total of 2,300 km across the year.

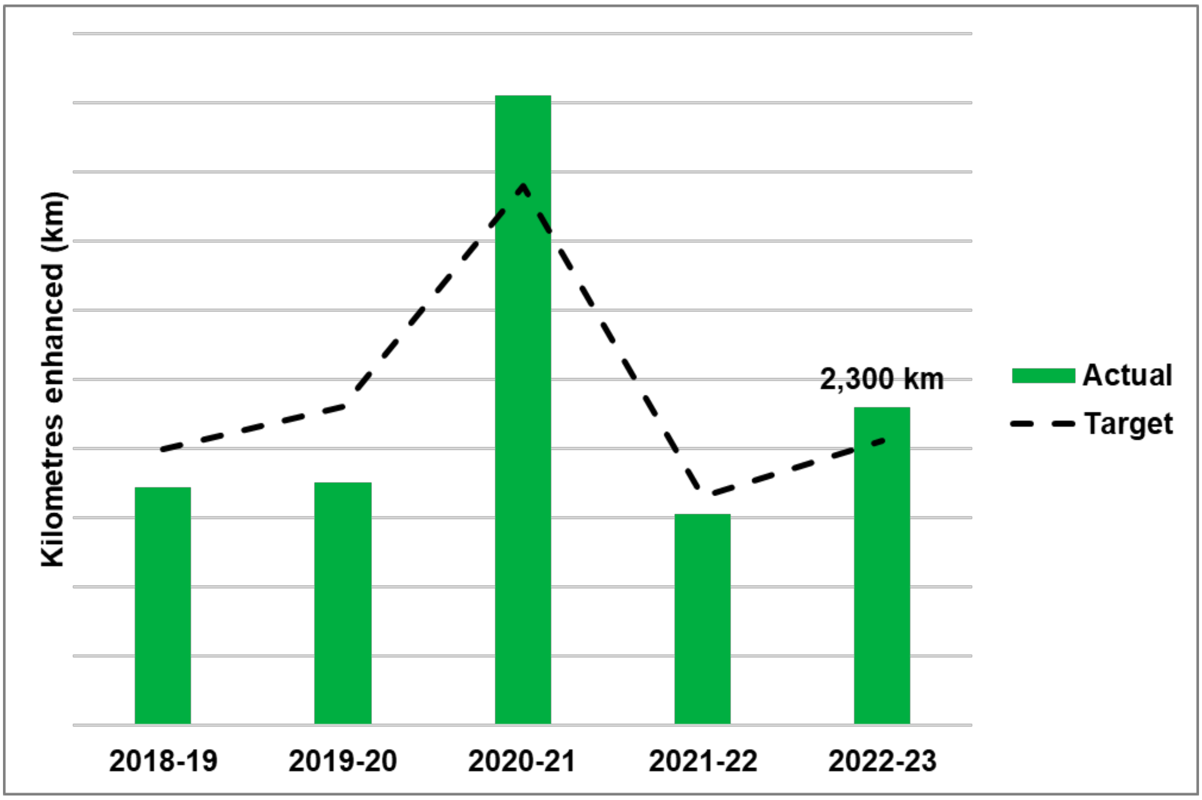


Figure 3: Kilometres (km) of enhanced and protected water

Indicator: Percentage of waters close to their natural state

Whilst the condition of water bodies has improved over the last century, progress has slowed since around 2009. Currently, 16 per cent of water bodies (and 14 per cent of rivers) in England meet good ecological status. Our target remains to restore 75 per cent of waters to good ecological status. During 2022-23, we increased action on agricultural pollution, storm sewage overflows from the water industry, bathing waters, and nutrient pollution of habitat sites.

Resources and waste

As part of a package of measures to reduce waste, we consulted on proposals to ensure free DIY waste disposal at household waste recycling centres to support responsible residential waste disposal. We also provided grant funding to help councils tackle fly-tipping, and through the Anti-social Behaviour Action Plan, published in March 2023, we set out how we will support councils to take tougher waste crime enforcement action.

To reduce plastic waste and emissions from it, we announced plans to ban a range of single-use plastics in England, including cutlery and plates and we published our Deposit Return Scheme (for drink containers) consultation response. We also set a legally binding EIP target to significantly reduce the total annual mass of residual waste per capita by 50 per cent by 2042 from 2019 levels. Interim targets to reduce residual waste across eight material groups including food, plastic, paper, metal and glass, were published in the EIP23. In February 2023, the Packaging Waste (Data Reporting) (England) Regulations 2023 came into force.

We continue to support the Waste and Resources Action Programme (WRAP) in delivering food waste reduction action. This included the Courtauld Commitment 2030[9] and its work across supply chains; through the Guardians of Grub programme; and through Food Waste Action Week and lovefoodhatewaste.

We committed to launch a call for evidence to support development of detailed policies to achieve the near elimination of biodegradable municipal waste going to landfill from 2028.

Indicator: Number of high-risk illegal waste sites

The overall trend shows a long-term decline in the number of recorded high-risk illegal waste sites, with the number reducing to closer to the ceiling target of 180.

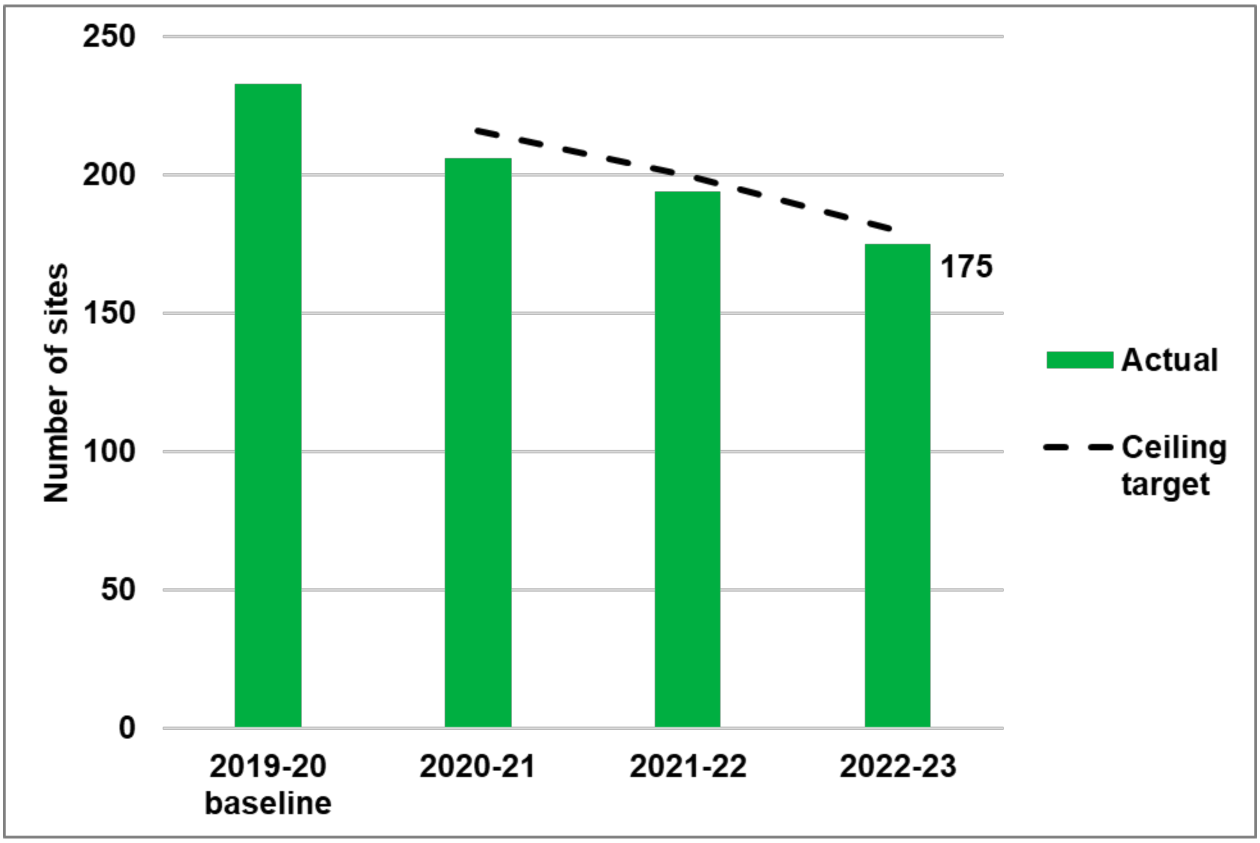


Figure 4: Number of high-risk illegal waste sites

[9] The Courtauld Commitment is a series of voluntary agreements that has reduced the carbon and wider environmental impact of the UK food and drink sector.

Indicator: Packaging waste recycling rates

The overall recycling rate has remained largely static. There was some volatility in the packaging waste recycling note (PRN) market in 2022, and there were a number of representations made by industry for mitigation in terms of achieving their individual recycling obligations. Higher producer targets are being set to 2030 as part of the Extended Producer Responsibility (EPR) reforms.

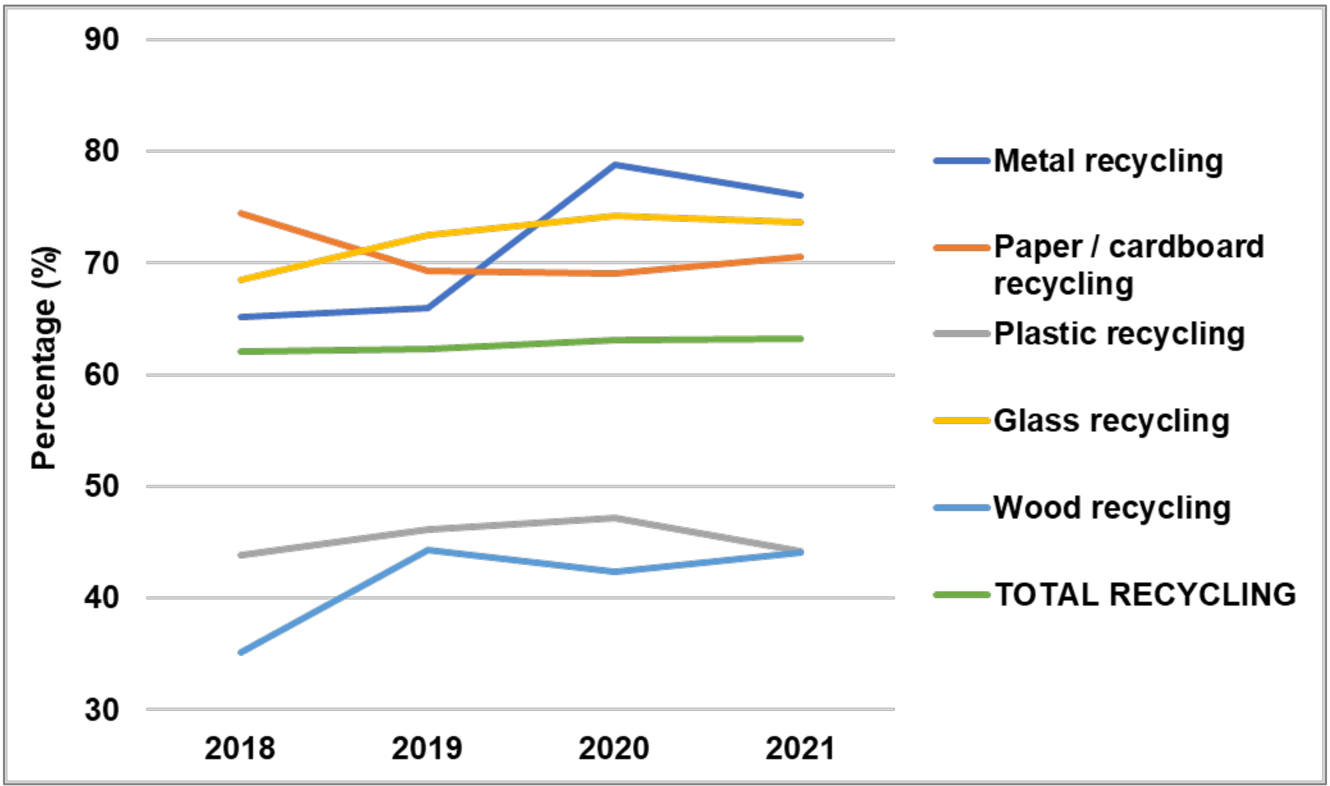


Figure 5: Packaging waste recycling rates

Domestic biodiversity

We announced legally binding biodiversity targets to halt and reverse the decline in species abundance, reduce species extinction risk, and restore or create over 500,000 hectares of wildlife-rich habitat. We have announced interim targets, including for all Sites of Special Scientific Interest (SSSI) to have up-to-date condition assessments and 50 per cent of SSSIs to have actions on track to achieve favourable condition.

Indicator: Number of hectares of priority habitat being created or restored

Priority Habitats are those which have been deemed to be of principal importance for the purpose of conserving biodiversity.

The data provided up to 2020 came from the Biodiversity 2020 programme under which data collection has now ended. Based on qualitative assessment, habitat creation to March 2023 was largely driven by the Nature for Climate Fund (NCF), agri-environmental schemes, including Landscape Recovery, and the first of our nature recovery projects, delivered by Natural England (NE) and covering varied landscapes and habitat types across England. Future actions that will deliver results quickly and therefore support delivery of the 2030 species target in particular are important. This includes, for example, improving the condition of existing habitats and rapidly increasing the extent of habitats that are quick to establish, such as scrub.

To support increased biodiversity in our environment, we launched five multi-partnership nature recovery projects spanning 100,000 hectares. These will create and restore wildlife-rich habitats, corridors and stepping stones which will help wildlife populations to move and thrive.

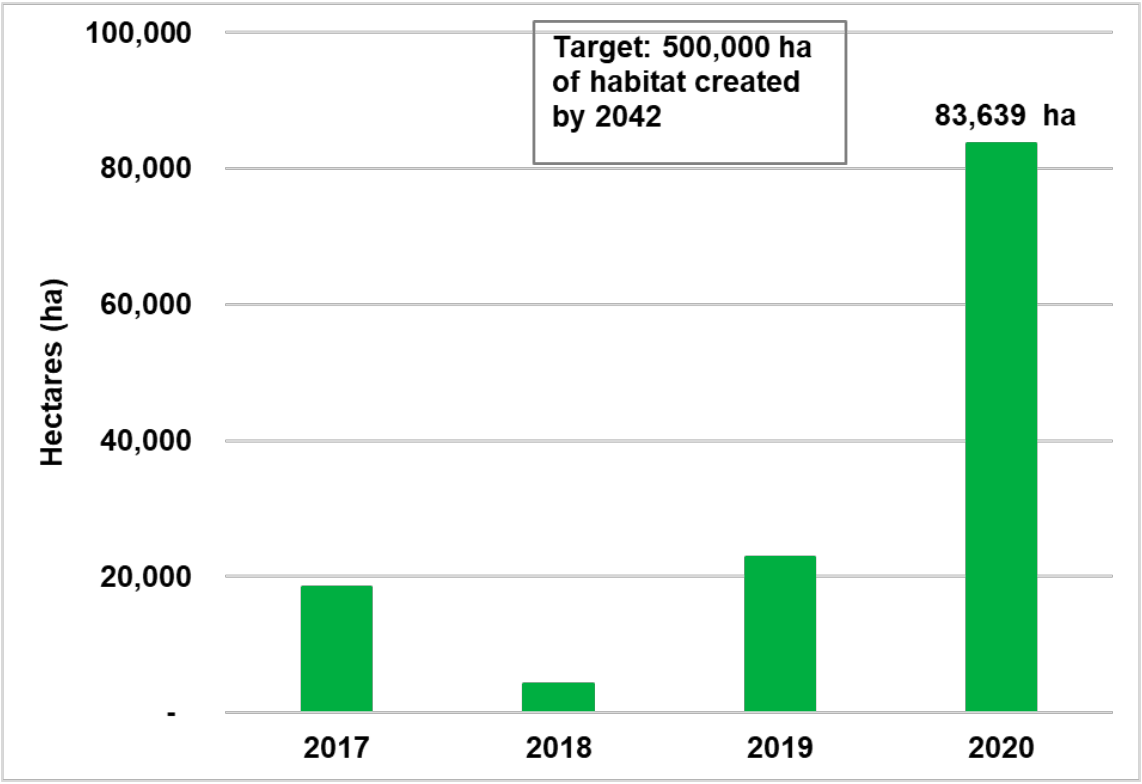


Figure 6: Priority habitat being created or restored.

We announced 22 projects that will receive funding through the Landscape Recovery scheme, aiming to restore nearly 700 kilometres of rivers and protect and enhance 263 species such as water vole, otter and marsh fritillary butterfly.

In May 2022, Natural England created a National Nature Reserve (NNR), that spans large parts of Somerset, protecting 6,140 hectares of precious saltmarsh, heath and wetland habitats, home to nationally significant wildlife populations. A further NNR was created in November, covering 3,000 hectares in Ennerdale, West Cumbria, with a landscape comprising water, forests, and mountains.

Biodiversity net gain (BNG) is a strategy to develop land and contribute to the recovery of nature and ensure the habitat for wildlife is in a better state than before development. In February 2023, we published guidance prior to the introduction of BNG expected in January 2024. Developers in England will be required to deliver ten per cent “Biodiversity Net Gain” when building new housing, industrial or commercial developments.

International biodiversity

Defra played a leading role at the UN biodiversity summit, Convention on Biological Diversity Conference of the Parties (COP15) held in Montreal in December. This led to a new deal to protect nature, agreed by almost 200 countries – the Kunming-Montreal Global Biodiversity Framework. Roundtable discussions delivered strong commitments from the private sector, governments, philanthropists and non-governmental organisations (NGOs) to work together to scale up investment at pace to halt and reverse global biodiversity loss by 2030.

We have continued to build and deliver a strong portfolio of Official Development Assistance (ODA) programmes to protect and restore nature and contribute to the UK's international commitments including on climate finance. This has included continued funding through the Darwin Initiative[10] and the Illegal Wildlife Trade Challenge Fund (IWTCF)[11]. These support direct conservation and poverty reduction, alongside work to support governments and financial institutions to integrate nature into their decision making. Examples include support to the United Nations Development Programme's Climate Promise and the Taskforce for Nature-Related Financial Disclosures, and funding to address critical research gaps through the new Global Centre for Biodiversity for Climate.

Access to nature

In the EIP we made a new commitment to ensure that everyone lives within 15 minutes of a green or blue space, and to reduce barriers to access. The commitment builds on work that is already happening across government, such as Department for Levelling Up, Housing and Communities' (DLUHC) Levelling Up Parks Fund, Natural England's Green Infrastructure Framework, Department for Transport's funding for active travel, and Defra's Urban Trees Challenge Fund. We are currently working to establish a robust baseline which maps walking distance to the nearest green space and working across government and with stakeholders to develop ambitious delivery plans and drive implementation.

Our aim, set out in the EIP, is to make the England Coast Path (now the King Charles III England Coast Path) fully walkable by the end of 2024. To date, 2,183 miles have been approved by government, of which 1,389 miles have establishment works in hand or pending. 794 miles have been completed with just 16 miles that remain to be submitted to government for approval. When complete it will be the longest managed coastal walking route in the world and will create 250,000 hectares of new open access land within the coastal margin.

Our proposal for the Coast to Coast walking route across the north of England to become a National Trail was approved by the Secretary of State and delivery of the new trail has begun. Expected to open in 2025, £5.6 million has been committed to upgrade the path, which will run from St Bees to Robin Hood's Bay. This will take walkers across some of the most beautiful parts of the north of England, including through three National Parks. It will bring increased access opportunities for recreation and tourism, increasing spend in local economies and contributing to levelling up.

[10] The Darwin Initiative is a UK government grants scheme that helps to protect biodiversity and the natural environment through locally based projects worldwide.
[11] The IWTCF provides funding for practical projects around the world that help eradicate illegal wildlife trade and, in doing so, reduce poverty.

Marine

UK Marine Strategy Regulations 2010 require the UK to take the necessary measures to achieve or maintain Good Environmental Status (GES) through the development of a UK Marine Strategy (UKMS). In October 2022, we published the updated UKMS Part Two which sets out the proposed monitoring programmes to provide evidence to support the 2024 assessment of progress towards achieving GES in UK seas.

Highly Protected Marine Areas (HPMAs) will enable nature to fully recover by removing all harmful activities including fishing, construction and dredging. In a UK-first, three marine areas are now under the highest level of protection in our seas, as their designations as HPMAs. Three HPMAs were designated on 5 July 2023. The intention is to explore further sites. We also announced a long-term target for 70 per cent of the designated features in the Marine Protected Area (MPA) network to be in favourable condition by 2042, with the remainder in recovering condition.

The Marine Management Organisation (MMO) introduced the first byelaws to protect four offshore MPAs from bottom-towed fishing gears and consulted on byelaws to manage a further 13 MPAs in January to March 2023.

We established a cross-government Marine Spatial Prioritisation programme to build our understanding of future demands, optimise use of our seas, maximise colocation between all sea users and prioritise use of our marine space. This will review how marine plans, the wider planning regime, legislation and guidance may need to evolve to ensure a more holistic approach to the use of the seas.

In January 2023, we tabled clauses in the Energy Bill to implement the Offshore Wind Environmental Improvement Package which is designed to accelerate the deployment of offshore wind while protecting and enhancing the marine environment.

We consulted on the principles of Marine Net Gain aims (an approach to development that that aims to leave the marine environment in a measurably better state than beforehand) between June to September 2022 and published the summary of responses in March 2023.

At the UN Ocean Conference in June 2022, we announced further UK support for the goal to protect 30 per cent of the world's ocean by 2030, including £154 million for coastal restoration and up to £100 million for marine protection.

Funding through Darwin Plus[12] and the Darwin initiative help to deliver the commitments set out in the Environment Act to halt and reverse the decline of biodiversity and improve species abundance. In May 2022, we announced that 20 environmental recovery projects in UK Overseas Territories would be supported to deliver marine conservation, research into threatened species, and improve resilience to climate change.

Chemicals and pesticides (domestic and international)

In June 2022, we published the latest UK National Implementation Plan (NIP) for the UN Stockholm Convention on Persistent Organic Pollutants (POPs) on the Stockholm Convention website. We continue to lead a multi-year process to add Medium Chained

[12] Darwin Plus is also known as the Overseas Territories Environment and Climate Fund

Chlorinated Paraffins (MCCPs) to POPs listed under the Convention. If adopted, this will lead to global restriction or elimination of MCCPs and reduce emissions to the environment.

UK REACH (Registration, Evaluation and Authorisation and Restriction of Chemicals) requires substances that are manufactured in, or imported into, GB to be registered with the Health and Safety Executive (HSE). In November 2022, we published our response to the public consultation on the extension of the deadlines for registration under UK REACH, to allow time for developing an alternative transitional registration model.

Alongside the HSE and Environment Agency, we are developing the first GB specific restriction proposals on lead in ammunition and tattoo inks under the UK REACH Work Programme.

Rural

We have responsibility for 'rural proofing' and supporting government departments to consider the needs of rural areas in designing and delivering policies. In September 2022, we published our second annual report: Delivering for rural England[13]. This report presents an evidence-based picture which helps us to understand what levelling up might look like in rural areas and provides a basis for future priorities.

Working with Department for Levelling Up, Housing and Communities (DLUHC) we unveiled a £110 million fund to level up rural communities. The funding will invest in projects to boost productivity and create rural job opportunities. These could include farm businesses looking to diversify by opening a farm shop, wedding venue or tourism facilities or improvements to village halls, pubs and other rural hubs for community uses.

In December 2022, we opened applications for the new £3 million Platinum Jubilee Village Hall fund to improve more than 100 village halls. Village halls are key cornerstones in the fabric of rural life, providing essential services and bringing people together through social and recreational activities.

[13] https://www.gov.uk/government/publications/delivering-for-rural-england

Our priority outcome **to improve the environment through cleaner air and water, minimised waste, and thriving plants and terrestrial and marine wildlife**, contributes to the following United Nations Sustainable Development Goals (SDGs):

SDG3: Ensure healthy lives and promote well-being for all at all ages.
SDG6: Ensure availability and sustainable management of water and sanitation for all.
SDG8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
SDG9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
SDG11: Make cities and human settlements inclusive, safe, resilient and sustainable.
SDG12: Ensure sustainable consumption and production patterns.
SDG14: Conserve and sustainably use the ocean, seas and marine resources for sustainable development.
SDG15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Priority outcome 2: Reduce greenhouse gas (GHG) emissions and increase carbon storage in the agricultural, waste, peat and tree planting sectors to help deliver net zero.

We continued to contribute to the cross-cutting net zero ambition, led by the Department for Energy Security and Net Zero (DESNZ). Our key programmes take a dual approach: to minimise emissions or maximise carbon sequestration whilst taking account of our wider environmental commitments. We are responsible for reducing emissions from agriculture, land use (including peat), fluorinated greenhouse gases and waste (including wastewater), whilst simultaneously increasing England's carbon sequestration potential through nature-based solutions, such as our forestry and peatland policies. In EIP23 we set out our future ambitions for land use to support net zero alongside nature, biodiversity and climate adaptation goals.

Carbon budgets

We have contributed to the Net Zero Growth Plan, part of the Powering up Britain[14] plans published by the DESNZ in March 2023. These set out how Defra's policies and proposals will contribute to the UK's net zero objectives. The Net Zero Growth Plan set out our ambition to reduce emissions from Defra sectors as part of an overall reduction across the economy of 78 per cent by Carbon Budget 6[15]. For agriculture and other land use emissions the ambition could reduce emissions by 20 per cent to 37 per cent on average over 2033-37, and for waste, wastewater and fluorinated gas (F-gas) emissions could fall by 56 per cent on average over 2033-37, compared to 2021 emissions levels.

Indicator: Greenhouse gas emissions by sector: waste, agriculture, land use, land use change, forestry (LULUCF), million tonnes of CO2 equivalent.

Waste emissions decreased from 19.0 MtCO2e in 2020 to 18.7 MtCO2e in 2021 (approximately two per cent decrease). Agriculture emissions have risen from 46.6 MtCO2e in 2020 to 47.9 MtCO2e in 2021 (approximately three per cent increase). LULUCF emissions have decreased marginally (from 1.2 to 1.1). However, there have been adjustments to the emissions due to the inclusion of adjusted peat in the 2021 inventory. LULUCF emissions were previously 4.0 in the 2020 inventory.

[14] https://www.gov.uk/government/publications/powering-up-britain

[15] A carbon budget is a cap on the amount of greenhouse gases emitted in the UK over a five-year period. Carbon Budget 6 covers the period from 2033 to 2037.

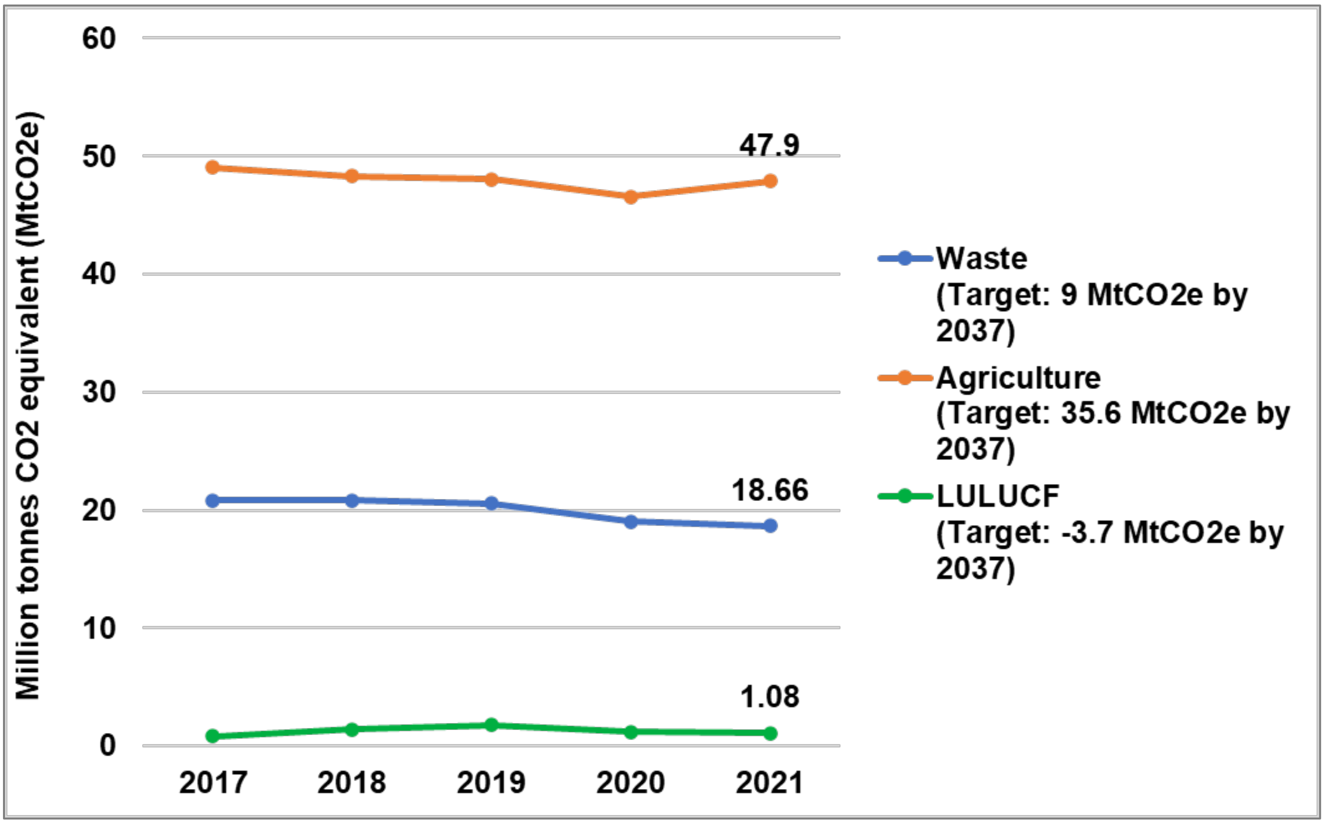


Figure 7: Greenhouse gas emissions by sector.

Peatlands and wetlands

Nature-based solutions, like restoring peat and planting trees, are key to tackling climate change and averting its impacts.

The NCF is providing over £33 million to restore 20,000 hectares of peatlands to a natural and healthy state via the Peatland Grant Scheme. The NCF Discovery Grant has awarded over £5 million to fifteen projects, enabling the foundation work needed to prepare for the restoration of over 51,000 hectares of peatland. The third round of the Restoration Grant opened to applications in March 2023.

We are updating our England peat map by 2024 to establish a clear evidence base on which to build and we are working on a roadmap to deliver our ambitious target to restore approximately 280,000 hectares of peatland by 2050.

The second round of the Natural Environment Investment Readiness Fund (NEIRF) provides grants of up to £100,000 to environmental groups, local authorities, businesses and other organisations to help them develop nature projects to a point where they can attract private investment. Projects include rewetting lowland peat to grow plant fibre material to use as padding for clothes.

Results from our consultation on the sale of peat showed that over 95 per cent of responses called for a ban. In England we are committed to end the sale of peat in horticultural growing media in the amateur sector by 2024 and in the professional sector by 2026, with limited exemptions.

The government has funded a package of reforms to the Peatland Code, version two of which was launched in March 2023. The changes include expanding the code to cover more peatland types, such as fens as well as peat at more shallow depths.

Indicator: Hectares (ha) of peatland brought under restoration

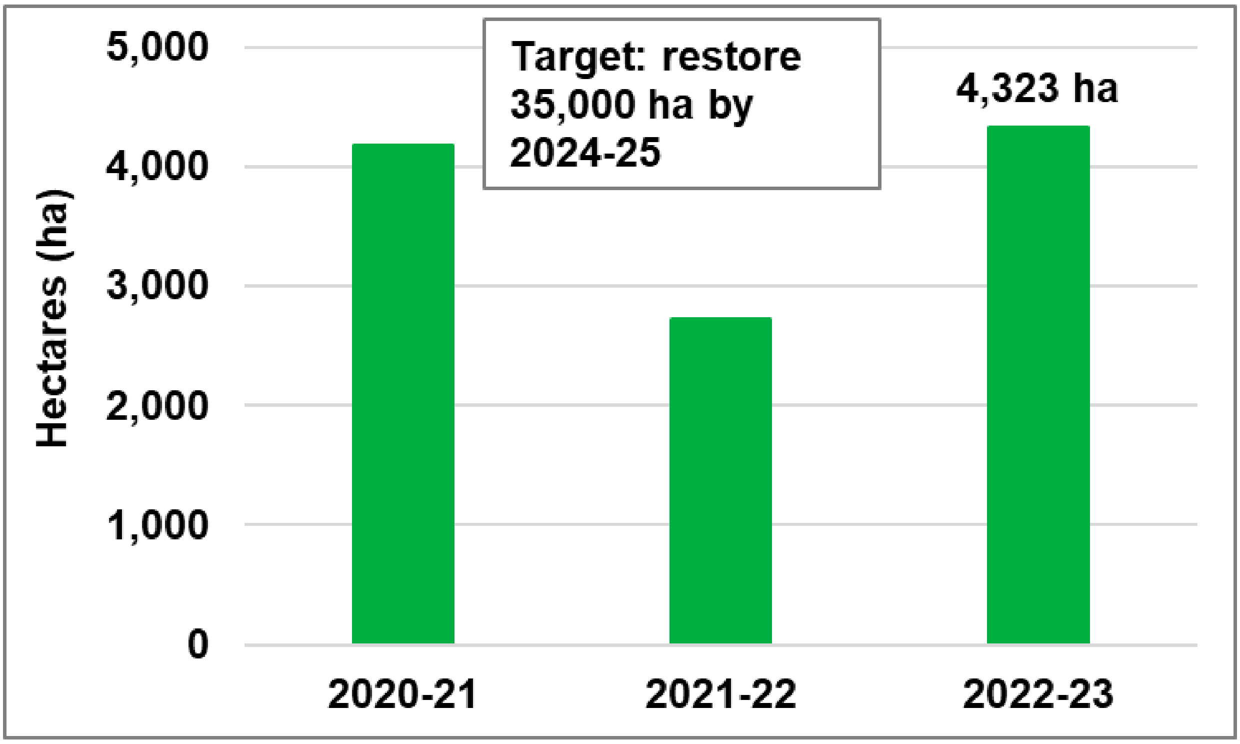


Figure 8: Hectares of peatland brought under restoration.

Figure 8 shows restoration undertaken via the Nature for Climate Fund, 2020-21 figures from the direct award scheme and 2021-22 and 2022-23 from the Peatland Grant Scheme.

Through the Nature for Climate Peatland Grant Scheme (NCPGS), we have restored 4,323 hectares of peatlands to a natural and healthy state in 2022-23, with an additional 8,000 hectares committed for restoration over the next 2 years. Discovery Grants have been exploring the restoration potential of another 50,000 hectares which we hope to see restored through future years of the scheme. NE has awarded a total of £33.6 million in grants to NCPGS projects, with £14 million claimed to date.

Trees

Our statutory tree and woodland target is to increase tree canopy and woodland cover in England to 16.5 per cent by 2050, with a new interim target to increase this by 0.26 per cent of England’s land area (equivalent to 34,000 hectares) by 31 January 2028, in line with the trajectory required to achieve the long-term target.

To help achieve this target, we opened a new £7.8 million Woodland Creation Accelerator Fund to support local authorities with the new staff and expertise needed to kickstart woodland creation and tree-planting plans. Working with the Forestry Commission as part of the £750 million NCF, successful applicants to the fund will be awarded up to £150,000 each.

In addition, a £44.2 million fund for community forests and woodland creation partners will allow millions of trees to be planted nationwide and will create more green jobs within the forestry and environmental sectors.

In February 2023, we made over £14 million available to allow both local authorities and community groups to access funds for new tree-planting projects. This included the Local Authority Treescapes Fund (LATF) and the Urban Tree Challenge Fund (UTCF).

Indicator: Hectares of trees planted (England only).

A total of 3,128[16] hectares of new woodland planting and a further 499 hectares of trees outside of Woodland was recorded in England in 2022-23, corresponding to about 4 million trees. This is a 40 per cent increase on the previous year. Schemes include the Community Forests and the Forestry Commission's England Woodland Creation Offer, which make up just under 60 per cent of trees planted in 2022-23. Other contributions include the Countryside Stewardship (CS), the Northern Forest Partnership, the Woodland Carbon Fund, the High Speed 2 Woodland Fund, Forestry England, the Environment Agency (EA), and the National Forest Company. To stay on course, we need to ensure several critical success factors are in place; this includes communicating with landowners about the tree planting grants on offer and the transition plans to Environmental Land Management (ELM); reducing application processing time and streamlining regulatory processes; and building up key skills in industry and supply in nurseries.

Over the last five years there has been an upward trend in tree planting rates in England, with rates doubling since 2018-19 and the highest level of tree planting for over a decade. Although the target to 2025 is stretching, we have a strong pipeline of planting projects supported through the NCF and are working closely with all our partners to ensure we plant as many of the right trees, in the right place, as is possible each planting season (from September-October to April).

[16] This is a provisional figure. See https://www.gov.uk/government/statistics/forestry-commission-key-performance-indicators-report-for-2022-23

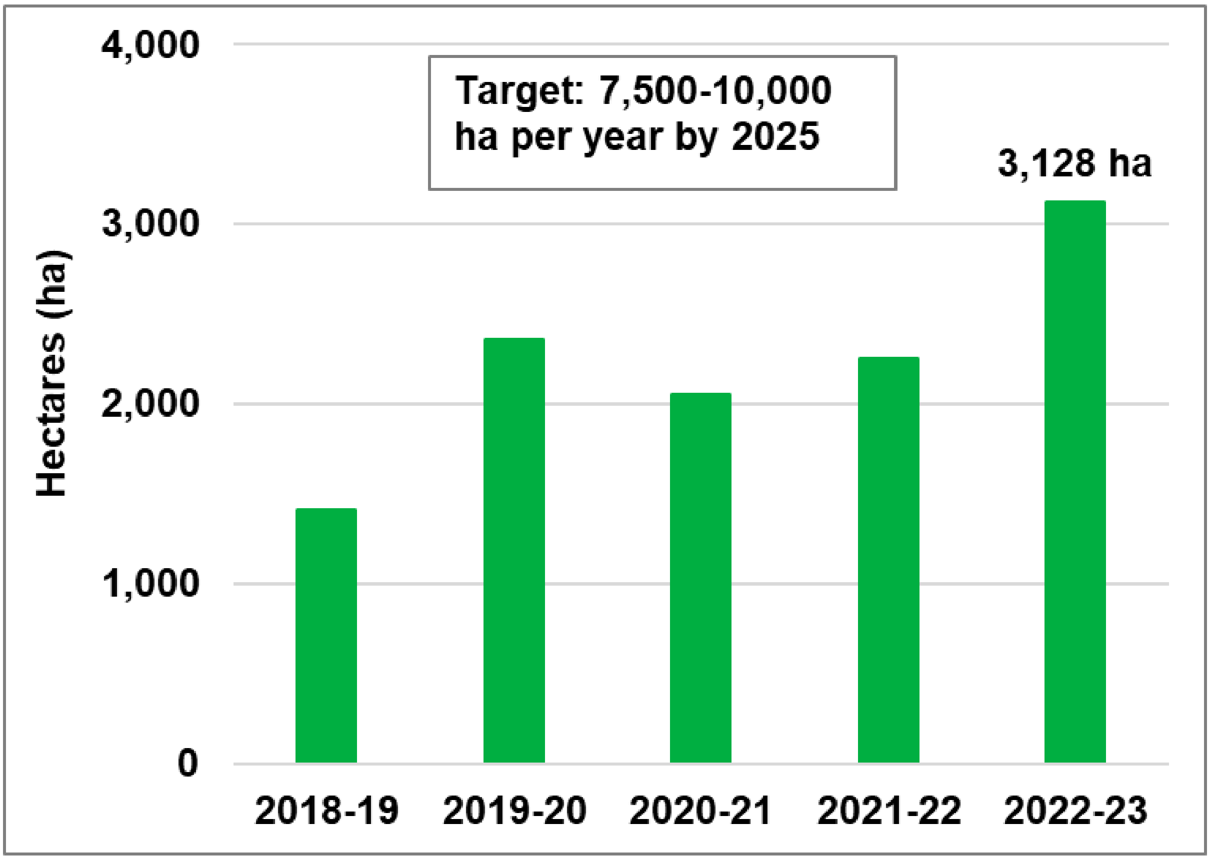


Figure 9 Hectares of trees planted.

Agriculture

We have made progress on key Net Zero Strategy commitments, publishing updates on how ELM schemes will pay farmers to provide a range of public goods, including actions to reduce GHG emissions.

The roll out of the Sustainable Farming Incentive (SFI) scheme is being accelerated and we have confirmed the full range of future payable actions across the SFI and the CS scheme. In January 2023, we announced six new SFI standards. Actions under these standards will help towards decarbonising the agriculture sector and in the EIP we committed to consulting this year on extending environmental permitting to the beef and dairy sectors.

We opened the £270 million Farming Innovation Programme (FIP) in 2021. In partnership with UK Research and Innovation (UKRI), we have already committed £68 million up to the end of 2022 and will provide further grants of £51 million in 2023 to facilitate the development and adoption of emerging farming technologies that will help reduce GHG emissions.

Fluorinated gases (F gas)

During 2022-23, we published various guidance for users, producers and traders, such as on producing, importing or exporting F gas and equipment. We published a report on the assessment of the F gas Regulation in GB which provided a comprehensive review of current regulation, as well as against its objectives to reduce F gas use and emissions, identifying possible opportunities for further abatement.

Indicator: Change in Hydrofluorocarbons (HFC) greenhouse gas emissions

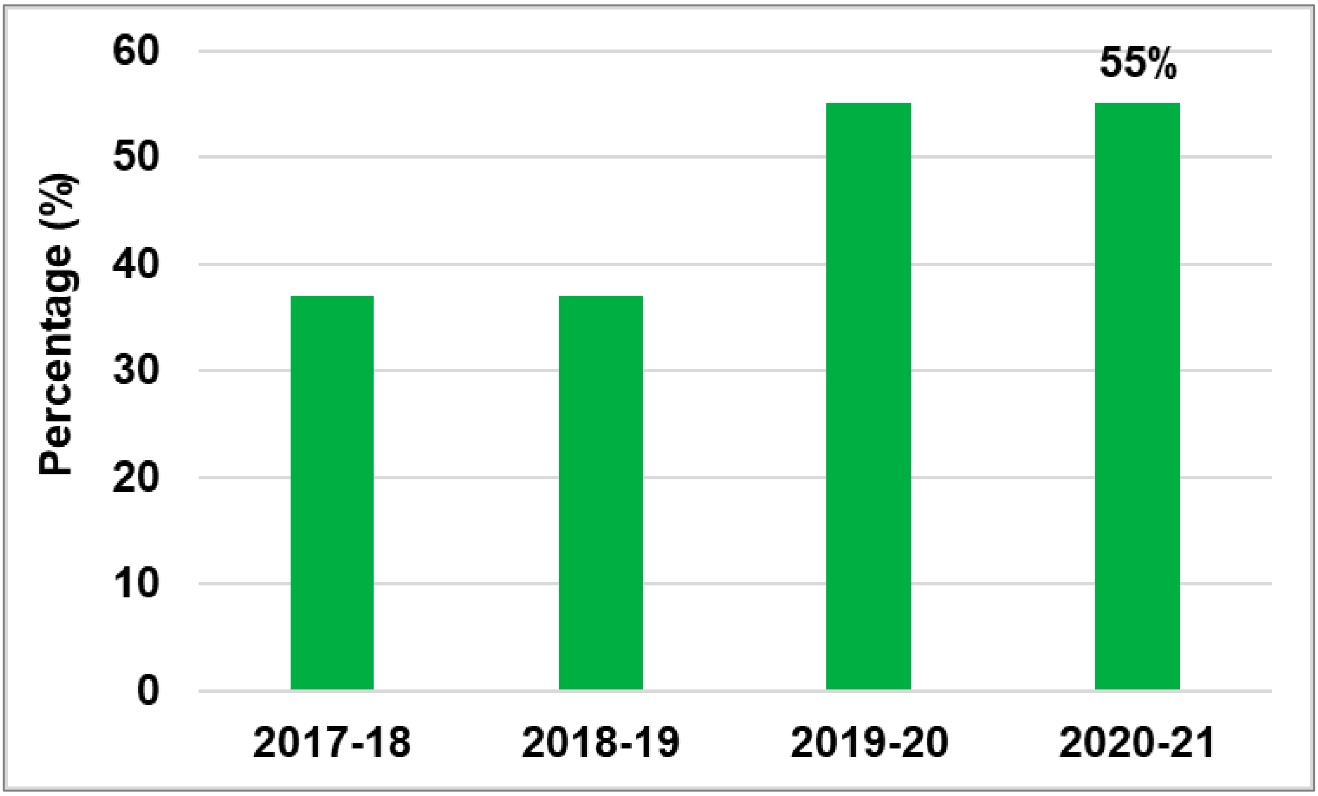


Figure 10: Percentage phasedown in HFC gases relative to 2015-16

The stepped HFC phasedown is reducing the amount of HFCs placed on the market and this increased to a 55 per cent drop at the end of 2020, compared to a 2015-16 baseline. This cut will increase to 79 per cent by 2030. The next update will be in March 2024 at which point we will have implemented a 69 per cent cut.

Our priority outcome **to reduce greenhouse gas emissions and increase carbon storage in the agricultural, waste, peat and tree planting sectors to help deliver net zero,** contributes to the following United Nations Sustainable Development Goals (SDGs):

SDG12: Ensure sustainable consumption and production patterns.
SDG13: Take urgent action to combat climate change and its impacts.
SDG15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Priority outcome 3: Reduce the likelihood and impact of flooding and coastal erosion on people, businesses, communities and the environment.

Our long-term ambition is to create a nation more resilient to future flood and coastal erosion risk, and in doing so reduce the risk of harm to people, the environment and the economy.

Image credit: Environment Agency

In the second year of our 6-year £5.2 billion Flood and Coastal Erosion Defence Investment Programme we delivered 118 flood protection schemes, resulting in over 59,000 households being better protected from flooding in 2022-23. This programme, runs from April 2021 to 31 March 2027, and aims to create a nation more resilient to future flood and coastal erosion risk. One of the most significant projects was the £38 million upgrade of the Foss Barrier in York, better protecting 2,000 properties and making the city more resilient to the impacts of climate change.

As part of this programme, we announced the £100 million Frequently Flooded Allowance[17], targeted at eligible communities where 10 or more properties have flooded twice or more in the last 10 years.

We have increased revenue funding for flood defence maintenance, with an extra £22 million per year between 2022-23 and 2024-25.

We introduced regulations that allow Flood Re[18] to pay claims from participating insurers which include an amount for resilient repair (Build Back Better) up to a value of £10,000 over and above the cost for like-for-like reinstatement of actual flood damage.

In August 2022, the government published significantly updated planning guidance on flood risk and coastal change to help councils take climate change into consideration and make more informed decisions on whether a new development should go ahead.

In December 2022, we published the Natural Flood Management Programme: evaluation report[19]. The learning from this will support our commitment to double the number of government funded natural flood management schemes.

In total, the Property Flood Resilience grant schemes that ran between 2019 and 2022 supported over 2,600 households and businesses in more than 40 local authorities, with over £10.5 million provided in grants to enable resilient measures to be put in place.

[17] https://www.gov.uk/government/news/repeatedly-flooded-communities-to-receive-dedicated-funding
[18] Flood Re is a joint initiative between the government and insurers. Its aim is to make the flood cover part of household insurance policies more affordable.
[19] https://www.gov.uk/government/publications/natural-flood-management-programme-evaluation-report/natural-flood-management-programme-evaluation-report

Indicator: Number of properties better protected from flooding in England

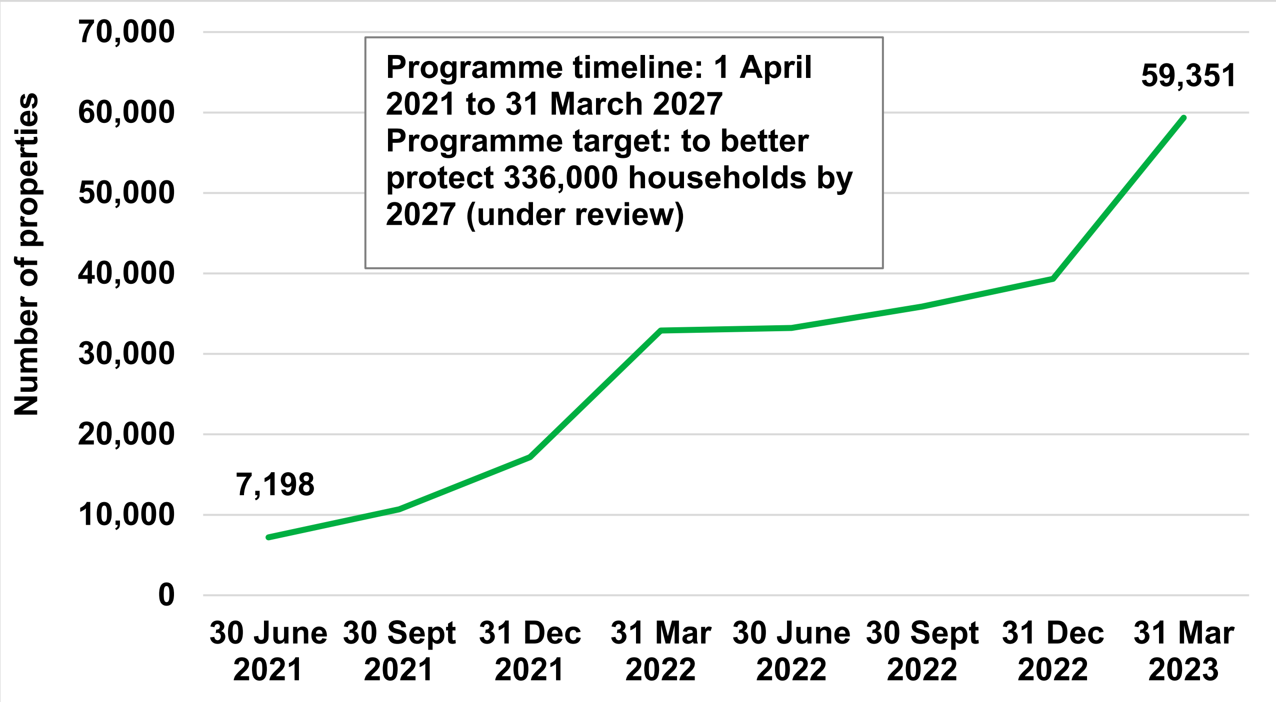


Figure 11: Properties better protected from flooding in England (cumulative totals)

Indicator: Percentage of flood defence assets at required condition

Maintaining flood defence assets at the required condition is essential in our efforts to reduce flood risk. The Environment Agency categorize their assets as being High, Medium or Low consequence based on the impact of flooding on the number of properties, or land use, should an asset in that system fail. The condition of the EA's high consequence system assets improved over the second half of 2022-23 to 94.5 per cent, against a target for this Spending Review period of 94 per cent – 95 per cent. Our long term target is 98 per cent.

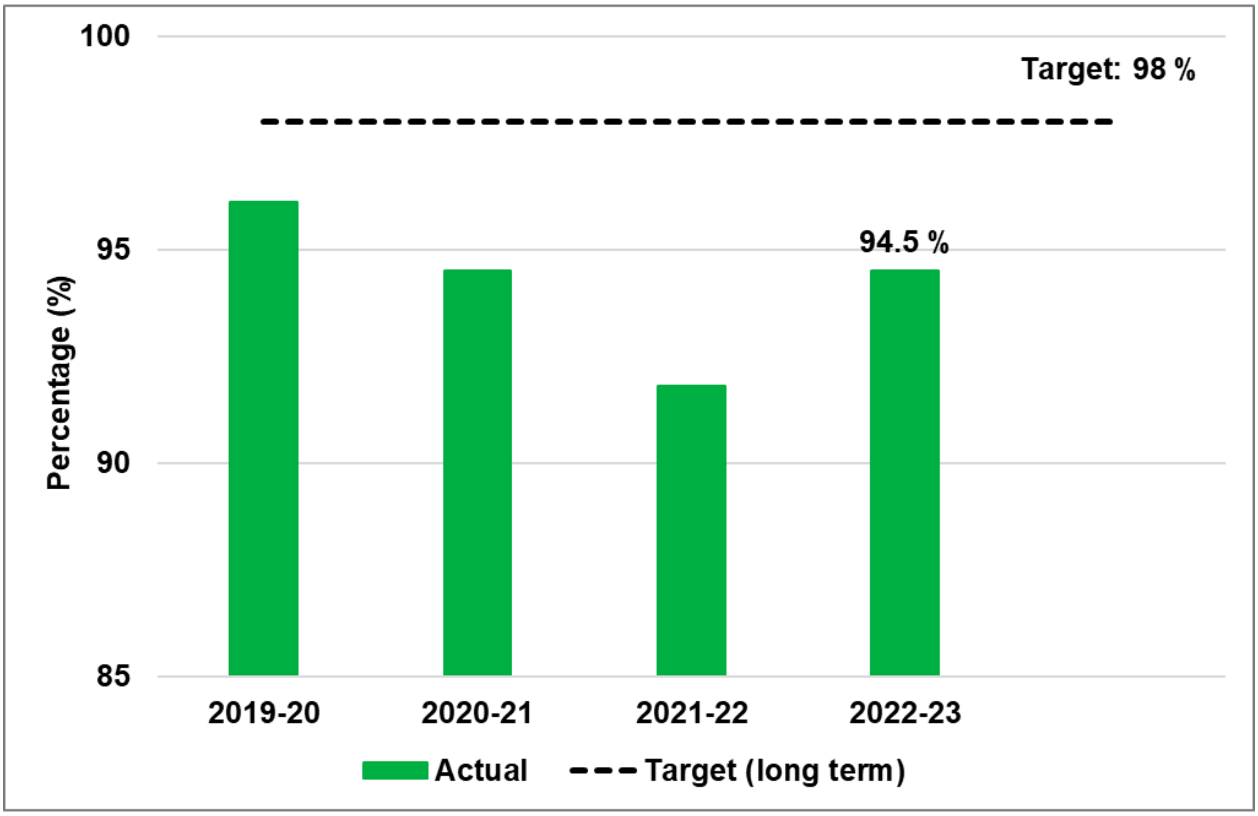


Figure 12: Flood and coastal risk management assets at or above the target condition

Preparing for a changing climate, or climate adaptation, will help the UK to reduce negative consequences of climate change and take advantage of new opportunities. Building the UK's preparedness and resilience to climate change impacts is a cost-effective and essential way to protect our people, economy and environment. The National Adaptation Programme (NAP) sets out the actions that the government will take to adapt to the challenges of climate change in England over a five-year period. Our third NAP (NAP3) was published in July 2023 and details the policies developed across government to respond to each of the 61 climate risks and opportunities to the UK identified in the government's Third Climate Change Risk Assessment. Alongside NAP3 we will publish our strategy for the fourth round of reporting under the Adaptation Reporting Power, which will improve the information that government gathers on the climate change preparedness of infrastructure sectors.

Incident response

Throughout the year, we successfully responded to multiple incidents, including flooding and interruptions to the supply of drinking water to reduce the impacts on people, businesses, communities and the environment. Some examples include a rapid emergency response to the periods of extreme heat in summer 2022, periods of cold weather in winter 2022-23 and responding to the flooding which affected parts of England in January. The latter included close working with the EA to deploy temporary defences along the River Severn and full implementation of the Somerset Levels Pumping Plan to remove water from roads and agricultural land.

We continued to improve resilience in several areas, including working with water companies to identify and drive improvements to their emergency response arrangements, working with partners to maintain capability for flood rescue in England and recovery capability following the release of Chemical, Biological, Radiological or Nuclear material.

As part of our response to drought last summer, we provided support to farmers and land managers, with temporary adjustments to the CS and Environmental Stewardship (ES) schemes.

Our priority outcome to **reduce the likelihood and impact of flooding and coastal erosion on people, businesses, communities and the environment**, contributes to the following United Nations Sustainable Development Goals (SDGs):

SDG11: Make cities and human settlements inclusive, safe, resilient and sustainable.
SDG13: Take urgent action to combat climate change and its impacts.

Priority outcome 4: Increase the sustainability, productivity and resilience of the agriculture, fishing, food and drink sectors, enhance biosecurity at the border and raise animal welfare standards.

We have made significant progress in key areas across this outcome whilst managing on-going challenges including biosecurity risk, food cost, supply and the farming sector.

Following a successful payment position on Basic Payment Scheme (BPS), ES and CS we adapted our offers to account for inflation by updating payment rates for both CS revenue options and capital items from the start of this year. We also introduced a new Sustainable Farming Incentive (SFI) payment to cover the management costs of being in an SFI agreement. We published the full description of the ELM offers that will be available from next year and confirmed the roll out of six new standards to support food production and sustainable farming. We successful launched a range of grants, CS and annual health visits as part of our animal health and welfare pathway.

Agriculture

Under the Agricultural Transition plan, we are gradually phasing out Direct Payments by 2027. Progressive reductions were introduced to the Basic Payment Scheme (BPS) in 2021, with the money saved going back to farmers through the rollout of future farming schemes. BPS payments are now being made in two instalments each year for the remainder of the agricultural transition period. Around 50 per cent of the overall payment, amounting to over £679 million, was issued in the summer, with the remaining balance paid from December 2022.

We introduced the Landscape Recovery scheme, one of three new ELM schemes which supports action at farm level to make agriculture more sustainable, and Local Nature Recovery, which will support action at local level to make space for nature alongside food production.

Three standards to improve soil health and moorlands were introduced in 2022 and in January 2023 six more standards were introduced, including payments for actions on hedgerows, grassland, arable and horticultural land, pest management and nutrient management.

To reward farmers and land managers for their actions to protect and improve their natural environment, we opened applications to farmers and land managers for CS Higher Tier agreements starting from January 2024.

In December 2022, we announced that an allocation of 45,000 visas would be made available in 2023 to businesses in the horticulture sector to recruit foreign workers for up to six months, an uplift of 15,000 visas compared to the allocation at the start of 2022. The poultry sector will continue to have access to a further 2,000 seasonal worker visas.

Indicator: Productivity of UK agricultural industry

Total factor productivity is estimated to have increased by 3.4 per cent between 2021 and 2022. This was driven by a 3.3 per cent decrease in the volume of all inputs which offset a very slight decrease in the volume of all outputs (less than 0.1 per cent). ‘All inputs’ captures items which are used in agricultural production e.g. fertiliser, energy and seeds. ‘All outputs’ captures agricultural commodities e.g. wheat, beef and milk. The volume of inputs decreased as rising costs of goods pressured farmers to cut down on costs where possible.

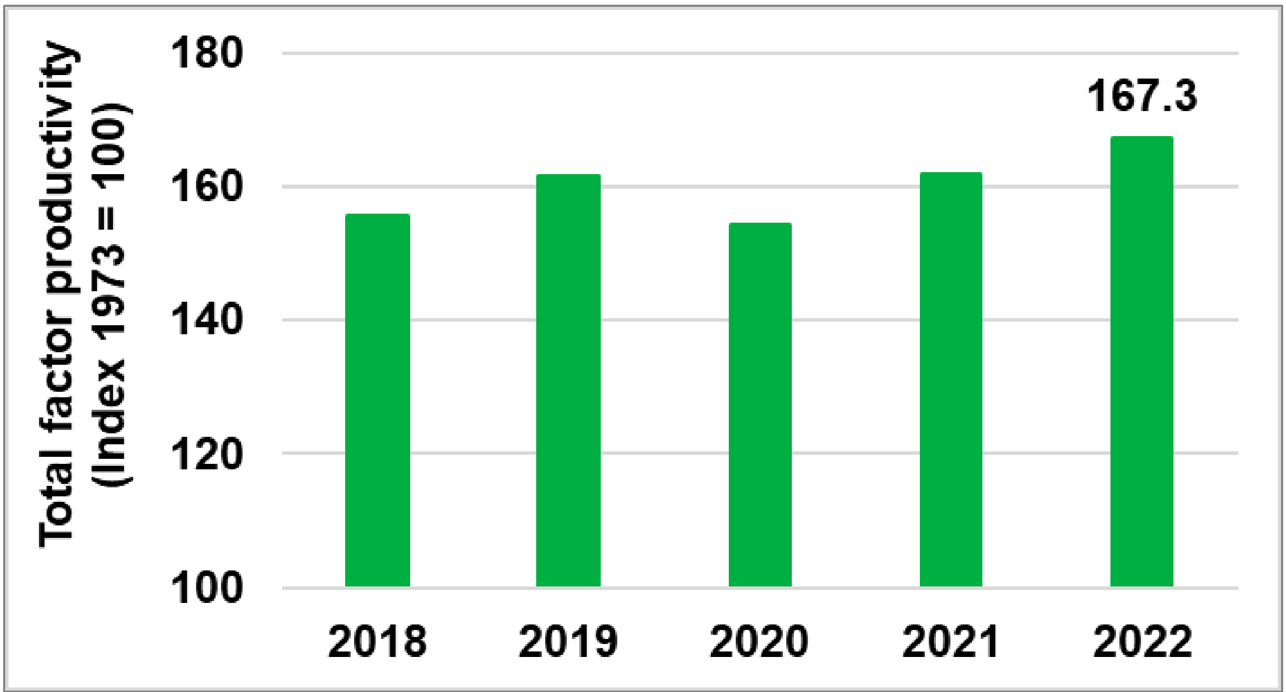


Figure 13: Productivity of the UK agricultural industry

UK fishing

In November 2022, we and the devolved administrations (DAs) published the Joint Fisheries Statement (JFS) a legal requirement implemented through our delivery of the Fisheries Act 2020. The JFS sets out how UK fisheries policy authorities (us and the DAs) will deliver the JFS objectives. This includes the UK Fisheries Management and Support Framework and the establishment of fisheries management plans [20] for English waters (published September 2022), enabling the UK to continue the delivery of world class, sustainable management of fisheries.

We relaunched the Fisheries and Seafood Scheme (FaSS) in England to help support the long-term sustainability, resilience, and prosperity of our seafood sector. We also extended the UK Seafood Fund (UKSF) to March 2025 to allow longer-term projects to deliver. The UKSF awarded £6.1 million to research projects, £20 million to seven infrastructure projects and £1.1 million to seven new training projects.

In August 2022, we set out how the UK will achieve its ambitions to minimise and, where possible, eliminate marine wildlife bycatch and entanglement of sensitive marine species in UK fisheries.

We reached agreement with Norway that secured fishing opportunities worth nearly £5 million in 2023 for the UK fishing industry. In December 2022, we reached agreement with

[20] https://www.gov.uk/government/publications/fisheries-management-plans

the EU to benefit from 140,000 tonnes of fishing opportunities worth over £280 million in 2023, with further commitments to joint sustainable fisheries management.

Indicator: Percentage of total allowable catches (TACs) for quotas for fish stocks of UK interest that have been set consistent with maximum sustainable yield (MSY)

The assessment for 2023 shows that 50 per cent of the total allowable catches of TACs which relate to maximum sustainable yield (MSY) advice were set consistent with MSY advice (27 out of 54 TACs). The report published in February 2023 Assessing the sustainability of fisheries catch limits negotiated by the UK for 2023[21] describes the assessment of TACs set during annual consultations for 2023. TACs were set for 2023 and figure 14 shows the position that includes January to March 2023.

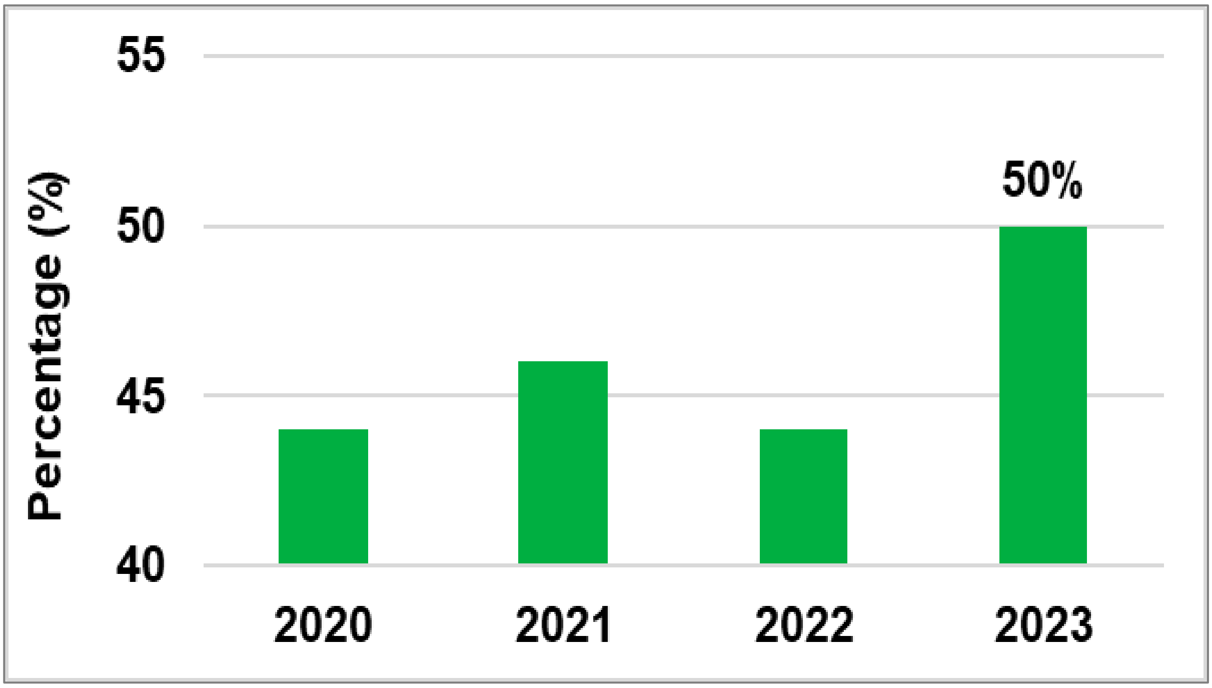


Figure 14: Percentage of TACs that have been set consistent with MSY.

