

enhancing... improving... cleaning... restoring...  
changing... tackling... protecting... reducing...  
creating a better place... influencing...  
inspiring... advising... managing... adapting...

## Annual report and accounts 2005/2006

We are the Environment Agency. It's our job to look after your environment and make it a better place – for you, and for future generations.

Your environment is the air you breathe, the water you drink and the ground you walk on. Working with business, Government and society as a whole, we are making your environment cleaner and healthier.

The Environment Agency. Out there, making your environment a better place.

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**Environment Agency  
Annual report and accounts 2005/06**

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## Chairman's foreword

It is 10 years since the National Rivers Authority, Her Majesty's Inspectorate of Pollution and the waste regulatory functions of local authorities came together to form the Environment Agency. The aim was to bring a more integrated approach to protecting and improving the quality of air, land and water.

I have been a member of the Environment Agency Board since 1996. Looking back over this time I have no doubt that the Environment Agency has made a real difference to the environment in England and Wales and to the quality of people's life. We have also achieved a more consistent and national approach to all aspects of environmental legislation.

In just the last three years, we have built or improved flood defences and reduced flood risk for 100,000 homes. Our flood risk management work prevents more than £3 billion of flood damage each year.

We have helped create an extra 1,200 hectares of wetland, salt marsh and mudflat – all of which reduce flood risk and boost coastal wildlife.

We are seeing huge improvements in wildlife habitats – for example otters have spread to over a third of rivers in England, compared with a quarter 10 years ago. In Wales three-quarters of the rivers contain otters, compared with just over half the rivers in 1991.

Business is starting to get the message that good environmental performance means good business performance. In 2005 almost half of the sites we regulate under the Pollution Prevention and Control regime – the major industrial sites in England and Wales – achieved the highest standards of environmental management. And pollution incidents caused by businesses were the lowest on record.

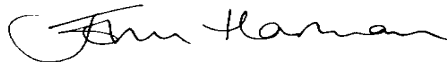
We are helping people to reduce their impact on the environment as their awareness of it rises. Since we began supporting World Environment Day in 2004, many thousands of people have pledged to make small changes that add up to big benefits for the environment. This has resulted in millions of litres of water saved and hundreds of thousands of tonnes of carbon dioxide not being emitted.

But it's not just about regulation and personal impact. One of our key achievements has been to help bring the environment right up the political agenda. This allows us to join with others and influence a wide range of policies. For example, we helped to improve environmental building standards and shape energy and transport policies, even though we have no direct statutory role in these fields.

Despite this excellent progress, however, there is one issue that dwarfs all the others – climate change. With unprecedented media coverage, ever more worrying scientific revelations and a drought that could be our worst in 100 years, this may go down as the year society at large woke up to the realities of climate change and the scale of the challenge it poses. Let us hope that this awakening translates into decisive action to kick our carbon habit.

The next ten years will see climate change touching every part of our work – the power stations we are helping to reduce carbon dioxide emissions from, the water resources we are working with water companies to safeguard, the communities we are protecting from increasing flood risk.

We may have had a good ten years. But if we are to get England and Wales on the right footing to tackle climate change, the next ten years means raising our game. And with the commitment and skills our staff can bring to this challenge, I have every confidence we will.

A handwritten signature in black ink, appearing to read "John Harman". The signature is fluid and cursive, with a large initial "J" and "H".

Sir John Harman  
Chairman

## Management commentary

### Introduction

Our work touches many parts of people's lives. An improved environment, especially one that local communities themselves have helped to create, often brings with it a range of wider social and economic benefits.

This is something borne out in our recent study *Delivering regeneration through environmental improvement*. It looked at several environmental projects that became catalysts for a range of other improvements – from new sports facilities in a once run-down London park to historically polluted rivers in Wales that are now magnets for schools and angling clubs.

The study revealed that these places are now attracting more people taking more physical exercise. One wetland site in South Yorkshire had seen a 400 per cent rise in visitor numbers in the last few years. In many cases people were also forming stronger bonds with the natural environment, including children whose teachers also reported improved core skills in literacy and numeracy, and knowledge relevant to the science curriculum.

There were economic benefits too, from job creation and boosts to local businesses to increases in property prices. We even found evidence of lower crime levels and reduced antisocial behaviour in an urban park where a river restoration scheme had given the area a safer, more open feel.

In every case we worked with like-minded organisations and community groups to make a real and lasting difference to people's lives and the places they live. Many of the improvements are happening in parts of England and Wales that are disproportionately burdened with social and economic problems. As our new corporate strategy *Creating a better place* explains, we will be channelling more of our energy into these areas over the next five years.

*Creating a better place* marks the beginning of an exciting new phase in the development of our five key roles – efficient operator, modern regulator, influential adviser, active communicator and champion of the environment. It also explains how we will continue to rise to the kinds of challenges we faced last year, as summarised below.

### 1. Major challenges we face

#### Climate change

More people are now aware that climate change is happening and will have severe impacts in England and Wales, particularly when it comes to flooding. Limiting and adapting to climate change is one of the most important parts of our work.

We play a central role in the European Emissions Trading Scheme (EU ETS) for the UK. EU ETS aims to restrict emissions from energy intensive industries. It works on a cap and trade basis, by setting an overall limit for a set time period (phase) and then allocating a quantity of carbon dioxide allowances to each company in the scheme. Each year of the phase installations must surrender allowances equivalent to the amount of carbon dioxide they emit. Operators are allowed to trade allowances to balance their emissions. Phase I of the scheme began in 2005 and will run until 2007. Phase II runs from 2008 to 2012.

Last year we led a European Union LIFE project on the future of the EU ETS. We have looked at the feasibility of expanding the scheme to cover new sectors and gases, and options for improving its design and implementation. This has given us valuable opportunities to influence the European Commission's review of the scheme during 2006.

We put together a comprehensive submission for the Energy Review in April 2006, which focused on what more needs to be done to achieve long term carbon reductions in order to avoid dangerous climate change.

We have also been planning how our organisation can best prepare for and manage the impacts of climate change in everything we do – from our work with farmers, water companies, planning authorities and the waste industry to the way we assess flood risk. Part of this is about 'climate proofing' our own activities – making sure our working practices have the minimum possible impact but are also able to adapt to the changes we anticipate.

### **Managing flood risk**

Last year we reduced flood risk for 52,600 houses in England and 4,100 houses in Wales – almost double the target set by Government. This included completing £18 million improvements to the sea defences in East Worthing, Lancing and West Shoreham, improving protection to over 1,300 homes and businesses. Work also began on the Alkborough Flats Tidal Defence Scheme, the largest flood storage and habitat creation project in Europe. This will see 440 hectares of agricultural land returned to the Humber Estuary, creating mudflats and wildlife habitats to replace the existing engineered flood defences whilst reducing flood risk for over 300,000 people living and working in the area.

We worked on national projects and flood modelling to provide accurate information to the public about flood risk. This information also helps us to monitor our successes in reducing that risk. The Government uses it to calculate the amount of money it will spend on flood defence capital works and the insurance industry uses it as a starting point for assessing insurance risk.

We remain on track to complete our Catchment Flood Management Plans (CFMP) programme by December 2007 in England and March 2009 in Wales. As an integral part of our Flood Risk Management Strategy, it sets out our long-term direction for managing flood risk, within each river catchment area, for the next 50 to 100 years.

On January 26 2006, we launched phase 1 of our new Floodline Warnings Direct system to improve our flood warning service across England and Wales. It uses existing systems such as telephone, mobile, fax, and pager and newer technologies, such as text messages, to send flood-warning messages simultaneously. Since January we have successfully used it to warn the public and businesses about possible flooding.

In October 2005, we ran a national and local advertising campaign to raise awareness of flooding. Over 116,000 new customers signed up to *Floodline Warnings Direct* by the end of March, including 15,000 in Wales. We expect this increase to continue.

We have continued to develop our relationships with partners such as the BBC, the Meteorological Office, Help the Aged and the Federation of Small Businesses. We have also discussed with Age Concern and the Women's Institute ways in which they may be able to support future campaigns that seek to raise awareness of older people living in flood risk areas. We have negotiated sponsorship of the weather forecasts on S4C television to raise awareness of *Floodline Warnings Direct* among Welsh speakers for the 2006/07 flood season.

### **Improving water quality**

In 2005, bathing water quality was the best on record with 489 waters (99 per cent) complying with the EC Bathing Water Directive mandatory standards. This is an increase of 21 per cent since 1990. 85 per cent of waters met stricter 'guideline' standards, up five per cent on the previous year.

We continue working with the water companies to achieve significant improvements in the quality of their sewage discharges. These improvements have happened in large part due to water company investment as part of the periodic review process.

### **Drought**

The drought in the Southeast of England started in 2004. Below average rainfall during the winter of 2004-05 meant that the Southeast started the summer of 2005 with low reservoirs and lower than normal groundwater levels.

In response to this we set up teams in Southern and Thames regions and Head Office who:

- provided extra information to the public, water companies and Government
- helped water companies develop new plans to tackle the drought
- responded to drought permit applications by water companies
- responded to fish rescues due to low water levels
- arranged for increased environmental and hydrometric monitoring
- reported to Government 2006 in *Drought prospects 2006* that this summer we could possibly face the worse drought for 100 years

In late March 2006, several water companies applied for a drought order for a non-essential use ban.

We leave 2005/06 and start 2006/07 facing some tough challenges. The drought has spread into parts of our Anglian Region and some of the lowest ever-recorded groundwater levels have been seen in Thames and Southern region.

With a hot, dry summer, the Southeast of England may face the most severe drought of the last 100 years. This could cause problems with the public water supply and have widespread environmental impacts. This is not just a problem for water companies - people and businesses must take this warning seriously and we are encouraging them to act wisely and save water.

### **Dealing with waste**

We have been working with government and industry to use resources more efficiently and reduce the impact of waste on the environment. We have also dealt with issues as and when they have arisen, such as the threat of avian flu – which could involve the safe disposal of infected bird carcasses – and illegal waste exports.

We have successfully managed the introduction of new controls on hazardous waste and prepared the agriculture and PPC waste treatment sectors for new regimes. We were a major contributor to Defra's review of the waste strategy.

We have produced a revised approach to the way we regulate the clean-up of contaminated land, through mobile plant licensing, new guidance and new financial arrangements.

We continue to develop our approach to modern regulation, focussing on wastes and activities with the greatest potential for harmful impact on the environment and health. Last year saw a 25 per cent decrease in the number of serious pollution incidents from the waste sector. We've also been cracking down on criminal activity, including fly-tipping and illegal export of waste. We found that 50 per cent of waste shipments we targeted were illegal. We have a number of investigations ongoing, many of which we expect to end up in court.

We continue to support the Welsh Assembly Government's National Strategy for Wales *'Wise about Waste'* through our work on Regional Waste Plans.

### **Protecting the public and the environment during emergencies**

Our response during the emergency phase of the Buncefield oil storage explosion, from 11 December to 4 January 2006, involved over 30 area staff, support from our colleagues in other Thames Region areas as well as regional and national support.

Our key areas of ongoing work include staff from our Thames, Midlands and Anglian regions being seconded to the 'Competent Authority' investigation. We have taken nearly 450 groundwater, surface water and soil samples, all of which have been analysed by our laboratories. We have staff looking at disposal options for the contaminated fire-waters, as well as assessing the impacts of the incident on local groundwater.

Overall, however, serious pollution incidents from industry were down by 12 per cent last year.

### **Water Framework Directive**

The Water Framework Directive is becoming more important both nationally and regionally. We plan to work with the farming community around sensitive catchments, using advice, incentives, knowledge of environmental conditions and management systems. Ultimately this will lead to a water environment that is almost entirely free from any kind of pollution.

Through the Water Framework Directive Programme we have also set up new river basin district liaison panels and organised a series of 10 stakeholder workshops.

## **2. Developing our organisation**

This year we completed the five years of our corporate strategy *Making it happen*. We also launched our new corporate strategy, *Creating a better place*, following a detailed consultation with our major stakeholders.

Building on the successes of *Making it happen*, *Creating a better place* sets out how we are going to achieve our environmental vision. It defines our goals and priorities for the next five years and outlines what we will be doing and how we will work. Increasingly important priorities include preparing for the effects of climate change, carefully managing the impacts of new development on the environment, tackling diffuse pollution and creating healthy local environments in the most disadvantaged areas.

Each of our directorates, Environment Agency Wales and our seven English regions has produced a 'Local Contribution'. These define high level priorities and five-year strategic plans at a local level.

In Wales, we have been working closely with the Welsh Assembly Government to help them develop their Environment Strategy. Our local contribution *Creating a better Wales* is closely aligned to this.

### **Using our resources more efficiently**

This year we saved £41.9 million through our efficiency programme. This was well ahead of our target of £30 million.

We saved a further £5.5 million by improving the way that our regional offices work. Our Portfolio and Benefits Management System has improved how we track, monitor and analyse efficiency and change in the organisation.

Our partnership projects have attracted almost £100 million in external funding for environmental improvements, exceeding our target by almost 50 per cent.

### **Environmental performance**

We continue to strive to set an excellent example in environmental performance to other businesses and organisations.

Working to internationally recognised standards for environmental management systems, we have also introduced processes that manage significant environmental risks posed by our contractors. This has allowed us to retain our registration to the environmental management standard ISO 14001:2004.

We were very disappointed that work being carried out on our behalf by a contractor killed hundreds of fish in a tributary of the River Exe in Somerset last year. We paid a total of £8,966 in fines and costs at Exeter Crown Court and apologised unreservedly for the damage caused.

We have also successfully re-registered with the Eco-Management Audit Scheme (EMAS), demonstrating our ongoing commitment to the highest possible environmental management standards.

We have started work on an internal environment management strategy, which will run until 2011. As part of this our directors have allocated an annual fund to reduce the carbon emissions from our business by investing in new technologies.

Our overall environmental performance continues to improve. We have reduced water use in our offices and buildings to its lowest recorded level of 5.04m<sup>3</sup> for each full-time member of staff (FTE) - ahead of our target to reduce our water use by 10 per cent by 2006/07. Our office residual waste has reduced to 19.2kg for each FTE, again the lowest recorded, and a reduction of 38 per cent on our 2001/02 baseline of 31kg/FTE. We have also met our energy targets for all our offices and we are on track to meet our target for reducing transport emissions from our vehicle fleet.

Our environmental management accounting process uses our existing financial and environmental management systems to collect, consolidate and report quarterly to internal decision-makers. It reports on £59 million of our significant environmental expenditure including data on water, waste and transport impacts. A full annual performance statement from our Environmental Accounting System is available from [www.environment-agency.gov.uk/environmentalaccounting](http://www.environment-agency.gov.uk/environmentalaccounting).

Accounting for environmentally significant expenditure can help business save resources and money. We are working with Envirowise and the UK accounting bodies to promote the benefits of environmental accounting and implement good practice. Working with the finance sector we have sought to increase the extent and quality of environmental disclosures by influencing new company law annual reporting requirements and stock market listing rules. This will make environmental risks and opportunities transparent to shareholders, investors and insurers.

From our research, published in 2004, only 24 per cent of FTSE all-share companies report quantitative environmental disclosures, dropping to 10 per cent who cover water, waste energy and climate change. We are updating this research to monitor progress and will publish the results in September 2006 with a further update scheduled for September 2007.

### **Health and safety**

Our health and safety performance continues to improve. We set ourselves a limit of no more than 108 incidents that lead to the person involved taking a day or more off work. We had 103 such incidents last year, compared with 121 in 2004/05 – a 15 per cent improvement.

Our Board agreed a ‘Step Change Programme’ in May 2006 to continue reducing the number of incidents. We have also renegotiated the occupational health contract with our providers to improve the service.

### **Diversity**

Diversity is a key priority for us and we continued to make good progress during 2005/06. We won the Chartered Institute of Personnel and Development *Diversity Excellence Award*. We were also awarded a gold certificate in the 2005 *Race for Opportunity* benchmarking exercise, where we finished as ninth best public sector performer and for the second year running we were one of the top five most improved organisations.

Over the last three years we have increased the number of black and minority ethnic (BME) staff we employ by 56.4 per cent – from 195 in 2002/03 to 305 in 2005/06, plus 11 BME Path Trainees, resulting in an overall increase of 62.1 per cent. We have also doubled the number of female senior managers from 67 in 2002/03 to 134 in 2005/06.

### **International relations**

We led on the production of the ‘*Prague Statement*’ for the Network of Heads of European Environmental Protection Agencies, setting out how good environmental regulation contributes to competitiveness. This was the first publication produced by this informal network.

As one of the environmental regulators in the EU network for the Implementation and Enforcement of Environmental Law (IMPEL) we are helping to achieve greater consistency in member states’ enforcement of environmental legislation and promoting best practice across the EU. We are leading on five projects to improve how EU environmental legislation is carried out and hosted the IMPEL plenary in Cardiff in December 2005 where we raised the profile of better regulation.

We also worked with Defra to influence EU environmental policy and legislation. This included a successful seminar on climate change, held in the European Parliament in Brussels in October 2005, under the UK’s EU Presidency.

We continued to develop strong relationships with our sister organisations in Europe and beyond, notably the US Environment Protection Agency. We also launched projects to share knowledge and good ways of working in Bulgaria (on water quality) and Kenya (risk-based approaches to environmental regulation). We continued our work on two projects in South Africa (river catchment management and tackling environmental crime).

### **Modernising regulation**

The Government's *Hampton and Better Regulation Task Force* reviews were published in March 2005. We have been working with business, the EU and government in England and Wales to put their recommendations in place, so that legislation embraces a modern approach to regulation.

We have assessed the administrative costs of our regulation on businesses. We are working to reduce these costs, while maintaining environmental standards. This includes a new scrutiny panel to challenge emerging regulatory proposals.

Working closely with industry we also issued plans of our regulatory and environmental objectives for the cement, chemical and nuclear sectors. Similar plans for other sectors will follow.

## **3. Financial review**

### **Financial highlights**

Our total funding last year was £1,039 million, an increase of £183 million or 21 per cent on the previous year.

Part of the increase was used to fund general cost inflation and to pay for a range of new work and responsibilities we have taken on. But a significant proportion (£103 million) was provided as part of the last spending review to pay for increased investment in flood risk management, particularly in the aftermath of severe floods in Easter 1998 and Autumn 2000. The Government's Foresight report (2004) and the recent report of the Environment Food and Rural Affairs Committee have pointed to the need for further substantial investment in flood risk management, not least because of the increased risk of flooding from climate change.

Of our total income £635 million (61 per cent) was provided in the form of grant-in-aid from Government, £333 million (32 per cent) was raised through our statutory charging schemes and £71 million (7 per cent) came from miscellaneous sources.

Government decisions on funding for the environment, which in turn determines the level of our grant-in-aid provision, are made through the Treasury's Spending Review process, which sets three-year expenditure budgets for Government departments.

The 2004 Spending Review set new spending plans for 2006-07 and 2007-08 and confirmed the spending plans which were set for 2005-06 in the 2002 Spending Review.

The 2007 Comprehensive Spending Review will set spending plans for 2008-09, 2009-10 and 2010-11.

Last year, £590 million of our grant-in-aid was provided by Defra to fund our activities in England and £45 million by the National Assembly for Wales to fund our activities in Wales.

Our total expenditure last year amounted to £1,038 million. Of this £550 million (53 per cent) was spent on flood risk management, £304 million (29 per cent) on environmental protection (the prevention and control of pollution) and £184 million (18 per cent) on our other water management functions.

Subject to small carry forward provisions we are required to breakeven on income and expenditure taking one year with another. We managed our breakeven target to within 1 per cent last year.

Further details of our income and expenditure are set out in the financial schedules commencing on page 69 of this report.

### **Future developments**

Following the Chancellor's decision to conduct a comprehensive spending review in 2007 we are supporting Defra in the preparation of their various submissions to HM Treasury. We are aware of the tight fiscal climate in which the review will be taken forward and will ensure that our baseline funding and our assessment of current and future pressures are subject to rigorous analysis and justification on the basis of evidence. We are determined to continue to deliver key environmental outcomes in a way that demonstrates value for money across our services.

### **Pensions**

We are delighted to be able to report that we have now secured and begun to receive the on-going cash funding from Defra for the Closed Pension Fund to pay for the pension liabilities we inherited in 1996.