Food industry

In June 2022, we set out plans to drive productivity and sustainability in farming in the Government Food Strategy[22]. In the last year there have been some big successes: an uplift of 15,000 visas for seasonal agricultural workers with the scope for up to 10,000 more if needed; the launch of the Independent Labour Review which will consider the challenges facing food and farming business to recruit and retain labour and provide recommendations for industry and government to consider; and the Genetic Technology (Precision Breeding) Act receiving Royal Assent.

One of the Government Food Strategy's key recommendations was the formation of the Food Data Transparency Partnership (FDTP). The Partnership will improve the accuracy,

[21] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1143586/Assessing_the_sustainability_of_fisheries_catch_limits_negotiated_by_the_UK_for_2023.pdf
[22] https://www.gov.uk/government/publications/government-food-strategy/government-food-strategy

consistency and availability of data on GHG emissions to help us understand what further action we can take to reduce emissions across the supply chain to reach net zero.

The National Food and Drink Summit in March 2023 was attended by 130 small and medium sized enterprises (SMEs) and related organisations. The event, which we hosted, included workshops covering finance and resilience, skills, innovation and routes to market. In October 2022, we enabled the first exports of British lamb to America for the first time in over 20 years, opening up access to a market of over 300 million consumers to high-quality British produce. Achieving access to this market was a demanding process due to the necessity to demonstrate equivalence with the USA's differing inspection systems and legal requirements. For October 2022 and January 2023, the UK exported 21.4 tonnes of lamb, worth £104.7 thousand to the United States.

Indicator: Productivity of UK food industry

In 2021, food chain total factor productivity increased by 3.7 per cent, reflecting the lessening of pandemic impacts in this period. Underlying this, food manufacturing productivity returned to 2019 levels. Catering did the same, as the restrictions which had impacted it so negatively in 2020 were removed. Retail productivity, which received a lockdown driven sales boost in 2020, continued its upward trend with a strong increase of 2.3 per cent, most likely due to a decline in employee numbers alongside record online sales. The lag in data is because this indicator relies on multiple administrative data sources.

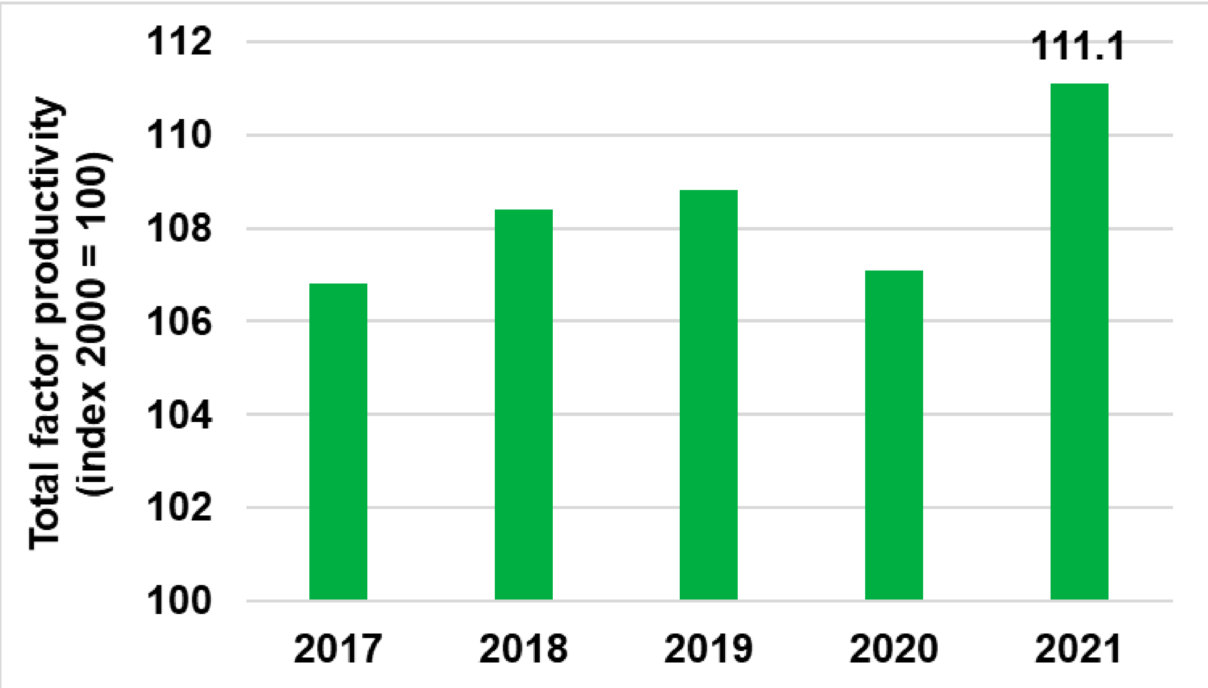


Figure 15: Productivity of UK food industry

Indicator: Value of UK food, feed and drink exported

The total value of agri-food exports from the UK in the fourth quarter of 2022 was £6.8 billion, an increase of 18 per cent from quarter four 2021 and ten per cent from quarter four 2018 (the period before EU exit and the pandemic). Price is a key component of these increases with volumes seven per cent higher than quarter four 2021 and ten per cent lower than quarter four 2018.

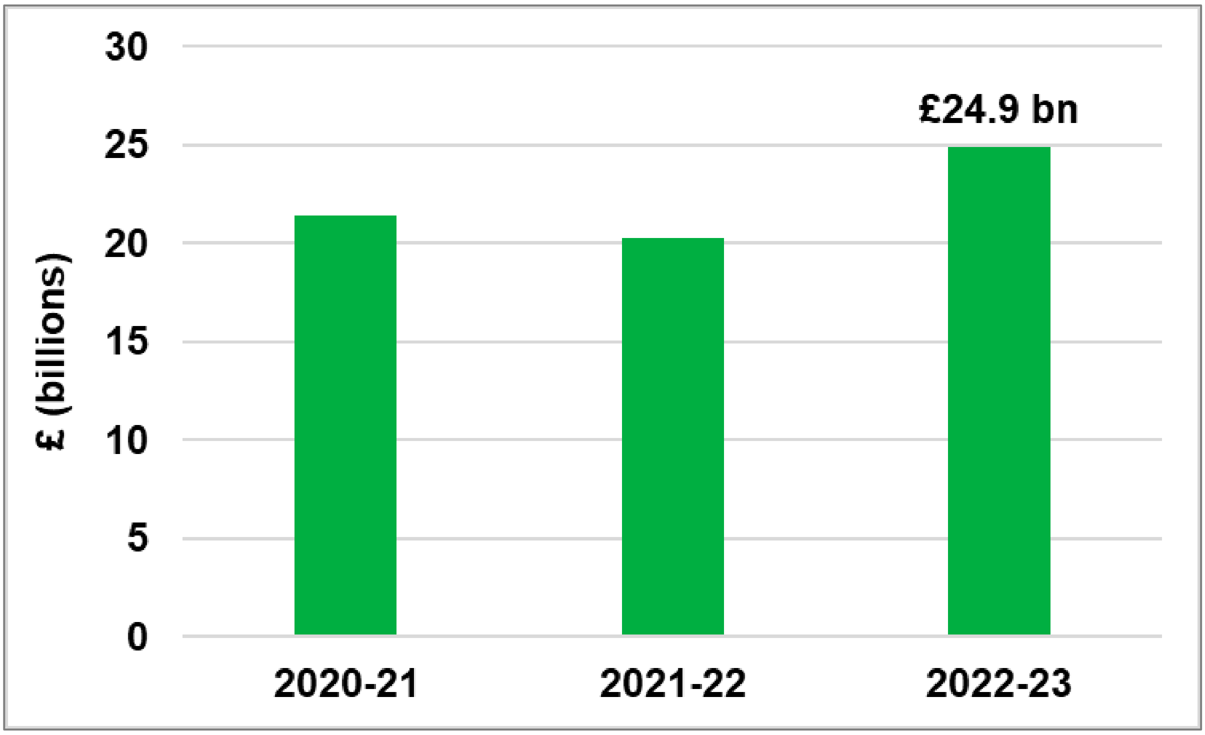


Figure 16: Value of UK food and drink exported from the UK (£ billion)

Animal health and welfare

It has been an extraordinary year in managing biosecurity challenges following the largest outbreak on record of Avian Influenza. In January, we published a new Plant biosecurity strategy for GB (2023 to 2028) setting out joint commitments with industry, landowners, NGOs, the scientific community and the wider public to respond to pest and disease threats.

A number of animal health and welfare bills gained Royal Assent. This includes the Animals (Penalty Notices) Act 2022, which introduced to England a new system of financial penalties of up to £5,000 for offences relating to animal health, welfare, biosecurity and animal by-products. The Animal Welfare (Sentience) Act formally recognises animals as sentient beings in domestic law and implements a key government manifesto commitment to legislate for sentience. New legislation to introduce compulsory cat microchipping was laid in Parliament in March 2023, making it easier for lost pet cats to be reunited with their owners.

In November 2022, we announced £4 million funding to help create a world free of wildlife crime by 2030.

As part of our Animal Health and Welfare Pathway, we launched a funding offer for farmers to pay for an annual visit from a vet of their choice to consider the health and welfare of their animals. This includes carrying out diagnostic testing, reviewing biosecurity and the use of medicines, and providing bespoke advice on actions and available support to improve the health and welfare of their animals.

Biosecurity

In the UK, there have been 175 confirmed cases of highly pathogenic avian influenza (HPAI) H5N1 between October 2022 and March 2023. GB (England, Scotland and Wales) is in an avian influenza prevention zone (AIPZ) and by law strict biosecurity rules to prevent bird flu and stop it spreading must be followed. Dealing with the unprecedented scale of these outbreaks has placed significant pressure on both the Core department and the Animal and Plant Health Agency (APHA). Bird keepers and vets have played a vital role in keeping flocks safe, but it is more important than ever to be vigilant for signs of disease and maintain stringent standards of biosecurity.

The state-of-the-art Holt Laboratory in Surrey to study tree health opened in May 2022. It represents a significant expansion of the UK's capacity and capability to combat tree pests and diseases and manage emerging threats, including climate change.

Image credit: Forest Research

In September 2022, we co-hosted the world's first International Plant Health Conference which brought together more than 500 plant health experts, scientists, policymakers and academics from over 74 countries to address current and future plant health challenges.

Published in November 2022, the UK Veterinary Antibiotic Resistance and Sales Surveillance Report 2021 demonstrated that sales of veterinary antibiotics for use in food-producing animals, adjusted for animal population had reduced by six per cent since 2020 and 55 per cent since 2014. This represents the lowest sales to date. We continue to deliver against our commitments in the UK's five year national action plan for antimicrobial resistance (AMR), which supports the UK's 20-year vision.

In February 2023, the Animal and Plant Health Agency (APHA) announced that field trials for a cattle vaccine and new skin test for bovine tuberculosis (bTB) have moved to the next phase. If the second phase is successful, we will be closer to being able to vaccinate cattle against this endemic disease. It is hoped that the combination of Cattle BCG vaccine and the Detect Infected among Vaccinated Animals (DIVA) skin test will be deployable in the next few years, adding significant tools to those currently available.

Indicator: Percentage of cattle herds that are bovine tuberculosis (bTB) free

BTB is a slow moving disease with a 25 year strategy for eradication. Our target is to be officially bTB free by 2038. At the end of March 2023, 95.7 per cent of herds were bTB free. The percentage of herds bTB free fluctuates on a quarterly basis: it is not unexpected to see small upward and downward swings.

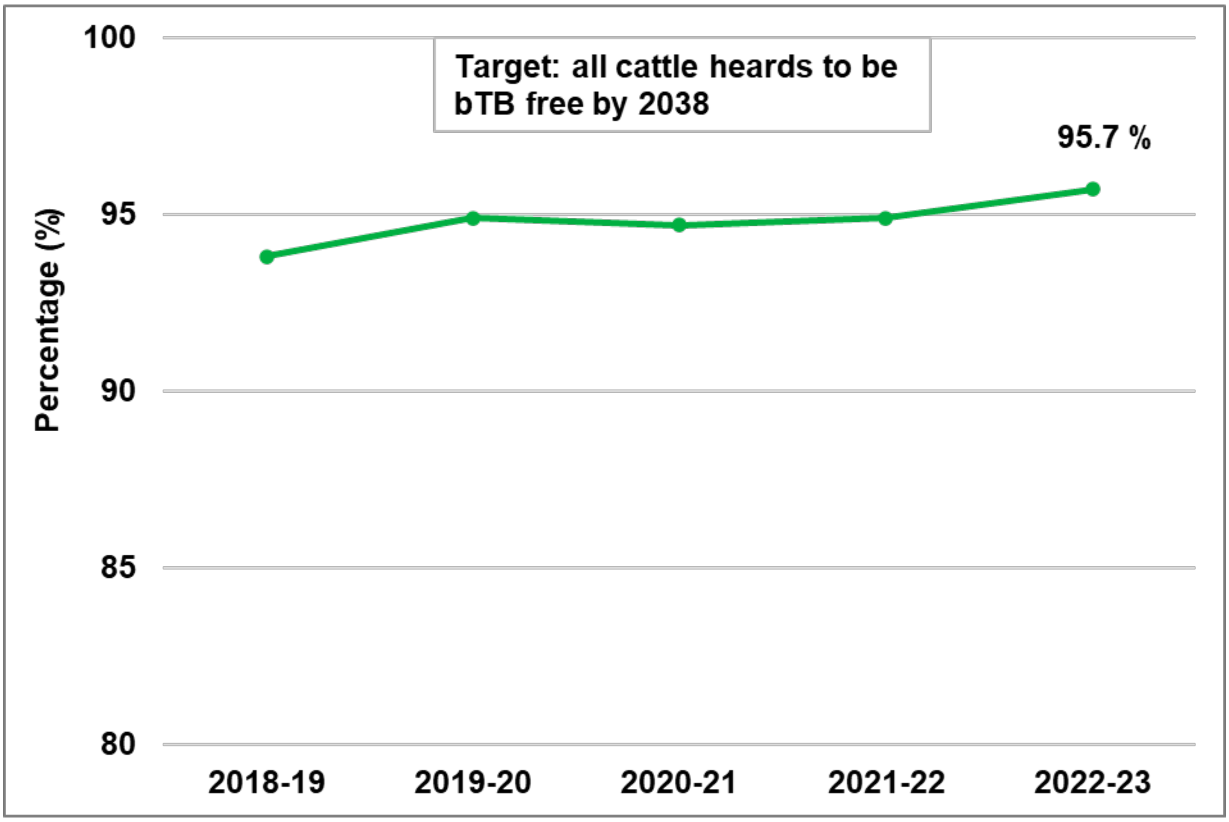


Figure 17: Percentage of cattle herds that are bTB free.

The number of high priority forest pests in the UK Plant Health Risk Register remains at fourteen. Of the current fourteen pests and diseases, eight are currently present in England, with three classed as widespread (causing ash dieback, affecting alder species, and causing horse chestnut bleeding canker). We are now mitigating against stem dieback of hazel nut with action taken if detected on imports.

In March 2023, our Genetic Technology (Precision Breeding) Act passed into law. By introducing a more proportionate and science-based regulatory system for precision-bred plants and animals, it will unlock opportunities to develop crops that are more resilient against disease and the effects of climate change such as drought and flooding, and less reliant on pesticides.

In collaboration with the Scottish and Welsh Governments, we have continued to engage extensively with the Border Industry and businesses across the UK on our proposals for a new world-class border system to provide protection from security and biosecurity threats. These controls will ensure our environment is protected, deliver food that is safe to eat whilst maintaining security of supply for consumers, and disrupt criminal activity before it can harm our communities.

Working in partnership with the Forestry Commission and the Scottish and Welsh Governments, in January 2023, we published our Plant Biosecurity Strategy for Great Britain (2023 to 2028)[23]. It sets out a five-year vision for plant health, consisting of an action plan to secure national biosecurity, protect native species and drive economic growth. It positions

[23] https://www.gov.uk/government/publications/plant-biosecurity-strategy-for0great-britain-2023-to-2028

the UK as a global leader in plant biosecurity, setting out our vision to create a new biosecurity regime and bio-secure plant supply chain, which will safeguard food security and help mitigate the effects of climate change.

Indicator: Percentage of export health certificates and licences issued within agreed timescales

We exceeded the target at year-end and are on track for equivalent good performance in 2023-24. We mitigated the impact of industrial action and introduced a revised approach to prioritisation.

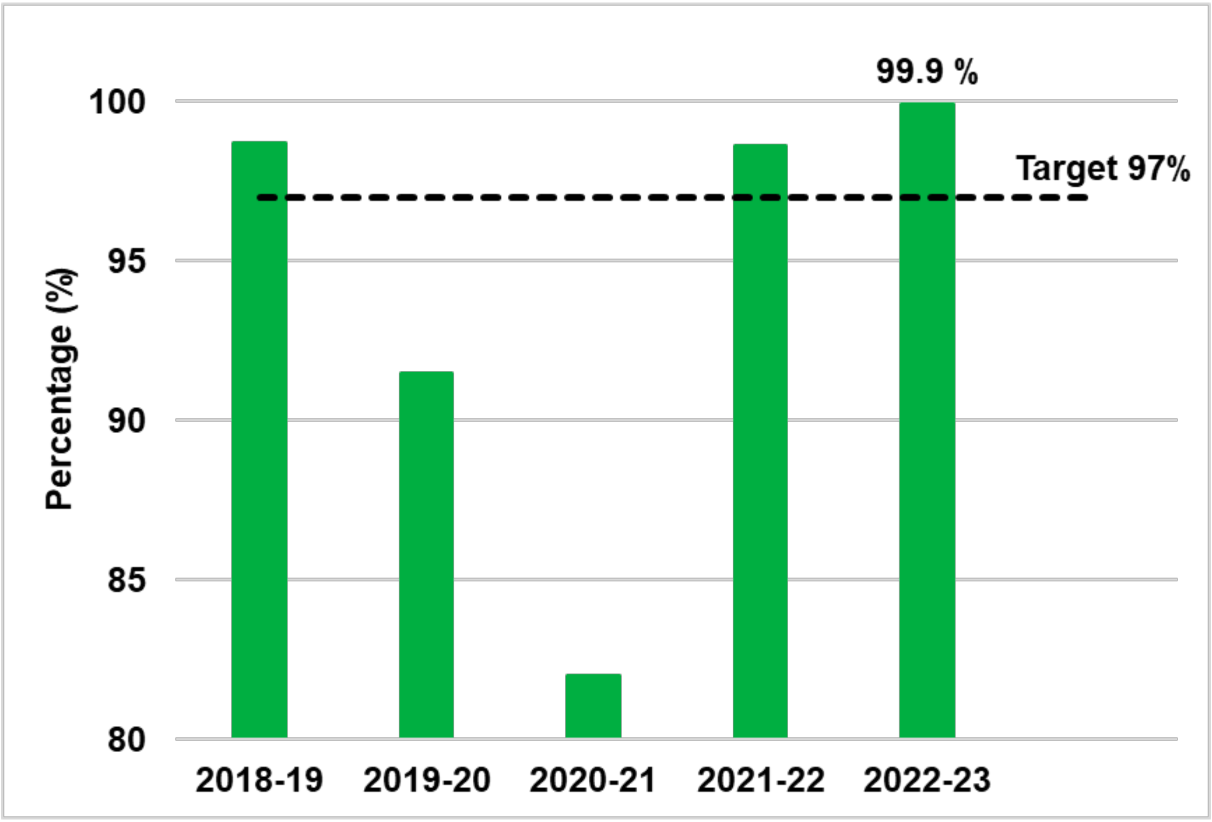


Figure 18: Percentage of expert health certificates and licences issued within agreed timescales.

Our priority outcome to **increase the sustainability, productivity and resilience of the agriculture, fishing, food and drink sectors, enhance biosecurity at the border and raise animal welfare standards**, contributes to the following United Nations Sustainable Development Goals (SDGs):

SDG2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
SDG3: Ensure healthy lives and promote well-being for all at all ages.
SDG8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
SDG12: Ensure sustainable consumption and production patterns.

SDG14: Conserve and sustainably use the ocean, seas and marine resources for sustainable development.
SDG15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Our strategic enablers: Supporting outstanding delivery – providing effective and efficient strategic direction and change management, delivery support and corporate services.

Defra's Group Corporate Services (GCS) provided the fundamental enablers that supported the department and our arm's length bodies (ALBs) to effectively deliver our strategic plans and ambitions. Our portfolio of corporate services provided the necessary capability, workforce skills, IT and digital solutions, workplaces and resource management to underpin the work of Defra group. These services deliver excellent value for taxpayers, our partners and customers (including industry, delivery partners, public bodies, NGOs and Parliament). In the coming year we will continue to focus on attracting and retaining the best talent and develop the skills and capability necessary to address new challenges and take advantage of new opportunities.

GCS has engaged proactively in cross government, Cabinet Office and cluster environments to support the government's shared services agenda, benchmarking activities and is now leading on the government's wider land strategy.

We play a leading role, working with the Government Science and Engineering profession, to deliver the science capability and enable innovation that is critical to Defra policy outcomes. We have used our capability framework to attract, grow and retain diverse science talent, including development of science leaders, internships, academic secondments and apprenticeships.

Workforce, skills and location

During 2022-23, we commenced refreshment of Defra's People Strategy and enhanced our strategic workforce planning to ensure we secure the best people working in the right place with the right incentives in a timely way. Understanding the skills and capabilities of our workforce has been a key element of our workforce planning approach, with a priority focus on leadership, line management and professions capability building. Line Management fundamentals training was launched, with over 4,500 line managers undertaking learning as part of the introduction of a new goal-based performance management system. We introduced full-time equivalent (FTE) controls to manage our departmental workforce level and implemented an 'Internal jobs market' system to speed up filling critical vacancies and to manage overall headcount.

Digital Academies were established during 2022-23 to 'grow our own' talent, targeted at our hard-to-recruit IT roles. 1,201 applications were received for the first 15 places; The Cloud Academy started in February 2023; our Security Academy in March 2023.This has been a fantastic opportunity to attract people from non-traditional routes and increasing equality, diversity and inclusion.

The Defra People Survey highlighted ongoing staff concerns around pay that have impacted morale, wellbeing and workforce recruitment and retention. We implemented improvements to our employee offer including, targeted pay interventions in specialist skills areas and introduced mechanisms to recognise capabilities in role. We are continuing work on our longer term pay and reward strategy.

We developed plans to reduce the Defra estate beyond the 30 per cent target set for 2025. A new data tool that targets actual occupancy rather than notional demand will enable us to increase our ambition to reduce our office estate further by 2030. Investment in our Peterborough and Newcastle buildings created thriving spaces that replaced larger, lower quality buildings.

We are ahead of our trajectory for the overall relocation of roles under Places for Growth, with 468 posts moved out of London in the Core department, mainly achieved by headcount growth in our regional hubs. The target is 550 by the end of 2024-25 and 1,100 by the end of 2029-30. 37 per cent of SCS roles are non-London; the target is 50 per cent by the end of 2029-30. We are investing to create thriving hubs with great career paths in our non-London locations so they are attractive spaces to use that cater for the needs of our people as they work in a hybrid way.

The Science Capability in Animal Heath (SCAH) Programme is redeveloping and safeguarding the APHA science facility at Weybridge. The investment will improve the UK’s scientific infrastructure, enhancing its strong international reputation for animal health science and global influence at the cutting edge of animal health science. The first phase of the programme is delivering enabling works and early design to inform a preferred option for full programme investment on which a decision is expected in 2024.

Innovation, technology and data

We have delivered important new digital services, such as: supporting the response to avian influenza, allowing the continued movement of poultry; pet licensing for Ukrainian refugees; the Strategic Nutrient Neutrality service to protect waterways from home building; and digital tools to support key elements of the Farming and Countryside programme.

In 2022-23, Digital, Data and Technology Services (DDTS's) Digital Robotic Automation Centre of Excellence has delivered 15 automations that have enabled Defra group staff to undertake 117,000 robot assisted transactions. This has freed up 16.7 FTE of staff time for other priorities and higher value activities. An automation for the Environment Agency's Environmental Permitting Requests team led to the processing effort required to resolve citizen requests reducing to 10 seconds per transaction.

We also continued developing and supporting important digital services launched last year as part of EU exit, such as the Export Health Certificates Online service, which issued 250,000 certificates after its first year of operation.

We began planning for wider digital service transformation, identifying common capabilities and transformation opportunities across Defra’s services, completing an initial sprint on permits, licenses and permissions.

We continued to address legacy technology in our applications and infrastructure, as well as improving our internal technology (for example saving approximately £400,000 through automation and improving internal user satisfaction with IT from 62 per cent to 77 per cent).

We have begun to improve how Defra uses data – for example our quality, findable, accessible, interoperable, reusable (QFAIR) programme to invest in our data foundations is being piloted with corporate services data and key programmes; and our Data Analytics and Science Hub (which brings together critical data sources and analysis tools), moved into public beta with hundreds of users so far onboarded.

Delivery, evaluation and collaboration

We engaged with the Cabinet Office Benchmarking exercise, looking at the corporate service functions of larger ALBs. The emerging findings demonstrated the efficiency of the consolidated Defra Group Corporate Services model.

We partnered with ALBs to develop improved performance reporting for Defra's top ten ALBs. This is part of a wider accountability cycle which includes key touch points between senior sponsors, Ministers and the ALBs. We have introduced a new cycle of ALB-ministerial delivery meetings supported by high quality performance information. We also developed a set of Chairs' letters to be issued by the Secretary of State to ALB Chairs for our key ALBs. These letters will set out the Secretary of State's top priorities for each ALB and expectations around ways of working, performance monitoring and governance.

We created and implemented a Departmental Delivery Unit which has a strategic remit to work across the department to drive progress on delivering across the Secretary of State's eleven key priorities in pursuit of our outcomes.

Significant research collaboration with UK Research and Innovation (UKRI) has continued under the Strategic Priorities Fund, along with new interdisciplinary activities worth over £33 million being launched under UKRI's Strategic Themes and other programmes.

We published Integrating a systems approach into Defra[24] to support the department in dealing with complex policy interactions, providing mechanisms to improve join-up across the department, the first of its kind to introduce a standardised systems approach for application in Defra and across government. It demonstrates the value and potential that systems approaches hold for the future of Defra policy, the environment sector and beyond.

Defra's evaluation capability and associated evidence base has grown over recent years and we will continue to strengthen our programme of research and evaluation to support the priority outcomes. Defra works closely with the Cabinet Office/ HM Treasury Evaluation Task Force to deliver on expectations for departmental evaluation activity, and is represented on the cross government Evaluation and Trial Advice Panel (ETAP)[25].

[24] https:///www.gov.uk/government/publications/integrating-a-systems-approach-into-defra
[25] https://www.gov.uk/government/publications/cross-government-trial-advice-panel-role-and-membership

Sustainability

Group wide leadership

This year we launched our first group-wide sustainability strategy. This sets out the collective sustainability ambition of Defra group to 2033. It covers all areas of Defra group's operations, including our IT, property, land, the way our people work and deliver services, and our commercial activity, including the goods and services we purchase.

The strategy contains a science-based target to reduce Defra group's own greenhouse gas emissions by 42 per cent by 2033 from a 2019-20 baseline. It also sets strategic objectives for Defra group to address greenhouse gas emissions in our supply chain, climate adaptation, nature recovery, resources and water conservation and social sustainability issues such as modern slavery. We established of a Centre of Expertise to enable delivery of this ambition and address the sustainability risks and opportunities Defra group faces.

Defra group teams have worked together to address sustainability issues. We completed decarbonisation surveys across 71 properties on the Defra estate to inform our energy efficiency and decarbonisation initiatives. We progressed work to establish an electric vehicle charging network across our estate, assessing sites and installing sockets. We also carried out climate change adaptation risk assessments to inform work to adapt our operations and estate to climate change.

Leadership across government

In December, we set out the reporting requirements[26] under the UK government's Greening Government Commitments (GGCs) framework for 2021 to 2025 to ensure consistent reporting of the GGCs across government.

Defra continues to lead on IT sustainability across government and maintain our focus on sustainability throughout the supply chain. In 2022-23, we increased membership of the pan-government Sustainable Technology Assurance and Reporting (STAR) community to include every UK government department. We published our annual report[27] setting out the progress made in making digital services and technologies in government more sustainable.
We also announced the formation of the Government Digital Sustainability Alliance with industry partners at COP27.

[26] https://www.gov.uk/government/publications/greening-government-commitments-2021-2025/government-greening-reporting-requirements-2021-2025
[27] https://www.gov.uk/greening-government-ict-annual-report-2021-2022

Greening Government Commitments

The Greening Government Commitments, relaunched in 2021, set key environmental sustainability targets for central government departments. A summary of Defra's 2022-23 performance against some of these targets is as follows:

	2022-23 Achievement	Target April 2025
Total GHG Reduction	30% reduction	50% reduction
Direct GHG from buildings	17% reduction	15% reduction
Landfill Waste Reduction	16% sent to Landfill	Less than 5% sent to landfill
Recycling Waste	50% recycled	More than 70% recycled
Total Waste Reduction	20% increase	15% reduction
Water Reduction	7% reduction	8% reduction
Domestic Flights Emissions Reduction	67% reduction	30% reduction
Paper Use Reduction	87% reduction	50% reduction
Conversion of Fleet and Hired Vehicles to Ultra Low Emissions (ULEV)	25% converted to ULEV	25% by End 2022
Conversion of Fleet and Hired Vehicles to Zero Emission	14% converted to zero emission	100% by end 2027

For further commentary, context and detail on Defra's sustainability performance see Annex 3.

Risks affecting delivery of our outcomes

This section outlines how Defra group's principal risks link to our priority outcomes and strategic enablers (as shown in Chapter 1 Overview). It summarises the mitigating actions taken over the course of the financial year to control each risk and indicating future action planned.

Risk: Defra group suffers from a major security incident and/or increased cyber-attacks

Increasingly sophisticated cyber-attacks and other security incidents are an ongoing and evolving challenge – especially due to the high volume of legacy technology.

Mitigating activities:

- Replaced out of support applications via Legacy Applications Programme (ongoing).
- Delivered other agreed delivery programmes to stabilise infrastructure and deliver technology needed for Defra operations.
- Migrated critical applications to more secure cloud hosting.

- Delivered increasing volume modernisation of legacy technology in our application estate.
- Acquired investment to address technical debt and deliver our group-level Security Improvement Plan via SR21.

Risk: Defra group's technology is not able to support its business resilience, operations or transformation which could result in failure of resilience across the group

Outdated technology is increasing the risk of technology failing and potential cyber-attacks; challenges in complying with latest digital standards and transformation activity.

Mitigating activities:

- Migrated critical applications to more secure cloud hosting.
- Government Internal Audit Agency (GIAA) audit and testing for resilience in the event of an IT failure.
- Delivery of digital elements of Food, Biosecurity and Trade directorate group and other major programmes.
- Delivery of infrastructure upgrades and contract re-procurements.
- Secured investment to continue addressing legacy technology in Defra group through multi-year programmes over SR21.

Risk: Failure of Science Estates infrastructure due to poorly maintained facilities which could impact science delivery, biosecurity, trade and APHA finances

The physical condition of one of our most internationally important facilities remains a concern. We have focused on actions to minimise deterioration while developing the options for improving the site longer term.

Mitigating activities:

- Planned repairs and maintenance are being undertaken to priority buildings.
- Weybridge Campus strategy development.

Risk: The resilience and wellbeing of Defra group staff

Without a pro-active and prevention focused wellbeing strategy, intentional leadership and a cutting-edge wellbeing offer, employees will become disengaged, unhealthy, and less inclusive, threatening our ability to attract and retain talent and perform at our best.

Mitigating activities:

- Develop proposals for a group wide dashboard to measure progress and impact.
- Establish senior steering group to drive intentional wellbeing leadership strategy.

Risk: Professional capability

Failure to grow, attract and retain capability in key professions (including Science, Commercial, Analysts, Project Management) impacts Defra group's ability to deliver its outcomes.

Mitigating activities:

- Professions and Human Resources (HR) to work together to deliver and monitor capability-building plans.
- Engage staff on professional development and career development advice and pathways available, including apprenticeship solutions.
- Use new performance system to promote focus on professional development.

Risk: Retained EU Law (REUL)

Insufficient policy and legal resource could prevent Defra from preserving essential REUL, making targeted reforms and successfully repealing REUL before 31 December 2023 (sunset clause).

Mitigating activities:

- Develop a Legislation and Devolution Strategy Board to support a joint approach on REUL Reform.
- Ensure REUL related to international obligations or environmental protections is preserved.
- Development and promotion of the REUL Register App.

Risk: Defra's ability to provide an effective emergency response could be compromised due to multiple serious incidents occurring simultaneously

This could exceed Defra's incident management capability and capacity, resulting in significant detrimental impact on the environment and/or animals, impact on the department's ability to operate and reputational damage.

Mitigating activities:

- Increased efficiency in marketing and implementing emergency reserves.

Risk: disruption in the UK's trading relationship with international trading partners

Mitigating activities:

- Review the UK's positions and strategy at the World Trade Organisation (WTO) to influence the agriculture reform negotiations in line with Defra/the government interests.
- Lead international efforts through the WTO, G7 and G20 for countries to limit export restrictions.

- Resume negotiations on the Northern Ireland Protocol with the UK indicating their preference for a negotiated outcome.

Risk: Inflation and overspend

Overspend against budget due to the current (and projected) inflation in the UK affecting prices of existing contracts and future contracts being procured during the SR period.

Mitigating activities:

Determine a better estimate of the effect of contract related inflation as part of the wider assessment of business and portfolio impact.

- Supplier performance to be monitored quarterly.

Risk: Failure to meet Defra's legally binding targets if the department is unable to put in place the requisite strategic and policy interventions in the required timescales

Mitigating activities:

Ensure established delivery plans aligned with frameworks such as the EIP.

- Effective use of steering groups.

- Monitor statutory performance outcomes and annual progress reporting.

Risk: unable to respond effectively to large or concurrent exotic animal disease incursions

Insufficient resource, capacity, capability, finances; and the impact of current avian influenza outbreak and Ukraine pets work on APHA resource, poultry catcher, licensed slaughtermen and haulier shortages and issues with CO_2 supply which could result in a failure to prevent incursions; larger more impactful outbreaks; sub-optimal outbreak response; reputational damage and an inability to assure trading partners of the health status of UK livestock.

Mitigating activities:

- Monitor the impacts of headcount reductions on capability and capacity.

- Re-deployment of surge staff from elsewhere to deal with outbreaks.

Risk: Account Qualification

We could fail to meet accounting compliance standards resulting in continued qualification of the Annual Report and Accounts in Defra group.

Mitigating activities:

- Established the Group Accounts Strengthening Project (GRASP), mapped work to be done under Fraud and Error programmes. Commissioned KPMG to ratify the issues identified as in scope for GRASP.

- Development of post GRASP project process changes and resource requirements.

Risks de-escalated in 2022-23:

Risk: Replacement of the Single Operating Platform (SOP) and Shared Services Connected Limited (SSCL) corporate service outsourcing.

Risk: Supply chain fragility could impact Defra's sectors.

Risk: Defra group may be exposed to fraud committed by its employees, its suppliers, its service users or wider fraudsters.

Risk: Financial Management or control failures.

Risk: Defra is unable to manage the farming budget within RDEL ringfences.

Risk: Rising costs for businesses and consumers.

Risk: Ukrainian pet imports.

Responding to Public Correspondence

Our Ministerial Contact Unit dealt with:

- 7,872 letters and emails from the public.
- 12,244 letters or emails from Members of Parliament and/or major stakeholders, answering 48 per cent within the target of 20 working days.
- 3,682 Parliamentary questions, 62 per cent of which were completed by the various deadlines.
- 30 e-petitions of which 63 per cent were completed before the 21-day deadline.
- 37,950 calls on our helplines, answering 84 per cent within the target of 60 seconds.

Defra's executive agencies and non-departmental public bodies have enquiry centres that deal with public correspondence relating to their areas of work and expertise. Further information can be found within their individual Annual Report and Accounts.

Chapter 3 – Financial Analysis

This chapter provides an overview of our financial performance across 2022-23, including setting out our budget and confirming our spend against this, giving an overview of our Statement of Financial Position (SoFP) and Common Agricultural Policy (CAP) disallowance.

Financial Performance

Defra group spent a total of £6,096.7 million in 2022-23 against a total Departmental Expenditure Limits (DEL) budget of £6,504.7 million. Within this budget Defra spent £4,632.9 million Resource DEL (RDEL) against £4,743.1 million budget and £1,463.7 million Capital DEL (CDEL) against £1,761.6 million budget, overall, this represented a 94 per cent spend against the total DEL budget (98 per cent RDEL, 83 per cent CDEL).

Within these allocations our budget is split into ringfenced and non-ringfenced allocations. Our RDEL ringfenced underspend was £53 million, and non-ringfenced underspend was £57 million, with CDEL ringfenced underspend being £125 million and non-ringfenced underspend of £173 million.

A detailed breakdown and analysis is provided further below, along with Defra group Spend against Budgets table.

Defra Achievements

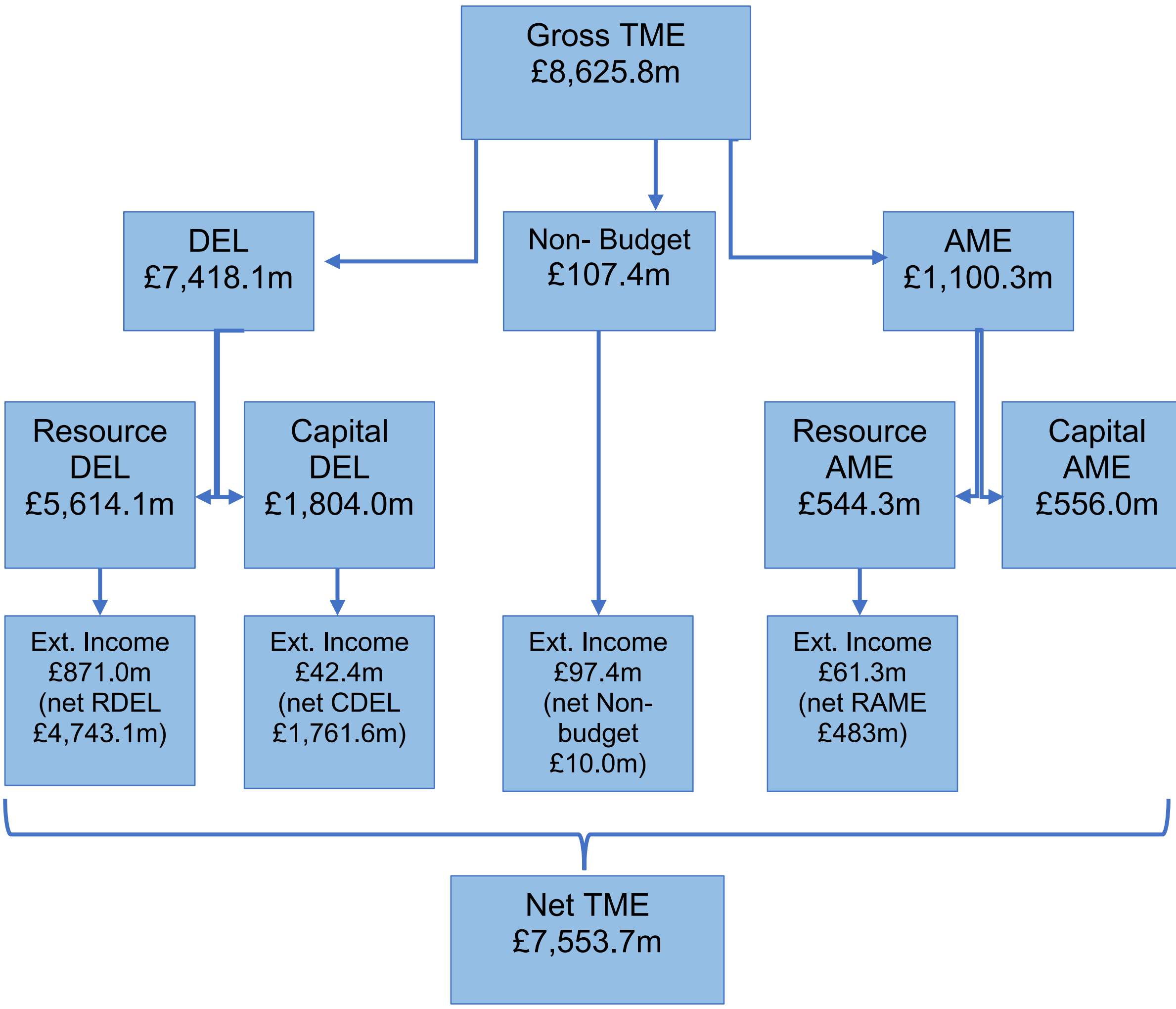
The Farming and Countryside Programme has made further progress in its reform of the way we work with farmers and landowners, delivering against our objectives to support resilient food production and meet environmental objectives. We have continued to deliver significant investment in building new flood defences through the Environment Agency's capital programme. This is all alongside our investment to deliver the Environment Improvement Plan, which was launched in January 2023.

Defra also took a lead role when there was an outbreak of Avian Influenza and ensured that funding was available both to contain the outbreak and to financially compensate those affected.

As we transition from EU to exchequer funding the issue relating to Common Agricultural Policy (CAP) Disallowance has become less material, however we have continued to reduce costs (£12.3 million in 2022-23 against a £45 million budget) as part of our on-going disallowance strategy.

In 2022-23, 100 per cent of the £40 million savings and efficiencies target was achieved. In the main, these were recurring efficiencies rather than one-off savings.

The Defra group budget



The total amount the department spends is referred to as Total Managed Expenditure (TME); which splits into:

- Departmental Expenditure Limited (DEL)
- Annual Managed Expenditure (AME)

DEL expenditure reflects the cost of front-line and back-office activities. Long-term DEL budgets are set through Spending Reviews which usually occur every three to five years. AME expenditure is typically volatile, or demand-fed. AME budgets are agreed with HM Treasury on an annual basis.

Budgets are also classified into Resource and Capital.
Resource DEL includes a further split into:

- Programme budgets for front line service provision
- Admin budgets such as back-office functions.

Net Resource DEL £4,743.1 million

The net resource DEL budget (£4,743.1 million in 2022-23, of which £380.1 million ring-fenced) includes the administrative costs of running the Defra group; and programme spend on delivering our outcomes in environmental quality; food, farming and biosecurity; floods and water; marine and fisheries; and natural environment and rural. It also includes an allowance for the consumption of our assets over time (depreciation £278.8 million in 2022-23). Since 2021-22, the resource DEL budget excluding depreciation has increased by £275 million. There was additional funding for the Biosecurity, Borders and Trade Programme, the Environmental Bill, Flood management and Official Development Assistance.

Net Capital DEL £1,761.6 million

The capital DEL budget (£1,761.6 million in 2022-23, of which £705.3 million ring-fenced) covers investment in the assets we need to deliver our objectives. This includes expenditure on flood defence assets, the Nature for Climate Fund, improving the Defra group Estate and the payment of capital grants, including through the Farming and Countryside Programme. Since 2021-22, the capital DEL budget has increased by £341.4 million, this is due to a range of new funding including: EU replacement funds for Farming, Nature for Climate Fund and Biosecurity, Borders and Trade Programme, and the Environment Bill.

External Income £1,072.1 million

Our gross spending in the economy exceeds our DEL budget in practice because it includes payments made, mainly to farmers, in respect of CAP and rural development schemes, for which income is received from the Commission. This income was budgeted at £244.9 million in 2022-23 as more payments became Exchequer Funded. Other sources of income include grant income, fees, levies and licences payable to some of Defra's group bodies. This was budgeted at £168.3 million for the Core department and the Agencies; and £658.9 million for other group bodies, netted off against the expenditure. Our total external income budget was therefore £1,072.1 million in 2022-23.

Net AME £1,039.0 million

The AME budget (£1,039.0 million in 2022-23) is mainly for movements in provisions. Compared to 2021-22, the AME budget has decreased by £605.3 million, mainly due to a decrease to the Metal Mines and Foot and Mouth Disease Burial Site provisions due to changes in discount rates.

The AME budget also included cover for Copernicus (a possible commitment to participate in and contribute towards the EU's 2021-2027 Copernicus Programme of Earth Observation Satellites), movements in the CAP Disallowance provision and the Environment Agency closed pension fund. The expenditure by Defra group levy funded bodies – the Agriculture and Horticulture Development Board and Sea Fish Industry Authority, as well as the Defra group body Flood Re, are also included within AME.

Net Non-Budget £10.0 million

The final area of Defra group funding, called non-budget (£10.0 million in 2022-23), is mainly held for any exchange rate differences that may arise on payments made by the Rural Payments Agency (RPA), in their role as the UK Funding Body, to the devolved administrations (DAs), due to the timing differences between the payment date and the date of actual reimbursement by the Commission. A further £97.4 million of income received from the Commission for the devolved administrations was treated as non-budget rather than DEL as this does not represent spending by Defra. Non-budget funding has reduced due to UK exiting the EU and a reduction of income received from the Commission.

Defra Group Gross Funding by Director General (DG) Group

The following table shows how our gross DEL funding of £7,418.1 million (£5,614.1 million resource DEL and £1,804.0 million capital DEL) was allocated to each DG Group. These are the groupings of Defra Core directorates and ALBs which contribute to the delivery of outcomes and are used in planning and delivering our activities.

2022-23 Defra group gross DEL funding £m

Director General Group	RDEL	CDEL	External Income	Total
Environment, Rural and Marine	2,114	1,188	646	2,656
Food, Farming and Biosecurity	2,705	446	264	2,887
Group Corporate Services	638	175	3	810
Science and Analysis	10	24	-	34
Strategy	64	-	-	64
Centrally Held Budgets	83	(29)	-	54
Defra Group Total	**5,614**	**1804**	**913**	**6,505**

Spend Against Budget

This information has been subject to audit.

Defra Group Spend Against Net Budgets (£m)

Type	Budget	Spend	Variance	% of Budget
Programme DEL – Total	**3,764**	**3,694**	**(70)**	**(1.9)%**
Of which ring-fenced – Depreciation	154	148	(6)	(3.9)%
Of which ring-fenced – Other[1]	111	100	(11)	(9.9)%
Of which non-ring-fenced	3,499	3,446	(53)	(1.5)%
Admin DEL – Total	**979**	**939**	**(40)**	**(4.1)%**
Of which ring-fenced – Depreciation	125	94	(31)	(24.8)%
Of which ring-fenced – Other[1]	(10)	(15)	(5)	50.0%
Of which non-ring-fenced	864	860	(4)	(0.0)%
Resource DEL	**4,743**	**4,633**	**(110)**	**(2.3)%**
Of which ring-fenced	380	327	(53)	(14.0)%
Of which non-ring-fenced	4,363	4,306	(57)	(1.3)%
Capital DEL – Total	**1,762**	**1,464**	**(298)**	**(16.9)%**
Of which ring-fenced[1]	705	580	(125)	(17.7)%
Of which non-ring-fenced	1,057	884	(173)	(16.4)%
Total DEL	**6,505**	**6,097**	**(408)**	**(6.3)%**
Of which ring-fenced	1,085	907	(178)	(16.4)%
Of which non-ring-fenced	5,420	5,190	(230)	(4.2)%
Total AME	**1,039**	**(441)**	**(1,480)**	**(142.4)%**
Of which Resource AME	483	(450)	(933)	(193.1)%
Of which Capital AME	556	9	(547)	(98.4)%
Non-Budget	**10**	**0**	**(10)**	**(100.0)%**

[1] Other ring-fenced includes DAs, Official Development Assistance (ODA), Oversea Territories, Project Speed (delivering infrastructure projects better, greener and faster), Shared Outcome Fund, Science R&D, Farm Support, Nature for Climate, Weybridge, UK Fisheries Fund and IFRS16 (change in lease accounting standards).

DEL – £6,097 million

The final DEL outturn against the £6,505 million voted funding (£4,743 million resource DEL, £1,762 million capital DEL) net of £913 million external income was £6,097 million – an underspend of £408 million. Excluding ring-fenced items, this represents a £230 million underspend, which is 4.2 per cent of our DEL budget (excluding ring-fenced items of £1,085 million).

The administration outturn against the £979 million budget was £939 million, an underspend of £40 million. Excluding ring-fenced items, this moves to an underspend of £4 million.

AME – £441 million credit

The total AME outturn was £441 million credit against the £1,039 million budget - an underspend of £1,480 million. This reflects the less predictable and controllable nature of AME spending compared with DEL. The underspend included £1,093.7 million relating to a potential provision for the UK's contribution to the EU Copernicus earth observation programme. Budget cover of £1,093.7 million was sought in the Supplementary Estimate to cover any obligation that may have existed at the year-end for the cost of participation over the lifetime of the Copernicus membership agreement. This obligation did not exist at 31 March 2023.

In addition to this, the AME outturn includes a credit of £89.0 million relating to Flood Re, which represents an underspend of £189.0 million against their budget of £100 million and is due to the need to hold budget cover for Flood Re in the event that a significant flood event occurs.

Non-Budget – £0.08 million

The final non-budget outturn against the £10 million budget was £0.08 million – an underspend of £9.92 million, reflecting the unpredictability of exchange rate movements.

Net Cash Requirement (NCR)

In order to fund the spending set out above, we needed to work with HM Treasury to ensure that we had sufficient cash – this is called the Net Cash Requirement (NCR). Our actual cash requirement in 2022-23 was £523.8 million lower than our NCR of £6,438 million. This is mainly because when we agree the NCR, we make a prudent estimate in order to mitigate the risk of any Defra entities going overdrawn. The underspends against budget described above also contribute to this underspend where they have a cash impact.

All of the £192.5 million held in the bank accounts of Defra and the agencies is held within the Government Banking Service, therefore ensuring good value for the Exchequer as a whole, ensuring the Debt Management Office has access to the funds.

Consolidated Statement of Financial Position

Over the 2022–23 financial year, Defra group's total assets less liabilities increased from £2,845 million to £11,887 million. This £9,042 million increase was mostly driven by:

- The £7,905 million increase in the value of the group's non-current assets is largely due to the following: The Environment Agency Pension Fund's reported position has improved with a swing from a net liability to a net asset. This change to the pension fund is expected to be a temporary position, reflecting movements in the discount rate used to value liabilities, based on bond yields. The Environment Agency's infrastructure asset values grew due to revaluation increases following the adoption of the DRC valuation method. The adoption of IFRS 16 across central government from 1 April 2022, resulted in an increase in the number of right of use assets across the group.

- Current assets value has increased by £18 million, due to RPA's decrease in cash, following the removal of the requirement to hold large cash balances to manage Other

Paying Agencies funding requests, partially off-set by their increase in accrued income from the EU, alongside the increase in Flood re's overall financial assets.

- The decrease in current liabilities of £197 million, which is largely due to a decrease to trade and other payables in the Core department resulting from a drop in the amounts issued from the Consolidated Fund for supply but not spent in year, partially offset against an increase in our accrued expenditure and deferred income and an increase in liabilities across the group due to the department's adoption of IFRS16.

- A £922 million decrease in non-current liabilities largely due to a change in discount rates for the Core Department's metal mine and FMD site provisions along with the Environment Agency Pension Fund's reported position changing from a net liability to a net asset. This is partially offset by an increase in liabilities across the group due to the department's adoption of IFRS16.

Core Tables

The Core Tables section of the accounts provides an analysis of departmental expenditure and plans covering the period 2018-19 to 2024-25. The expenditure is shown against the categories used for HM Treasury's reporting system. These categories are different to the Outcome Systems which we report on internally. Analysis of the Core Tables can be found at Annex 1.

Reconciliation of contingent liabilities included in the Supply Estimate to the Annual Report and Accounts

This information is not subject to audit.

Quantifiable

Description of Contingent Liability	Supply Estimate £000	Amount Disclosed in ARA £000	Variance (Estimate - Amount Disclosed in ARA) £000
Environment Agency legal dispute	13,000	-	13,000
Woodland Carbon Guarantee	20,940	20,300	640
Small value	1,100	1,900	(800)
Total	**35,040**	**22,200**	**12,840**

Unquantifiable

Description of Contingent Liabilities	Included in Supply Estimate (Yes/ No)	Disclosed in the ARA? (Yes/ No)	Explanation of Difference
Liability under Authorised Guarantee Agreements (AGA).	No	Yes	This was identified after the submission of the supply estimate following management's assessment against the IAS37 - Provisions, Contingent Liabilities and Contingent assets criteria.
Dilapidations and lease repairs	Yes	No	This was removed after the submission of the supply estimate following, management's assessment against IAS37 - Provisions, Contingent Liabilities and Contingent assets criteria.
Facilities management redundancy costs	Yes	No	This was removed after the submission of the supply estimate following management's assessment against IAS37 - Provisions, Contingent Liabilities and Contingent assets criteria.

Common Agricultural Policy (CAP) Disallowance

The CAP is the agricultural policy of the European Union (EU) and is a system of agricultural subsidies and rural development programmes. Pillar 1 of the CAP is funded through the European Agricultural Guarantee Fund (EAGF) and primarily involves direct payments to farmers. The rural development programmes – Pillar 2 of the CAP – is funded through the European Agricultural Fund for Rural Development (EAFRD).

As part of their oversight of EU Budget spending, the Commission can impose financial corrections on member states for failing to apply EU Regulations correctly in managing and administering EU schemes. These financial penalties are known as disallowance. In practical terms this means the EU reduces the amount of money that is reimbursed to member states for monies they have paid out on the CAP schemes. Historically, no member state has achieved zero disallowance under the CAP regime.

Examples of issues that can lead to disallowance include digital maps not being sufficiently up to date, the inclusion of ineligible features in claims and the timing of inspections as well as eligibility checks and administrative controls that are not deemed to be sufficiently robust. Defra only accounts for disallowance relating to England, the devolved administrations account for disallowance relating to their regions. Following the result of the referendum on 23 June 2016, the UK formally left the EU on the 31 January 2020 but the current assumption for these accounts is that Defra is still likely to incur disallowance on outstanding audits. Rules around calculating disallowance were changed as part of the CAP reform which came into effect in 2015. As a result, we have split the levels of disallowance below between the previous scheme and the new scheme.

Disallowance is accounted for in Defra group's accounts in three stages:

Stage 1: Cost is initially recorded in the Statement of Comprehensive Net Expenditure (SoCNE) for disallowance (via a provision) when there is sufficient evidence, following a Commission audit, that a penalty is likely, but not certain, to be incurred in a future accounting period. These amounts are held on the Statement of Financial Position (SoFP) as current liabilities (provisions). See Note 15.3.

Stage 2: Disallowance penalties are confirmed in the accounts (via an accrual) when the proposed disallowance has been formally communicated to the department by the Commission and will not be contested. These amounts, typically unwinding a previous provision, are held on the SoFP as current liabilities (accruals).

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

Both stage 1 and stage 2 transactions result in charges to resource (either AME or DEL), and are therefore charged to the SoCNE, as shown in the following table, Charges to the SoCNE for CAP Disallowance. The creation of an accrual at stage 2 may be skipped, as occasionally transactions can move from provision to payment within the same financial year. These transactions would still impact on the DEL budget and pass through the SoCNE. The balances from the SoFP for CAP Disallowance table shows the accumulation over time of stage 1, 2 and 3 transactions in Defra's accounts.

Charges to the SoCNE for CAP Disallowance

£ million	2022-23 DEL	2022-23 AME	Total
Stage 1: Allowance created in year for anticipated liabilities based on receipt of initial audit findings.	-	34	34
Stage 2: Provisions unwound in year for liabilities expected to materialise after accepting corrections (accruals).	10	(10)	-
Stage 2: New accruals where no previous provision existed[1].	2	-	2
Total charge	**12**	**24**	**36**
Write back in previous accrual/provision (credit)[1].	-	(14)	(14)
Net charge	**12**	**10**	**22**

1. Note 3.1, EU disallowance row shows the new accruals and Note 3.2 includes the write back in previous accrual.

During 2022-23, Defra group made total disallowance related transactions to the SoCNE of £22 million (2021-22, £55 million credit). The net debit relates to audits as described below.

- New provisions created for:
  - Rural Development Measures 10 and 11 of £28 million.
  - 2021 Clearance of accounts of £6 million.

- Release of provisions created relating to:
  - 2020 Clearance of Accounts of £13 million.
  - Rural Development Forestry Audit of £1 million.

There is also £2 million new accruals relating to late payment penalties for the Rural Development Programme for England (RDPE).

Provisions utilised in year and crystallised into an accrual are detailed below:

<u>Current CAP Scheme Years – 2015-2020</u>

- 2020 Clearance of Accounts of £7 million.
- Rural Development Forestry Audit of £3 million.

Balances from the SoFP for CAP Disallowance

Scheme years 2005–2014

£ million	Total as at 31 March 2023	2022-23	2021-22	2020-21	Up to 2019-20
Stage 1: Provisions outstanding at year end on SoFP[1]	**-**	-	-	-	-
Stage 2: Accruals outstanding at year end on SoFP[2]	**-**	-	-	-	-
Stage 3: Cash payments made to the Commission	**634**	-	-	-	634
Cumulative total for disallowance as at 31 March 2023	**634**				

[1] Note 15, CAP Disallowance closing balance at 31 March 2023.
[2] Note 12, as part of the Core department and agencies accruals and deferred income £421 million (2021-22, £414 million).

Defra group's accounts include cumulative transactions for disallowance penalties totalling £634 million relating to CAP Scheme years 2005-2014.

Of this total, £634 million has been paid to the Commission over time (stage 3). This relates to:

- CAP Single Payment Scheme for 2005-2014 of £510 million.
- Fruit and Vegetable Trader schemes for 2005-2014 of £64 million.
- Cross Compliance for 2005-2014 of £36 million.
- Rural Development Programme 2005-2014 of £20 million.
- Other smaller schemes of £4 million.

Scheme years 2015–2020

£ million	Total as at 31 March 2023	2022-23	2021-22	2020-21	Up to 2019-20
Stage 1: Provisions outstanding at year end on SoFP[1]	**69**	69	59	122	645
Stage 2: Accruals outstanding at year end on SoFP[2]	**3**	3	8	26	9
Stage 3: Cash payments made to the Commission	**124**	17	26	4	77

1. Note 15, CAP Disallowance closing balance at 31 March 2023.
2. Note 12, as part of the Core department and agencies accruals and deferred income £421 million (2021-22, £414 million).

We have paid over £124 million to the Commission relating to late payment penalties arising from basic payments scheme (BPS) 2015 payments for £48 million, along with £44 million relating to BPS Area Aids Scheme Years 2015 and 2016 and £16 million relating to Cross Compliance for 2015-2019, £6 million relating to fruit and vegetable producer schemes and £7 million relating to the 2020 Clearance of Accounts process with the balance made up from other smaller Rural Development schemes.

We also hold accruals of £3 million relating to the Rural Development Forestry Audit.

Finally we hold provisions for potential future liabilities totalling £69 million relating to:

- Rural Development Non IACS (£35 million),
- Rural Development Measures 10 and 11 (£29 million),
- 2021 Clearance of Accounts (£5 million).

While these provisions are large it should be noted that these unusually cover multiple years worth of expenditure and have the potential to reduce significantly when the final correction is agreed.

Limited notice is given of future Commission conformity audits and it is not therefore known which scheme areas will be audited during the coming year. Disallowance will be accounted for once audits have taken place and reliable estimates are available. Until an estimate can be made, a contingent liability is disclosed within Note 17 where an audit has taken place. Where there has not been an audit then we declare a remote contingent liability within the accountability section.

The only remaining large scheme with outstanding years still to be potentially audited is the Rural Development Programme 2015 onwards.

It should be noted that, under the terms of the withdrawal agreement, while BPS 2019 was the last EU funded year of the scheme, we have agreed to continue to accept the controls and audits which cover the entire period of the programme and actions in accordance with the applicable rules.

Tamara Finkelstein 20 October 2023

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

Accountability Report

The requirements of the accountability report are based on the matters required to be dealt with in a Directors' Report, as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410, and in a Remuneration Report, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981.

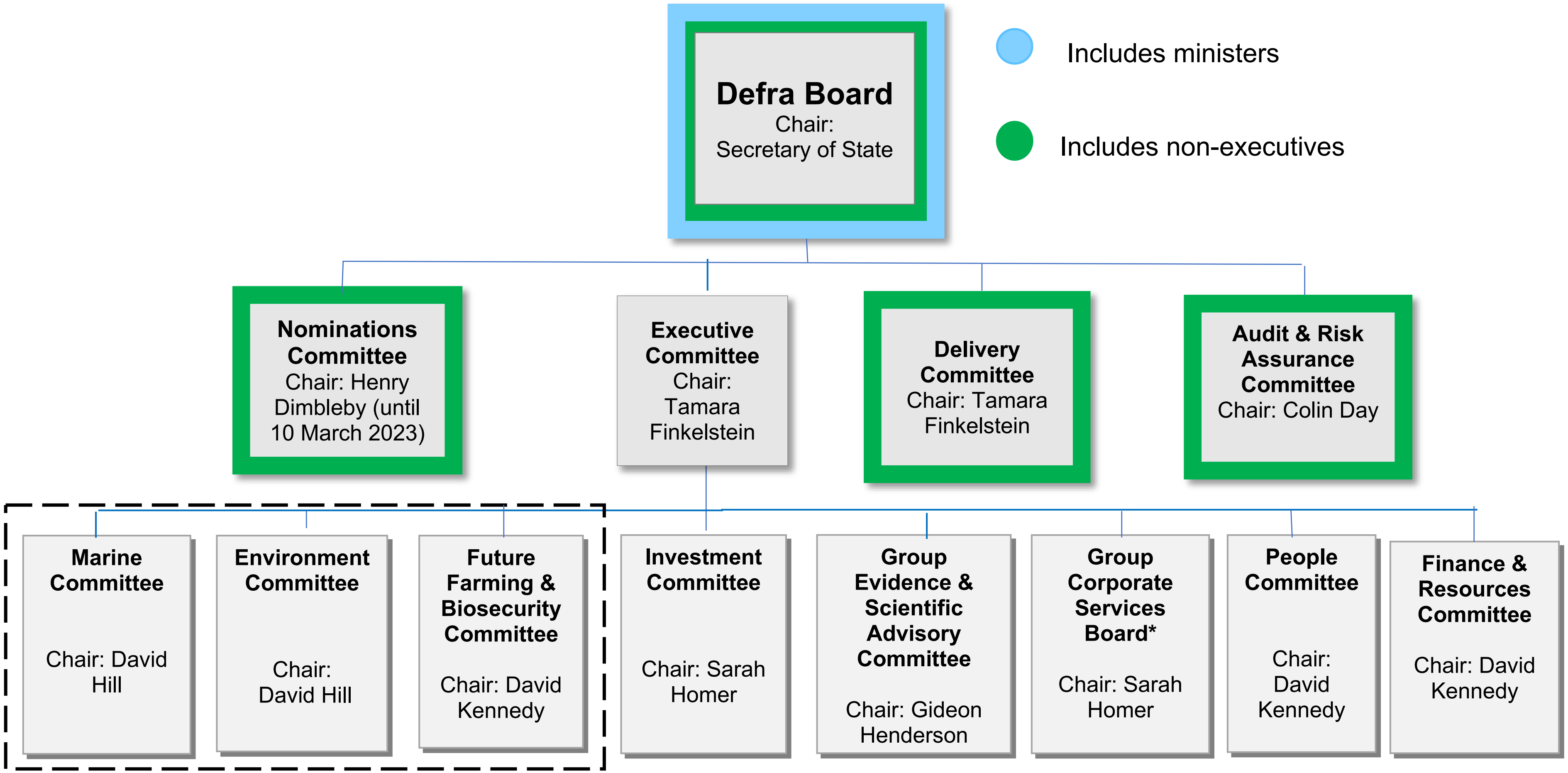
Chapter 4 – Corporate Governance Report

Governance Statement

Introduction

The governance statement outlines how Defra group is governed. It sets out our decision-making structures, the effectiveness of our risk management and internal controls as well as our most significant challenges. This is informed by the work of Defra group officials, the Government Internal Audit Agency (GIAA), input from the National Audit Office (NAO), information from Defra group arm's length bodies (ALBs) and Audit and Risk Assurance Committee (ARAC) views.

We work as Defra group to deliver outcomes for customers and for society. Further information on how Defra group works together to deliver for customers can be found in the latest Accounting Officer System Statement on gov.uk.



*The Group Corporate Services Board includes a quarterly Security Management Committee to own and oversee security risks and capability for Defra group.

Three system committees support the Executive Committee by ensuring alignment of plans and activities and identifying synergies and areas for improvement. The three system leaders are members of ExCo, providing a direct connection to the delivery bodies within the Defra group.

There have been a number of post reporting period senior leadership changes which are explained in the 'Changes to corporate governance system' below.

Figure 19: Defra group governance structure as of Financial Year 2022-23

Departmental board membership and attendance

Board membership and attendance – Table 1.

Meetings attended out of those eligible to attend 1 April 2022 to 31 March 2023

Ministerial Team

		No. of Meetings Held	No. of Meetings Attended
Rt. Hon. Dr Thérèse Coffey MP	Secretary of State for Environment, Food and Rural Affairs, (from 25 October 2022).	1	1
Mark Spencer MP	Minister of State, (from 7 September 2022).	2	2
Lord Benyon	Parliamentary Under Secretary of State, (until 29 October 2022); Minister of State, (from 30 October 2022).	4	3
Trudy Harrison MP	Parliamentary Under Secretary of State, (from 8 September 2022).	2	1
Rebecca Pow MP	Parliamentary Under Secretary of State, (until 7 July 2022); Parliamentary Under Secretary of State, (from 28 October 2022).	2	1
George Eustice MP	Secretary of State for Environment, Food and Rural Affairs, (until 6 September 2022).	2	2
Ranil Jayawardena MP	Secretary of State for Environment, Food and Rural Affairs, (from 6 September 2022 until 24 October 2022).	1	1
Steve Double MP	Parliamentary Under Secretary of State, (from 8 July 2022 until 7 September 2022).	1	1
Rt. Hon. Victoria Prentis MP	Minister of State (until 6 September 2022).	2	2
Scott Mann MP	Parliamentary Under Secretary of State, (from 20 September 2022 until 27 October 2022).	1	1
Jo Churchill MP	Parliamentary Under Secretary of State, (until 6 July 2022).	1	0
Lord Goldsmith of Richmond Park	Minister of State, (until 22 September 2022).	2	1

Non-Executive Directors

		No. of Meetings Held	No. of Meetings Attended
Henry Dimbleby	Lead Non-Executive Director and Chair of the Nominations Committee, (until 10 March 2023).	4	3
Colin Day	Chair of the Audit and Risk Assurance Committee and Non-Executive Director.	4	3
Lizzie Noel	Non-Executive Director.	4	4
Ben Goldsmith	Non-Executive Director, (until 22 July 2022).	2	1
Elizabeth Buchanan	Non-Executive Director, (until 1 March 2023).	4	3
Emma Howard Boyd	Chair of the Environment Agency (Ex Officio), (until 26 September 2022).	2	2
Alan Lovell	Chair of the Environment Agency (Ex Officio), (from 26 September 2022).	2	1
Tony Juniper	Chair of Natural England (Ex Officio).	4	4

Executive Members

		No. of Meetings Held	No. of Meetings Attended
Tamara Finkelstein	Permanent Secretary.	4	4
Lucy Smith	Director General for Strategy and Change (until 1 January 2023), Director General for Strategy.	4	2
Sarah Homer	Director General, Chief Operating Officer.	4	4
Heather Smith	Chief Financial Officer, (until 30 June 2022).	1	1
Andrew Cartner	Interim Chief Financial Officer, (from 30 June 2022 until 25 July 2022).	1	1
Philip Lloyd	Interim Chief Financial Officer, (from 25 July 2022 until 12 December 2022).	1	1
Iain King	Chief Financial Officer, (from 12 December 2022).	1	1

Overview of the board's activities

The board is chaired by the Secretary of State and brings together ministers, senior officials, and non-executive board members to provide collective strategic leadership. Membership and attendance are set out in Table 1. In 2022-23, the board met four times. Throughout the year, the board monitored progress towards achieving departmental objectives by regularly reviewing performance, finance, and risk information. The board also focused on advising on and providing oversight of the delivery and operational implications of major Defra projects and on the effectiveness of activity in priority areas. Summaries of board meetings are published on gov.uk.[28]

Sub-committees of the board

Some activities are undertaken on the board's behalf by its four committees which regularly report to the board. These are the Executive Committee (ExCo), Delivery Committee (DelCo), Audit and Risk Assurance Committee (ARAC) and Nominations Committee (NomCom). ExCo is supported by eight sub-committees: Finance and Resources Committee; Investment Committee (IC); People Committee, Group Corporate Services Board; Group Evidence and Scientific Advisory Committee; Environment Committee; Marine Committee; Future Farming and Biosecurity Committee.

Executive Committee (ExCo)

ExCo is the senior decision-making body for the Core department and sets the strategic direction of the Defra group.

- Chair: Tamara Finkelstein (Permanent Secretary).
- Membership: Permanent Secretary, all Directors General (DGs), Chief Financial Officer, Group HR Director, Group Director of Communications and Chief Executive Officer of the Environment Agency. The Chief Scientific Adviser and Director General for Science and Analysis became a member in January 2023 at the request of the Chair. The Legal Director and Strategy Director have a standing invite.
- Members are asked to inform the committee of any conflicts of interest and agree the actions and minutes of the previous meeting at the start of every meeting.
- Number of meetings in 2022-23: 42.
- Areas of focus in 2022-23: corporate leadership, finance, principal risks, performance and delivery, business transformation and strategic cross-cutting policy issues.
- Sub-committees: ExCo's eight sub-committees report regularly to ExCo. Their primary function is to consult, develop and advise on proposals for ExCo decision.
- Senior Responsible Owners of programmes have authority to approve project spend of up to £10 million (unless it is novel or contentious). For all project spending requests above £10 million, ExCo has delegated authority to the Investment Committee to scrutinise and approve these requests, with escalation to ExCo where the spend is novel or contentious.

At the end of the financial year 2022-23, ExCo agreed, following a comprehensive governance review, to some changes to ExCo, DelCo and ExCo's subcommittees. These are detailed below.

[28] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/our-governance

Delivery Committee (DelCo)

The membership of DelCo and ExCo is aligned for consistency, with some of the DelCo's purpose being to foster a departmental focus on outcomes and drive delivery of Defra's major projects portfolio and other activity needed to deliver those outcomes. Its membership is aligned with ExCo with the addition of some of the department's delivery leads and the Lead Non-Executive Director. It meets monthly.

- Chair: Tamara Finkelstein (Permanent Secretary).
- Membership: Permanent Secretary, all Directors General (DGs), Chief Financial Officer.
- Non-Voting Members: Lead Non-Executive Director, Defra Group Operational Delivery Head of Profession, Portfolio Director (and Defra Group Project Delivery Head of Profession), Strategy Director, Digital Director, and Communications Director.
- Number of meetings in 2022-23: 10.
- Areas of focus in 2022-23: Increased focus on Defra group outcomes (the Outcome Delivery Plan) and continued attention on the delivery of Defra's major projects portfolio.
- Developments in 2022-23: A review of DelCo was undertaken six months after initiation, in the summer of 2022. Changes are now being implemented to improve the effectiveness of DelCo as part of the wider package of corporate governance changes for ExCo and its subcommittees, detailed below.

Audit and Risk Assurance Committee (ARAC)

ARAC supports the board, Principal Accounting Officer and ExCo by reviewing the comprehensiveness and reliability of governance; risk management; the control environment; the integrity of financial statements; and the Annual Report and Accounts (ARA).

- Chair: Colin Day (Non-Executive Director).
- Membership: Chair (Defra Non-Executive Director) and four non-executive members (ARAC chairs of Animal and Plant Health Agency (APHA), Rural Payments Agency (RPA), Environment Agency (EA) and Natural England (NE)). With the Chair's agreement, the requirement in the terms of reference for one other Defra non-executive board member to be a member of ARAC was temporarily suspended as there was not sufficient capacity amongst non-executive Defra board members to fill this role.
- Number of meetings in 2022-23: 3.
- Defra ARAC met four times in 2022 (February, May, September, and November) and has therefore met the requirement of the ARAC Handbook to meet at least four times a year. As the first meeting was in February only the meetings in May, September and November fell within the reporting period of the Governance Statement.

- Areas of focus in 2022-23: NAO financial and non-financial value for money audits, GIAA audits, and reviews of cyber security/IT risks, data protection, Science Capability for Animal Health (SCAH) Programme, and counter fraud.

Nominations Committee (NomCom)

NomCom is an advisory committee of the Defra board. It is responsible for ensuring there are satisfactory systems for identifying and developing leadership and high potential, and for scrutinising the incentive structure and succession planning for the Senior Civil Service (SCS) (Directors General, Directors and CEOs of delivery bodies) and non-executive directors.

- Chair: Henry Dimbleby (Lead Non-Executive Director) until 10 March 2023.
- Membership: Chair, Permanent Secretary, Group HR Director, HR Deputy Director – Talent and SCS Development.
- Number of meetings in 2022-23: 3.
- Areas of focus in 2022-23: Director General performance; talent and succession planning; oversight of the broader SCS cohort, including CEOs of delivery bodies; SCS objective setting; SCS capability-based pay; SCS coaching and talent development; forward look of senior appointments; progress against the Transformation Programme; and SCS workforce data analysis, with critical focus on diversity.

Investment Committee

In 2022-23, the IC provided the internal assurance and approvals framework for Defra high risk, large spend business cases and investment decisions. IC provides ExCo with assurance on business cases over £10 million, novel or contentious spend, where spend maybe repercussive in Defra and where delegated authorities are exceeded across Defra group bodies. IC is made up of senior functional experts who support, advise, scrutinise and challenge each investment proposal ensuring compliance with the HM Treasury Green Book and Managing Public Money standards and to maximise the chances of successful delivery.

Key activities

- 74 Defra group business cases were scrutinised against the HM Treasury five case methodology and Accounting Officer tests to ensure strategic alignment and value for money. 61 were approved to proceed to the next approval stage gateway, in line with Infrastructure and Projects Authority (IPA) standards.
- Our published business case templates, with guidance aligning to Green Book standards, were embedded across the Defra group including online training videos for each of the five cases to improve business case quality. A new change control note template has been developed and introduced to support delivery at pace with the need for effective change and delivery assurance.
- Independent, internal subject matter experts formed Red Teams to deliver independent assurance reviews, with 57 taking place in 2022-23. Red-Amber-Green (RAG) ratings

against key investment appraisal criteria were consistently improved as a result. The Red Team review templates were extensively reviewed with subject matter experts to improve the value of the reviews.

- Consultancy governance board is a subgroup of the IC and controls consultancy and contingent labour spend approvals. In 2022-23, 34 requests to spend were approved. This forum has responded to recent changes in Cabinet Office spend controls ensuring robust internal challenge continues within Defra.

The board's evaluation of its effectiveness

Given the substantial changes to Defra board's membership across the 2022-23 financial year, including the exceptional churn of ministers (three different Secretaries of State chaired the board in that year) compounded by the departure of a number of the Non-Executive Directors, we did not complete a formal non-executive-led review of the board's effectiveness in this reporting period. The secretariat did, however, collect some feedback from members and are building this into plans for the board in 2023-24.

The department is developing plans for a formal and rigorous Board Effectiveness Review to be completed in the 2023-24 financial year in conjunction with the arrival of a new Lead NED. This review will also utilise insight gathered from the outgoing NEDs during exit discussions.

Compliance with governance code

The Core department continues to operate in compliance with the principles set out in the Corporate Governance in Central Government Departments: code of good practice (2017). While compliance with the code is mandatory for ministerial departments only, Defra's delivery bodies are encouraged to adopt the principles wherever relevant and practical.

Changes to the corporate governance system

The department completed a review of its corporate governance in March 2023 which made some recommendations for changes to the Delivery Committee, Executive Committee and its sub-committees, including: the removal of the three outcomes systems committees (Marine Committee, Environment Committee and Future Farming and Biosecurity Committee) to align with the department's move away from the outcomes systems accountability model and adoption of a sponsorship model; the alignment of membership between the Delivery Committee and the Executive Committee, clarifying that these are one committee operating in different modes; and a bolstering of core-ALB senior engagement fora outside, but with strong links to the corporate governance system.

These changes are being implemented through 2023-24, so have not been reported in full in this version of the Governance Statement, which primarily focusses on 2022-23. More information is available in the Accounting Officer System Statement, which is published alongside the Annual Report and Accounts on gov.uk.

In July 2023, Nick Joicey joined the department as Second Permanent Secretary and Chief Operating Officer. He was made a full member of ExCo/DelCo and Defra board on appointment. Tamara Finkelstein, Permanent Secretary, remains Principal Accounting Officer.

Management Controls

Management of interests

Board members

Every six months, individual executive and non-executive board members are required to complete a declaration of interests statement in which they must disclose any financial and non-financial interests of their own or of family members that may create a conflict as they arise. They are also expected to declare new interests proactively as they arise. The full list of interests is published on gov.uk[29]

Where a member's interest is considered by the board secretariat and the Permanent Secretary to create a real or perceived conflict with Defra's responsibilities or the discharge of their duties, specific arrangements are agreed and put in place to manage the risk. As a further safeguard, at the start of each board meeting, members are asked to declare if they have any interests which they believe conflict with any item on the meeting agenda and this is recorded in the minutes. Relevant senior staff are made aware where a potential conflict with a non-executive director's other interests exists and the mitigations that are in place. Ben Goldsmith discussed a potential new interest with the department in November 2021 concerning a company named Nattergal. At the time and on the department's advice he acted to decline the interest but was unaware shares had already been taken in his name. The financial interest became known to him in March 2022, and he later declared it to the department in June 2022. Ben Goldsmith worked with officials to explore the potential for conflicts of this interest with his role at Defra, culminating with his resignation in July 2022 by mutual consent.

Special advisers (SpAds)

In line with the current declaration of interests policy for special advisers, all special advisers have declared any relevant interests or confirmed they do not consider they have any relevant interests. The Permanent Secretary has considered these returns and there are no relevant interests to be published.

Management of interests and business appointments for all staff (including SpAds)

The department is committed to the highest standards of ethical conduct and integrity. Defra's policy on declaring and handling outside interests is clearly outlined in the Defra Code of Conduct, and in its conflict of interest policy.

All staff are responsible for ensuring that there is no conflict of interest between their interests outside work and their role at the department.

All staff including SCS must make a declaration annually of outside interests.

[29] https://www.gov.uk/government/publications/defra-register-of-board-members-interests

The business appointment rules (BAR) apply to serving civil servants and special advisers who intend to take up an outside role after leaving the Civil Service, and to former civil servants for up to two years after the last day of paid service. Policy and process is in place for managing applications that may require approval before a job or appointment is confirmed outside the Civil Service. The approval process for applications under the rules differs depending on the applicant's seniority. For the majority of applications Defra applies a standard set of conditions, these are:

- After your last day of service, you will not make use of privileged information, including for the purposes of lobbying (for SCS3/Perm Secs), obtained from your role in Defra at any time.

- For one year (two years for SCS2 and above) after leaving Defra, you must apply for permission to take up any appointment which meets the criteria set out in the Business Appointment Rules.

Number of SCS leavers in 2022-23	22
Number of BAR applications from SCS in 2022-23	3
Number with standard conditions applied	3
Number with non-standard conditions applied	0
Number of appointments found to be unsuitable	0
Number of breaches in 2021-22	0

Details of SCS Business appointment advice is published quarterly here Defra: business appointment rules advice - GOV.UK (www.gov.uk)

Information on Business Appointment Rules is also available to all staff on the departmental intranet and on gov.uk[30]'. See Policy on conflicts of interest and gifts and hospitality - GOV.UK (www.gov.uk)[31]

Risk

Effectiveness of risk management

Defra risk management operates according to the Defra Risk Strategy, in line with the government's Orange Book. It also sets out roles and responsibilities, how risk reporting and oversight operates as well as the risk escalation process. In the 2022-23 financial year, Governance boards in Defra and ALBs had regular risk focused discussions and escalated risks up to ExCo. Principal risks were reported to ExCo quarterly and principal risks were examined in more depth through a programme of monthly deep dives. ExCo conducted a top-down review of the Principal Risk Register in November 2022 which led to substantial changes in the risk register, including de-escalation, reframing of risks and escalation of new

[30] https://www.gov.uk/government/publications/defra-business-appointment-rules-advice
[31] https://www.gov.uk/government/publications/dfid-policy-on-conflicts-of-interest-and-gifts-and-hospitality

risks. Defra has improved internal governance of Defra owned national security risks, including through establishing bi-annual ExCo reporting.

A key improvement for 2023-24 is improving risk escalation in practice. The Central Risk Team is working with GIAA and risk practitioners across Defra group to deliver this. Defra will also continue to strengthen governance on national security risks, as part of a newly established resilience governance structure.

How we gain assurance on our risk management and internal controls

We draw assurance from multiple sources, following the Three Lines of Defence Model. Risk owners carry out direct management of risks, supported by risk practitioners who assist with identifying, managing and reporting their risks and issues. A central risk team sets policies and standards and assists ExCo to provide corporate oversight of the first line of defence. The GIAA provide an objective evaluation of the adequacy and effectiveness of our risk management and control framework.

Risk assessment

New and emerging risks are continually identified and assessed, with plans put in place to control them, in line with the principles outlined in the government's Orange Book. Guidance and training videos to support effective risk assessment is provided via the Defra intranet risk page, as well as links to further training available.

Principal risks can also be identified from the top down, whereby ExCo, the Defra board or Audit and Risk Assurance Committee (ARAC) identifies an area of cross-cutting risk that could have significant corporate, strategic, financial or reputational impact.

Defra group's oversight and escalation of risk

The diagram in figure 20 represents the hierarchy of escalation routes within Defra. The first point of escalation should always be the directorate level via the relevant Deputy Director (DD). If the risk then exceeds it's tolerance again, it should be escalated to Director General (DG) level via the relevant director and then up to ExCo via the relevant DG if it were to exceed it's tolerance again. Risks that are escalated to ExCo level will often include elements of reputational risk to the department.

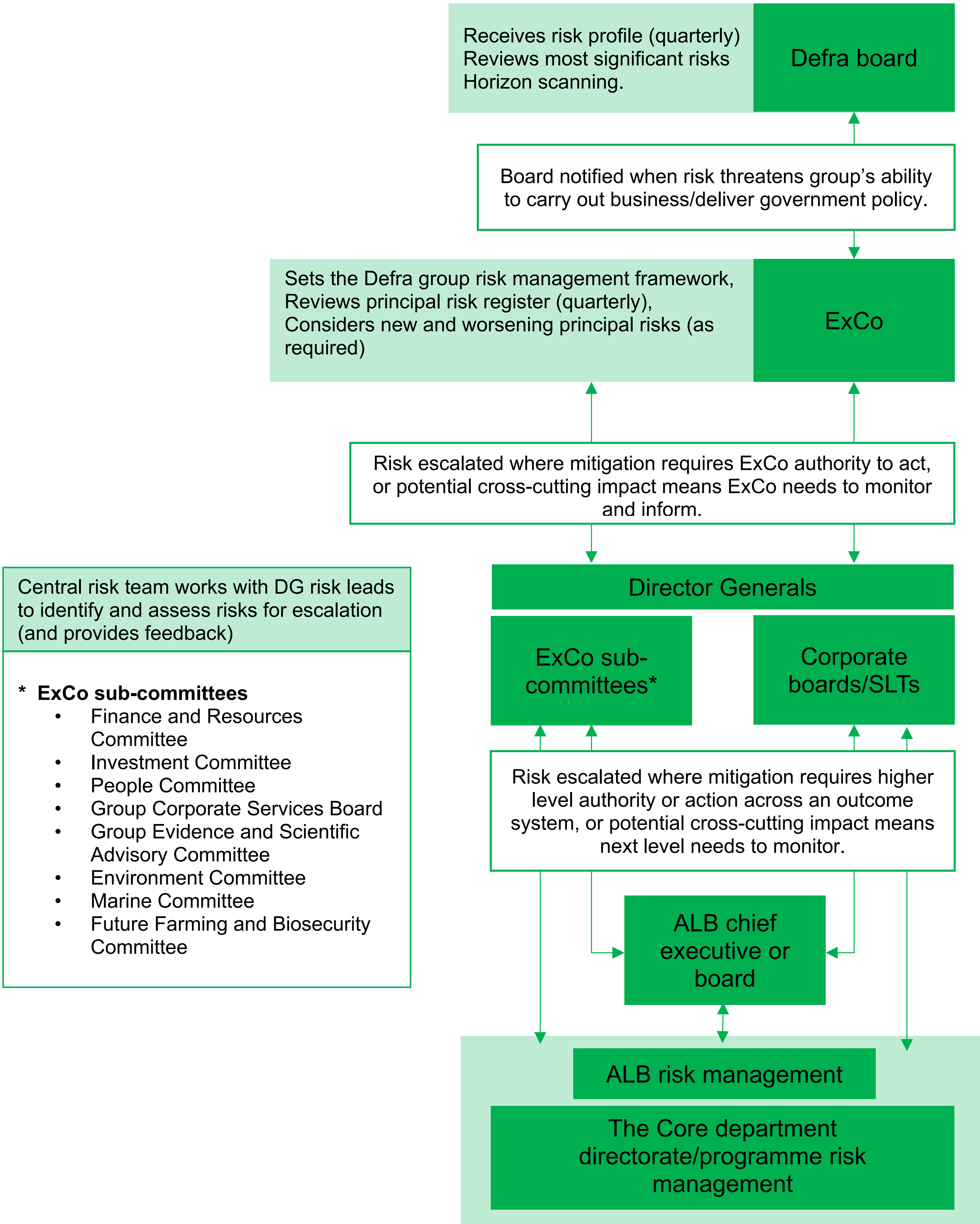


Figure 20: Defra group's oversight and escalation of risk

Management assurance

Directors in the Core department provided statements confirming that responsibilities delegated to them by the Principal Accounting Officer had been properly exercised in 2022-23 and explaining any non-compliance. A second line of assurance was conducted by subject matter experts, not involved in the delivery of business, who provided enhanced assurance on the overall picture across the department. This included the following areas: counter fraud, data protection, business continuity, finance, health and safety, performance, commercial, programmes and projects, risk, security and staff conduct. No additional issues were raised because of this exercise.

Corporate Services

Defra group has a partnership model for delivering corporate services to the Core department and its larger ALBs. Delivering good functional services and continuing to mature our partnership has been a key focus in 2022-23 along with corporate services transformation including the harmonisation of policy, processes, and systems.

Individual Partnership Agreements, the Group Corporate Services Board (GCSB) and GIAA audit reports continue to provide assurance on the effectiveness of corporate services. Performance was regularly reported to and discussed with senior ALB representatives, the GCSB, ExCo, and ARAC as required. Defra Group Corporate Services' efficiency continues to benchmark well against other government departments and industry standards. Effectiveness is being baselined against relevant Government Functional Standards.

Our partnership model is seen as best practice across government. Previous participation in the Cabinet Office Operating Model Optimisation Pilot has been a building block to identify and drive further improvements in the way corporate services is delivered and monitored. Activities previously progressed under the Transformation Reset programme have become part of the operating model – this includes improved change governance and refined service catalogues. The focus on transformation continues at pace, with the establishment of a coherent and ambitious programme of activities for current and future years. This includes ongoing business process improvements (including digitisation) and the pathway to implementing a new finance and human resource management system (Enterprise Resource Planning system (ERP)) in the next SR period.

Aligned to the government ambition to reduce headcount, staffing levels across enabling functions have been robustly managed with recruitment being limited to maintaining critical services, with lower priority essential activities being reprioritised. This has sat alongside implementing a robust approach to business continuity to manage impacts of industrial action, increased levels of winter sickness and surge activities. Updated workforce numbers have now been agreed for the next two years.

To support adapting to the post COVID-19 landscape, continued focus has been applied to ensure there is a safe and secure estate along with enabling technology to support blended/hybrid working.

The Defra group Sustainability Centre of Expertise has been established to develop and oversee the Defra group Sustainability Strategy and underpinning targets, ensuring a comprehensive approach to meeting Greening Government Commitments.

Legacy technology in our application estate, security risks and improving digital services are particular areas of concern that require significant investment. Our SR21 settlement is enabling us to make significant progress on legacy technology and security in particular, and we are working to identify funding models for wider improvement of our digital services. Over the past year, we made steady progress in addressing legacy technology in our application estate (as recognised by the National Audit Office) and launching new digital services. Nonetheless we still have significant volumes of legacy technology in our applications and areas of security improvement which our planned investment is essential to address. We also need to build our focus on efficiency and excellent user experience, including service improvement and automation, across Defra group (particularly if we are to meet the ambitions of the Roadmap for Digital and Data in Government by 2025).

Group Corporate Services has a key role in managing the majority of Defra's principal risks, of which more detail can be found in Chapter 2 Performance Analysis. Security (including cyber security), business and technology resilience and science estate infrastructure failure remain key risks with new risks emerging related to inflationary pressures and organisational wellbeing.

Shared Services

Each Accounting Officer is provided with an annual Letter of Assurance on Shared Services Connected Ltd (SSCL) overall performance by Government Business Services (GBS). In the assurance letter for 2022-23 GBS conclude that they recognise that there has been a reduced level of assurance provided by both PricewaterhouseCoopers (PwC) and GIAA in relation to the governance, risk management and control environments operating within SSCL (and relative to departments in respect of GIAA's end-to-end audits) compared to last year. This is, in part, reflective of the increased rigour being applied through GBS's Audit function whereby the Framework Authority Audit Plan is effectively targeting key areas of risk and opportunity for improvement within SSCL and holding them to account.

The GBS Annual Audit Plan is delivered by SSCL's internal service auditors PwC for core SSCL system audits and by the GIAA for end-to-end audits that involve customers. PwC issued an opinion for 2022-23 that concluded "limited assurance", whilst GIAA stated a "limited" opinion.

The most relevant findings this year for Defra group demonstrate a need for us to work closely with SSCL to review work instructions and other documentation ensuring these adequately reflect processes, strengthen controls already in place and ensure we sufficiently monitor and manage shared risks. GBS have assigned the various outstanding audit actions to the most relevant existing governance and working groups.

Defra Group Shared Services (DGSS) continue to work with GBS and closely monitor the overall performance of SSCL and their delivery of the 'standard' service offering, ensuring contract KPIs and SLAs are met and the services provided to Defra group are in line with our contract and expectations when working with SSCL as a partner. We continue to ensure user experience improvements are made to both single operating platform (SOP) and SSCL processes through the continuation and evolution of our Joint Improvement Plan with SSCL.

Reinforced Autoclaved Aerated Concrete

The Reinforced autoclaved aerated concrete (RAAC) issue has been formally delegated back to departments to handle the associated risks. Defra is following the Institution of Structural Engineers (IStructE) guidance and there is a dedicated RAAC weekly meeting led by the Chief Engineer and interventions are made when required. Once all stage 2 and 3 surveys have been completed Defra will be able to fully quantify the operational and financial impacts, however we do not envisage this as being a material cost to the Defra group Estate at this stage.

Analytical models (business critical models)

Defra has established guidance around analytical assurance and quality assurance of business critical models, which aligns with the principles set out in the HM Treasury Aqua Book. As modelling software and techniques are becoming more sophisticated over time, the Director of Analysis has commissioned an overview of current quality assurance (QA) processes and guidance to ensure they remain fit-for-purpose.

Security and cyber security

During 2022-23, work has continued to improve our security and cyber security controls. Under SR21, Defra has secured funding for technology upgrades that will help to address cyber security risks. Funding secured includes:

- £78 million for the most critical Legacy Applications Programme (LAP). LAP is migrating older applications from legacy data centres into the cloud (for example, the critical SAM application, used by APHA to hold and store customer information and documents electronically, has recently been migrated).

- £45 million dedicated to security improvement. Our work on security improvement includes critical remediation, business continuity, improving asset governance, security monitoring and resilience and recovery arrangements.

- We continue to make good progress with this work but will not be able to mitigate all the risks within three years. Further investment will be needed in future Spending Reviews.

- The NAO audit of legacy IT completed in November 2022 recognises this progress but highlights Defra’s high reliance on legacy technology, the necessity for sustained investment to address it and the importance of clear accountability and standards for technology.

- There are also external factors and threats that impact progress, and risk e.g. the Ukraine invasion and the heightened threat from Russia; and continued malware attacks.

This will be the first full year we have rolled out the new basic security training for all staff - this has already proved successful with a higher uptake at this point of the financial year. We continue to put together targeted security briefings and campaigns including for those travelling to COP27 and in response to the Ukraine crisis.

A new security policy framework has been introduced with a number of new policies published including travel security policy with attendant security communications to drive messaging home.

However, the department still needs to make further progress to comply with minimum baseline standards and develop security controls. To this end we will continue to monitor and drive the SR21 project work and use complimentary business as usual activities to look to drive down security risk.

Over this period there were 15 Unauthorised Disclosure (Leak) investigations across the Core department, APHA, Centre for Environment, Fisheries and Aquaculture Science (Cefas), EA, Joint Nature Conservation Committee (JNCC), Marine Management Organisation (MMO), NE, Rural Payments Agency (RPA) and Veterinary Medicines Directorate (VMD). There have been no breaches that have met the threshold for reporting to the Information Commissioner's Office (ICO) during this period.

Counter-fraud, whistleblowing and data protection

Counter-fraud

Defra has a 'zero tolerance' stance towards all aspects of economic crime and takes a risk-based approach to managing fraud, bribery, corruption and error across the group. The Counter-Fraud, Bribery and Corruption Strategy is delivered in adherence to the group policy and cross-government counter fraud functional standard, overseen by the Chief Financial Officer, a member of Defra's board. Defra has a network of counter-fraud leads, who, directed by the functional lead, share best practice and encourage a co-ordinated response to counter- fraud activities. During 2022-23, dedicated counter-fraud resource was embedded in key strategic programmes including Nature for Climate Fund, Official Development Assistance and Extended Producer Responsibility in addition to existing resource within the Farming Countryside Programme.

Fraud Risk Assessments are in place across each business area and are undertaken on most grant schemes, in line with the grants functional standard. In recognition of the higher risk of fraud and error in grant spend, a Grants Hub has been piloted in 2022-23 and will be formally established in 2023-24 to be the single authority supporting and coordinating the management and oversight of Defra group general grants.

All reported instances of suspected fraud were dealt with as set out in the organisations Fraud Response Plan and a summary of financial losses due to fraud and error is reported to ARAC annually. All staff in the department are required to undertake annual online fraud awareness training. The department continues to implement the cross-government internal fraud policy where employees dismissed for fraud, bribery or corruption are placed on a centrally held internal fraud database and are not able to gain re-employment across the Civil Service for a period of five years.

Counter-fraud activity and performance is monitored and scrutinised internally by ExCo and ARAC and externally by the Public Sector Fraud Authority (PSFA). The departmental functional lead works closely with the PSFA to make sure the department's activities align with their mandatory processes. Defra was one of only two departments to take part in a pilot with the PSFA to test the continuous improvement framework that will be rolled out across government in 2023-24. This indicated there is more the department can do to develop its maturity in countering fraud, particularly around raising awareness of fraud, reporting routes and undertaking fraud measurement activity to estimate fraud loss in high-risk areas.

Effectiveness of whistleblowing arrangements

The Defra whistleblowing policy was refreshed, renamed "Raising a Concern, (including whistleblowing)" and streamlined in September 2022. This built on feedback from users including the view that the name "whistleblowing" acted as a deterrent to colleagues who were concerned about "blowing the whistle" which felt serious and litigious. A comprehensive health check was carried out earlier in 2022 and provided assurance that the approach continues to be effective.

We continue to use our whistleblowing register, established in 2021-22 for recording and tracking reported cases. In 2022-23:

- Defra had 9 cases;
  - 3 closed following investigation. Allegations of wrongdoing were not upheld.
  - 4 handled within a wider piece of work carried out by our Equality, Diversity and Inclusion team.
  - 1 still under investigation.
  - 1 with actions taken as a result of the investigation findings.

- RPA has had four cases all of which are currently under investigation.

- EA had 17 instances;
  - 7 currently under investigation.
  - 1 identified management action and recommendations.
  - 1 identified learning points for the business.
  - 8 either not upheld or not identified as whistleblowing.

- NE had four cases;
  - 2 currently under investigation.
  - 1 being dealt with at Defra level.
  - 1 referred to management chain for further action.

- APHA had no cases.

- VMD had no cases.

Data protection

During 2022-23, we continued activities to ensure compliance with data protection legislation and ICO guidance. This work included completing the ICO recommended Accountability Framework for the second year, demonstrating that compliance is improving. The Defra Data Protection Officer, data protection teams and legal advisers continued to provide advice and guidance, raising awareness around data protection and privacy issues. In 2022-23, we are continuing our work with senior leaders to raise greater awareness about, and build, data protection due diligence into policy and delivery planning by design and default. There were no reported breaches that met the threshold for ICO notification this year. In all cases where personal data breaches occurred or risks were identified, Defra worked with staff and suppliers to act quickly, to effectively address issues and revise our processes.

Arm's length bodies (ALBs)

Issues arising within individual bodies are covered in their respective governance statements, with the most significant also highlighted below.

Cabinet Office Public Bodies Reform Programme 2020-2025

During summer 2022, the department undertook an analysis of ALB structures, roles, and responsibilities. The department is now working closely with its ALBs to put in place a strong relationship and sponsorship framework to assure delivery and promote joint working towards our ambitious shared goals.

Environment Agency

Certain elements of flood and coastal risk management (FCRM) programme expenditure procured under three supplier frameworks, exceeded the level the frameworks had been set up for. This meant the Agency was operating outside of the requirements of Cabinet Office Spend Controls and Cabinet Office's Public Contract Regulations (PCRs) regarding the amount of spend, and in addition in relation to the duration of the frameworks. During 2022-23 £87.8 million was spent against the frameworks, which took the cumulative spend to £215.3 million which is £64.3 million above the £151 million approved by the Cabinet Office. As these are long term contracts, we have committed £341 million of expenditure as of 31 March 2023, compared to a compliant limit of £151 million. This non-compliance arose as a result of several inter-related reasons:

- Significant business challenges with the doubling of the flood risk management capital programme, the impacts of prioritising completing the 2015 to 2021 capital programme, the impact of the COVID-19 pandemic, and the inability to recruit project managers due to paying materially less than the private sector.
- This led to much greater, and faster, engagement of supply chain project management professionals than originally expected under the frameworks.
- Late review of framework expenditure management information. Had expenditure against frameworks been reviewed in late 2021, the exceedance risk would have been identified earlier.
- The development of replacement frameworks was therefore not accelerated early enough.
- A conviction that moving from the existing frameworks, designed for the specific requirements of the Environment Agency's flood risk management programme, to more standard Cabinet Office run Crown Commercial Services frameworks would

jeopardise delivery of the programme, and that this would prove to be more expensive for the taxpayer.

- Recognition that the government framework for Managing Public Money considers and a view that it may allow for situations where VFM protection may justify temporary non-regularity.

The Agency believe, based on an internal review, that the path taken is likely to have saved the taxpayer a material amount of additional expenditure, and thus that the VFM basis for the decision appears to have been well grounded and made in good faith.

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

A migration plan was therefore developed with Defra group Commercial and presented to the Cabinet Office, which:

- Complies with most Cabinet Office requirements, and in so doing reduce projected spend on all 3 frameworks,

- Includes a longer extension on FCRM asset maintenance where there would otherwise be a risk to public safety,

- Meant almost all new contracts being under compliant Cabinet Office run frameworks, but allowed for extending some contracts where existing experienced project management individuals managing high risk projects would otherwise be expected to be moved by suppliers to other projects, with a related serious risk to delivery and so of project cost increases.

The migration plan continues to be followed and the level of non-compliant procured expenditure will therefore reduce during the 2023-24 financial year.

A number of lessons have been learned from this matter which are being actioned to ensure this does not happen again.

We will:

- Build greater contingency into development of future replacement commercial frameworks,

- Brief earlier on significant commercial challenges to enable greater scope for senior choice,

- Inform Cabinet Office early of any procurement challenge potentially requiring its support,

- Update organisational awareness of the full range of Accounting Officer duties,

- Seek earlier Finance support for a timely VFM review to test all major commercial decisions,
- Make adoption of a higher risk appetite more explicit to key external stakeholders,
- Where there is a higher risk of non-compliance with PCR, include legal advice in good time in framework board papers and internal approval requests for contracts and extensions,
- Ensure we have the right training on contract management for managers of large contracts,
- Include higher value framework spend versus PCR limits in new balanced scorecard reporting,
- Enhance clarity on commercial approval controls in the Financial Scheme of Delegation,
- Note to the Board any high value contract frameworks and their extensions, in the way done with high value project and programme business cases and update reports,
- Escalate any material commercial non-compliance to the ARAC.

Flood Re

Flood Re is a hybrid organisation, run and managed by the insurance industry, with direct Parliamentary accountability and its own governance structure as a not-for-profit reinsurance body. In December 2021, Flood Re was classified by the Office for National Statistics as a central government public body. As a public body, Flood Re should comply with Managing Public Money and public sector pay and benefits policy, which may include approved HM Treasury delegations and/or Cabinet Office exemptions. Government is working closely with Flood Re to rectify where this is not currently the case. In particular, this focuses on ensuring Flood Re follow correct policies and procedures in relation to their pay and benefits, securing an agreed and signed Framework Document.

On 20 July 2023, Defra received a retrospective pay exemption for 2022-2023 from HM Treasury for Flood Re. Defra and HM Treasury continue to work closely with Flood Re to find an enduring solution. Negotiations between Flood Re, HM Treasury and Defra to agree Flood Re’s pay and benefits policy are progressing positively and are due to conclude late 2023-early 2024. Flood Re continue to operate within the spirit of the draft Framework Document.

Capita Cyber incident

On being made aware of the malware attack on Capita, on the 31 March 2023, Defra internal teams checked our in-house IT and contracted out services for exposure to Capita connected and run services. Due to the containment activity Capita undertook there was no cross-contamination from Capita IT to any Defra group IT systems as a result of the incident.

Capita has however confirmed that the cyber-attack impacted the Environment Agency Pension Fund (EAPF) with some pensioner, active and deferred members having their personal details exfiltrated. Capita has taken further steps to ensure the integrity, safety and security of its IT infrastructure to underpin its ongoing client service commitments. The EAPF is communicating with all affected individuals. Capita have been in regular contact with the ICO, Financial Conduct Authority (FCA) and the Pension Regulator (TPR) throughout the incident. The Environment Agency Pension Fund has reported the issue to the ICO and TPR.

To date, Capita as the data processor have not informed Defra ALBs: APHA, Agriculture and Horticulture Development Board (AHDB), Consumer Council for water (CCW), Forestry England (FE), Forest Research (FR) and Flood Re who use Capita services of any data breach following their own internal IT investigations. We continue to monitor all suspicious cyber activity related to this or other malware/ransomware strains and will carry out investigations where necessary.

Independent Assurance

The department is subject to independent oversight in several areas. This includes:

- GIAA programme audits and opinion.
- Infrastructure and Projects Authority (IPA) reviews.
- NAO reports (including VFM) and the audit report for the ARA.

Infrastructure and Projects Authority reviews

In 2022-23, all of our major projects were formally constituted with a business case, Senior Responsible Officer and project board, in accordance with the department’s integrated assurance and approvals strategy. The departmental IC oversees investment decisions on behalf of the ExCo, and DelCo oversees delivery of the department’s portfolio and Priority Outcomes. The level of project assurance was based on a risk potential assessment and captured in an Integrated Assurance and Approvals Plan (IAAP) for each project.

The IPA provide third line assurance for our Government Major Projects Portfolio (GMPP) projects and GIAA review our delivery activity at a project and portfolio level as per the audit plan agreed by ExCo. Defra Tier A GMPP projects are subject to IPA assurance reviews at key stage gates or as part of an annual review cycle. IPA reviews are coordinated with the IPA in accordance with the IAAPs for each project.

Government Internal Audit Agency (GIAA) programme and opinion

The Group Chief Internal Auditor (GCIA) has provided a moderate opinion on the framework of governance, risk management and internal control for the Core department and across the Defra group for the 2022–23 financial year. This means Defra has overall effective frameworks in place, with some improvements required to enhance their adequacy and effectiveness and significant improvements ongoing in key areas that still need to be fully delivered. This is shown in the results of GIAA’s audit work for the year, with a majority of moderate and substantial opinions, reflecting the ongoing improvements and focus across Defra on key areas of control.

The GCIA's opinion was informed by the outcomes from engagements on the 2022-23 Defra group internal audit plans and also by knowledge gained from other sources of assurance, including the IPA and the NAO reports and internal audit attendance at Defra group management forums and review of associated papers received. The balance of GIAA's 2022-23 audit opinions and the GCIA's annual opinion maintains the positive trajectory reported last year, with clear improvements being delivered in the past two years, in particular, in financial and programme management (albeit with further progress to be made).

The GCIA observed that this opinion should, however, be placed in the context of Defra's ambitious and challenging objectives and an environment of high external and internal risk. Defra's objectives are challenging in terms of the scale of its outcomes and its portfolio of major programmes, as well as its transformation and improvement agenda. This context means that ongoing improvements in control are required just to maintain effective delivery of core processes and objectives; sustaining the current, large programme of change is vital to deliver the necessary improvements. If this positive trajectory is not maintained, there is the potential for a reduced level of assurance in the future, even with the improvement made to date.

NAO Value for Money reviews/Public Accounts Committee recommendations

The department was subject to five specific Defra focussed NAO reports from 2022-23, where it was the lead department. An overview of the recommendations made by the NAO and Public Accounts Committee (PAC) in 2022-23 are summarised in Table 2[32]. In future, the department will be considering and implementing the recommendations where applicable.

NAO/ PAC Recommendations

Table 2

Report title	Publication date	Recommendations	Planned Implementation Date
Investigation into government's actions to combat waste crime in England	27-04-2022 (NAO)	5	All accepted: 2 Implemented (quarter 1 2022-23) 3 works in progress with implementation dates quarter 2 2023-24 and ongoing
Improving the UK's science capability for managing animal diseases	15-06-2022 (NAO)	7	All accepted: 1 implemented quarter 3 2022-23 6 are works in progress with implementation dates

[32] All NAO recommendations published since 1 April 2019 can be found on the NAO recommendations tracker – National Audit Office (NAO).

Report title	Publication date	Recommendations	Planned Implementation Date
			in quarter 4 2023-24 and quarter 4 2024-25
Government actions to combat waste crime	19-10-2022 (PAC)	8	All accepted: 6 implemented quarter 2 2022-23 and quarter 4 2023-24 2 are works in progress with implementation dates quarter 3 2023-24
Tackling local breaches of air quality	26-10-2022 (PAC)	6	All accepted: 4 implemented quarter 2 and quarter 4 2022-23 2 are works in progress with implementation dates quarter 4 2022-23 and quarter 3 2023-24
Measuring and reporting public sector greenhouse gas emissions	02-11-2022 (PAC)	1	Accepted: Implemented quarter 2 2022-23
Redevelopment of Defra's animal health infrastructure	16-11-2022 (PAC)	9	All accepted: 2 implemented quarter 3 2022-23 7 are works in progress with implementation dates in quarter 4 2022-23 and quarter 3 2023-24
Tackling local breaches of air quality	17-06-2023 (NAO)	10	9 accepted 1 rejected: 2 Implemented quarter 3 2022-23 7 are works in progress with implementation dates in quarter 4 2022-23 and quarter 4 2027-28

Report title	Publication date	Recommendations	Planned Implementation Date
Modernising ageing digital services	06-12-2022 (NAO)	6	6 are works in progress with implementation dates quarter 4 2023-24 and ongoing

NAO audit report

The NAO Annual Report and Accounts 2022-23[33] confirmed that following an NAO report 2022 'Improving the UK's Science capability for managing animal diseases' Defra had implemented a 'One Weybridge' approach to integrate risk management across the site with clear ownership and accountability.

Ministerial Directions

During the 2022-23 financial year, and up to the date of this report, no ministerial directions were issued.

Principal Accounting Officer Conclusion

I have reviewed the opinion of the GCIA and taken advice from the Defra group ARAC, based on the assurances it has considered during the year. I conclude that the department had satisfactory governance, risk management and internal control arrangements in place in 2022–23, and that we have continued to improve.

As Defra group continues to make progress in achieving its ambitious outcomes and developing the ways of working that will achieve these, alongside delivering crucial services, we continue to improve our framework of governance, risk management and the internal control environment.

Tamara Finkelstein 20 October 2023

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

[33] https://www.nao.org.uk/corporate-information/nao-annual-report-and-accounts-2022-23/

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed Defra to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental (and other arm's length) public bodies designated by order made under the GRAA by Statutory Instrument 2022 no 1319 (together known as the Defra group, consisting of the department and sponsored bodies listed at Note 19 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and the Defra group and of the income and expenditure, Statement of Financial Position and cash flows of the Defra group for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental public bodies (NDPBs) and other related bodies;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts (ARA) as a whole is fair, balanced and understandable and take personal responsibility for the ARA and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the permanent head of the department as Accounting Officer of Defra. In addition, HM Treasury has appointed Richard Stanford as an additional Accounting Officer to be accountable for those parts of the department's accounts relating to the Forestry Commission. Flood Re has an independently appointed chief executive who acts as Senior Responsible Officer (SRO) with accounting officer responsibilities for the body. Flood Re's SRO is directly accountable to Parliament for its income and expenditure. However, because its accounts consolidate into the department's, Flood Re must provide assurance to Defra's accounting officer through its independent auditors that they represent a true and fair view and comply with propriety and regularity expectations as contained in Managing Public Money (https://www.gov.uk/government/publications/managing-public-money)[34]. These appointments do not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

[34] https://www.gov.uk/government/publications/managing/public/money

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

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

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Directors Report

Our Ministers and Senior Officials

Details of Defra's ministers and senior officials can be found in the departmental membership and attendance table in the Governance Statement.

Pension Liabilities

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

Conflicts of Interest

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

Charities Act

Section 70 of the Charities Act 2006 sets out a power for ministers to give financial assistance to charitable, benevolent or philanthropic institutions. Defra and its delivery bodies are required to report to Parliament annually any financial assistance given to any charitable institution under the Charities Act. For 2022–23, no such payments were made by Defra or its delivery bodies (2021–22, £Nil).

Employee Health and Safety

Each organisation in the Defra group is legally accountable, via senior leadership, for the health and safety of their employees and have their own arrangements to fulfil their legal duties. Organisational level reporting is developed to suit each organisations risk profile and requirements of their senior leadership teams. However, health, safety and wellbeing teams across the Defra group recognise the value in benchmarking. Many ALBs voluntarily participate in benchmarking of reactive indicators such as reports of work-related injuries, ill health (including work-related stress), and non-injury events such as near misses and observations of unsafe conditions or hazards.

Reports of injury and ill health

During 2022-23, a total of 1,434 reports of work-related injuries or ill health (including work-related stress where this is recorded as work-related harm by the organisation) were received across the Defra group. This is a slight increase on 2021-22 where 1,378 reports were received. Of these injuries and ill health, 28 had to be reported to the Health and Safety Executive (HSE) in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).

(Dangerous Occurrences – which are significant, but non-injury events, are detailed separately below in ‘non-injury events’ section).

- 16 were injuries or illness resulting in more than seven days absence from work or normal duties.
- 8 were HSE specified injuries (e.g. fractures).
- 4 were HSE specified occupational disease.

This is an increase compared to the same period in 2021-22 where 17 RIDDORs for injury or ill health were reported across the Defra group.

Due to focused campaigns keeping up momentum there were sustained levels of reports of work-related stress in some organisations with 412 cases reported (compared with 358 reported in 2021-22). The most common work-related root cause of stress remains as workload or demands placed upon employees.

The most common cause of physical injury was slips, trips, or falls on the same level, with 161 reports (an increase on 2021-22 where 71 were reported). Contact with stationery/fixed objects/equipment was the second most common cause of injury with 110 reports, with the third highest cause of injury being Lifting, handling, carrying or physical overexertion with 92 reports received.

	1	2		3	4	5
	FTE **From published data March 2023**	**All Reports of work-related injury or ill health received in the reporting period[1]**		**Of all injury/ill-health reports received, how many were *RIDDORs?* Specified Injury, Occupational Disease, over-7 Day absence[2]**	**Of all injury/ill-health reports received how many *PEOPLE* had to be absent from work as a result of their injury/ill-health[3]**	**Lost Time Injury Frequency Rate[4]**
ADHB	352.6	6		0	1	0.16↓
APHA	2,946.8	173		4	7	0.13↓
CCW	73.1	0		0	0	0.00→
Cefas	624.5	10		0	1	0.09→
Core Defra	6,123.9	134		0	2	0.01↓
EA	11,843.9	509		12	29	0.12↓
FE	1,177.0	96		5	0	0.00→
JNCC	278.9	0		0	0	0.00→
Kew	891.9	82		6	16	0.87↑
MMO	457.9	11		0	0	0.00↓
NE	2,954.9	340		1	13	0.24↓
NFC	37.9	0		0	0	0.00→
OEP	77.3	0		0	0	0.00→
RPA	2,598.7	67		0	33	0.70↑
VMD	163.6	6		0	6	0.00→
SFIA	81.9	n/a		n/a	n/a	n/a
TOTAL	**30,684.8**	**1,434**		**28**	**108**	**0.19↓**

[1] Column 2 - Includes all reports of work-related injury and ill health (*includes work-related stress where it is recorded by the organisation). Does not include non-injury events* such as near misses.,
[2] Column 3 - Excludes RIDDOR for Dangerous Occurrences
[3] Column 4 – This is the *number of people* that had to be absent from work as a result of their injury/ill-health (*includes work-related stress where recorded by the organisation)*, not the total number of days that people were absent. For example, if an employee was off sick for 9 days, another employee was off for 27 days, and another employee off for 2 days, it is captured as '3' people for the purposes of this report (not 38 days).
[4] Calculated using reports of injury or episode of ill health resulting in the employee losing one day or more. Lost Time Injury Frequency Rate is the number of people injured over a period for every 100,000 hours worked by a group of employees which enables performance to be compared across organisations of different sizes. Arrows indicate increase/decrease/maintain since 2021-22 but it is important not to make strict comparisons as not all organisations record work-related stress in health and safety data.
[5] SFIA have opted out of participating in the group H&S data.

'Like for like' comparisons between organisations are not necessarily achievable or helpful as reporting cultures and categories vary e.g. some organisations do not record cases of work-related stress (or sick absence associated with it) some have large operational workforces so reporting of near misses during high-risk operational activity is more embedded as part of the safe systems of work, and those with office-based workforces may see more incidence of musculoskeletal disorders. For example, core-Defra is largely non-operational so will naturally see fewer physical incidents and injuries, the EA has a large operational workforce working outdoors facing physical risks, and APHA have many of their workforce in their laboratories so will be exposed to more biological hazards. It is not unusual for smaller, very low risk/non-operational organisations to have no reported incidents at all during a 12-month period.

At individual organisational level, steps are taken to investigate and action as needed to prevent further reoccurrence. This includes local and where applicable group level campaigns and review of control measures to eliminate or minimise risk and provision of protective clothing and equipment as a last resort when required.

Non-injury events

Defra group organisations encourage employees to report near miss (non-injury) events[35]. Investigating near misses enables lessons to be learned, shared, and applied to prevent more serious incidents (possibly resulting in injury or ill health) occurring in the future.

4,277 non-injury events were reported across the Defra group in the reporting period. This equates to one in every seven employees reporting a near miss incident during the reporting period (comparable with last year). This reflects a positive culture and awareness of the benefits of reporting non-injury events to prevent actual harm. Total reports included:

- 3 Dangerous Occurrences reported to the HSE in accordance with the RIDDOR,
- 3,275 near miss incidents reported by employees across the group,
- 999 reports of hazards, or unsafe conditions or working practices, enabling faults to be repaired or rectified before any near miss, or more significant, incidents occurred.

[35] an incident which could have caused an injury e.g. when someone slips on a wet floor but is not injured; when opening a gate a person traps fingers but does not hurt themselves, when a car skids but does not crash; when a fixture falls from a ceiling but does not hit anyone etc.

Prosecutions/HSE Interventions

The following interventions were received by Defra group organisations during the reporting period.

Organisation / Month of enforcement	Type/Body e.g. HSE notice	Why enforcement/intervention received	Preliminary actions taken (if applicable) or lessons learned
APHA April 2022	HSE Enforcement letter	Failure to effectively manage actions from meetings.	New standard and system agreed and implemented and more widely across APHA.
APHA July 2022	HSE Enforcement letter	Decontamination of facilities following a spill of a dangerous pathogen.	APHA have responded to the HSE. Actions to address the failings identified have been accepted by HSE.
Defra (DgP Science Estate) December 2022	HSE Enforcement letter	Failure to maintain containment facilities (sealability issues) collaboration and co-operation.	Defra's Chief Operating Officer responded to the HSE in February 2023. A confirmation that adequate action had been taken was received from the HSE in March 2023. There are no further outstanding actions.
APHA December 2022	HSE Enforcement letter	Failure to assure Defra maintained containment facilities (sealability issues) collaboration and co-operation.	APHA have responded to the HSE. Actions to address the failings identified have been accepted by HSE.
APHA March 2023	HSE Enforcement letter	HSE investigation into an incident where fumigant purged from one facility entrained into a neighbouring one, resulting in several people having minor exposure to formaldehyde. The onsite emergency response was found by the HSE to be lacking in some areas.	APHA are providing supporting documentation to the HSE to satisfy the actions.

Complaints to the Parliamentary and Health Service Ombudsman (PHSO)

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

Level one - by the Defra Service Standards Complaints Adjudicator.
Level two - at a senior level within the relevant business unit.

Most complaints are resolved at levels one and two. Complainants who remain dissatisfied after level two can take their complaint to the PHSO.

Defra's complaints procedure can be found online[36]. Each part of Defra's group has its own complaints procedures which can be viewed on its website.

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

From 1 April 2022 to 31 March 2023 no complaints were accepted for investigation by the PHSO relating to the Defra group.

Department for Environment, Food and Rural Affairs	Received	Concluded at preliminary/ assessment	Premature	Not properly made	Withdrawn	Other	Resolution	Early Consideration	Accepted for investigation
2022-23	100	98	-	-	-	1	1	-	-

These figures are a snapshot of complaints with PHSO between April 2022 and March 2023. Not all complaints accepted for investigation in that period will be resolved in the same period and some cases resolved will have been accepted for investigation in the previous year.

Human Rights Disclosure

There has not been any successful litigation against Defra alleging a breach of the Human Rights Act 1998. Defra is currently respondent in proceedings where it has conceded breach of Article 6 of the European Convention on Human Rights (ECHR). All Defra primary legislation introduced into Parliament and all Defra statutory instruments during the relevant period which were subject to the affirmative procedure, or which amended primary legislation, have been accompanied by a statement of compatibility with the ECHR. No Parliamentary committee has adversely reported any Defra legislation for breach of the Human Rights Act 1998.

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

Chapter 5 – Staff and Remuneration Report

The staff and remuneration report provides information on people in Defra and sets out the entity's remuneration policy for directors, how that policy has been implemented, sets out the amounts awarded to directors, and where relevant, the link between performance and remuneration. It also provides details on remuneration and staff that Parliament and others see as important to accountability.

Staff Report

People Survey

Civil Service People Survey 2022

2022 was the fourteenth consecutive year in which the Cabinet Office has conducted the annual Civil Service People Survey. The combined response rate for Defra and the participating agencies (Rural Payments Agency (RPA); Animal and Plant Health Agency (APHA); Veterinary Medicines Directorate (VMD) and Centre for Environment, Fisheries and Aquaculture Science (Cefas)) was 66 per cent (down from 69 per cent in 2021). The overall response rate for the Civil Service was 65 per cent (up from 62 per cent in 2021).

Summary of results

The Civil Service People Survey ran from 22 September to 31 October 2022. Our corporate Defra response rate was 66 per cent, a 3 percentage point decrease on the 2021 survey, but still one percentage point higher than this year's overall response rate for the Civil Service of 65 per cent.

In a challenging year for staff following the pandemic and ongoing dissatisfaction with pay, the Employee Engagement Index scores were below the Civil Service benchmark of 65 per cent across all Defra participating agencies. Our corporate Defra engagement index decreased from 64 per cent in 2021 to 60 per cent in 2022. In the Core department, our Engagement Index decreased from our highest result on record of 67 per cent in 2021 to 60 per cent in 2022.

Whilst results vary by organisation, with Cefas and VMD both seeing some positive increases in results, corporately Defra's performance in all nine engagement driver themes decreased compared with 2021. The scores across the nine themes of the 2022 survey and the engagement index for Defra and the participating agencies are set out below.

	Corporate	APHA	Cefas	Core	RPA	VMD
Total Returns	8,770	1,412	545	5125	1,565	123
Employee Engagement Index	60%	55%	64%	60%	62%	61%
My work	75%	72%	82%	76%	72%	80%
Organisational objectives and purpose	77%	79%	77%	73%	85%	90%
My manager	76%	71%	75%	76%	79%	73%
My team	83%	77%	85%	84%	82%	83%
Learning and development	52%	48%	59%	52%	55%	46%
Inclusion and fair treatment	80%	74%	80%	81%	83%	79%
Resources and workload	70%	64%	73%	70%	76%	74%
Pay and benefits	19%	13%	22%	19%	25%	13%
Leadership and managing change	50%	40%	50%	50%	58%	66%

The most significant drop in theme score at a corporate level was on pay and benefits with a reduction of 15 percentage points. Full results of the Civil Service People Survey are published on gov.uk.

Further Action

Despite efforts to improve these, our corporate bullying, harassment, and discrimination (BHD) scores remained static this year. Eight per cent of our respondents reported having been bullied and/or harassed at work in the past year, and seven per cent of our respondents reported having been discriminated against at work in the past year. While the situation on BHD has not worsened, it has not improved, and that is not where we want to be. We will continue to maintain a zero-tolerance approach to discrimination in any form, while continuing to support our people in reporting incidents.

Defra's executive and local leaders have reviewed all results collected in this year's survey and are busy ensuring that we have collective, comprehensive steps to take in addressing the problems people are facing at an organisational and local level across all the themes. Change management, wellbeing, inclusion, pay and benefits and BHD continue to be our focus areas. Mechanisms to encourage staff to share feedback outside of the annual People Surveys on our progress against improving our employee offer are being implemented.

Recruitment Practice

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

Employee Composition

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

The table below shows the gender split as at 31 March 2023.

Employee Composition	Male	Female
Senior officials on the Defra board	1	3
Ex Officio on the Defra board	2	0
Ministers	2	3
Non-executive directors for the Defra group[1] (excluding Ex Officios on the Defra board)	50	35
Management employees (SCS grade or equivalent) for the Defra group[1] (excluding senior officials on the Defra board)	221	194
All other employees for the Defra group[1]	14,538	16,260
Total	**14,814**	**16,495**

[1]Defra group includes the Core department, executive agencies, non-departmental public bodies (NDPBs), levy bodies, Flood Re, and the National Forest Company. Figures are by headcount.

Diversity and Inclusion

The Defra group Equality, Diversity and Inclusion (EDI) strategy 2020-24 sets five strategic objectives:

- Create more inclusive cultures.
- Build and sustain a diverse workforce.
- Enhance our capability to make the UK a great place for living.
- Improve EDI capability and confidence.
- Communicate, raise awareness and report progress.

The Strategy encompasses all areas of inclusion, but identifies priorities where evidence indicates the greatest need for improvements, namely in relation to ethnic minority employees, in relation to disabled employees, and in relation to respect at work.

The Strategy applies across all Defra organisations.

The Strategy aligns with the Civil Service Diversity and Inclusion Strategy published in 2022.

The Defra EDI Delivery plan for 2022-23 identified three key areas of focus to deliver the Strategy:

- Developing Line Manager Leadership, Capability and Confidence in EDI.
- Career Progression and reducing recruitment disparities.
- Creating an inclusive culture where everyone feels respected.

Examples of key achievements in 2022-23 include:

- Achieving highest level of Disability Confident status accreditation.
- Developing a sponsorship/mentoring offer for staff who have completed a development programme, to ensure they are able to use their learning and progress their careers.
- Completing a review of our complaints procedures and practice to ensure staff are supported and confident to escalate unacceptable behaviour.
- Delivering an EDI module as part of a one day training course supporting new line managers.

Our approach to EDI work is data-driven and evidence-led. The reliability of our data depends on staff completing information about their personal characteristics in our HR systems – the percentage of staff who have completed this information is known as our declaration rate. The table below shows our declaration rates for disability, ethnic origin and sexual orientation. In 2022-23 we saw a decrease in declaration rate for disability, but have seen a steady increase in declaration rates for both ethnic origin and sexual orientation since 2020:

Year end	Disability	Ethnic Origin	Sexual Orientation
Mar-2020	88.0%	87.5%	74.9%
Mar-2021	88.4%	87.8%	76.3%
Mar-2022	88.2%	87.5%	77.1%
Mar-2023	85.8%	92.4%	80.2%
Variance to 2022	(2.4)%	4.9%	3.1%

Workforce Diversity

The overall diversity profile of employees across Defra, its executive agencies, the Environment Agency (EA) and Natural England (NE) is presented in the table below [37]. This table shows comparisons between March 2021 and March 2023. Representation of each of these groups, with the exception of ethnic minority groups, exceeds representation in the UK working age population. Ethnic minority representation has increased slightly year on year since March 2021, but there is clearly more to do to reflect the ethnic diversity of the communities we serve.

[18*]Note: when collecting data as to sexual orientation staff are offered the options of: Heterosexual/Straight; Lesbian or Gay; Bisexual; or Other Sexual Orientation. 'LGBO' refers to staff who have selected one of the latter three options.

Diversity characteristic	March 2021 % Representation	March 2022 % Representation	March 2023 % Representation	% in UK Working Age Population
Women	50.5	49.4	52.0	50.0 (2)
Disabled	14.1	14.7	16.8	16.3
Ethnic Minority	6.5	7.0	7.5	15.0
LGBO*	5.3	6.1	7.1	4.6

Diversity by grade across Defra and its executive agencies (as at 31 March 2023) is shown in the following table – with AA/AO the most junior and SCS the most senior. 'Other' relates to grades in the EA where the grade structure does not map to Civil Service grades.

Grade	% Disabled	% Women	% BAME	% LGBO
AA/AO	20.3	57.1	8.9	9.0
EO	18.1	53.4	8.2	8.0
HEO/SEO	16.6	55.0	7.3	7.0
G7/G6	14.5	48.1	6.7	5.4
SCS	14.0	48.9	7.9	7.6
Other	11.4	8.4	2.8	3.4
Total	**16.8**	**52.0**	**7.5**	**7.1**

Staff Policies

Defra follows the Civil Service Commission's Recruitment Principles to ensure that all recruitment processes are fair and open. Defra has achieved Disability Confident accreditation at the highest level, and as part of that scheme offers interviews to all disabled candidates who meet the minimum requirements for the post advertised, and who have indicated on their application form that they are eligible under the scheme. Defra invites all candidates to indicate whether they will require any adjustments at interview and seeks to meet the needs of all such candidates, to ensure that they are able to participate fully and to give of their best at interview. Representation of employees across Defra group who have indicated a disability or long term health condition has increased year on year from March 2021, and now stands at 16.8 per cent of the workforce, exceeding the percentage in the UK working age population (16.3 per cent).

Defra provides workplace adjustments for all staff who are disabled, including staff who have become disabled during the period of their employment with Defra. Defra, in collaboration with our Disability Networks and Carers Network, has developed Disability and Carer Confident training for line managers, which addresses the role of line managers in supporting disabled staff, including offering workplace adjustments. Defra has a range of disability networks and has established a Disability Board bringing together Disability Champions from across the group, to ensure that the voice of disabled staff is heard and their needs are addressed. During 2023-24, Defra will be reviewing its Workplace Adjustments policies and procedures to ensure that they are fit for purpose and that processes are streamlined so far as possible; and will review its Attendance Management policies to ensure that staff who are, or who become, disabled are adequately supported.

Defra participates in the cross government Beyond Boundaries development programme, targeting disabled staff as well as ethnic minority staff and staff from lower socio-economic backgrounds. Defra recognises that there is more to do to ensure proportionate representation of disabled staff at senior grades and has developed a new People Performance framework which went live in most Defra organisations in April 2023, and which has equality, diversity and inclusion at its heart. The framework has a strong emphasis on supporting all staff to develop and progress, with a particular emphasis on workplace adjustments and the needs of disabled staff.

Public Appointments

Defra has ambitious plans for improving the diversity of its public appointees to better reflect the communities our arm's length bodies serve, but we need to do more. 2022-23 saw the highest percentage of black, Asian and minority ethnic (BAME) (12 per cent) and disabled (seven per cent) candidates applying for Defra public appointments, but these percentages fall to nil at appointed stage. We note that there is more work to be done to support these candidates to progress further in the appointment process.

Our Public Appointments Team has identified diversity leads who oversee various workstreams, set priorities in line with our diversity strategy and work closely with their diversity champion and diversity leads across Whitehall. The team circulates a monthly newsletter to showcase diversity initiatives, has created a Talent Pool database of promising potential candidates from a range of diverse backgrounds and continues to maintain a list of independent panel members from under-represented groups or who have expertise in diversity and inclusion.

We have also made significant progress with the Boardroom Apprenticeship pilot scheme, robustly supported by our Permanent Secretary. Sponsored by the Department for Levelling Up, Housing and Communities, the scheme provides a twelve-month learning and development placement that prepares people (all ages, backgrounds, and abilities) for board roles in the public and third sector.

Diversity characteristic	% Representation of all current public appointments	% Representation of public appointments made in 2021-22	% Representation of public appointments made in 2022-23
Women	41	55	56
Disabled	2.5	3	0
Ethnic Minority	4	10	0

Gender Pay Gap

The Defra Civil Service Gender Pay Gap Report for 2021-22 (published November 2022) shows that our gender pay gap continues to reduce, as it has done every year since 2017.

Defra Civil Service mean and median pay gaps (2017-22)

Defra Civil Service	2017	2018	2019	2020	2021	2022	% Difference from 2021
Mean Gender Pay Gap	11.5	9.8	8.4	7.2	6.7	**5.6**	**1.1**
Median Gender Pay Gap	12.1	11.7	9.4	7.4	6.8	**6.6**	**0.2**

The table below shows the gender and grade split for Defra Civil Service as at 31 March 2023.

Defra Civil Service workforce split by grade and gender

Grade (Increasing in seniority)	Number of women (Women as % of workforce at this grade)	Number of men (Men as % of workforce at this grade)
AA/AO	1508 (62%)	921 (38%)
EO	1364 (59%)	936 (40%)
HEO	1410 (55%)	1143 (45%)
SEO	1435 (57%)	1095 (43%)
G7	1028 (51%)	993 (49%)
G6	318 (50%)	332 (50%)
SCS	96 (46%)	110 (54%)
Grand Total	**7172 (56%)**	**5541 (44%)**

We continue to work to narrow the pay gap further, and to seek parity between women and men at all grades. Our Defra group Gender Board, chaired by our Executive Gender Champion, works to promote gender equality, and has a sub group which specifically focuses on actions to reduce the gender pay gap. Some examples of actions taken in 2022-23 include:

- Promoting the benefits of job-sharing.
- Reviewing our policies in relation to travel and personal safety to empower women to make decisions that put their safety first.
- Introducing guidance and discussion toolkits to encourage informed conversations about menstruation and consideration of any workplace adjustments required.
- Defra has secured White Ribbon accreditation, demonstrating our commitment to work to change the cultures that lead to abuse and violence and to promote gender equality.

Health and Wellbeing

An integrated approach to health and wellbeing can be a core enabler of employee engagement and organisational success. It is an outcome of many factors and requires a whole organisational response to be impactful. To make a difference and gain real benefit, wellbeing must be integrated consistently throughout the organisation, embedded in culture and values, leadership, people management and decision-making. This is particularly relevant for Defra group right now. The operating environment is complex with many challenges and pressures negatively impacting our people and their wellbeing and we have seen the outcomes of this in falling engagement and morale. While we have a range of measures in place to support our peoples' health and wellbeing, these have been met with varying degrees of success.

Our PERMA[38] Index, which tells us the extent to which our people are flourishing in the workplace has decreased in the 2022 People Survey, with employees from ethnic minority groups reporting the highest percentage decrease (-3 percentage points). Our Proxy Stress Index has increased, with employees with a long-term limiting condition reporting the highest increase (+3 percentage points). We will use this insight to put additional targeted wellbeing measures in place for these demographic groups.