We are also pleased that our Active Pension Fund is the most solvent fund in the Local Government Pension Scheme and this year we received four awards for our new investment strategy and innovative environmental overlay strategy.

However, whilst our new fund managers achieved a healthy 22.8 per cent return in our investments in their first year of appointment, our actuary is advising us that our future liabilities are also rising and so employer contributions will need to rise in coming years. Our next formal actuarial valuation is in March 2007.

### **Corporate risks**

We run a business risk process that is embedded within our business unit management teams, and conforms to the highest standards of corporate governance. The process involves the assessment, prioritisation and management of the most significant business risks that could impact on the delivery of business unit objectives. Main business units are regions, areas, Corporate Information Systems, National Laboratory Service, and Head Office directorate management teams.

Likewise, our Directors Team are involved in a similar process, informed by key themes arising from business unit risk assessments. This leads to the identification of the key corporate risks to be managed during the year.

Our Directors Team chose the following significant risks to be managed by them in 2005/06:

- Efficiency
- Change involving information systems
- Workload associated with change
- Flood risk management delivery
- Modernising regulation programme
- Delivery of new environmental regimes
- Government reviews
- Availability of right people/right skills
- Incident management

Good progress was made against action plans to mitigate these risks. This progress was actively monitored by the Environment Agency's Directors Team, Audit and Risk Committee and the Board.

The risks chosen by Directors Team for 2006/07 include a number of risks carried forward from 2005/06 that still require further management, and to some extent different emphasis.

These topics include:

- Availability of right people/right skills
- Efficiency
- Flood risk management delivery
- Significant new environmental regimes combined with the workload as a result of the cumulative impact of change
- Modernising regulation change programme.

To those carried forward, a number of new risks were added:

- Management of stakeholder engagement
- Comprehensive Spending Review 2007
- Water Framework Directive
- Potential drought
- Trade Union relationships
- Corporate and business planning review.

## **Section two - Our achievements in 2005/06**

How we performed against targets in our Corporate Plan

## Introduction

In this section we report on the progress we made last year against targets set out in our Corporate Plan. We describe this progress both for key performance targets, which are the main measures of our success, and a range of supplementary actions and targets.

These targets provide indicators of our success and are steps on the way to delivering the medium-term aims set out in our first corporate strategy, *Making it happen*, and the long-term goals in our vision. Through them we are challenging ourselves to achieve the best possible results for the environment and create a better place for everyone.

We divide our work into a number of environmental themes, which correspond to the following chapters in this section. Under each theme we have identified specific objectives and targets for our work and together these describe the contribution we are making to help **improve the quality of life for everyone in England and Wales**.

The end of this section includes a review of performance against the targets in our change programme, which is aimed at developing our organisation and improving the way we work.

### Key to symbols used in the tables which follow

✓	=	Target was fully achieved
↔	=	Target is on course or was substantially achieved
x	=	Target was not achieved or only partially achieved

## Theme: An enhanced environment for wildlife

**Our long-term aim:** Wildlife will thrive in urban as well as rural areas. Habitats will be improved and extended so that priority species will no longer be threatened. Everyone will understand the importance of safeguarding biodiversity and of sustainable ecosystems.

### Overview

Working with a wide range of partners, such as English Nature, the Wildlife Trusts and the Countryside Council for Wales, we completed 576 partnership projects last year to improve habitats. As well as supporting the diversity of nature they also offer people more opportunities to enjoy the outdoors.

Much of the work we do focuses on water and wetland habitats. Continuing improvements in river water quality have resulted in growing populations of animals, birds and plants that rely on a healthy river environment. Our water level management programme has helped us to improve wetlands in line with what we said we would do. Our role in achieving the goals of the UK Biodiversity Action Plan (BAP) was supported by the Environment, Food and Rural Affairs (EFRA) committee and our good working relationship with English Nature (EN) on biodiversity will continue with Natural England (NE).

Our 2004 report *Our nation's fisheries* found that salmon stocks were seriously depleted across England and Wales and eel numbers were critically low. As a result, we have been working to safeguard native fish stocks from the threat from illegally introduced alien species and work on our Salmon Action Plans (SAPs) is helping rivers meet our salmon conservation targets. We reduced the number of principal salmon rivers in the 'at risk' category from 35 to 33 this year.

After contributing to the EU debate on eel management we are now waiting for recommendations to address the decline. We have also developed a framework for eel management plans and produced a pilot eel management plan for the River Severn.

### Key Performance Targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Have 85 per cent of EA owned Sites of Special Scientific Interest (SSSI) land in favourable condition by 31 March 2006.	✓	Fully achieved.
2	Have put in place at least 90 per cent of agreed remedial actions to improve wetland SSSIs in unfavourable condition.	↔	This has been achieved for priority SSSIs under the water level management programme (see target 7). A work programme for the remaining SSSIs is being agreed with English Nature.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
3	For medium priority Special Protection Area (SPA) and Special Area of Conservation (SAC) sites (139 in total) have completed investigation work. At 39 high priority sites, have planned or put in place remedial actions.	↔	Investigation work was completed on 76 per cent of medium priority sites. A further 19 per cent of work is due for completion in the first half of 2006/7. We delayed completion of work on high priority sites in agreement with English Nature, Countryside Council for Wales (CCW), Defra and Welsh Assembly Government (WAG) to allow for the 'pilot' at Chichester and Langstone Harbour Special Protection Area (SPA).
4	Have increased by at least 250 hectares the area of habitats for which we have actions under the UK Biodiversity Action Plan (BAP).	✓	Very good progress was made last year. In partnership with others we helped create 518 hectares of new BAP habitat of which 230 hectares was delivered through our flood risk management work.
5	Have monitored at least 170 high-risk fish transfers.	✓	We carried out 239 high-risk fish transfer investigations to safeguard native fish stocks from the threat of unauthorised fish introductions.
6	Have completed 700 actions from our Salmon Action Plans.	✓	We completed 988 actions to help rivers meet our salmon conservation targets. This is due to additional opportunities, working with local authorities, Fishing Clubs and further funding from the Welsh Assembly Government (WAG) for the Sustainable Fisheries Programme.

### Other actions and targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
7	Help protect and improve the condition of internationally and nationally important wildlife sites in England and Wales, creating wetland, saltmarsh and mudflat habitat to offset past damage and loss. For example, a £14 million programme to implement water level management (WLMP) plans and improve the condition of 11,000 hectares on 60 priority wetland sites of special scientific interest (SSSIs) will be started and should be completed by 2010.	↔	The Water Level Management Programme (WLMP) programme is up and running. Actions were completed on two sites and a total of £1 million spent on reviews and actions across many sites. In total, work was carried out on 89 SSSIs across the country to help improve their condition, in line with the Public Service Agreement (PSA) programme.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
8	Help Defra achieve its public service agreement (PSA) target that 95 per cent of all SSSIs in England will be in favourable or recovering condition by 2010. We aim to have 90 per cent of our own land in favourable condition by 2007/08, but there will be significant longer-term issues to tackle as well. A remedial work programme for other SSSIs we have an influence on, through our regulatory and operational activities, will be agreed with Defra and other major landowners by December 2005.	↔	National information on a remedial work programme was provided to English Nature (EN) in February 2006 and quality checking by regions was completed by 31 March 2006. Details of the work programme will be agreed by April 2007. 85 per cent of SSSI land owned by us is now in favourable condition, although much of the improvement was due to more accurate assessment of unit condition.
9	In partnership with English Nature and the Countryside Council for Wales, we will progress our consents review programme, to ensure compliance with the Birds and Habitats Directives, using the priorities and timetable agreed with Defra and the National Assembly for Wales.	↔	The programme is largely on track. Delays were agreed with English Nature, Countryside Council for Wales, Defra and Welsh Assembly Government to allow for the 'pilot' at Chichester and Langstone Harbour Special Protection Area (SPA).
10	Make good progress on UK Biodiversity Action Plan targets, focusing particularly on those water and wetland species and habitats for which we have a lead role.	✓	Good progress has been made. Total project spend was £23 million. We spent roughly £10 million on 576 biodiversity projects, many of which involved UK BAP species and habitats for which we lead or for which we have a key contributory role.
11	Use our capital works programmes (particularly in flood risk management) to derive wider regeneration and other benefits to support wildlife conservation, recreation and navigation.	↔	Recreation facilities and access was created through 70 capital schemes (most of which were Flood Risk Management based). These schemes provided new or improved footpaths, cycle-ways, fishing pegs, canoeing information and facilities for disabled people. Unfortunately, the capital programme so far has provided limited opportunity to deliver biodiversity gains.
12	Protect and improve river and riverbank habitats, using external funding to help pay for improvement works, and repeat a baseline survey of river habitats to assess the impact of our flood risk management activities.	↔	Our partnership project with the Rivers Trust continues to improve riverbank habitats. Preparatory work for a baseline survey of river habitats was completed.
13	Work with others to improve and develop fisheries, especially near urban areas.	✓	We have carried out 62 partnership projects to improve fisheries, at a cost of £665k, provided by the national fisheries development fund.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
14	Support Government in producing the Salmon and Freshwater Fisheries Bill, and work with Government and other organisations in developing recommendations from recent reviews of sea fisheries management. We are aware that in Wales the WAG is considering its response to these reviews and its position could differ from that taken in England.	✓	We have provided advice and support on the drafting of a draft Salmon and Freshwater Fisheries Bill.
15	Increase over the longer term the number of rivers meeting the conservation limits for salmon, carry out the measures identified from the salmon stock conservation review and, working with others, follow a prioritised programme of salmon action plans to improve habitat and accessibility. We will also implement the recommendations of the review as to the way we deliver fisheries enforcement to reduce the illegal salmon catch.	↔	<p>The number of principal salmon rivers in the 'at risk' category has reduced by two from 35 to 33 since last year.</p> <p>Prioritised salmon action plan actions were completed and 40 capital projects, costing £498,000, were funded. We have delivered the sustainable fisheries programme in Wales, supporting WAG and others. We have carried out the recommendations of the enforcement review and started salmon stock conservation review measures.</p> <p>Our long term targets for salmon in England are being worked on with Defra during 2006/07, and we will implement these from 2007/08.</p>
16	Following guidance from the EU, and within available resources, we will identify and implement a package of measures as part of a European plan to address the decline of eels.	✓	<p>We have contributed to the EU debate on eel management and are waiting for recommendations to address the decline.</p> <p>We developed a framework for eel management plans and produced a pilot eel management plan for the River Severn with Defra during 2005/06 in response to the EU.</p> <p>Dependent on resources being provided to do so, implementation will begin in 2006/07.</p>
17	Subject to the outcome of two important reviews of sea fisheries management, there may be changes in our responsibilities for sea fisheries in coastal waters. We will continue to work with Government and other organisations in developing arrangements for inshore fisheries management.	✓	<p>We have made substantial contributions to Defra's Marine Fisheries led working groups, on the reform of inshore fisheries management and the marine environment.</p> <p>We are involved in developing an English Shellfish Strategy and an English Recreational Sea Angling Strategy within the former working group.</p> <p>We are supporting WAG in the development of their Wales Fisheries strategy.</p> <p>We are actively influencing Government over how the Water Framework Directive will shape future inshore fisheries management.</p>

Continued...

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			<p>We sit on a new group to foster co-operation between the Marine Fisheries Agency, Sea Fisheries Committee (SFC) and us.</p> <p>We are involved in Defra consultations on achieving more sustainable bass fisheries management. We have recommended introducing administrative penalties, based around fines rather than criminal measures, and promoting socio-economic resource management.</p>

## Theme: Cleaner air for everyone

**Our long-term aim:** We will have cleaner and healthier air. The emission of pollutants into the atmosphere will decline greatly and will be below the level at which they can do significant harm to human health and the environment.

### Overview

Big reductions in industry's emissions now mean that it makes a relatively small overall contribution to most kinds of air pollution. Sources of pollution that are not within our control are now the main cause of poor air quality. Better controls on transport, especially cars and lorries, are needed if air quality targets are to be met in future.

Yet coal and oil-fired power stations remain a major source of pollutants. 2005 was the first year that UK air quality objectives for the main power station pollutants – sulphur dioxide and nitrogen oxides – were achieved.

During 2005 we worked with the electricity supply industry to make sure that its applications for Pollution Prevention and Control (PPC) permits included enough information to help us assess their impact on European habitat sites. When the industry submitted their permit applications in March 2006 they contained information agreed with the conservation agencies and us. Similar discussions will take place with the refinery sector this year.

Air quality plays an important part in human health and the government's expert panel on air quality standards is currently developing air quality guidelines. During the past year we have identified a number of pollutants and provided the panel with emission, measurement and toxicology information for the substances.

## Key Performance Targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	<p>Improve air quality by reducing key pollutants from processes that we regulate</p> <p>Target emission levels:</p> <ul style="list-style-type: none"> <li>– Sulphur dioxide (SO<sub>2</sub>) - no more than 640 kilo tonnes</li> <li>– Oxides of nitrogen (NO<sub>x</sub>) - no more than 370 kilo tonnes</li> <li>– Particulate matter (PM<sub>10</sub>) - no more than 13.2 kilo tonnes</li> </ul>	<p>✓</p> <p>✗</p> <p>✗</p>	<p>Sulphur dioxide (SO<sub>2</sub>) = 487 kilo tonnes</p> <p>Oxides of nitrogen (NO<sub>x</sub>) = 438 kilo tonnes</p> <p>Particulate matter (PM<sub>10</sub>) = 15.5 kilo tonnes</p> <p>There has been a 20 per cent decrease in releases of sulphur dioxide from industry regulated by us compared to 2004. This is largely due to the installation of flue gas desulphurisation abatement equipment at West Burton power station.</p> <p>Releases of nitrogen oxides were very slightly above those in 2004 and were more than we anticipated. This is due to increased generation at a number of coal-fired power stations due to the relatively high price of gas.</p> <p>Particle releases were approximately 7 per cent greater than in 2004. This was in part due to increased generation and the use of low sulphur coal (which affects abatement equipment performance) at some coal fired power stations. Changes in reporting methodology also led to increased releases being reported at two mineral sites.</p>

## Other actions and targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
2	<p>Help achieve the goals of the UK Air Quality Strategy through targeted reductions in pollutants (particularly sulphur dioxide, nitrogen oxides and particulate matter) from processes that we regulate. In particular we will ensure that activities regulated by us do not lead to breaches of EU air quality limit values or make a substantial contribution to breaches of UK objectives.</p>	↔	<p>See 1 above for targeted reductions.</p> <p>Over the last five years we have been working with the Electricity Supply Industry to develop air quality management plans that help coal and oil-fired power stations to meet UK air quality objectives. 2005 was the first year that UK air quality objectives for sulphur dioxide and nitrogen oxides (the main power station pollutants) were achieved. There were no breaches of these air quality limit values from power station releases in 2005.</p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
3	Work with Government to implement the EU's Thematic Strategy on air quality, which is due to be published during 2005.	✓	The EU published the Thematic Strategy in September 2005. It was accompanied by a proposed EU Directive to carry out measures outlined in the strategy. Some of these measures will be carried out through the government's air quality strategy in the UK. We participated in government working groups to develop the strategy in 2005. The draft strategy was published for consultation in April 2006.
4	Ensure that companies we regulate under Pollution Prevention and Control Regulations reduce their emission of volatile organic compounds (VOCs) and phase out the use of specific solvents, as required by the EU Solvent Emissions Directive.	✓	The EU Solvent Emissions Directive (SED) is carried out through the PPC regime. Local authorities regulate most SED activities and our involvement is mainly restricted to surface treatment and pharmaceutical production. Pollution Prevention and Control applications for these activities were received in 2004 and 2006 respectively. Pollution Prevention and Control (PPC) permits for these installations are issued requiring the activity to meet the SED requirements within the appropriate timescale. The SED requirements may involve specific emission limits, implementation of a solvent reduction scheme or a plan for substitution. Full implementation of the Directive is required by 31 October 2007.
5	Working with others, develop criteria known as 'environmental assessment levels' for use in assessing air emissions from industrial processes.	↔	During 2005 we developed a consultation document on a methodology for deriving Environmental Assessment Levels. We plan to consult on this in 2006.
6	Work with Government to develop air quality guidelines for the protection of human health for a number of substances.	✓	<p>We have identified a number of pollutants and the Government's expert panel on air quality standards is working to develop air quality guidelines.</p> <p>We provided the panel with emission, measurement and toxicology information for the substances.</p> <p>Air quality guidelines for halogens and hydrogen halides (bromine, chlorine, hydrogen bromide, hydrogen chloride, hydrogen fluoride, and hydrogen iodide) were published in February 2006.</p>
7	Ensure that emissions to air from processes we regulate do not lead to adverse effects on wildlife sites of European importance as designated under the EU Habitats Directive.	↔	During 2005 we worked with the electricity supply industry to make sure that their applications for Pollution Prevention and Control permits included enough information to help us assess their impact on European Habitat sites. The industry submitted their permit applications in March 2006. These contained information agreed with the conservation agencies and us. Similar discussions are underway with the refinery sector, whose constituents will submit their permit applications over summer 2006.

## Theme: Improved and protected inland and coastal waters

**Our long-term aim:** Rivers, lakes, groundwaters and coastal waters will be cleaner and richer in wildlife. They will support diverse and healthy ecosystems and provide for recreation and the needs of communities and the economy. Land and water will be managed in an integrated way, with a full understanding of the risks.

### Overview

Water quality continues to improve across the board, underpinned by sustained investment by the water industry in new sewage treatment works. Water at 99 per cent of 'designated' beaches (100 per cent in Wales) was clean enough to meet EC Bathing Water Directive 'mandatory' standards this year. And 85.2 per cent of bathing waters met the tougher 'guideline' standards.

River water quality is also improving. 90.1 per cent of rivers met their water quality objectives in 2005, slightly below target but up from 89.3 percent in 2004.

Work on the Water Framework Directive (WFD) continues. This new European Union legislation challenges member states to go much further in improving the water environment, including tackling diffuse pollution, and calls for a more integrated approach to the way they manage water and land. Work to prepare for WFD has involved the assessment of all 11 river basin districts in England and Wales. Last year we began establishing a liaison panel in each river basin district that will contain representatives from business, statutory organisations, local and regional government and the voluntary sectors. These panels will agree all key water management issues and how to tackle them.

Our work with water companies and others is also helping us to understand when the water environment is being damaged by water abstraction. Last year Government instructed us that if we need to take action to restore river flows, or to improve a wetland, then any compensation due to abstraction licence holders must come from abstraction charges. We consulted on a revised charging scheme this year to provide for the recovery of compensation funds. Unfortunately it was not possible to reach an agreement on this, but we will continue this work during 2006.

After a dry winter in England and Wales, certain areas of the country, especially the South East of England, are facing a serious drought situation with many hosepipe bans being put in place. In October 2005 we completed work with Defra and the Welsh Assembly Government to develop guidance for water companies on the content and form of statutory drought plans.

Our *State of the Marine Environment* report highlighted the need to strike a much better balance between the different uses of our coasts and our seas. Its recommendations included better protection measures for marine biodiversity and fisheries, clear responsibilities for managing and regulating activities in the marine environment and a system of marine spatial planning.