Against the four national statistics for personal wellbeing, the positive measures, Life Satisfaction, Worthwhile and Happiness, have all decreased and are lower than the Civil Service benchmark, meaning that Defra employees currently have some of the lowest levels of personal wellbeing across government.

Additionally, we have seen decreases in self-rated health, both mental health to 68 per cent, and physical health to 71 per cent. These are both lower than the Civil Service benchmarks (-3 percentage points and -2 percentage points respectively). However, levels of subjective anxiety have decreased, though remain higher than the Civil Service average.

Encouragingly, 71 per cent of employees felt they achieved a good work-life balance however around 40 per cent felt their workloads were unacceptable in 2022 resulting from continuing pressures on the business and our people.

However, whilst we have seen an upward trend in sickness absence, our Average Working Days Lost remain significantly below the Civil Service benchmark.

Last year we set out our vision for health and wellbeing in the Defra group and invested time in raising awareness of the wellbeing offer across our workforce. In response we know that many more Defra colleagues accessed the wellbeing support for a range of interventions and services. This is a positive outcome and indicates that our people are being supported to pro-actively manage, maintain, and improve their wellbeing. However, we recognise we need to build on this further this year and we intend to capitalise on our external partnerships to ensure our people have more choice and flexibility in the wellbeing services available to them to support their individual wellbeing needs. This in turn will support our inclusion ambitions.

Satisfaction with pay and benefits continued on a downward trajectory again this year. Recognising that employees are struggling financially with cost of living pressures, we have innovatively developed a range of tactical solutions to improve our offer to our people. We will continue to build on this and our Employee Value Proposition over time to engage our people.

[38] PERMA index is a measure of wellbeing covering Positive Emotion, Engagement, Relationships, Meaning and Achievement.

This year we will develop a health and wellbeing strategy and delivery plan for Defra group to drive better consistency of approach and outcomes. We will set priorities that align to this strategy, making intelligent use of data and other insight to understand the key drivers of wellbeing and also what influences job, as well as life, satisfaction. Subjective anxiety, for example, will be collectively addressed as part of our long-term strategy. We will ensure our approach and interventions are innovative, prevention focussed, respond to business and colleague need, and are based on sound rationale.

In response to the Government Internal Audit Agency (GIAA) audit, we developed metrics to measure and track our progress and mitigate our wellbeing risk over time. Last year we built on this through the development of a sophisticated health and wellbeing dashboard, which will continue to iterate as our health and wellbeing strategy and approach matures.

We are confident that these actions will help us make positive progress towards our vision for wellbeing in Defra group.

Managing Attendance

A corporate approach for managing attendance is in place across Defra, as part of supporting the wellbeing of our people and maintaining good levels of attendance at work. Our focus is on ensuring our people are getting the right support at the right time to help them attend work, or if they are absent due to ill health, to successfully return to the workplace. We advocate a pro-active approach to health and wellbeing, equipping both individuals and line managers to manage any issue related to health and wellbeing in a timely and proactive way so people who are able to work can do so.

Our options for support comprise extensive guidance and tools to equip line managers and staff to maintain their own and others' wellbeing as part of delivering well. We also provide Occupational Health advice and intervention, counselling, access to Headspace, mental health first aiders, advisory services through our employee assistance programme and a network of colleague buddies. We aim to prevent work related ill-health and injury by implementing safe working practices, monitoring and addressing underlying causes.

For Defra and its executive agencies, an average of 4.3 working days per employee was lost to sickness absence during the year to 31 March 2023, compared with 4.6 days in the year to 31 March 2022.

Trade Union (TU) Facility Time

The three unions recognised by the Core department and it's agencies for the purposes of consultation and negotiation are the Public and Commercial Services union (PCS), Prospect and FDA. An employee relations framework helps define this relationship.

In accordance with the requirements of the TU (Facility Time Publication requirements) Regulations 2017, the following is a summary of trade union officials of employees and facility time usage of this group during the 2022-23 year.

In the Core department and it's agencies, 46 employees were TU representatives. Each of these employees spent up to 50 per cent of their working hours on facility time on TU business.

The total cost of the facility time was £126,345 which is 0.039 per cent of the total pay bill. There were no paid TU activities during 2022-23. The total pay bill cost was £325,323,686.

There is no statutory entitlement to paid time off to undertake TU activities. However, TU representatives are entitled to be granted reasonable unpaid time off to participate in TU activities.

TU information for our NDPBs which are in scope for this disclosure can be found in their individual Annual Report and Accounts (ARA).

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

The table below includes information on NDPBs that are assessed through a different job evaluation system. To enable a consistent understanding of respective roles, and in line with previous years, salary has been used for comparison purposes. Work relating to talent and succession management provides additional assurance in terms of general comparability.

	Core Department	Defra Group
SCS Permanent Secretary	1	1
SCS Pay band 3 or equivalent	5	14
SCS Pay band 2 or equivalent	34	76
SCS Pay band 1 or equivalent	151	320

Flood Re employees are excluded as they cannot be allocated against SCS pay bands.
The figures stated are as at 31 March 2023.

Consultancy and Temporary Staff Expenditure

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

				2022-23
	Core Department	**Agencies**	**NDPBs**	**Departmental Group**
	£000	**£000**	**£000**	**£000**
Consultancy expenditure	23,508	5,651	98,406	127,565
Temporary staff expenditure	81,154	23,543	21,455	126,152
Total	**104,662**	**29,194**	**119,861**	**253,717**

				2021-22
	Core Department	**Agencies**	**NDPBs**	**Departmental Group**
	£000	**£000**	**£000**	**£000**
Consultancy expenditure	23,703	3,270	14,971	41,944
Temporary staff expenditure	121,273	16,333	23,415	161,021
Total	**144,976**	**19,603**	**38,386**	**202,965**

Overall, consultancy expenditure has increased by £85.6 million and temporary staff costs have decreased by £34.9 million compared with the prior year.

The increase in consultancy costs for 2022-23 has been driven by changes to the way that some project accounting costs can be treated, with costs being classified within consultancy during 2022-23 that were previously accounted for as capital works expensed in year ('CWEIY').

The Core department is the primary contributor to the decrease in temporary staff costs, with costs falling by £40.1 million. This was mainly due to the Core department's reducing of its reliance on contingent labour in favour of permanent recruitment. A similar approach in both MMO and NE resulted in decreases of £2 million and £1.2 million respectively. These decreases were offset by an increase of £5.8 million in APHA, due to the unprecedented level of Avian Influenza outbreaks increasing the need for temporary staff. Additionally, at FC, the need to fill roles following increased activity in various programmes, including the Natural Capital and Ecosystem Assessment Programme and the new Nature for Climate Funding Programme, resulted in an increase in temporary staff costs of £1.5 million.

Staff Costs

The following staff costs, average number of persons employed and exit packages information is audited by the Comptroller and Auditor General.

Staff costs for the group comprise:

	Permanent Employed Staff	Others	Ministers	Special Advisers	2022-23 Total	2021-22 Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	1,112,680	146,668	187	-	1,259,535	1,123,176
Social security costs	129,887	630	18	-	130,535	112,615
Other pension costs	172,825	1,019	12	-	173,856	155,512
Sub total	**1,415,392**	**148,317**	**217**	**-**	**1,563,926**	1,391,303
Less: recoveries in respect of outward secondments	(2,539)	(1,494)	-	-	(4,033)	(4,567)
Total net costs	**1,412,853**	**146,823**	**217**	**-**	**1,559,893**	1,386,736

	2022-23 Charged to Administration Budgets	2022-23 Charged to Programme Budgets	2022-23 Total	2021-22 Charged to Administration Budgets	2021-22 Charged to Programme Budgets	2021-22 Total
	£000	£000	£000	£000	£000	£000
Of which:						
Core department and agencies	443,718	331,358	775,076	447,126	285,927	733,053
NDPBs	97,954	638,471	736,425	43,794	553,920	597,714
Net total SoCNE	**541,672**	**969,829**	**1,511,501**	490,920	839,847	1,330,767
Staff costs capital:						
Core department and agencies			12,269			7,161
NDPBs			40,156			53,375
Less: recoveries in respect of outward secondments			(4,033)			(4,567)
Total net costs			**1,559,893**			1,386,736

Defra board (the Board) remuneration is included in the Remuneration Report.

Special Advisers are temporary civil servants. In order to improve efficiency, the administration of staff costs for all Special Advisers across government is managed by the Cabinet Office, with corresponding budget cover transfers. Therefore, all Special Adviser costs are now reported in the Cabinet Office ARA. Special Advisers remain employed by the respective department of their appointing Minister.

Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme, known as alpha, are unfunded multi-employer defined benefit schemes. Defra is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the PCSPS as at 31 March 2016. Details can be found in the annual accounts of the Cabinet Office: Civil Superannuation[39].

For 2022–23, employer's contributions of £165.5 million (2021–22, £145.6 million, restated) were payable to the PCSPS at one of four rates in the range 26.6 per cent to 30.3 per cent (2021-22, 26.6 per cent to 30.3 per cent) of pensionable earnings, based on salary bands.

The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2022-23 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Other Pension Schemes

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. For 2022–23 employer's contributions of £0.8 million (2021–22, £0.8 million, restated) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related and ranged from eight per cent to 14.75 per cent (2020–21 8 per cent to 14.75 per cent) Employers also match employee contributions up to three per cent of pensionable pay. In addition, employer contributions of £7,000 for 2022–23 (2021–22, £37,000), 0.5 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting period date were £Nil (2021–22, £Nil). Contributions prepaid at that date were £Nil (2021–22, £Nil).

In addition to the schemes listed above, EA operates a funded defined benefit scheme, and some other delivery bodies operate small defined contribution schemes. The overall arrangements for these schemes are described in note 16.1, and information on contributions paid and amounts chargeable to the SoCNE are disclosed in note 16.2. Further details of these schemes can be found in the ARAs of the relevant delivery bodies.

There were no individuals in the Core department (2021–22, none) who retired early on ill health grounds. Their total additional accrued pension liabilities in the year amounted to nil (2021–22, £Nil).

Loans are made to employees to cover season ticket advances and to relocate. As at 31 March 2023, there were no outstanding balances from Core department senior officials.

[39] https://www.civilservicepensionscheme.org.uk

Average Number of Persons Employed

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

Activity	Permanent Employed Staff	Others	Ministers	2022-23 Total	2021-22 Total
				Number	Number
Environment Agency	9,935	757	-	10,692	9,472
Natural England	2,578	217	-	2,795	2,269
Animal and Plant Health Agency	2,746	299	-	3,045	2,715
Rural Payments Agency	2,539	130	-	2,669	2,306
Core department	5,810	1,102	4	6,916	6,717
Others	3,851	159	-	4,010	3,747
Staff engaged on capital projects	910	86	-	996	1,345
Total	**28,369**	**2,750**	**4**	**31,123**	28,571
Of which:					
Core department and agencies	12,578	1,693	4	14,275	13,317
NDPBs	15,791	1,057	-	16,848	15,254
Total	**28,369**	**2,750**	**4**	**31,123**	28,571

As at 31 March 2023 the department had three Special Advisers working with Ministers and paid by the Cabinet Office.

Staff Turnover

The departmental staff turnover rate as at the 31 March 2023 was 15.6 per cent, compared to 11.8 per cent as 31 March 2022. Over the last 12 months the department has seen an increase in the number of fixed term appointment staff leaving the department at the end of their contracts who had been employed to support EU exit since 2017 and the COVID-19 Pandemic since March 2020. This data relates to the Core department only.

Reporting of Civil Service and Other Compensation Schemes – Exit Packages

	Number of Compulsory Redundancies	**Number of Other Departures Agreed**	**2022-23 Total Number of Exit Packages**	Number of Compulsory Redundancies	Number of Other Departures Agreed	2021-22 Total Number of Exit Packages
Cost band						
< £10,000	5	-	5	12	7	19
£10,000 - £25,000	2	1	3	11	9	20
£25,001 - £50,000	4	-	4	7	5	12
£50,001 - £100,000	1	2	3	4	-	4
£100,001 - £150,000	-	1	1	-	-	-
£150,001 - £200,000	-	-	-	-	1	1
Total number of exit packages by type	**12**	**4**	**16**	34	22	56
Total resource cost (£000)	**287**	**302**	**589**	734	503	1,237
Of which:						
Number of cases						
Core department and agencies	-	2	2	-	-	-
NDPBs	12	2	14	34	22	56
Total	**12**	**4**	**16**	34	22	56
Resource cost						
Core department and agencies	-	190	190	-	-	-
NDPBs	287	112	399	734	503	1,237
Total	**287**	**302**	**589**	734	503	1,237

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

In line with the Constitutional Reform and Governance Act 2010 and the Model Contract for Special Advisers, a Special Adviser's appointment automatically ends when their appointing Minister leaves office. Special Advisers are not entitled to a notice period but receive contractual termination benefits to compensate for this.

Termination benefits are based on length of service and capped at six months' salary. If a Special Adviser returns to work for HM government following the receipt of a severance payment, the payment is required to be repaid, less a deduction in lieu of wages for the period until their return. Termination costs for Special Advisers are reported in the Cabinet Office Annual Report and Accounts.

Off-Payroll Appointments

Information on off-payroll engagements is set out in the following tables. Off-payroll means anyone who is working for the department or a delivery body but is not paying PAYE (Pay As You Earn) or National Insurance via the departmental payroll.

Highly paid off-payroll worker engagements as at 31 March 2023, earning £245 per day or greater.

	Core Department	Agencies	ALBs	Departmental Group
Number (No.) of existing engagements as of 31 March 2023	521	142	151	814
Of which, no. that existed:				
less than 1 year	268	107	70	445
for between 1 and 2 years	154	14	41	209
for between 2 and 3 years	55	12	20	87
for between 3 and 4 years	17	5	7	29
for 4 or more years	27	4	13	44

All highly paid off-payroll workers engaged at any point during the year ended 31 March 2023, earning £245 per day or greater.

	Core Department	Agencies	ALBs	Departmental Group
No. of temporary off-payroll workers engaged during the year ended 31 March 2023.	965	152	340	1457
of which:				
Not subject to off-payroll legislation.	880	143	126	1149
Subject to off-payroll legislation and determined as in-scope of IR35.	57	1	49	107
Subject to off-payroll legislation and determined as out-of-scope of IR35.	28	8	165	201
No. of engagements reassessed for compliance or assurance purposes during the year.	808	25	124	957
of which:				
No. of engagements that saw a change to IR35 status following review.	3	2	6	11

For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2021 and 31 March 2023.

	Core Department	**Agencies**	**ALBs**	**Departmental Group**
No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility, during the financial year.	1*	-	1**	2
Total number of individuals on payroll and off-payroll that have been deemed 'board members, and/or senior officials with significant financial responsibility', during the financial year. This figure should include both on payroll and off- payroll engagements.	27	50	160	237

*Following the resignation of Defra's Chief Financial Officer an interim was appointed until a permanent replacement was found. This was approved by the Accounting Officer and lasted from 25 July 2022 until 12 December 2022.

**Following the resignation of the finance director, Forest Research appointed an off-payroll interim on 8 November 2021 who will remain in-post until a new finance director is recruited. As a temporary measure the interim was removed from the Forest Research Board and their financial responsibility was moved to the CEO at the beginning of May 2022.

Remuneration Report

The information shown within the tables of this report are audited by the Comptroller and Auditor General.

Remuneration Policy

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

The Core department develops its SCS reward strategy within the Cabinet Office framework, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed.

Members of the SCS are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP), based on their performance. NCVP is paid in the financial year after that in which it was earned. During 2022-23, NCVP for 2021–22 performance was paid to approximately 27 per cent of the SCS and was paid at £6,000 for deputy directors, directors and directors general. NCVP values, informed by each individual's appraisal grade, were paid within Cabinet Office guidelines. Departments also have discretion to make in-year non-consolidated award payments to recognise outstanding contribution for SCS staff. These are limited under Cabinet Office guidance to a maximum of £5,000.

The Permanent Secretary is eligible to be considered for a NCVP bonus award measured against achievement of objectives, which for performance in 2021-22 was subject to a maximum of £17,500. Such awards are made by the Permanent Secretaries' Remuneration Committee, which comprises the Chairman of the SSRB (who acts as chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury.

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

Service Contracts

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

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

Further information about the work of the Civil Service Commission can be found on the Civil Service Commission website.

Remuneration (including salary) and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the ministers and the board members who were employees of the department during 2022-23. The following tables in the Remuneration Report have been subject to audit.

Ministers

£	2022-23 Salary	2021-22 Salary	2022-23 Pension Benefits (to the nearest £1000)**	2021-22 Pension Benefits (to the nearest £1000)**	2022-23 Severance Payments	2021-22 Severance Payments	2022-23 Total (to nearest £1000)	2021-22 Total (to nearest £1000)
Rt Hon Dr Thérèse Coffey MP (from 25 October 2022)	28,127	-	7,000	-	-	-	35,000	-
Rt Hon Mark Spencer MP (from 7 September 2022)	18.040	-	5,000	-	-	-	23,000	-
Trudy Harrison MP (from 8 September 2022	12,617	-	3,000	-	-	-	16,000	-
Rt. Hon. Lord Benyon****	33,316	62,766	10,000	17,000	-	-	43,000	80,000
Rebecca Pow MP*** (until 7 July and from 28 October 2022)	15,578	22,375	-	-	5,593	-	21,000	22,000

***Rebecca Pow MP resigned from her post at Defra on 7 July 2022. She was appointed as Parliamentary Under Secretary of State by the Prime Minister on 28 October 2022. The figures shown above cover both of these periods.

****Following the cabinet re-shuffle in September 2022 Lord Benyon's role changed from Parliamentary Under Secretary of State to Parliamentary Under Secretary of State (unpaid). In October 2022, Lord Benyon became Minister of State (unpaid). The payments shown above relate to Lord Benyon's engagement prior to the September re-shuffle.

Ministers who have served during 2022-23 but were not in post as at 31 March 2023

£	2022-23 Salary	2021-22 Salary	2022-23 Pension Benefits (to the nearest £1000)**	2021-22 Pension Benefits (to the nearest £1000)**	2022-23 Severance Payments	2021-22 Severance Payments	2022-23 Total (to nearest £1,000)	2021-22 Total (to nearest £1,000)
Rt Hon Ranil Jayawardena MP (from 6 September until 24 October 2022)	9,043	-	3,000	-	16,876	-	29,000	-
Rt Hon George Eustice MP (until 6 September 2022)	29,252	67,505	7,000	17,000	16,876	-	53,000	85,000
Rt. Hon. Victoria Prentis MP (until 6 September 2022)	13,728	27,441	3,000	7,000	-	-	17,000	34,000
Jo Churchill MP (until 6 July 2022)	5,955	12,120	5,000	3,000	5,593	-	17,000	15,000
Steve Double MP (from 8 July until 7 September 2022)	3,743	-	1,000	-	5,593	-	10,000	-
Lord Goldsmith of Richmond Park*** (until 22 September 2022)	-	-	-	-	-	-	-	-
Scott Mann MP (from 20 September until 27 October 2022)	2,308	-	1,000	-	-	-	3,000	-

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

***Lord Goldsmith receives no reimbursement from the department.

*Full year equivalent salary for ministers who served part year with Defra

£	2022-23	2021-22
Rt Hon Ranil Jayawardena MP (from 6 September until 24 October 2022)	67,505	-
Rt. Hon. George Eustice MP (until 6 September 2022)	67,505	-
Rt. Hon. Victoria Prentis MP (until 6 September 2022)	31,680	-
Rebecca Pow MP (until 7 July and from 28 October 2022)	22,375	-

£	2022-23	2021-22
Jo Churchill MP (until 6 July 2022)	22,375	22,375
Steve Double MP (from 8 July until 7 September 2022)	22,375	-
Scott Mann MP (from 20 September until 27 October 2022)	22,375	-
Rt. Hon Dr Thérèse Coffey MP (from 25 October 2022)	67,505	-
Mark Spencer MP (from 7 September 2022)	31,680	-
Trudy Harrison MP (from 8 September 2022)	22,375	-

Senior Officials on the Board

£000	2022-23 Salary	2021-22 Salary	2022-23 Bonus Payments	2021-22 Bonus Payments	2022-23 Pension Benefits	2021-22 Pension Benefits	2022-23 Total	2021-22 Total
Tamara Finkelstein Permanent Secretary	170-175	165-170	-	15-20	2	42	175-180	225-230
Sarah Homer Director General	145-150	145-150	0-5	5-10	58	57	210-215	205-210
Lucy Smith Director General	125-130	125-130	-	0-5	17	48	145-150	175-180
Iain King Chief Financial Officer (from 12 December 2022)	30-35	-	-	-	14	-	45-50	-

Senior Officials who have served during 2022-23 but were not in post as at 31 March 2023

£000	2022-23 Salary	2021-22 Salary	2022-23 Bonus Payments	2021-22 Bonus payments	2022-23 Pension Benefit	2021-22 Pension Benefit	2022-23 Total	2021-22 Total
Heather Smith Chief Financial Officer (until 30 June 2022)	25-30	105-110	-	-	14	30	40-45	135-140
Andrew Cartner Interim Chief Financial Officer (from 30 June until 25 July 2022)	5-10	-	-	-	1	-	5-10	-
Philip Lloyd Interim Chief Financial Officer (from 25 July to 12 December 2022)	110-115	-	-	-	-	-	110-115	-

*Full year equivalent salary for part year officials

£000	2022-23	2021-22
Heather Smith (until 30 June 2022)	110-115	-
Andrew Cartner (from 30 June until 25 July 2022)	95-100	-
Philip Lloyd (from 25 July to 12 December 2022)	260-265	-
Iain King (from 12 December 2022)	110-115	-

Ex Officio Board Members

The board has two ex officio members, Tony Juniper from NE and Adam Lovell from EA who took over the role in September 2022 from Emma Howard Boyd.

The ex officio members do not receive any additional payment from the Core department for their duties on the board. For details of the remuneration of these ex officio members, please see the EA and NE ARAs as they are paid by these entities.

Salary

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

This report is based on accrued payments made by the department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP £81,932 (from 1 April 2020) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the department, and is therefore shown in full in the figures above.

The information given above relates to members of the board. Equivalent information relating to the entities consolidated into the departmental accounts (as per Note 19: executive agencies, NDPBs, National Forest Company, Flood Re, Forestry Commission and levy funded bodies) is given in their separate ARAs.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2022-23 relate to performance in 2021-22 and the comparative bonuses reported for 2021-22 relate to the performance in 2020-21.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HM Revenue and Customs as a taxable emolument. No Defra officials received benefits in kind during the 2022-23 year.

Non-Executive Directors (NEDs)

£	2022-23 Fees Entitlement	2022-23 Fees Paid**	2022-23 Benefits in Kind	2021-22 Fees Entitlement	2021-22 Fees Paid**	2021-22 Benefits in Kind
Colin Day	20,000	20,000	-	20,000	15,000	-
Lizzie Noel	15,000	15,000	-	15,000	11,250	-

Non-Executive Directors who have served during 2022-23 but were not in post as at 31 March 2023

£	2022-23 Fees Entitlement	2022-23 Fees Paid**	2022-23 Benefits in Kind	2021-22 Fees Entitlement	2021-22 Fees Paid**	2021-22 Benefits in Kind
Ben Goldsmith (until 22 July 2022)	4,644	Fee waived	-	15,000	Fee waived	-
Elizabeth Buchanan (until 1 March 2023)	13,750	17,500	-	15,000	11,250	-
Henry Dimbleby (until 10 March 2023)	18,880	23,880	-	20,000	15,000	-

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

Pension Benefits

Ministers

£000	Accrued Pension at Pension Age as at 31 March 2023	Real Increase in Pension at Pension Age	*CETV at 31 March 2023	*CETV at 31 March 2022	Real Increase in CETV
Rt. Hon. Dr Thérèse Coffey MP (from 25 October 2022)	5-10	0-2.5	70	60	3
Mark Spencer MP (from 7 September 2022)	0-5	0-2.5	48	40	3
Trudy Harrison MP (from 8 September 2022)	0-5	0-2.5	8	5	1
Rt. Hon. Lord Benyon	0-5	0-2.5	31	19	7
Rebecca Pow MP** (until 7 July and from 28 October 2022)	-	-	-	-	-

Ministers who have served during 2022-23 but were not in post as at 31 March 2023

£000	Accrued Pension at Pension Age as at 31 March 2023	Real Increase in Pension at Pension Age	*CETV at 31 March 2023	*CETV at 31 March 2022	Real Increase in CETV
Rt Hon Ranil Jayawardena MP (from 6 September until 24 October 2022)	0-5	0-2.5	11	9	1
Rt Hon George Eustice MP (until 6 September 2022)	5-10	0-2.5	96	85	3
Rt. Hon. Victoria Prentis MP (until 6 September 2022)	0-5	0-2.5	16	12	2
Jo Churchill MP (until 6 July 2022)	0-5	0-2.5	37	25	3
Lord Goldsmith of Richmond Park** (until 22 September 2022)	-	-	-	-	-
Steve Double MP (from 8 July until 7 September 2022)	0-5	0-2.5	5	4	1
Scott Mann (from 20 September until 27 October 2022)	0-5	0-2.5	6	6	-

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

**Lord Goldsmith and Rebecca Pow MP chose not to be covered by the ministerial pension scheme arrangements during the reporting year.

Ministerial Pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015[40].

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

Benefits for ministers are payable from State Pension age under the 2015 scheme. Pensions are revalued annually in line with pensions increase legislation both before and after

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

retirement. The contribution rate from May 2015 is 11.1 per cent and the accrual rate is 1.775 per cent of pensionable earnings.

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

Senior Officials on the Board

£000	Accrued Pension as at 31 March 2023 and Related Lump Sum	Real Increase in Pension and Related Lump Sum at Pension Age	*CETV at 31 March 2023	*CETV at 31 March 2022	Real Increase in CETV[41]	Employer Contribution to Partnership Pension Account (Nearest £100)
Tamara Finkelstein Permanent Secretary	95-100	0-2.5	1,685	1,521	(20)	-
Sarah Homer Director General	10-15	2.5-5	184	128	38	-
Lucy Smith Director General	45-50	0-2.5	609	547	(2)	-
Iain King Chief Financial Officer (from 12 December 2022)	25-30	0-2.5	254	246	5	-

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

Senior Officials who have served during 2022-23 but were not in post as at 31 March 2023

£000	Accrued Pension as at 31 March 2023 and Related Lump Sum	Real Increase in Pension and Related Lump Sum at Pension Age	*CETV at 31 March 2023	*CETV at 31 March 2022	Real Increase in CETV	Employer Contribution to Partnership Pension Account (Nearest £100)
Heather Smith Chief Financial Officer (until 30 June 2022)	35-40	0-2.5	492	474	7	-
Andrew Cartner Interim Chief Financial Officer (from 30 June until 25 July 2022)	30-35 plus lump sum 55-60	0-2.5 plus lump sum 0	439	437	-	-

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

[41] Taking account of inflation, the CETV funded by the employer has decreased in real terms.

Civil Service Pensions

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

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 switch into alpha sometime between 1 June 2015 and 1 February 2022.

Because the government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the CETV shown in this report – see below).

All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a defined contribution (money purchase) pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6 per cent and 8.05 per cent for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of one-eightieth of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of one-sixtieth of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32 per cent. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The Partnership Pension Account is an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between eight per cent and 14.75 per cent (depending on the age of the member). The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of three per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5 per cent of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes but note that part of that pension may be payable from different ages).

Further details about the Civil Service pension arrangements can be found at the website (www.civilservicepensionscheme.org.uk).

Cash Equivalent Transfer Values

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

The figures shown include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 31 March 2023. HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023-24 CETV figures.

Real Increase in CETV

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

Fair Pay Disclosures

This information has been subject to audit.

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

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

	2022-23	2021-22
	£000	£000
Highest paid director total remuneration	260-265	180-185
Lowest paid staff member total remuneration	15-20	15-20
	£	£
25th percentile salary	25,915	25,012
25th percentile total remuneration	26,174	25,263
Median quartile salary	32,717	32,557
Median quartile total remuneration	33,536	32,557
75th percentile salary	44,066	42,530
75th percentile total remuneration	44,428	42,744
	Ratio	Ratio
25th percentile	10:1	7.2:1
Median quartile	7.8:1	5.6:1
75th percentile	5.9:1	4.3:1

The percentage change in total salary and bonuses for the highest paid director and the staff average.

	2022-23 Total salary and allowances	**2022-23 Bonus Payments**	2021-22 Total salary and allowances	2021-22 Bonus Payments
Staff average	2.62%	0.06%	2.93%	0.11%
Highest paid director	36.45%	(100)%	0%	0%

The full year equivalent banded remuneration of the highest-paid director in the department in 2022-23 to 31 March 2023 was £260,000-265,000 (2021-22, £180,000 -185,000). This was 7.8 times (2021-22, 5.6) the median remuneration of the workforce, which was £33,536 (2021-22, £32,557). No members of staff (2021-22, one) were paid more than the highest paid director.

The Highest paid director was an interim director on a short term contract (less than six months) employed while a permanent Chief Financial Officer was recruited. This is the reason for the increase in the banded remuneration of the highest paid director from the previous year.

For more useful comparison purposes, the full year equivalent banded remuneration of the highest paid permanent member of staff at director level in 2022-23 to 31 March 2023 was £170,000 -175,000 (2021-22, 180,000 -185,000). This was 5.1 times (2021-22, 5.6) the median remuneration of the workforce, which was £33,536 (2021-22, £32,557). Percentage change in total salary and bonuses for the highest paid director on this basis is 3.61 per cent against the staff average of 2.26 per cent.

Chapter 6 – Parliamentary Accountability and Audit Report

The parliamentary accountability and audit report describe how departments are financed through the Parliamentary Estimates process. Details are also provided regarding the regularity of expenditure, so that Parliament can be assured that funds have been expended in the manner intended. This meets the key accountability requirements to Parliament. The Certificate and Report of the Comptroller and Auditor General to the House of Commons is also included, as required by the Government Resources and Accounts Act 2000.

Statement of Outturn against Parliamentary Supply

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS); the Government Financial Reporting Manual (FReM) requires Defra to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provisions (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by its' Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly match to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (SOPS Note 1); a reconciliation of outturn to net operating expenditure in the Consolidated Statement of Comprehensive Net Expenditure (SOCNE), to link the SOPS to the financial statements (SOPS Note 2); a reconciliation of outturn to net cash requirement (SOPS Note 3); and an analysis of income payable to the Consolidated Fund (SOPS Note 4).

Unless specifically stated in the table the 2021–22 comparatives have been not restated.

The SOPS and Estimates are compiled against the budgeting framework, which is similar to, but different to, IFRS. An understanding of the budgeting framework and an explanation of the key terms is provided in the financial review section of the performance report. Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in Chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament. The financial analysis, in the Performance Report, provides a summarised discussion of outturn against estimate and functions as an introduction to the SOPS disclosures.

Summary of Resource and Capital Outturn 2022-23

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

	Note/Ref	**2022-23** Outturn Voted £000	Estimate Voted £000	Outturn vs Estimate Saving/(Excess) £000	2021-22 Outturn Total £000
Departmental Expenditure Limit					
Resource	SOPS 1.1	4,632,934	4,743,138	110,204	4,288,950
Capital	SOPS 1.2	1,463,708	1,761,604	297,896	1,333,878
Total		**6,096,642**	**6,504,742**	**408,100**	5,622,828
Annually Managed Expenditure					
Resource	SOPS 1.1	(449,687)	483,015	932,702	432,741
Capital	SOPS 1.2	9,084	555,999	546,915	2,655
Total		**(440,603)**	**1,039,014**	**1,479,617**	435,396
Total Budget					
Resource	SOPS 1.1	4,183,247	5,226,153	1,042,906	4,721,691
Capital	SOPS 1.2	1,472,792	2,317,603	844,811	1,336,533
Total Budget Expenditure		**5,656,039**	**7,543,756**	**1,887,717**	6,058,224
Non-Budget Expenditure	SOPS 1.1	79	10,001	9,922	1,699
Total Budget and Non-Budget		**5,656,118**	**7,553,757**	**1,897,639**	6,059,923

The table above details the 2022–23 figures for voted totals subject to parliamentary control and outturn. Refer to the Supply Estimates Guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net Cash Requirement 2022–23

		2022-23			2021-22
		Outturn Voted	**Estimate**	**Voted Outturn vs Estimate: Saving/(Excess)**	Outturn Total
		£000	£000	£000	£000
Net cash requirement	SOPS 3	5,914,173	6,437,975	523,802	5,277,439

Administration costs 2022–23

	2022-23			2021-22
	Outturn Voted	**Estimate**	**Voted Outturn vs Estimate: Saving/(Excess)**	Outturn Total
	£000	£000	£000	£000
Administration costs	938,764	978,919	40,155	832,308

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

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

The notes on pages 183 to 275 form part of these accounts.

SOPS 1 –Outturn detail, by Estimate Line

SOPS 1.1 – Analysis of Resource Outturn by Estimate Line

	2022-23											2021-22
	Outturn							Estimate				Outturn
	Administration			Programme								
	Gross	Income	Net	Gross	Income	Net	Total	Total	Virements[1]	Net Total Adjusted for Virements	Outturn Compared to Estimate, saving/ (excess)	Net Total
	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'
Spending in Departmental Expenditure Limits (DEL)												
Voted												
Food and farming	81,510	(125)	81,385	1,985,752	(143,008)	1,842,744	1,924,129	2,002,617	(78,461)	1,924,156	27	1,965,221
Improve the environment and rural services	107,365	(232)	107,133	537,263	(29,023)	508,240	615,373	674,577	(50,839)	623,738	8,365	551,025
Protect the country from floods	1,709	(14)	1,695	(144)	-	(144)	1,551	2,806	-	2,806	1,255	3,314
Animal and plant health	71,465	(14)	71,451	451,692	(98,178)	353,514	424,965	459,976	(16,905)	443,071	18,106	330,272
Marine and fisheries	23,051	(188)	22,863	66,327	(15,518)	50,809	73,672	83,108	(4,290)	78,818	5,146	60,877
Departmental operating costs	408,736	(5,662)	403,074	146,598	(2,718)	143,880	546,954	749,068	(135,578)	613,490	66,536	535,762
Improve the environment and rural services (ALB) (net)	122,513	-	122,513	294,833	-	294,833	417,346	354,910	66,654	421,564	4,218	362,628
Protect the country from floods (ALB) (net)	123,072	-	123,072	473,490	-	473,490	596,562	378,924	217,638	596,562	-	447,890
Marine and fisheries (ALB) (net)	5,578	-	5,578	26,804	-	26,804	32,382	37,152	1,781	38,933	6,551	32,712
Non Voted												
Improve the environment and rural services	-	-	-	-	-	-	-	-	-	-	-	(751)
Total	**944,999**	**(6,235)**	**938,764**	**3,982,615**	**(288,445)**	**3,694,170**	**4,632,934**	**4,743,138**	**-**	**4,743,138**	**110,204**	4,288,950

	2022-23											2021-22
	Outturn							Estimate				Outturn
	Administration			Programme								
	Gross	Income	Net	Gross	Income	Net	Total	Total	Virements[1]	Net Total Adjusted for Virements	Outturn Compared to Estimate, saving/ (excess)	Net Total
	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'
Spending in Annually Managed Expenditure Limits (AME)												
Voted												
Food and farming	-	-	-	8,791	-	8,791	8,791	50,881	-	50,881	42,090	(59,847)
Improve the environment and rural services	-	-	-	(332,893)	-	(332,893)	(332,893)	(286,450)	-	(286,450)	46,443	333,502
Animal and plant health	-	-	-	(6,741)	-	(6,741)	(6,741)	5	-	5	6,746	(6,627)
Marine and fisheries	-	-	-	(246)	-	(246)	(246)	9	-	9	255	232
Departmental operating costs	-	-	-	(178,244)	-	(178,244)	(178,244)	458,484	-	458,484	636,728	108,294
Food and farming (ALB) (net)	-	-	-	7,320	-	7,320	7,320	9,659	-	9,659	2,339	(930)
Improve the environment and rural services (ALB) (net)	-	-	-	27,393	-	27,393	27,393	94,259	-	94,259	66,866	74,826
Protect the country from floods (ALB) (net)	-	-	-	12,368	-	12,368	12,368	156,113	(12,510)	143,603	131,235	(15,586)
Marine and fisheries (ALB) (net)	-	-	-	12,565	-	12,565	12,565	55	12,510	12,565	-	(1,123)
Total	**-**	**-**	**-**	**(449,687)**	**-**	**(449,687)**	**(449,687)**	**483,015**	**-**	**483,015**	**932,702**	432,741
Spending in Non Budget Expenditure Limits												
Voted												
Food and farming	-	-	-	99,721	(99,642)	79	79	10,001	-	10,001	9,922	1,699
Total	**-**	**-**	**-**	**99,721**	**(99,642)**	**79**	**79**	**10,001**	**-**	**10,001**	**9,922**	1,699
Resource Outturn	**944,999**	**(6,235)**	**938,764**	**3,632,649**	**(388,087)**	**3,244,562**	**4,183,326**	**5,236,154**	**-**	**5,236,154**	**1,052,828**	4,723,390

[1] Virement reallocates underspends on one part of the Estimate to cover overspends on another part of the Estimate.
Detailed explanations of significant variances between Estimate and net resource outturn are shown in Chapter 3

SOPS 1.2 – Analysis of Capital Outturn by Estimate Line

	2022-23							2021-22 Restated Outturn
	Outturn			Estimate			Outturn Compared to Estimate, saving/ (excess)	
	Gross	Income	Net Total	Total	Virements[1]	Total Adjusted for Virements		Net Total[2]
	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)								
Voted								
Food and farming	277,377	(3,001)	274,376	355,926	-	355,926	81,550	152,225
Improve the environment and rural services	131,878	2,202	134,080	216,534	-	216,534	82,454	105,575
Protect the country from floods	2,940	-	2,940	500	2,440	2,940	-	7,067
Animal and plant health	27,343	(10)	27,333	151,507	(83,724)	67,783	40,450	35,502
Marine and fisheries	21,805	(13)	21,792	28,665	-	28,665	6,873	18,207
Departmental operating costs	159,980	(29)	159,951	103,486	81,284	184,770	24,819	131,512
Improve the environment and rural services (ALB) (net)	145,774	-	145,774	172,108	-	172,108	26,334	112,401
Protect the country from floods (ALB) (net)	696,965	-	696,965	730,737	-	730,737	33,772	769,630
Marine and fisheries (ALB) (net)	497	-	497	2,141	-	2,141	1,644	1,759
Total	**1,464,559**	**(851)**	**1,463,708**	**1,761,604**	**-**	**1,761,604**	**297,896**	1,333,878
Spending in Annually Managed Expenditure (AME)								
Voted								
Departmental operating costs	9	-	9	532,950	-	532,950	532,941	-
Food and farming (ALB) (net)	1,805	-	1,805	14,931	-	14,931	13,126	271
Protect the country from floods (ALB) (net)	7,214	-	7,214	8,118	(56)	8,062	848	2,359
Marine and fisheries (ALB) (net)	56	-	56	-	56	56	-	25
Total	**9,084**	**-**	**9,084**	**555,999**	**-**	**555,999**	**546,915**	2,655
Capital Outturn	**1,473,643**	**(851)**	**1,472,792**	**2,317,603**	**-**	**2,317,603**	**844,811**	1,336,533

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

2. The 2021-22 Capital DEL outturn has been restated due to a minor adjustment between the Improve the environment and rural services and Departmental operating costs estimate lines

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on GOV.UK.

The outturn versus estimate column is based on the total including virements. The Estimate total before virements have been made is included so that it can be reconciled by users to the Estimates laid before Parliament.

SOPS 2 – Reconciliation of Net Resource Outturn to Net Operating Expenditure

			Note/Ref	**2022-23 Outturn £000**	2021-22 Outturn £000
Total resource outturn in SOPS		Budget		4,183,247	4,722,442
		Non budget		79	1,699
				4,183,326	4,724,141
	Add:	Capital grants / income		469,798	412,058
		Capital works expensed in year		349,130	528,172
		Capital research and development		146,639	78,067
		Adjustment to IFRIC 12		2,919	3,188
	Total			**968,486**	1,021,485
	Less:	Income payable to the Consolidated Fund		(8,272)	(3,430)
		Non-Voted Budget Items		-	(751)
		Prior period adjustments		-	-
	Total			**(8,272)**	(4,181)
Net Operating Expenditure in SoCNE			SoCNE	**5,143,540**	5,741,445

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled in line with the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements.

The SoCNE includes capital grants; these score in capital budgets. Note 3.3 below details the breakdown of grants and subsidies expenditure. Note 4.2 details capital grant income.

Capital Expenditure on Flood and Coastal Defence Work £304.6 million (2021-22 £523.9 million) is included in the SoCNE (Note 3.1) but is scored against capital budgets. This reflects project spend which does not meet the accounting criteria to be treated as an addition to Assets Under Construction on the SoFP, e.g. because it is incurred on an asset which is pre-agreed for transfer to a Local Authority, but which satisfied National Accounts criteria to be treated as capital for budgeting purposes.

The SoCNE includes Research and Development costs that meet the ESA10 definition; these score in capital budgets.

Details of the Income payable to the Consolidated Fund can be found at Note SOPS 4.1 below.

SOPS 3 – Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note/Ref	2022-23 Outturn £000	Estimate £000	Net total Outturn vs Estimate: saving/ (excess) £000	2021-22 Outturn £000
Resource outturn	SOPS 1.1	4,183,326	5,236,154	1,052,828	4,723,390
Capital outturn	SOPS 1.2	1,472,792	2,317,603	844,811	1,336,533
Accruals to cash adjustments (Core and agencies only):					
Accrual to cash basis - capital expenditure		50	-	(50)	9,385
Accrual to cash basis - capital disposals		(2,266)	-	2,266	2,832
Service concession adjustment and other finance leases		7,453	-	(7,453)	(2,241)
Adjustments for NDPBs:					
Remove voted resource		(1,199,796)	(1,031,072)	168,724	(966,869)
Remove voted capital		(828,035)	(928,035)	(100,000)	(888,417)
Add cash grant-in-aid		1,604,330	1,694,294	89,964	1,474,209
Add Defra Contribution to EA Closed Pension Scheme Fund		43,600	-	(43,600)	47,900
Adjustments to remove non-cash items (Core and agencies only):					
Depreciation / amortisation / impairment	3.2	(94,735)	(144,064)	(49,329)	(73,152)
New provisions and adjustment to provisions	3.2	472,245	(342,393)	(814,638)	(442,880)
Other non-cash items		41,021	(20,027)	(61,048)	38,189
Adjustments to reflect movements in working capital balances (Core and agencies only):					
Increase/(decrease) in inventories	SoCF	(301)	-	301	229
Increase/(decrease) in receivables excluding derivatives	SoCF	134,824	(399,950)	(534,774)	(219,601)
Adjustment for derivative financial instruments	SoCF	(1,402)	-	1,402	(11,549)
Movement in receivables affecting items not passing through the SOPS	SoCF	(4,202)	-	4,202	(2,005)
(Increase)/decrease in payables excluding derivatives	SoCF	225,690	-	(225,690)	207,458
Movement in payables affecting items not passing through the SOPS	SoCF	(210,294)	-	210,294	(67,433)
Use of provisions	SoCF	69,897	55,465	(14,432)	110,546
Funding to / from other bodies	SoCF	(24)	-	24	164
Removal of non voted budget items:					
Consolidated Fund Standing Services		-	-	-	751
Net cash requirement		**5,914,173**	**6,437,975**	**523,802**	5,277,439

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled in line with the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

Explanations of significant variances between estimate and outturn for resource, capital and net cash requirement are shown in Chapter 3.

SOPS 4 – Income Payable to the Consolidated Fund

SOPS 4.1 – Analysis of income payable to the Consolidated Fund

In addition to income retained by the department, the following income is payable to the Consolidated Fund.

	Outturn 2022-23		Outturn 2021-22	
	Accruals basis £000	**Cash basis £000**	Accruals basis £000	Cash basis £000
Income due to the Consolidated Fund	8,272	4,070	3,430	1,425
Total income payable to the Consolidated Fund	**8,272**	**4,070**	3,430	1,425

The income paid to the Consolidated Fund includes;

- income in relation to prior year capital income received across the Defra group for asset sales and capital grants received (£2.830 million).
- income in relation to a debenture with the National Institute for Agricultural Botany (£4.202 million).
- income in relation to the index linked annual payment for the HMG provision of the insurance element of the government contingent support package (GSP) for the Thames Tideway (£0.531 million).
- income relating to disease outbreak costs that Animal and Plant Health Agency (APHA) incurred in prior years (£0.259 million).
- Marine Management Organisation (MMO) European Maritime and Fisheries Fund (EMFF) Grant Income which was claimed in a previous financial year (0.443 million).

SOPS 4.2 – Consolidated Fund Income

Consolidated Fund income shown in SOPS 4.1 above does not include any amounts collected by the department where it was acting as agent for the Consolidated Fund rather than as a principal.

The long term expenditure trends can be found in the Core Tables in Annex 1.

Further Information Relating to Parliamentary Accountability

Public Sector Bodies Outside the Boundary

The names of any public sector bodies outside the boundary for which Defra had lead policy responsibility in the year, together with a description of their status can be found in Note 20.

Losses and Special Payments (Audited)

Losses Statement

Losses are reported on an accruals basis.

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Losses values				
Cash losses	852	756	1,427	1,843
Stores losses	-	1	12	12
Administrative write-offs	7	2,749	-	2,898
Fruitless payments	-	1,019	63,229	63,229
Constructive losses	7,504	7,504	11,090	11,090
Claims abandoned	4	4	203	203
Total	**8,367**	**12,033**	75,961	79,275
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
Number of cases				
Cash losses	718	880	3,208	3,276
Stores losses	-	2	1	1
Administrative write-offs	2	2,100	-	209
Fruitless payments	1	32	2	2
Constructive losses	3	3	4	4
Claims abandoned	6	6	67	67
Total	**730**	**3,023**	3,282	3,559

Details of Cases over £300,000

Losses (shown in the table above)

There are five individual cases over £300,000 within the table above.

The Core department has recognised a constructive loss (£4.3 million) regarding a settlement payment to terminate a Private Finance Initiative (PFI) contract early. Given Defra have been able to negotiate an early release (which has provided a benefit of sorts, by way of reducing the overall obligation relating to said PFI contract).

The Core department has recognised a constructive loss (£2.5 million) relating to a project that was abandoned as no longer required. Defra had been developing the non-current asset for the Rural Payments Agency (RPA), but at some point this was cancelled while the Assets Under Construction (AUC) was still held in Digital, Data and Technology Services (DDTS) and therefore the AUC became obsolete before it became operational.

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

The EA had issued a short-term variation to an abstraction licence which was not able to be re-issued due to changes in statutory requirements. The EA agreed with the charge payer that they would maintain the reduced abstraction level from the expired variation and that the EA write-off the charges relating to the abstraction that was agreed not to be made despite it being legally enforceable. The value of the unenforceable claim was £733,000 and applied to invoices over 3 years.

The Core department has recognised a constructive loss (£608,000) relating to the approval by the Marine Management Organisation (MMO) of two Inshore Vessel Monitoring System (IVMS) devices as being suitable for installation, which subsequently failed independent testing. As the purchase of these devices by fishers had been funded through applications to the European Maritime Fisheries Fund (EMFF) and was no longer eligible for reimbursement through the EMFF grant scheme, MMO took the decision not to pursue repayment of the EC grant amounts from affected fishers. As MMO administer applications to the EMFF grant scheme on behalf of Defra, the loss is recognised in the accounts of the Core department and is shown in the Core department and Agencies figures in the table above.

Special Payments

		2022-23		2021-22
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
Value (£000)	324	495	1,179	4,390
Number of cases	226	236	230	245

There was one special severance payment made in 2022-23, by EA, as there was only one payment no further disclosures relating to value are being made as doing so would contravene Data Protection legislation.

Details of cases over £300,000

There are no individual cases over £300,000 within the table above.

Regularity of expenditure (Audited)

During the year to 31 March 2023, Defra group spent approximately £2.7 billion through the grant funding agreement vehicle with a portfolio of activity delivering a wide variety of grant outcomes and benefits. The diversity of the grants portfolio results in a range of design, delivery, and control types, each of which lead to differing risks of irregular expenditure.

An assessment has been undertaken to assure the extent of irregular grant expenditure in the accounts is not material. Depending on the type, scale, and complexity of each grant, differing mechanisms for assessing assurance are used, with grants being grouped into four typologies:

- Grants spending £5 million or less,
- More than £5 million Expenditure to Central or Local government,
- More than £5 million Grants with assurance derived from scheme controls,
- More than £5 million Grants with formal irregularity estimates.

The table below outlines the value of grant expenditure in each typology and where applicable, the irregularity estimate.

Typologies	Expenditure Value	% total grant Expenditure	likely irregularity rate (%)	Likely irregularity value (£)
Grants spending £5m or less	£85,627,602	3.18%	N/A	N/A
Expenditure to Central or Local government	£394,281,273	14.66%	N/A	N/A
Grants - assurance derived from scheme controls	£310,793,835	11.56%	N/A	N/A
Total - Grants without formal estimates	**£790,702,710**	**29.40%**	N/A	N/A
Grants with irregularity estimates	£1,898,381,280	70.60%	0.85%	£16,136,241
Grants with formal estimates	**£1,898,381,280**	**70.60%**	0.85%	**£16,136,241**

Approximately 70 per cent (£1.9 billion) of grant expenditure was subject to a formal estimation of undetected irregularity. Within this formally estimated expenditure, a likely estimate of 0.85 per cent (£16 million) irregular expenditure has been identified.

Whilst the remainder of grant expenditure is not formally estimated, it is considered that the level of irregular expenditure in the remainder of grant expenditure would not be sufficient to cause the overall irregularity rate across all grant expenditure to be material and the department's assessment is therefore that the extent of undetected irregularity across all grant expenditure is not material.

For future years, the department intends to increase the extent of assurance and continue to drive down the level of irregular expenditure in grant spend. A department wide Grants Hub became operational in June 2023 and is leading the cross-group view of grant irregularity. The Grants Hub activity will increase confidence in the assessment of irregularity through a range of means, including more irregularity estimation. The Hub will share best practice on fraud and error risk management across Defra group supporting mitigation of irregularity risk as far as is possible.

Grant typologies

Grants spending £5 million or less represents a significant volume (58 per cent) of Defra group grants (in terms of unique schemes or programmes), but only three per cent of total grant spend. Notwithstanding the relatively low cumulative value, assurance was derived from activity such as bespoke fraud risk assessments or that they are single beneficiary grants which are then controlled at an individual agreement level.

Expenditure to Central or Local government more than £5 million collates agreements Defra holds with other public bodies where the responsibility for the delivery of the grant is held by the central or local government delivery body. This typology equates for approximately 15 per cent of total grant spend. Defra remain committed to working with our public sector delivery partners to ensure effective delivery and achievement of intended outcomes.

Grants more than 5 million - assurance derived from scheme controls describes grants where the range of controls include fraud risk assessments, audits of both the control environment and delivery bodies' counter fraud capability, external assurance, and reporting of detected and prevented fraud and error. Additionally, governance forums routinely consider the risk of fraud and error at both design and delivery stages. This typology represents approximately 12 per cent of total grant spend.

Grants more than £5 million with irregularity estimates reflect higher value and higher risk schemes where an assessment of irregularity identified through random sampling and extrapolation has been undertaken. This population equates to 70 per cent of group grant expenditure and has resulted in a combined (mixture of most likely and higher) estimate of 0.85 per cent (approximately £16 million) of irregular expenditure. Should an extremely cautious position be taken, and higher estimate levels be combined for all estimated grants, the figure would rise to 1.18 per cent (approximately £22 million) and the Department's overall assessment on the likelihood of material irregularity would remain unchanged. This population includes £210 million expenditure for the Rural Development Programme for England which has not been directly assessed. Comparable outputs from the irregularity assessment for the EU (European Union) funded element of this scheme have been used. Further disclosure on the larger element, accounted for by the Rural Payments Agency (RPA), is available in the equivalent section in the RPA's annual report.

As irregularity assessment maturity is a developing area for the department, this is the first year in which an assessment of group wide irregularity against materiality has been undertaken and categorised into different typologies. Therefore, no comparable prior year assessment was made that can be presented in this report.

Fees and Charges (Audited)

Details of the material fees and charges across the Defra family are disclosed in the table below.

			2022-23
	Income	Full Cost	Surplus/ (deficit)
	£m	£m	£m
Abstraction charges (EA)	173.3	172.1	1.2
Environmental Permitting Regulations water quality (EA)	72.5	71.7	0.8

The financial objective for EA's 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. Please see EA's ARA for a full analysis of these schemes and the extent of cost recovery.
All other details regarding income from the sale of goods and services provided by the delivery bodies can be found in their respective ARAs.

Statement Relating to the Use of Functional Standards

This section is not subject to audit.

The approach to applying Functional Standards has matured across the department during 2022-23. Compliance assessments are now in place for all Functional Standards, and these are being used to assess future development areas.

Assessments have shown that over half of Functional Standards in Defra are rated in the Good or Better categories.

The focus for 2023-24 will remain on improving compliance levels as well as building on current engagement work to improve assurance on Functional Standard application across departmental ALBs. Government Internal Audit Agency (GIAA) has recognised the engagement approach taken to date as innovative best practice across government.

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

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

The department has the following remote contingent liabilities as at 31 March 2023. Unless otherwise stated liabilities relate to the Core department.

Quantifiable

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

- Indemnity signed by Defra, Canal & River Trust and British Waterways pension trustees in relation to the historic public sector pension liability. The potential liability is estimated at £125 million (2021–22, £125 million).

- Small potential liabilities are estimated at nil (2021–22 £0.4 million).

Unquantifiable

Due to the variable nature of these contingent liabilities they are classified as unquantifiable.

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

- In the unlikely event that the department stops funding the National Fruit Collection or relocates it to a different site, there is a possible obligation to return the current site to a suitable state.

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

- In unlikely circumstances, there is a remote possibility that Defra would need to provide a government support package for the Thames Tideway Tunnel project.

Tamara Finkelstein 20 October 2023
Accounting Officer for the Department for Environment, Food and Rural Affairs

The Certificate 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 Department for Environment, Food and Rural Affairs (the Department) and of its Departmental Group for the year ended 31 March 2023 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2022. The financial statements comprise the Department's and the Departmental Group's:

- Statements of Financial Position as at 31 March 2023;
- Statements of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

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

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

- give a true and fair view of the state of the Department and the Departmental Group's affairs as at 31 March 2023 and its net operating expenditure for the year then ended; and
- 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

Overview

I have been unable to obtain sufficient appropriate evidence that the values of Property, Plant and Equipment, including Assets Under Construction – as well as Intangible Assets Under Construction – as stated in the Statement of Financial Position for the Departmental Group as at 31 March 2023 and 31 March 2022 are free from material misstatement, due to the following matters. This set of qualifications does not affect my opinion on the financial statements for the Department (Core Department & Agencies).

i. The Group's **infrastructure assets** are now valued on a Depreciated Replacement Cost (DRC) basis, in line with the financial reporting framework. The valuation of £9.6 billion is presented in Note 5.1. The source data underpinning this valuation has limitations on its reliability which are relevant to my opinion. The Environment Agency is making efforts to improve the accuracy of its standing data on the extent of its operational assets. Material changes were made during the audit period and this improvement project is continuing. Consistent with the Environment Agency's ongoing efforts on data quality, I found some assets in my sample which were duplicates, or the responsibility of entities outside the Departmental Group, as well as indications of issues with completeness. While I have not been able to reliably quantify the effect of this matter due to the nature of the limitations described, I consider the combined effect of these issues to be potentially material in terms of the valuation, completeness and existence of these assets.

ii. As has been the case since 2020-21, my audit identified errors and uncertainties associated with the value attached to the Group's **land and buildings**, including the portion related to infrastructure assets. These are presented in note 5 with a combined value of £904 million 31 March 2023, and of £825 million at 31 March 2022. I have not been able to quantify the uncertainties, principally because neither the Department nor the Environment Agency has been able to provide sufficient evidence of the extent of its holdings, and its rights over them; and secondarily, because of residual weaknesses in the valuation evidence for some Environment Agency assets, particularly a subset which has not been revalued for more than five years. These issues impose limitations on the scope of my work which affect my opinion on both the 31 March 2023 and 2022 balances, and related revaluation entries.

iii. As in 2021-22, I have been unable to obtain sufficient evidence in respect of the existence, completeness, rights and obligations and valuation of the **Assets Under Construction** (tangible and intangible) balances due to the limitations of evidence in respect of the Assets Under Construction consolidated into the Group from the Environment Agency. The combined balance as presented in notes 5 and 6 for 31 March 2023 is £939 million, of which £627 million relates to the Agency (31 March 2022: £613 million, of which £414 million relates to the Agency). I have been unable to conclude on the level of error due to the underlying records not being ready for audit, pending the completion of a review by the Agency and Department on the appropriateness and completeness of project spend recognition. My opinion remains qualified in respect of the comparative (31 March 2022) balances. The related uncertainty also affects the capitalisation of cost in 2022-23, so I am unable to express a view on the appropriateness of its **classification** between capital additions (notes 5 and 6) and amounts passing directly through net expenditure (note 3). This does not affect my opinion on the proper preparation of the Statement of Outturn against Parliamentary Supply (see *Opinions on Regularity*, below) since I was able to gain assurance that expenditure was properly treated for budgeting purposes. However, the limitation described affects the equivalent transactions reported for 2021-22, and my opinion remains qualified in respect of these also.

Additional issues affecting prior year balances

I also note the following matters relating to the prior year which do not affect 2022-23 transactions and balances, but because of which my opinion is additionally qualified in respect of comparative figures. This would be the case even if the above matters had been resolved.

i. The Environment Agency's operational infrastructure assets are from 31 March 2023 valued on a Depreciated Replacement Cost (DRC) basis. Previous valuations have been undertaken under modified historic cost , **a basis not in line with the financial reporting framework**. No prior year restatement has been undertaken following this change in accounting policy, since the Agency was not able to reliably analyse the source data for this balance retrospectively. The revaluation movement for 2022-23 includes both the effect of this change of policy in terms of unit rates applied to assets, and an expansion of the asset base represented in the updated source data. My opinion remains qualified on the 31 March 2022 Statement of Financial Position in that the valuation approach adopted prior to 2023 is not a materially accurate proxy for the measurement basis (DRC) required by the financial reporting framework which has subsequently been adopted. This matter is also relevant to the revaluation movements in both 2021-22 and 2022-23 and - while a third balance sheet has not been presented – to the related balance at 31 March 2021.

ii. In my 2021-22 report I described being unable to obtain sufficient evidence in respect of the tangible and intangible additions for 2021-22 of £332 million, reported in notes 5 and 6 as well as Capital Works Expensed in Year (together, '**capital expenditure**'). The Environment Agency and the Department took a decision to stop providing audit evidence with regards to this expenditure and have not presented revised evidence for audit in respect of these comparative figures in 2022-23. This led me to limit the scope of my audit opinion in respect of capital expenditure for 2021-22. My audit work on capital expenditure for 2022-23 was not affected by the same broad limitations, though as described above I have been unable to gain sufficient assurance that transactions in 2022-23 are correctly classified between capital additions and items taken direct to net expenditure.

My assessment of the matters giving rise to qualified opinions

Valuation of Infrastructure Assets

Matter giving rise to qualification	The Group, primarily through the Environment Agency, holds a nationally important portfolio of infrastructure assets, predominantly to respond to risks of flooding. The accounting framework set for Government bodies by HM Treasury dictates that such assets should be valued under the Depreciated Replacement Cost (DRC) method, reflecting the cost of a modern equivalent asset adjusted to reflect the asset's current condition. In my previous report, I explained that as at 31 March 2022 this portfolio was not valued in line with the requirements of the accounting framework; it was instead valued using the modified historic cost method. In 2022-23 the Agency implemented a DRC valuation on this portfolio for the first time. This revaluation has resulted in a material increase to the valuation of operational assets within the Statement of Financial Position. The net book value of these assets has increased to £9.6 billion (31 March 2022: £2.9 billion) as a result of both changes in costing rates and the changes in the scope of assets included in the Statement of Financial Position under the new valuation basis. Note 5 includes further details on the nature of this framework as it relates to the Group's infrastructure assets.

	The preparation of the asset portfolio on the DRC methodology relies on several key inputs: a source data on the quantity, nature and extent of assets within the Group's control; b unit rates for the replacement cost of these assets, determined with expert input on a modern equivalent basis; and c information on the age and/or condition of these assets to inform an estimate of the extent of adjustment between the as-new modern equivalent asset value and the depreciated replacement cost of the actual portfolio.
Scope of my audit work	In responding to the above, my procedures included: • assessing key elements of the Environment Agency's methodology for the DRC valuation, drawing in part on the input of RICS-qualified experts; • testing for a sample of assets to evaluate evidence of their existence, the accuracy of attribute data relevant to valuation (principally, dimensional data) and whether they were controlled by the Environment Agency; • assessing the completeness of the data based on post year end changes; • engaging an auditor's expert to evaluate the appropriateness of costing rates for different asset types prepared by management's expert; • reviewing the evidence informing the Environment Agency's adjustment for condition; • assessing the operation and mathematical integrity of the DRC model; and • evaluating management's related disclosures.
Why I was unable to obtain sufficient appropriate audit evidence	My opinion remains qualified in respect of comparative figures for this valuation because the basis of valuation applied at 31 March 2022 has not been restated retrospectively under IAS 8 on grounds of impracticability. The preparation in the prior year therefore remains out of line with the financial reporting framework. This is because management lack retrospective source data that would have enabled a reliable adjustment as at 31 March 2022, reflecting the live nature of the systems involved and extensive changes made during 2022-23 to improve information in the recently implemented asset management database. While I note in a significant number of areas that management have successfully implemented the new methodology as at 31 March 2023, my opinion on 31 March 2023 remains qualified because I was unable

to obtain sufficient appropriate audit evidence because of issues with the accuracy and completeness of source data on assets. During the period of my audit, management made changes to asset data, primarily to improve the accuracy of standing data, which had a material effect. Management's actions are moving the Agency towards a more stable and reliable dataset which will support both asset management and accounting; however, the project is ongoing. As of October 2023, management assessed that out of the 69,646 assets which the Environment Agency either owns or maintains,15,497 were at higher risk for duplicates and errors, and it is prioritising the review of these items.

Consistent with management's analysis that improvements need to continue, I found a number of issues in my sample including assets which were duplicated, and where evidence contradicted the assertion of control by the Environment Agency. As a result of these residual weaknesses in asset data, I have qualified my opinion in respect of the value recognised at 31 March 2023 in respect of infrastructure assets.

Land and Buildings

Matter giving rise to qualification

The Group holds a significant amount of land and buildings, presented in Note 5. Following a reclassification this now includes 'operational land' – principally relating to Environment Agency owned land used for flood alleviation purposes. The Group values the combined balance at £904 million, of which £480 million relates to the Agency (31 March 2022: £825 million, of which £464 million relates to the Agency).

The accounting framework sets out that Environment Agency needs to revalue this subset of assets on a 5-yearly basis using Existing Use Value. For specialised assets, this involves a consideration of replacement cost; for non-specialised assets, an evaluation of market value constrained to the existing use. I qualified my audit opinion in 2020-21 and 2021-22 due to errors and uncertainties my audit identified within the quinquennial revaluation of land and buildings consolidated into the Departmental Group from the Environment Agency. I was unable to quantify the uncertainties due to the weaknesses in the Departmental Group's revaluation of the assets.

In 2022-23 the Environment Agency has moved to a rolling programme of valuations for its operational land – which at £333 million (31 March 2022: £356 million) represents the largest element of the Agency's land-holdings – with the aim of revaluing 20 per cent of in-scope assets in each year of a 5-year cycle. The Environment Agency aims to complete the first cycle in an accelerated pattern, by 31 March 2026.

The revaluation of land and buildings relies on:

- the classification of assets between operational land and freehold land to ensure the assets are revalued under a methodology in

	line with the financial reporting framework; • source data, including on location and area; • an assessment of which parcels the Environment Agency has rights over (generally, legal ownership); and • the use of an index appropriate to the underlying asset category in order to bring land and building assets not fully revalued in year to their current cost.
Scope of my audit work	In responding to the above, my audit procedures included: • testing a sample of revalued assets to confirm the existence, rights and accuracy of source data used in each valuation; • assessing the key elements of the 2022-23 revaluations to ensure the Environment Agency had appropriately applied in line with RICS guidance and the Financial Reporting Framework; • testing a sample of assets which had been indexed in year to confirm existence, rights, accuracy of source data used in the valuation and whether the appropriate indices had been applied; • analysing a sample of assets selected from the asset database to assess the completeness of assets; and • evaluating management's disclosures.
Why I was unable to obtain sufficient appropriate audit evidence	My opinion remains qualified in respect of the comparative figures as the issues detailed below are equally applicable to the 31 March 2022 balance. This is principally because I was unable to obtain sufficient appropriate audit evidence across enough of my sample in respect of the Environment Agency's rights and the extent of its property holdings (e.g. evidence over area). The Environment Agency's property holdings comprise £450 million of the Group's total. For some of my sample items, the Environment Agency has not been able to evidence its rights (principally, ownership) over the asset. Not all landholdings are registered and in some of these cases alternative evidence, such as deeds, was not promptly available for inspection. Evidence on land area was not available in all cases, and where it was there were some differences between the values used in the Environment Agency's valuations and the evidence promptly available. In respect of valuation procedures, I note the significant change that the Environment Agency has implemented in 2022-23 by beginning the new rolling programme with a revaluation in 2022-23 of £104 million of

assets. My testing did not identify any material issues with these in-year revaluations additional to the evidential issues described above. However, there remain residual issues with the valuation of properties revalued in prior years (‘the indexed population’), including:

- duplicated assets detected in my testing;
- valuation and existence evidence being unavailable for some items in the indexed population, including but not exclusively in respect of revaluations over five years old (which management estimate at £47 million); and
- indexation having been performed using indices which did not appear appropriate to the asset class.

I am not able to reliably estimate the aggregate effect of the issues above due to the limitations in evidence presented. Management is in the process of implementing a new asset management system for land and buildings with part of this project aiming to improve the data and underlying records and I consider my findings to be consistent with this diagnosis of further improvement being necessary.