## Key Performance Targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Achieve compliance with River Quality Objectives (RQOs) for at least 90.5 per cent of rivers.	↔	For the three-year rolling period ending in December 2005, 90.1 per cent of rivers in England and Wales met their water quality objectives. This compares with 86.1 per cent in 1995. In Wales, 96.4 per cent of rivers complied with their RQOs exceeding the target of 93.7 per cent.
2	Achieve compliance with EC Bathing Water Directive 'imperative standards' for at least 97 per cent of bathing waters and compliance with the stricter 'guideline standards' for at least 85 per cent of bathing waters.	✓	99 per cent of bathing waters (100 per cent in Wales) met the mandatory standards of the EC Bathing Water Directive. This compares with 78 per cent in 1990. 85.2 per cent of bathing waters met the tougher 'guideline' standards in 2005 compared with only 32 per cent in 1990.
3	Sample a minimum of 90 per cent of groundwater monitoring sites to help implement the national groundwater strategy (- aimed at meeting domestic and European legislative requirements and contributing to the protection of groundwater and its uses).	✓	We sampled 92 per cent of the groundwater monitoring sites required by the national groundwater strategy. This is part of a programme to establish a national monitoring network, which by December 2006 will involve monitoring at required frequencies of groundwater quality at some 3,389 sites.
4	Set quality standards for 50 per cent of delineated groundwater bodies to meet Water Framework Directive/ Daughter Directive requirements.	✗	This target was deferred due to extended delays outside of our control in progressing the Groundwater Daughter Directive. The work will now be undertaken in 2006/7.
5	Put in place sustainable abstraction regimes at 36 sites (cumulative) where over - abstraction is causing environmental damage.	↔	We use our statutory powers (Water Resources Act 1991) to modify or revoke damaging abstraction licences. Where we do so, we may be liable to pay compensation, which is funded through abstraction charges. We have not used these powers before so during 2006 we plan to address 10 abstractions to test these powers and refine compensation estimates.  The remaining Restoring Sustainable Abstraction (RSA) schemes will be introduced according to priority and available compensation funds. We consulted on a revised charges scheme to provide for the recovery of compensation funds. Unfortunately it was not possible to agree a basis for recovery of compensation funds within the scheme. Further work will take place in 2006.  Prior to the change in funding mechanism, solutions to rectify damaging abstractions have been implemented, principally through the 2000 – 2005 water company investment programme.

Continued...

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			We are continuing with water resource investigations and, where necessary, the appraisal of options to restore sustainable abstraction.
6	Improve 20 per cent of our navigation assets that are in 'critical' condition.	✓	We carried out 127 capital projects during 2005/06. This included 39 capital projects which improved the condition of 22 per cent of assets in 'critical' condition.
7	Increase participation in navigation and register a minimum of 33,000 craft.	✓	There were 30,458 annual craft registrations and 5,741 visitor registrations, a total of 36,199 craft registrations.
8	Increase participation in angling and sell a minimum of 1.238 million rod licences.	✓	1.268 million rod licences were sold, 10.7 per cent above the 2001/02 level, following better marketing and promotion leading to increased angling awareness. We sponsored national fishing week in August 2005, when over 300 angling events were held in England and Wales. Over 30,000 people were coached during these and other events we attended.

### Other actions and targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
9	Continue to implement the Water Framework Directive (WFD), through taking a more integrated and long-term view of the water environment. This will include further risk assessments, developing measures to reduce pollution, establishing monitoring programmes and developing draft river basin management plans.	↔	<p>We have continued to make good progress with the programme.</p> <p>The Programme of Measures (PoMs) project conducted a review of existing national measures and identified their effectiveness at mitigating environmental impacts and have assessed the subsequent gap to meeting WFD environmental objectives. Further work on Strategic Assessment will support the development of a clear set of priorities to focus our future work of WFD projects and policy initiatives. It will inform our development of Significant Water Management Issues reports and is a fundamental building block of Defra's preliminary Cost-Effectiveness Analysis of likely measures for implementation in the first cycle of the WFD.</p> <p>The public consultation on the River Basin Planning framework, called 'Water for Life and Livelihoods' closed at the end of April 2005. Over 100 responses were received. Many endorsed our approach to river basin planning and supported the need for other parties to be fully involved, whilst some were more critical of the approach taken.</p> <p>Responses were fully considered, collated and published electronically in a summary of consultation responses document. <i>Continued...</i></p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			<p>In December 2005 the River Basin Planning Summary Framework document was released electronically. Printed copies were produced in April 2006. The full Framework for River Basin Planning will be published in June 2006.</p> <p>The programme continues to develop classification tools and has recommended which ones will be used for the first River Basin Management Plan. We have continued to make sure that our tools and standards are consistent and harmonised with others implementing the WFD across Europe. We have provided expertise to the European Union Common Implementation Strategy working groups and ECOSTAT on developing European approaches to implementation.</p> <p>We are discussing with Defra and WAG the establishment of the WFD monitoring regime (which must be operational by 22 Dec 2006).</p>
10	<p>We will work with Government on plans to reduce the effects of diffuse pollution from urban and agricultural sources. This will include promoting early voluntary action on 'catchment sensitive farming' to address diffuse pollution from agriculture.</p> <p>We will work with Defra to improve the evidence base for diffuse pollution from non-agricultural sources to identify priority areas for action.</p>	✓	<p>We started work with Defra and Natural England on a £25 million Catchment Sensitive Farming Project to reduce diffuse pollution, based on 40 priority catchments.</p> <p>We have employed nine catchment co-ordinators to work with farmers and others, providing advice to address diffuse pollution. We have also worked with Defra to produce a 'substance and impact matrix' that identifies priorities for action on non-agricultural diffuse pollution.</p>
11	<p>Ensure the water companies deliver the £3.5 billion improvements to water and nature conservation agreed in their new investment programme (covering 2005-10). This will include issuing discharge consents and ensuring that companies develop their statutory water resource and drought plans and investigate where taking water from the environment could be damaging.</p>	↔	<p>Good progress was made with the fourth water companies' asset management plan (AMP4) implementation plan. This delivered consent changes for water quality discharges equivalent to 75 per cent of the total environmental programme. Operational teams continue to work on the Habitats Directive Review of Consents, minor changes following the final determinations (such as completion date changes) through consent modifications and technical changes through consent variations.</p> <p>We are reviewing the scope of options appraisal work to restore sustainable abstraction and, once investigations are completed, will use our statutory powers to modify or revoke damaging water company abstraction licences identified through this process.</p>

Continued...

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			<p>Where we do so, we may be liable to pay compensation, which will be funded through abstraction charges.</p> <p>A first year progress report against the AMP4 programme is being collated and will be available in 2006.</p> <p>We worked with Defra and the Welsh Assembly Government to develop guidance for water companies on the content and form of statutory drought plans. This guidance was published on time and all companies submitted plans to Defra and the Welsh Assembly Government in March 2006.</p> <p>We are working with Defra and the Welsh Assembly Government on the approach to statutory water resources management plans.</p>
12	<p>Assess farmers against the action programme for Nitrate Vulnerable Zones, the Groundwater Regulations and the regulations controlling the use of sewage sludge in agriculture and report the outcome to the Rural Payments Agency in England and the Rural Payments Division of the Welsh Assembly Government. This forms part of “cross-compliance” under the reform of the Common Agricultural Policy and is one of the standards farmers must meet to obtain payment under the Single Payment Scheme.</p>	✓	<p>Our cross compliance work has proceeded very well in Wales and we have been working with the Rural Inspectorate Wales. The programme of inspections finished at the end of December 2005.</p> <p>Work was delayed in England due to a delay in Rural Payments Agency (RPA) being able to supply the farm list. 96 per cent of programmed farm inspections were complete by the end of March 2006. We are working with Defra and RPA to improve performance for 2006/07.</p>
13	<p>Continue to investigate the effects of taking too much water from rivers and act where necessary. We will also continue to use our Catchment Abstraction Management Strategies (CAMS) to ensure we have sufficient water in the environment to protect and improve habitats. Where necessary we will take action against abstractions that damage the environment. Where we do so, we may be liable to pay compensation, which will be funded through abstraction charges.</p>	✓	<p>See target 5 above in respect of over-abstraction.</p> <p>63 CAMS have been completed and we remain on track to complete the full programme (119 CAMS) by March 2008.</p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
14	Continue to work with others on our three key navigation projects – Thames Ahead, the Fens Waterways Link and developing navigation on the Wye and Lugg. We will improve our navigation asset infrastructure (locks, weirs, bridges, buildings etc), and make health and safety improvements a priority.	✓  ✓	We produced waterway plans for our main rivers, including the Thames, and the harbour of Rye, and consulted on the Wye and Lugg waterway plan. Work on the Fens Waterways Link is ongoing. Public safety assessments of all our navigation assets have been carried out and requisite work undertaken or planned. In the next phase we are widening the health and safety assessment to examine access to water for users.
15	Work with others to promote angling opportunities, increase the number and diversity of people who fish on a regular basis and develop young responsible anglers, based on our plan Angling 2015. We will also safeguard and increase income from fishing licence sales by combining targeted licence checking with national marketing campaigns.	✓	We funded 38 projects, costing £300,000, from the fisheries development fund and carried out projects to increase participation in angling in all 26 of our areas. Over 30,000 people were coached during these and other events. Our marketing and licence enforcement resulted in an increase in rod licence income of £600,000 above forecast.
16	Promote recreational and access opportunities on water and associated land and, by 2007/08, increase the number of our sites that provide public access by 7 per cent above the level in 2002. We will also produce strategic plans for increasing recreation opportunities in two of our regions, in line with the recommendations of the Government report "Water Based Recreation – the Facts".	↔	We are updating the database of our landholdings for recreation. This will measure changes in sites available for access with a target to increase these by seven per cent by 2007/8. New opportunities created for recreation as a result of our work are promoted through the <i>Conservation Access and Recreation</i> report on our website and other media such as canoeist guides and our stand at the Outdoors Show.  We will lead on strategic planning for water-related sport and recreation, in partnership with other organisations in two of our regions, with plans for a consultation by April 2007. We are talking with Wales about producing their plan over a similar time-scale. We are looking to have strategic plans in place in a further 2 regions by end of 2008.
17	Produce a marine strategy to co-ordinate our wide range of activities on the coast and in inshore waters and influence the forthcoming Marine Bill.	✓	We published our Marine Strategy in November 2005 and completed our Marine Strategy Delivery Plan in March 2006. We are currently working on our response to the Marine Bill consultation.

## Theme: Restored, protected land with healthier soils

**Our long-term aim:** Land and soils in towns and the countryside will be exposed to fewer pollutants. Land will support a range of uses without risk to the environment or human health. Contaminated and damaged land will be restored and protected.

### Overview

Our 2004 *State of soils* report highlighted the way intensive agriculture takes its toll on soils. This year we have been working with the intensive livestock sector to help farmers apply for permits under Pollution Prevention and Control regulations. New and revised regulations on agricultural wastes were also introduced in 2006 and we have worked with farmers and the agricultural industry on what they have to do to comply.

There were 16 pollution incidents to water, by soil and clay, this year and we have employed nine catchment co-ordinators to work with farmers and others to address diffuse pollution including 40 priority catchment areas.

In urban areas many businesses are now doing more with our help to clean up contaminated land, which allows sites to be re-used. Last year we carried out work at 57 sites and helped encourage our partners to bring over 1600 hectares of previously contaminated land back into use. In 2006/07 we will be working to inspect a total of 137 potential special sites.

### Key Performance Targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	By the end of March 2006 have cleaned-up a minimum of 52 contaminated land sites (cumulative).	✓	We have carried out work at 57 sites during the year. We also played an active part in the clean up of land in line with the principles of modern regulation, encouraging clean up through voluntary remediation and through use of the Town and Country Planning system. Over 1,600 hectares of previously contaminated land were brought back into beneficial use in this way in 2005/06. We were asked to inspect a total of 137 potential special sites and work is underway to complete these inspections, but there are ongoing issues regarding a lack of technical staff.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
2	Taken action to ensure that there are no more than 14 pollution incidents to water by soil and clay in the year.	↔	There were 16 incidents in 2005/2006. We have taken action to manage impacts of poor soil management on water quality including: employing nine catchment co-ordinators to work with farmers and others to address diffuse pollution; incorporating natural resources protection measures in agri-environment schemes in England and Wales; targeting incentive schemes towards areas vulnerable to erosion; providing soil management training for staff, including good soil management in two Small and Medium Enterprise (SME) pilot schemes for construction and agriculture sectors. Both these sectors are priorities for tackling pollution incidents.
3	Regulate acid deposition from industrial processes by setting emission targets for SO <sub>2</sub> releases to no more than 640 kilo tonnes and NO <sub>x</sub> to no more than 370 kilo tonnes in the year.	✓ ✗	Sulphur dioxide (SO <sub>2</sub> ) emissions = 487 kilo tonnes Nitrogen oxides (NO <sub>x</sub> ) emissions = 438 kilo tonnes (Refer to target 1 under 'Cleaner Air for Everyone' for explanation).

### Other actions and targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
4	Continue to support Defra and the Welsh Assembly Government in implementing the Soil Action Plan for England and tackling soil-related issues in Wales. We will also publish and work with partners to implement our strategy for the protection, management and restoration of soil.	↔	<p>We helped Welsh Assembly Government to develop resource management plans for Tir Cynnal.</p> <p>We have provided comments and support to the Environment Strategy for Wales Scoping report for Strategic Environmental Assessment (SEA) on rural development, including soil protection.</p> <p>We have developed soil quality indicators, for the environmental interaction function of soil, and participated in the Soil Quality Indicators Consortia.</p> <p>We have worked with Defra to develop resource protection measures in Environmental Stewardship.</p> <p>Our soil strategy publication has been delayed – a further draft is being developed through discussion with Defra and Welsh Assembly Government.</p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
5	Promote sustainable agriculture and ensure that we implement new regulations in a way that makes sense to the regulated and minimises cost to all. We will work with Defra, the Welsh Assembly Government and other partners to ensure that the reforms to the Common Agricultural Policy and review of the Rural Development Regulation help to address poor environmental practice on farms, and support farm businesses that produce environmental public goods.	✓	<p>We have been working with farmers and the agricultural industry to prepare for the introduction of new agricultural waste regulations on 15 May 2006.</p> <p>We will be working with the intensive livestock sector throughout the summer to help farmers get ready to make applications under new Pollution Prevention and Control regulation being introduced for the sector in November 2006.</p>
6	Work with Defra, the Rural Payments Agency and Rural Payments Division of the Welsh Assembly Government, and other Government bodies to ensure that cross compliance is implemented with minimum disruption and maximum environmental benefit. We will also develop environmental management systems for farms (EMSF) as part of Defra's 'whole farm approach.'	✓	<p>Cross Compliance work with the Rural Inspectorate Wales began well and the inspections were completed by the end of December 2005.</p> <p>Progress was delayed in England, due to late delivery of the list of farms by the Rural Payments Agency (RPA), but by the fourth quarter of 2005/06 97 per cent of programmed farm inspections were completed. We are working with Defra and RPA to improve performance for 2006 and 2007.</p> <p>Two EMSF modules are embedded in Defra's 'whole farm' approach launched in March 2006.</p>
7	Support Defra and the Welsh Assembly Government in implementing 'catchment sensitive farming'. As part of this, we will work with elements of the new integrated agency, Natural England, to demonstrate how government agencies can work more effectively together to deliver a better service for farmers, so that they in turn can undertake changes in land management to reduce diffuse pollution. We will also put catchment co-ordinators in selected priority catchments to tackle diffuse water pollution from agriculture.	✓	<p>We have worked with Natural England and Defra as part of the England Catchment Sensitive Farming Delivery Initiative (ECSFDI) to help recruit 30 Catchment Sensitive Farming (CSF) officers, some currently our staff, who started work in May. They will assess the catchments, develop advice to reduce the most significant impacts and encourage farmers to follow this advice.</p> <p>We are discussing how to take CSF forward in Wales with the Welsh Assembly Government.</p>
8	Continue to work with Defra and the land contamination community to develop appropriate and timely regulatory mechanisms and guidance for the risk assessment and remediation of land contamination. We will do this through various fora, for example the Local Authority Standing Conference on Contaminated Land and the Soil Guideline Value Task Force.	↔	<p>We continue to work with Defra and others. We have developed and released a new Contaminated Land Exposure Assessment (CLEA) model for external user testing. We contributed to developing Defra's extension to Part 2A of the Environmental Protection Act 1990, to include radioactive contaminated land. We regularly liaise with key partners, including the Local Authority Standing Conference, SAGTA, NSCA and AGS. We have played an active role in the Soil Guideline Values (SGV) Task Force.</p>

Continued...

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			Defra are considering many issues arising from the Task Force's work and will not publish further SGV or toxicological reports until a way forward is clear.
9	Work with local authorities to deal with contaminated land and clean-up 'special sites' for which we have direct responsibility.	✓	See response to target 1, above.
10	Influence regional spatial strategies and local authority development plans and respond to planning applications in a more effective and efficient way, particularly through the use of e-planning.	✓	We continue to advise regional and local government on developing plans and new development planning applications. Commenting on these plans is a top priority for us. We are committed to providing effective and efficient consultation responses, including the use of e-planning/e-consultation. We are developing e-planning systems (DPS3) and are holding trials with local government to prove the concept of electronic consultation from system to system.
11	In the built environment we will work with local authorities, planners and developers to promote the use of the sustainable drainage systems (SuDs) approach to surface water drainage.	✓	Delivering Sustainable Development (PPS1) and Development and Flood Risk draft (PPS25) both contain important commitments to sustainable drainage systems. We play an active role in the Advisory Board that is developing a Practice Guide to accompany PPS25, including assisting the Office of the Deputy Prime Minister (ODPM) on drafting a section on the use of SuDs. We have lobbied for promotion of SuDs in the proposed SE Sustainability Checklist. In Wales, TAN15 requires developers to demonstrate why SuDs cannot be implemented. If a conventional drainage system is used, it must improve the status quo. We have met with representatives of the Local Government Association (LGA) and developers through the National SuDs Working group and are working with the Construction Industry Research and Information Association (CIRIA) to establish a drainage network for local authorities, which would include SuDs issues in the remit. We have also established contact with the LGA regarding its "Greening Communities" campaign.
12	Use the Pollution Prevention and Control (PPC) regulations to protect land against future contamination from industrial processes. We have assessed the need to reduce emissions of sulphur dioxide and nitrogen oxides to better protect soils and vegetation and have set targets for their reduction. We will also be regulating large intensive pig and poultry units for the first time in 2007 when they are brought within the PPC Regime.	✓	Emissions of sulphur dioxide from industry have declined under the PPC regime, resulting in reduced deposition to land. Nitrogen oxide has slightly risen since 2004 (for figures see response under target 1 'Cleaner Air for Everyone'.) We have produced information and guidance for operators of intensive farming installations to help them comply with PPC regulations in a way that protects land.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
13	Work with local authorities and the waste industry to identify effective uses for a proportion of the 10 million tonnes of organic material that will be diverted from landfills sites by 2020, such that they add value to soils.	✓	We have jointly launched the Waste Protocols project with Waste and Resources Action Programme (WRAP), funded by the Business Resource and Waste Efficiency (BREW) programme. This project is designed to develop quality control processes to allow the full recovery of organic waste materials for use on soils.

## Theme: A 'greener' business world

**Our long-term aim:** Industry and business will value the benefits that come from a rich and diverse natural environment and recognise their own contribution to getting positive results for the environment. In the process they will reap the benefits of sustainable business practises, improve their competitiveness, add value to their shareholders, and secure trust in the community. Regulations will be simpler and more streamlined with reduced administrative burdens but will still ensure that business improves its environmental performance.

### Overview

Our approach is to encourage good work practice with businesses that are good environmental performers while focusing our efforts where we think there is potential for harm to people's health and to the environment from companies that do not perform well.

Our Operator and Pollution Risk Appraisal system (OPRA\*) works on this principle and we target our time on industrial processes that pose the greatest environmental risks. Last year 60 per cent of businesses assessed under our Environmental Protection OPRA scored band C and above. In 2005 over 90 per cent of businesses are in band C and above. Only 2.1 per cent are in band 'E'.

We have been working with industry to create environmental improvement plans for business sectors that encourage good practice. These sector plans are helping us to concentrate our resources on the key environmental issues that face different sectors of industry. In November 2005 we released sector plans for the Chemical, Cement and Nuclear sectors, and further plans for other sectors will follow. These plans identify key environmental issues and indicators of performance that will be used to evaluate progress in each sector.

We have continued to develop our NetRegs website, which is aimed at small and medium-sized businesses and gives clear, easy to use information on environmental regulations. We reviewed eight sectors of the site with an emphasis on construction and agriculture. We published revised guidance on animal by-products in April and agricultural waste in December.

We have also seen the businesses we regulate respond very positively to our promotion of Environmental Management Systems (EMS). 36 per cent of the sites we regulate under Pollution Prevention and Control (PPC) and Waste Management Licensing now have an EMS.

We have set the targets to increase future uptake so that we can show a year on year progress. This is reflected in a record number of sites – 47 per cent – being rated in band ‘A’ (the lowest risk category) of our Operator and Pollution Risk Appraisal (OPRA) scheme.

But we continue to take strong action against those who do not comply with, or deliberately flout, the law. Last year we prosecuted 317 businesses for environmental offences, an increase of 19 per cent on 2004, resulting in total fines before costs of £2.7 million. 28 prosecutions - more than double the number of last year - were taken against individual company directors holding them personally accountable.