As a result of the issues described, I have qualified my opinion in respect of the value recognised for the Group’s land and building assets. These uncertainties affect my opinion on both the 31 March 2022 and 2023 balances for the Departmental Group, but do not affect the balances for the Department (Core and Agencies).

Classification of expenditure and valuation of Assets Under Construction

Matter giving rise to qualification

The combined Departmental Group balance of assets under construction as presented in notes 5 and 6 for 31 March 2023 is £939 million, of which £627 million relates to the Environment Agency (31 March 2022: £613 million, of which £414 million relates to the Environment Agency). The Environment Agency expenditure relates to the development of infrastructure assets which are not yet operationally live, under projects to reduce flood risk and deliver other environmental objectives.

The accounting framework sets out that only directly attributable costs contributing to an asset under the control of the reporting entity should be recognised on the Statement of Financial Position. Expenditure on projects which does not meet this criterion should instead form part of the Group’s net expenditure. When it meets specific HM Treasury budgetary criteria, predominantly based on the nature of the activity, the Environment Agency describes this expenditure as Capital Works Expensed In Year (CWEIY). For example, coastal defences built on behalf of a local authority would generally not be assessed as within the Group's control, so would not be capitalised, but would be assessed as CWEIY and count towards the Group's Capital DEL spending control total.

In 2021-22 the Environment Agency was unable to provide sufficient evidence, including necessary transactional listings, for either in-year capital expenditure or the Asset under Construction balances consolidated into the Departmental Group from the Environment Agency. I therefore qualified my previous year's opinion with regards to the existence, completeness, rights and valuation of the Assets Under Construction (tangible and intangible) balance.

This year, the Environment Agency has been able to provide transactional listings to support my audit work on in-year capital additions. Management's work to address my previous findings is ongoing. The Environment Agency has engaged external consultants to review the historic Assets Under Construction balance to ensure costs are appropriately classified between expenditure and the Statement of Financial Position. This review is ongoing and aimed for completion in 2024.

Scope of my audit work

For the reasons above, the Environment Agency were not able to provide a corrected Assets Under Construction balance for audit. My team, however, were able to complete audit work to consider capital additions to assets during 2022-23, including additions to the Assets under Construction balance. This work included:

- testing a combined sample of tangible and intangible asset additions to confirm the accuracy, cut-off, regularity and classification of expenditure;
- testing a sample of CWEIY expenditure to ensure it had been appropriately classified between expenditure and the Statement of Financial Position; and
- as part of these sample reviews, evaluating whether the classification of the transactions (Capital / Resource DEL) was appropriate in the Statement of Outturn against Parliamentary Supply.

The reasons for my inability to obtain sufficient appropriate audit evidence

Due to the management's inability to present reliable evidence on the valuation of Assets under Construction relating to the Environment Agency, pending the completion of its review of historic balances, a limitation of scope remains on my audit of tangible and intangible Assets Under Construction as at 31 March 2023, and the comparative figures. I cannot conclude over any assertions on Assets Under Construction.

Following my team's testing of both 2022-23 Capital Works Expensed In Year (CWEIY) expenditure and asset additions, I assessed no material issues in respect of the accuracy, cut-off and regularity of transactions. In this respect my audit work was not affected by the same limitations as in the prior year, though my opinion on the comparative year's capital expenditure remains qualified as a result of audit evidence not being made available.

I was, however, not able to form an opinion in respect of the **classification** of in-year expenditure between CWEIY and asset additions (and consequently the completeness of both populations) because:

- relevant evidence for asset additions within the Environment Agency, including for the current year, was not available pending the progress of the Agency's review; and

- my CWEIY expenditure testing identified inconsistencies between the rules applied to whether expenditure is classified as a capital addition, and the rules newly applied to the Environment Agency's existing asset base to determine whether items are in scope for valuation.

My observations do not affect my opinion on the proper preparation of the Statement of Outturn against Parliamentary Supply (see *Opinion on Regularity*) since I was able to gain assurance that expenditure was properly classified for budgeting purposes. The limitations described above relate to difficulties classifying expenditure between CWEIY and asset additions, both of which classify as Capital DEL in that Statement of Outturn against Parliamentary Supply; I had no evidential difficulties in respect of classifications between the Capital DEL and Resource DEL spending totals for the Group.

My report on page 168 includes further details of the matters leading to my qualified opinion.

Qualified opinion on regularity

In my opinion, in all material respects:

- the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2023 and shows that those totals have not been exceeded; and

- except for the effects of the matters described under *Basis for the qualified opinion on regularity* below, the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

During my audit the Department informed me that I had identified an instance of non-compliance with the Cabinet Office's commercial spending controls. The Environment

Agency had extended three contracts for civil engineering associated with flood risk management beyond their original expenditure limits. The Environment Agency's management were aware of the extensions but did not promptly identify the need for Cabinet Office approval. Cabinet Office's commercial spend controls set out that where such a change exceeds £20 million (£10 million prior to the 1 February 2023), further approval must be obtained from them before any commitment is made.

The Environment Agency, and as a result the Departmental Group, assesses that it spent £64.3 million beyond its approval levels during 1 April 2022 – 31 March 2023 with committed expenditure of £341 million against a Cabinet Office approved contract value of £151 million. Expenditure undertaken without the proper approvals from Cabinet Office is irregular. I therefore qualify my opinion on regularity in this regard. Management describes the circumstances behind this non-compliance, and steps it is taking to avoid a recurrence in its governance statement on page 84. I have not qualified my opinion on regularity in respect of this expenditure in any other respect.

Overall basis for qualified opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I am independent of the Department and its Group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinions.

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

Framework of authorities	
Authorising legislation	Government Resources and Accounts Act 2000
Parliamentary authorities	Supply and Appropriations Act Relevant income and grant expenditure regulations
HM Treasury and related authorities	Managing Public Money

Cabinet Office controls

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Department and its Group's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Department or its Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities, and the responsibilities of the Accounting Officer, with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Department and its Group is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Overview of my audit approach

Key audit matters

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

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

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

The key audit matters I have determined to be communicated in my certificate, below, are in addition to the issues described in the sections above headed *Basis for qualified opinion on the financial statements* and *Basis for qualified opinion on regularity*. I discussed both sets of issues with the Audit and Risk Committee, its report on matters that it considered to be significant to the financial statements is set out on pages 67 to 90.

Affecting the Department (Core and Agencies columns) and Departmental Group

Regularity of grant expenditure

Description of risk

As the Department explains in its Parliamentary Accountability Report (page 138) it incurred £2.7 billion of grant expenditure during 2022-23.

There are two sources of funding for the Department's grant payments, the EU and the UK. In either case, I consider spending to be irregular to the extent that there is non-compliance with Parliamentary authorities (laws and regulations) in a manner reflective of the taxpayer not obtaining the benefits set out in scheme rules which are set under a broad Parliamentary authority. Non-compliance may arise from fraud or error by the grant recipient, or issues with the Department's administration of the scheme when measured against those rules.

EU funded grant expenditure

EU funded grant expenditure totalled £234 million during 2022-23 (£474 million in 2021-22). Within this population, I assess expenditure for regularity not at the point of non-compliance by farmers, but when the Department is subject to financial penalties (disallowance) from the European Commission (the Commission). The Commission imposes such penalties when it assesses that members have not fully complied with its requirements for the control and administration of payments under the scheme rules. Disallowance penalties are determined in the light of the Commission's audits of the relevant CAP scheme, taking into account any further evidence provided by the member states in mitigation. The final amount of disallowance payable can take several years to resolve, and the timing of the Commission's audits and their outcomes can influence the level of disallowance crystallising in any given year. The Department deems this to happen when the Commission confirms a penalty, or the Department decides not to contest the penalty any further. At this point, the value of disallowance is confirmed, and the irregularity becomes certain.

When disallowance penalties occur, the Commission reduces its funding for the schemes and the shortfall must be met directly from UK taxpayer funds. This shortfall is a loss to the UK Exchequer, and beyond the authority provided by Parliament for the proper administration of EU funding. I therefore consider the use of UK taxpayer funds to pay disallowance penalties irregular.

UK funded grant expenditure

For UK funded agricultural grant schemes (£209.6 million 2022-23, £60.2 million 2021-22), each individual payment carries with it a direct risk of irregularity reflecting whether it complies with scheme rules which set out the outcomes the Department is looking to secure under its Parliamentary authorities.

The Department can set the rules for each grant stream either through seeking to pass regulations, or by striking grant agreements with customers (generally, landowners). As compared to EC-controlled schemes, the Department therefore has more flexibility to determine a scheme design in line with the specificity of outcomes it is seeking, and with a view to its risk appetite for fraud and error. The Department is directly and immediately accountable for irregularity arising from non-compliance with scheme rules because the financial consequences for the taxpayer of that non-compliance are inherent in the grant payment, rather than being capped by an external decision on penalties.

The variations between different scheme rules significantly affect the risk of non-compliance and therefore the risk of irregularity, for example, schemes with more complexity and specific requirements may have a higher tendency to non-compliance. On page 138 in the regularity of expenditure section of the Parliamentary accountability report the Department describes its risk assessment and risk appetite in respect of key schemes.

How the scope of my audit responded to the risk

In forming an opinion on the levels of irregularity in Departmental grant expenditure, my team carried out procedures both in respect of expenditure incurred by the Rural Payments Agency (RPA), and by the core Department where the RPA acts as agent, including on the Rural Development Programme for England. Where relevant, I relied on the work of the RPA audit team, who are under common leadership with the Group team. Across both, my procedures included:

- reviewing the RPA's framework of authorities to define compliance breaches to be considered irregular;
- reviewing management's key controls over scheme compliance;
- evaluating the RPA's fraud and error estimate methodology and model with input from my internal statistics and modelling experts;
- performing reverification visits sampled from the RPA's on-the-spot-check inspections listings which inform the Department's assessment of the non-compliance rate; and
- reviewing the disclosures around the fraud and error estimate.

Key observations	*EU funded grant expenditure* In 2022-23, £12 million of disallowance penalties were confirmed (2021-22: £8 million). I have not noted any worsening of the control environment through my audit procedures and do not consider these penalties to represent a material level of irregularity. While disallowance risk will remain in the short term as European Commission assurance work on the final scheme years completes, it will reduce to nil in the medium term. New disallowance risk is created by new spending. At £234 million, total EU funded grant expenditure for 2022-23, is significantly reduced from 2021-22 levels (£474 million) and expected to reduce further. *UK funded grant expenditure* Department has estimated fraud and error in UK funded grants representing £16 million of irregular expenditure (0.85 per cent of the higher-risk grant streams to which regularity risk principally relates). I found no material misstatement in my testing. This is currently well below the Departmental group materiality. However, the Department's forecasts indicate the estimated level of fraud and error is increasing as funding is switched towards grant streams with more specific environmental outcomes, and higher irregularity risk, under the Agricultural Transition Plan.

Valuation of Metal Mines and Foot and Mouth Disease (FMD) site provisions

Description of risk

The Department holds two long term-provisions, presented in Note 15, for which management have made judgements regarding the length of the liability, and the costs of remediation. There is a risk that the judgements applied by management regarding the length of the liability could be materially incorrect, or that disclosures do not sufficiently or appropriately describe the related estimation uncertainty.

Foot and mouth disease burial sites

The Department is responsible for monitoring and containing any public health risks arising from sites where animal carcasses were buried in the last foot and mouth disease outbreak. Due to the nature of the materials buried this liability has an end point in line with the decay of the carcasses. This remains a long-term liability, currently expected to exist for another 78 years. The Department values this provision at £120 million (31 March 2022: £294 million).

Metal mine water remediation sites

The Department monitors pollutants at around 400 former mine water sites. Where pollutants exceed safe levels, the Department is responsible for taking active steps to ensure public safety. The Department currently actively contains pollution at three sites. Unlike the burial sites, the pollution at these sites does not have an expected end point as the metal pollutants are naturally occurring. Therefore, management estimates this liability 100 years into the future each, rolling this forward each year so the length of the liability is not reducing. The Department values this provision at £225 million (31 March 2022: £556 million).

How the scope of my audit responded to the risk	My response to address the risk of material misstatement involved: • reviewing relevant management controls; • reviewing the models underpinning the estimates; • identifying and challenging key management judgements and assumptions in forming the estimates; • using scientific experts to analyse site monitoring data to ensure the sites are behaving as expected towards management's determined length of the liabilities, and • ensured disclosures, including on estimation uncertainty, were in line with the requirements of the financial reporting framework.
Key observations	My experts' findings provided confirmatory evidence that the animal burial and former metal mine sites are behaving in ways which support management's assumptions about the length of the liabilities. I note the significant movements in both provisions which are driven by an increase in the discount rate applied, reflecting a change in macroeconomic conditions which influences how government bodies take account of the time value of money in multi-year provisions. While I identified immaterial error, which management has corrected, in respect of the application of inflation to the metal mines model, my overall testing identified no material issues.

Assets Under Construction (Department)

Description of risk

Separately to the qualification arising from assets under construction consolidated from the Environment Agency, the core Department develops tangible and intangible assets for bodies across the Group. During the construction phase and prior to a transfer, these are accounted for within the Department (Core and Agencies column). This includes delivering a major digital upgrade programme and assets of critical national infrastructure, such as its scientific site at Weybridge.

There are risks in this transaction stream relating to whether capitalisations are complete and accurate when assessed against the relevant rules for accounting, as well as from some manual elements of the Department's process which increase the opportunities for human error, and the need to classify expenditure appropriately against spending categories relevant to the *Statement of Outturn against Parliamentary Supply.*

How the scope of my audit responded to the risk	My response to addressing the risk of misstatement in this area included: • reviewing relevant management controls; • sample testing tangible and intangible Asset Under Construction additions; and • reviewing detailed project reviews on a sample basis.
Key observations	My audit work did not reveal material levels of error in this population.

Affecting the Departmental Group only

Valuation of defined benefit pension surplus – Environment Agency (Active)

Description of risk

The Departmental Group is party to several defined benefit pension schemes which are presented in Note 16. Based on risk and value, I focussed my work primarily on the Environment Agency (Active) scheme, a funded scheme in respect of which the Group recognises £3,366 million of defined benefit pension obligations (85 per cent of the Group total) and £3,869 million of recognised scheme assets (90 per cent of the Group total).

There is significant complexity, and estimation uncertainty, in the valuation of the position of both the assets and liabilities contributing to the net scheme position, as described in Note 16.

Scheme liabilities

As with all defined benefit pension schemes, an actuarial estimate of the liability reflecting amounts to be paid out to members of the scheme in the future involves significant estimation in respect of key financial and demographic assumptions, applied to scheme membership data. Liabilities reduced markedly in the year, driven particularly by a rising discount rate which reflects changes in market pricing of relevant financial instruments (high quality corporate bonds) which is applied to determine the present value of future pension cashflows.

Scheme assets

I placed particular emphasis on assurance over unquoted equity instrument valuations, given the extent of unobservable inputs. My assessment is partly informed by stale pricing risk, i.e. the risk arising from delays in investment managers providing the quarterly valuation coterminous with the Group's reporting date.

Recognition of surplus

The fair value of scheme assets exceeded the present value of the defined benefit obligation at the Group's reporting date. Accounting rules in this area are complex and I assessed a risk of misstatement associated with this and the judgements inherent to the financial reporting framework on the extent of asset ceiling which should be applied.

How the scope of my audit responded to the risk

Scheme liabilities

The Environment Agency Active pension scheme is consolidated into the Departmental Group from the Environment Agency. I therefore placed reliance on the work of my component audit team, which is under common control with the Group team under a shared engagement director, which had contracted an actuarially qualified auditor's expert to examine the assumptions, methodology and source data used to value the obligations, including both financial assumptions and the roll-forward procedures used to update membership data.

Scheme assets

I placed reliance on the work of the related component team, also under common control, whose work included:

- vouching the alternative investment valuations to independently received statements;

- testing a sample of private equity holdings, property funds and other alternative investment balances to third party evidence;
- inspecting the latest audited financial statements of the funds; and
- considering the reasonableness of movements from audited accounts position to the Group's year-end valuation where these are not co-terminous, based on relevant external benchmarks.

Recognition of surplus

Having obtained management's justified position that the surplus did not require restriction using an asset ceiling, I:

- reviewed management's position against IFRIC 14;
- prepared a recalculation of the asset ceiling value based on recent industry guidance on the determination of the economic benefit available through future contribution reductions, as applicable to the Local Government Pension Scheme regime, supported by internal consultation;
- obtained written representations from management's actuary supporting the assumptions modelled in my recalculation and interpretation of guidance, for example in respect of the rate-setting regime, and the level of hypothetical future contributions relevant to that calculation; and
- evaluated the sufficiency of management's disclosures.

Key observations	In the course of completing this work, I did not identify any material misstatements. I determined no misstatement in respect of management's surplus recognition judgement. Management expanded disclosure on this point to reflect my findings on surplus recognition and its responses during the audit.

Application of materiality

Materiality

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

Based on my professional judgement, I determined overall materiality for the Department and its group's financial statements as a whole as follows.

	Departmental Group	Additional Group threshold	Department (parent)
Materiality	£129 million	£67 million	£54 million
Basis for determining materiality	1 per cent of non-current assets (including land) of £12.9 billion	Approx. 1 per cent of group gross expenditure excluding depreciation and impairment, but including capital additions	1 per cent of gross expenditure of £5.1 billion
Rationale for the benchmark applied	With a revised infrastructure asset valuation basis now compliant with the financial reporting framework, non-current assets are the largest item in the Departmental Group Statement of Financial Position. Significant public benefit is derived from the flood defence assets, driving user interest in the extent and condition of those assets.	This threshold is set to reflect the sensitivity of financial statement users to transactions and balances reflecting taxpayer-backed financial activity. Capital additions are included since these form part of Total Managed Expenditure voted by Parliament, and depreciation is excluded to avoid double-counting.	Expenditure is the most significant financial statements element for the parent and is a fair proxy for user sensitivity given Defra's role as a spending Department. This materiality relates to the transactions and balances reported in the Core and Agencies columns.

This is the first year I have adopted a percentage of non-current assets as the overall group materiality base. There is significant public interest in the Department's financial information both in respect of its stewardship of nationally important infrastructure and heritage assets, and in respect of its application of taxpayer money – both directly and through grants –to its objectives. In previous years, an overall materiality based on the balances and transactions most closely related to these perspectives would not have resulted in significantly divergent materiality figures, and I based my materiality on gross expenditure. Now that the Departmental group has implemented a DRC valuation of its operational infrastructure assets, non-current assets are a significantly higher base for materiality and I have elected to use this balance as the basis for my overall materiality. This ensures a focus on the asset base which uses a level of relative precision similar to that used in the past, while also ensuring - through an additional threshold – an appropriate level of attention on transactions and balances reflecting taxpayer-backed financial activity given the continuing user interest from that perspective.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality of the financial statements as a whole. Group performance materiality was set at 75 per cent of Group materiality for the 2022-23 audit (2021-22: 73 per cent). In determining performance materiality, I considered the effectiveness of the Department's control environment.

Other Materiality Considerations

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

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

Error Reporting Threshold

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

Total unadjusted audit differences reported to the Audit and Risk Committee would have the net effect of:

- decreasing Core and Agencies net assets and increasing Core and Agencies net expenditure by £2.2 million; and

- decreasing Group net assets by £24.4 million and increasing Group net expenditure by £9.3 million.

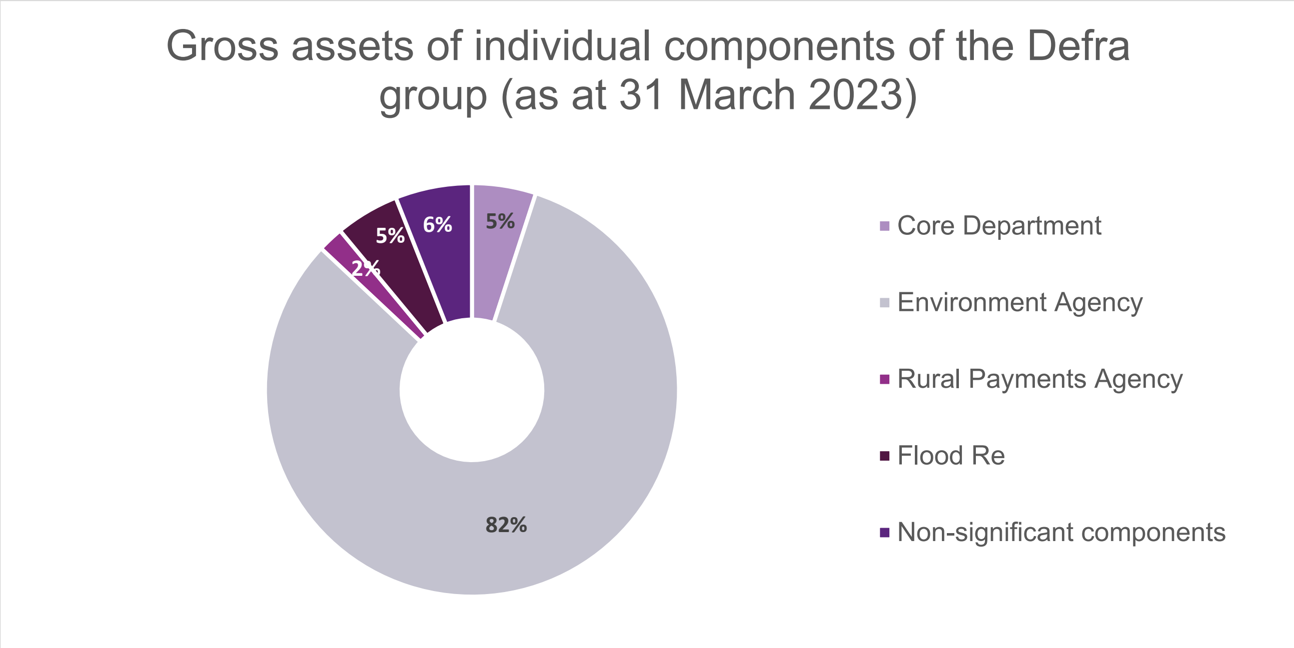
  Unadjusted errors reflect misstatements the audit team has been able to specifically identify, and should be taken in the context of potentially material findings or limitations on the scope of the audit described in the *Basis for qualified opinion on the financial statements* section, which are not replicated here and in many cases cannot be quantified precisely due to the nature of the limitations.

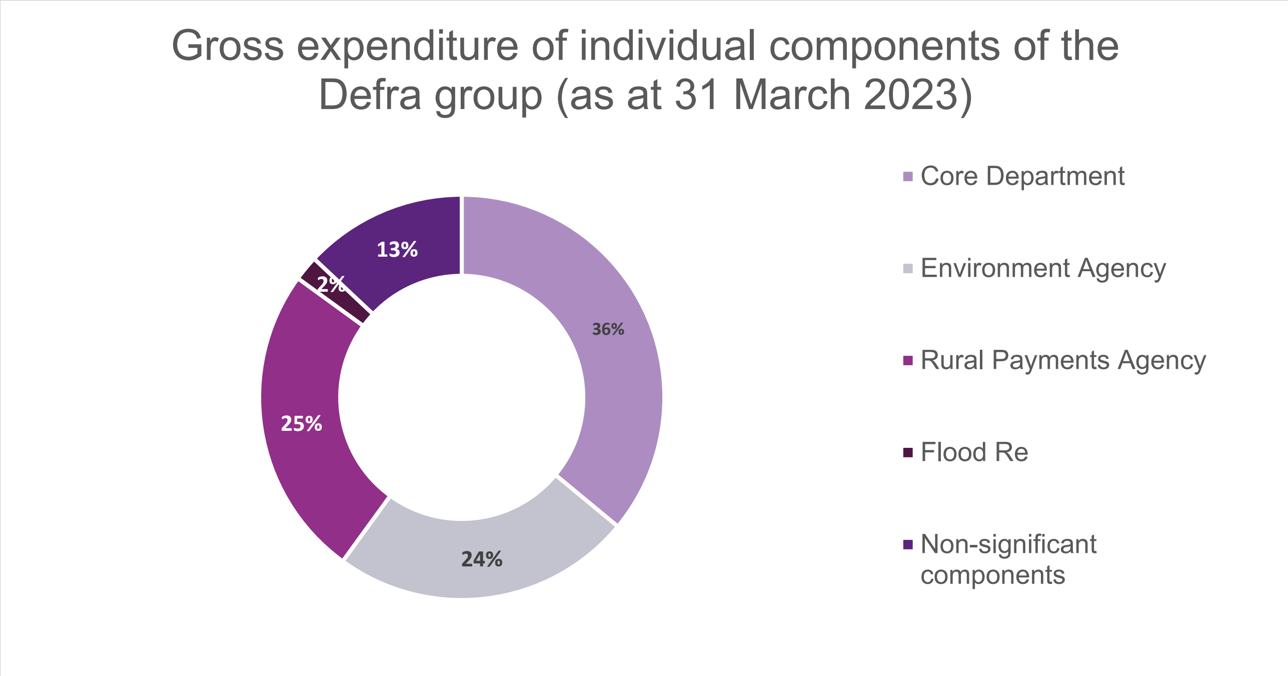
Audit scope

The scope of my Group audit was determined by obtaining an understanding of the Department and its Group's environment and relevant controls, and by assessing the risks of material misstatement at the Group level.

I have audited the full financial information of the Core Department, as well as the group consolidation. Audit work on the significant components of Rural Payments Agency and Environment Agency, which are overseen by the same engagement director, were complete at the time of my completion of the Group audit. The audit of the final significant component, Flood Re, undertaken by Ernst and Young, was complete at the time of my completion of the Group audit. As group auditor, I have gained assurance from the auditors of the significant and material components and engaged regularly on the group significant risks such as valuation of the infrastructure assets and the pension schemes.

This work covered substantially all of the Group's assets and net income/expenditure, and together with the procedures performed at group level, gave me the evidence I needed for my opinion on the group financial statements as a whole.





Other Information

The other information comprises the information included in the Annual Report but does not include the financial statements and my auditor's certificate and report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard except that any references in the Annual Report to financial information, including asset values, within the scope of the matters described under *Basis for qualified opinion on the financial statements* are affected by the same limitations as that section describes.

Opinion on other matters

In my opinion the part of the Staff and Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

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

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Department and its Group and their environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports.

In respect solely of the limitations in receiving sufficient appropriate evidence as described in the *Basis for qualified opinion on the financial statements* section above, which relate solely to the Departmental Group:

- adequate accounting records have not been kept; and
- I have not received all of the information and explanations I require for my audit.

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

- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Staff and Remuneration Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the Department and its Group from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;

- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;

- ensuring that the annual report, which includes the Staff and Remuneration Report, is prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- assessing the Department and its Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Department and its Group will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- considered the nature of the sector, control environment and operational performance including the design of the Department and its Group's accounting policies, key performance indicators and performance incentives.
- inquired of management, the Department's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department and its Group's policies and procedures on:
    - identifying, evaluating and complying with laws and regulations;
    - detecting and responding to the risks of fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Department and its Group's

controls relating to the Department's compliance with the Government Resources and Accounts Act 2000, Managing Public Money.

- inquired of management, the Department's head of internal audit and those charged with governance whether:
    - they were aware of any instances of non-compliance with laws and regulations; or
    - they had knowledge of any actual, suspected, or alleged fraud; and
- discussed with the engagement team including significant component audit teams and the relevant internal and external specialists, including pensions, property and scientific specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

I obtained an understanding of the Department and Group's framework of authority and other legal and regulatory frameworks in which the Department and Group operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Department and its Group. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2022, employment law, pensions and tax legislation and relevant grant expenditure legislation.

I considered the Department and Group's estimate of the risk of fraud and error within the scheme expenditure population.

Audit response to identified risk

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

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

- I considered the Department's assessment of its risk and liability with regards to a data breach within a key supplier Capita, of which I am content appropriate disclosures have been made within the Department's annual report.

I also communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members including significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement.

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

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

Gareth Davies
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

25 October 2023

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

1 The Department for Environment, Food and Rural Affairs (the Department) is responsible for developing and implementing policy which safeguards the natural environment, supports the UK food and farming industry, and sustains the rural economy. The Environment Agency (the Agency), part of the Departmental Group, is the leading public body for protecting and improving the environment in England. The Agency has responsibilities for flood and coastal erosion risk management, waste management and pollution incidents, reducing industry's impact on the environment, cleaning up rivers, coastal waters and contaminated land, and improving wildlife habitats.

2 In my certificate on the Department's accounts – which this report should be read alongside – I explained the basis of my qualified audit opinion on the Departmental Group's financial statements in relation to the valuation of the Agency's infrastructure assets; its land and buildings; and the classification of expenditure and valuation of Assets Under Construction. I also described the qualification of my regularity opinion following a material breach by the Agency of Cabinet Office spending controls.

3 This report provides an accompanying commentary explaining how these issues have progressed since my report on the 2021-22 accounts, and looking forward to the actions which the Department and Agency will need to take in order to address the issues described.

How my opinion on the financial statements differs between 2021-22 and 2022-23

4 Each of the issues described under the *Basis for qualified opinion on the financial statements* section in my certificate also featured in 2021-22. Nevertheless, some meaningful progress has been made, and in those areas the scope of my qualifications has developed accordingly.

Valuation of Infrastructure Assets

5 The Departmental Group is responsible for a nationally important portfolio of infrastructure, assets, mostly made up of those protecting against, and responding to, the rise of flooding. In valuing these assets, management has successfully implemented the Depreciated Replacement Cost (DRC) methodology for the first time. This not only brings the Group and Agency's accounting policy into line with the financial reporting framework, but increases the relevance of the financial statements by drawing from the same information sources as the Agency uses to manage its assets. In doing so the Group and Agency have implemented a valuation which, like other significant infrastructure valuations in the sector, factors in the extent of the Agency's assets, its best assessment of their condition, and a consideration of portfolio's service potential on a current cost basis. It has also achieved a simplification in process terms, with reliance on asset management records used by the business removing the need for a separate register for finance purposes.

6 While management had aimed to fully address infrastructure asset qualification issues in year, my opinion remains qualified because the data on the extent of the Groups infrastructure assets, whilst improving, is not yet at the point where I am assured that it is a materially reliable basis for valuation. This is reflected both in continuing data changes and in my team's sample testing. Nevertheless, I have been able to successfully audit a number of areas which provide a good platform for future improvements. These areas include:

a) the key assumptions and principles underlying the Agency's DRC methodology;

b) the costing rates for key asset types, which I evaluated using a risk-based sample with the help of an external civil engineering expert; and

c) the operation of the model which translates source data inputs and costing rates into a DRC value.

Land and Buildings

7 I first qualified my opinion in respect of the Agency's land and buildings valuations in 2020-21, following issues with the application of that year's revaluation, including its application to the accounting records and financial statements.

8 Management has addressed some of the more basic issues which previously limited the scope of my audit, and its reconciliation work allowed me to properly review the valuation evidence supporting these balances. As described in my certificate, an important limitation on the evidence available to me was in respect of the Agency's ownership records, as well as records on extent of the properties (e.g. land area). This issue is one which requires attention across the asset base.

9 My team also encountered other issues including duplications, missing or incomplete valuation and existence evidence and problems with indexation. However, these did not affect the sample of properties revalued in 2022-23, which indicates that management is making progress in addressing these issues.

Classification of expenditure and valuation of Assets Under Construction

10 Management had not set out to address my issues with Assets Under Construction within 2022-23 due to the lead time associated with reviewing historic balances on a number of capital projects. With its delivery partners, management has made measurable progress with this backlog. In doing so, management has also established principles which will help mitigate the risk of these issues recurring. These need to be refined further to fully align management's treatment of in-year expenditure with its accounting policies for existing assets.

11 This year, management was able to provide sample listings and supporting evidence in respect of in-year capital expenditure for the Agency. This had not been possible in 2021-22. This progress has allowed me to narrow my qualification in respect of capital expenditure, which is now focused on limitations on evidence for whether expenditure should be treated as an addition to Assets Under Construction, or expensed in-year. This issue shares a common root with the Assets Under Construction issue and will be resolved in the same way.

Additional qualification of my opinion on regularity

12 My opinion on regularity is newly qualified in 2022-23, as a result of a breach of Cabinet Office controls. As set out on page 84, the Agency decided to extend its expenditure in a number of high-value commercial arrangements beyond the contractually set values. By the time the Group and Agency identified the need to request Cabinet Office approval, significant expenditure was already committed and management estimate that it will spend around £190 million beyond approved limits as a result. Cabinet Office did not grant approval retrospectively.

13 As explained in my certificate, I consider both quantitative and qualitative factors when evaluating whether a regularity matter is material, just as for my opinion on the financial statements. In this case, the value of overspend, and the intended focus of this control on protecting value for money, informed my decision to qualify my opinion. I have not performed any evaluation of the practical impact on value for money from the Agency's decision to extend; these would in any case be challenging to form given significant uncertainties in the counterfactual scenario.

Conclusions and forward look

14 While the qualification on regularity arises from a single incident, it is an essential feature of a good overall control environment that conditions preventing significant breaches are in place. Management has already taken practical steps on this point, as set out in the governance statement.

15 On the financial statements issues, problems which affected my audit of the Agency's financial information in 2021-22 a valuation basis outwith the financial reporting framework, incomplete property accounting reconciliations, and difficulties in providing sample listings, are no longer a factor. While the Group and the Agency have more work to do, the improvement on these fundamentals has enabled a better understanding of the issues which need to be addressed and provides a platform for further progress.

16 To realise this progress, the Group and Agency will need to maintain a continued focus on improved financial management to enable a clearer line of sight on accurate data for management purposes, along with more reliable financial reporting. Management needs to set specific goals, allocate sufficient resources for improvement, and to ensure that efforts are effectively targeted. In order to address the issues described in my certificate, priority areas for 2023-24 should include:

- achieving a more stable, accurate and complete asset management dataset, with activity prioritised based on the Agency's own risk analysis as well as audit findings;
- updating property ownership records and making them accessible, where possible through registration – plans should take note of the overall public sector aspiration for comprehensive registration by 2025 – and addressing gaps in information on the extent of property holdings (e.g. area);
- continuing the Agency's rolling valuation programme with property selection including a risk-based element (e.g. addressing older balances and risks of duplication) with the aim of presenting a materially reliable picture of the overall portfolio as early as practically possible;
- drawing on 2022-23 experience to refine written policies around both land valuation and expenditure classification, mitigating the risk of judgements in future not fully aligned to the financial reporting framework or other policies;

- completing work on historic Asset Under Construction balances; and
- establishing the conditions – through updated procedures, appropriate training, and broader leadership – for improvements in data quality to be sustained over the long-term.

Gareth Davies 25 October 2023
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
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Financial Statements

The Government Financial Reporting Manual requires that the department prepares financial statements and related disclosures in accordance with International Financial Reporting Standards. The notes to the financial statements provide additional detail to users on the accounting policies of the entity and the numbers included in the core financial statements. They are only included where additional information is material, i.e., where its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Consolidated Statement of Comprehensive Net Expenditure

For the year ended 31 March 2023

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

	Note/ Ref	**2022-23** Core Department and Agencies	**2022-23** Defra Group	2021-22 Core Department and Agencies	2021-22 Defra Group
		£000	**£000**	£000	£000
Revenue from contracts with customers	4.1	(148,943)	(828,917)	(168,645)	(796,242)
Other operating income	4.2	(323,133)	(480,284)	(496,968)	(691,918)
Total income		**(472,076)**	**(1,309,201)**	(665,613)	(1,488,160)
Staff costs	3.1	775,076	1,511,501	733,053	1,330,767
Other expenditure	3.1	876,872	1,965,053	651,065	1,803,382
Non-cash items	3.2	(422,655)	78,307	480,354	973,933
Grants and subsidies	3.3	4,331,180	2,897,880	4,375,798	3,121,523
Total operating expenditure		**5,560,473**	**6,452,741**	6,240,270	7,229,605
Net operating expenditure		**5,088,397**	**5,143,540**	5,574,657	5,741,445
Net expenditure for the year		**5,088,397**	**5,143,540**	5,574,657	5,741,445
Other Comprehensive Net Expenditure					
Items that will not be reclassified to net operating expenditure					
Net (gain)/loss on					
Revaluation of PPE	SoCTE	(33,103)	(6,907,243)	(23,283)	(582,018)
Charitable funds revaluation	SoCTE	-	(23,288)	-	(20,099)
Revaluation of intangibles	SoCTE	(8,661)	(14,666)	(4,761)	(2,348)
Pension actuarial movements	16	(15,238)	(1,323,955)	7,104	(588,168)
Changes in the fair value of equity investments at fair value through OCE	SoCTE	-	-	(317)	(317)
Items that may be reclassified subsequently to net operating expenditure					
Net (gain)/loss on					
Revaluation of investments		-	184	-	(72)
Total comprehensive net expenditure for the year		**5,031,395**	**(3,125,428)**	**5,553,400**	**4,548,423**

EU funding for the department totalling £240 million (2021–22, £486 million) is included within income totals. Further details can be found in Note 4.

Flood Re pays corporation tax. The charge included in other costs in the SoCNE was £21 million (2021–22 £25 million).

The notes on pages 183 to 275 form part of these accounts.

Consolidated Statement of Financial Position

As at 31 March 2023

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

	Note/Ref	**31 March 2023** Core Department and Agencies	**31 March 2023** Defra Group	31 March 2022 Core Department and Agencies	31 March 2022 Defra Group
		£000	**£000**	£000	£000
Non-current assets					
Property, plant and equipment	5.1	540,716	11,407,928	472,322	4,335,191
Right of use assets	5.2	115,468	183,920	3,585	3,585
Investment properties		613	13,941	632	11,513
Heritage assets	5.3	-	303,732	-	267,976
Agricultural assets		-	141	-	141
Intangible assets	6	277,984	442,107	220,910	373,090
Financial assets		39,014	68,804	39,058	39,831
Investment in Associate		7,769	17,514	7,769	7,769
Net pension assets		-	503,350	-	-
Receivables and contract assets falling due after more than one year	11	5,901	6,632	751	3,790
Total non-current assets		**987,465**	**12,948,069**	745,027	5,042,886
Current assets					
Assets classified as held for sale		-	13,403	-	9,223
Inventories		5,095	6,794	5,396	6,772
Financial assets	11	117	740,993	54	660,631
Trade, other receivables and contract assets	11	521,060	655,333	391,386	553,838
Cash and cash equivalents		192,536	471,776	387,391	640,284
Total current assets		**718,808**	**1,888,299**	784,227	1,870,748
Total assets		**1,706,273**	**14,836,368**	1,529,254	6,913,634
Current liabilities					
Trade, other payables and contract liabilities	12	(824,326)	(1,403,093)	(1,024,472)	(1,654,434)
Lease liability	13	(32,708)	(49,129)	-	-
Provisions	15.2	(81,010)	(159,119)	(73,986)	(160,847)
Net pension liability		(47,577)	(47,581)	(45,789)	(45,805)
Financial liabilities	12	(4,847)	(29,147)	(3,370)	(24,470)
Total current liabilities		**(990,468)**	**(1,688,069)**	(1,147,617)	(1,885,556)
Non-current assets plus/less net current assets/liabilities		**715,805**	**13,148,299**	381,637	5,028,078
Non-current liabilities					
Provisions	15.2	(352,732)	(426,957)	(859,699)	(892,909)
Lease liability	13	(94,475)	(134,545)	-	-
Net pension liability		(127,351)	(132,512)	(191,367)	(846,921)
Other payables and contract liabilities	12	(112)	(142,949)	(25,656)	(30,590)
Financial liabilities	12	-	(423,742)	-	(412,346)
Total non-current liabilities		**(574,670)**	**(1,260,705)**	(1,076,722)	(2,182,766)
Assets less liabilities		**141,135**	**11,887,594**	(695,085)	2,845,312
Taxpayers' equity and other reserves					
General Fund	SoCTE	(30,281)	2,083,878	(841,689)	(91,995)
Revaluation reserve	SoCTE	171,416	9,456,082	146,604	2,649,371
Charitable funds - restricted funds	SoCTE	-	132,222	-	102,687
Charitable funds - unrestricted funds*	SoCTE	-	215,412	-	185,249
Total equity		**141,135**	**11,887,594**	(695,085)	2,845,312

*The unrestricted charitable funds figure includes Royal Botanic Gardens Kew (RBG Kew) and National Forest Company's (NFC) revaluation reserves totalling £151.8 million (2021–22, £130.4 million).

The notes on pages 183 to 275 form part of these accounts.

Tamara Finkelstein 20 October 2023

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2023

This statement shows the changes in cash and cash equivalents of Defra during the reporting period. It shows how Defra generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to Defra's future public service delivery. Cash flows arising from financing activities include parliamentary supply and other cash flows, including borrowing.

		2022-23		2021-22	
	Note/Ref	**Core Department and Agencies**	**Defra Group**	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000
Cash flows from operating activities					
Net operating costs	SoCNE	(5,088,397)	(5,143,540)	(5,574,657)	(5,741,445)
Adjust for non-cash transactions		(418,531)	79,570	477,843	971,493
(Increase)/decrease in trade and other receivables excluding derivatives		(134,824)	(107,376)	219,601	238,687
Less movements in receivables relating to items not passing through the SoCNE		4,202	4,202	2,005	2,005
Adjustments for derivative financial instruments		1,402	1,402	11,549	11,549
(Increase) / decrease in inventories		301	(22)	(229)	(293)
Increase / (decrease) in trade payables and other liabilities excluding derivatives		(225,690)	(124,386)	(207,458)	(110,322)
Less movements in payables relating to items not passing through the SoCNE		210,294	229,614	67,433	57,394
IFRS16 Implementation adjustment		-	(2,288)	-	-
Use of provisions / pension liabilities		(69,897)	(170,098)	(110,546)	(224,995)
Net cash outflow from operating activities		**(5,721,140)**	**(5,232,922)**	(5,114,459)	(4,795,927)
Cash flows from investing activities					
Purchase of PPE, heritage and agricultural assets		(81,495)	(377,819)	(77,886)	(220,928)
Purchase of intangible assets		(78,777)	(118,275)	(74,349)	(107,536)
Purchase / repayment of financial assets		12	(131,243)	952	(147,114)
Proceeds of disposal of PPE, heritage and agricultural assets		52	1,773	112	2,333

	Note/Ref	**2022-23** Core Department and Agencies	**2022-23** Defra Group	2021-22 Core Department and Agencies	2021-22 Defra Group
		£000	**£000**	£000	£000
Proceeds of disposal of financial assets		-	18,000	-	-
Repayments from other bodies		44	(1)	44	-
Net cash outflow from investing activities		**(160,164)**	**(607,565)**	(151,127)	(473,245)
Cash flows from financing activities					
From Consolidated Fund (supply): current year	SoCTE	5,720,000	5,720,000	5,210,000	5,210,000
Advances from Contingencies Fund		-	-	6,988	6,988
Repayments to Contingencies Fund		-	-	(7,739)	(7,739)
Capital element in respect of service concession arrangements and finance leases and non balance sheet PFI contracts		(241)	(313)	(7,508)	(9,122)
Payment of lease liabilities		(24,823)	(38,749)	-	-
Funding (to) / from other bodies		24	(5)	(164)	(161)
Net financing		**5,694,960**	**5,680,933**	5,201,577	5,199,966
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(186,344)	(159,554)	(64,009)	(69,206)
Receipts due to the Consolidated Fund which are outside the scope of the department's activities		(4,202)	(4,202)	(2,005)	(2,005)
Payments of amounts due to the Consolidated Fund		(4,309)	(4,752)	(484)	(484)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the consolidated fund	10	(194,855)	(168,508)	(66,498)	(71,695)
Cash and cash equivalents at the beginning of the period	10	**387,391**	**640,284**	453,889	711,979
Cash and cash equivalents at the end of the period	10	**192,536**	**471,776**	387,391	640,284

The notes on pages 183 to 275 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

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

For the year ended 31 March 2023

Defra Group

							2022-23
	Note/Ref	General Fund	Revaluation Reserve	Total Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		£000	£000	£000	£000	£000	£000
Balance at 1 April 2022		(91,995)	2,649,371	2,557,376	102,687	185,249	2,845,312
IFRS 16 Initial Recognition	1.9	5,762		5,762	-	-	5,762
Adjusted opening balance 1 April 2022		(86,233)	2,649,371	2,563,138	102,687	185,249	2,851,074
Net parliamentary funding - drawn down	SoCF	5,720,000	-	5,720,000	-	-	5,720,000
Net parliamentary funding - deemed		387,391	-	387,391	-	-	387,391
Funding (to)/ from other bodies		(5)	-	(5)	-	-	(5)
Supply (payable) adjustment		(192,277)	-	(192,277)	-	-	(192,277)
CFER Income Payable to the Consolidated Fund		(8,272)	-	(8,272)	-	-	(8,272)
Net operating costs for the year	SoCNE	(5,179,923)	-	(5,179,923)	8,348	28,035	(5,143,540)
Non-cash adjustments							
Non-cash charges-auditors' remuneration	3.2	1,211	-	1,211	-	-	1,211
Notional recharges and other non-cash items	3.2	(5)	-	(5)	-	-	(5)

	Note/Ref	General Fund	Revaluation Reserve	Total Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
							2022-23
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
Movement in reserves							
Recognised in other comprehensive expenditure:							
Revaluation of PPE*	OCE	-	6,907,243	6,907,243	-	-	6,907,243
Charitable funds revaluation	OCE	-	-	-	-	23,288	23,288
Revaluation of intangibles	OCE	-	14,666	14,666	-	-	14,666
Revaluation of Right of use assets	OCE	-	(1,750)	(1,750)	-	-	(1,750)
Revaluation of investments	OCE	-	(184)	(184)	-	-	(184)
Pension actuarial movements	OCE/16	1,323,955	-	1,323,955	-	-	1,323,955
Contributions in respect of unfunded benefits		4,800	-	4,800	-	-	4,800
Transfers between reserves		113,237	(113,264)	(27)	21,187	(21,160)	-
Transfer to General Fund - net asset transfer		(1)	-	(1)	-	-	(1)
Balance at 31 March 2023		**2,083,878**	**9,456,082**	**11,539,960**	**132,222**	**215,412**	**11,887,594**

*Revaluation of PPE includes the effect of business as usual revaluations reported in notes 5 and 6, as well as the £6.5 billion impact of the transition to DRC reported in note 5, which has been processed as an in year revaluation amount due to the impracticability of a retrospective application of this change in accounting policy.

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2022

Defra Group

							2021-22
	Note/Ref	General Fund	Revaluation Reserve	Total Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		£000	£000	£000	£000	£000	£000
Balance as at 31 March 2021		(280,187)	2,144,072	1,863,885	92,876	158,092	2,114,853
Net parliamentary funding - drawn down	SoCF	5,210,000	-	5,210,000	-	-	5,210,000
Net parliamentary funding - deemed		453,889	-	453,889	-	-	453,889
Funding to/from other bodies		(161)	-	(161)	-	-	(161)
Net financing from the Contingencies Fund		(751)	-	(751)	-	-	(751)
Supply (payable) adjustment		(387,391)	-	(387,391)	-	-	(387,391)
CFER Income Payable to the Consolidated Fund	SoPS 4.1	(3,430)	-	(3,430)	-	-	(3,430)
Net operating costs for the year	SoCNE	(5,758,314)	-	(5,758,314)	13,378	3,491	(5,741,445)
Non-cash adjustments							
Non-cash charges-auditors' remuneration	3.2	1,165	-	1,165	-	-	1,165
Movement in reserves Recognised in other comprehensive expenditure:							
Revaluation of PPE	OCE	-	582,018	582,018	-	-	582,018
Charitable funds revaluation	OCE	-	-	-	-	20,099	20,099
Revaluation of intangibles	OCE	-	2,348	2,348	-	-	2,348
Revaluation of investments	OCE	-	349	349	-	-	349
Pension actuarial loss	OCE	588,168	-	588,168	-	-	588,168
Contributions in respect of unfunded benefits		5,600	-	5,600	-	-	5,600
Transfers between reserves		79,416	(79,416)	-	(3,567)	3,567	-
Transfer to General Fund - net asset transfer		1	-	1	-	-	1
Balance at 31 March 2022		(91,995)	2,649,371	2,557,376	102,687	185,249	2,845,312

The notes on pages 183 to 275 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2023

Core Department and Agencies

	Note/Ref	General Fund	Revaluation Reserve	Total Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves 2022-23
		£000	£000	£000	£000	£000	£000
Balance at 1 April 2022		(841,689)	146,604	(695,085)	-	-	(695,085)
IFRS 16 Initial Recognition		2,871	--	2,871	-	-	2,871
Adjusted Opening balance 1 April 2022		(838,818)	146,604	(692,214)	-	-	(692,214)
Net parliamentary funding - drawn down	SoCF	5,720,000	-	5,720,000	-	-	5,720,000
Net parliamentary funding - deemed		387,391	-	387,391	-	-	387,391
Funding (to)/ from other bodies		24	-	24	-	-	24
Supply (payable) adjustment		(192,277)	-	(192,277)	-	-	(192,277)
CFER Income Payable to the Consolidated Fund		(7,829)	-	(7,829)	-	-	(7,829)
Net operating costs for the year	SoCNE	(5,088,397)	-	(5,088,397)	-	-	(5,088,397)
Non-cash adjustments							
Non-cash charges-auditors' remuneration	3.2	1,211	-	1,211	-	-	1,211
Notional recharges and other non-cash items	3.2	(43,697)	-	(43,697)	-	-	(43,697)
Movement in reserves							
Recognised in other comprehensive expenditure:							
Revaluation of PPE	OCE	-	33,103	33,103	-	-	33,103
Revaluation of intangibles	OCE	-	8,661	8,661	-	-	8,661
Revaluation of Right of use assets	OCE	-	(5,428)	(5,428)	-	-	(5,428)
Pension actuarial movements	OCE	15,238	-	15,238	-	-	15,238
Contributions in respect of unfunded benefits		4,800	-	4,800	-	-	4,800
Transfers between reserves		11,524	(11,524)	-	-	-	-
Transfer to General Fund - net asset transfer		549	-	549	-	-	549
Balance at 31 March 2023		**(30,281)**	**171,416**	**141,135**	**-**	**-**	**141,135**

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2022

Core Department and Agencies

	Note/ Ref	General Fund	Revaluation Reserve	Total Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves 2021-22
		£000	£000	£000	£000	£000	£000
Balance as at 31 March 2021		(515,678)	134,321	(381,357)	-	-	(381,357)
Net parliamentary funding - drawn down	SoCF	5,210,000	-	5,210,000	-	-	5,210,000
Net parliamentary funding - deemed		453,889	-	453,889	-	-	453,889
Funding to/from other bodies		(164)	-	(164)	-	-	(164)
Net financing from the Contingencies Fund		(751)	-	(751)	-	-	(751)
Supply (payable) adjustment		(387,391)	-	(387,391)	-	-	(387,391)
CFER Income Payable to the Consolidated Fund	SoPS 4.1	(3,430)	-	(3,430)	-	-	(3,430)
Net operating costs for the year	SoCNE	(5,574,657)	-	(5,574,657)	-	-	(5,574,657)
Non-cash adjustments							
Non-cash charges-auditors' remuneration	3.2	1,165	-	1,165	-	-	1,165
Notional recharges and other non-cash items	3.2	(39,247)	-	(39,247)	-	-	(39,247)
Movement in reserves							
Recognised in other comprehensive expenditure:							
Revaluation of PPE	OCE	-	23,283	23,283	-	-	23,283
Revaluation of intangibles	OCE	-	4,761	4,761	-	-	4,761
Revaluation of investments	OCE	-	317	317	-	-	317
Pension actuarial loss	OCE	(7,104)	-	(7,104)	-	-	(7,104)
Contributions in respect of unfunded benefits		5,600	-	5,600	-	-	5,600
Transfers between reserves		16,078	(16,078)	-	-	-	-
Transfer to General Fund - net asset transfer		1	-	1	-	-	1
Balance at 31 March 2022		(841,689)	146,604	(695,085)	-	-	(695,085)

The notes on pages 183 to 275 form part of these accounts.

Notes to the Departmental Accounts

1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2022-23 Government Financial Reporting Manual (FReM) issued by HM Treasury.

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

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

1.1 Significant Judgements and Estimation Uncertainty

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

In the process of applying the department's accounting policies, significant judgements and/or estimation techniques have been made by management in the following areas:

Revenue Recognition

The point at which it is appropriate to recognise revenue in the Statement of Comprehensive Net Expenditure (SoCNE), most notably:

- Basic Payment Scheme (BPS) income (Note 1.5.1);
- Rural Development Programme for England (RDPE) income (see Note 1.5.2),
- Operating Income (see Note 4.2).
- Accrued and deferred income, and contract assets/liabilities within Trade Payables and Receivables, where it is expected that income from fees and charges will break-even over a reasonable period of time (see Note 1.13);
- Judgements are used to assess the expected timing for the satisfaction of performance obligations, and determination of transaction prices per IFRS 15 (see Note 1.13);

Disallowance

- Determining the timing and value of revenue recognition and measurement basis for disallowance penalties (see Note 15.3);

Property, Plant and Equipment

- The valuation of property, plant and equipment requires professional valuers to make assessments which affect the value including the estimation of the assets' useful lives (see Note 1.6).

- The impairment of property, plant and equipment and intangible assets (Note 7).

- The selection of appropriate indices to apply in the valuation of property, plant and equipment (see Note 5) and intangible assets (see Note 6).

- The classification of expenditure in the Environment Agency (EA) between property, plant and equipment and capital works expensed in year (see Note 1.16);

- The estimation uncertainty around asset costings and depreciation relating to Depreciated Replacement Cost (DRC) valuations of EA's operational assets (see Note 1.16 and Note 5.1).

Leases

- Professional judgement has been applied to estimate a reasonable length for the term when calculating lease liabilities and right of use asset valuations (see Note 1.9).

Provisions and Liabilities

- Recognition of provisions according to the existence of a present obligation as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation (see Note 1.20).

- Flood Re's liability arising from claims made under insurance contracts can fluctuate between years and requires an estimate of the values remaining unclaimed from events and the estimation of a provision where there is uncertainty in relation to the value (see Notes 1.16 and 1.20);

- Pension liabilities (see Note 1.19 and Note 16). 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, informing the valuation of the Defined Benefit Obligation. Estimation uncertainty also features in the asset base for non market quoted assets. Finally, the Group makes judgements based on IFRIC 14 principles on whether to constrain the recognition of surpluses where these arise.

Financial Instruments and Liabilities

- Rural Payment Agency (RPA) use of derivative financial instruments (see Notes 1.18.3) require assessments in relation to the timing of recognition, subsequent remeasurement at each financial year end and the calculation of any exchange rate fluctuations;

- Assessment and calculation of Expected Credit Losses, according to IFRS 9 business model including the estimation of the impact of future events (see Note 9).

- The recognition of financial liabilities relating to EA reservoir operating agreements compliant with IFRS 9 (see Note 9), including discounting using the Effective Interest Rate (EIR) method, which requires significant judgements regarding the expected life of the liability and the expected future Retail Price Index (RPI).

1.2 Accounting Convention

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

1.3 Going Concern

In common with other government departments, the future financing of Defra's liabilities is to be met by future grants of supply and the application of future income approved annually by Parliament. Parliament provides approval for amounts annually, prior to the parliamentary recess and there is no reason to believe that future approvals will not be made.

1.4 Basis of Consolidation

These accounts comprise a consolidation of the Core department, executive agencies and those other delivery bodies which fall within the departmental boundary. Transactions between entities within the consolidation are eliminated.

IFRS 10, as adapted by the FReM, requires the department to apply the criteria used by the Office for National Statistics (ONS) in determining control by the parent over the subsidiary; as such, the departmental boundary defines the Defra group in a manner similar to the group concept under generally accepted accounting practice. Note 19 provides details of entities within the departmental boundary, comprising supply financed agencies and those entities listed in the designation and amendment orders presented to Parliament.

1.5 Scheme Costs and Grants

1.5.1 Rural Payments Agency Reported Income and Expenditure

The accounting policies applying to both income and expenditure under Commission funded schemes, and expenditure under UK Exchequer funded schemes, are detailed below.

1.5.1.1 Rural Payments Agency European Commission funded schemes

Pillar 1 European Agricultural Guarantee Fund European Commission funding ceased on 15 October 2020. However, RPA continues to recover debts from customers in relation to scheme payments which were originally funded by the European Commission and continues to repay a proportion of the monies recovered to the European Commission. These recoveries are presented as negative expenditure, whilst the corresponding repayments to the European Commission are presented as negative income.

1.5.1.2 Rural Payments Agency UK Exchequer funded schemes

RPA recognises the expenditure relating to all UK Exchequer funded schemes when both the following criteria are judged to be met:

- The claimant has fulfilled all their performance obligations in line with the applicable scheme rules and regulations; and

- The value of the claim can be reliably estimated by RPA.

This commonly results in expenditure being recognised on receipt of claims, however, expenditure may be recognised later when claims are received in advance of other underlying performance obligations being completed by the claimant. This is the case for the Basic Payment Scheme, where recognition is the later of the receipt of claims, and the 15 May eligibility date when claimants must have land at their disposal; and Sustainable Farming Incentive revenue agreements where recognition is on the latter receipt of a claimant’s annual declaration and the final day of their agreement year.

RPA administers several schemes for all UK claimants, principally the Fruit and Vegetables and School Milk Schemes. Where RPA makes payments to claimants outside of England these are reclaimed from the associated devolved administrations in Scotland, Wales and Northern Ireland. RPA recognises the income when it is probable that it will receive a reimbursement from the devolved administration for scheme expenditure incurred and the amount to be received is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised.

1.5.2 RDPE Scheme Income and Expenditure

Up until the 31 March 2023, payments under RDPE are made by RPA on behalf of Defra and Forestry Commission (FC). Defra’s status as managing authority for RDPE conveys the risks and rewards associated with budget responsibility and consequently RDPE expenditure and associated Commission income is recognised in the Core department. Defra delegates authority to RPA to administer certain elements of RDPE, including validation and payments of eligible claims as authorised by Natural England (NE) and RPA.

With effect from 1 April 2023 control of the scheme transferred to RPA, and therefore all future RDPE expenditure and recoveries will be recognised in RPA’s accounts.

1.6 Property, Plant and Equipment

Recognition and Valuation

Basis of Valuation

Land and buildings are stated at fair value, which is either depreciated replacement cost (DRC), open market value (MV) or existing use value (EUV). Non-specialised properties are stated at EUV. The specialist science estate operated by the Animal and Plant Health Agency (APHA) is valued using the DRC method taking into account the expected construction costs to rebuild equivalent assets.

EA uses operational assets to directly enable the delivery of primary outcomes. These assets are specialised in nature and function for the delivery of these outcomes and, as such, are not likely to be available in the general marketplace. These assets include flood risk management assets such are control gates, flood gates, pumping stations and screens, water, land and biodiversity assets, such as boreholes gauging stations and weirs, and navigation assets such as locks. These assets had historically been valued using the Modified Historic Cost Method as a proxy for Depreciated Replacement Cost (DRC). This was not compliant with the FReM. In 2022-23, EA implemented the DRC method for the valuation of operational assets, which determines the current cost of replacing an asset with its modern equivalent asset, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. Each category of operational asset has been valued using cost models created through the DRC valuation (further detail of the categories of operational asset can be found in EA's accounts). The assets are initially recognised in assets under construction at cost and are not depreciated. When the asset is fully operational, the cost is transferred to operational assets, it is depreciated and included in the valuation process until the asset is disposed of or decommissioned.

In accordance with IFRS 13, Fair Value Measurement, non-property tangible assets are generally carried at fair value. However, where assets have short useful lives or low values, they are stated at depreciated historic cost as a proxy for fair value. Fair value for non-current assets held for their service potential is current value in existing use.

Capitalisation Threshold

Minimum levels of capitalisation within the departmental boundary are generally in the ranges of £1,000–£10,000. No de minimis threshold applies to EA land. Capitalisation thresholds vary, as these are set within reference to the nature and complexity of assets and related projects at each entity.

Revaluation

With the exception of EA's operational assets (see below) and NE's non operational Heritage Assets (see Note 1.8), freehold land and buildings are subject to professional valuation at no more than five yearly intervals (quinquennial valuation).

Quinquennial Valuations are carried out by professionally qualified independent valuers, who adhere to the principles outlined in the Royal Institution of Chartered Surveyors Red Book.

The most recent valuation of the corporate estates including the Core department, administrative buildings and APHA, was completed in March 2020 by Montagu Evans, under the guidance of a qualified director in their valuation department. This included the valuation of the Weybridge site. The next valuation at the Core department will be in March 2025.

EA's land and buildings (including dwellings), except assets under construction, were revalued at 31 March 2021 by Royal Institution of Chartered Surveyors (RICS) qualified external chartered surveyors Savills and Avison Young. The valuation was on the basis of open market value for administrative land and buildings and existing use for operational land. EA's plant and machinery, vehicles, furniture and fittings, IT equipment and operational assets were revalued internally at 31 March 2022 using suitable indices.

In between quinquennial valuations and annual desktop valuation is conducted through the application of appropriate indices. An annual valuation report is produced regardless of whether the valuation is a desktop or based on inspection.

EA's operational assets valued using the DRC methodology are valued using the cost models created through the DRC valuation to calculate a modern equivalent asset valuation and then reductions are applied to bring the valuation to the depreciated replacement cost. The valuation uses one of three approaches to determine the depreciation factor rates depending on data availability across the asset types. These approaches are deterioration curve, reliability, straight line with residual balance and further detail can be found in EA's Annual report and accounts. The models will be adjusted on an annual basis to reflect changes in underlying market conditions then refreshed every five years to ensure judgements on modern equivalents and constriction still hold. Any increase in asset values by category is recognised in the revaluation reserve. Any decrease in asset values is either recognised against the revaluation reserve where a surplus is available or written off as an impairment where a revaluation reserve surplus in not available.

EA's Operational Assets includes a number of Habitat creation schemes which remain valued using the Modified Historic Cost method (£64 million 2022-23). Their primary purpose is to reduce the risk of flooding, but at the same time to enhance the natural habitat of the area and promote biodiversity. These are relatively recently constructed schemes and are not yet categorised as a separate asset type in the EA's asset management system, however in most cases conventional operational assets, such as outfalls, sluices and embankments have also been built on the site.

1.7 Assets Under Construction

Assets under construction are carried on the Statement of Financial Position (SoFP) at accumulated cost with depreciation commencing when the asset is completed and available to be brought into service. Balances are regularly reviewed to ensure that they only include costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

1.8 Heritage Assets

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

National Nature Reserves (NNRs) are defined as land that is held in support of the department's strategic outcome to support a healthy natural environment and continue to ensure that our rich biodiversity thrives across the landscape, with ecosystems and habitats resilient to climate change. Although they are open to the public for quiet recreation, they are held principally for their contribution to knowledge and culture and are classified as heritage assets.

NE has one operational heritage asset which is being held for the contribution to knowledge and culture but also used to provide other services. The remaining Heritage Assets are classified as non-operational.

NE's Heritage Assets are reported in the Statement of Financial Position (SoFP) at fair value, and are subject to professional valuation every five years, the latest being in March 2022. In between valuations, a detailed desk top review is undertaken by external valuers to ensure the valuations remain current and are in line with RICS red book guidance. Any surplus compared to the historic cost is recognised in the revaluation reserve.

Although only operational Heritage Assets have to be valued externally every five years and non-operational ones could be completed by NE's own surveyors, NE have opted to have all their Heritage Assets, both operational and non-operational, valued externally due to insufficient specialist valuation resource to undertake the valuations. Valuation of non-operational Heritage Assets has always proved complex due to the unique qualities of each site making it challenging to identify comparative information. Valuations of heritage assets, while compliant with RICS methodology, rely on professional judgement, knowledge of the area, status of comparable data, status of site being valued and other subjective judgements.

Royal Botanic Gardens, Kew (RBG Kew) also holds heritage assets. RBG Kew has not capitalised heritage buildings and collections acquired before 2001-02, as the cost of obtaining valuations for older collections and buildings is onerous compared to the benefit to the readers of the accounts. Since 2001-02, additions for heritage land and buildings are recognised at cost and revalued every five years by external professionally qualified valuers, on the basis of either open market value for existing use or depreciated replacement cost. The last professional revaluation was carried out in March 2022, by Montagu Evans, Chartered Surveyors. Between professional revaluations, values are usually updated using indices provided by the professional valuers. Heritage collections purchased after 2001-02 are recognised at cost and are neither revalued nor depreciated but are subject to impairment review at five yearly intervals, or when circumstances dictate.

1.9 Leases

1.9.1 Defra as a Lessee

The department has implemented IFRS 16 with effect from 1 April 2022, using the adaptations and interpretations set out by HM Treasury in the FReM. The net cumulative impacts of the initial application of applying IFRS 16 have been recognised as an adjustment to the opening balance of taxpayers' equity at 1 April 2022, and prior year comparatives have not been restated.

For lessees, IFRS 16 removes the distinction between operating and finance leases and introduces a single accounting model that recognises in scope leases on the SoFP as right of use (ROU) assets and corresponding lease liabilities. The definition of a lease has been updated under IFRS 16 with more emphasis on being able to control the use of an asset identified in a contract. For the Defra group this has increased the value of assets and liabilities as leases formerly classified as operating leases are now recognised on the SoFP.

Opening liabilities have been calculated using the present value of outstanding payments due at 1 April 2022 and the opening cost of the ROU asset has been calculated to equal lease liabilities, adjusted for any lease prepayments or accruals that existed immediately prior to 1 April 2022.

The SoCNE reflects related charges for the depreciation of ROU asset and interest on the lease liability in place of rental expenses. It continues to reflect irrecoverable VAT where applicable on any leases in line with HM Treasury guidance on the application of IFRS 16 Leases which states that VAT should not form part of the initial measurement of the ROU asset.

This treatment has been applied to all leases except short-term leases (12 months or less) or in some cases where the underlying asset is of low value, which continue to be accounted as expenses on a straight-line basis in the SoCNE for the duration of the lease term.

The definition of a contract is expanded in the FReM to include intra UK government agreements such as Memorandum of Terms of Occupation. The FReM also expands the definition of a lease to those with nil consideration, or significantly below market value, such as those known as peppercorn leases. For peppercorn leases, the department has obtained a professional valuation of the ROU assets from an appropriately qualified professional which is used to value the ROU asset, rather than any rent paid as this does not reflect a market value of the asset. This creates a difference between the ROU asset value and the lease liability which is recognised in the Statement of Changes in Taxpayers Equity (SoCTE).