We have developed work funded through the Business Resource Efficiency and Waste (BREW) programme in England, and the Material Action Programme in Wales - set up from April 2005 to return additional landfill tax receipts to business. We managed five urban-based enforcement campaigns against illegal waste activity, exceeding our agreed targets. We developed a web-based waste carrier register that industry can use to check if carriers taking their waste are legitimate. The number of carriers registered has increased in the last year from 75,000 to 83,000. The register has been very successful with an average of 600 searches per day.

We have concentrated on pollution prevention and waste minimisation campaigns on hazardous waste, oil care and proper management of construction waste. We launched HAZRED, an EU-Life Environment funded programme to help small and medium sized enterprises prevent and reduce their production of hazardous wastes.

## Key Performance Targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Reduce the environmental risk presented by businesses we regulate. In 2005/06, we aim that at least 70 per cent of all businesses we regulate under IPC and IPPC will achieve OPRA* scores in Band ‘C’ and above and no more than 10 per cent will have OPRA scores in the highest risk category Band ‘E’.	✓	Out of a total of 1,366 sites, only 57 sites were in Band D (4.2 per cent) and 29 sites in Band E (2.1 per cent). Over 90 per cent have an OPRA score of Band C and above.
2	Achieve a progressive reduction in the number of serious (Category 1) and significant (Category 2) pollution incidents. In 2005/06 we aim that there will be no more than 1,416 category 1 and 2 incidents in total.	✓	Category 1 and 2 pollution incidents have decreased during 2005/06 to 990. Our pollution prevention campaigns, which sit alongside our regulatory duties, have played a part in these reductions.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
3	Encourage companies we regulate to take more responsibility for managing their impact on the environment. For companies regulated under PIR we look to see an increase from 53 per cent to 58 per cent in the proportion that have an accredited certified Environmental Management System; for waste regulated businesses we look to see the proportion increase from 45 per cent to 50 per cent.	✘	<p>For companies regulated under PIR, 537 have EMS (336 accredited and 201 in-house systems). For waste regulated businesses 3,009 sites have EMS (1,425 accredited and 1,584 in-house systems). This equates to roughly 36 per cent of the sites we regulate under those two regimes.</p> <p>During the year many new operators have been authorised under PPC (for example the food and drink industry). Many are small operators with no EMS and their inclusion could suggest that take-up of EMS, as a percentage, is falling.</p> <p>Future targets will be expressed in absolute terms of order to more clearly show year on year improvement.</p>
4	Achieve the milestones agreed in the Defra approved Business Resource Efficiency and Waste (BREW) programme.	✓	<p>We achieved all milestones agreed under the Business Resource Efficiency programme (see target 16, below). A partnership programme was introduced with the National Symbiosis Programme (NISP) to divert waste into productive use.</p> <p>We agreed funding with Defra for a £4.75million programme of work for 2006/7 that will provide further improvements in how businesses tackle waste reduction and management. It includes work to create a regulatory climate that encourages the recovery of waste materials with a potential value of up to £2 billion.</p>

**Note.** \*OPRA – ‘Operator Pollution Risk and Appraisal’ is a rating system that measures, in simple terms, the environmental risk presented by a regulated process. It categorises sites according to risk under five bands – ‘A’ to ‘E’ – ‘A’ represents the least risk and ‘E’ the highest.

### Other actions and targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
5	Continue to implement the Integrated Pollution Prevention and Control (IPPC) regime to include more business sectors as required by the statutory timetable and improve the effectiveness of our IPPC permitting activities. In all, around 4,100 processes will be brought under Environment Agency PPC regulation by 2007.	✓	We issued 1,500 permits for a variety of industrial sectors, including Waste Incineration and Food & Drink. We are on target to complete PPC re-permitting by October 2007 (a requirement of the IPPC Directive).

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
6	Reduce significant breaches of permit conditions, targeting poor performers by using and extending our compliance assessment, compliance classification and OPRA schemes, targeting our resources on the sites that pose the highest risk to the environment.	↔	<p>Our Compliance Classification Scheme (CCS) identified 1,731 non-compliance events last year that were classified as category 1 and 2 breaches i.e. those with a potential to cause serious environmental harm. Some 60 per cent of these were caused by the waste industry.</p> <p>We will use this CCS data together with OPRA scores to focus our regulatory effort on those processes that present the greatest risk. We also aim to spend at least 25 per cent of our total PPC compliance effort on carrying out major audits.</p>
7	Focus pollution prevention and waste minimisation campaigns on hazardous waste, oil care and proper management of construction waste.	↔	<p>We launched <i>HAZRED</i>, an EU-Life Environment funded programme, to help small and medium sized enterprises prevent and reduce their production of hazardous wastes. The programme is working with the following sectors:</p> <ul style="list-style-type: none"> <li>• General construction / building</li> <li>• Treatment and coating of metals</li> <li>• Maintenance and repair of motor vehicles</li> <li>• Photographic processing</li> <li>• Manufacture of specialist organic chemicals</li> <li>• Manufacture of machinery and equipment</li> </ul> <p>The Oil Care Campaign helps industry understand how the Waste Incineration Directive would affect the waste oil recycling business. Outlets for waste oil have significantly changed and reduced in number. Early indications suggest that sufficient new markets for waste oil are developing to cater for these changes. We continue to monitor the situation to make sure that the changes do not lead to more pollution incidents.</p> <p>We supported regional roadshows with Waste and Resources Action Programme (WRAP) and Defra to encourage the take-up of voluntary Site Waste Management Plans on construction sites. We are also supporting Defra to introduce new powers under the Clean Neighbourhoods Act to make these plans a legal obligation. This is a priority area for us as 30 per cent of all fly-tipping incidents we deal with involve construction wastes.</p>
8	Work with the farming community to phase out environmentally damaging practices and to improve standards of environmental protection. Start to apply waste management controls to the agricultural sector from 2005/06, in a risk-based manner avoiding unnecessary regulatory burden.	✓	<p>We worked with National Farmers Union, Farmers Union of Wales and farmers in preparation for the Agricultural Waste Regulations that came into force on 15 May 2006. This included a series of guidance notes with clear messages on the new rules and an action timetable. We have a dedicated help line for queries and for registering exemptions.</p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
9	Use environmental improvement plans for business sectors (sector plans) to help us to target our regulatory effort on the key environmental issues facing each sector. In 2005/6 we will implement plans for the chemicals and cement sectors and develop plans for the agriculture, waste and water sectors.	✓	In November 2005 we released sector plans for the chemical, cement and nuclear sectors. These plans identify key environmental issues and indicators of performance that will be used to evaluate progress in each sector. Plans are being developed for other sectors.
10	Over the next three years we will prepare pollution reduction programmes for priority substances, recognising the UK Government's EU obligations. We will focus on key industrial chemicals, such as dioxins and tributyl tin, and commonly used pesticides in 2004/05. Progress with actions set out our strategy on endocrine-disrupting substances in the environment will be reported in 2004 and 2007.	↔	We are deriving environmental quality standards for a number of specific pollutants using our standards framework. Pollution reduction programmes are being developed for cypermethrin, a sheep dip chemical, Perfluoro octane sulphonate (PFOS), present in firefighting foams and Polycyclic Aromatic Hydrocarbons (PAHs) which are priority hazardous substances. We have been actively involved in REACH (EU Chemical Strategy) Implementation Projects. We run the UK Chemicals Coordinated Risk Management Programme jointly with Defra, under which we are assessing the risks of 13 substances. An endocrine disrupters demonstration programme is being implemented as part of the water industry's environmental programme 2005-2010. We have developed chemicals web pages as an information resource.
11	Implement the Nuclear Sector Plan, which provides a mechanism for progressing and monitoring the National Discharge Strategy (NDA) and can be used as a basis for setting targets for individual sites and sub-sectors of the industry. We will also work closely with the Department of Trade and Industry (DTI), with other regulators and the new Nuclear Decommissioning Authority to provide a strategic direction for the decommissioning and clean up of the UK's civil public sector nuclear sites.	✓	The Nuclear Sector Plan was published on 14 November 2005.  We have developed a constructive relationship with the NDA at many levels, including active representation at the NDA-chaired National Nuclear Industry Regulators Forum. We have also agreed a Memorandum of understanding with the NDA, input to the development of their first draft strategy and environmental report, input to their 2006/7 Annual Plan and input to the specification of, and guidance on, 'integrated waste strategies' required by the NDA.
12	Provide guidance and raise awareness in small to medium sized businesses of their environmental obligations targeting our efforts on the high-risk sectors – starting with agriculture and construction.	✓	<i>NetRegs</i> website content was updated throughout the year. We reviewed eight sectors, including construction. Emphasis was also placed on agriculture, with revised guidance on animal by-products added in April 2005 and agricultural waste in December 2005.  A new registration tool was added to the site in January 2006. This allows customers to receive emailed updates on changes to the site for topic areas they are interested in.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
13	Increase the proportion of Environment Agency-regulated industry that has a certified or in-house environmental management system (EMS) and encourage more environmental accounting and reporting by business in annual reports and stock market documents.	↔	<p>See target 3, above, for data on sites we regulate that have EMS.</p> <p>From our research published in 2004, only 24 per cent of FTSE all-share companies report quantitative environmental disclosures, dropping to 10 per cent who cover water, waste energy and climate change. We are updating this research to monitor our progress and that of businesses, publication due September 2006 with a further update scheduled for September 2007.</p>
14	Through partnerships with the National Fly-tipping Prevention Group, local authorities, and landowners, we will tackle large-scale and organised illegal waste management practices, including the dumping of hazardous waste. We will continue working with local authorities to ensure that the 'Flycapture' database is used widely and we will maintain and develop it so that it continues to meet the needs of all parties. We will continue to tackle waste crime and illegal waste disposal and expect to see a rise in the percentage of incidents which result in positive action as measured by the "Flycapture" database.	↔	<p>The Environment Agency/Local Government Association Fly-tipping Protocol was signed off in April 2005. In accordance with the Protocol, we are focussing our efforts on incidents involving large-scale dumping, organised crime and certain hazardous wastes. We have signed up to local agreements with local authorities in areas that have fly-tipping 'hotspots' to ensure close partnership working. We have developed and piloted the 'Flycapture' Enforcement training program for local authority officers and handed this back to Defra for roll-out.</p> <p>The National Fly-tipping Prevention Group continued to meet through 2005/06. A guidance document to help landowners and managers affected by fly-tipping has been produced.</p> <p>All local authorities in England and Wales have signed up to 'Flycapture' and 90 per cent are regularly inputting data. Local authorities in Scotland and Northern Ireland have also signed up to using this database. The reporting of follow-up action in response to fly-tipping incidents on 'Flycapture' is now compulsory making it possible to monitor the response to fly-tipping more accurately.</p>
15	Investigate the illegal import and export of waste, ensuring that people are aware of their obligations and taking robust enforcement action where necessary.	✓	<p>Port inspections have been undertaken as part of the International Network of Environmental Law Enforcers (IMPEL) Seaport Project and enforcement action taken where appropriate. Using an intelligence-led approach, over 400 export vehicles and containers were inspected and 200 were considered illegal, resulting in 15 investigations. This has raised awareness of the controls regarding the shipment of waste in the media, resulting in several television programmes and press releases.</p> <p>Relationships have been developed with HMCR, Port Authorities and Shipping companies and collaboration with competent authorities in other countries.</p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
16	Develop work funded through the Business Resource Efficiency and Waste (BREW) Programme in England, and the Materials Action Programme in Wales, that has been set up from April 2005 to return additional landfill tax receipts to business in a way that supports improving their resource efficiency and waste management. We will work with legitimate businesses to improve awareness and understanding of sound management of their wastes. We will develop an internet-based waste carrier register that industry can use to check if those carriers taking their waste are licensed or not. We will work with Defra to develop campaigns to provide a more level playing field for businesses.	✓	<p>We reached all our targets and achieved:</p> <ul style="list-style-type: none"> <li>• Five urban-based enforcement campaigns against illegal waste activity exceeding our agreed targets</li> <li>• Novel communication methods to reach businesses in each of our campaign areas to ensure they were aware of their responsibilities</li> <li>• An internet-based database on registered waste carriers and brokers.</li> </ul> <p>Business now has a 24-hr system updated on a daily basis they can use to ensure contractors carrying their waste are legally registered with the Environment Agency.</p>

### Greening our own environmental performance

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Carry out risk assessments for sustainability on all our procurement contracts worth over £25,000.	✓	Target achieved. 519 sustainability risk assessments were carried out during the year. This target ensures that all higher risk Environment Agency procurement contracts let, have a sustainability risk assessment.
2	Carry out in-depth environmental audits of 20 of our key suppliers to enhance our programme for supplier development.	✓	Target achieved. We carried out 20 on-site environmental audits on our key-suppliers during the year.
3	For all priority 1 findings (system and legal failures) an action plan must be produced and approved within 4 weeks of the audit.	✓	Target achieved. 102 out of 103 priority 1 findings identified by our Site Environmental Audits (SEMA's) were approved within 4 weeks of the audit. The outstanding one was also approved outside the 4-week period.
4	Ensure that at least 60 per cent of aggregates used in capital works are from secondary /recycled sources.	✓	Target achieved. Overall achieved 68 per cent. This target applies to all National Capital Programme Management Service (NCPMS) construction projects.
5	Ensure all timber purchased is from sustainably managed sources.	✓	Target achieved. Based on National Capital Programme Management Service (NCPMS) construction projects.
6	Ensure that less than 32 per cent of construction waste produced from capital works is disposed of at landfill (excluding contaminated land).	✗	Target missed. Overall 43 per cent of construction waste went to landfill, an increase on last year's 32 per cent. This target applies to all National Capital Programme Management Service (NCPMS) construction projects.

Continued...

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			We aim to run Waste Workshops in 2005/06 to help make Site Waste Management Plans more effective and to improve the management of construction wastes and maximise the reuse and recycling opportunities.
7	Make sure all projects over £25,000 have an Environmental Impact Assessment.	✓	Target achieved. 295 projects were approved during the year, all of which were subjected to the appropriate level of Environmental Impact Assessment. This target ensures that all Environment Agency projects (construction & non-construction) over £25,000 incorporate an assessment of environment impacts.
8	To achieve 18kg/FTE (per Full Time Equivalent employee) for office residual waste by March 2006.	↔	Office waste per FTE was 19.2kg (Note: For the last 6 months this reduced to 18.6kg/FTE, on an annual pro rata basis). We have reduced office waste going to landfill by nearly 40 per cent (per FTE) from the 2001/02 baseline.
9	To achieve a water usage of 5.4m <sup>3</sup> /FTE by March 2006.	✓	Water usage was 5.04m <sup>3</sup> /FTE (Note: For the last 6 months usage was 5.08m <sup>3</sup> /FTE, on an annual pro rata basis).
10	Reduce buildings energy use by 10 per cent from a 2000/01 baseline by March 2006.	✓	Target achieved. We have reduced energy use by 15 per cent (per person) from the 2000/01 baseline.
11	All the electricity we buy will continue to come from renewable sources.	✓	Electricity from renewable sources accounts for 95 per cent of all consumption. Additional sites are added to the renewable electricity contract as the contracts come up for renewal.
12	Ensure that all category 1 and 2 Environment Agency caused incidents during 2005/06 are investigated and the findings reviewed by Operations Management Team (OMT) by the end of April 2006.	✓	Target achieved. During the year three category 1 and six category 2 environmental incidents occurred as a result of our operations, or works carried out on our behalf. All were investigated and reviewed by Operations Management Team (OMT) and the lessons identified will be incorporated in operations and audited.
13	Reduce total transport emissions by 40 per cent from 2001/2002 levels.	✓	Target achieved. We have reduced total transport emissions by 43 per cent.
14	Maintain business mileage at 2001/02 levels (53.6 million miles).	✗	Target missed. We drove 5.8 per cent more business miles than in 2001/02 (56.7 million miles)

## **Theme: Wiser, sustainable use of natural resources**

**Our long-term aim:** Businesses, organisations and individuals will reuse and recycle more and so minimise the waste that they produce. They will make more efficient use of energy and materials. They will reduce the amount of water they waste

### **Performance highlights**

Two years ago we helped introduce new rules that classify more kinds of waste as 'hazardous' and are stricter about how they can be disposed of in landfill sites. These rules have seen the amount of hazardous waste produced by all of the sites we directly regulate increase by 15 per cent.

But they have also encouraged significant reductions in disposal of traditional types of hazardous waste, particularly contaminated soil. Also, businesses we regulate increased the amount of hazardous waste they recover to 44 per cent last year – the highest on record.

We developed a new system for tracking movements of hazardous waste from producers to recovery, treatment and disposal facilities. We worked with hazardous waste producers to improve their environmental performance by using less hazardous materials and providing better storage and management of hazardous waste.

Pressure on water resources remains a problem. Some parts of England had six consecutive months of below average rainfall last year making it the driest winter for 100 years.

We were pleased to see that water companies' final water resources plans will – if followed – meet the needs of their customers for the next five years. We worked with Defra and the Welsh Assembly Government to develop guidance for water companies' statutory drought plans. This was published in autumn 2005. We worked with UK Water Industry Research on two successful projects to help water companies assess the impact of climate on the availability of water supply.

Under the umbrella of the Water Saving Group, we have worked jointly with the water industry, Defra, Ofwat and consumer representatives to clarify the effectiveness of metering and tariffs in managing demand.