Leases have been entered into across the Defra group for the use of buildings, land, IT and vehicles. Leases are used where they provide more flexibility than purchase, or because that is what is available for the location or purpose required. Some leases contain break clauses at defined points in the lease. This provides greater flexibility to the Defra group to exit leases early if circumstances change. Professional judgement has been applied where there are break clauses and the expected point of exiting the lease has been used when measuring the lease liability.

Professional judgement on the expected term of a lease is also applicable where the department is still in occupation after the lease end date and the lease is “holding over”. Reliance has been placed on estates staff, supported by information in the estate strategy, in forming an estimate of a reasonable length for the term when calculating lease liabilities and right of use asset valuations. The most material leases have a fixed end date, limiting the impact of this professional judgement.

The practical expedient specified in IFRS 16 paragraph C3 states that an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. This has been mandated by HM Treasury and we have therefore not reassessed whether contracts contain a lease, instead transitioning former operating leases to treatment as a ROU asset and lease liability. However, peppercorn leases have been included in line with HM Treasury adaptations and the exemptions for low value or short-term leases may be applied where appropriate.

Practical expedients permitted by the standard have also been used in relation to:

- reliance on the assessment of onerous leases at 31 March 2022 as an alternative to performing an impairment review.
- short term leases are expensed rather than treated as ROU assets as mandated by HM Treasury.
- initial direct costs are excluded from the measurement of the ROU asset at the date of initial application.
- the use of hindsight when considering any lease variables such as where the contract contains options to extend or terminate the lease.

When calculating the lease liability, if the interest rate cannot be readily determined within a lease, the department has calculated the lease liability using the discount rates set out in the latest HM Treasury's Public Expenditure System paper as the incremental borrowing rate which for the 2022 calendar year is 0.95 per cent and 3.51 per cent for 2023. These rates are used when calculating and initial lease liability or transition, for a new lease or when reassessing the lease.

The adoption of IFRS16 does not affect the departments liquidity risk, which is not significant, as the department's net resource outturn is financed through resources voted annually by Parliament.

The department is not exposed to any significant risk in future cash flows from extension clauses, termination clauses, variable lease payments or residual value guarantees as these are not standard in Defra lease agreements. There are no restrictions or covenants, or any current sale and leaseback transactions affecting these accounts, nor are there any lease agreements where we are committed but the lease has not yet commenced.

For leases that were already recognised on the SoFP as finance leases prior to 1 April 2022, the opening balances have been unaffected by the first-time adoption of IFRS16.

Subsequent measurement of ROU assets is at fair value or current value in existing use where assets are held for their service potential unless cost represents a reasonable proxy. For land and buildings, valuations will be determined by appropriately qualified professionals in accordance with RICS Guidance. For the majority of assets cost is a reasonable proxy due to the relatively short term nature of leases compared to freehold assets, and also because most leases contain regular rent reviews. In practice the group has sought a valuation for ROU assets which are peppercorn leases, or where there is no rent review.

The transition to IFRS 16 has added £170 million to right of use assets and £165 million to lease liabilities in the SoFP for the departmental group. The change when compared to the previous reporting of operating lease commitments under IAS 17 is summarised in the table below:

	Core Department and Agencies	Departmental Group
	£000	£000
Operating lease commitment at 31 March 2022	**48,473**	**107,780**
Discounting of future cash flows	(5,687)	(9,441)
Exemptions for:		
Short term leases	(264)	(398)
Low value leases	-	(14)
Adjustment for different lease term assumptions under IFRS 16	55,096	63,429
Amounts removed from commitment due to external sub leases where the liability remains with the department under IFRS 16	10,019	10,019
Amounts in former operating lease commitment relating to irrecoverable VAT which is outside the scope of IFRS 16	(6,113)	(6,113)
Operating leases reported in the departmental group where the ROU asset is now reflected in the Core department	9,982	-
IFRS 16 Lease liability at 1 April 2022	**111,506**	**165,262**
Adjustment for accruals relating to rent free periods and stepped rents	(6,385)	(8,380)
Adjustment for prepayments	4,726	7,909
Asset reflects market value for peppercorns	2,898	5,464
Right of Use Assets value at 1 April 2022	**112,745**	**170,255**

1.9.2 Defra as a Lessor

Lessor accounting is largely unchanged by IFRS 16 with lessors continuing to distinguish finance and operating leases. Leases which transfer substantially all the risks and economic benefits of the underlying asset have been classed as finance leases. All other leases have been classed as operating leases.

Where a sub-lease has been judged to be a finance lease, Defra has derecognised the ROU asset and recognised a receivable for the net investment in the finance lease equivalent to discounted future income.

Occupation of the corporate estate by Defra group bodies is on a flexible shared basis with very few formal occupancy agreements in place between the leaseholder (either Core department or the Environment Agency) and the occupant. Corporate estate leases will therefore be recognised in full by the legal leaseholder unless there is a formal arrangement in place.

1.10 Intangible Non-Current Assets

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

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

The department's expenditure on research activities is written off to the SoCNE as incurred. Development costs may be capitalised where the criteria noted in IAS 38, Intangible Assets are satisfied.

Internally developed computer software includes the costs of internal employees where evidence demonstrates that these are necessarily incurred and directly attributable to creating, producing, and preparing the asset to be capable of operating in the manner intended by management. The department does not hold any intangible assets with an indefinite useful life.

Costs, including configuration and customisation costs, are only recognised on the SoFP under IAS 38 when the underlying asset is controlled by the group. Where this is not the case, as in some Software as a Service arrangements, costs of customisation will be taken directly to net expenditure even if the economic benefits of these costs are expected to last multiple years.

The capitalisation threshold for the Defra group generally ranges between £1,000 and £250,000. Capitalisation thresholds vary, as these are set with reference to the nature and complexity of assets and related projects at each entity.

When fully operational in the business, internally generated computer software is stated at a proxy for fair value, which generally, if it is not income generating, is depreciated replacement cost.

1.11 Depreciation and Amortisation

Depreciation and amortisation, except for EA operational assets, are provided using the straight-line method over the estimated useful life of the asset.

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

Where non-current assets contain components that have differing patterns of benefits and values that are significant relative to the total cost of the item, each component is capitalised, where possible, and depreciated separately over the appropriate estimated useful economic life of the component. Where componentisation is not possible or practicable, useful lives are estimated using the weighted average useful life method.

Non-current assets are depreciated over the following timescales:

Infrastructure assets (e.g. Thames Barrier)	Up to 100 years
Freehold and leasehold buildings	Up to 80 years or remaining life of lease
Vehicles, furniture and fittings and equipment	Up to 30 years
Plant and machinery	Up to 50 years
Intangible assets - Internally Developed Software	Up to 15 years
Intangible assets - Software Licenses	Up to 25 years

Depreciation on EA's operational assets valued using the DRC method is calculated to write off the value of the asset over the expected useful economic life. Depreciation is charged in the month of capitalisation but not in the month of capitalisation and this is between 10 and 285 years.

Typically, intangible assets have no residual values and are not sold but are used until decommissioned and amortised over the life of the asset. Whilst the useful economic life (UEL) of intangible assets is normally within the ranges quoted above, there may be specific circumstances where a case by case assessment results in a UEL outside of these ranges.

1.12 Impairment

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

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

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

1.13 Income

Revenue is measured based on the consideration specified in a contract with a customer. Income from Government Grants (accounted under IAS 20: Accounting for Government Grants), insurance income and charity income are recorded as other operating income. The group recognises revenue from contracts with customers in accordance with the five stage model set out in IFRS 15 Revenue from contracts with customers. This is a framework to establish the timing and value of revenue recognised within the accounts; revenue is either recognised 'at a point in time' or 'over time' depending on the assessment of criteria within the framework.

Significant judgements are required to assess the timing of revenue recognition based on the satisfaction of performance obligations. A performance obligation is a promise to deliver a good or service (or series of substantially the same good or service). In determining whether a performance obligation is met and whether income is recognised over time a set of criteria has been established which considers the following;

- whether any contract asset has an alternate use to Defra,
- the control of the customer over any asset created,
- whether the benefit to the customer is received and consumed simultaneously.

The transaction price is the amount that Defra expects to receive for the goods and services provided and is determined in accordance with Managing Public Money[42] and for sales of goods will be transacted at the value agreed on the invoice. Fees and Charges will be established either by the Secretary of State or by an entity's board. The department considers the impact of any variable consideration within a contract including any significant financing component and any non-cash consideration, however, this is not generally relevant to contracts within the group.

Further details can be found in Note 4.1.

EU funding, most significantly relating to RPA scheme payments, is the biggest constituent of income (see Notes 1.5.1 and 1.5.2).

Accrued income may involve a greater element of judgement, requiring management to make an estimate of the amount accruing to the department based on the information they hold at that point in time (for example, accruing for the value of work completed but not yet invoiced).

Within receivables and payables there are accrued and deferred income balances for EA's fees and charges representing previous surpluses or deficits of income compared to expenditure. Charging schemes are required to recover full costs over a reasonable period of time and judgement is required in assessing the factors behind whether the surplus or deficit will result in a full cost recovery position over this reasonable period.

Flood Re's insurance income is accounted through IFRS 4 (Insurance Contracts). This includes:

- Gross written premiums are earned on a pro rata basis over the term of the underlying insurance contract as a proxy to the underlying risk.

- Ceded premiums, which comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts.

- Fee and commission income consists entirely of commissions receivable on ceded reinsurance contracts.

[42] https://www.gov.uk/government/publications/managing-public-money

- Commission income varies with, and is directly related to, the underlying reinsurance contracts.

See Flood Re's ARA for more details.

1.14 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, and short term investments that are cancellable on demand.

The EA holds amounts within the Government Banking Service (GBS) and in escrow accounts as security for permitting deposits which are permits issued for landfill sites, dredging lagoons, mining waste and hazardous waste facilities. These are recognised as cash and cash equivalents as, although they require an environmental incident under section 57 The Environmental Permitting (England and Wales) Regulations 2016 to be utilised, they meet the definition of cash under IAS 7. On the occurrence of an environmental incident, funds would be withdrawn from demand accounts and recognised as income in line with IFRS15 as remedial actions are completed. The amounts held reduce over the life of the closure period of the sites, reducing each year as the obligations of the permit holder decrease. The deposits are held purely as security and on completion of obligations under site closure plans, are repayable to the permit holder. Interest earned on deposits in the accounts is payable to the permit holder. The corresponding liability is included within Note 12.

1.15 Grant-in-Aid Funding

Grant-in-aid from the Core department to non-departmental public bodies (NDPBs), both in respect of capital and revenue expenditure, is recognised in the period that the payment is made. In the Core department, Grant-in Aid is recognised as expenditure and within the NDPBs as funding. Grant-in-Aid is eliminated within the group account.

1.16 Expenditure

Expenditure is recognised on an accruals basis.

Expenditure is recognised when the department has an unconditional obligation to settle an agreed amount, either contractually or by another form of mutual agreement.

Where the EA undertakes works which are capital in nature but will not itself receive direct future economic benefits (although the work will reduce national flood risk) or 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 (Note 3.1). Further details can be found in EA's Annual Report and Accounts.

Gross insurance claims expenses, relating to Flood Re, are based on the estimated liability for compensation owed to contract holders. Claims include all insurance claims occurring during the year, an estimate of claims incurred but not reported and any adjustments to claims outstanding from previous years.

A significant period of time can elapse before the ultimate claims cost can be established with certainty. The ultimate liability for claims made under insurance contracts is estimated using standard actuarial techniques, based on empirical data and current assumptions. Estimation of the ultimate cost of losses resulting from catastrophic flood events is inherently difficult, due to the possible severity of catastrophe claims.

Flood Re has a high dependency on its outwards reinsurance programme. The ceded premium is recognised on the date that the policy incepts and is earned in line with the underlying risk. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are deferred to subsequent accounting periods.

As indicated above, Flood Re's insurance claim expense (and related reinsurance claim income) is related to the severity of flood events, and therefore may be subject to considerable fluctuation.

Further details of the accounting policies relating to Flood Re can be found in Note 2 and 4 of Flood Re's Annual Report and Accounts.

1.17 Foreign Currency Transactions

The functional and presentational currency of the department is sterling.

Transactions in foreign currencies, mainly relating to the BPS and RDPE, are translated into sterling using the appropriate exchange rate. Balances held in foreign currencies are translated at the rate of exchange at the date of the SoFP.

Exchange differences are recognised in the SoCNE in the period in which they arise.

1.18 Financial Instruments

These comprise financial assets and financial liabilities. See Notes 9, 10, 11 and 12 for details of financial instruments.

1.18.1 Financial Assets

Financial assets are categorised according to the entity's business model for managing the asset and the asset's contractual cash flow characteristics. This could be either collecting the contractual cash flows, selling the financial assets, or both, and contractual cash flows' characteristics test (or Solely Payments of Principal and Interest (SPPI) – Test). This considers whether cash flows are consistent with a basic loan arrangement (i.e. repayments of principal and interest on agreed dates).

The Financial Assets are then categorised as one of the three groups:

Amortised Cost

Loans and Investments are initially held at fair value plus transaction cost, then at amortised cost. Trade and other receivables are also measured at amortised cost, which is generally invoiced value, as these are generally short term in nature. Trade and other receivables include accrued income that does not meet the definition of financial instruments.

Flood Re's short term investments with a duration of greater than three months are classified as other financial assets in Note 11. These are initially held at fair value and then measured at amortised cost using the Effective Interest Rate (EIR) Method and are subject to impairment. (See Flood Re's Annual Report and Accounts Note 2.7).

Fair Value through Profit and Loss (FVTPL).

Derivative financial instruments held for trading are valued at FVTPL, with changes in fair value recorded against expenditure.

Fair Value through Other Comprehensive Income (FVOCI).

The Eco Business Fund and Land Degradation Neutrality Fund investments, forming part of the department's official development assistance spend, are classified at FVOCI, as are derivative instruments in designated hedging relationships.

1.18.2 Financial Liabilities

These comprise trade and other payables and other financial liabilities (including derivatives). They are initially recognised at fair value and are subsequently measured at amortised cost. Trade and Other Payables includes accrued expenses that do not meet the definition of financial instruments.

EA recognises financial liabilities relating to operating agreements with a number of water companies entered into at their privatisation. These liabilities are treated as perpetuities and recorded in the SoFP at amortised cost using the effective interest rate method. The annual payments arising from these liabilities increase annually in line with the RPI.

Promissory Notes payable have been classified as financial liabilities measured at amortised cost. They are carried as current liabilities in the Consolidated SoFP, and by law are payable on demand. In practice drawdown of the department's promissory notes is dependent upon the fulfilment of agreed criteria. Note 12 provides an analysis of the expected maturity profile of payments against promissory notes in future years.

Contract liabilities are measured at amortised cost, which is the invoiced amount payable.

1.18.3 Derivative Financial Instruments

RPA enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting period date. The resulting gain or loss is recognised in the SoCNE immediately.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset or current liability if the remaining maturity of the instrument is less than 12 months or is greater than 12 months but is expected to be realised or settled within 12 months. RPA does not trade derivative arrangements for speculative purposes.

1.19 Pensions

Generally, pension benefits are provided through the Civil Service pension arrangements, full details of which can be found in the Remuneration Report.

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

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

1.20 Provisions

The department recognises a provision where it has a present obligation as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where material, future costs have been discounted using the rates as directed by HM Treasury.

The material provisions disclosed by the department include legacy liabilities relating to abandoned metal mines and foot and mouth disease (FMD) burial sites, and Disallowance Payments to the EU, where the timing and the value is subject to uncertainty. Details of the department's policy on disallowance provisions can be found in Chapter 3.

Some of Flood Re's insurance claims liabilities are subject to uncertainty in value and details are disclosed in these accounts in the section in Note 15.4 on Flood Re Insurance Provision. See Note 15 for full details of all material provisions, including key management judgements and disclosures around estimation uncertainty.

1.21 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, the department discloses, for parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote. Further information is provided in the Remote Contingent Liabilities section in Chapter 6.
Where the time value of money is material, contingent liabilities are stated at discounted amounts.

1.22 Impending Application of Newly Issued Accounting Standards Not Yet Effective

IFRS 17 – Insurance Contracts

IFRS 17 will apply to all types of insurance and reinsurance contracts and proposes an approach to measuring insurance contract liabilities that is based on the expected present value of future cash flows. It is being applied by HM Treasury in the FReM from 1 April 2025 (with limited options for early adoption). The Department is not adopting the standard early and therefore, the Consolidated Annual Report and Accounts will be prepared in accordance with IFRS 4 until 1 April 2025.

The impact of IFRS 17 within the consolidated ARA is still being assessed. However, early indications suggest that the material impact will relate to Flood Re's activities and the arrangements relating to the Thames Tideway Tunnel.

However, Flood Re will apply IFRS 17 for the first time in their Annual Report and Accounts for the period ended 31 March 2024, including full retrospective adoption to the restatement of results of prior period balances. The adoption of IFRS 17 is anticipated to have a material impact on the Flood Re's Financial Statements and disclosures. Flood Re will also prepare statements for consolidation into the department's financial statements in accordance with IFRS4 Insurance Contracts.

The standard brings significant change to the accounting treatment of reinsurance inwards and reinsurance outwards contracts cash flows, which is expected to have a material impact on the financial statements on initial recognition.

The amounts recognised in the Statement of Comprehensive Net Expenditure will be disaggregated into:

- An insurance service result, comprising insurance revenue and insurance service expenses.
- Insurance finance income or expenses.

Income or expenses from reinsurance contracts held will be presented separately from the expenses or income from insurance contracts issued.

1.23 Changes to Accounting Policies

The departmental group, except for Flood Re and Livestock Information Ltd who adopted in 2019, has adopted IFRS 16 'Leases' from 1 April 2022. IFRS 16 supersedes IAS 17 'Leases'. RBG Kew and the National Forest Company (NFC) are consolidated on an IFRS 16 basis, however, as Charities preparing accounts under FRS 102 Statement of Recommended Practice, Accounting and Reporting by Charities (SORP) there is no current requirement for them to implement IFRS16 when preparing their own accounts.

Further details of the departmental group accounting policies are contained in Note 1.9 above.

All other accounting policies are unchanged compared to those in the 2021-22 departmental group financial statements.

1.24 Adoption of new and revised standards

The departmental group has adopted IFRS 16 in relation to Leases, at the date of authorisation of these financial statements no other new standards have become effective and been adopted.

2 Statement of Operating Costs by Operating Segment

The segmental analysis detailed below covers the key spending areas of the department and is aligned with the internal reporting to the Defra board and Executive Committee. Defra reports regularly on this basis and performance is monitored against these areas. The reportable segments are split by the Core department director general structure. Where a reportable segment's revenue is 10 per cent or less of the combined revenue of all operating segments, they have been grouped together.

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

In 2022-23, Defra received funding of £240 million from the EU, 18 per cent of its income (2021-22 £486 million, 33 per cent). The majority of this falls to the RPA and Core department. This is in respect of rural development schemes for Defra and the other UK paying agencies where reimbursement, against existing budgets, can still be sought under the Common Agricultural Policy (CAP). The decrease in income is as a result of previous CAP funding for direct aid measures, principally the BPS, switching to being funded by the UK government following the UK's departure from the EU. Of the remaining income Defra does not rely on any one major customer.

			2022-23			2021-22
	Gross Expenditure	**Gross Income**	**Net Total**	Gross Expenditure	Gross Income	Net Total
	£000	£000	£000	£000	£000	£000
Director General Budget Area						
Group Corporate Services including centrally held budgets*	206,050	(12,864)	193,186	416,184	(26,059)	390,125
Environment, Rural and Marine including ALB's**	2,888,141	(906,458)	1,981,683	3,442,651	(843,530)	2,599,121
Food, Farming and Biosecurity including ALB's***	3,129,018	(389,583)	2,739,435	3,184,487	(618,113)	2,566,374
Other including International and Borders and Strategy and Change	229,532	(296)	229,236	186,283	(458)	185,825
Total	**6,452,741**	**(1,309,201)**	**5,143,540**	7,229,605	(1,488,160)	5,741,445

*Includes CAP Disallowance.
**Includes ALB's Consumer Council for Water (CCW), Centre for Environment, Fisheries and Aquaculture Science (Cefas), EA, FC, Flood Re, Joint Nature Conservation Committee (JNCC), Marine Management Organisation (MMO), NE, NFC, Office for Environmental Protection (OEP), RBG Kew and Sea Fish Industry Authority (SFIA).
*** Includes ALB's Agriculture and Horticulture Development Board (AHDB), APHA, RPA and Veterinary Medicines Directorate (VMD).

3 Expenditure

3.1 Staff and other Costs

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Staff Costs				
Wages and salaries	588,444	1,215,280	569,820	1,073,335
Social security costs	57,044	126,778	47,730	107,861
Pension costs	129,588	169,443	115,503	149,571
Other Costs				
Rentals under operating leases	-	-	17,543	34,389
Travel, subsistence and hospitality	20,499	37,228	8,984	15,094
Research and development expenditure	110,967	138,871	56,774	88,797
Veterinarian costs	48,630	48,630	33,590	33,590
Consumables	25,233	39,303	24,739	41,528
IT service costs	259,123	334,309	172,991	236,543
Vessels	6,916	6,916	5,143	5,143
Estate management	110,683	154,604	89,448	122,060
Consultancy	29,159	127,565	26,973	41,944
Hired and contracted services	61,799	215,798	33,109	151,264
Training	9,004	20,868	6,246	15,787
Publicity, marketing and promotion	1,073	18,047	675	14,813
Office services	43,542	44,283	35,859	36,483
Early retirement	49	333	9	636
Exchange rate (gains)/losses - realised	505	530	(1,555)	(1,552)
NAO auditors' remuneration	508	1,079	393	851
Flood Re statutory audit fee	-	377	-	336
Other audit fees	1,995	2,140	2,153	2,306
Internal audit fees	2,427	3,427	1,128	1,778
Flood and coastal defence works	-	304,578	-	523,867
Operational maintenance	-	15,928	-	16,640
Fees and commissions	18,724	51,300	16,541	46,421
Reservoir operating agreements	-	58,013	-	57,559
Transport and plant costs	-	25,774	-	22,344
EU disallowance	1,771	1,771	175	175
Forestry Commission subsidy to Forestry England	20,427	20,427	18,206	18,206
Corporation tax paid by NDPBs	-	20,966	-	25,068
Flood Re reinsurance expenditure	-	72,769	-	66,424
International subscriptions	64,382	64,468	51,105	51,172
Credit losses	(1,195)	1,574	(66)	(2,188)
Expense related to short-term leases	3,197	8,603	-	-
Expense related to low-value asset leases (excluding short term leases)	-	14	-	-
Other	37,454	124,560	50,902	135,904
Total	**1,651,948**	**3,476,554**	1,384,118	3,134,149

For more detailed disclosures regarding staff costs, see the Staff Report in Chapter 5.

The Core department figures for NAO auditors' remuneration include cash fees for EA and NE which form part of the corporate services finance charge within their own ARAs.

The 2022-23 NAO auditors' remuneration includes £4,000 relating to the 2021-22 audit of OEP.

3.2 Non-cash items

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Depreciation	35,811	131,218	37,596	138,006
Depreciation on Right of Use Assets	30,506	44,491	-	-
Amortisation	31,103	59,393	26,563	52,520
Profit on the disposal of PPE and financial investments	(52)	(598)	(60)	117
Loss on the disposal of PPE and financial investments	(2,214)	19,139	2,892	22,031
Impairment on non financial assets	(2,685)	8,670	8,993	58,769
Exchange rate (gains)/losses - unrealised	(43)	(43)	(10)	(49)
NAO auditors' remuneration	1,211	1,211	1,165	1,165
Pensions provided for in year/ (written back)	3,301	220,558	3,188	234,073
Other provisions provided for/ (written back) as detailed in note 15	(481,633)	(411,464)	433,129	461,156
Utilisation of capital provision	(485)	(485)	(418)	(418)
Unwinding of discount on provisions	6,087	6,087	6,563	6,563
Capital grant-in-kind	135	135	-	-
Notional recharges and other non-cash items	(43,697)	(5)	(39,247)	-
Total	**(422,655)**	**78,307**	480,354	973,933

The 2022-23 NAO auditors' remuneration stated above includes £9,000 relating to the 2021-22 audit of VMD.

3.3 Grants and subsidies

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Grants and subsidies: EU				
Current grants - Basic Payment Scheme	(264)	(264)	(1,163)	(1,163)
Current grants - Rural Development Programme for England	135,019	135,019	299,588	299,588
Current grants - payments to other paying agencies	99,721	99,721	165,714	165,714
Other EU current grants	1,146	1,146	6,039	6,039
Unrealised (gains)/losses	(1,214)	(1,214)	3,697	3,697
Grants and subsidies: other				
Capital grants	330,417	495,723	220,422	436,948
Current grants - Grant-in-Aid to NDPBs	1,604,330	-	1,474,209	-
Current grants - Rural Development Programme for England	131,494	131,494	60,248	60,248
Current grants - BPS Exchequer funded	1,369,142	1,369,142	1,650,200	1,650,200
Current grants - Other RPA schemes	213,840	213,840	73,129	73,129
Current grants - Canal and River Trust	52,623	52,623	52,623	52,623
Current grants - South West Water Customer Rebate Scheme	40,300	40,300	39,513	39,513
Current grants - TB Compensation Scheme	29,268	29,268	34,709	34,709
Grants to national parks	53,166	53,166	48,675	48,675
Waste Infrastructure Grants to local authorities	87,459	87,459	88,634	88,634
Other grants to local authorities	98,414	106,558	69,777	77,072
Other current grants and subsidies	86,319	83,899	89,784	85,897
Total	**4,331,180**	**2,897,880**	4,375,798	3,121,523

4 Income – Analysis of Operating Income

4.1 Analysis of revenue from contracts with customers

							2022-23
	Core Department	Rural Payments Agency	Other Agencies	Core Department and Agencies	Environment Agency	Other Non-Departmental Public Bodies	Defra Group
	£000	£000	£000	£000	£000	£000	£000
Sales of goods and services							
Scientific advice, analysis and research	-	-	28,675	**28,675**	-	1,683	**30,358**
Animal disease surveillance and diagnostics	-	-	9,017	**9,017**	-	-	**9,017**
Veterinary research and development	-	-	1,696	**1,696**	-	-	**1,696**
Scientific products	-	-	1,602	**1,602**	-	-	**1,602**
Provision of corporate services (outside Defra group)	-	-	214	**214**	-	-	**214**
TB Compensation salvage receipts	9,999	-	199	**10,198**	-	-	**10,198**
Sale of other goods	7,052	-	289	**7,341**	-	31,084	**38,425**
Other services (including Defra group)	2,059	418	4,194	**6,671**	4,914	(6,011)	**5,574**
Fees, levies and charges							
Veterinary medicines authorisations	-	-	7,501	**7,501**	-	-	**7,501**
Veterinary medicine residues surveillance	-	-	4,142	**4,142**	-	-	**4,142**
Plant health inspections and seeds charges	-	-	12,545	**12,545**	-	-	**12,545**
Environmental protection charges	-	-	-	**-**	196,506	-	**196,506**
Abstraction charges	-	-	-	**-**	167,088	-	**167,088**
Flood risk levies	-	-	-	**-**	39,495	-	**39,495**
Flood Re Levy Income	-	-	-	**-**	-	135,000	**135,000**
Agriculture and horticulture levies	-	-	-	**-**	-	42,150	**42,150**
Sea Fish industry levies	-	-	-	**-**	-	7,153	**7,153**
Discretionary Advice	-	-	-	**-**	-	2,412	**2,412**
Other fees, levies and charges	-	-	2,445	**2,445**	-	1,440	**3,885**
EU income	-	-	1,518	**1,518**	-	-	**1,518**
Licences							
Fishing licence duties	-	-	-	**-**	21,201	-	**21,201**
Navigation licence income	-	-	-	**-**	9,789	-	**9,789**
Other licences	7,060	-	-	**7,060**	-	3,389	**10,449**
Other Income							
Capital grant income	-	2,824	-	**2,824**	28,709	(8,783)	**22,750**
Other grant income	-	-	-	**-**	-	749	**749**

							2022-23
	Core Department	**Rural Payments Agency**	**Other Agencies**	**Core Department and Agencies**	**Environment Agency**	**Other Non-Departmental Public Bodies**	**Defra Group**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Recoveries for secondments outside Defra group	1,328	-	-	**1,328**	-	1,494	**2,822**
APHA income from devolved administrations	-	-	43,366	**43,366**	-	-	**43,366**
Other Income	95	(55)	760	**800**	-	512	**1,312**
Total income from contracts with customers	**27,593**	**3,187**	**118,163**	**148,943**	**467,702**	**212,272**	**828,917**

							2021-22
	Core Department	Rural Payments Agency	Other Agencies	Core Department and Agencies	Environment Agency	Other Non-Departmental Public Bodies	Defra Group
	£000	£000	£000	£000	£000	£000	£000
Sales of goods and services							
Scientific advice, analysis and research	-	-	27,646	27,646	-	1,647	29,293
Animal disease surveillance and diagnostics	-	-	8,798	8,798	-	-	8,798
Veterinary research and development	-	-	727	727	-	-	727
Scientific products	-	-	1,620	1,620	-	-	1,620
Provision of corporate services (outside Defra group)	-	-	300	300	-	-	300
TB Compensation salvage receipts	10,366	-	517	10,883	-	-	10,883
Sale of other goods	18,141	-	-	18,141	-	4,471	22,612
Other services (including Defra group)	24,867	361	1,848	27,076	-	(41,914)	(14,838)
Fees, levies and charges							
Veterinary medicines authorisations	-	-	6,266	6,266	-	-	6,266
Veterinary medicine residues surveillance	-	-	3,790	3,790	-	-	3,790
Plant health inspections and seeds charges	-	-	12,718	12,718	-	-	12,718
Environmental protection charges	-	-	-	-	198,014	-	198,014
Abstraction charges	-	-	-	-	118,967	-	118,967
Flood risk levies	-	-	-	-	43,452	-	43,452
Flood Re Levy Income	-	-	-	-	-	180,000	180,000
Agriculture and horticulture levies	-	-	-	-	-	50,263	50,263

2021-22

	Core Department	Rural Payments Agency	Other Agencies	Core Department and Agencies	Environment Agency	Other Non-Departmental Public Bodies	Defra Group
	£000	£000	£000	£000	£000	£000	£000
Sea Fish industry levies	-	-	-	-	-	7,641	7,641
Discretionary Advice	-	-	-	-	-	3,231	3,231
Other fees, levies and charges	-	-	2,881	2,881	-	1,581	4,462
EU income	-	-	1,436	1,436	-	-	1,436
Licences							
Fishing licence duties	-	-	-	-	22,028	-	22,028
Navigation licence income	-	-	-	-	9,639	-	9,639
Other licences	5,970	-	-	5,970	-	3,522	9,492
Other Income							
Capital grant income	-	2,220	-	2,220	22,435	-	24,655
Other grant income	-	-	-	-	-	46	46
Recoveries for secondments outside Defra group	784	-	67	851	-	1,853	2,704
APHA income from devolved administrations	-	-	36,664	36,664	-	-	36,664
Other Income	131	-	527	658	-	721	1,379
Total income from contracts with customers	60,259	2,581	105,805	168,645	414,535	213,062	796,242

Material income streams disclosed in accordance with IFRS 15 Contracts with Customers are determined as detailed in the table below:

Contract Type	Note 4 Headings	Entity Impacted	Categories of Performance Obligation	Basis of Recognition
Fees and Charges (for Environmental protection and water abstraction).	Environmental Protection Charges, Abstraction Charges.	EA	EA issues licences and permits and imposes levies.	The licence or permit revenue is recognised at the time of application and regulatory charge recognised at the point the permit commences.
Statutory Levy.	Flood Re Levy Income and Agriculture and Horticulture Levies.	Flood Re	Statute requires that the bodies charge levies.	Flood Re Levy is required by statute and has no associated performance obligation and is recognised on the 1 April each year with payment received quarterly.

Contract Type	Note 4 Headings	Entity Impacted	Categories of Performance Obligation	Basis of Recognition
		AHDB		AHDB levies are recognised over time as the levies fund services provided to levy payers throughout the year.
Flood Risk Levies.	Flood Risk Levies.	EA	Construction and Maintenance of new and existing flood defences.	Costs and revenues are matched over time.
Capital Works Expensed in Year Income.	Capital Grant Income.	EA	Construction and Maintenance of new and existing flood defences.	Income recognition is based on individual legally binding agreements and the completion of performance obligations.
Environmental Services.	Other Services.	NE	Receipts from developers for the purchase of nutrient pollution credits to mitigate for the development's nutrient pollution.	Costs and revenue are recognised over time.
Environmental Services.	Other Goods.	NE	Receipts from developers for Great Crested Newt District Level Licensing. Revenue is for the creation and maintenance of ponds over a 25 year period.	Costs and revenue are recognised over time.
Scientific Project Income.	Scientific advice, analysis and research.	APHA	Production of a report (Performance obligations are contracted milestones within the process).	Costs and revenues are matched over time.

Contract Type	Note 4 Headings	Entity Impacted	Categories of Performance Obligation	Basis of Recognition
Scientific Project Income.	Scientific advice, analysis and research.	CEFAS	Production of a report (Performance obligations are contracted milestones within the process).	Project income is generally recognised at the completion of a contracted milestone on the basis that the contract will specify whether money spent to a determined date or deliverable can be recovered from the the customer prior to the completion of the project.
Customer Board Reports.	APHA Income from Devolved Administrations.	APHA	Production of a report for the Customer Boards of the Welsh Government and Scottish Government.	Costs and revenues are matched over time.

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period is:

	2022-23
	£000
Flood Risk Management Charges	100,863
Water Abstraction Charges*	-
Environmental Protection Charges	2,507

*Water abstraction charges has reduced to zero as EA have satisfied more performance obligations than they were able to recover in charges.

Flood risk management chiefly involves the construction and maintenance of new and existing flood defences.

4.2 Analysis of Other Operating Income

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Goods and services				
Veterinary research and development	755	755	378	378
Covent Garden Market income	2,030	2,030	2,030	2,030
Other services	67,857	29,357	10,554	48,689
Income payable to the consolidated fund	7,829	8,272	3,430	3,430
EU Income				
Basic Payment Scheme	(327)	(327)	(794)	(794)
Income payable to other paying agencies	99,642	99,642	166,085	166,085
Structural fund / RDPE income	135,019	135,019	299,615	299,615
Current grant income - EU	(1,797)	3,471	7,122	19,330
Other EU Income	(10)	1,126	(442)	(46)
Other Income				
Flood Re insurance income	-	97,040	-	68,410
Lease income	-	60	-	26
Sub-leasing income	1,876	1,892	-	-
Charity income	-	64,175	-	59,364
Lottery Grant Income	-	2,422	-	3,654
Other interest receivable	-	16,134	-	346
Current grant income - non EU	7,398	13,133	5,941	18,117
Capital grant income - non EU	88	3,310	-	235
Other income	2,773	2,773	3,049	3,049
Total other operating income	**323,133**	**480,284**	496,968	691,918

5 Property, Plant and Equipment

5.1 Non-Current – Defra Group

	Land	Buildings Excluding Dwellings	Dwellings	Infrastructure Assets - Operational	Infrastructure Assets - Land	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation											
At 1 April 2022	90,327	476,243	14,125	6,344,007	356,343	109,224	91,954	154,682	78,451	484,501	8,199,857
Reclassified to Right of Use asset	(1,827)	(5,513)	-	(54)	(1,790)	(30,454)	-	-	-	-	(39,638)
Adjusted opening balance 1 April 2022	88,500	470,730	14,125	6,343,953	354,553	78,770	91,954	154,682	78,451	484,501	8,160,219
Additions	10,500	4,914	-	-	-	1,120	6,212	14,245	2,512	304,286	343,789
Transfers	-	6,155	-	-	-	-	-	2,559	(4)	(8,904)	(194)
Disposals	(121)	(892)	-	(55,471)	(232)	(4,013)	(8,293)	(5,724)	(3,814)	2,334	(76,226)
Impairment	320	5,026	16	-	(1,979)	(16,382)	-	(4)	-	(7,487)	(20,490)
Reclassifications	1,464	80,168	2,285	2,599	(81,685)	(429)	15,795	19,988	(869)	(35,769)	3,547
Reclassified as held for sale	(415)	142	(75)	-	(634)	-	-	-	-	-	(982)
Revaluation	812	43,382	1,273	678,781	62,947	3,039	9,497	15,226	7,485	-	822,442
Impact of transition to DRC	-	-	-	16,408,575	-	-	-	-	-	-	16,408,575
At 31 March 2023	**101,060**	**609,625**	**17,624**	**23,378,437**	**332,970**	**62,105**	**115,165**	**200,972**	**83,761**	**738,961**	**25,640,680**
Depreciation											
At 1 April 2022	-	104,834	7,490	3,467,292	-	73,704	57,909	100,248	53,189	-	3,864,666
Reclassified to Right of Use asset	-	(3,092)	-	(332)	-	(10,559)	-	-	-	-	(13,983)
Adjusted opening balance 1 April 2022	-	101,742	7,490	3,466,960	-	63,145	57,909	100,248	53,189	-	3,850,683
Charges in year	-	17,085	435	73,771	-	8,712	7,151	10,884	7,696	-	125,734
Transfers	-	-	-	-	-	-	-	-	(4)	-	(4)
Disposals	-	(391)	-	(37,617)	-	(3,610)	(7,253)	(5,569)	(3,472)	-	(57,912)
Impairment	-	789	-	-	-	(16,109)	(611)	(9)	-	-	(15,940)
Reclassifications	-	15,253	1,339	(24,284)	-	(2,538)	6,810	7,267	(4)	-	3,843
Revaluation	-	12,914	539	424,708	-	2,197	5,453	7,488	4,234	-	457,533
Impact of transition to DRC	-	-	-	9,868,815	-	-	-	-	-	-	9,868,815
At 31 March 2023	**-**	**147,392**	**9,803**	**13,772,353**	**-**	**51,797**	**69,459**	**120,309**	**61,639**	**-**	**14,232,752**
Net book value 31 March 2023	**101,060**	**462,233**	**7,821**	**9,606,084**	**332,970**	**10,308**	**45,706**	**80,663**	**22,122**	**738,961**	**11,407,928**
Net book value 31 March 2022	90,327	371,409	6,635	2,876,715	356,343	35,520	34,045	54,434	25,262	484,501	4,335,191

	Land	Buildings Excluding Dwellings	Dwellings	Infrastructure Assets - Operational	Infrastructure Assets - Land	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Assets financing											
Owned	101,060	462,233	7,821	9,606,084	332,970	8,268	45,706	80,663	22,122	738,961	11,405,888
Finance leased	-	-	-	-	-	2,040	-	-	-	-	2,040
Net book value 31 March 2023	**101,060**	**462,233**	**7,821**	**9,606,084**	**332,970**	**10,308**	**45,706**	**80,663**	**22,122**	**738,961**	**11,407,928**
Of which:											
Core department and agencies	32,584	307,146	-	-	-	5,371	14,282	33,871	494	146,968	540,716
NDPBs	68,476	155,087	7,821	9,606,084	332,970	4,937	31,424	46,792	21,628	591,993	10,867,212
Total	**101,060**	**462,233**	**7,821**	**9,606,084**	**332,970**	**10,308**	**45,706**	**80,663**	**22,122**	**738,961**	**11,407,928**

Plant and machinery includes vessels owned by Cefas with a net book value of £5.4 million (2021-22, £5.8 million). Infrastructure assets include flood defences owned by EA, including the Thames Barrier with a net book value of £1,483 million (2021–22, £1,387 million). Additions include a non-cash element represented by payables and transfers. During 2022-23 EA conducted a revaluation of operational assets using the DRC method, the opening balances have not been restated and these remain as the values using the modified historic cost method as at 31 March 2022. The infrastructure assets have been represented between operational and land. The impact of the transition to DRC in 2022-23 is reflected in the revaluation and depreciation values within the Infrastructure assets (further details can be found in EA's Annual Report and Accounts).

	Land	Buildings Excluding Dwellings	Dwellings	Infrastructure Assets - operational	Infrastructure Assets - land	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation											
At 1 April 2021	80,177	370,407	27,728	5,213,370	427,593	106,655	78,125	143,298	71,461	414,940	6,933,754
Additions	2,661	1,358	-	-	-	16,255	5,563	10,909	10,492	179,467	226,705
Transfers	(84)	4,871	-	-	-	6	(230)	684	-	(22,247)	(17,000)
Disposals	(40)	(1,505)	-	(34,104)	(2,189)	(12,892)	(5,611)	(4,498)	(5,275)	(2,334)	(68,448)
Impairment	(1,562)	(15,087)	395	(5,320)	(12,003)	(2)	(245)	(1)	-	(2,378)	(36,203)
Reclassifications	(1,186)	82,311	(15,395)	148,914	(96,881)	(444)	13,399	(1,007)	(223)	(82,947)	46,541
Reclassified as held for sale	223	213	96	-	(634)	-	-	-	-	-	(102)
Revaluation	10,138	33,675	1,301	1,021,147	40,457	(354)	953	5,297	2,000	-	1,114,614
At 31 March 2022	90,327	476,243	14,125	6,344,007	356,343	109,224	91,954	154,682	78,455	484,501	8,199,861
Depreciation											
At 1 April 2021	-	78,536	12,697	2,884,043	-	67,194	51,093	92,354	49,239	-	3,235,156
Charges in year	-	15,292	809	70,834	-	17,755	6,910	10,807	8,723	-	131,130
Transfers	-	(151)	-	-	-	-	(231)	(1,189)	-	-	(1,571)
Disposals	-	(464)	(6)	(22,470)	-	(11,075)	(5,613)	(3,880)	(4,751)	-	(48,259)
Impairment	-	147	-	(295)	-	67	575	262	-	-	756
Reclassifications	-	9,101	(5,070)	(6,645)	-	(193)	3,786	(978)	-	-	1
Revaluation	-	2,373	(940)	541,825	-	(44)	1,389	2,872	(18)	-	547,457
At 31 March 2022	-	104,834	7,490	3,467,292	-	73,704	57,909	100,248	53,193	-	3,864,670
Net book value 31 March 2022	90,327	371,409	6,635	2,876,715	356,343	35,520	34,045	54,434	25,262	484,501	4,335,191
Net book value 31 March 2021	80,177	291,871	15,031	2,329,327	427,593	39,461	27,032	50,944	22,222	414,940	3,698,598
Assets financing											
Owned	90,327	370,696	6,635	2,876,715	356,343	12,717	34,045	54,434	25,262	484,501	4,311,675
Finance leased	-	713	-	-	-	22,803	-	-	-	-	23,516
Net book value 31 March 2022	90,327	371,409	6,635	2,876,715	356,343	35,520	34,045	54,434	25,262	484,501	4,335,191
Of which:											
Core department and agencies	31,830	259,865	-	-	-	25,083	17,219	23,093	357	114,875	472,322
NDPBs	58,497	111,544	6,635	2,876,715	356,343	10,437	16,826	31,341	24,905	369,626	3,862,869
Total	90,327	371,409	6,635	2,876,715	356,343	35,520	34,045	54,434	25,262	484,501	4,335,191

Impact of transition to DRC

The government's financial reporting manual requires relatively specialised asset held for their service potential – including networked assets – to be accounted for at Depreciated Replacement Cost (DRC) to give the most appropriate valuation. During the year the Environment Agency (EA) has transitioned from valuing operational assets using the Modified Historic Cost (MHC) method to the Depreciated Replacement Cost method. In readiness for the transition to DRC, the EA has taken steps to significantly improve the reliability of source data on its asset base, especially in respect of its completeness. This has led to the recognition of assets for which the EA has taken control and responsibility, but which were not previously valued under MHC as the EA neither purchased nor built them.

The impact of transition to DRC under cost shows the adjustment from the gross book value as at the 31 March 2023, to the Modern Equivalent Asset Value (MEAV), i.e. the replacement cost of the asset portfolio based on modern equivalents. The impact of transition to DRC under depreciation shows the additional depreciation required to bring the MEAV down to the Depreciated Replacement Cost values as at the 31 March 2023. This ensures that the closing net book value of DRC assets reflects a replacement cost appropriately adjusted for the overall condition of the assets, which are part-way through their life.

As the transition to a DRC valuation was as at 31 March 2023, the opening balances are valued under MHC and are still subject to a qualified opinion based on the valuation approach not being in line with the financial reporting framework.

Operational assets includes a number of habitat creation schemes which remain valued using the Modified Historic Cost method (£64 million at 31 March 2023). Their primary purpose is to reduce the risk of flooding, but at the same time to enhance the natural habitat of the area and promote biodiversity. These are relatively recently constructed schemes and are not yet categorised as a separate asset type in the EA's asset management system, however in most cases conventional operational assets, such as outfalls, sluices and embankments have also been built on the site.

The number of schemes that use natural solutions to managing flood risk is expected to increase in the future and alternative valuation approaches may be worthy of review at future valuations.

Accounting convention:

The Environment Agency's tangible non-current assets fall into four categories:

Asset category	Accounting conventions
Operational assets	Valued using the depreciated replacement cost method
Land and buildings	Valued on an existing use value basis
Other property, plant and equipment	Valued using the modified historic cost method
Assets under construction	Valued at historic cost before they are capitalised and transferred to one of the categories above

The accounting policies for recognition, valuation and depreciation for each asset category is described below.

Operational assets

Operational assets are assets that directly enable the delivery of the primary outcomes of the EA. In-scope assets are specialised in nature and function for the delivery of these outcomes and, as such, are not likely to be available in the general marketplace. These assets include flood risk management assets such as control gates, flood gates, pumping stations and screens; water, land and biodiversity assets such as such as boreholes, gauging stations and weirs; and navigation assets such as locks.

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

1. Assets that are not EA owned or maintained (assets which the EA does not own but is responsible for keeping in good working condition and from which it receives economic benefit). These assets are not controlled by the EA, so do not meet the accounting test of providing economic value to the EA.
2. Assets where the MEAV is less than £5,000. This is the de-minimis criteria for inclusion in the valuation, even if the other criteria are met.
3. Assets where the useful economic life is less than 1 year.

EA had historically valued operational assets using the MHC method as a proxy for the DRC method, which was found not to be compliant with the Government's Financial Reporting Manual (FReM) and this led to a qualification of the accounts. In 2022-23, EA have implemented a DRC method, for the valuation of operational assets, which determines the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

Operational asset categories

The net book value of operational assets of £9.6 billion can be split into categories as follows:

- Structures: £4,014.6 million
- Defences: £2,191.5 million
- Channels: £946.4 million
- Thames Barrier and associated gates: £928.8 million
- Aids to navigation: £547.0 million
- Channel crossings: £386.7 million
- *Other: £342.7 million
- Buildings and compounds: £244.6 million

* Other includes beach structures (£135.3 million), MEICA (£124.8 million), habitat creation (£64.0 million) and instruments (£18.7 million).

Aids to Navigation

Assets that are used to aid navigation in the marine and fluvial environment. Included in this asset category are locks moorings, navigation booms and other navigational assets.

Buildings and Compounds

Assets that are used to provide shelter for equipment or storage. Included in this asset category are control buildings, pump houses, gauge station buildings and monitoring buildings.

Channel Crossings

Assets that allow access across a channel. Included in this asset category are bridges and utility service crossings.

Channels

Assets that convey water. Included in this asset category are simple and complex culverts.

Defences

Assets that provide flood defence or coastal protection functions. These include both man-made and natural defences. Natural defences may include man-made elements to make them more effective or protect them from erosion. Included in this asset category are embankments, walls, spillways, floodgates, quays and demountable defences.

Habitat Creation

Habitat involves the creation of ecosystems at localities where systems of that type either did not exist previously or, if they did, the modification to the area in the time since the previous occurrence is such that all continuity has been broken.

Instruments

Assets used to measure water level and flow. Included in this asset category is instrumentation, CCTV systems, and flood warning systems.

Mechanical, Electrical, Instrumentation, Control and Automation (MEICA)

Included in this asset category are Motor Control Centre Controls, High Voltage Electrical Equipment, and Pump Assemblies.

Structures

Assets used to enable, restrict or affect the movement of water, people, fish, animals or materials. Included in this asset category are control gates, weirs, outfalls, debris screens, fish passes and water distribution pipelines.

Measurement principles

For each asset type there is a measurement principle which aligns to the key cost drivers within each individual cost model used to provide the MEAV for each individual asset. These differ across the 69 asset types and within the asset categories.

The measurement rules are:
- Control Gates: m2 (cross-sectional area)
- Embankments: m3 (length, assuming 2 metre crest and 1:3 slope)
- Culverts: m (length based on varying cross-sectional sizes)
- Walls: m2 (facing area)
- Outfalls m2 (cross sectional area)
- Weirs: m (length)
- Lock: m3 (chamber volume)
- Bridge: m2 (deck area)
- Debris Scheme: m2
- Water Distribution Pipelines: m (length)

Thames Barrier and Associated Gates

The Thames Barrier is a retractable barrier system built to protect the floodplain of most of Greater London from exceptionally high tides and storm surges on the North Sea. The Associated Gates function in the same way as the Environment Agency's large tidal barriers and other complex defence structures.

As a bespoke asset with limited recent replacement cost information available, a specialised methodology was developed to value the Thames Barrier. The approach is to triangulate between indexed historical costs, a materials and quantities estimate, and international benchmarks. The valuation placed most weight on the materials and quantities estimate because this is where there was best available data to produce a DRC value to the Thames Barrier.

The valuation was based on:
- A high-level breakdown of the assets and dimensions of assets that comprise the Thames Barrier and are in scope of a DRC valuation.
- The best available data for the cost of replacing these assets. Due to the bespoke nature of the assets the availability of recent cost data associated with replacing or refurbishing components of the barrier is relatively limited. The sources of cost data for the Thames Barrier include:
    - market rates
    - adjusted cost models e.g. for the gates and piers
    - lump sum estimates provided by the EA experts – e.g. for replacement of the Higher Voltage / Low Voltage power assets
- The barrier has been depreciated using the same methods as explained below for all other operational assets. The majority of the value is in the gates and the piers and these have been depreciated based on an assessment of actual condition of these assets and application of EA's modelled deterioration curves for these assets and as also explained further in the section on civils deterioration curves.

A specific cost model was developed for the EA's tidal barrier control gates which was also applied to value the Associated Gates and also adjusted for use in the Thames Barrier valuation.

DRC valuation process:

- Capitalise assets at cost (AUC),
- Adjust for replacement cost, repeat annually,
- Apply depreciation, repeat annually,
- Review impairment, repeat annually,
- Derecognition.

Recognition and capitalisation policy

Operational assets are initially recognised in assets under construction at cost and are not depreciated. When the asset is fully operational, the cost is transferred to operational assets, it is depreciated and included in the valuation process until the time the asset is disposed of or decommissioned.

Capital expenditure is the money that we spend on acquiring, improving or renewing our assets. All direct construction costs are capitalised. Design costs that are directly attributable to an asset are also capitalised, including salaries when they are incurred as a result of staff spending time on capital projects and can be directly linked to bringing specific, separately identifiable assets into working condition or substantially enhancing the working life of an existing asset.

Revalue using DRC

The DRC method is a cost-based valuation approach applied for specialised and networked assets held for their service potential, where market comparators do not exist and/or would not be appropriate. It is the cost a company would need to spend today to replace the asset to deliver the same functionality, adjusted (depreciated) to reflect the level of physical, functional & economic deterioration of the current asset. The EA worked with Turner & Townsend and CBRE to develop a suite of valuation models in accordance with the guidance provided by FReM.

To meet the Red Book requirements for the final valuation CBRE, as the accredited valuer, has provided assurance that the DRC valuation is compliant with RICS standards. CBRE has also assured the overall methodologies, data strategy and the cost model methodologies against the relevant Red Book requirements and guidance.

The key steps and assumptions are summarised below.

Define Modern Equivalent Asset (MEA)

The EA's assets tend to be more bespoke assets necessary to deliver functional requirements, so MEA that is more based on like for like replacement than in other sectors' approaches. The EA has developed some MEA assumptions where assets can be more standardised, for buildings for example or because the valuation is based on using modern construction materials.

Create cost models

External cost consultants were commissioned to develop the cost models and in exceptional cases unit rates for the valuation. These models have been developed to reflect current design standards and modern materials, the source data and the processes for 'cleansing' of costs that do not align with DRC methodology arising from assumptions such as instant build, no financing and greenfield site.

Estimate MEAV

Every asset type then has a measurement rule which aligns to the key cost drivers within each individual cost model to calculate the MEAV for each asset in each asset type according to the attribute data for each asset (see descriptions for different categories including structures at the top of this note). Significant steps were taken during the valuation process to improve the level of actual attribute data available for the valuation. The valuation uses a mix of valuations driven by attribute data where the cost of an asset is significantly responsive to its dimensional extent (e.g. length / height) and, where supported by the EA technical experts, standardised measurements for the MEA design in other cases where there is limited sensitivity or potential for variance.

Where there remained gaps assumptions where made based on statistical analysis of the known data points.

Depreciation

In-year depreciation

Depreciation is calculated to apportion the value of operational assets over the expected useful economic life. Depreciation is charged in the month of capitalisation but not in the month of disposal. In year depreciation was straight line over the asset useful life. Additional depreciation was applied to bring the MEAV down to the DRC value at 31 March 2023.

Application of depreciation adjustment to the closing DRC model

As described above, the aim of a DRC valuation is to provide a current cost of asset replacement after an adjustment (depreciation) for physical, functional, or economic obsolescence of the actual asset as compared against the hypothetical as-new modern equivalent asset. The most significant factor for the EA's assets in terms of this adjustment is a physical deterioration associated with the assets being active over time.

To arrive at this adjustment, the DRC valuation applies one of three approaches (explained below) to arrive at a depreciation factor (a number between 0 and 1 by which the MEAV is multiplied to arrive at a DRC, with 0 being a fully depreciated asset and 1 being an as-new asset).

The approaches were developed according to the data available across the asset types to provide a best estimate.

1. Using inspection data either on asset condition or, in the case of MEICA assets, reliability to determine a point on a depreciation curve which models how assessed condition and reliability are expected from an engineering point of view to deteriorate over time, and therefore allow the existing inspection and other asset management information to be used to estimate how far the asset is expected to be through its useful life.

2. Applying straight line depreciation, with the depreciation factor calculated based on asset start date data and useful economic lives for the asset type. This approach is used as the basis of a best estimate where assets have not yet been included in the inspection regime so do not yet have sufficient data on asset condition to use the methods above.

Deterioration curve:

This method uses data routinely collected on asset condition and post inspection actions to estimate deterioration curves to calculate the asset's residual life. It has been applied to all civil assets where a suitable EA deterioration curve is available. For consistency within asset types the same depreciation method was used. The curves have been developed as a predictive tool for estimation of future asset condition and expected residual asset life, considering characteristics related to the:

- environment, whether the asset is located in a fluvial, tidal or coastal location
- asset age
- material type and construction
- past and intended (future) maintenance practices

Asset attribute data such as target condition, location and material type is used to select the relevant deterioration curve and the depreciation factor is calculated across this curve based on the actual recorded condition of the asset.

MEICA curve:

For MEICA assets, this method uses data from the EA's inspection regime to provide a depreciation factor. MEICA maintained flood and coastal risk management (FCRM) assets are routinely inspected for availability, i.e. will they operate and perform as intended when needed, and the outcomes are recorded for each element of the MEICA asset. These inspections assess:

- Likelihood of failure in the future (LOF): Unlikely, Possible, Likely, or Imminent.

- Time to repair if failure does occur (TTR): designated as Quick (2 days), Short (10 days), Medium (30 days), Long (70 days) or Very Long (180 days).

- Whether they fall below the target condition grade.

To use this data as the basis for a DRC valuation two residual life percentage matrix tables were developed; one for assets not below target condition and one for assets that are.

Straight line with residual balance:

Straight line depreciation with an estimated residual balance is used where assets have not yet been included in the inspection regime so do not yet have sufficient data on asset condition to use either deterioration curves or reliability data. The depreciation factor is calculated based on asset start date data with straight line depreciation calculated based on its' useful economic life.

Summary of key valuation assumptions

The valuation is based on the best available attribute data available at the valuation date. This includes data needed to derive for each individual asset the MEAV and depreciation factor applied to derive the DRC for each asset. This included an exercise during the valuation to improve the level data available focusing on the asset types that are most material to the overall valuation. Where there remains data 'gaps' we have made assumptions. The EA has a further data improvement plan in place to drive continuous improvement in the valuation.

Process	Key data input assumptions
Modern Equivalent Asset (MEA)	For 17 standardised asset types a MEA assumption relating to design and/or materials has been made. For example for culverts it was assumed that small culverts are circular in design, medium culverts are square and large culverts are rectangular, and all are constructed from pre-cast concrete sectional units. For monitoring station buildings the MEA was a glass reinforced plastic (GRP) kiosk with a footprint of 4m by 4m. This is in line with RICS guidance on MEA assumptions. Other asset types were assumed to be designed to be replaced on a like for like basis.
Dimensional data (to use to apply the cost model to derive the MEAV)	During the valuation improvements were made to the level of attribute data required as inputs into the valuation focused on assets most material to the valuation. In addition, for 21 asset types, in consultation with EA business experts, standardised measurements for at least one required dimension were adopted based on the MEA design for that asset type. For example, standardised widths were used for foot (2m), farm (4m), road (8m), rail (11m), aqueduct (7m) bridges. Where attribute data was not available (either a MEA assumed dimension or actual dimension for like for like replacement), statistical analysis was undertaken to derive an assumption and tested with internal experts to confirm they were reasonably representative of the overall portfolio of assets.

Depreciation factors – method 1 (civils based on condition data and EA deterioration Curve)	The methodology relies on key data from Asset Information Management System, Operations and Maintenance (AIMS OM) to be able to apply the most appropriate deterioration curve. The assumptions we have made where there is incomplete data are: • Where there is no asset raw condition then we have used the asset's actual condition grade if this is populated and if this is also blank, we have assumed the asset's target condition grade • Where there is no target condition data we assume a target condition of 3 (out of a scale of 5) – this is the most common target condition for the EA's assets • Where there is no protection type or it is classified as 'surface water' protection then we have assumed that the protection type is fluvial We also developed a set of rules to determine the appropriate material type drawing on data on material type of assets that is available at an asset element level in order to select the most appropriate curve for individual assets.
Depreciation factors – method 2 (MEICA assets using EA available data)	This method calculated a depreciation factor for each asset element comprising the asset, and a mean average single factor derived for assets with multiple elements to apply to the calculated MEAV for the asset. The assumptions where there was incomplete data were to assume the mid points for the data inputs required to generate the depreciation factor • Where element LOF is 'blank' we have assumed 'Possible' • Where TTR is 'blank we have assumed 'Medium
Depreciation factors – method 3 (using data on asset start dates and useful economic life (UEL)	Where an actual start date for an asset cannot currently be confirmed, we have applied a depreciation factor assuming the asset is at the mid-point of the UEL for the asset type. This equates to a depreciation factor of 0.51 which reflects the assumption of 2 per cent residual life when an asset is still in use but is beyond its UEL. Asset types where this methodology is used are generally maintained to a fair operational standard and as such it is reasonable to assume across the portfolio of assets that these will be at the mid-point of their UEL.

Future DRC valuations

To ensure that the DRC model continues to output a reasonable replacement cost adjusted for asset condition, the models will be updated annually to reflect the latest source data on asset quantities and conditions, as well as an update for indexation using appropriate construction-related indices to retain this being a current cost.

Every 5 years, a more thorough refresh will be carried out to update costing rates and consider modern equivalents based on an updated professional assessment, alongside a fuller check of judgements on modern equivalents.

Accounting for revaluation

Any increase in asset values by category is recognised in the revaluation reserve. Any decrease in asset values is either recognised against the revaluation reserve, where a revaluation reserve surplus is available, or written off as an impairment where a revaluation reserve surplus is not available, by asset category.

Derecognition and impairment:

Assets are derecognised when the EA has either sold, or decommissioned the asset, or transferred control and responsibility to a third party.

Sensitivity analysis

The sensitivities reflected below show the impact of changes to assumptions that affect the valuation of operational assets, excluding the Thames Barrier. £8,609 million is the DRC value for operational assets excluding the Thames Barrier.

Type	DRC £m	DRC (-) £m	DRC (+) £m	Potential DRC £m	Variance as %
Scenario 1: Alternative Inflation Index	8,609		+128	8,737	1.5%
Scenario 2 Combined Depreciation sensitivity (Lower)	8,609	-236		8,373	-2.7%
Scenario 3 Combined Depreciation sensitivity (Upper)	8,609		+258	8,867	3.0%
Scenario 4 Change the assumption (indirect cost uplifts) by -/+10%	8,609	-382	+383	8,227/8,992	-4.4%

A description of the sensitivities is shown in the table below. Sensitivities 2 and 3 are the lower and upper values for a combined sensitivity relating to the three depreciation methods applied in the valuation.

Sensitivity	Assumption in valuation	Sensitivity
Inflation	Building Cost Information Service (BCIS) all construction costs index. Inflation has been applied to cost data, so all costs are at March 2023 prices.	The sensitivity uses RPI which is a recognised general economic index.
Depreciation Civils – FCRM deterioration curve	For this depreciation method where there is no actual condition data recorded, we have assumed the asset is at its target condition grade. In some cases, for assets below required condition grade the target condition grade has been applied to calculate the depreciation factor for the asset instead of the assessed condition.	Change the assumption (target condition grade) by plus or minus 10 per cent.
Depreciation Civils - Asset Start Date	For this depreciation method where we do not have an asset start date, we have assumed that the asset is at the midpoint of the asset's useful economic life (UEL)	Change the assumption (depreciation factor) by plus or minus 10 per cent.
Depreciation MEICA assets	For this depreciation method where there is no actual data for Likelihood of Failure (LoF) we have assumed 'Possible' and where there is no actual data for Time to Repair (TTR) we have assumed 'Medium'. These are the middle categories of the data used to calculate the depreciation factor.	Change the category of data used to calculate the depreciation factor to 'Unlikely' 'Short' and 'Likely' 'Long'.
Cost Models: Indirect cost uplift	We have assumed a range of indirect cost uplifts differentiating between very complex, complex, less complex and in house delivery arrangements.	Change the assumption (indirect cost uplifts) by plus or minus 10 per cent.

Thames Barrier sensitivity

We have adopted a specialist methodology for valuing the Thames Barrier. The approach is to triangulate between three estimates: indexed historical costs, a materials and quantities estimate, and international benchmarks. Across the various methods when assessed against an industry standard cost estimate maturity assessment criterion our judgement is that the materials and quantities estimate provides the most accurate class of estimate to include in the valuation for the replacement cost of the Thames Barrier.

The assumptions and therefore the sensitivities run for the operational assets are not applicable across this methodology. Instead, we have provided a sensitivity based on the Association for the Advancement of Cost Engineering (AACE International) estimate maturity assessment criteria. This can be used to derive an expected level of accuracy range for the

MEAV for the Thames Barrier, based on an expert judgement on the class of estimate for the materials and quantities approach. The DRC has then been calculated for the lower and upper limits based on the proportion of DRC / MEAV for the most likely valuation.

5.2 Right of Use Assets

	Land	Buildings	IT	Vehicles	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost					
At 1 April 2022	-	-	-	-	-
Initial Recognition	7,101	152,701	451	10,002	170,255
Reclassification from PPE	2,160	7,024	30,454	-	39,638
Adjusted opening balance as at 1 April 2022	**9,261**	**159,725**	**30,905**	**10,002**	**209,893**
Additions	89	22,968	10,532	8,303	41,892
Derecognition	-	(7,641)	-	-	(7,641)
Disposals	-	(1,884)	215	-	(1,669)
Revaluation	(639)	(1,111)	-	-	(1,750)
At 31 March 2023	**8,711**	**172,057**	**41,652**	**18,305**	**240,725**
Depreciation					
At 1 April 2022	-	-	-	-	-
Reclassification from PPE	-	3,424	10,559	-	13,983
Adjusted opening balance as at 1 April 2022	-	3,424	10,559	-	13,983
Charges in year	22	27,877	11,456	5,136	44,491
Disposals	-	(1,884)	215	-	(1,669)
At 31 March 2023	**22**	**29,417**	**22,230**	**5,136**	**56,805**
Carrying amount at 31 March 2023	**8,689**	**142,640**	**19,422**	**13,169**	**183,920**
Carrying amount at 31 March 2022	-	-	-	-	-

This table reflects the adoption of IFRS16 and the initial recognition represents the reporting of the former operating leases as right of use assets in accordance with the new standard. IT assets reclassified from PPE represent the former finance leases now reported as Right of Use Assets under IFRS16.

Land mainly relates to Natural England leases of heritage land.

Buildings mainly represent office space and depots used across the Defra group.