## Key Performance Targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Continue the publication of our Catchment Abstraction Management Strategy (CAMS) documents. By the end of 2005/06 we aim to have published a cumulative total of 69 CAMS.	✓	This target was subsequently reduced to 63 CAMS, which was achieved.  The target was reduced as a result of the merger of some CAMS and pressure on resources. We still intend to meet the target to produce 119 CAMS by March 2008.
2	Reduce waste disposal and increase waste recovery or re-use from processes we regulate under Integrated Pollution Control (IPC) and (Integrated Pollution Prevention and Control) IPPC.  Targets for 2005/06: <u>Waste Disposal</u> Non-hazardous waste <= 8,166 kilo tonnes Hazardous waste <= 918 kilo tonnes  <u>Waste Recovery or reuse</u> Non-hazardous waste >= 5,429 kilo tonnes Hazardous waste >= 480 kilo tonnes	✓  ✓  ✓  ✓	(Note - figures exclude data from PPC waste landfills and waste disposal and recovery operations)  <u>Waste Disposal</u> Non-hazardous waste = 6,681 kilo tonnes Hazardous waste = 624 kilo tonnes  <u>Waste Recovery or reuse</u> Non-hazardous waste = 10,225 kilo tonnes Hazardous waste = 490 kilo tonnes

## Other actions and targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
<b>Water Resources Management</b>			
3	Develop and implement CAMS across all river catchments in England and Wales to protect the aquatic environment while making water resources available to support economic growth with minimal impact on water customers' bills.	✓	63 CAMS published (as above). CAMS results are being evaluated as part of a review and to develop guidance for the second round of CAMS starting in 2007.
4	Implement the water resources elements of the Water Act 2003, including a new abstraction licensing regime, which will concentrate our regulation on licences most likely to effect the environment. Consult on a new scheme of abstraction charges which we will introduce in 2006/07 to allow us to generate the income to fund compensation to the holders of environmentally damaging abstraction licences.	↔	We consulted on our new abstraction charging scheme in Autumn 2005. Direction from Ministers has delayed the introduction of the compensation element until a third consultation has taken place and ministerial approval received.  From April 2005, it is no longer a requirement for small abstractions (less than 20 cubic metres per day) to be permitted under the licensing system.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
5	Review and evaluate water companies' long-term plans and drought plans and work with them to understand the effect of climate change on water supply.	↔	We worked with Defra and the Welsh Assembly Government to develop guidance for water companies' statutory drought plans. This was published in autumn 2005. We worked with UK Water Industry Research Limited (UKWIR) on two successful projects to help water companies assess the impact of climate change on the availability of water supply. The results of these projects will be used in developing guidance for statutory water resources plans. We analysed water companies' progress against their long-term plans but have not yet published our report on the 2004-05 year.
6	Work with Ofwat to review the role and potential contribution of water efficiency and demand management to balance future supply and demand. This will review existing regulatory measures and incentives to ensure that new planned housing growth includes good water efficiency practices that can be used over the long-term.	↔	We provided Defra with a joint Ofwat / Environment Agency review of demand management setting out the need for more progressive financial incentives, regulatory controls and clear delivery mechanisms. We will continue to influence government to require homes to be more water and energy efficient.
7	Continue to challenge water companies with unacceptable levels of leakage or low rates of metering and research the effect of tariffs and metering on water use.	↔	We are working with water companies and Ofwat to set leakage targets based on sound information that takes account of social and environmental costs. We are also working with the water industry, Defra, Ofwat and consumer representatives to clarify the effectiveness of metering and tariffs in managing demand, at the same time examining implications for affordability.
8	Continue to look for ways of promoting the need to use water efficiently, such as through the Environment Agency's water efficiency awards and by supporting the construction of buildings that aim to minimise their effect on the water environment.	✓	We advised Government on water conservation requirements within Building Regulations, water efficiency standards for new homes and how existing building stock might be made more water efficient.  We also launched the 2007 Environment Agency Water Efficiency Awards.
<b>Waste Strategy and Regulation</b>			
9	Undertake scientific research in co-operation with Defra to underpin our work in waste and resource use, focusing on impacts of waste management, life cycle thinking and resource flows.	✓	Three life cycle projects started to look at the life cycle of carrier bags, food packaging and disposable and reusable nappies. A fourth project using resource flows to determine environmental loads from different industries also begun. All are expected to report in 2006/07.
10	Improve resource efficiency measures through regulatory regimes such as Pollution Prevention and Control and work closely with partners including Envirowise to deliver improvements in waste and resource management.	↔	Development work was undertaken on new generic benchmarking tools for regulated industry, including measures for resource efficiency. Joint working arrangements were established with partners including the National Industrial Symbiosis Programme, Envirowise and the Resource Efficiency Knowledge Transfer Network.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
11	Advise Government at a national, regional and local level on how to reduce the environmental impacts of the Sustainable Communities plan and other development. We will also promote the uptake of the Code for Sustainable Buildings.	✓	We continue to advise local, national and regional government on the impacts of new development. We established, with the Office of the Deputy Prime Minister (ODPM) arrangements for dealing with contentious strategic sites, where we have raised environmental concerns that need to be resolved. In addition we were given a role to advise ODPM/Defra Ministers on the environmental impacts of new growth points. We continue to support the concept of the Code for Sustainable Buildings (now renamed the Code for Sustainable Homes). The pace has not been as rapid as we would have wished and Government now expects a delay in its introduction.
12	Implement the revised Hazardous Waste Regulations. This includes new IT systems, staff training, Agency guidance and awareness raising with stakeholders. We will lead a European project, HAZRED, to develop methodologies to further the prevention and reduction of hazardous wastes produced by small and medium-sized businesses in priority industry sectors.	✓	We launched <i>HAZRED</i> , an EU-Life Environment funded programme to help small and medium sized enterprises prevent and reduce their production of hazardous wastes. We will work across six industry sectors to show the benefits of setting hazardous waste reduction targets and developing waste reduction plans.  A new system has been implemented for tracking movements of hazardous waste from producers to recovery, treatment and disposal facilities. We have worked with producers of hazardous waste to help them improve their environmental performance by using less hazardous materials and through better waste storage and management arrangements.
13	Continue to monitor and enforce compliance with Producer Responsibility Regulations on packaging, and the new requirements of EU Directives including the End of Life Vehicles Directive and the Waste Electrical and Electronic Equipment (WEEE) Directive.	✓	Environment Agency's monitoring continues to increase the amounts of obligated packaging declared by a growing number of producers, up from 8.65m tonnes in 2004 to 9 million in 2005. We have continued to put pressure on the illegal scrap metal sector (mainly scrap vehicles) to bring them into legal compliance or to drive them out of business. We continue to assist the Department of Trade and Industry with the implementation of the WEEE Directive.
14	Implement the remaining aspects of the Landfill Directive including the bans on certain wastes and the requirements for waste acceptance and pre-treatment, including focussing efforts upstream at waste producers.	✓	The Hazardous Waste Regulations 2005 and Landfill Regulations have tightened controls over the landfill of a wider range of hazardous wastes and introduced monitoring and reporting requirements for the producers of hazardous waste.
15	Continue to work closely with Department of Communities and Local Government (DCLG), and other regulators, to develop a transposition route for the Mining Waste Directive and to identify our role in its implementation.	↔	We are co-operating closely with government departments with responsibility for the implementation of the directive, which should be transposed into national law by 1 May 2008, with full implementation required by 2012.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
16	Continue to monitor the progress of the draft Batteries and Accumulators Directive, and to identify our role working with Government and other regulators in its implementation.	↔	The directive is still to be approved (likely in early 2006/07) and we are working with the Department of Trade and Industry (DTI), Defra, WRAP and others to introduce a UK regulatory regime during 2008/09.
17	Begin to monitor the management of biodegradable municipal waste, and promote the use of life cycle assessment to produce better municipal waste strategies.	✓	Waste disposal authorities are now putting data into 'WasteDataFlow' and the first returns have been received and checked. New life cycle assessment software for municipal waste management has been completed and is being tested.
18	Modernise our waste data gathering systems in line with the National Waste Data Strategy and in co-operation with the waste industry, through the introduction of internet-based systems for operator returns. We aim to have new systems in place by 2006.	✗	We completed the first phase of our work when we offered new electronic reporting systems to the waste industry for 2005-06 returns. Nearly 19 per cent of waste companies reported the volumes of waste they received using these systems during 2005-06 and our target for 2006-07 is 60 per cent. The second stage of our modernisation work has started with the development of internet-based reporting systems, which we will introduce in 2007. This work is part of our contribution to the National Waste Data Strategy led by Defra and supported by the Waste Trade Body Environmental Services Association.
19	Support regional assemblies, regional technical advisory bodies and the Welsh Assembly Government in developing and implementing their strategic planning guidance through the provision of revised regional strategic waste management assessments and technical advice on emerging waste treatment technologies.	✓	We have introduced the waste treatment technology database as part of our commitment to the waste implementation programme. The database provides information on over 60 different waste treatment technologies. We are talking to Defra, Scottish Environment Protection Agency (SEPA), NIEHS and WAG over extending the remit of the database to cover waste treatment technologies for all waste streams.  We have updated and issued data sets for the regional strategic waste management assessments for 2002/03.

## Limiting and adapting to climate change

**Our long-term aim:** We have helped to meet greenhouse gas reduction targets to keep temperature change below two degrees centigrade and avoid dangerous climate change. Everybody will be prepared to adapt to the unavoidable impacts of climate change and will take steps to prevent further change.

### Overview

Greenhouse gas emissions from the processes that we regulate remain unchanged this year, despite productivity increasing by 7 per cent. This contributes to the UK's Kyoto commitment to reduce levels by 12.5 per cent below 1990 levels, between 2008 and 2012, and the UK's domestic target to reduce carbon dioxide emissions by 20 per cent from 1990 levels by 2010. We remain on track to provide our contribution to this target.

We have increased the number of our flood defence schemes that have been adapted to take account of climate change. During 2005/06 over 60 per cent of those schemes took account of the possible effects of climate change and have now incorporated this into our systems for assessing flood risk. We have also worked with Defra and the water industry to develop new methods to evaluate the effects of climate change on water supply. We have drafted a policy on adapting to climate change and is under consultation for use from 2006/07.

We have led on a project, partnering with the environmental protection agencies in Austria, Denmark, Germany and Italy, called the LIFE Emissions Trading Scheme (LETS) update, which is feeding into the European Commission's review of the EU's Emissions Trading Scheme.

We have introduced new computer software to help us assess the environmental impacts of new biomass developments, which is being used around England and Wales. We are working with Defra to develop a successor to this tool, with the aim that it will be widely available to all stakeholders in the field.

We have played an active part in the Government's climate change communication initiative and have worked with Defra on the development group for the national communications initiative. In Wales, we have worked with the Welsh Assembly Government to make climate change an important theme in their Environment Strategy.

## Key Performance Targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Reduce greenhouse gas emissions from Environment Agency-regulated processes to contribute to the UK's Kyoto commitment to reduce levels by 12.5 per cent below 1990 levels between 2008 and 2012.	✓	In 2005 greenhouse gases from processes we regulate were 17.9 per cent less than the estimated 1990 release.
2	Reduce carbon dioxide (CO <sub>2</sub> ) emissions from Environment Agency-regulated processes to contribute to the UK's national goal to reduce levels by 20 per cent by 2010.	↔	CO <sub>2</sub> emissions rose slightly compared to 2004. Many sectors reduced their CO <sub>2</sub> release but there was an increase from the Power Generation Sector. This was due to the relatively high price of gas that caused an increase in generation at a number of coal-fired power stations. The Food & Drink Sector came into PPC during 2005 and reported their releases for the first time, also contributing to the overall increase.  The CO <sub>2</sub> emissions represent 11.3 per cent less than the estimated 1990 release.
3	Increase the number of Environment Agency-managed capital schemes that have been adapted to take account of climate change (baseline and target data to be developed).	✓	The possible implications of climate change are now included as part of the standard appraisal methodology for Flood Risk Management (FRM) capital schemes. A draft FRM policy on adapting to climate change has been completed and under consultation for use from 2006/07.

## Other actions and targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
4	Continue to play our part in reducing greenhouse gas emissions through the regulation of major industries and by exercising our role as the competent authority in the European Union Emissions Trading Scheme (EU ETS) in England and Wales and the Landfill Allowances and Trading Scheme in England.	✓	2005 greenhouse gas emissions were 17.9 per cent less than in 1990. We remain on track to provide our contribution to this target.  All installations (including new entrants) have been permitted. We have assessed all monitoring and verification plans. The UK Registry has functioned fully. Almost all operators in England & Wales complied fully with the 2005 reporting and surrender requirements. This is a positive outcome for the first year of the scheme. We are preparing the Phase II National Allocation Plan (NAP) on behalf of Defra.  We have received the first round of annual emissions returns from operators.

Continued...

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			We have discharged our role as monitoring authority for the Landfill Allowance Schemes in England and Wales. We have been working closely with Defra to improve the quality of reporting for England. This has been particularly challenging for areas with two-tier arrangements such as collection and disposal authorities.
5	Work with other regulators within Europe and internationally to ensure that robust and consistent compliance and enforcement approaches are adopted for carbon trading schemes.	✓	<p>We chair an International Network of Environmental Law Enforcers (IMPEL) Emission Trading Group. We presented the report <i>Good regulatory practice in EU emission trading</i> to the IMPEL plenary in December 2005. The European Commission has agreed that we lead a second phase of this project in 2006.</p> <p>We co-financed the International Network for Environmental Compliance and Enforcement (INECE) conference on <i>Confidence in compliance through emission trading markets</i>. We led a consortium of European Environment Protection Agencies (Austria, Denmark, Germany and Italy) on a LIFE (EU Financial Instrument for the Environment) project on the next stages for the Emissions Trading Scheme with working groups of key businesses and other stakeholders.</p>
6	Work as an active member of the Sustainable Energy Policy Network and its cross-departmental working groups on energy, policy analysis and regional action.	✓	We continue to be an active member of this network and support cross-departmental working groups.
7	Work with Government to implement various pieces of European Union legislation such as the Large Combustion Plant (LCPD) and National Emission Ceiling (NECD) directives and the Ozone Depleting Substances (ODS) and proposed Fluorinated Greenhouse Gas (F-gas) regulations.	✓	<p>We have worked with Government to implement these pieces of EU legislation. We have supported government on the evaluation of the 'combined' and 'stack' approaches for LCPD and for the development of the National Emissions Reduction Plan (NERP). Work is underway to define the associated trading scheme likely to be implemented with the NERP. We have begun work with Defra and the DTI on NECD to advise on the implementation of the Directive by 2010.</p> <p>We have responded to a consultation on proposed ODS regulations that specify the minimum qualifications for personnel handling ozone depleting substances. We have worked on the compilation of ODS recovery and disposal data to comply with EU annual reporting requirements.</p> <p>We have made proposals to Defra for an enforcement model for F-gas regulation.</p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
8	Play an active part in the Government's climate change communication initiative and help implement renewable energy and energy efficiency measures at a regional level.	✓	We have worked with Defra on the development group for the national communications initiative. Regional climate change leads in Strategic Environmental Planning (SEP) teams continue to support and promote renewable energy and energy efficiency measures, with support and guidance from the national Climate Change Unit.
9	Develop and agree methods to forecast the risks posed by climate change and ensure climate change is factored into all our decision-making. Over the next three years we will fully account for climate change in water resources and flood risk management according to best available scientific knowledge and start to 'climate-proof' biodiversity, waste and other priority functions.	✓	We have developed a climate change adaptation strategy, which will systematically ensure that we factor climate change in to everything we do. The initial focus has been on flood risk management, water resources, biodiversity and conservation, land quality, waste monitoring and assessment and the Water Framework Directive. Policy, process and regional staff have been involved in the implementation of this strategy to ensure that actions reflect business priorities. We are also developing a climate change communications plan to ensure that our approach is widely understood and staff are ready for future changes in approach.  We have also worked with UK Water Industry Research Limited (UKWIR) to develop methods for assessing the impact of climate change on water resources availability.

## Theme: Managing flood risk

**Our long-term aim:** The risk of flooding will be reduced by increased investment in flood protection, flood warning, sustainable planning and building resilience. We will adapt to the impacts of climate change by using best science to assess the risk of flooding and set priorities. We will create benefits for both the prosperity of communities and for wetlands and wildlife.

### Overview

Last year we reduced flood risk for 52,600 houses in England and 4,100 houses in Wales, the culmination of several years planning to ensure best value from over £100 million of additional investment in flood risk management. Our financial outturn also showed effective management: we achieved the planned reduction in balances and were able to agree and deliver a re-phasing of expenditure with Defra.

This involved more than just building 'traditional' flood defences – work began, for example, on the Alkborough Flats Tidal Defence Scheme, the largest flood storage

and habitat creation project in Europe. The scheme will involve breaching existing flood defence structures and returning 440 hectares of agricultural land to the Humber Estuary. The newly created habitat of mudflats, dry grassland and open water will provide a haven for wildlife whilst reducing flood risk for over 300,000 people who live and work in the area.

Five million people in England and Wales live in flood risk areas. Worryingly, our research last year indicated that as many as two fifths (41%) of these people are still unaware of the threat.

The proportion of homes and businesses within the floodplain to which we now offer a suitable flood warning service increased last year from 73 to 75 per cent. Our new Floodline Warnings Direct system went live on 26 January 2006. This improves our flood warning service across England and Wales through a range of current technologies (phone, mobiles, fax, pager) and emerging technologies (SMS texting, digital channels). In this first phase, 117,000 customers were moved across to the new system, including 15,000 in Wales.

We created more than 200 hectares of new Biodiversity Action Plan (BAP) habitats as a result of flood management activities.

We continue to update our 'Flood Map' with new data, particularly relating to flood defences and areas that benefit from them. Flood Map updates took place in March and September 2005.

In Wales, we have worked with the Welsh Assembly Government to make flood risk management an important theme in their Environment Strategy, setting out a series of priorities and long-term outcomes to achieve for flood risk management.

### Key Performance Targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Work with local planning authorities to ensure that where we have objections to proposed development taking place in floodplains, at least 90 per cent of these objections are sustained and development does not go ahead.	×	Significant effort continues to go into influencing local planning authorities. Although the target of 90 per cent has not been met this year, the achievement of 87 per cent of objections sustained is still considerable. In some cases it is likely that committed sites in plans and outline planning decisions that pre-date PPG25 in England and TAN15 in Wales are impacting on our ability to achieve the target. In other cases, some local authorities decide that economic and social considerations override our environmental concerns (the potential adverse consequences of flood risk), for instance in order to meet housing demands or economic regeneration needs for wider sustainable development reasons. However, ever closer working with local planning authorities, and new policy in TAN15 and the draft PPS25, should assist us in improving on current performance.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
2	Increase (from 73 per cent in 2004/5 to 75 per cent in 2005/6) the proportion of properties (homes and businesses) within the floodplain offered a suitable flood warning service.	✓	We achieved 78 per cent coverage as a result of innovative recruitment during January and February 2006.  Wales recruited over 14,000 new customers to our flood warning service using direct mailings supported by our flood awareness campaign; trebling the number of people registered to receive flood warnings in Wales.
3	Increase (from 58 per cent in 2004/5 to 68 per cent in 2005/6 this is the national target – England and Wales) the percentage of people in the floodplain who receive a suitable flood warning service and take effective action to help themselves and reduce flood damage.	✓	There was the only significant flooding event in the year on which we could assess performance - that in Carlisle where post-event surveys reported 86 per cent achievement of this target.
4	Reduce flood risk for an additional 30,000 homes.	✓	Flood risk was reduced for an additional 52,600 houses in England and 4,100 houses in Wales.
5	Continue our programme of Catchment Flood Management Plans (CFMPs) in accordance with Defra guidance, and, by the end of 2005/06, ensure that a cumulative total of 10 CFMPs have been produced (equating to 14 per cent of all principal catchments in England).	↔	We are on track to complete CFMPs in England by December 2007, in accordance with DEFRA guidance. The planned and actual achievements for 2005/06 are: 31 Inception Stages (30 achieved) 36 Scoping Stages (33 achieved) 2 Main Stages (0 formally complete, but undergoing final national quality review)  In 2005/06, Environment Agency Wales produced its programme for developing CFMPs. By the end of March 2009 nine CFMPs will be produced for Wales.
6	Increase (from 50 per cent in 2004/5 to 56 per cent in 2005/6) the percentage of urban flood defence structures and linear defences in <u>good</u> condition or better.	↔	In April 2006 we achieved the target for Environment Agency maintained defences (58.6 per cent) and structures (75.6 per cent) and for third party maintained structures (59 per cent). The target was not achieved for third party maintained defences (42 per cent). We are using our supervisory powers to encourage third parties to maintain their defences and will use our enforcement powers where necessary.
7	Reduce (from 5 per cent 2004/05 to 4 per cent in 2005/06) the percentage of urban flood defence structures and linear defences in <u>poor</u> condition or worse.	✗	We have achieved the target for Environment Agency maintained structures (3.9 per cent) and for third party maintained defences (3.5 per cent). The target was not achieved for Environment Agency defences (4.7 per cent) nor for third party maintained structures (6.6 per cent). There have been improvements over the year in the two aspects and we are continuing to target our investment and work at locations where the flood risk is greatest.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
8	Create at least 200 hectares of new Biodiversity Action Plan (BAP) habitats, as a result of flood management activities, of which at least 100 hectares should be saltmarsh and mudflat.	<p>✓</p> <p>✗</p>	<p>The overall target was exceeded with 230 hectares of new BAP habitats created through our flood risk management programme. A large proportion (some 70 hectares) resulted from water level management schemes in floodplain grasslands in the Severn Catchment.</p> <p>Dependant upon scheme timing, opportunities will not always arise to create new saltmarsh and mudflat in any given year and last year only one hectare of new coastal habitat was created. However, last year's shortfall will be made up by the Alkborough managed realignment scheme which will create around 440 hectares of coastal habitat in the Humber Estuary. This will both help meet the 2006/07 target and deliver the backlog from 2005/06.</p>
9	Achieve efficiency savings of £15 million.	<p>✓</p>	<p>In overall terms the target was met, although there were variances against targets for some parts of the programme.</p> <p>Looking at key components, the target saving of £3,000k for the Flood Risk Management Funding Review was achieved and savings for our National Capital Programme Management Service (NCPMS) of £8,669k exceeded the target of £7,900k.</p> <p>However, savings for National Flood and Coastal Defence Database of £1,037k were below the target of £2,584k and Project Checkmate delivered savings of £938k against a target of £1,543k.</p>
10	Reduce the cost of developing and introducing capital flood risk management schemes from 30 per cent of total programme costs in 2004/05 to 20 per cent by the end of 2006/7.	<p>✗</p>	<p>We have completed and agreed the diagnosis of where we believe there are opportunities to reduce the cost of developing projects.</p> <p>We are developing options for implementation to begin in July 2006 at the earliest.</p> <p>We are unlikely to implement changes in time to achieve the full target before March 2007.</p>

### Other actions and targets

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
11	Continue to develop and use risk-based approaches to flood risk management including flood risk assessment methods.	<p>✓</p>	<p>We completed our 2005 National Flood Risk Assessment, uploaded the results on to our website and provided agreed information to the Association of British Insurers. We have improved our National Flood Risk Assessment (NaFRA) data (water levels and river centre lines) which will give improved results in 2006.</p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
12	Collect and validate data to determine meaningful targets for reducing the risk of flooding to major infrastructure and environmental assets by December 2005.	✓	We have collected and validated data on infrastructure, environmental, cultural and built assets at risk from flooding. The analysis shows that a high proportion of transport infrastructure (particularly rail) is at risk. We will use the analysis to report on risk reduction to major infrastructure and environmental assets. We will use the analysis to share with the owners and operators of these assets what risks they are exposed to.
13	Collect and validate data to underpin new output performance measures for the whole flood risk management service from 2006 and monitor and report on their achievement.	↔	Extensive work is being undertaken with Defra to validate the exact specification of the Outcome Measures (as Output and Performance Measures are now termed), to test them through collection of data. This will enable us to establish current benchmarks, and to develop techniques to enable us to make investment decisions that meet the Outcome Measure targets, which will be set from April 2008.
14	Review the effectiveness of our current public/partnership schemes with a view to adopting these and other innovative approaches more widely.	✓	Consultants reviewed our two existing Private Finance Initiative (PFI) projects (Pevensey and Broadlands). They concluded that the projects are working well, with evidence of innovation. As to future use of PFI and similar arrangements, the main conclusions were that these are most suitable projects with a combination of up-front capital expenditure and ongoing operating and maintenance expenditure. The projects also need to be substantial – probably in excess of £50 million - to offset the set up costs. The Humber and Thames strategy implementations are the ones that most clearly meet these requirements.
15	Rationalise our regional and area teams so that our delivery can be managed more effectively and efficiently.	✓	We introduced our improved organisation structure on 1 July 2005. This was achieved ahead of schedule for our Operations Delivery workforce, giving more time for embedding before the winter. We are now organised to ensure that we use our national funds to meet national priorities and that our maintenance expenditure is invested on a needs basis. We have plans in place in each region to gain efficiencies within the Operations Delivery teams over the period to April 2008, while strengthening our approach to incident response by engaging field staff from our wider business.
16	Continue to support our leading research and development programme in collaboration with others. The research and development programme is designed to make the best use of science, engineering and technology to improve performance	✓	Our Flood Risk Science supports improved performance and efficiency in flood risk management. Over the last year an investment of £1.4 million in Flood Risk Science has given us access to over £9.5 million of research. This has been achieved in partnership with Defra. 27 projects were completed over the year alongside 67 ongoing studies. <i>Continued...</i>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
	and reduce costs in managing flood risk.		<p>These have provided advances in:</p> <ul style="list-style-type: none"> <li>- flood forecasting, modelling and risk assessment</li> <li>- guidance on material use and scheme design in flood risk management</li> <li>- flood resilience of buildings and the management of urban drainage</li> <li>- appraisal techniques</li> </ul> <p>We have also sought to be more innovative in how we achieve the uptake of science outputs. For example, we provided e-learning materials on Fluvial Geomorphology in partnership with the Geomorphology Team. These were launched via our intranet site in November 2005 and achieved 1,500 'hits' in the first week alone.</p> <p>We completed a review of the Joint Defra/Environment Agency Flood and Coastal Erosion Risk Management R&amp;D Programme. The review concluded that the programme has generally been a success and has achieved a wide range of useful outputs results, aimed at practitioners and researchers. It also identified several actions that could be taken to improve the programme and we have made significant progress in starting our response to these.</p>
17	In consultation with English Nature and the Countryside Council for Wales, review Water Level Management Plans for 60 priority sites that are in unfavourable condition and draw up a costed action plan for flood risk management activities to achieve favourable condition by December 2006.	↔	<p>The Water Level Management Plan (WLMP) Programme is now up and running smoothly. Workshops have been held and guidance has been produced on many aspects of the WLMP review and implementation. Reviews were completed for 19 sites. On the ground actions were completed on 2 sites with a total of £1 million spent.</p> <p>The total WLMP list is now 64 following on from English Nature's review of priorities in late 2005. However 3 of those sites no longer require a WLMP, so in total there are a further 40 WLMP reviews required by December 2006. Costed action plans for all sites are to be produced by same date.</p>
18	In consultation with English Nature and the Countryside Council for Wales, assess the flood management activities necessary to achieve the Public Sector Agreement target for SSSIs not covered by Water Level Management Plans, and draw up a costed action plan to achieve favourable condition by April 2007.	↔	Our regions quality-checked English Nature's remedy programme by 31 March 2006. Costs and options will be identified by October 2006, with a costed plan by April 2007.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
19	Ensure no net loss of BAP habitats and seek opportunities for environmental enhancement.	✓	230 hectares net gain in BAP habitat creation was reported, but only a relatively small proportion was directly associated with FRM schemes. Most of the enhancement delivery was generated by stand-alone water level management schemes.
20	Create new habitat to replace losses due to coastal squeeze.	✗	Only 1 hectare of coastal habitat was created as there were no large schemes completed around the coast in 2005/06. However Alkborough managed realignment will meet the 2006/07 target and deliver the backlog from 2005/06, later this year. To help overcome the periodic delivery of this coastal target, a Service Level Agreement has been set up for Regions to develop strategic Regional Habitat Creation programmes by end 2006/07 and to have costed them for the following year.
21	Work with regional development agencies and local authorities to link flood risk management improvements to wider regeneration schemes.	✓	We have been successful in working with our regional development agency and local authority partners on a number of regeneration opportunities during the year and flood risk management has been considered an essential element of sustainable development. Measures to reduce flood risk have been incorporated into regeneration proposals when bringing previously used or derelict brown-field land back into use to meet the needs of local communities.
22	Continue to improve the data and information available on flood risk.	✓	We have continued to improve the data on flood risk by getting more information about our flood defences into our databases. We have also completed a substantial programme of modelling to map areas at risk. We combine these data to give an indication of the likelihood of flooding to an area taking into account the presence of defences. This information is available on our website.
24	Support the review of Planning Policy Guidance (PPG25) and the use of the proposed new Planning Policy Statement (PPS25) on development and flood risk in England. In Wales we will support the implementation of Technical Advice Note (TAN 15) and use of strategic flood risk assessments.	✓	We supported ODPM on the review of PPG25. We expect the final PPS to reflect many of our needs and contribute to a strategic approach to Flood Risk Management. We are taking an active role in the Advisory Group that is developing a Practice Guide that will accompany the PPS when it is issued. We continue to support regional and local governments that are carrying out Regional and Strategic Flood Risk Assessments.  With the Welsh Assembly Government, we have visited every Local Planning Authority in Wales to support the implementation of TAN15. Our Areas are also visiting every Planning Committee in Wales and are promoting and supporting the use of 'broad level assessments' that consider flood risk at Local Development Plan level.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
25	Use the single tier flood defence committees to improve our strategic approach in a more efficient way.	↔	The committees have responded well in their new role supporting national proposals. There are 15 fewer committees following the move to single-tier, making it more efficient to service them.
26	Trial the use of a new methodology to prioritise the way that we use our funds in managing flood risk.	↔	The allocation of Flood Defence Grant-in-Aid (FDGiA) for 2006/07 saw much more explicit linkage of expenditure to achievement of outcomes (especially corporate targets).  The intention is to refine the investment balancing model which has been developed so that we can begin to compare the relative marginal costs and benefits of different areas of investment, and what, from April 2008, these will contribute to the achievement of Outcome Measure targets which will be set from April 2008.
27	Support the work of regional government in land use allocations by advising them on flood risk issues so they can be taken into account in their decision to prevent any increase in flood risk through further development. Continue our work with local planning authorities to sustain 90 per cent of our objections to major development in the flood plain.	↔	The target of supporting regional government to assist in their decision-making in respect of flood risk issues was achieved. However, 90 per cent of our objections to major development on flood risk grounds were not sustained by local planning authorities.  Renewed emphasis by us in working even closer with regional government, and them giving consideration to ODPM's new draft PPS25, will assist us in sustaining the support and improving on the current sustained objections position.
28	Continue to follow our Flood Mapping Strategy by producing updates to the flood map every three months to include new data, particularly relating to flood defences and areas that benefit from them.	↔	This has been substantially achieved. Flood Map updates were undertaken in September 2005 and March 2005 only. Updates have been postponed due to data being updated. However, LAS and insurers have had the data they need.
29	Ensure that 56 per cent of urban flood defence systems are in good condition or better, and no more than 4 per cent are in poor condition or worse.	↔	For Environment Agency maintained systems 67.1 per cent were in good or better condition and 4.3 per cent were in poor or worse. For third party maintained systems 50.5 per cent were in good or better and 5 per cent were in poor or worse. We are continuing to target our investment and work at locations where the flood risk is greatest.
30	Review our approach to achieving best value for money and the effective use of funding for maintaining, operating and improving our defences and structures.	↔	In allocating FDGiA for 2006/07, for the first time a distinction was made between non-recurring (to improve the condition of assets) and recurring maintenance. This is the first step towards a progressively risk based approach to directing investment on maintenance, to provide an equivalent level of scrutiny to that which already applies on capital projects.

Continued...

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			We have introduced performance specifications for each flood risk management system across England and Wales and have allocated funding for maintenance and improvement work next year based on the relative flood risk.
31	Complete the transfer of responsibility for Critical Ordinary Watercourses to the Environment Agency.	↔	The final phase of the transfer of responsibility from Local Authorities and Internal Drainage Boards to the Environment Agency for those watercourses that have the potential to flood large numbers of people and property has been substantially completed as planned. A review to check that all such watercourses in Anglian Region have been properly identified is underway.
32	Introduce new initiatives to streamline the processes for investing in flood defence assets to improve our efficiency.	↔	We have completed and agreed a range of opportunities to streamline processes and are currently developing options for process changes that are due to start in July 2006.
33	Develop a nationally consistent approach to flood forecasting to improve forecast quality and allow extension of the service to improve coverage.	↔	We have introduced the national flood forecasting system (NFFS) in three regions and will roll it out to the remaining regions during 2006/07. We have also produced forecasting processes to make sure development and delivery of the forecasting service is consistent. There is further work to develop in this area.
34	Develop a nationally consistent approach to flood warning decision making with systems in place to ensure that information can be assimilated effectively and used to support clear, accountable warning decisions.	↔	On course. Development of an event management system has been postponed due to higher priorities and lack of funding. Procedures and processes have been introduced to support consistency for developing flood warnings. <i>Flood Warnings Direct</i> (FWD) has brought about a consistent warning system.
35	Develop clarification of our role in flood after-care.	×	Resources were diverted to high priority topics including helping the most vulnerable people during a flood, learning lessons from the major flooding in Boscastle and Carlisle. This work is now programmed to start in 2006/07.

## Theme: Modernising regulation

### What we want to achieve

Regulation will deliver for the environment with the right balance of a proportionate, risk-based response that will drive environmental improvements and reward good performance, but will still provide the ultimate reassurance that tough action will be taken against those who fail to meet acceptable standards.

### Overview

We are continuing to develop our Operator and Pollution Risk Appraisal (OPRA) system to target those who pose the greatest risk to the environment. This approach will result in fewer inspections overall, but a five-fold increase in in-depth inspections where we believe there is a high risk to the environment.

Enforcement plays a key part in effective environmental protection, ranging from incentives to use of the courts. We worked closely with Defra on introducing new enforcement powers contained in the Clean Neighbourhood Act and with the Better Regulation Executive and Defra reviews on the development of new enforcement approaches.

We are now using the compliance classification scheme (CCS), a simple and consistent way of assessing those who fail to comply with our permit conditions. We are also working with Government on reform of the enforcement system to explore a wider range of penalties for certain infringements, including administrative penalties.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Focus efforts on assessing compliance against defined outcomes set for each sector (such as in compliance assessment plans) targeting those where poor performance is an issue. Resources will be focused on activities that present the greatest risk of environmental harm. This approach will result in fewer inspections overall, but a five-fold increase in 'complex' inspections. We are investigating the potential to expand this approach for example to the regulation of water quality.	↔	We have prepared compliance assessment plans with targets for either a sector or for a specific site. We use OPRA scores to target our resources on activities presenting the greatest harm to the environment. We have introduced an auditing approach to compliance assessment to complement the inspection regime. We have started training staff to do the audits. We did some work to see if we could use this approach with our other regulatory regimes.
2	Take a joined-up approach to the way we regulate waste by focusing on waste streams rather than specific regimes. We will drive environment improvements upstream and ensure appropriate effort is	↔	We are developing policy to achieve this and have drafted <i>Waste - The Big Picture</i> (WBP). The broad aims are to change the way waste is regulated and managed, moving from an end-of-pipe approach to a preventative waste stream approach. <i>Continued...</i>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
	directed at the unregulated community so as not to undermine public confidence and investment by the legitimate industry.		<p>The three key elements of WBP are understanding and prioritising waste streams and intervening in the most appropriate place, forming partnerships with stakeholders and communication. We have regulatory involvement under Pollution Prevention and Control and certain waste regulatory regimes, regarding the reduced use of raw materials and reducing waste production at source.</p> <p>Work on the Clean Neighbourhoods and the Environment Bill, transfrontier shipments of waste, and on penalties reform has continued. Work in the field has included seeking non-compliant activities under the Hazardous Waste regime and investigating illegal activities under the Waste Management licensing regime.</p>
3	Work closely with Defra on the implementation of new enforcement powers contained in the Clean Neighbourhoods Act (CNEA) and with the Better Regulation Executive (BRE) and Defra reviews on the development of new enforcement approaches. Enforcement lessons learnt through the targeted BREW demonstration projects will be applied to all our enforcement work.	<p>↔</p> <p>↔</p> <p>↔</p>	<p>Government has now enabled all provisions under the CNEA 2005 and we have provided guidance to staff on the implications. We have been working with Defra on the reviews of the waste carriers and brokers regimes, stop search and seize powers and the introduction of mandatory Site Waste Management Plans that will follow.</p> <p>We have engaged with the BRE as they have developed their proposals and submitted a detailed response to their discussion paper, in which we proposed a model of regulator applied penalties. We have also worked with Defra in their review of enforcement.</p> <p>Under our BREW programme, we developed an enforcement tactics guide in autumn 2005. We have also scoped the use of a number of new enforcement techniques and approaches that are being evaluated and will be incorporated into a second version tactics guide later in 2006. This will include use of forensics, automatic number plate recognition technology, and use of detailed crime analysis.</p>
4	We will provide a more holistic approach to enforcement. Enforcement is a key part of delivery and we need to ensure it is used effectively to deliver environmental protection ranging from incentives to use of the courts.	↔	<p>We are using the compliance classification scheme (CCS) on Environment Protection regimes. We assess permit compliance and take decisions on required responses. CCS enables recording and reporting using a nationally consistent framework, allowing trend analysis at both a local and national level to achieve further environmental improvements. We have produced an up-to-date enforcement strategy based on the principles of modern regulation and outlining a vision for enforcement based on a distinct set of principles.</p> <p style="text-align: right;"><i>Continued...</i></p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			We are working with Government on reform of the enforcement system to, among other things, explore a wider range of penalties including administrative penalties for certain contraventions.
5	We will work with Defra and the Welsh Assembly Government to modernise environmental permitting. This could progressively put different regulatory streams on to a common footing and lead to quantifiable efficiencies for both the regulated community and us.	✓	We are working with Defra and WAG on the Environmental Permitting Programme. The first consultation paper, making recommendations on the policy underpinning the programme, was published in February 2006. The next consultation paper will consult on proposed regulations, placing the Waste Management Licence and Integrated Pollution Prevention and Control regimes into the same legislative framework. Stakeholders are also actively involved in this programme. From Autumn 2006 fish suppliers and angling clubs will be able to apply for and receive their fish movement consents via our website.
6	Throughout 2005-7 we will be developing and implementing a system for automating aspects of waste regulation. This will involve the on-line registration of applications for licences and support for more risk-based inspection and enforcement. It will potentially bring about savings of £4 million per annum and also provide a foundation for similar work in other areas of our regulatory activities.	↔	Customers can now register simple (non-chargeable) exemptions by calling our National Customer Contact Centre with no paperwork required. The programme is progressing as planned and will continue to achieve its objectives through 2006-07.
7	By 2007 we will have streamlined abstraction licensing to provide approximately £3 million cost savings per annum and improve the regulation of water taken from rivers and groundwater.	↔	We have been developing generic permitting processes with other modern regulation projects and have agreed our target operational model. We are on target to deliver the new processes for abstraction licensing during 2007. There are IT delivery issues around the integrated delivery tool that we are actively resolving.
8	Over the next two years we will further develop our integrated approach to regulation of the agricultural sector through the Integrated Regulation of Agriculture Project (IRAP). By developing multi-skilled teams, implementing a risk-based approach and developing an underpinning database (Integrated Site Database - ISD) we will be able to implement new duties to control agricultural waste and tackle the sources of pollution (from circa 150,000 significant businesses) with limited additional resources.	↔	Through IRAP we are looking to simplify farm inspections across seventeen regimes and reduce a regulatory burden on farmers. Last year we introduced a risk-based method for selecting and prioritising farm inspections. We have made substantial progress during the year on specifying and developing the Farm Assessment and Regulation Management System (FARMS) which will begin in 2007/08. We have identified Environment Officers in Area teams with some specialisation in agriculture and understanding of farm practice. They will be provided with rugged laptops, which can be used in the field to call up and enter information in the FARMS database.

Continued...

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			The new Farm Waste Regulations will come into force on 15 May 2006. Plans are well advanced to accept and register exemptions notified by farmers.
9	We will develop new and common internet-based reporting systems for industry to use for all operator returns and to provide information on waste flows in line with the National Waste Data Strategy.	↔	We completed the first phase of our work when we offered new electronic reporting systems to the waste industry for 2005-06 returns. Nearly 19 per cent of waste companies reported the volumes of waste they received using these systems during 2005-06. Our target for 2006-07 is 60 per cent. The second stage of our modernisation work has started with the development of internet based reporting systems that will go live in 2007. The system will provide a common template for all operator returns to the Environment Agency. The first phase will cover waste returns the second will cover water abstraction returns.
10	Deliver Pollution Prevention and Control (PPC) permitting more efficiently, with progressively greater emphasis on resource utilisation alongside tight control of likely pollutant emissions. A new system of compliance assessment planning will be introduced for PPC permits.	↔	We have revised our permitting tools to reduce the cost of administering PPC. This was helped by centralising permitting and large-scale variations. Best Available Techniques ensure tight control of emissions. We will continue to focus on using resources efficiently this year with a proposed Resource Efficiency training programme and other initiatives. Compliance Assessment Plans (CAPs) are being put in place for all PPC installations on either an individual or sector basis. The CAPs are aligned to the operational service level targets.
11	Develop proposals to combine the permitting regimes for PPC and Waste Management Licensing.	↔	The first consultation on a proposed combined permitting regime for PPC and Waste Management Licensing began in February 2006. A second consultation on the detail is scheduled for later this year.
12	Develop a new system for automating operator returns to satisfy both regulatory obligations and to gather data on waste streams in line with the National Waste Data Strategy. The first phase will be operational during 2006 in partnership with the Waste Industry.	↔	See target number 9, above. This work is part of our contribution to the National Waste Data Strategy led by Defra and supported by the Waste trade body Environmental Services Association.
13	Implement a new system for automating the regulation of hazardous waste movements.	✓	We introduced a new system for tracking movements of hazardous waste from producers to recovery, treatment and disposal facilities.

## Sharpening Efficiency

**Our long-term vision:** We will get the most for the environment from all of the resources available to us. Our staff will find better ways of doing things, embracing ideas from inside and outside the organisation. Costs for us and for our customers will be reduced.

### Overview

Last year was by far our most efficient so far, with efficiency savings of £41.9 million compared with £26.5 million the previous year. We achieved much of this through new ways of working, including using '1B1S' – a financial and human resources system that has streamlined procurement and gives managers better information on a range of staff issues.