5.2.1 Quantitative disclosures around elements in the Statement of Comprehensive Net Expenditure

	2022-23 Core Department and Agencies	**2022-23 Defra Group**	2021-22 Core Department and Agencies	2021-22 Defra Group
	£000	**£000**	£000	£000
Sub-leasing income	(1,876)	(1,892)	-	-
Expense related to short-term leases	3,197	8,603	-	-
Expense related to low-value asset leases (excluding short term leases)	-	14	-	-
Total	**1,321**	**6,725**	-	-

5.2.2 Quantitative disclosures around cash outflow for leases

	2022-23 Core Department and Agencies	**2022-23 Defra Group**	2021-22 Core Department and Agencies	2021-22 Defra Group
	£000	**£000**	£000	£000
Total cash outflow for leases	26,005	41,095	-	-

5.3 Heritage Assets

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

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

Defra Group

			2022-23			2021-22
	Operational	**Non-Operational**	**Total**	Operational	Non-Operational	Total
	£000	**£000**	**£000**	£000	£000	£000
Valuation						
At 1 April 2022	175,886	92,746	268,632	204,712	71,655	276,367
Additions	6,882	8,961	15,843	9,351	1,745	11,096
Transfers	(390)	-	(390)	-	-	-
Disposals	(1,190)	(26)	(1,216)	(638)	-	(638)
Impairment	(478)	(577)	(1,055)	-	297	297
Reclassifications	-	-	-	(50,870)	742	(50,128)
Revaluation	15,893	6,025	21,918	13,331	18,307	31,638
At 31 March 2023	**196,603**	**107,129**	**303,732**	175,886	92,746	268,632
Depreciation						
At 1 April 2022	656	-	656	(1)	-	(1)
Charged in year	2,325	-	2,325	3,185	-	3,185
Disposals	(28)	-	(28)	(11)	-	(11)
Impairment	-	-	-	656	-	656
Revaluation	(2,953)	-	(2,953)	(3,173)	-	(3,173)
At 31 March 2023	**-**	**-**	**-**	656	-	656
Net book value at 31 March 2023	**196,603**	**107,129**	**303,732**	175,230	92,746	267,976
Net book value at 1 April 2022	175,230	92,746	267,976	204,713	71,655	276,368
Assets financing						
Owned	196,603	107,129	303,732	175,230	92,746	267,976
Net book value at 31 March 2023	**196,603**	**107,129**	**303,732**	175,230	92,746	267,976
Of which:						
NDPBs	196,603	107,129	303,732	175,230	92,746	267,976
Total	**196,603**	**107,129**	**303,732**	175,230	92,746	267,976

5.4 Cash Additions

Cash additions (adjusted for capital accruals) for property, plant and equipment, heritage assets and agricultural assets amount to £378 million (2021–22, £221 million) as per the Consolidated Statement of Cash Flows (SoCF).

6 Intangible Assets

Defra Group

	2022-23				2021-22			
	Internally Developed Software	**Software Licences**	**IT Assets Under Construction**	**Total**	Internally Developed Software	Software Licences	IT Assets Under Construction	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Cost or valuation								
At 1 April 2022	640,551	108,190	128,239	876,980	644,476	120,362	78,103	842,941
Additions	1,940	13,340	102,995	118,275	1,219	10,639	93,215	105,073
Disposals	(9,672)	(546)	-	(10,218)	(51,382)	(23,929)	-	(75,311)
Impairments	1,554	139	(2,123)	(430)	(91)	(6)	(21,001)	(21,098)
Transfers	21,301	-	(19,227)	2,074	8,865	2,384	5,470	16,719
Reclassifications	417	2,878	(6,841)	(3,546)	27,858	83	(27,548)	393
Reclassified as held for sale	-	-	(3,198)	(3,198)	-	-	-	-
Revaluation	27,960	1,715	-	29,675	9,606	(1,343)	-	8,263
At 31 March 2023	**684,051**	**125,716**	**199,845**	**1,009,612**	640,551	108,190	128,239	876,980
Amortisation								
At 1 April 2022	441,720	62,170	-	503,890	437,425	79,667	-	517,092
Charged in year	48,953	10,440	-	59,393	46,116	6,404	-	52,520
Disposals	(8,862)	(544)	-	(9,406)	(48,366)	(23,280)	-	(71,646)
Impairments	2,321	140	-	2,461	(2)	-	-	(2)
Transfers	-	-	-	-	-	11	-	11
Reclassifications	(3,575)	(267)	-	(3,842)	-	-	-	-
Revaluation	14,519	490	-	15,009	6,547	(632)	-	5,915
At 31 March 2023	**495,076**	**72,429**	**-**	**567,505**	441,720	62,170	-	503,890
Net book value at 31 March 2023	**188,975**	**53,287**	**199,845**	**442,107**	198,831	46,020	128,239	373,090
Net book value at 1 April 2022	198,831	46,020	128,239	373,090	207,051	40,695	78,103	325,849
Assets financing								
Owned	188,974	53,270	199,845	442,089	198,831	45,965	128,239	373,035
Finance leased	1	17	-	18	-	55	-	55
Net book value at 31 March 2023	**188,975**	**53,287**	**199,845**	**442,107**	198,831	46,020	128,239	373,090
Of which:								
Core department and agencies	144,394	1,514	132,076	277,984	140,554	1,972	78,384	220,910
NDPBs	44,581	51,773	67,769	164,123	58,277	44,048	49,855	152,180
Total	**188,975**	**53,287**	**199,845**	**442,107**	198,831	46,020	128,239	373,090

The effective date of revaluations was 31 March 2023.

The net book value for internally developed software includes CAP scheme payment assets held by RPA for the delivery of UK funded future farming scheme payments. At the 31 March 2023, these intangible assets have a net book value of £43.5 million with five years remaining amortised life ending 31 March 2028.

The difference between the revalued carrying amount and the carrying amount that would have arisen under the historic cost model is not material.

Cash additions (adjusted for capital accruals) shown in the SoCF amount to £118 million (2021–22, £108 million).

7 Impairments

	Note	**2022-23**		2021-22	
		Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000
PPE – including investment properties		(2,685)	5,710	8,716	37,675
Intangibles		-	2,891	277	21,096
Investments		-	69	-	(2)
Total impairment charge for the year	3	**(2,685)**	**8,670**	8,993	58,769
of which: Amount released from Revaluation Reserve to General Fund		(105)	(105)	-	-

The impairment table includes significant impairments as follows; EA £10.1 million (2021–22 £42.5 million), APHA (£5.3) million (2021-22 £8.5 million).

EA's annual review resulted in an impairment of £7.2 million for property, plant and equipment and £2.9 million for intangible assets. These impairments are reported within the Environment, Rural and Marine Operating Segment (Note 2).

APHA's net impairment of (£5.3) million comprises £6.5 million of impairment reversals over several buildings that had downward revaluations in prior years and £1.2 million of downward impairment valuation. This has been reported in the Food, Farming and Biosecurity operating segment (Note 2).

8 Financial Commitments

8.1 Capital Commitments

Defra Group

	2022-23	2021-22
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made:		
PPE	89,196	86,585
Intangible assets	-	4,997
Total	**89,196**	91,582
Of which:		
Core department and agencies	33,958	35,217
NDPBs	55,238	56,365
Total	**89,196**	91,582

8.2 Other Financial Commitments

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

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Not later than one year	996,842	1,035,523	368,083	403,377
Later than one year and not later than five years	2,080,382	2,083,305	706,044	714,832
Later than five years	794,666	794,759	827,126	827,134
Total	**3,871,890**	**3,913,587**	1,901,253	1,945,343

The scope of the disclosures was reviewed in 2022-23 to ensure alignment with the FReM and consequently widened to include commitments relating to grant agreements. The 2021-22 commitments were not restated and as a result it appears that there has been a significant increase year on year. This increase is largely due to the inclusion of RPA commitments as detailed below.

The Rural Payments Agency has significant commitments in relation to UK funded schemes payable to farmers, land managers, schools, local authorities and other organisations. The figures in the table above include the maximum possible scheme expenditure that the agency is committed to at 31 March. The total disclosed in RPA's accounts is £1.936 billion (2021-22 £0.762 billion), of which £0.547 billion is within one year, £1.347 billion later than one year and not later than five years and £0.042 billion later than five years. A full breakdown by scheme and detailed assumptions and methodology is included in the RPA accounts, including an assessment of the commitments based on the six month notice period included in the terms and conditions of the Countryside Stewardship, Farming Investment Fund and Sustainable Farming Incentive Schemes.

The Core department has agreements with local authorities on 23 Waste Infrastructure Grant Projects that are receiving grant payments. Defra will continue to support these projects while they meet the terms of their agreement with Defra. Future commitments are £1,252 million (2021–22 £1,339 million). All projects are now in receipt of grant and no further agreements are planned.

The department has a commitment to provide grant funding to the Canal & River Trust until 31 March 2027. The commitment at 31 March is £210 million (2021-22: £263 million), of which £53 million (2021-22: £53 million) is not later than one year.

£229 million (2021–22 £157 million) relating to service contracts for information technology.

Within the other financial commitments disclosure, £56 million (2021–22, £63 million) relates to facilities management costs associated with the occupation of buildings that are either owned or leased by Defra or specialised properties held on executive agencies' SoFPs.

9 Financial Instruments and Risk

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

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

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Financial Assets				
Financial assets measured at amortised cost				
Loans and investments	474	5,275	530	1,303
Short Term Deposits	-	267,800	-	645,700
Flood Re UK Treasury Gilts	-	498,065	-	17,916
Cash and cash equivalents	192,536	471,776	387,391	640,284
Financial assets measured at fair value through profit or loss (FVPL)				
Derivative instruments classified as held for trading	90	90	15	15
Financial assets measured at fair value through other comprehensive income (FVOCI)				
ECO Business Fund	32,544	32,544	30,220	30,220
LDN Fund	6,023	6,023	8,347	8,347
Total	**231,667**	**1,281,573**	426,503	1,343,785

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Financial Liabilities				
Financial liabilities measured at amortised cost				
EA reservoir agreements	-	(448,042)	-	(433,446)
Financial liabilities measured at fair value through profit and loss (FVPL)				
Derivative instruments classified as held for trading	(4,847)	(4,847)	(3,370)	(3,370)
Total	**(4,847)**	**(452,889)**	(3,370)	(436,816)

Other receivables and other payables are disclosed in Notes 11 and 12 respectively. These financial instruments are simple in nature, and carried at amortised cost, which is deemed to be a reasonable approximation of their fair value. Notes 11 and 12 also include non-financial instrument balances relating to taxation, accruals and prepayments. Flood Re's UK Treasury Gilts and the short term deposits held by Flood Re and AHDB, with a duration of greater than three months are classified as other financial assets in the receivables note, therefore, these are shown separately from cash and cash equivalents within Note 11.

The department holds a 25 per cent shareholding in Fera Science Limited (FSL), with the remaining 75 per cent held by Capita. The investment in FSL is accounted for as an Investment in Associate, which is outside the scope of IFRS 9 and is therefore excluded from the above table.

Those financial instruments measured at fair value are classed under IFRS 13 as either level one or level two inputs, with no unobservable inputs being relevant. Financial assets measured at amortised cost (which is generally invoiced value) are usually short term in nature. Accordingly, their fair value is not materially different from their carrying value, with the exception of EA's reservoir agreements whose fair value would be approximately £3.4 billion based on a discounting of projected cash flows using current HM Treasury rates. The difference between fair value and carrying value is due to the prevailing discount rate (around 1 per cent being the rate applicable to RPI-linked cash flows stated in current cost) being significantly lower than the Effective Interest Rate (EIR) set at initial recognition of the instrument, as well as inherent differences between amortised cost accounting and a snapshot of fair value.

The RPA has financial guarantee contracts in the form of non-cash guarantees totalling £0.352 billion as at 31 March 2023. (£0.452 billion, 31 March 2022). Please see RPA accounts for more details.

The contractual liability relating to the return on asset component payable to water companies under Reservoir Operating Agreements by EA is accounted for as a financial liability. The cash payments relating to these financial liabilities are recoverable under legislation through water resources abstraction licences. Water companies who receive payments for operating reservoirs also pay the majority of the charges for water abstraction.

Net Increases in the liability (i.e. the extent the finance charge exceeds the cash payments) have been approved by HM Treasury as being non-recoverable from charge payers. The payments for a return on investment in the reservoir assets, indexed upwardly annually based on the RPI, are payable in perpetuity in line with the agreements negotiated on privatisation and were made to enable privatisation to occur. Historically, EA used the current RPI as an estimate for the future RPI, to estimate the future cash flows relating to the agreements. However, the current levels of inflation in the UK are considered to not be indicative of the expected future levels of inflation. The Office for Budget Responsibility (OBR) five year forecast rates of RPI instead has been used and it is assumed the rate at the end of five years will be representative of RPI beyond this point in time. This change in accounting estimate is being applied prospectively and not retrospectively, in line with accounting standards. If the current RPI was used, the balance as at 31 March 2023 would have been £492.5 million (a difference of £44.5 million). Further details can be found in EA's accounts.

Significant Estimates and Judgements (Financial Assets)

Business model assessment

With respect to trade and other receivables the business model of Defra is chiefly to collect payments of principal from customers. This also includes receivables from the EU in respect of money owed for schemes processed. Also, the hold to collect and SPPI test, which requires that the contractual cash flows relating to financial assets are solely payments of principal and interest on the principal amounts outstanding (i.e. cash flows that are consistent with a basic lending arrangement), is assessed as being passed. Therefore, Defra records the receivables at amortised cost which, for receivables with no financing component, is the invoiced amount.

For the Eco Business Fund and the Land Degradation Neutrality (LDN) fund, the shares are neither classified as hold to collect nor hold to collect and sell, so by default would be classified at FVTPL. However, under the provisions of IFRS 9, Defra has made an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income. This is appropriate, given that the department's incentive is to bolster the fund and support its initiatives, with any dividends being reinvested, and not to invest for profit.

Derivative financial assets fall outside of this assessment.

Expected credit losses

Receivables, other than receivables from other public bodies, are grouped together for the purpose of assessing the lifetime Expected Credit Loss. In general, Defra's customers tend to be other public sector entities, to which no real prospect of default applies.
For trade receivables with no significant financing components, IFRS 9 allows an entity to use a simplified method for calculating expected losses using historical default rates over the expected life of the trade receivables and adjusting for forward-looking estimates. Defra's receivables tend to be short term in nature (for example, trade receivables), and any longer term elements are not subject to financing components. Therefore, the majority of receivables are shown net of expected credit loss using the simplified method. Forward-looking estimates are inherently difficult given the current pace of political and economic developments.

Defra has created a provision matrix for receivables, which gives the latest estimated lifetime Expected Credit Loss for each stream. This is based on the department's experience of credit losses over the past few financial years, updated for any known future credit issues. The greatest impact across the Defra group is at EA, who have based their estimate on their historic experience of credit losses by charge scheme over the past four financial years, updated for any known future credit issues. There has not been a material change in the expected credit losses for any charge scheme.

9.1 Categories of Financial Instruments

Details of financial instruments held by the department are included in Notes 9, 10, 11 and 12 (non-financial instrument balances relating to taxation and prepayments are also included in these notes). Further details are given below only where the risks are significant. For further information on financial instruments see RPA's, EA's and Flood Re's ARAs.

9.2 Exposure to Risk

9.2.1 Credit Risk

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

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

The EA holds security for permit holders in permitting deposits, as described in Note 1.14, to mitigate the risk of EA not being able to recover lost income following an environmental incident. Security can be provided by permit holders as cash (see Note 10) or as bond agreements. Bond agreements are triparty bond agreements between the permit holder, EA and the banking organisation. Under the bond agreements, EA can only call on the banks to provide cash in the event of an environmental incident. The bonds are financial guarantees under IFRS9 but unless and until they crystallise, they do not meet the recognition criteria because they are contingent on uncertain future events. In the event of an environmental incident and call of the bond, the cash received would be recognised as a liability and released to income once the required actions had been completed in line with IFRS15. The value of bond agreements in EA's favour as at the 31 March 2023 was £606 million (2021-22, £641 million). Whilst the value of the bonds has increased by 9.4 per cent during 2022-23, the value of cash and escrow deposits has increased by 202.9 per cent. As the cost of setting up bond agreements has increased, permit holders have been opting to deposit security in cash or via escrow accounts (see Note 10).

The Environment Agency is required by statute to check that waste importers and exporters have sufficient financial guarantees in place when it processes relevant applications for consent. This guarantee is designed to remediate any non-compliance with delivery and processing or due to waste being illegal. The year end value of the guarantees which could be called upon is immaterial and as with other guarantees disclosed above, these do not meet the criteria for recognition and the possibility of conversion is extremely remote; no calls have been made in recent years to convert the guarantees.

The department is not exposed to material credit risk.

9.2.2 Liquidity Risk

There is no significant exposure to liquidity risk, as the department's net resource outturn is financed through resources voted annually by Parliament.

9.2.3 Market Risk – Foreign Currency Risk

Excluding RPA, there is no significant foreign currency risk.

RPA's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. RPA enters into forward foreign exchange contracts to manage its exposure to foreign currency risk relating to euro denominated receipts from the Commission for the BPS and RDPE scheme expenditure.

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

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

		31 March 2023		31 March 2022
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Euro	**234,979**	**23,496**	183,125	31,378

The following table details RPA's, and therefore the department's, sensitivity to a ten per cent increase and decrease in sterling against the euro.

Impact of Movement in Euro/Sterling rate

	Sterling Appreciates by 10%		**Sterling Depreciates by 10%**	
	31 March 2023	31 March 2022	**31 March 2023**	31 March 2022
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost	**(21,146)**	(15,177)	**21,146**	15,177
Derivative instruments				
(Increase)/decrease in Net operating cost	**22,337**	19,004	**(22,337)**	(19,004)

9.2.4 Market Risk – Inflation

EA 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

EA cannot manage in any way. However, the EA is able to recover the cost of reservoir operating agreement payments through its charges on water abstraction. HM Treasury have approved the increase in the liability that will not result in a payment as being non-recoverable.

9.2.5 Market Risk – Investments

As at 31 March 2023, the department has £61.3 million in investments (2021-22 £47.6 million), £32.5 million of this is invested in the Eco-Business Fund, £6.0 million in the Land Degradation Neutrality (LDN) Fund and the majority of the remainder is a shareholding in Fera Science Limited.

9.3 Flood Re Exposure to Insurance Contract Risk

The risks described below are attributable to Flood Re, which is consolidated into the departmental accounting boundary.

9.3.1 Credit Risk

Flood Re defines counterparty credit risk as the risk of not recovering money owed to Flood Re by third parties. Flood Re's maximum exposure to credit risk is the gross carrying value of its levy receivables, reinsurance premium receivables, outwards reinsurance recoveries, trade and other receivables, debt instruments at fair value through other comprehensive income and cash and short-term deposits.

Flood Re uses issuer credit ratings provided by external credit rating agencies to monitor the ongoing creditworthiness of its counterparties together with other publicly available data and market information.

Ceded reinsurance arrangements do not relieve Flood Re from its obligations to policy holders. Reinsurance is only placed with counterparties that have a minimum credit rating of A- (S&P equivalent) or provide alternative collateralisation as a credit risk mitigant. Flood Re's Credit Risk Appetite Statements set out the maximum single counterparty exposure aligned to their credit ratings. These risk appetites seek to balance reinsurance Counterparty credit risk with pricing and placement risks.

Insurance Risk

Premium risk

Flood Re is exposed to premium risk, which is defined as the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing assumptions. The premium Flood Re charges is not reflective of the underlying risk that Flood Re assumes. Flood Re's principal objective is to enable the continued availability of affordable flood cover for households at risk of flooding. Accordingly, Flood Re's premium risk strategy is to charge insurers a subsidised fixed rate that is set according to the council tax band associated with the insured property.

The Company expects that assumed premium will not be sufficient to cover the estimated mean cost of claims. The cost of the subsidy provided through the premium charged is met by a levy raised from all insurers writing home insurance in the UK. The levy for the first six years of the scheme was set at £180 million a year. From 1 April 2022, for the following three years, this was decreased to £135 million.

Reserve risk

Reserve risk is defined as the risk of loss or of adverse change in the value of insurance liabilities due to the actual future costs of claims differing from expectations based on reserving assumptions. This is influenced by the frequency of claims, the severity of claims, the timing of actual claims payments and the development of the claims over a period of time.

Flood Re monitors flood risk exposure on a per risk basis and on an aggregate sum insured basis and performs exposure modelling on at least a quarterly basis or on the occurrence of an event.

Sensitivity

Flood Re uses scenario analysis to illustrate the potential financial impact of assumptions varying from expectations where there is limited historical data. (Further details can be found in Flood Re's Annual Report and Accounts, Note 5.1).

Catastrophe risk

Flood Re's most significant insurance risk exposure is to losses arising from infrequent, high severity catastrophe flood events. As these events do not occur frequently probabilistic catastrophe risk modelling is used understand claims potential using losses of a severity that would be expected to occur no more than once every 50 years, 200 years or 250 years respectively. Flood Re have completed and received regulatory approval for its updated view of flood risk through a Major Model Change.

During the year ended 31 March 2023, Flood Re did not classify any claims over the period as catastrophe losses, unlike the prior year where flash floods in London in July 2021 fell into this category.

Risk Mitigation

Flood Re purchases reinsurance as part of its overall risk mitigation programme. Reinsurance ceded is Flood Re's primary mechanism for managing and mitigating insurance risk.

The Flood Re Scheme document establishes the requirement for Flood Re to set an annual aggregate loss amount (liability limit). The liability limit for the year ended 31 March 2023 was £1.9 billion (2022: £2.286 billion). Each financial year the Liability Limit is adjusted for the per centage increase or decrease in the Consumer Price Index (CPI) in the prior calendar year. Subject to these adjustments, the Liability Limit is set for a period of three years. If claims were to exceed the Liability Limit, relevant insurers would continue to be liable to policyholders in accordance with the terms of the insurance policy sold.

Flood Re requires that its outwards reinsurance protections match the liability limit and has purchased an extensive reinsurance programme to meet this need. In addition, Flood Re protects itself from an annual accounting loss of greater than £100 million.

9.3.2 Liquidity

Flood Re defines liquidity risk as the risk of not being able to meet current and future financial obligations as and when they fall due, or only being able to do so at excessive cost. Flood Re must maintain sufficient liquidity at all times to support its cedents by settling claims quickly. Flood Re generates cash inflows primarily from Levy I, premium and investment income and is exposed to significant cash outflows arising from reinsurance claims costs and operating expenses.

Flood Re monitors its liquidity and future cash flow requirements on a regular basis and maintains a high quality, well balanced and liquid investment portfolio. There is uncertainty around the timing and severity of claims costs. The maturity profile of Flood Re's invested assets is aligned to the short-term nature of the business underwritten, whereby insurance contract liabilities are generally incurred and settled within one year.
For the year ending 31 March 2024, Flood Re anticipates generating positive cash flows, unless there is a series of large flood events.

9.3.3 Market Risk

Flood Re has a conservative market risk strategy which prioritises capital preservation over investment return. The investment mandate restricts the type of holdings that may be invested in. Flood Re only invests in UK government backed securities (gilts, treasury notes and UK government backed liquidity funds).

9.3.4 Capital Adequacy

Flood Re has complied at all times with the regulatory minimum capital requirements and the solvency capital requirements.

For more information on Insurance Risk, see Flood Re's Annual Report and Financial Statements.

9.4 Thames Tideway Tunnel Indemnity Agreement Insurance Contract Risk

As part of the government support package for the Thames Tideway Tunnel project, Defra has provided an indemnity (Supplemental Compensation Agreement) to the Infrastructure Provider (IP) on commercial terms to cover liability claims that exceed the IP's commercially arranged insurance limits or where insurance is unavailable or subsequently becomes unavailable. The contract only covers risks that are insurable in the market (though at a higher level); non-insurable risks are borne by the IP as they would be under commercial insurance (for example, the cost of construction delays resulting from a major insurance event).

In certain specified circumstances whilst the project is being built, Defra would be liable for claims above £2.26 billion per event for damage to construction works, and above £750 million per event for third party death, injury or damage. At the outset of the project, Defra estimated that government's total exposure under this indemnity in the event of its 'reasonable worst case' scenario (a major catastrophic event) could be as high as £1.5 billion.

This indemnity agreement meets the definition of an insurance contract according to IFRS 4.

At the financial year-end, no claims have been made under this insurance contract and the likelihood of a future claim has been assessed as remote (less than one per cent). The only cashflows that are expected to occur under this contract are the premiums payable to Defra by the IP, which are surrendered to the Consolidated Fund. Consequently, Defra does not recognise an insurance liability for this contract.

The insurance risk relating to the project is actively managed through Defra's governance structures and governance products. This includes a liaison committee which oversees the project's progress, including representatives from Defra, Thames Water Utilities Ltd, and the IP.

The construction phase of the project is due to complete in 2025, after which the insurance risk is expected to reduce further.

10 Cash and Cash Equivalents

		2022-23		Represented 2021-22
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Balance at 1 April	387,391	640,284	453,889	711,979
Net change in cash balance	(194,855)	(168,508)	(66,498)	(71,695)
Balance at 31 March	**192,536**	**471,776**	387,391	640,284
The following balances at 31 March are held at:				
Government Banking Services	192,536	243,560	386,879	509,458
Demand accounts - GBS	-	119,639	-	29,565
Demand accounts - Escrow	-	17,586	-	-
Commercial bank accounts and cash in hand	-	72,486	512	76,765
Short term investments	-	18,505	-	24,496
Balance at 31 March	**192,536**	**471,776**	387,391	640,284

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

The majority of the short term investments relate to Flood Re's short term deposits with a maturity of three months or less which are subject to insignificant risk of changes in value.

Demand accounts include amounts that EA hold in cash and escrow accounts as security for permitting deposits (Note 1.14). As at 31 March 2022, EA held £15.8 million in escrow accounts which would have been matched by an increased liability of the same amount and which has not been adjusted in the financial statements as not material under IAS 8. The liability relating to cash of £29.5 million as at the 31 March 2022, was recognised in Accruals and Deferred Income in Note 12.

11 Trade Receivables, Financial and Other Assets

	31 March 2023		31 March 2022	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
Trade receivables	51,844	74,689	41,634	76,790
Deposits and advances	2,197	2,331	1,276	1,405
Flood Re reinsurance receivables	-	71,419	-	65,993
Other receivables	9,694	14,453	27,526	33,137
VAT	20,710	62,063	23,926	63,104
Prepayments and accrued income	222,337	218,935	195,796	212,285
Accrued income relating to EU funding	212,772	215,483	100,703	105,248
Contract assets	3,032	3,034	3,301	3,728
Less expected credit loss for receivables and contract assets	(1,526)	(7,074)	(2,776)	(7,852)
Trade and other receivables	**521,060**	**655,333**	391,386	553,838
Current loans	27	27	39	39
Current part of derivative financial instrument asset	90	90	15	15
Short Term Deposits	-	267,800	-	645,700
Flood Re UK treasury Gilts	-	473,076	-	14,877
Financial assets	**117**	**740,993**	54	660,631
Amounts falling due after one year				
Trade receivables	51	51	47	47
Other receivables	5,829	5,829	704	704
Prepayments and accrued income	21	752	-	-
Receivables due after more than one year	**5,901**	**6,632**	751	751
Eco Business fund	32,544	32,544	30,220	30,220
LDN fund	6,023	6,023	8,347	8,347
Flood Re UK treasury Gilts	-	24,989	-	3,039
Other financial assets	447	5,248	491	1,264
Non-current financial assets	**39,014**	**68,804**	39,058	42,870
Total receivables, financial and other assets	**566,092**	**1,471,762**	431,249	1,258,090

For short term deposits with a maturity greater than 3 months at inception, additions are £1,014 million, (£20 million AHDB and £994 million Flood Re) (2021-22, £1,592 million, Flood Re), Flood Re repayments and redemptions are £1,392 million (2021-22, £1,462 million) and interest capitalised is nil (2021-22, nil).

12 Trade Payables, Financial and Other Liabilities

	31 March 2023		31 March 2022	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
VAT	(298)	783	216	1,237
Other taxation and social security	13,480	27,512	16,570	34,033
Flood Re reinsurance payables	-	29,698	-	39,240
Promissory notes	68,688	68,688	96,859	96,859
Trade Payables	66,399	86,066	50,919	85,525
Other payables: EU	5,025	5,025	-	-
Other payables	40,610	51,441	33,788	52,353
Accruals and deferred income	420,599	740,623	414,208	787,361
Current part of finance leases	46	46	9,473	10,743
Amounts issued from the Consolidated Fund for supply but not spent at year end	192,277	192,277	387,391	387,391
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
Received	259	259	941	941
Receivable	11,970	11,970	7,768	7,768
Contract liabilities	5,271	188,705	6,339	150,983
Trade and other payables	**824,326**	**1,403,093**	1,024,472	1,654,434
Current part of derivative financial instrument liability	4,847	4,847	3,370	3,370
Current part of Environment Agency reservoir agreements	-	24,300	-	21,100
Financial liabilities	**4,847**	**29,147**	3,370	24,470
Amounts falling due after more than one year				
Other payables, accruals and deferred income	-	5,612	16,387	19,761
Permitting deposits	-	137,225	-	-
Finance leases	(21)	(21)	9,202	10,762
Contract liabilities	133	133	67	67
Other Payables	**112**	**142,949**	25,656	30,590
Environment Agency reservoir agreements	-	423,742	-	412,346
Financial liabilities	**-**	**423,742**	-	412,346
Total payables	**829,285**	**1,998,931**	1,053,498	2,121,840

Included within promissory notes payable is an amount of £25.5 million (2021–22, £31.8 million) which is expected to be encashed within 1 year and £43.2 million (2021-22, £65 million) which is expected to be encashed after 1 year based on non-legally binding encashment schedules.

Permitting deposits are amounts held by EA as security for permits issued for landfill sites, dredging lagoons, mining waste and hazardous waste facilities. Further explanation of the permitting deposits and accounting policy is included in Note 1.14 and Note 10.

13 Lease liabilities

Maturity analysis of leases liabilities are shown in the table below.

	2022-23		2021-22	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Land and buildings				
Not later than one year	21,784	31,935	-	-
Later than one year and not later than five years	49,069	75,044	-	-
Later than five years	36,252	45,570	-	-
Present value of obligations	**107,105**	**152,549**	-	-
Other				
Not later than one year	10,924	17,194	-	-
Later than one year and not later than five years	9,154	13,931	-	-
Present value of obligations	**20,078**	**31,125**	-	-
Total present value of obligations	**127,183**	**183,674**	-	-
Current	32,708	49,129	-	-
Non-current	94,475	134,545	-	-

14 Contract Assets and Liabilities

14.1 Contract balances

	31 March 2023		31 March 2022	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Receivables which are included in trade and Other Receivables	523,929	658,931	388,836	553,900
Contract Assets	3,032	3,034	3,301	3,728
Contract Liabilities	(5,404)	(188,838)	(6,406)	(151,050)

14.2 Significant changes in the contract assets and the contract liabilities balances during the period

	31 March 2023 Contract Assets		31 March 2023 Contract Liabilities	
	Core Department and Agencies	**Defra Group**	**Core Department and Agencies**	**Defra Group**
	£000	**£000**	**£000**	**£000**
Contract Assets/Liabilities at 1 April 2022	3,301	3,728	(6,406)	(151,050)
Increases/Decreases due to cash received/paid	(3,679)	(3,679)	(2,408)	(61,527)
Transfers from contract assets/liabilities to receivables/payables	3,410	2,985	3,410	23,739
Contract Assets/Liabilities at 31 March 2023	**3,032**	**3,034**	**(5,404)**	**(188,838)**

Contract balances note

The contract liabilities relate primarily to the advance consideration received from customers at EA. Revenue is recognised on completion of performance obligations and acceptance by the customer of the service provided (i.e. when the receivable is recognised).

Contract assets (capitalised costs) reporting

Costs to obtain a contract or fulfil a contract should be capitalised under IFRS 15. During 2022-23, this has not been relevant to Defra.

15 Provisions for Liabilities and Charges

15.1 Provisions for Liabilities and Charges (Excluding Pension Liabilities)

	CAP Disallowance	IR35	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Defra Group								
Balance at 1 April 2021	122,347	35,282	134,260	219,575	155,013	16,891	21,924	705,292
Provided in the year	-	13,547	26,555	107,330	22,946	9,801	5,208	185,387
Provisions not required written back	(54,690)	-	-	-	(218)	(9,683)	(6,369)	(70,960)
Provisions utilised in year	(8,288)	(44,146)	(56,966)	(5,588)	(1,979)	-	(2,288)	(119,255)
Changes in discount rate	-	-	-	231,290	115,812	(17)	(356)	346,729
Unwinding of discount	-	-	-	3,869	2,688	6	-	6,563
Balance at 31 March 2022	59,369	4,683	103,849	556,476	294,262	16,998	18,119	1,053,756
Provided in the year	34,132	-	43,815	62,476	7,627	7,411	28,070	183,531
Provisions not required written back	(13,602)	(335)	-	-	(175)	(5,699)	(1,667)	(21,478)
Provisions utilised in year	(10,600)	(4,348)	(34,145)	(7,150)	(2,061)	-	(4,008)	(62,312)
Changes in discount rate	-	-	-	(391,177)	(182,281)	-	(50)	(573,508)
Unwinding of discount	-	-	-	3,928	2,159	-	-	6,087
Balance at 31 March 2023	**69,299**	**-**	**113,519**	**224,553**	**119,531**	**18,710**	**40,464**	**586,076**

15.2 Analysis of Provision Balances

							2022-23
	CAP Disallowance	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000
Defra Group							
Not later than one year	69,299	74,619	4,630	3,408	3,327	3,836	**159,119**
Later than one year and not later than five years	-	38,900	14,103	8,802	14,673	31,867	**108,345**
Later than five years	-	-	205,820	107,321	710	4,761	**318,612**
Total	**69,299**	**113,519**	**224,553**	**119,531**	**18,710**	**40,464**	**586,076**
Of which:							
Core department and agencies	69,299	-	224,553	119,531	18,710	1,649	**433,742**
NDPBs	-	113,519	-	-	-	38,815	**152,334**
Total	**69,299**	**113,519**	**224,553**	**119,531**	**18,710**	**40,464**	**586,076**

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

As can be seen from the sensitivity tables in Notes 15.5 and 15.6, a modest change in the discount rate for general provisions can have a significant impact on the stated value of liabilities. These rates are advised by HM Treasury (see below) and are therefore not within the control of the department.

	2022–23
	%
Short term (0 to 5 years)	3.27
Medium term (6 to 10 years)	3.20
Long term (greater than 11 -40 years)	3.51
Very Long term (greater than 40 years)	3.00

HM Treasury provide both nominal and real discount rates, the real rate being the nominal rate inflated in line with the OBR CPI inflation forecast. Under HM Treasury guidance, there is a rebuttable presumption that departments will use the inflation rates obtained from OBR CPI forecasts when inflating provision cash flows. This presumption can only be rebutted in exceptional circumstances. The HM Treasury real rates are used for all discounted provisions in the ARA, as no logical basis has been identified for any alternatives.

15.3 Disallowance Provisions

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

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

Liabilities which are expected to impact in future accounting periods are disclosed as provisions, covering all relevant schemes. As the process of Commission reviews progresses, the likelihood of disallowance penalties are confirmed by the Commission (and are reasonably certain). In practice, this is when the Commission has notified a penalty which, following the conciliation process between Defra and the Commission, the department will not contest further. It is at this stage that amounts are reflected in the financial statements as an accrual. Finally, the point at which the cash refused is physically transacted may come sometime after the accrual point and typically in a later accounting period. Therefore, it is important to recognise that liabilities for disallowance can cover a number of scheme years and do not just reflect any disallowance imposed in the financial year covered by any single year's accounts.

Limited notice is given of future Commission conformity audits and it is not therefore known which scheme areas will be audited during the coming year. Where there has not been an audit, then we declare a remote contingent liability in the Accountability Report. Once audits have taken place and until a reliable estimate can be made a contingent liability is disclosed. Once reliable estimates are available and a letter of the findings received from the Commission, a provision/accrual can be accounted for.

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

15.4 Flood Re Insurance Provision

Flood Re’s most critical accounting estimate is the estimation of the ultimate liability arising from claims made under inwards reinsurance contracts.

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR), at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty.

The ultimate cost of outstanding claims is estimated using standard actuarial techniques, supplemented with bespoke methods where appropriate.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Flood Re commenced underwriting in April 2016 and has limited historical claims data of its own. The actuarial techniques used utilise historical industry data.

Estimating the ultimate cost of losses resulting from catastrophic events is inherently difficult due to the uncertainty of catastrophe claims. As a result of this uncertainty, it is often harder to determine the future development of these claims with the same degree of reliability as with other types of claim.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future: for example to reflect one-off occurrences (including changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims from the range of outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of the premium deficiency provision (liability adequacy test). Using reinsurance premium thresholds as described in the Flood Reinsurance (Scheme Funding and Administration) Regulations

2015 restricts the amount that Flood Re can charge insurers for reinsuring flood risk. These thresholds are capped at a rate dependent on the council tax banding of the property insured and give rise to less than adequate market pricing for the risk insured. An estimate of the premium deficiency provision is made for any anticipated claims and claims handling costs that are expected to exceed the unearned premiums.

The carrying value of gross insurance claims liabilities, including the premium deficiency provision, as at 31 March 2023 is £113.5 million (2022 £103.8 million).

15.5 Abandoned Metal Mines Provision

Abandoned metal mines are responsible for about half the metals discharged into English rivers. Pollutants include Zinc, Cadmium, Lead, Copper, Nickel, Iron and/or Arsenic. Approximately three per cent of rivers (1,500 km) are polluted by one or more of these metals which can seriously impact environmental health, harming fish and other river wildlife and decreasing biodiversity.

Under the Water Resources Act 1991 (as amended by the Environment Act 1995) mine owners/operators cannot be held liable for permitting water pollution from mines abandoned before 2000, and most mines were abandoned before the 20th Century. Government funding and action is required to address this historical legacy. Pollution can occur when mines are closed, pumps are switched off and mine water levels rise (through rainwater or flooding) to the point where waters are discharged into surface water bodies e.g. rivers, lakes, estuaries or into groundwater (including aquifers). Government has responsibility to set regional or river basin management plans to improve water quality under the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017 (as amended), which is the regulatory framework underpinning good chemical and ecological status. Where beneficial river basin management plans may include objectives to conserve important habitats and species set under other regulatory frameworks for land, inland water, estuaries and the sea.

The Environment Act 2021 gave the Defra Secretary of State the power to set environmental targets; the Environmental Targets (Water) (England) Regulations 2023, which came into force on 30 January 2023, included a target specifically addressing pollution of rivers and estuaries by abandoned metal mines. The interim and long-term targets are:

- Construct 8 mine water treatment schemes and 20 diffuse interventions to control inputs of target substances to rivers by 31 January 2028.
- Halve the length of rivers polluted by harmful metals from abandoned mines by 2038, against a baseline of around 1,500 km.

The treatment of contaminated groundwater discharging from abandoned metal mines and limiting inputs of metals from diffuse sources (such as mining waste spoil heaps) therefore contributes to achieving good status and the Environment Act target so Defra decided to implement treatment facilities at certain sites. Accordingly, Defra has a constructive obligation at these sites, working in partnership with the EA and the Coal Authority (an NDPB of Department for Energy Security and Net Zero) managed by Terms of Reference for all three partners and a separate Memorandum of Understanding (MoU) between Defra and the Coal Authority.

The department funds the ongoing running costs of the operational water treatment schemes built at three abandoned metal mine sites. The Wheal Jane scheme has been running since 2000, with Force Crag coming into operation in 2014 and Saltburn Gill in 2015. A new scheme is under construction at Nent Haggs that should become operational during financial year 2023-24. These schemes remove metals from contaminated groundwater flowing out of the abandoned mines and therefore improve water quality in the rivers and estuaries affected.

The department has a provision that reflects its long term liability to remediate the water from the mines. There is uncertainty over the estimation of the value of the liability due to long term factors. The department uses an evidenced cost base, with forecasts of the running costs provided by the Coal Authority in estimating the provision. The time frames involved are less certain but are based on scientific and geological research on how long the contamination will exist.

Defra commissioned Newcastle University to explore alternatives to expensive active chemical treatment schemes and to develop lower whole life cost systems. The compost bioreactor designed by Newcastle University for the Force Crag mine water has resulted in lower costs for running that scheme compared to an active chemical treatment system. The likelihood of further technological advances makes it difficult to predict future costs for remediation. Separately, Defra has explored local third party funding from those who benefit from the schemes, to reduce the amount of Defra funding required. This attracted £2.6 million from the Northeast Local Enterprise Partnership Local Growth Fund from 2016-17 to 2019-20. Other sources of third-party funding included £0.4 million from the National Lottery Heritage Fund from 2020 to 2025.

In assessing the provisions there are inherent uncertainties in respect of future costs and timing of cash flow, which impact on the provision. These include new technologies; environmental standards and regulations; the impacts of adverse weather because of climate change; price inflation of construction and operating costs; positioning of schemes and related land costs; the number of future schemes required and the length of time they will be required to operate. Reasonable assumptions and best information have been used to inform the future costs and scientific evidence and experience has underpinned one of the more sensitive elements of the assumption, namely that underlying water treatment obligations will likely extend for many hundreds of years.

A management judgement has been taken to restrict the number of years to 100 for mine water treatment and diffuse measures, reflecting the absence of a precise estimate of the timeline for the liabilities and that an infinite provision would not be relevant to the decisions being made by the users of the financial statements.

Updates to the discount rates for provisions as advised by HM Treasury can cause the liability to vary significantly. The undiscounted value of the liability at the 2022-23 year-end is £264 million. A sensitivity analysis to ascertain the responsiveness of the provision to changes to the underlying assumptions i.e., costs, the period of liability and discount rate in value and percentage has been carried out.

Details are outlined in the following table.

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.5% increase in Treasury Discount Rate	Decrease of 40.5m	Decrease of 18
0.5% decrease in Treasury Discount Rate	Increase of 55m	Increase of 24.5
0.5% increase in Treasury Inflation Rate	Increase of 1.1m	Increase of 0.5
0.5% decrease in Treasury Inflation Rate	Decrease of 1.1m	Decrease of 0.5
10% increase in underlying costs	Increase of 22.5m	Increase of 10
10% decrease in underlying costs	Decrease of 22.5m	Decrease of 10
10 year increase in timeframe of the provisions	Increase of 13.1m	Increase of 5.9
10 year decrease in timeframe of the provisions	Decrease of 14.5m	Decrease of 6.5

These factors impacting volatility will continue to be monitored. The HM Treasury nominal discount rate remains beyond the department's control. There is a rebuttable presumption that departments will use the published HM Treasury inflation rates when inflating provision cash flows, and the department has no reason to rebut this presumption. A change in discount rates of the scale outlined above is likely to have the most volatile impact on the provision value. The underlying cost continues to be monitored annually, in consultation with the Coal Authority. The Coal Authority continue to drive efficiencies in managing the abandoned metal mine sites, whilst also analysing the useful lives of assets used in managing and maintaining the sites.

15.6 FMD Burial Sites Provision

Since the FMD outbreak in 2001, the department has a constructive obligation for managing several burial sites across the UK as it has committed to actively manage these sites to prevent the discharge of contaminants through groundwater pollution. The provision for FMD sites represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites. There are significant uncertainties as to the time period over which the need to monitor and manage leachate will continue at the sites. The provision has therefore been estimated based on 100 years from burial with 80 years remaining. Conceptual reports were completed in March 2020, for each site, which showed the level of contamination is decreasing. It is recommended that this is reviewed every 5 years.

The current value of the provision at 78 years remaining is £119.47 million. This is with an annual running cost of £2.232 million. If the length of the provision was to increase, the cost of the provision would increase by £1.071 million each year. Each year the provision is reduced, then the average decrease is £1.532 million. For example, if the length of the provision is assumed to be 100 years then the value of the provision would be £140.78 million and if the assumption was 50 years then £84.80 million.

Sensitivity analysis has flagged potential volatility in the carrying value of the provision if there are changes to the period of liability, annual costs, inflation rates and discount rates, in value and percentage as outlined in the following table. These factors impacting volatility will continue to be monitored annually. The HM Treasury nominal discount rate remains beyond the department's control. There is a rebuttable presumption that departments will use the published HM Treasury inflation rates when inflating provision cash flows, and the department has no reason to rebut this presumption. Updates to the discount rates for provisions are advised by HM Treasury and can cause the liability to vary significantly. The undiscounted value of the liability at the year-end is £174.1 million (2021-22, £165.2 million).

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.5% increase in Treasury Discount Rate (see Note 15.2)	Decrease of 18.0 m	Decrease of 15.1
0.5% decrease in Treasury Discount Rate	Increase of 23.0 m	Increase of 19.3
0.5% increase in Treasury Inflation Rate	Increase of 0.6m	Increase of 0.5
0.5% decrease in Treasury Inflation Rate	Decrease of 0.6m	Decrease of 0.5
10% increase in underlying costs	Increase of 11.9 m	Increase of 10
10% decrease in underlying costs	Decrease of 11.9 m	Decrease of 10
10 year increase in timeframe of the provisions	Increase of 10.3 m	Increase of 8.6
10 year decrease in timeframe of the provisions	Decrease of 11.3 m	Decrease of 9.5

16 Pension Liabilities

16.1 Pension Schemes Managed by the Department

The department contributes to the PCSPS and CSOPS, known as Alpha, but does not manage the scheme. Details are reported in Chapter 5 - Civil Service Pension Schemes. Employer contributions to the funds are included in the Statement of Comprehensive Net Expenditure (SOCNE) but the share of assets and liabilities are not disclosed in the Statement of Financial Position (SOCF), as they cannot be separately identified.

In addition to these there are also a number of pension schemes which are managed by the department and NDPB's, these include a mixture of funded and by analogy schemes (unfunded). The table below details the funds managed by the Core department and those disclosed by the NDPB's:

Schemes Disclosed by the Core Department	Schemes Disclosed in the NDPB Accounts
EA Pension Liability (Closed Scheme) (funded)	Home Grown Cereals Authority Pension Scheme (funded)
Nature Conservancy Council Pension (by-analogy)	EA Active Pension Scheme (funded)
Former Countryside Agency Pension Schemes (Rural Community Council and Ex-Chairmen Schemes) (by-analogy)	NE Pension Scheme (by-analogy)
Horticultural Research International Pension Scheme (by-analogy).	Sea Fish Industry Authority (funded)
	Meat and Livestock Commission Pension Scheme (funded).

Disclosures in relation to these schemes are made in accordance with the accounting treatment in IAS 19. The standard has no impact on the level of cash contributions paid by the department which are set reference to assumptions agreed at periodic actuarial valuations of each scheme. The standard requires the disclosure of the net liability which is an assessment of the value of any gap between the assets help by the scheme and the total present value of the funded and unfunded obligations, however, there is no requirement to address this net liability by payment of a lump sum or otherwise.

Below are details of the most material schemes to the department– the EA Pension Closed and Active Funds – which are part of the Local Government Pension Scheme (LGPS) in England and Wales and the Meat and Livestock Commission Scheme recognised by AHDB. Robust governance arrangements are in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies. The overriding objective is to act in the best interests of the members and employers. Those persons responsible for governing the scheme have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.

16.1.1 EA Pension Liability (Closed Scheme)

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

The Fund's approach to funding the pension liabilities is focused on ensuring that sufficient funds are available to meet all liabilities as they fall due for payment. Since 1 April 2006, Grant-in-Aid has been paid that is sufficient to meet the pension obligations and running costs of the Fund.

All calculations have been made by a qualified independent actuary. As required under IAS 19, the projected unit credit method of valuation has been used. The last formal valuation of the Fund was carried out as at 31 March 2022.

At the last actuarial valuation date, the weighted average duration of the defined benefit obligation was 9.6 years.

The estimated sponsor's contributions for the year to 31 March 2024 will be approximately £46 million.

16.1.2 EA Active Pension Scheme

EA operates a defined benefit pension scheme for current and former employees and transferees from predecessor organisations. The scheme is 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 Pension Fund including its annual report and financial statements, are on the Environment Agency Pension Fund (EAPF) website (www.eapf.org.uk).

The EAPF has three employers, EA, Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL). NRW and SSCL are closed to new entrants and pay fixed contributions of a fixed sum and fixed percentage of pay respectively. EA guarantees the SSCL contributions and so their position is modelled within the EA for valuation and contribution setting.

Funding Strategy

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

In 2016, the government introduced regulations which require LGPS funds to pool investments to improvements. On 1 April 2018, EAPF joined nine other LGPS funds in Brunel Pension Partnership Ltd (Brunel) to meet this obligation. The EAPF will continue to adhere to its own investment strategy, and retain control of its own assets, but will aim to benefit from reduced costs from pooling investments. At 31 March 2023, approximately 60 per cent of the EAPF's assets were managed by Brunel.

Due to the Fund's strong funding position, it was agreed that the equity position would be reduced and invested in Liability Driven Instrument (LDI) and corporate bonds and around £354 million was disinvested across its six equity portfolios and invested in Blackrock LDI and corporate bonds.

Report to the Pension Regulator

The EAPF is responsible for, and provides oversight to, the administration of the Active Fund which is carried out by Capita Pension Solutions.

Following the EAPF's Process to Report Breaches of the Law, the EAPF made one report to the Pensions Regulator during 2021-22 which related to the identification of incorrect final pensionable pay figures provided by SSCL to Capita Pension Solutions for employees who have left the EA. This has created an inequity in final pensionable pay figures, either understating or overstating pay which impacts the final pay calculation of pension. A project group has been established to provide assurance and rectification along with a wider audit at SSCL. The Pension Fund Management Team continue to keep the Pension Regulator appraised on progress.

Actuarial Assumptions

All calculations have been made by a qualified independent actuary and are based on the most recent actuarial valuation of the Active Fund at 31 March 2022. The assumptions underlying the calculation at 31 March 2023 are only used for accounting purposes as required under IAS 19.

The total pension charge for the EA, under IAS 19 financial reporting, was £184.5 million for the financial year 2022-23 (2021-22, £206.3 million). The pension charge was assessed using the projected unit method of valuation to calculate the service costs.

The EA's funding arrangements are to pay 14.5 per cent 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 19 per cent. This contribution rate is payable annually through from 2023 to 2026.

The latest triennial actuarial valuation of the EAPF was at 31 March 2022. The assets taken at market value at that date (£4.5 billion) were sufficient to cover 103 per cent (2019 106 per cent) of the value of liabilities in respect of past service benefits which had accrued to members.

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.

In December 2018, the Court of Appeal upheld a ruling that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination, known as the 'McCloud Ruling'. The implications of the ruling are expected to apply to the LGPS, and other public service schemes. At the end of 2018-19, an initial liability was recognised within the IAS19 report of £28.3 million. In 2019-20 this has reduced by £13.4 million following Ministry for Housing, Communities and Local Government (MHCLG), (now called the Department for Levelling Up, Housing and Communities), consultation which set out qualifying member criteria. No further adjustment has been made.

In June 2020, a legal discrimination case, namely the Goodwin case, 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 the scheme membership and may result in an increase in the cost of pensions from previous years' service estimated at around £3.4 million, which for completeness has been included in the 2019-20 IAS19 valuation with no further adjustment made since as there are no new details on the potential remedy relating to this case.

There are two further court cases which may impact on the benefits of the scheme (Walker and O'Brien). Our current understanding is that these are unlikely to be significant judgements in terms of the impact on the pension obligations. As a result, and until further guidance is released, no allowance for potential remedies to these judgements, or changes to the existing benefits structure have been made.

The estimated employers' contributions for the year to 31 March 2024 will be approximately £76.8 million.

Pension surplus and interpretation of IFRIC 14

The EA's IAS 19 report received for 2022-23 showed a surplus (asset) of £0.5 billion, compared to a deficit (provision) of £0.7 billion in 2021-22. We have considered under IFRIC 14 whether the asset should be recognised in full or capped at an asset ceiling, and if there are any additional liabilities to raise based on the Minimum Funding Requirement. Our judgement is that while the Environment Agency lacks a unilateral right to a refund of surplus via a scheme exit because of its status as a Scheduled body, economic benefit is available through potential reductions in future employer contributions based on the current snapshot of funding conditions.

In analysing the extent of economic benefit available through this route, we have considered as required by IFRIC 14, the difference between service cost and future contributions for future service. Due to the ongoing and Scheduled nature of the scheme we have analysed the effect of this difference in perpetuity. Again, as instructed in IFRIC 14, where available (future contribution rates) we have analysed these factors using the funding regime basis, through a hypothetical re-basing of the primary contribution rate based on advice from our actuaries; otherwise (service costs) we have relied on IAS 19 assumptions for consistency with the DBO accounting.

Based on this analysis we have concluded that the economic benefit available through the future rate-setting regime is at least sufficient to cover the existing IAS 19 surplus, and we have therefore concluded that it is appropriate to recognise the full value of the net IAS 19 surplus. Were more prudent alternative assumptions to be adopted (e.g. higher future rates of contribution relevant to the Minimum Funding Requirement) the asset ceiling would be decreased, leading to a maximum effect of a full constraint of the surplus to £nil and the full amount of the surplus passing through Other Comprehensive Expenditure.

Further details can be found in the Environment Agency Annual Report and Accounts.

16.1.3 Meat and Livestock Commission (MLC) Pension Scheme

Defined Benefits Scheme

The AHDB is the principal employer in a contributory pension scheme providing defined benefits to legacy MLC employees and ex-employees, based on final pensionable salary. This scheme is closed to new entrants and, with effect from 31 March 2022, was also closed to the future accrual of all benefits. The assets of the scheme are held separately from those of AHDB, being invested with insurance and investment companies. Contributions to the scheme are charged to AHDB's income and expenditure account and are agreed between AHDB and the scheme trustees following a triennial valuation completed by a qualified actuary using the projected unit method.

For the purposes of the IAS 19 accounts, the employer's contributions to the scheme in 2023-24 are estimated to be £0.7 million. Actuarial valuations are usually prepared on a triennial basis. The latest valuation was completed as at 31 March 2021. At 31 March 2023, 61.7 per cent of the scheme's total assets were represented by the buy-in policies.
The effect of the ruling in the Lloyds Trustees vs Lloyds Bank PLC and Others [2018] case on Guaranteed Minimum Pensions (GMP) has been taken into account in the valuation of the liabilities of the scheme. On the 20 November 2020, the High Court ruled that pensions schemes should revisit transfer payments made since 17 May 1990 and the actuary has therefore included an additional liability within past service cost.

Defined Contribution Scheme

The defined contribution section of the MLC Pension Scheme was closed to new members in 2008. As noted above, on 31 March 2022 both sections of the MLC Pension Scheme ceased all future accrual of benefits. Consequently, the defined contribution section of the MLC Pension Scheme had no active members as at 31 March 2022.

Further details can be found in the AHDB Annual Report and Accounts.

16.2 Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability

As at 31 March 2023

	Assets	Obligations	Total Core Department and Agencies Net (liability) /asset	Assets	Obligations	Adjustments	Total Department Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	328,100	-	328,100	4,735,758	-	-	4,735,758
Present value of funded liabilities	-	(480,400)	(480,400)	-	(5,535,282)	-	(5,535,282)
Present value of unfunded liabilities	-	(84,856)	(84,856)	-	(88,419)	-	(88,419)
Less irrecoverable surplus	-	-	-	-	-	(4,783)	(4,783)
Opening Position as at 31 March 2022	328,100	(565,256)	(237,156)	4,735,758	(5,623,701)	(4,783)	(892,726)
Service cost							
Current service cost	-	-	-	-	(184,530)	-	(184,530)
Past service cost (including curtailments)	-	-	-	-	(123)	-	(123)
Effect on settlements	-	-		-	(12,395)	-	(12,395)
Other expenses	-	-	-	(422)	-	-	(422)
Total service cost	**-**	**-**	**-**	**(422)**	**(197,048)**	**-**	**(197,470)**
Net interest							
Interest income on plan assets	5,100	-	5,100	125,778	-	-	125,778
Interest cost on defined benefit obligation	-	(8,401)	(8,401)	-	(148,532)	(200)	(148,732)
Impact of asset ceiling on net interest	-	-	-	-	-	(134)	(134)
Total net interest	**5,100**	**(8,401)**	**(3,301)**	**125,778**	**(148,532)**	**(334)**	**(23,088)**
Total defined benefit cost recognised in profit or (loss)	**5,100**	**(8,401)**	**(3,301)**	**125,356**	**(345,580)**	**(334)**	**(220,558)**

	Assets	Obligations	Total Core Department and Agencies Net (liability) /asset	Assets	Obligations	Adjustments	Total Department Net (liability) /asset
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cashflows							
Plan participants' contributions	-	-	-	28,497	(28,459)	-	38
Employer contributions	43,600	-	43,600	104,724	1,157	-	105,881
Contributions in respect of unfunded benefits	5,600	-	5,600	5,600	(38)	-	5,562
Benefits paid	(42,600)	44,491	1,891	(139,427)	141,332	-	1,905
Unfunded benefits paid	(5,600)	5,600	-	(6,610)	6,610	-	-
Expenses	(800)	-	(800)	(800)	-	-	(800)
Expected closing position	**333,400**	**(523,566)**	**(190,166)**	**4,853,098**	**(5,848,679)**	**(5,117)**	**(1,000,698)**
Remeasurements							
Change in demographic assumptions	-	5,800	5,800	-	(21,287)	-	(21,287)
Change in financial assumptions	-	97,404	97,404	-	2,180,389	-	2,180,389
Other experience	-	(20,966)	(20,966)	(41,133)	(337,712)	-	(378,845)
Return on assets excluding amounts included in net interest	(67,000)	-	(67,000)	(457,259)	-	-	(457,259)
Changes in asset ceiling	-	-	-	(49,228)	54,891	(4,706)	957
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(67,000)**	**82,238**	**15,238**	**(547,620)**	**1,876,281**	**(4,706)**	**1,323,955**
Fair value of employer assets	266,400	-	266,400	4,305,478	-	-	4,305,478
Present value of funded liabilities	-	(378,500)	(378,500)	-	(3,906,805)	-	(3,906,805)
Present value of unfunded liabilities	-	(62,828)	(62,828)	-	(65,593)	-	(65,593)
Less irrecoverable surplus	-	-	-	-	-	(9,823)	(9,823)
Closing position as at 31 March 2023	**266,400**	**(441,328)**	**(174,928)**	**4,305,478**	**(3,972,398)**	**(9,823)**	**323,257**

As at 31 March 2022

	Assets	Obligations	Total Core Department and Agencies Net (liability) /asset	Assets	Obligations	Adjustments	Total Department Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	305,500	-	305,500	4,483,717	-	-	4,483,717
Present value of funded liabilities	-	(498,000)	(498,000)	-	(5,528,198)	-	(5,528,198)
Present value of unfunded liabilities	-	(89,730)	(89,730)	-	(311,651)	-	(311,651)
Less irrecoverable surplus	-	-	-	-	-	(2,029)	(2,029)
Opening Position as at 31 March 2021	305,500	(587,730)	(282,230)	4,483,717	(5,839,849)	(2,029)	(1,358,161)
Service cost							
Current service cost	-	-	-	-	(206,980)		(206,980)
Past service cost (including curtailments)	-	-	-	-	(132)		(132)
Effect of settlements	-	-	-	-	22		22
Other expenses	-	-	-	(29)	-	(43)	(72)
Total service cost	-	-	-	(29)	(207,090)	(43)	(207,162)
Net interest							
Interest income on plan assets	3,800	-	3,800	89,241	-	-	89,241
Interest cost on defined benefit obligation	-	(6,988)	(6,988)	-	(116,152)	-	(116,152)
Total net interest	3,800	(6,988)	(3,188)	89,241	(116,152)	-	(26,911)
Total defined benefit cost recognised in profit or (loss)	3,800	(6,988)	(3,188)	89,212	(323,242)	(43)	(234,073)

	Assets	Obligations	Total Core Department and Agencies Net (liability) /asset	Assets	Obligations	Adjustments	Total Department Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000
Cashflows							
Plan participants' contributions	-	-	-	26,106	(26,106)		-
Employer contributions	47,900	-	47,900	103,858	-	-	103,858
Contributions in respect of unfunded benefits	6,300	-	6,300	6,300	220	-	6,520
Benefits paid	(45,200)	47,066	1,866	(139,791)	142,073	-	2,282
Unfunded benefits paid	(6,300)	6,300	-	(6,520)	6,300	-	(220)
Expenses	(700)	-	(700)	(1,100)	-	-	(1,100)
Expected closing position	311,300	(541,352)	(230,052)	4,561,782	(6,040,604)	(2,072)	(1,480,894)
Remeasurements							
Change in demographic assumptions	-	(6,500)	(6,500)	-	33,934	-	33,934
Change in financial assumptions	-	(13,787)	(13,787)	3,620	403,505	-	407,125
Other experience	-	(3,617)	(3,617)	-	(14,936)	-	(14,936)
Return on assets excluding amounts included in net interest	16,800	-	16,800	170,356	-	-	170,356
Changes in asset ceiling	-	-	-	-	(5,600)	(2,711)	(8,311)
Total remeasurements recognised in Other Comprehensive Income (OCI)	16,800	(23,904)	(7,104)	173,976	416,903	(2,711)	588,168
Fair value of employer assets	328,100	-	328,100	4,735,758	-	-	4,735,758
Present value of funded liabilities	-	(480,400)	(480,400)	-	(5,535,282)	-	(5,535,282)
Present value of unfunded liabilities	-	(84,856)	(84,856)	-	(88,419)	-	(88,419)
Less irrecoverable surplus	-	-	-	-	-	(4,783)	(4,783)
Closing position as at 31 March 2022	328,100	(565,256)	(237,156)	4,735,758	(5,623,701)	(4,783)	(892,726)

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

As at 31 March 2023

			Environment Agency Closed Scheme (within Core Department)			Environment Agency Active Scheme (within NDPB)
	Assets	**Obligations**	**Net (liability) /asset**	**Assets**	**Obligations**	**Net (liability) /asset**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Fair value of employer assets	328,100	-	328,100	4,133,315	-	4,133,315
Present value of funded liabilities	-	(480,400)	(480,400)	-	(4,788,039)	(4,788,039)
Present value of unfunded liabilities	-	(45,200)	(45,200)	-	-	-
Opening Position as at 31 March 2022	328,100	(525,600)	(197,500)	4,133,315	(4,788,039)	(654,724)
Service cost						
Current service cost	-	-	-	-	(184,364)	(184,364)
Past service cost (including curtailments)	-	-	-	-	(123)	(123)
Total service cost	**-**	**-**	**-**	**-**	**(184,487)**	**(184,487)**
Net interest						
Interest income on plan assets	5,100	-	5,100	113,640	-	113,640
Interest cost on defined benefit obligation	-	(7,800)	(7,800)	-	(133,333)	(133,333)
Total net interest	**5,100**	**(7,800)**	**(2,700)**	**113,640**	**(133,333)**	**(19,693)**
Total defined benefit cost recognised in profit or (loss)	**5,100**	**(7,800)**	**(2,700)**	**113,640**	**(317,820)**	**(204,180)**
Cashflows						
Plan participants' contributions	-	-	-	28,459	(28,459)	-
Employer contributions	43,600	-	43,600	59,868	-	59,868
Contributions in respect of unfunded benefits	5,600	-	5,600	-	-	-
Benefits paid	(42,600)	42,600	-	(84,495)	84,495	-
Unfunded benefits paid	(5,600)	5,600	-	-	-	-

	Environment Agency Closed Scheme (within Core Department)			Environment Agency Active Scheme (within NDPB)		
	Assets	**Obligations**	**Net (liability) /asset**	**Assets**	**Obligations**	**Net (liability) /asset**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Expenses	(800)	-	(800)		-	-
Expected closing position	**333,400**	**(485,200)**	**(151,800)**	**4,250,787**	**(5,049,823)**	**(799,036)**
Remeasurements						
Change in demographic assumptions	-	5,800	5,800	-	(27,030)	(27,030)
Change in financial assumptions	-	84,500	84,500	-	2,017,684	2,017,684
Other experience	-	(18,500)	(18,500)	(41,133)	(306,979)	(348,112)
Return on assets excluding amounts included in net interest	(67,000)	-	(67,000)	(340,156)	-	(340,156)
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(67,000)**	**71,800**	**4,800**	**(381,289)**	**1,683,675**	**1,302,386**
Fair value of employer assets	266,400	-	266,400	3,869,498	-	3,869,498
Present value of funded liabilities	-	(378,500)	(378,500)	-	(3,366,148)	(3,366,148)
Present value of unfunded liabilities	-	(34,900)	(34,900)	-	-	-
Closing position as at 31 March 2023	**266,400**	**(413,400)**	**(147,000)**	**3,869,498**	**(3,366,148)**	**503,350**

	Assets	Obligations	Adjustments	MLC (within NDPB) Net (liability) /asset	Assets	Obligations	Adjustments	Other (all other schemes) Net (liability) /asset
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fair value of employer assets	196,500	-	-	196,500	77,843	-	-	77,843
Present value of funded liabilities	-	(196,500)	-	(196,500)	-	(70,343)	-	(70,343)
Present value of unfunded liabilities	-	-	-	-	-	(43,219)	-	(43,219)
Less irrecoverable surplus	-	-	-	-	-	-	(4,783)	(4,783)
Opening Position as at 31 March 2022	196,500	(196,500)	-	-	77,843	(113,562)	(4,783)	(40,502)
Service cost								
Current service cost	-	-	-	-	-	(166)	-	(166)
Effect of settlements	-	-	-	-	-	(12,395)	-	(12,395)
Other expenses	(400)	-	-	(400)	(22)	-	-	(22)
Total service cost	**(400)**	**-**	**-**	**(400)**	**(22)**	**(12,561)**	**-**	**(12,583)**
Net interest								
Interest income on plan assets	5,400	-	-	5,400	1,638	-	-	1,638
Interest cost on defined benefit obligation	-	(5,200)	(200)	(5,400)	-	(2,199)	-	(2,199)
Impact of asset ceiling on net Interest	-	-	-	-	-	-	(134)	(134)
Total net interest	**5,400**	**(5,200)**	**(200)**	**-**	**1,638**	**(2,199)**	**(134)**	**(695)**
Total defined benefit cost recognised in profit or (loss)	**5,000**	**(5,200)**	**(200)**	**(400)**	**1,616**	**(14,760)**	**(134)**	**(13,278)**
Cashflows								
Plan participants' contributions	-	-	-	-	38	-	-	38
Employer contributions	700	-	-	700	556	1,157	-	1,713
Contributions in respect of unfunded benefits	-	-	-	-	-	(38)	-	(38)
Benefits paid	(10,900)	10,900	-	-	(1,432)	3,337	-	1,905
Unfunded benefits paid	-	-	-	-	(1,010)	1,010	-	-
Expected closing position	**191,300**	**(190,800)**	**(200)**	**300**	**77,611**	**(122,856)**	**(4,917)**	**(50,162)**

	Assets	Obligations	Adjustments	MLC (within NDPB) Net (liability) /asset	Assets	Obligations	Adjustments	Other (all other schemes) Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000
Remeasurements								
Change in demographic assumptions	-	-	-	-	-	(57)	-	(57)
Change in financial assumptions	-	44,700	-	44,700	-	33,505	-	33,505
Other experience	-	(5,200)	-	(5,200)	-	(7,033)	-	(7,033)
Return on assets excluding amounts included in net interest	(41,200)	-	-	(41,200)	(8,903)	-	-	(8,903)
Changes in asset ceiling	-	5,600	(6,600)	(1,000)	(49,228)	49,291	1,894	1,957
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(41,200)**	**45,100**	**(6,600)**	**(2,700)**	**(58,131)**	**75,706**	**1,894**	**19,469**
Fair value of employer assets	150,100	-	-	150,100	19,480	-	-	19,480
Present value of funded liabilities	-	(145,700)	-	(145,700)	-	(16,457)	-	(16,457)
Present value of unfunded liabilities	-	-	-	-	-	(30,693)	-	(30,693)
Less irrecoverable surplus	-	-	(6,800)	(6,800)	-	-	(3,023)	(3,023)
Closing position as at 31 March 2023	**150,100**	**(145,700)**	**(6,800)**	**(2,400)**	**19,480**	**(47,150)**	**(3,023)**	**(30,693)**

As at 31 March 2022

			Environment Agency Closed Scheme (within Core Department)			Environment Agency Active Scheme (within NDPB)
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Net (liability) /asset
	£000	£000	£000	£000	£000	£000
Fair value of employer assets	305,500	-	305,500	3,893,900	-	3,893,900
Present value of funded liabilities	-	(498,000)	(498,000)	-	(4,954,156)	(4,954,156)
Present value of unfunded liabilities	-	(49,800)	(49,800)	-	-	-
Opening Position as at 31 March 2021	305,500	(547,800)	(242,300)	3,893,900	(4,954,156)	(1,060,256)
Service cost						
Current service cost	-	-	-	-	(206,057)	(206,057)
Past service cost (including curtailments)	-	-	-	-	(229)	(229)
Total service cost	-	-	-	-	(206,286)	(206,286)
Net interest						
Interest income on plan assets	3,800	-	3,800	79,610	-	79,610
Interest cost on defined benefit obligation	-	(6,500)	(6,500)	-	(103,025)	(103,025)
Total net interest	3,800	(6,500)	(2,700)	79,610	(103,025)	(23,415)
Total defined benefit cost recognised in profit or (loss)	3,800	(6,500)	(2,700)	79,610	(309,311)	(229,701)
Cashflows						
Plan participants' contributions	-	-	-	25,943	(25,943)	-
Employer contributions	47,900	-	47,900	54,536	-	54,536
Contributions in respect of unfunded benefits	6,300	-	6,300	-	-	-
Benefits paid	(45,200)	45,200	-	(81,601)	81,601	-
Unfunded benefits paid	(6,300)	6,300	-	-	-	-
Expenses	(700)	-	(700)	-	-	-
Expected closing position	311,300	(502,800)	(191,500)	3,972,388	(5,207,809)	(1,235,421)

	Environment Agency Closed Scheme (within Core Department)			Environment Agency Active Scheme (within NDPB)		
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Net (liability) /asset
	£000	£000	£000	£000	£000	£000
Remeasurements						
Change in demographic assumptions	-	(6,500)	(6,500)	-	28,512	28,512
Change in financial assumptions	-	(11,900)	(11,900)	-	401,845	401,845
Other experience	-	(4,400)	(4,400)	-	(10,587)	(10,587)
Return on assets excluding amounts included in net interest	16,800	-	16,800	160,927	-	160,927
Total remeasurements recognised in Other Comprehensive Income (OCI)	16,800	(22,800)	(6,000)	160,927	419,770	580,697
Fair value of employer assets	328,100	-	328,100	4,133,315	-	4,133,315
Present value of funded liabilities	-	(480,400)	(480,400)	-	(4,788,039)	(4,788,039)
Present value of unfunded liabilities	-	(45,200)	(45,200)	-	-	-
Closing position as at 31 March 2022	328,100	(525,600)	(197,500)	4,133,315	(4,788,039)	(654,724)

	MLC (within NDPB)			Other (all other schemes)			
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	210,900	-	210,900	73,417	-	-	73,417
Present value of funded liabilities	-	-	-	-	(76,042)	-	(76,042)
Present value of unfunded liabilities	-	(218,100)	(218,100)	-	(43,751)	-	(43,751)
Less irrecoverable surplus	-	-	-	-	-	(2,029)	(2,029)
Opening Position as at 31 March 2021	210,900	(218,100)	(7,200)	73,417	(119,793)	(2,029)	(48,405)
Service cost							
Current service cost	-	(600)	(600)	-	(323)	-	(323)
Past service cost (including curtailments)	-	(100)	(100)	-	197	-	197
Effect of settlements	-	-	-	-	22	-	22
Other expenses	-	-	-	(29)	-	(43)	(72)
Total service cost	-	(700)	(700)	(29)	(104)	(43)	(176)
Net interest							
Interest income on plan assets	4,300	-	4,300	1,531	-	-	1,531
Interest cost on defined benefit obligation	-	(4,500)	(4,500)	-	(2,127)	-	(2,127)
Total net interest	4,300	(4,500)	(200)	1,531	(2,127)	-	(596)
Total defined benefit cost recognised in profit or (loss)	4,300	(5,200)	(900)	1,502	(2,231)	(43)	(772)
Cashflows							
Plan participants' contributions	100	(100)	-	63	(63)	-	-
Employer contributions	300	-	300	1,122	-	-	1,122
Contributions in respect of unfunded benefits	-	-	-	-	220	-	220
Benefits paid	(10,200)	10,600	400	(2,790)	4,672	-	1,882
Unfunded benefits paid	-	-	-	(220)	-	-	(220)
Expenses	(400)	-	(400)	-	-	-	-
Expected closing position	205,000	(212,800)	(7,800)	73,094	(117,195)	(2,072)	(46,173)

	MLC (within NDPB)			Other (all other schemes)			
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000
Remeasurements							
Change in demographic assumptions	-	11,000	11,000	-	922	-	922
Change in financial assumptions	-	11,800	11,800	3,620	1,760	-	5,380
Other experience	-	(900)	(900)	-	951	-	951
Return on assets excluding amounts included in net interest	(8,500)	-	(8,500)	1,129	-	-	1,129
Changes in asset ceiling	-	(5,600)	(5,600)	-	-	(2,711)	(2,711)
Total remeasurements recognised in Other Comprehensive Income (OCI)	(8,500)	16,300	7,800	4,749	3,633	(2,711)	5,671
Fair value of employer assets	196,500	-	196,500	77,843	-	-	77,843
Present value of funded liabilities	-	(196,500)	(196,500)	-	(70,343)	-	(70,343)
Present value of unfunded liabilities	-	-	-	-	(43,219)	-	(43,219)
Less irrecoverable surplus	-	-	-	-	-	(4,783)	(4,783)
Closing position as at 31 March 2022	196,500	(196,500)	-	77,843	(113,562)	(4,783)	(40,502)

16.4 History of Experience Gains and Losses – Material Schemes

	EA Closed Scheme (funded)					**EA Active Scheme (funded)**				
Year Ended :	**31-03-23**	31-03-22	31-03-21	31-03-20	31-03-19	**31-03-23**	31-03-22	31-03-21	31-03-20	31-03-19
	£000	£000	£000	£000	£000	**£000**	£000	£000	£000	£000
Fair value of employer assets	266,400	328,100	305,500	301,100	294,000	3,869,498	4,133,315	3,893,900	3,247,426	3,337,382
Present value of defined benefit obligation	(413,400)	(525,600)	(547,800)	(586,100)	(650,600)	(3,366,148)	(4,788,039)	(4,954,156)	(3,380,705)	(3,992,760)
(Deficit)/surplus	(147,000)	(197,500)	(242,300)	(285,000)	(356,600)	503,350	(654,724)	(1,060,256)	(133,279)	(655,378)
Experience gains/(losses) on assets	(67,000)	16,800	(2,400)	(3,300)	9,500	(381,289)	160,927	522,734	(107,859)	184,589
Experience gains/(losses) on liabilities	(18,500)	(4,400)	11,000	39,500	2,300	(306,979)	(10,587)	24,499	204,011	-
Actuarial gains/(losses) on employer assets	(67,000)	16,800	(2,400)	(3,300)	9,500	(381,289)	160,927	522,734	(107,859)	184,589
Actuarial gains/(losses) on obligation	71,800	(22,800)	(7,300)	21,600	10,800	1,683,675	419,770	(1,438,729)	726,112	(336,202)
Actuarial gains/(losses) recognised in SoCTE	**4,800**	(6,000)	(9,700)	18,300	20,300	**1,302,386**	580,697	(915,995)	618,253	(151,613)

	MLC Scheme				
Year Ended :	**31-03-23**	31-03-22	31-03-21	31-03-20	31-03-19
	£000	£000	£000	£000	£000
Fair value of employer assets	150,100	196,500	210,900	203,200	217,200
Present value of defined benefit obligation	(145,700)	(196,500)	(218,100)	(208,800)	(227,000)
(Deficit)/surplus	4,400	-	(7,200)	(5,600)	(9,800)
Experience gains/(losses) on assets	(41,200)	(8,500)	15,100	(7,800)	5,000
Experience gains/(losses) on liabilities	(5,200)	(900)	3,700	2,000	(300)
Actuarial gains/(losses) on employer assets	(41,200)	(8,500)	15,100	(7,800)	5,000
Effect of limit of asset ceiling	(1,000)	(5,600)	-	-	-
Actuarial gains/(losses) on obligation	39,500	21,900	(16,000)	10,200	(6,600)
Actuarial gains/(losses) recognised in SoCTE	**(2,700)**	7,800	(900)	2,400	(1,600)

16.5 Fair Value of Assets in the Fund – Material Schemes

The assets in the scheme were:

	EA Closed Scheme	EA Active Scheme	MLC Pension Scheme
As at 31 March 2023	**£000**	**£000**	**£000**
Equities	-	1,530,399	16,500
Bonds	239,600	1,487,671	32,900
Liability Driven Investment	-	-	7,600
Property	-	721,486	-
Cash	26,800	129,942	400
Insurance policy	-	-	92,700
Total 31 March 2023	**266,400**	**3,869,498**	**150,100**
Percentage of closing fair value	**%**	**%**	**%**
Equity	-	40	11
Bonds	90	38	22
Liability Driven Investment	-	-	5
Property	-	19	-
Cash and insurance policy	10	3	62
Total	**100**	**100**	**100**

As at 31 March 2022	£000	£000	£000
Equities	-	1,856,155	26,500
Bonds	302,300	1,430,386	42,500
Liability Driven Investment	-	-	8,600
Property	-	648,283	-
Cash	25,900	198,491	400
Insurance policy	-	-	118,500
Total 31 March 2022	**328,200**	**4,133,315**	**196,500**
Percentage of closing fair value	%	%	%
Equity	-	45	13
Bonds	92	35	22
Liability Driven Investment	-	-	4
Property	-	15	-
Cash and insurance policy	8	5	61
Total	**100**	**100**	**100**

The majority of equity holdings relate to assets held in pooled investment vehicles. Valuations for unit holdings in these vehicles are not based on quoted prices in active markets and are informed by the most recent investment manager returns related to the Funds in which the Group is invested.

16.6 Financial Assumptions – Material Schemes

The major financial assumptions, based on market data, are used by the actuary when providing the assessment of the accrued liabilities as at the following dates.

	EA Closed Scheme	EA Active Scheme	MLC Pension Scheme
	% pa	% pa	% pa
As at 31 March 2023			
Inflation/pension increase rate (CPI)	2.4	3.0	2.9
Salary increase rate	-	3.5	-
Discount rate	4.2	4.8	4.9
As at 31 March 2022			
Inflation/pension increase rate (CPI)	2.9	3.2	3.3
Salary increase rate	-	3.7	3.5
Discount rate	1.6	2.8	2.8

16.7 Mortality Assumptions – Material Schemes

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

	EA Closed Scheme		EA Active Scheme		MLC Pension Scheme	
	Male	Female	Male	Female	Male	Female
Average future life expectancies at age 65						
Current pensioners (years)	20.1	23.4	21.7	24.3	21.5	24.0
Future pensioners (years)	20.0	24.1	22.7	26.0	22.8	25.4

16.8 Sensitivity Analysis - Material Schemes

IAS 1 requires the disclosure of the sensitivity of the results to the methods and assumptions used. Any changes in assumptions would impact on the EA and MLC pension schemes. Please note that the below sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

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

Change in assumptions at year ended 31 March 2023	**Approximate % Increase in Employer Liability**	**Approximate Monetary Amount**
	%	**£000**
0.5% decrease in real discount rate	3	11,815
1 year increase in member life expectancy	3	12,402
0.5% increase in pension increase rate	3	11,815

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

Change in assumptions at year ended 31 March 2023	**Approximate % Increase in Employer Liability**	**Approximate Monetary Amount**
	%	**£000**
0.1% decrease in real discount rate	2	68,339
1 year increase in member life expectancy	4	134,646
0.1% increase in salary increase rate	-	11,633
0.1% increase in pension increase rate	2	57,663

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

Change in assumptions at year ended 31 March 2023	**Approximate % Increase in Employer Liability**	**Approximate Monetary Amount**
	%	**£000**
0.5% decrease in real discount rate	6	8,100
0.5% increase in RPI	4	5,500
Post-retirement mortality assumption - 1 year age rating	4	5,100

17 Contingent Liabilities and Contingent Assets

17.1 Contingent Liabilities

17.1.1 Quantifiable

The department has the following quantifiable contingent liabilities as at 31 March 2023. Unless otherwise stated liabilities relate to the Core department.

- The Woodland Carbon Guarantee is a £50 million scheme that aims to help accelerate woodland planting rates and develop the domestic market for woodland carbon for the permanent removal of carbon dioxide from the atmosphere. It provides the option to sell captured carbon in the form of verified carbon credits, called Woodland Carbon Units, to the government for a guaranteed price every five or ten years up to 2055-56. If preferred, credits can be sold on the open market rather than to the government. The Forestry

Commission's liabilities under the Woodland Carbon Guarantee are contingent on others deciding to exercise their rights to sell the Woodland Carbon Units to the government. The limit of this liability under the Guarantee at 31 March 2023 is £11.1 million.

- Small potential liabilities against the Defra group are estimated at no more than £1.9 million (2021-22, £1.1 million).

17.1.2 Unquantifiable

The department has the following contingent liabilities which are unquantifiable due to their variable nature. Unless otherwise stated liabilities relate to the Core department.

- Defra has contingent liabilities relating to retained rights to former staff affected by Transfer of Undertaking Protection of Employment (TUPE) Regulations.

- Potential liability under Authorised Guarantee Agreements. The contingent liability covers the potential costs associated with Defra guaranteeing the performance of incoming tenants, where Defra was the outgoing tenant for pre-1995 leases.

- The department is currently involved in a number of ongoing legal cases.

- Regarding the cyber incident at Capita which impacted the Environment Agency Pension Fund (EAPF), at the time of writing there is significant uncertainty on the extent of both obligation and value based on the behaviour of regulators and potential claimants and as such no contingent liability could be reliably measured.

- EA have a potential liability in respect of damage to an existing weir when EA works took place nearby. The claimants have indicated their claim would be in the region of £3 million. The EA disagrees with that valuation. The uncertainty and difference between these positions mean a reliable value cannot be attributed.

- EA have a further potential liability relating to commercial matters. EA assesses the likelihood of these leading to cash outflow beyond the operation of the contracts themselves as possible rather than probable, and in any case does not recognise provisions on these matters on the basis that no reliable basis for assessment is available.

17.2 Contingent Assets

- The department is entitled to a future share of enhancement in value on a number of properties and land previously sold (clawback). Such enhancements are contingent on events outside of the department's control and could arise based on a number of trigger points, planning thresholds and increased values.

- The Defra group has other potential small assets, with an estimated value of £0.9 million (2021–22, £0.9 million).

18 Related Party Transactions

The department is the sponsor of the executive agencies, NDPBs and levy funded bodies, all of which are within the departmental accounting boundary, shown in Note 19. Public corporations are outside the accounting boundary and are shown in Note 20. All the bodies above are regarded as related parties with which the department has had various material transactions during the year. These bodies also trade with each other and have had material transactions during the year.

The department has a 25 per cent shareholding in Fera Science Limited (FSL). The investment in FSL is accounted for as an Investment in Associate due to the department having significant influence, but not control or joint control. Significant influence is conveyed by the power to participate in the financial and operating policy decisions of FSL but not control them. The amount of the investment is shown in the Statement of Financial Position. In addition, the department has had a number of transactions with other government departments and the devolved administrations.

Where the board members claim payments within the Farming and Countryside Programme, as detailed below, the standard terms and conditions for these schemes apply.
Rt. Hon. Victoria Prentis' (Minister of State until 7 September 2022) father runs the family farm which received £32,404 in BPS and woodland scheme payments for the period during which she was a board member.

Mark Spencer (Minister of State from 7 September 2022) has received £7,077 in BPS payments for a farm in which he is a partner for the period during which he has been a Defra board member.

Ben Goldsmith (Non-Executive Director until 22 July 2022) received £7,394 in BPS and English Woodland grant payments for the period during which he was a Defra board member.

Elizabeth Buchanan (Non-Executive Director until 1 March 2023) has received £25,969 in BPS and Countryside Stewardship schemes for the family farm during the period which she was a member of the Defra board.

Rt. Hon. Lord Benyon (Minister of State) received £341,018 in BPS, Countryside Grants, Woodland improvement Grants for a family trust, a trust corporation and farms.

Other than those disclosed above, none of the board members or other related parties has undertaken any material transactions with the department during the year.

Compensation (including remuneration) paid to key management personnel falls within the definition of related party transactions. Please see the Remuneration Report for further details.

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

19 Entities Within the Departmental Boundary

The entities within the departmental boundary during 2022-23 comprise supply financed agencies and those entities listed in the designation and amendment orders presented to Parliament.

Executive Agencies

Animal and Plant Health Agency	APHA Weybridge, Woodham Lane Addlestone, Surrey. KT15 3NB
Centre for Environment, Fisheries and Aquaculture Science	Lowestoft Laboratory, Pakefield Road, Lowestoft, Suffolk. NR33 0HT
Rural Payments Agency	Northgate House, 21-23 Valpy Street, Reading. RG1 1AF
Veterinary Medicines Directorate	Woodham Lane, New Haw, Addlestone, Surrey. KT15 3LS

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

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

The Forestry Commission	620 Bristol Business Park, Coldharbour Lane, Bristol. BS16 1EJ

Executive NDPBs

Consumer Council for Water	23 Stephenson Street, Birmingham, B2 4BH
Environment Agency	Horizon House, Deanery Road, Bristol. BS1 5AH
Joint Nature Conservation Committee	Quay House, 2 East Station Road, Fletton Quays, Peterborough. PE2 8YY
Marine Management Organisation	Lancaster House, Hampshire Court, Newcastle upon Tyne. NE4 7YH
Natural England	Foss House, Kings Pool, 1-2 Peasholme Green, York. YO1 7PX
Board of Trustees of the Royal Botanic Gardens, Kew (included RBG Kew Enterprises)	Richmond, London. TW9 3AE
Flood Re Limited	75 King William Street, London. EC4N 7BE
Office for Environmental Protection	Worcestershire County Hall, Spetchley Road, Worcester. WR5 2NP

Levy Funded Bodies

Agriculture and Horticulture Development Board (includes Sutton Bridge Experimental Unit Limited and Livestock Information Limited)	Middlemarch Business Park, Siskin Parkway East, Coventry. CV3 4PE
Sea Fish Industry Authority	18 Logie Mill, Logie Green Road, Edinburgh, EH7 4HS

Non-profit Institution within the Public Sector, specifically Central Government

National Forest Company (includes Forest Experience Limited and Heart of the National Park Developments Limited)	Enterprise Glade, Bath Yard, Moira, Swadlincote, Derbyshire, DE12 6BA

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

Advisory NDPBs (Defra Funded)

Advisory Committee on Releases to the Environment	ACRE Secretariat, 2nd Floor, Seacole Building, Marsham Street, London. SW1P 4DF
Independent Agricultural Appeals Panel	Appeals Team, Rural Payments Agency, Sterling House, Dix's Field, Exeter, Devon. EX1 1QA
Science Advisory Council	2 Marsham Street, Seacole Block (NW Quarter), London. SW1P 4DF
Veterinary Products Committee	Woodham Lane, New Haw, Addlestone, Surrey. KT15 3LS

Tribunal NDPBs (Defra Funded)

Plant Varieties and Seeds Tribunal (dormant)	Plant Variety Rights Office (APHA), Eastbrook, Shaftesbury Road, Cambridge. CB2 8DR

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

20 Entities Outside the Departmental Boundary

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

Public Corporations

Covent Garden Market Authority
Forestry England (formerly Forest Enterprise England)
Canal & River Trust

Other Bodies

National Parks Authorities (x9)
Water Services Regulation Authority (Ofwat)
Broads Authority

21 Events After the Reporting Period

Defra's financial statements are laid before the House of Commons by HM Treasury. IAS10, Events after the Reporting period, requires Defra to disclose the date on which the accounts are authorised for issue.

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

There have been no adjusting events after the reporting period. However, budget responsibility relating to the Copernicus programme has been transferred from the department to the Department for Science, Innovation and Technology (DSIT) after the balance sheet date.

There was no significant amount of expenditure on Copernicus (membership of the programme) in 2022-23.

Though the UK government published Statements of Intent, they reserved the rights to not participate. Therefore, there is still no obligating event to any liabilities or provisions at this point.

The Machinery of Government (MoG) transfer to DSIT on 1 July 2023 was a full lift and shift. This transfer did not result in a change in any liabilities (or provisions) for Defra, as there was no liability due to there being no obligating event (due to the rights reserved to not participate).

In 2023-24, it was agreed that the UK would participate and going forward we have some shared costs with DSIT.

Annexes

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

Annex 1: Core Tables 2022-23

These tables provide an analysis of departmental expenditure, split between resource consumption and capital investment, covering the period from 2018-19 to 2024-25.

These tables follow the layout of the Part II Table of the 2022-23 Supplementary Estimate and have been produced from HM Treasury's Online System for Central Accounting and Reporting (OSCAR) database and are on the same basis as the Statement of Parliamentary Supply. Details of the Parliamentary Main Estimate[43] and Parliamentary Supplementary Estimate[44] are published separately.

Table 1 sets out a summary of the net resource and capital expenditure for the department. It shows Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) elements separately for control purposes. Future years' figures reflect the budgeted figures agreed with HM Treasury for the department. Spending has increased across the period due to the UK exiting the EU. This is due to initial transition work and embedding new regulatory processes, supporting the UK's food, farming, and fishing industries as the UK exited the EU.

Capital spending also increases across the period following the government's manifesto commitment to guarantee the current annual budget to farmers in every year of the new Parliament, plus additional funding for Science Capability in Animal Health (SCAH) and the Critical Works programme at Weybridge; flood and coastal defence programmes; biodiversity; and Nature for Climate Fund (NCF).

Table 2 shows the administration costs of running the department in more detail. The administration budget includes staff costs, resource expenditure on accommodation, utilities and services etc., where they are not directly associated with front-line service delivery. The commentary on administration costs is included in the detailed analysis below.

Table 1 – Defra's Resource and Capital Budget

Resource Budget (Programme and Administration) DEL

Food and Farming

The changing profile in the early years is primarily due to the profile of Common Agricultural Policy (CAP) Disallowance payments. In line with HM Treasury guidance, CAP Disallowance has been transferred between years to match the expected profile of payments. The increase from 2019-20 reflects increased spending on EU exit as explained above. The large additional increase from 2020-21 onwards relates to direct payments for farmers following the UK's departure from the EU. Additional budget was announced on 9 January 2020 confirming that the 2020 Direct Payment scheme would be funded by the UK government, these payments were previously funded from the European Commission (the Commission). The slight decrease from 2021-22 reflects internal transfers of budget from direct aid to environmental measures. The 2024-25 increase is due to a transfer of Farm

[43] https://www.gov.uk/government/collections/hmt-main-estimates

[44] https://www.gov.uk/government/collections/hmt-supplementary-estimates

Support budget out of 2023-24 Capital DEL into 2024-25 Resource DEL to reflect a more up to date resource/capital split.

Improve the Environment and Rural Services

The increases from 2022-23 onwards reflect funding provided in the Spending Review (SR) 2021 for the wider Northern Ireland programme, including the Digital Assistance Scheme, additional funding for Official Development Assistance and new funding for biodiversity, as set out in the Environment Act.

Animal and Plant Health

Overall, we are maintaining expenditure on Animal and Plant Health and investing in vital scientific facilities. The increases from 2019-20 onwards reflect additional budget for preparation to exit the EU and continuing investment following the UK's departure from the EU. The increase in 2022-23 is primarily due to costs relating to the Avian Influenza outbreak. The 2023-24 budget remains high in comparison to prior year figures due to the Biosecurity, Borders and Trade Programme (BBTP). This is a relatively new programme, which will incur a number of one-off costs relating to the completion of two Border Control Posts (BCPs) and IT development, as well as associated operational costs and lease payments. There has also been a reprofiling of this budget due to delays with the implementation of the new borders checks regime, with budget being transferred out of 2022-23 into 2023-24.

Marine and Fisheries

The increases from 2019-20 onwards primarily reflect additional budget for preparation to exit and transition from the EU and continuing investment following the UK's departure from the EU. 2020-21 sees further EU transition increases and the impact of the department's response to COVID-19 for the marine and fisheries sectors. The profile from 2021-22 onwards largely reflects the profile of the UK Seafood Fund, where the government has confirmed the £100 million investment in the UK Seafood Fund to improve the long-term sustainability of the UK fisheries sector, with the investment split between Resource and Capital DEL.

Departmental Operating Costs

The overall operating costs of the Defra group have reduced over the Spending Review periods, this has been offset by increases in spending due to EU exit and increases in cross-cutting functions including preparations for international trade agreements and new border arrangements. The corporate services budget for future years is held centrally under departmental operating costs to allow for better planning and control, whereas outturn is reported against the Estimate line for the relevant business area or arm's length body (ALB).

Improve the Environment and Rural Services (ALB) (Net)

The spending pattern largely reflects the agreed spending profile for the Environment Agency (EA) across the SR periods. The higher outturn in 2021-22 reflects higher depreciation and impairment charges due to some fixed asset adjustments at the EA. An increase in funding for Natural England (NE) has contributed to the increased 2022-23 outturn, with the funding covering various new grant schemes as well as investment in nature reserves and new technology.

Protect the Country from Floods (ALB) (Net)

The spending pattern largely reflects the agreed spending profile for the EA across the SR periods. The larger increase in 2020-21 is mainly due to the extra funding announced in the 2020 Budget to support flood defence asset repairs. The increase in 2022-23 is largely due to EA expenditure previously classified as capital now being treated as resource expenditure to better align the budgeting treatment of project expenditure with accounting standards. Following an agreement with HM Treasury, budget has been switched from capital to resource in 2023-24 in line with this reclassification, but this is yet to occur for 2024-25 due to HM Treasury's request to agree this adjustment on an annual basis.

Marine and Fisheries (ALB) (Net)

The increase from 2019-20 onwards reflects the Marine Management Organisation's (MMO) expenditure on preparations to exit and transition from the EU and continuing investment following the UK's departure from the EU.

Resource Budget AME

Resource AME balances vary greatly over the years due to the volatility of provisions recorded as AME. A debit (a positive) is recorded as provisions are created, and a credit (a negative) recorded when a provision is utilised.

Food and Farming

As described in the DEL section earlier, the changing profile in this area is primarily due to the CAP Disallowance provision and the Commission's audit findings. Disallowance has been transferred between years so that the AME credit entries recorded here match the expected profile of the payments recorded under resource DEL. In addition to this, any movements to the CAP Disallowance provision are recorded in this section. Debit balances are seen where increases to the provision are higher than payments made in that particular year. As with the timing of Disallowance payments, changes in the value of the provision are also reliant on Commission decisions. The increase in 2019-20 reflects an increase to the CAP Disallowance provision, primarily relating to Basic Payment Scheme (BPS) scheme years 2017 to 2019. This was required following the receipt of the Commission's audit findings, as reported in the Article 34 letter received in November 2019. The large credit in 2020-21 relates to the write back of the CAP Disallowance provision for BPS scheme years 2017 to 2019 following bilateral meetings and challenge on the original calculation method used. The 2023-24 increase relates to area based direct payments for farmers, which are being phased out between 2021 and 2028 and replaced by new schemes. From 2024 the residual payments will be delinked from land area and farmers will receive the delinked payment annually by virtue of having claimed this year and will not need to submit further applications or evidence. The 2023-24 increase reflects the budget cover to recognise the commitment to make these payments up to 2027-28. The large drop in 2024-25 ties in with the delinked payments and represents the AME provision unwinding to Resource DEL as payments are made.

Improve the Environment and Rural Services

The fluctuations in trends mainly reflect movements in the provision for the Metal Mines, due to changes in the discount rate used for valuing provisions, as per HM Treasury guidance. The provision represents the ongoing future liabilities relating to remediating mine water pollution arising from abandoned metal mines.

Departmental Operating Costs

The fluctuations in trends mainly reflect movements in the provision for the Foot and Mouth Disease (FMD) burial sites. These fluctuations mainly reflect changes in the discount rate used for valuing provisions, as per HM Treasury guidance. The provision represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites. The increase in 2023-24 is primarily to provide budget cover for a potential provision relating to Copernicus, the EU's 2021 to 2027 programme of Earth Observation Satellites.

Improve the Environment and Rural services (ALB) (Net)

The fluctuations in trends mainly reflect the movements in the EA pension fund.

Protect the Country from Floods (ALB) (Net)

The changing profile is mainly due to Flood Re, a limited company set up to administer the Flood Re scheme which aims to protect property owners who were previously unable to procure home insurance against the risk of flooding. The 2018-19 to 2021-22 outturn reflects the surplus position for Flood Re's final accounts in those years. The surplus for 2019-20 is lower than in other years due to the widespread flooding between November 2019 and February 2020. The 2021-22 outturn includes an accounting entry for the EA reservoir operating agreement whereby the net movement in the liability scores to AME. The budget for 2023-24 onwards includes cover in case a significant flood event occurs and reflects the maximum impact Flood Re can have on public sector net borrowing. The fluctuations in trends on this line also include movements in the EA pension fund.

Marine and Fisheries (ALB) (Net)

The increase in 2022-23 is due to increased pension liabilities at the Sea Fish Industry Authority upon settlement of one of their pension schemes.

Capital Budget DEL

Food and Farming

The increase from 2021-22 onwards is mainly driven by an increase to the SR20 and SR21 budgets for capital scheme costs for future farming and countryside schemes following the UK's departure from the EU.

Improve the Environment and Rural Services

The increase from 2022-23 onwards relates to additional funding in SR21 for NCF and biodiversity. The government has expanded the NCF, ensuring total spending of more than £750 million by 2024-25 in support of ambitious tree planting and peat restoration goals. The additional increase in 2023-24 relates to the Consistent Collection arm of the Collection and Packaging Reforms programme.

Animal and Plant Health

The increase in 2021-22 reflects APHA's investment in stabilising, enhancing and transforming a number of IT systems relating to endemic diseases, science, trade and biosecurity. This investment was agreed as part of SR20. The increases from 2023-24 are mainly driven by an increase in the capital budget in SR21 for the BBTP, which has also been reprofiled due to delays, and some research and development (R&D) budgets, including Weybridge, which were previously held in the centre under the departmental operating costs Estimate line.

Marine and Fisheries

The increase in 2023-24 relates to increased capital funding for marine programmes whereby the government has confirmed the £100 million investment in the UK Seafood Fund to improve the long-term sustainability of the UK fisheries sector over the SR period, with the investment split between Resource and Capital DEL.

Departmental Operating Costs

The increases in 2020-21 and 2021-22 are primarily due to R&D funding to support SCAH and the Critical Works programme at Weybridge and Defra, and also funding to support EU exit transition. The increases in 2023-24 and 2024-25 reflect the profile of the ringfenced Science R&D budget, an element of which is yet to be allocated out across the Defra group. The budgets from 2023-24 onwards also include additional budget for the Earth Observation project.

Improve the Environment and Rural Services (ALB) (Net)

The decrease in 2019-20 relates to a capital disposal, involving the sale of surplus land by the EA. The increase in 2021-22 relates to extra budget for National Nature Reserves. The increase in 2022-23 is due to increased expenditure by NE on capital investment and R&D. The further increase in 2023-24 reflects extra funding for NE, primarily relating to biodiversity and nutrient neutrality.

Protect the Country from Floods (ALB) (Net)

There has been increased investment across the years in flood and coastal erosion risk management which includes part of the six-year flood defence programme.

Capital Budget AME

Departmental Operating Costs

The increase in 2023-24 is primarily to provide budget cover for a potential provision relating to Copernicus, the EU's 2021 to 2027 programme of Earth Observation Satellites. The 2023-24 and 2024-25 budgets also include dilapidation provisions capitalised as part of the right of use asset under IFRS 16. This accounting standard states how leases should be presented, recognised, measured and disclosed in the annual accounts.

Food and Farming (ALB) (Net)

The increase in budget from 2023-24 onwards is required for potential reclassification of R&D expenditure from resource to capital in the Agriculture and Horticulture Development Board.

Protect the Country from Floods (ALB) (Net)

The figures for 2019-20 onwards relate to capital additions in Flood Re. Flood Re adopted IFRS 16 leases in 2019-20. The increase in 2022-23 reflects the recognition of intangible assets relating to the implementation of an insourced management system and software.

Table 1 – Defra's Resource and Capital Budget

	2018-19 Outturn £000	2019-20 Outturn £000	2020-21 Outturn £000	2021-22 Outturn £000	2022-23 Outturn £000	2023-24 Plans £000	2024-25 Plans £000
Resource DEL							
Food and farming	196,769	293,905	2,417,013	1,965,221	1,924,129	1,938,380	2,044,738
Improve the environment and rural services	474,078	516,484	511,983	550,274	615,373	747,956	804,815
Protect the country from floods	1,027	1,356	3,052	3,314	1,551	2,531	1,815
Animal and plant health	197,395	204,401	262,613	330,272	424,965	378,467	332,960
Marine and fisheries	46,293	53,258	82,456	60,877	73,672	105,259	64,521
Departmental operating costs	418,439	487,126	525,555	535,762	546,954	780,663	650,269
Improve the environment and rural services (ALB) (net)	287,494	278,774	296,160	362,628	417,346	352,890	339,546
Protect the country from floods (ALB) (net)	357,241	386,740	496,847	447,890	596,562	450,967	366,712
Marine and fisheries (ALB) (net)	16,766	23,088	25,718	32,712	32,382	32,957	29,907
Total Resource DEL	**1,995,502**	**2,245,132**	**4,621,397**	**4,288,950**	**4,632,934**	**4,790,070**	**4,635,283**
Resource AME							
Food and farming	(171,170)	628,704	(530,714)	(59,847)	8,791	1,752,881	(773,119)
Improve the environment and rural services	(236,369)	14,146	(3,936)	333,502	(332,893)	(215)	(215)
Animal and plant health	(1,780)	(573)	(236)	(6,627)	(6,741)	3	2
Marine and fisheries	(1,111)	(2,440)	(1)	232	(246)	6	5
Departmental operating costs	(51,017)	50,623	24,599	108,294	(178,244)	711,338	49,338
Food and farming (ALB) (net)	8,081	2,332	(343)	(930)	7,320	5,535	4,997
Improve the environment and rural services (ALB) (net)	22,223	9,829	(27,381)	74,826	27,393	39,324	39,324
Protect the country from floods (ALB) (net)	(70,295)	(6,063)	(76,104)	(15,586)	12,368	156,148	156,148
Marine and fisheries (ALB) (net)	303	1,825	2,067	(1,123)	12,565	65	65
Total Resource AME	**(501,135)**	**698,383**	**(612,049)**	**432,741**	**(449,687)**	**2,665,085**	**(523,455)**

	2018-19 Outturn £000	2019-20 Outturn £000	2020-21 Outturn £000	2021-22 Outturn £000	2022-23 Outturn £000	2023-24 Plans £000	2024-25 Plans £000
Total Resource Budget	**1,494,367**	**2,943,515**	**4,009,348**	**4,721,691**	**4,183,247**	**7,455,155**	**4,111,828**
Of which:							
Depreciation - DEL	198,069	209,170	203,009	247,203	238,941	341,426	405,267
Depreciation - AME	5,655	5,683	37,531	(1,599)	1,672	17,357	17,359
Depreciation[1]	203,724	214,853	240,540	245,604	240,613	358,783	422,626
Capital DEL							
Food and farming	3,745	9,324	23,799	152,225	274,376	418,925	635,042
Improve the environment and rural services[2]	53,142	63,646	57,489	105,575	134,080	641,177	400,926
Protect the country from floods	264	716	2,580	7,067	2,940	500	500
Animal and plant health	12,832	17,919	11,439	35,502	27,333	235,528	127,049
Marine and fisheries	13,868	9,079	11,845	18,207	21,792	45,183	1,130
Departmental operating costs[2]	61,738	50,564	86,619	131,512	159,951	410,125	506,427
Improve the environment and rural services (ALB) (net)	70,481	35,246	61,527	112,401	145,774	183,450	155,046
Protect the country from floods (ALB) (net)	486,253	537,632	634,531	769,630	696,965	887,216	1,024,364
Marine and fisheries (ALB) (net)	543	2,279	879	1,759	497	1,005	858
Total Capital DEL	**702,866**	**726,405**	**890,708**	**1,333,878**	**1,463,708**	**2,823,109**	**2,851,342**
Capital AME							
Departmental operating costs	-	-	-	-	9	94,000	38,000
Food and farming (ALB) (net)	203	423	1,438	271	1,805	14,359	14,096
Protect the country from floods (ALB) (net)	-	2,556	2,060	2,359	7,214	1,918	4,010
Marine and fisheries (ALB) (net)	123	113	102	25	56	78	591
Total Capital AME	**326**	**3,092**	**3,600**	**2,655**	**9,084**	**110,355**	**56,697**
Total Capital Budget	**703,192**	**729,497**	**894,308**	**1,336,533**	**1,472,792**	**2,933,464**	**2,908,039**
Total departmental spending[3]	**1,993,835**	**3,458,159**	**4,663,116**	**5,812,620**	**5,415,426**	**10,029,836**	**6,597,241**
Of which:							
Total DEL	2,500,299	2,762,367	5,309,096	5,375,625	5,857,701	7,271,753	7,081,358
Total AME	(506,464)	695,792	(645,980)	436,995	(442,275)	2,758,083	(484,117)

[1] Includes impairments.
[2] The 2021-22 Capital DEL outturn has been restated due to a minor adjustment between the Improve the environment and rural services and departmental operating costs estimate lines.
[3] Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

The 2023-24 and 2024-25 plans figures are based on provisional allocations and are subject to change, following further business planning decisions.

Table 2 – Defra's Administration Costs

	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Plans	2024-25 Plans
	£000	£000	£000	£000	£000	£000	£000
Resource DEL							
Food and farming	68,321	68,358	72,957	79,195	81,385	121,325	125,163
Improve the environment and rural services	58,391	89,893	97,499	108,423	107,133	133,532	112,663
Protect the country from floods	1,024	1,237	1,954	2,450	1,695	2,531	1,815
Animal and plant health	37,363	29,314	42,877	59,117	71,451	98,667	69,015
Marine and fisheries	13,088	17,381	17,303	21,886	22,863	28,975	24,389
Departmental operating costs	313,935	361,701	350,692	397,434	403,074	473,274	492,275
Improve the environment and rural services (ALB) (net)	75,272	69,004	64,635	82,444	122,513	88,544	84,073
Protect the country from floods (ALB) (net)	77,201	69,072	82,348	79,161	123,072	53,578	50,780
Marine and fisheries (ALB) (net)	2,375	2,149	2,047	2,198	5,578	3,558	3,335
Total administration budget	**646,970**	**708,109**	**732,312**	**832,308**	**938,764**	**1,003,984**	**963,508**

The underlying administration budget reflects the savings required by Spending Reviews which have been met to a large extent by the transformation of Defra's corporate services. These savings have been offset by increased expenditure on EU exit, COVID-19 and increases in the SR21 budget, which gave the department a three-year spending settlement and provides more certainty to plan for the delivery of our ambitious outcomes, including a commitment to make savings and efficiencies across the Defra group.

Within the detail of the table, departmental operating costs increases over the years. This largely reflects the administration element of the consolidation of Defra Group Corporate Service functions. The remaining increases from 2023-24 onwards reflect additional budget in the SR21 for digital funding, BBTP and property rationalisation and places for growth.

Annex 2: Disaggregated Information on Arm's Length Bodies

This information is not subject to audit.

The Public Expenditure System (PES) publication, Guidance on the preparation of annual reports and accounts for 2022-23, (Section 16, Reporting of Information on arm's-length bodies), requires additional reporting to improve the transparency of reporting at group level. This Annex is prepared in compliance with these requirements.

This table provides an analysis of total operating income, total operating expenditure and net expenditure for the year, also staff numbers and costs.

	Total Operating Income	Total Operating Expenditure	Net Expenditure for the Year (including financing)	Permanently Employed Staff Number of employees	Permanently Employed Staff costs	Other Staff Number of employees	Other Staff costs
	£000	£000	£000		£000		£000
Core Department	175,888	1,314,824	1,138,936	5,839	363,505	1,149	94,806
APHA	73,033	377,665	304,632	2,746	131,980	299	12,968
CEFAS	17,851	70,173	52,322	630	33,724	-	-
FC	14,055	113,555	99,500	657	33,129	103	4,877
RPA	110,526	2,020,946	1,910,420	2,539	93,708	130	5,011
VMD	13,863	21,500	7,637	167	10,194	12	687
AHDB	45,736	43,394	(2,342)	365	19,437	-	15
CCW	-	7,003	7,003	77	4,034	-	445
EA	468,057	1,889,924	1,421,867	10,755	503,718	796	17,767
Flood Re	245,824	156,865	(88,959)	63	7,903	-	-
JNCC	2,869	23,087	20,218	257	12,492	7	556
MMO	5,592	43,867	38,275	421	20,468	-	2,769
NFC	8,174	6,615	(1,559)	29	1,678	5	155
NE	40,437	236,103	195,666	2,578	122,839	217	3,168
OEP	-	7,797	7,797	71	4,217	-	-
RBG Kew	78,041	97,603	19,562	1,106	45,808	19	3,135
SFIA	9,255	21,820	12,565	69	4,019	13	464

Total operating income, total operating expenditure and net expenditure are defined against the accounts set out in the illustrative statements, specifically NDPB Green and Agency Pink (These provide guidance for government bodies on the formal disclosures required to ensure alignment with the Financial Reporting Manual (FReM) and PES, as issued by HM Treasury).

The figures in the table may not agree directly to the published ALB accounts, due to FReM alignment, intergroup eliminations, timing differences and other consolidation adjustments.

Annex 3: Commentary on Sustainable Performance

Background

The environmental data and associated financial costs presented in the following pages are consistent with the requirements of HM Treasury's Public Sector Annual Reports: Sustainability Reporting Guidance 2022 to 2023.

The information contained within this annex has not been subject to audit and does not form part of the auditors' opinion on the accounts.

Introduction

This annex sets out Defra's performance against the sustainability objectives of its properties and operations.

This report focuses on the most significant property and travel impacts identified through the departmental group's Environmental Management Systems measured against the Greening Government Commitments (GGC) targets. These targets are for reductions in Greenhouse Gas (GHG) emissions, waste arisings, water use and for increasing procurement of more sustainable goods and services.

Other aspects of Defra group's operations contribute to its environmental impact including the embedded carbon and water of purchased items, supplier transport, waste handling and water supply. These impacts are not captured by this report but some of these are mitigated through sustainability criteria stipulated in procurement and services contracts.

The targets, to be met by the end of March 2025 measured from a 2017-18 baseline, include:

- Reduce GHG from the whole estate and business-related transport by 50 per cent;
- Reduce direct GHG from buildings by 15 per cent;
- Reduce the amount of waste to landfill to below five per cent;
- Increase the amount of recycled waste to above 70 per cent;
- Reduce total waste by 15 per cent;
- Reduce water consumption by eight per cent;
- Reduce the GHG from domestic flights by 30 per cent;
- Reduce paper use by 50 per cent;
- Upgrade all fleet vehicles to zero emissions (by end 2027)
- Remove single use plastics from offices.

Performance against these targets is defined using the following terms:

- *Exceeded target:* the target has been exceeded;
- *Target met*: the target is now completed;
- *On target:* performance is on track to meet the target;
- *Below Target:* performance is not on track to meet the target;
- *Increase from baseline:* no reduction made and performance in this area has worsened since the baseline year.

Assurance and Data

The information in the Sustainability Data tables present the GHG, energy consumption, water use, and waste arising figure as reported as part of the GGC and reports performance for 1 April 2022 to 31 March 2023. Cost data is not reported as part of the GGC, therefore all financial data presented in this report is sourced from accounting records for this period.

Energy and water data is primarily taken from supplier invoices. In most cases, the data in these invoices is informed by manual meter readings or Smart Meter readings.

Waste data is derived from figures provided by the Defra group's waste contractors. Wherever possible actual weights are used but where this is not possible waste data is calculated using a metric based on the number of bins emptied. Audits have been undertaken to validate and improve the accuracy of this data for common waste streams. This estimation methodology will result in a small margin of error. It is not currently cost effective to weigh all waste streams.

Departmental Group Performance[45]

This section of the report provides an overview of Defra group performance against the GGC targets. For the purposes of GGC reporting the departmental group comprises the following bodies:

- Defra Core department
- Non-ministerial departments:
  - Forestry Commission (Forestry England) (FE)
  - The Water Services Regulation Authority (Ofwat)
- Executive agencies:
  - Animal and Plant Health Agency
  - Centre for Environment, Fisheries and Aquaculture Science
  - Rural Payments Agency
  - Veterinary Medicines Directorate
- Executive non-departmental public bodies:
  - Agriculture and Horticulture Development Board
  - Royal Botanic Gardens Kew (RBG Kew)
  - Consumer Council for Water
  - Environment Agency (EA)
  - Joint Nature Conservation Committee
  - Marine Management Organisation
  - Natural England

[45] The data contained in this annex is reported as absolute values. It has not been normalised against metrics such as FTE staff, financial turnover or metre squared floor space. The diversity of business delivery across the Estate is influenced by numerous factors such as weather, scientific undertakings and tourism numbers. This makes it difficult to report trends and make fair comparisons to other organisations.

- Sea Fish Industry Authority

- Others:
  - Lake District National Park Authority
  - Forest Research
  - Other Defra group bodies and other government departments
    (Under the major occupier rule, Defra reports the environmental impact of other government departments which occupy its buildings. Also included are some of Defra group bodies which do not meet the threshold for GGC reporting but are of insufficient materiality to remove from the departmental dataset.)

Whilst this report represents the collective achievements of all Defra organisations participating in the GGCs, it is not possible to capture every performance aspect for each individual organisation. Therefore, we recommend this report is read in conjunction with the individual reports of those organisations listed above to gain a complete picture.

Governance

Progress against the GGC targets is reported to the Group Director of Property and the Group Chief Sustainability Officer on a quarterly basis.

Quality assurance is managed through the Sustainability and Energy team who are responsible for producing the Defra group sustainability reports. These have been subject to internal audit in the past and found to be compliant with GGC and HM Treasury guidelines.

Properties

Business activities in Defra group's buildings are a significant contributor to overall environmental impact. The Defra group portfolio comprises a diverse mix of properties which includes office buildings, storage facilities, pumping stations, forestry facilities, botanic gardens, farms and complex laboratory campus facilities.

The wide range of activities undertaken presents considerable challenge in delivering savings in energy and water used and waste generated.

Greening Government Commitments

In October 2021, the government launched its latest set of GGC targets. They will help the government achieve its net zero goal and the aims of the Environmental Improvement Plan.

Full detail on the new GGC targets can be found at https://www.gov.uk/government/publications/greening-government-commitments-2021-to-2025[46]

The targets have a baseline year of 2017-18 and we began collecting data for the targets in 2021-22. We have also changed the scope of our GGC reporting to include more organisations across the wider Department.

[46] https://www.gov.uk/government/publications/greening-government-commitments-2021-to-2025

Performance and data used in this report relates to the target requirements.

Any data for years in-between 2017-18 and 2021-22 is taken from prior GGC reporting and therefore does not cover the same scope of organisations. It is included merely for general comparative purposes.

Our performance against these targets is continually monitored as part of our on-going assessment of our progress to support sustainable development goals. We are also developing some additional performance indicators that will further add to our insight.

Targets and Performance - Table 1

	Current Achievements	Target April 2025	Current Performance	Supporting of UN Sustainable Development Goals
Total GHG Reduction 2022–23 vs. Baseline	30% reduction	50% reduction	Below target	Climate Action
Direct GHG from buildings 2022-23 vs. Baseline	17% reduction	15% reduction	On target	Climate Action
Landfill Waste Reduction 2022-23	16% sent to Landfill	Less than 5% sent to landfill	Below target	Responsible Consumption and Reduction
Recycling Waste 2022-23	50% recycled	More than 70% recycled	Below target	Responsible Consumption and Reduction
Total Waste Reduction 2022-23 vs Baseline	20% increase	15% reduction	Increase from Baseline	Responsible Consumption and Reduction
Water Reduction 2022-23 vs. Baseline	7% reduction	8% reduction	On target	Clean Water and Sanitation and Responsible Consumption and Reduction
Domestic Flights emissions Reduction 2022-23 vs. Baseline	67% reduction	30% reduction	Exceeded target	Climate Action

	Current Achievements	Target April 2025	Current Performance	Supporting of UN Sustainable Development Goals
Paper Use Reduction 2022-23 vs. Baseline	87% reduction	50% reduction	Exceeded target	Responsible Consumption and Reduction
Conversion of Fleet and Hired Vehicles to Ultra Low Emissions (ULEV)	25% converted to ULEV	25% by End 2022	Target met	Climate Action
Conversion of Fleet and Hired Vehicles to Zero Emission	14% converted to zero emission	100% by end 2027	Below target	Climate Action
Report on policies in place to compensate for emissions	Currently the department is prioritising carbon reduction and has no offsetting policies	Report on policies in place to compensate for emissions	Target Met	Climate Action
Travel policies to prioritise low carbon options	Target met	Travel policies to prioritise low carbon options	Target met	Climate Action
Remove consumer single use plastic from office estate	Identifying plastics and possible alternatives	Remove consumer single use plastic from office estate	Below target	Responsible Consumption and Reduction
Measure and report on food waste	52 tonnes to anaerobic digestion in 2022-23	Report by end 2022	Target met	Responsible Consumption and Reduction
Implement waste reuse schemes	Defra's Information and Communication Technology (ICT) kit is refurbished and reused. Furniture follows	Implement waste reuse schemes	On target	Responsible Consumption and Reduction

	Current Achievements	Target April 2025	Current Performance	Supporting of UN Sustainable Development Goals
	a reuse or charity before recycling hierarchy.			
Ensure all water consumption is measured	Water use is metered in Defra group	Ensure all water consumption is measured	Target met	Clean Water and Sanitation & Responsible Consumption and Reduction
Encourage efficient use of water	Low flow taps and waterless urinals in offices. Boom and drip pipe irrigation in FE operations	Show what is being done	On target	Responsible Consumption and Reduction

Our sustainability performance has been impacted by the COVID-19 pandemic. This has paused most of our plans to improve the sustainability of our properties at the beginning of this GGC period.

We have reduced our total carbon emissions by 30 per cent from our baseline. COVID-19 has had a significant impact in the way we work. Many of our offices were empty or underutilised throughout much of 2022-23. To ensure COVID-19 security, increased air handling commitments mitigated savings.

Water use, which can fluctuate significantly from one year to the next due to the need to maintain plant life and large areas of land, has increased this year. This is due to operational requirements at the Lake District National Park Authority and Forestry England (FE) and water system flushing in offices due to reduced occupancy.

FE and the Lake District National Park Authority, through their operations, are disposing of large volumes of contaminated wood to landfill which require special handling and cannot be easily recycled. This increase in contaminated wood waste masks reductions in waste elsewhere in Defra group. This waste wood is likely to continue to be generated but will reduce gradually over time. FE have entered into a new contract which will reduce the contaminated wood from old gates and fencing that currently goes to landfill.

Used ICT such as laptops are refurbished, reset, and given back out to new staff within Defra. If they are below the baseline specification, then they are sold on behalf of Defra or donated to charity.

Defra's furniture supplier follows the waste hierarchy in that they offer furniture we no longer require to other offices first, then it is offered to local schools, charities and finally it is then taken away for recycling. This ensures the maximum amount of our existing office furniture is reused or recycled.

Environmental Management System

A certified ISO14001 Environmental Management System (EMS) covering over 100 sites operates across the Defra group. This covers our larger sites and those which carry the most significant environmental risk across the portfolio, and smaller sites amounting to 95 per cent of our properties. Achieving and retaining the standard recognises continuing commitment to reducing environmental impact, implementing sound environmental practice, and ensuring environmental policy is considered when making decisions and delivering projects. There are several grounds maintenance and land management regimes at Defra properties that aim to enhance biodiversity including: reducing the frequency of mowing regimes and leaving grassland patches to grow wild providing food and shelter for pollinators; incorporating features such as bird and bat boxes, indigenous planting and maintenance and care of wildflower meadows/areas. The EMS is supported by Environmental, Waste and Energy policies and the Director of group Property is signatory to these policies.

Transparency Reporting

In addition to the GGC targets, the Defra group also publishes a transparency statement as part of our commitment[47]. This covers sustainable procurement, Climate Change Adaptation, nature recovery, and any Sustainable Construction.

Sustainable Procurement

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 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 have made progress at identifying the consumer single use plastics purchased for our offices and continue to pursue options to reduce them or replace them with non-plastic alternatives. Single use plastic items include tea bags, pens, packaging material, wipes, cleaning products and more. We will continue to source suitable alternatives where they are available.

Sustainable Construction

Building construction projects on Defra's estate take account of sustainability in several ways.

Firstly, we look to design buildings to an 'excellent' BREEAM (Building Research Establishment Environmental Assessment Method) standard, this is a method that demonstrates the design team has considered and evolved the structure and its components to be as environmentally sustainable as is viable, using the latest range of products within the construction sector.

[47] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/our-energy-use

Secondly, building energy loads are considered alongside options for the building to generate its own energy from renewable sources.

Lastly, we look at how the construction work can demonstrate ‘Social Value’, for example through use of locally sourced materials, labour, and traders.

Construction work at the Weybridge Campus is a significantly large, long-term project, and as such has its own sustainability approach, including performance targets for the site. The strategy covers four themes: Adapting to Climate Change; Nature Recovery; Resource Conservation and Social Value. The Weybridge Sustainability Strategy aims to reduce carbon emissions to a minimum required to support the functional requirements and be consistent with the Net Zero Carbon Target, through a combination of decarbonised energy and energy efficient infrastructure and buildings.

The Weybridge Sustainability Strategy procurement selection and tendering process for the main contracting parties involves questioning, reviewing, scoring, and grading applicants on their sustainability approach and compatibility to work with the programme as a supply-chain partner and to maintain and fulfil the aims of the Weybridge Sustainability Strategy.

For construction projects at the campus and for monitoring sustainability standards, we utilise BREEAM sustainability assessment tools to assess and monitor the performance of new project and refurbishment schemes over a certain size, with the objective to develop overall energy and carbon efficiency to achieve BREEAM ratings.

Climate Adaptation

We are taking steps to understand and plan for the risk of climate change to our estate and operations across Defra group in line with both GGC targets and those within the Defra group Sustainability Strategy 2023-2033.

In March 2023, Defra published its first ever sustainability strategy for the Defra group as a whole. The strategy commits to:

- Understanding and quantifying the risk to Defra group operations, assets, and supply chain to projected future climate conditions.

- Planning for, and implementing adaptation measures across our operations, assets, and supply chain to avoid disruption because of unavoidable climate change, impacts Defra group.

Defra group is now working to respond to the strategy commitments. This year the Sustainability Centre of Expertise (SCoE) has undertaken a risk-scoping exercise to better understand and improve how climate change risk is managed across Defra group. SCoE has engaged with functions within the Core department and its 35 public bodies to ensure a robust and centralised process for climate risk assessment and mitigation is in place, accounting for other reporting requirements including Adaptation Reporting Power and GGCs.

Defra group Property (DgP) and Environment Agency Estates are currently undertaking site-based climate vulnerability assessments using a bespoke tool developed for the purpose by the EA. This screening exercise will identify Defra group Estate at higher risk from climate impacts and help us ensure we can maintain business operations during chronic or acute climate events.

This year, Defra group has developed bespoke Carbon Literacy Training which is available to all staff. The training seeks to educate staff on measures they can adopt both as part of their work, and within their personal lives, to mitigate and adapt to climate change.

Nature Recovery

Defra group is responsible for a large and diverse portfolio of land; from the grounds of our offices and depots to nationally significant protected sites. In 2022, we began a collaborative project across Defra group to better understand the distribution and habitat classification of our natural assets to improve and enhance nature in line with national targets. This work will support the requirements of our GGC to develop and deliver a nature recovery plan, and that of the Defra group Sustainability Strategy to develop a group-wide evidence base of our land assets.

Work to date to inform the natural asset evidence base has involved extensive consultation across Defra group to determine data held, and stakeholder requirements for a cross-group natural asset register to inform decision making for nature recovery and enhancement. Within the financial year 2023-24, Defra group SCoE will partner with geospatial and natural capital experts to look at how to develop a natural asset register, presented within an accessible geospatial mapping format. The natural capital evidence base will inform the subsequent development of the Nature Recovery Plan, bringing together data to inform decision making.

Recognising opportunities for nature enhancement within Defra group assets (offices, depots), SCoE is working to develop relevant biodiversity KPIs against which progress can be measured and reported. Biodiversity surveys have been commissioned on selected sites and Green roofs, biodiverse bike sheds and other measures have already been implemented in parts of the estate.

Green ICT

Defra has authored and adopted the Greening Government ICT and Digital Services Strategy[48]. In addition, Defra has a Departmental Sustainable ICT Strategy and Policy which applies to all Digital, Data and Technology services that are designed and delivered. Stringent, globally leading KPI's and standards are applied ensuring that ICT delivers sustainability improvements, helping work towards Net Zero and wider sustainability commitments.

As part of the strategy Defra reports the GHG and Power Consumption for all our Defra group ICT, a full breakdown of waste, using the waste hierarchy, including value retained and charitable donations, strategy statements and results. More information can be found in the Greening Government ICT and Digital Services annual reports[49].

Defra owns and chairs the Sustainable Technology Advice and Reporting (STAR) team for government.

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[48] https://www.gov.uk/government/publications/greening-government-ict-and-digital-services-strategy-2020-2025/greening-government-ict-and-digital-services-strategy-2020-2025

[49] https://www.gov.uk/government/collections/ict-strategy-resources#greening-government-ict

Further Information

Quarterly updates on Defra group's performance towards the GGC can be found online[50].

This report should be read in conjunction with the Annual Report and Account Sustainability Reports produced by each of the Defra group bodies.

Sustainability Data

ENERGY			2017-18	2019-20	2020-21	2021-22	2022-23
Non financial indicators (kWh)	Energy consumption	Total energy consumption	203,297,967	193,248,581	195,143,695	193,921,369	199,251,811
		Total electricity	100,028,361	102,308,375	92,644,054	82,576,760	103,285,282
		Electricity: standard	49,183,249	10,886,219	9,705,418	4,781,589	8,650,541
		Electricity: green	48,364,769	91,422,156	82,938,637	76,188,564	89,854,709
		Electricity: Purchased CHP	0	0	0	0	0
		Gas	81,030,642	78,819,187	84,477,537	92,658,714	84,540,626
		Oil	18,122,019	10,426,013	15,829,742	14,816,340	7,683,240
		Biomass	1,773,783	772,306	1,273,371	1,540,157	1,710,767
		CHP	2,306,324	0	0	1,620,964	1,173,662
		Self generated renewables	1,564,879	401,833	470,505	1,645,569	4,815,633
		LPG	535,152	518,046	271,034	440,182	556,274
		Other	417,150	2,821	177,452	229,289	266,359
Financial Indicators (£000)	Energy Costs	Electricity costs	Included in other energy costs				21,771
		Gas costs					5,592
		Oil costs					1,013
		Other energy costs	13,530	17,145	17,122	19,179	469

[50] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/our-energy-use

WASTE		2017-18	2019-20	2020-21	2021-22	2022-23
Non financial indicators ('000 kgs)	Total waste	7,244	7,526	4,689	5,015	8,688
	Hazardous waste	272	9	45	29	54
	IT waste recycled and unrecyclable	30	7	1	3	38
	Recycled	3,337	2,976	1,068	1,596	4,102
	Composted	248	1,364	46	227	198
	Incinerated with energy recovery	1,745	2,678	2,379	1,907	2,653
	Incinerated without energy recovery	464	374	431	511	341
	Landfill	1,447	1,498	764	770	1,393
Financial indicators (£000)	Total disposal cost	3,510	2,823	3,329	4,750	3,991
	Hazardous waste	623	439	634	375	527
	IT waste recycled and unrecyclable	Not reported in these years				3
	Recycled	698	326	799	1,122	944
	Composted	Included in recycled costs				57
	Incinerated with energy recovery	347	272	850	480	1,006
	Incinerated without energy recovery	n/a	n/a	n/a	6	91
	Landfill	119	71	300	404	1,346

WATER			2017-18	2019-20	2020-21	2021-22	2022-23
Non financial indicators (m3)	Water Consumption	Total scope 2 water consumption	612,505	592,845	583,463	405,797	570,582
Financial indicators (£000)	Water supply costs		1,051	1,655	1,222	1,076	1,272

GREEN HOUSE GAS EMMISSIONS		2017-18	2019-20	2020-21	2021-22	2022-23
Non financial indicators ('000 kgs CO2e)	Scope 1: direct emissions	31,698	27,257	24,515	27,959	25,339
	Scope 2: indirect emissions	37,500	26,150	21,599	17,192	19,049
	Scope 3: emissions	10,214	7,322	3,124	5,886	8,518
	Total emissions	76,188	60,729	49,237	51,037	52,906
	Direct emissions from buildings	21,604	Not reported in these years		21,576	17.925
	Scope 3: emissions from electricity	3,206	2,189	1,858	1,521	1,743
	Scope 3: emissions from domestic public transport	7,008	5,133	1,266	4,364	6,775
Financial indicators (£000)	Expenditure on official business travel	27,560	29,974	16,580	17,366	33,955

OTHER TARGET AREAS		2017-18	2019-20	2020-21	2021-22	2022-23
Non financial indicators	Emissions from domestic flights ('000 kgs CO2e)	265	134	3	26	87
	Emissions from International travel ('000 kgs CO2e)	203	Not reported in these years		270	1,870
	Number of domestic flights	3,457	1,814	66	386	1,347
	Distance of domestic flights (kms)	1,877,458	994,705	21,141	199,188	672,822
	Distance of International flights (kms)	2,374,360	Not reported in these years		2,909,213	20,465,469
	Distance of International rail (kms)	54,171	Not reported in these years		7,008	263,055
	Paper use (reams)	72,833	46,449	4,836	10,359	9,735

Notes

(i) Under GGC reporting, areas of a building occupied by non-government occupants are not included. Where this is the case buildings have been apportioned according to floor space occupancies.

(ii) Distance of international flights, Distance of international rail and Emissions from international travel were only partially collected in 2017-18 so do not cover all organisations. International travel was lower in 2021-22 due to COVID-19 lockdowns.

(iii) Gas used in Combined Heat and Power (CHP) units is not included in the gas figure as GGC reporting guidance states that this energy is reported as CHP output.

(iv) All consumption data presented in this report reflects reported GGC figures. Cost figures reflect the accounting records for the respective year.

(v) Hazardous waste is included in the landfill waste figure as per GGC reporting.

(vi) Previous years' data has been revised from last year's publication to incorporate any corrections, adjustments and to reflect the increased GGC reporting scope. For this reason, tables and performance may appear differently to previous year's reports.

(vii) Emissions from electricity are captured across scope 2 and 3 as electricity generated and supplied to the national grid and due to losses in transmission and distribution of electricity through the national grid to the consumer.

(viii) Public transport emissions are captured within the scope 3 emissions. For the purposes of taxi travel, mileage is estimated from spending on taxis using a rate of £2.50 per km.

(ix) Some ICT waste information is currently unavailable. Changes to our contract are being put in place for future reporting. It is not expected that the ICT waste data is material to overall waste targets performance.

(x) Data for years 2018-19 to 2020-21 is taken from prior GGC reporting and therefore does not cover the same scope of organisations. It is included for general comparative purposes.

(xi) Data for the baseline year 2017-18 differs from previous versions of this report due to the baseline being recalculated following the launch of the new GGCs and with a larger scope of organisations. Further amendments were made to the baseline in 2022 to incorporate Forest Research into scope. Other years prior to 2022-23 have not been adjusted to incorporate Forest Research as per note (x) above.

(xii) Incinerated waste costs appear lower as a lot of incineration is carried out on Defra sites rather than third party suppliers. Costs for fuel used in incineration are reflected in the costs for energy.

(xiii) For data from 2022-23 it has been observed that there are some oil consumption data missing due to a change of contract at the beginning of the year. It is not possible to make accurate estimates of the missing data, so the figures provided for oil only include what data is available. Corrections to 2022-23 data will be made in future editions of this report.

(xiv) In instances where data is unavailable but believed to be immaterial or minimal impact to the overall performance an estimate has been used following a methodology of reproducing figures from a previous quarter or previous year for the missing data points. For missing quarterly data, this will either be the quarter immediately before the missing quarter or the same quarter from the previous year in order to avoid seasonality impacts. When the data becomes available, corrections will be made in future editions of this report.

Definitions

Scope 1: direct emissions – Emissions from buildings that ‘burn’ fuel on site such as emissions from oil, natural gas, Liquid Petroleum Gas, biomass etc. Also includes emissions from vehicles owned or leased by the department such as badged vans and lease cars.

Scope 2: indirect emissions – Only emissions from electricity that comes from the national grid, regardless of supply contract type. As these emissions are from the generation process of creating electricity, mostly at power stations, the emissions occur away from the department’s sites and so are considered scope 2.

Scope 3: emissions – Emissions from vehicles and public transport that are not owned by the department, such as trains, planes and staff’s own personal vehicles used for business purposes. Also includes emissions from national grid electricity generated by the distribution of electricity, e.g. the maintenance of the power lines and other operations carried out by network operators. Note that the scope 3 emissions in this report do not include emissions from any other suppliers to the department as these are out of scope for GGC reporting.

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