We are also attracting more external funding for environmental improvements than ever before – almost £100 million last year – exceeding our target by nearly 50 per cent.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	Deliver £30 million of efficiency savings.	✓	We delivered £41.9 million efficiency savings against a target of £30 million.
2	Develop partnership projects to attract £65 million of external funding for environmental improvements.	✓	We performed extremely well and exceeded the target for 2005/06 by almost 50 per cent (£98.5million).
3	Through our Change projects bring about efficiencies through new ways of working.	✓	The portfolio of change programmes and projects have introduced many new ways of working for the organisation resulting in both cash releasing and productivity efficiencies. For example: Floodline Warning Direct, 1B1S – a corporate wide financial and HR system providing extensive management information.
4	Develop improved systems for the measurement of benefits realisation.	✓	The improvement in measurement and tracking of progress in the delivery of the efficiency strategy has been brought about through the introduction of a Change Portfolio and Benefits Management system. The systems gather and aggregate information from Directorates during both planning and monitoring phases.
5	Undertake further strategic development of bench marking.	✓	Extensive external benchmarking has been carried out in Procurement, CIS and Finance resulting in the development of improvement programmes in each of these areas. This has resulted in the development of a corporate benchmarking process.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
6	Increase focus on a performance management culture through developing our scorecard. (See 'Driving Corporate Performance' below.)	✓	Our performance scorecard is produced monthly and reviewed by Directors on a monthly basis and at board meetings. We have put a scorecard in place for 60 per cent of our business. The majority will be completed in 2006/7. We have seen significant improvements in performance in a number of areas.
7	Continue investment in information technology (see 'Supporting Technology' below).	✓	Our IT investment strategy is on track. A new IT strategy is in place and IT effectiveness is increasing.
8	Use Activity Based Costing to identify improvement opportunities and to validate efficiency improvements from investment.	↔	Activity Based Costing has been rolled out to many managers and is being used to identify improvement opportunities.
9	Develop commercial opportunities from the work we do and the information we hold.	✓	We have created a new Commercial Development function. We have started to compile an asset register of our intellectual property and have increased our income from third party sales.
	<b>Modernising Regulation – Specific Efficiency Elements</b>		
1	We will work with Defra and the Welsh Assembly Government to modernise environmental permitting. This could progressively put different regulatory streams on to a common footing and lead to quantifiable efficiencies for both the regulated community and ourselves.	↔	<p>We are working with Defra and WAG on the Environmental Permitting Programme. The first consultation paper was published in February 2006, with recommendations on the policy underpinning the programme.</p> <p>The next consultation paper will consult on proposed regulations, placing the Waste Management Licensing and Integrated Pollution Prevention and Control regimes into the same legislative framework. Stakeholders are also actively involved in this programme.</p> <p>From Autumn 2006 fish suppliers and angling clubs will be able to apply for and receive their fish movement consents via our website.</p>
2	Throughout 2005-7 we will be developing and implementing a system for automating aspects of waste regulation. This will involve the on-line registration of applications for licences and support for more risk-based inspection and enforcement. It will potentially bring about savings of £4 million per annum and also provide a foundation for similar work in other areas of our regulatory activities.	↔	Customers can now register simple (non-chargeable) exemptions by calling our National Customer Contact Centre. No paperwork is required. The programme is progressing as planned and will continue throughout 2006-07.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
3	By 2007 we will have streamlined abstraction licensing to provide approximately £3 million cost savings per annum and improve the regulation of water taken from rivers and groundwater.	↔	We have been developing generic permitting processes with other modern regulation projects and have agreed our target operational model. We are on target to introduce the new processes for abstraction licensing during 2007. We are working to resolve IT issues concerning the integrated delivery tool.
4	We will develop new and common internet-based reporting systems for industry to use for all operator returns and to provide information on waste flows in line with the National Waste Data Strategy.	↔	We completed the first phase of this work when we offered new electronic reporting systems to the waste industry for 2005-06 returns. Nearly 19 per cent of waste companies reported the volumes of waste they received using these systems during 2005-06. Our target for 2006-07 is 60 per cent. The second stage of our modernisation work has started with the development of an internet based reporting system that will go live in 2007. The system will provide a common template for all operator returns to us. The first phase covers waste returns, the second covers water abstraction returns.

## Driving Performance

**Our long-term vision:** The Environment Agency will be a high-performing organisation where we are clear about what we need to do, we do what we say we will and we measure and report the results.

### Overview

We have been continuing to introduce a performance management culture to our organisation, partly through developing our corporate scorecard and making sure it reflects the aspirations set out in our new corporate strategy, *Creating a better place*.

We are also using a tool called Activity Based Costing to identify new ways of improving the organisation and to make sure we are investing in the right kind of efficiencies.

Our new permit administration system, introduced for the regulation of IPPC, hazardous waste and reservoirs, has saved £2 million by automating administrative tasks and simple, low risk decisions. It has also made things easier for industry by providing on-line services for registration and tracking the progress of applications.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
	<b>Performance management</b>		
1	Refresh our performance measurement scorecards to ensure that we align our activity to strategic objectives.	✓	Our corporate scorecard for 2006/7 was in place at the start of the new financial year. It aligns with our new corporate strategy, <i>Creating a better place</i> . A number of measures have been revised.
2	After we have implemented the revised scorecards, and within the period covered by this plan, we will use new 'Activity-Based Costing' data to develop links with business planning.	↔	We are gathering 'Activity Based Costing' data, which will be used in the revised business planning process from 2007. This will link activities more clearly with environmental outcomes and drive the most effective approach to achieving them.
	<b>Supporting Technology</b>		
1	We will invest in new technology (about £30 million per annum) in order to become more efficient, to improve our service to customers and to find innovative solutions to environmental challenges.	✓	We have invested significant amounts over four years. As a result we have introduced new systems to support our financial and human resource management, customer services and other regulation and flood risk management activities.
2	We will modernise the ways in which we process applications for licences and permits. This will involve on-line services, automation where appropriate and improved internal workflow systems.	✓	A new permit administration system has been introduced for the regulation of IPPC, Hazardous Waste and Reservoirs. This has saved £2 million in process efficiencies by automating administrative tasks and simple, low risk decisions and reducing the burden on industry by providing on-line services for registration and tracking the progress of applications. This system forms the foundation of an integrated suite for regulation and we are in the process of adding further regimes.
3	Several projects will improve our ability to manage flood risk, including: enhancements to our telemetry network, new flood forecasting systems, flood risk maps available on the internet and deploying a wider range of technology to issue flood warnings to the public.	✓	We have made significant enhancements to our telemetry network and rationalised our Flow Forecasting models, improving our ability to monitor and forecast flooding. Flood risk maps and all active flood warnings are now available to the public through our website. Flood Warnings Direct, an on-line service that allows those at risk of flooding to register for and receive flood warnings by phone, text or email went live in January 2006. 110,000 people have registered for the new service, almost doubling <i>Continued...</i>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
			the number of people who receive flood warnings and we can use the information that we now hold to proactively target campaigns, encouraging them to take more effective action in the event of flooding.
4	Develop a new system to help with the management of the thousands of assets (for example weirs, sluices and pumps) that we control.	✘	Due to other priorities, this work has not progressed as quickly as originally planned. However, we have now appointed a Head of Asset Management and work is underway to develop our asset management process and identify the necessary tools to support more effective management of our assets.
5	A significant part of our efficiency programme will be delivered through changes in technology, such as the recently introduced tablet PCs to enable electronic capture of Flood Risk Management asset data in the field.	✓	We have implemented strategic mobile devices to support mobile working for flood risk asset inspections, achieving a saving of 1 person in each of our 26 operational areas. We have also achieved efficiency savings of £2.7 million from the implementation of the Permit Administration system and this will continue at a rate of £2 million per year.
6	We will be improving our systems for data management and environmental modelling, especially to support the implementation of the Water Framework Directive and to underpin our responsibilities to the regional and local waste planning process.	✓	We have undertaken a series of system enhancements and data quality improvements including significant improvements for collation and analysis of ecological data and the data collected through River Habitats Surveys and Fisheries monitoring. We have also improved waste data quality and consolidated over 180 water hydrometry archives into a single national system.
7	From 2005 to 2007 we plan to introduce a new Agency-wide IT system for managing documents and records. As staff will not be tied to the locations where records are kept it will enable us to work flexibly, share documents with others and our customers and be more efficient.	↔	We have completed a pilot of electronic records management in our waste regulation teams in 26 area offices. This identified the technology and business processes needed to manage the information. Developments in the software markets have forced us to select a new software product for the future and we have commenced work to replace the existing software where it is already deployed and to integrate it with our standard desktop tools. We will then roll out the technology to other parts of the Environment Agency as business needs dictate.

## Communicating and influencing

**Our long-term aim:** The public, government, our partners and customers will trust the Environment Agency to do a good job. They will hear and understand what we are saying about environmental issues and to act on our advice. Our customers will get the service they want, tailored to their needs.

### Overview

We can only succeed in achieving our aims by working with others and having the credibility to influence them to help create a better place.

Our 2005 World Environment Day campaign generated 140,000 pledges from 25,000 people promising to take simple steps to improve the environment.

This saved 181 swimming pools of water, 191 dustbin lorries of waste, 3,379,168 plastics bags and the carbon dioxide that would be emitted by a 117,721,365 mile journey.

We also made a major impact on many areas of the media, receiving more and better coverage. Almost 4million people tuned in for BBC1's 'Dumping on Britain', which followed us on the trail of fly-tippers. There were numerous reports on the potential for drought in the South East of England.

We received widespread national coverage of the Flood Awareness Campaign launch, which incorporated Flood Warnings Direct (FWD) and generated 113,000 new recruits to FWD through our direct mailing campaign. We also launched a new integrated flood mapping service on our website.

We introduced a new visual and plain English approach to our major documents and trained 3,000 staff in writing plain English (163 as plain English champions) as part of our efforts to deal more directly with customers and work more effectively with local communities. We also started up a customer action group, to respond to views being fed back through customer and stakeholder surveys and to generate a better response to customers throughout the business.

We responded to 116 Government consultations, made an input to 10 Government bills and worked with 30 other government agencies across Europe to demonstrate how environmental regulation makes an important contribution to economic competitiveness. We shared our knowledge on water management and environmental protection with environment agencies in Africa and the Accession countries.

We also successfully communicated with nearly a quarter of a million businesses producing hazardous waste, persuading them to sign up to our new registration scheme.

## Developing people

**Our long-term aim:** We have the right people in the right place at the right time, properly developed, directed, motivated and rewarded.

### Overview

Business goals are achieved through the endeavours of people – individually and collectively. The pace and quality of what we achieve is a direct reflection of the calibre, motivation and contribution of every employee. As the organisation sets out to do more, quicker, better and for less, the contribution of all our staff will be fundamental to our success.

To achieve our business goals, the health and safety of our staff becomes an ever-greater priority. In our efforts to reduce the number of accidents, the year ended with 103 injuries that involved people off work, 15 per cent down on the previous year. Our eventual aim is for no ‘lost time’ incidents.

It is also crucial that our organisation properly represent the communities we serve. Over the last three years we have increased the number of black and minority ethnic staff we employ from 195 in 2002/03 to 305 in 2005/06 – an increase of 56.4 per cent. We also doubled the number of female senior managers from 67 in 2002/03 to 134 in 2005/06. We received the CIPD Diversity Excellence Award and have been accredited with the ‘Race of Opportunity’ Gold Award.

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
1	<p>We will improve overall organisational effectiveness and staff capability through:</p> <ul style="list-style-type: none"> <li>▪ An organisation development programme which produces local actions with support and sponsorship from senior managers and which will, over a period of time, involve all employees;</li> <li>▪ Supporting effective people management and performance review;</li> <li>▪ Providing training, development and learning opportunities.</li> </ul>	↔	<p>An organisation development strategy has been produced and a training programme has been designed for implementation in 2006.</p> <p>We have introduced a new capability and training framework for operations delivery staff. A new NVQ system has been agreed and is ready to roll out in 2006.</p>
2	<p>We will continue to reduce the number of accidents involving our staff at work.</p> <p>We will continue to set challenging targets and ensure that health and safety is a management and leadership priority. We expect all regions and areas to approach the level of performance of those with the best record over a period of years.</p> <p>We will review our Health and Safety Strategy, which we adopted in 1998, and build on the successful features of our performance in the last five years to improve our overall record.</p>	<p>✓</p> <p>↔</p> <p>✓</p>	<p>The year ended with 103 lost time injuries, a 15 per cent reduction compared with 2004/5, and the rate of improvement increased.</p> <p>Our target is for no lost time incidents but to track our progress towards this we have set a ceiling for 2006/7 of a reduction of 25 per cent compared with 2005/6. This applies to all regions and Head Office. A similar percentage reduction is proposed for 2007/8. Our Board agreed a ‘Step Change’ programme in May 2005 to supplement the strategy agreed in 2004.</p>

Target Ref.	What we said we would do	Status (See page 14 for symbols)	Progress
3	We will continue to identify where we are having difficulty in recruiting staff and take action to address problems. This will involve extending to other groups of staff the national campaigns that we have developed for recruiting Environment Officers.	✓	We have resourcing strategies in place for scarce skills and have developed a graduate recruitment programme to establish a long-term supply. The Flood Risk Management Foundation degree programme is now in its second year with 30 new entrants and the campaign to recruit Environment Officers has been a success. We have successfully piloted internet recruitment and will extend this across the business in 2006.
4	We will tap into new labour markets by driving ahead with our diversity strategy. When the Environment Agency was formed, 1.6 per cent of staff were from ethnic minorities. We are now recruiting 4-5 per cent of new starters from ethnic minorities, but we can increase this by appealing to wider communities. We are setting ourselves targets at local level and areas: regions and head office will work towards achieving these.	↔	Over the last three years we have increased the number of black and minority ethnic (BME) staff we employ from 195 in 2002/03 to 305 in 2005/06 (an increase of 56.4 per cent) plus 11 BME Path Trainees (resulting in an overall increase of 62.1 per cent). We have doubled the number of female senior managers from 67 in 2002/03 to 134 in 2005/06. We received the CIPD Diversity Excellence Award and have been accredited with the 'Race of Opportunity' Gold Award.

# **Section 3 - Financial Statements**

## **For the year ended 31 March 2006**

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## I FOREWORD

### HISTORY AND STATUTORY BACKGROUND OF THE ENVIRONMENT AGENCY

The Environment Agency was established on 8 August 1995 following Royal Assent for the Environment Act 1995. It took up its statutory powers and duties on 1 April 1996 when the functions of the National Rivers Authority (NRA), Her Majesty's Inspectorate of Pollution (HMIP), the Waste Regulation Authorities and several smaller units of the Department of the Environment (DoE) were transferred to it. Its powers and duties relate to environmental protection, flood defence, water resources, fisheries, recreation, conservation and navigation.

The Environment Agency is a non-departmental public body and in 2005/06 its principal sponsor in Government remained the Department for Environment Food and Rural Affairs (Defra), which was responsible for supervision of the Environment Agency's financial controls through the Financial Memorandum. Defra oversees the environmental policy framework within which the Environment Agency operates, and policy on all its functions, except that the National Assembly for Wales (NAW) is responsible for the policy and oversight of all of the Environment Agency's functions discharged in Wales.

In April 2004 new arrangements came into force for funding flood risk management activities in England by way of a new funding stream in the form of Flood Defence Grant-in-Aid (FDGIA) replacing the capital grants regime previously received from Defra and income previously received from local authority flood defence levies. Local authorities retain a residual levy setting power in England to pay for local priorities not covered by the nationally agreed programme. From 1 April 2005 equivalent funding arrangements were implemented by the Welsh Assembly Government in respect of the Environment Agency in Wales.

Expenditure on the water resources function is funded entirely through charges to customers. The Environment Agency's remaining functions, relating to environmental protection, fisheries, recreation, conservation and navigation, receive their funding predominantly through fees for licences, authorisations, registrations and consents, supplemented by grant-in-aid from Defra and NAW (for the Environment Agency's functions in Wales only).

### PREPARATION OF ACCOUNTS

The annual accounts have been prepared in accordance with the Accounts Direction, issued by the Secretary of State for the Environment, Food and Rural Affairs, and the National Assembly for Wales with the consent of the Treasury, under section 45 of the Environment Act 1995.

The term 'Service Accounts' used in the financial statements incorporates the water resources, environmental protection, fisheries, navigation, recreation and conservation functions.

### RESULTS

The Environment Agency had an operating surplus from continuing activities for the year of £0.2m. Interest receivable of £7.5m, income from the sale of assets of £2.8m, financing income on pension scheme assets and liabilities of £1.2m, and transfers of £11.7m from capital reserve, resulted in a nil balance on the income and expenditure account.

### REVIEW OF ACTIVITIES

#### Water Resources

The Environment Agency is required to ensure that, taking one year with another, income from abstraction charges equals expenditure (including current cost depreciation, a rate of return of 3.5% on the net current cost value of assets transferred to the former NRA on 1 September 1989 and on such assets acquired since then). Cash surpluses at the year-end can be carried forward only to the extent that they cover net repayments due to abstractors, short term creditors and accrued liabilities. All other cash surpluses have to be offset, in the first instance, against the grant-in-aid requirements of the environmental protection, recreation, conservation and navigation functions. Any surpluses still remaining are offset against the grant-in-aid requirements of the fisheries function.

Expenditure exceeded income from abstraction charges on the Water Resource function in the year by £1.6m. This in year deficit decreased the balance accumulated to the end of 2004/05 and has created a deficit balance of £0.9m to be carried forward.

## Grant-aided Functions

The principal financial duty for each of the grant-aided functions is to balance cash income (including grant-in-aid) and expenditure in each financial year. Surplus grant-in-aid can be carried forward by the Environment Agency from one financial year to the next provided it does not exceed 2% of the total grant-in-aid provision, as approved by Parliament or the National Assembly of Wales. Any amount in excess of 2% is taken into account in the payment of the following year's grant-in-aid. In Wales 5% can be carried forward for flood risk activities as provided for in Schedule 9A to the Financial Memorandum. As regards environmental protection specifically, the Environment Agency has to ensure that, taking one year with another, income from applicants for and holders of consents, licences and authorisations equals expenditure (including current cost depreciation and a 3.5% rate of return on relevant assets) incurred in connection with the granting and subsistence of such consents, licences and authorisations. Any cash surpluses arising on monitoring and consenting are treated in the same way as those arising on the water resources function.

Interest receivable on water resources function was classified as revenue rather than negative public expenditure. As a consequence receipts from this source were surrendered to Defra and the Environment Agency received equivalent amounts of grant-in-aid.

Although the financial statements are prepared on an accruals basis, financial performance on grant-aided functions has to be measured in cash accounting terms for the purpose of assessing compliance with the financial duties laid down in the Financial Memorandum.

The following table, derived from the analysis of receipts and payments, summarises the position on grant-aided functions on a cash basis:

	Payments £m	Operating Receipts £m	Grant-in-aid Requirement £m
Environmental protection	304.4	188.6	115.8
Fisheries	44.2	27.7	16.5
Recreation & Conservation	11.6	0.9	10.7
Navigation	19.1	5.2	13.9
Flood Risk Management	568.4	118.1	450.3
Sub-total	947.7	330.5	617.2
Unfunded pensions	12.3	-	12.3
Total	960.0	330.5	629.5

## Environmental Protection

Under the accruals convention, expenditure within the Environmental Protection function exceeded income from monitoring and consenting by £0.5m. As a consequence, this in-year deficit increased the accumulated deficit of £5.3m brought forward from 2004/05 to £5.8m at the end of 2005/06.

## Flood Risk Management

The Environment Agency is required to break even, taking one year with another, on income and expenditure.

The consolidated flood defence account comprises the individual accounts of Flood Defence Committees through which the Environment Agency, in accordance with Section 14 of the Environment Act 1995, arranges to carry out its flood risk management activities. Funding comes principally from the new funding arrangement in the form of FDGIA (£450.3m) which replaces the capital grants previously received from Defra and income previously received from local authority flood defence levies. Funding from levies on constituent local authorities, which have representatives on each Committee, amounted to £25.2m. The Environment Agency received FDGIA of £23.3m from the NAW towards the costs of projects in Wales.

During 2005/06, the Environment Agency continued progress in optimising the delivery of capital construction projects through management of its national capital programme service. The service's aims are to achieve efficiencies and improve value for money for flood defence and other capital procurement, deliver the capital programme to the required standard, quality and timescale, and to use all capital flood defence funding effectively.

Agreement was reached in 2002/03 with Treasury in respect of the fluctuations of flood defence S47 balances and its impact on Departmental Expenditure Limit under Resource Accounting and Budgeting. Treasury supported the proposal that S47 & Local Levy balances should be accounted for in working capital rather than reserves. The impact of this agreement on the flood defence S47 & Local Levy balances this year resulted in a transfer from working capital of £17.6m.

### **Fixed Assets**

The movements in fixed assets during the year are set out in note 5 to the financial statements. They derive mainly from planned acquisitions of assets and the annual revaluation to replacement value. Review of asset records, physical verifications and revaluations are the means by which the Environment Agency identifies and records impairments of fixed assets and complies with FRS 11, Impairment of Fixed Assets and Goodwill.

### **PENSIONS**

The Environment Agency is the statutory administering authority for the pension fund for new employees and transferees from predecessor bodies (the Environment Agency Active Fund, previously known as the NRA Active Fund) and also for a residual fund (the Environment Agency Closed Fund) which provides benefits to pensioners of the Foundation for Water Research, WRc plc, Water Services Association of England and Wales, Water Training international, the ten former Regional Water Authorities and the former British Water International. The funds are defined benefit schemes administered in accordance with local government pension scheme regulations.

The Closed Fund receives no contribution from the Environment Agency and the Secretary of State has a duty under section 173(3) of the Water Act 1989 to ensure the Fund can always meet its liabilities including future indexation awards. Separate financial statements are maintained for the Active Fund and Closed Fund.

### **CORPORATE GOVERNANCE MATTERS**

The Environment Agency aims for the highest standards in corporate governance. The Environment Agency has throughout the year had risk management and review processes in place so as to be able to review the effectiveness of the Environment Agency's system of internal control. The Environment Agency has prepared a statement on internal control for 2005/06, which has reflected that the Environment Agency is compliant with the Treasury Guidance and Turnbull guidance on internal control. The Accounting Officer has provided the statement required by this guidance in Section II.

### **Board Composition and Executive Directors**

Particulars of Board and Committee members are available on the Environment Agency's Internet site and are recorded in Section III.

The Accounting Officer of Defra designated the Chief Executive as the Environment Agency's Accounting Officer. On 31 March 2006, the Board comprised twelve non-executive members, the Chairman and Chief Executive. Members of the Board were appointed by the Secretary of State for Environment, Food and Rural Affairs and the Welsh Assembly Government, except for the Chief Executive who is appointed by the Board with the approval of the Minister. The normal term of office for a non-executive Board member is three years, although lengths of appointments may be varied to ensure continuity of Board membership. The Environment Agency has eight executive directors, who are not members of the Board. Where the financial statements are required by the Companies Act to disclose information concerning "directors", the Accounts Direction requires the requisite information to be disclosed in respect of Board members, including the Chief Executive, and also the other executive directors.

The Board met in formal session six times in the year ended 31 March 2006. It is accountable to the Secretary of State for every aspect of the operation of the Environment Agency and the Welsh Assembly Government for its activities in Wales. The Environment Agency's scheme of delegation sets out matters which require specific Board approval. In addition, the Board has three statutory committees: Audit & Risk Committee, Pensions Committee, and Remuneration Committee; and five advisory groups on Agriculture & Countryside, Industry, Resources, Water & Flood Risk Management and Urban Environment. The Flood Defence Finance Committee which is also a sub-group of the Board is responsible for advising the Board on allocation of Flood Defence Grant-in-Aid to Regional Flood Defence Committees.

The Board has approved a Code of Best Practice for Board members of the Environment Agency, based on the Cabinet Office's model code. A register of Board members' interests is updated and maintained at the Environment Agency's London Head Office and is readily available for inspection.

### **Board Committees**

The Audit & Risk Committee comprises five Board members and is currently chaired by Mr Peter Matthews. It meets quarterly and its principal aims are the review of standards of internal control and financial reporting within the Environment Agency and the consideration of the annual report and accounts of the Environment Agency and its pension funds. The Committee considers and advises the Board and Accounting Officer on the scale and programme of Internal Audit, and the results of the work of Internal and External Audit, together with any such work carried out by auditors from Government Departments and the National Audit Office.

The Pensions Committee comprises four Board members, the Chief Executive, four Environment Agency executives, and six representatives of the members of the Environment Agency Pension Scheme. It is currently chaired by Mr John Edmonds. The Environment Agency has responsibility for administering the scheme and also for a residual fund for employees of the former water authorities and associated bodies. The Pensions Committee considers pension matters on the Environment Agency's behalf.

A separate report of the Remuneration Committee is given in Section III.

### **RESEARCH AND DEVELOPMENT**

The Environment Agency has a research and development programme covering the full range of the Environment Agency's scientific and technical functions across environmental protection, water management and environmental strategy. The overall purpose of the programme is to make the Environment Agency more efficient and effective in its business, and to innovate and be proactive with regard to the problems it has to tackle, the advice it gives, and the changing statutory framework within which it operates. Expenditure on Research and Development in the year was £8.2m.

### **EMPLOYEES**

The Environment Agency's policy is to ensure that all employees are actively supported in giving their best contribution to the Environment Agency's aims. This involves attracting people from all spheres, valuing the differing skills and abilities of all employees and responding flexibly to the needs of individuals in achieving organisational goals. Disabled people are given the same consideration as others and, depending on their skills and abilities, will enjoy the same training, development and prospects as other staff. Staff who become disabled during their employment with the Environment Agency will be retained wherever possible and encouraged to develop their careers.

The Environment Agency ensures that it has fair employment terms for its staff. Employment handbooks set out formal policies on key issues such as equal opportunities, disciplinary and grievance procedures, sexual and racial harassment. The Environment Agency has national and regional joint committees for consultation and negotiation with industrial and non-industrial employees. The committees are also the means of keeping employees' representatives informed of developments affecting employment with the Environment Agency.

The Director of Human Resources is responsible for overseeing employment standards and implementing best practice employment policies throughout the Environment Agency.

### **HEALTH & SAFETY POLICY STATEMENT**

The Environment Agency is committed to conducting its business in a manner that protects the health and safety of our employees, contractors and the public. In addition to complying strictly with the health and safety measures required by legislation, it is the Environment Agency's policy to promote and take all reasonably practicable steps to safeguard the health, safety and welfare of its employees and others who may be affected by its actions.

To meet the requirements of this policy, the Environment Agency will work with all employees and strive for continuous improvement in health and safety performance. The Environment Agency will operate an integrated, structured, and documented system of management control over its operations.

The Environment Agency will provide information to ensure appropriate consultation with health and safety representatives on matters relevant to this policy. We will discuss and exchange ideas relating to health and safety with our employees on a local basis and will, in addition, operate an organisation that maintains adequate communications and action in these matters.

Prime responsibility for these matters lies with individual employees. Directors, Regional Directors, Area Managers and all other managerial and supervisory staff equally have responsibility for matters within their control. They have a duty to ensure that health and safety issues are given the fullest consideration at all times, and for providing a safe and healthy working environment for their employees. The Director of Human Resources is directly accountable for monitoring and reporting on health and safety performance, and providing such advice as the organisation needs to maintain and improve its performance in this area.

In addition, all Environment Agency employees have a responsibility to themselves and others for safety and prevention of ill health at work. All employees must work together in a spirit of participation and co-operation to ensure the success of this policy and hence the maintenance of human health and well being while carrying out important work to protect and improve the environment.

## **INSURANCE**

Apart from statutory insurance requirements and certain risks covered with the approval of Defra, the Environment Agency follows a strategy of self-insurance in accordance with the Financial Memorandum.

## **CREDITOR PAYMENT POLICY AND STATISTICS**

The Environment Agency seeks to meet the level of performance on payment of creditors set out in British Standard 7890, 'Method for achieving good payment performance in commercial transactions' and relevant Treasury guidance. Creditor days, calculated according to the formula in the Companies Act 1985 (Directors Report) (Statement of Payment Practice) Regulations 1997 (SI 1997/571), were 13.5 days for 2005/06 (2004/05 38.0 days). The Environment Agency has complied with the Better Payment Practice Code.

## **ENVIRONMENTAL POLICY AND STATEMENT**

The Environment Agency's primary aim is to protect and improve the environment and make a contribution towards the delivery of sustainable development through the integrated management of air, land and water. The Environment Agency will conduct its own activities and operations to reflect best environmental practice and implement an environmental management system to pursue sustainability and continual improvement.

The Environment Agency will:

- reduce energy and resource consumption by promoting effective and efficient reduction methods consistent with best practice;
- develop and implement green transport plans for business and commuter travel and utilise renewable energy to minimise the release of greenhouse gases; minimise the use of toxic materials and waste generated, and to prevent pollution;
- influence our suppliers and contractors to ensure that goods and services procured support our environmental policy and, in turn, encourage our suppliers and contractors to improve their own environmental performance;
- use environmental accounting tools to support the integration of environmental performance measures into core financial processes, and to track internal environmentally significant expenditure;
- report on environmental expenditure in our Annual Report and Accounts and Environmental Report.

## **ENVIRONMENTAL ACCOUNTING**

Our Environmental Finance function is helping to implement our corporate strategy on greening business through promoting the benefits of environmental accounting and by influencing the finance sector which influences all other business sectors.

We believe that accounting for environmentally significant expenditure can help us and business save resources and money.

Environment Agency finance and other staff have been trained in the integrated use of financial and environmental data. We have also worked with Envirowise, the UK accounting bodies, and several hundred businesses to develop and implement good practice guidance to promote this. We have also built environmental accounting into our new financial accounting system 1B1S and this will improve and develop what we do in the future.

In relation to the finance sector we have promoted the view that corporate environmental governance is good for business, and in particular we have sought to increase the extent and quality of environmental disclosures by influencing new company law annual reporting requirements, and stock market listing rules. This will make environmental risks and opportunities transparent to shareholders, investors and insurers.

#### **CONTAMINATED ASSETS – Disclosure under FRS 12**

The Agency has a property estate of some 15,300 hectares and 286 built properties. The March 2001 quinquennial property valuation identified a possible contingent liability of between £14m and £35m associated with potential historical contamination at 198 of our office and depot sites. Since then we have undertaken further work to investigate and assess this financial risk. In order to ensure that our investigations are justified, reasonable and cost effective we have developed a phased approach. The four phases are 1) desk study review 2) visual inspection 3) intrusive investigation and 4) remediation. This is in line with current best practice and the UK framework for risk assessment and risk management. Based on the investigations carried out so far the current liability figure has been reduced to between £2m and £5.3m. We are currently reviewing the work to be completed during 2006/07 on those sites remaining in the programme.

#### **FUTURE DEVELOPMENTS**

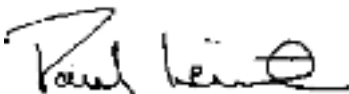
In consultation with others we have set out a shared vision for the environment we want to see in the long-term. We plan to turn this vision into reality through our corporate strategy, which sets out priorities and targets to achieve specific environmental outcomes over a 5-year cycle. We consulted on revisions to our corporate strategy during 2005/06 and have put in place a new strategy “Creating a better place” covering the 5 years to 2011. Our Corporate Plan, which we update each year to reflect our funding position, sets out priorities and milestones geared towards achieving these 5-year strategic targets.

#### **AUDITOR**

The Comptroller and Auditor General of the National Audit Office is the statutory external auditor of the Environment Agency.

So far as the Accounting Officer is aware, there is no relevant audit information of which the Environment Agency’s auditor is unaware, and

The Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Environment Agency’s auditor is aware of that information.



**PAUL LEINSTER**  
**ACTING CHIEF EXECUTIVE AND ACCOUNTING OFFICER**  
**ON BEHALF OF THE ENVIRONMENT AGENCY**  
12 July 2006

## **II ACCOUNTING OFFICER'S STATEMENT ON INTERNAL CONTROL (SIC)**

### **Scope of responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Environment Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. To that end I share with the Board of the Environment Agency responsibility for maintaining a sound system of internal control and the mechanism by which both the Board and I assure ourselves that it is working effectively are the same. I am personally accountable to the Board, Parliament and the Welsh Assembly Government, and the Board is accountable to central Government and the Welsh Assembly Government.

Through the publication of the Annual Report and Corporate Plan, the Environment Agency reports on progress made and sets out how we propose to allocate the resource made available to us. Defra and the Welsh Assembly Government approve the Corporate Plan. As part of this process, the Environment Agency will communicate our policies, aims and objectives and those areas we perceive represent the greatest risk to the achievement of them.

The Environment Agency's aims and objectives in the delivery of central Government and Welsh Assembly Government policies and key issues related to them are discussed as appropriate at regular meetings of officials including my meetings with Defra's Accounting Officer as well as at meetings of the Environment Agency Chairman and myself with Ministers.

### **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Environment Agency for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### **Capacity to handle risk**

The Environment Agency has a statement setting out its strategic approach to risk management that has been agreed with its Board and Directors. The Directors' Team assess and prioritise the Environment Agency's key corporate risks with individual Directors then taking on the role of risk champions. The Audit Committee and Board receive half-yearly reports on how key corporate risks are being managed.

The Environment Agency's management development training programmes incorporate risk management principles and techniques. Staff have access to guidance on the application of risk assessment. The Environment Agency has post-project appraisal and lessons learned processes in place, all designed to improve knowledge sharing across the organisation.

### **The risk and control framework**

The Environment Agency's risk management strategy recognises that effective risk management is a key component of the delivery of its objectives. The strategy promotes the taking of well-managed risks that balance the needs of stakeholders. The strategy recognises the importance of prioritising how the Environment Agency responds to risk and that the response must be to reduce the residual risk to an acceptable and justifiable level. Clear accountability for risk ownership and the regular monitoring and reporting of progress to management teams are mandated to ensure risk management plans are delivered.

All key operational management teams undertake an annual business-risk assessment process. These prioritised assessments are used to compile an Environment Agency wide risk register. The register informs the Directors' corporate risk assessment. At management team and Director level, risk mitigation plans are developed and routinely monitored and reported on and it is through this process that the on-going maintenance and improvement of the Environment Agency's risk management process occurs.

To manage corporate risks for the year ended 31 March 2006 the Directors prioritised action in the areas of optimising service delivery, managing the impact of Government reviews and internal change programmes, incident management capability and securing the right skills within the workforce.

The Environment Agency is responsible for managing a diverse range of environmental hazards that have the potential to pose risks to the public and the natural environment. The Environment Agency is committed to engaging effectively with our stakeholders including the public to ensure that their views are known and, within the constraints imposed by statute, to take these into account in our decision-making. The Environment Agency continues to work to enhance our ability to communicate effectively on environmental risk and engage with our stakeholders.

The management team takes very seriously the ability of the Environment Agency to recover from an emergency and to provide the full range of the Environment Agency's services as soon as possible. Business continuity planning therefore continues to have a high priority at all levels.

### **Key elements of the system of internal control**

- Governance

The Environment Agency is a non-departmental public body sponsored by Defra and the National Assembly for Wales. The work of the Environment Agency is overseen by the Environment Agency Board. The Chief Executive is a member of the Board. The Board has a number of sub-committees including the Audit Committee providing oversight on matters of corporate governance and internal control.

The Chief Executive is the Accounting Officer and has a team of Directors that provide leadership and direction to the organisation. The Environment Agency is audited by the National Audit Office and has an internal audit function that reports to the Chief Executive. Additional assurance is obtained through established programmes of external certification including Investors in People and International Standards Organisation (ISO) certification in environmental management and quality management.

- Strategy and Planning

The Environment Agency has a long established vision for the environment of: "A better place for people and wildlife, for present and future generations" and works to achieve this through implementing its Corporate Strategy "Creating a Better Place." Each year a Corporate Plan is agreed with our sponsor departments that sets out organisational targets and resources over a three-year period, as well as reporting on prior year achievements. The Corporate Plan is built up from and then cascades down into the local business plans and objectives of each operating unit.

- Programme and Project Management

The Environment Agency undertakes programme and project management in accordance with Office of Government Commerce (OGC) guidelines. Projects are initiated through the approval of business cases that contain appraisals based upon Defra and HM Treasury requirements. All programmes and projects have clear accountability frameworks and make use of OGC Gateway Review methodologies to manage risk and focus on the successful delivery of benefits.

- Change Management

There are established protocols for managing any change that impacts on staff roles and responsibilities that incorporates active engagement with Trade Unions.

- Performance Management

The Environment Agency has an organisation-wide performance management framework designed to align strategic targets to each individual's performance objectives. The Directors Team has a corporate balanced scorecard used to monitor achievement of key organisational objectives.

### **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Environment Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and

other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

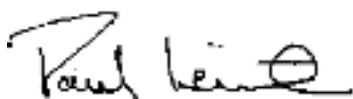
1. The operation of the Environment Agency Board comprising non-Executive Directors and the Chief Executive that sets strategic direction, approves the corporate strategy and corporate plans and reviews performance. The Board receives reports from the Audit Committee on the standards of corporate governance and internal control operating in the Environment Agency.
2. The operation of the Audit Committee, a subcommittee of the Board, which meets quarterly. The principal aims of the Audit Committee are to consider the Annual Accounts of the Environment Agency and review standards of internal control and financial reporting. It also considers and advises the Board and Chief Executive on the Environment Agency's approach to risk management and corporate governance arrangements.
3. The Head of Internal Audit submitting an annual formal opinion to the Accounting Officer on the adequacy and effectiveness of the Environment Agency's risk management, internal control and governance processes in accordance with Government Internal Audit Standards.
4. The work of executive managers within the Environment Agency who have responsibility for the development and maintenance of the internal control framework. The Audit Committee and the Accounting Officer receive from the Director of Finance and Director of Operations an annual assurance report on internal control that is based upon the assessment of senior Environment Agency managers.
5. Acting on the recommendations made by external auditors in their management letters and other regulatory compliance reports.

Areas that presented significant internal control issues in 2005/6 are: the security around information technology systems, arrangements for business continuity planning and exit payments for some staff. Actions were taken to ensure that these risks once recognised were appropriately managed.

Following issues raised in 2004/5 in relation to information technology system security, subsequent 2005/6 internal audits and management reviews have identified some continuing weaknesses. The Environment Agency is developing a structured and overarching approach to system security. Within this framework the importance of a risk-based approach and management review is being emphasised. The recent appointment of senior personnel dedicated to system security will further enhance the effectiveness of controls in this area.

Effective business continuity planning is critical to ensuring the continual delivery of a number of vital services that the Environment Agency provides and business continuity plans exist for many systems. In 2005/6 a national project provided a framework that was then used by business units to develop business continuity plans. A programme of testing the plans is underway.

Following an investigation into exit payments being made to Environment Agency staff, it was discovered that while the vast majority of exit arrangements in the year were strictly in accordance with approved terms and conditions, elements of a small number of payments were "special payments" as defined by Dear Accounting Officer (DAO) guidelines. The elements concerned related to payments that were of a non-contractual or non-statutory nature. Such payments require the prior approval of Defra and HM Treasury and in these cases prior approval was not sought. The sums involved are small and were justified on value for money grounds. The Environment Agency has secured retrospective approval for them from HM Treasury. Policies and procedures relating to exit payments are being amended to ensure that in future all appropriate approvals are obtained.



**PAUL LEINSTER**  
**ACCOUNTING OFFICER**  
12 July 2006

### III REPORT OF THE REMUNERATION COMMITTEE

#### Terms of Reference

The Remuneration Committee normally comprises five Board members and is chaired by the Chairman of the Environment Agency, Sir John Harman. Its terms of reference, which are derived from the Greenbury Code of Best Practice on Directors' Remuneration and adapted to the circumstances of the Environment Agency as a non-departmental public body, are as follows:

1. The Remuneration Committee is appointed as a statutory Committee of the Environment Agency Board to consider on behalf of the Environment Agency the matters relating to the remuneration of Environment Agency employees set out in paragraph 2 and, in so doing, shall have regard to the provisions of the Financial Memorandum and other relevant requirements of the Department of the Environment, Food and Rural Affairs.
2. The Remuneration Committee's role is to:
  - (a) consider, from time to time, the overall remuneration strategy of the Environment Agency;
  - (b) consider, in general, periodic pay reviews for Environment Agency employees;
  - (c) consider any significant policy issues involving terms and conditions other than pay;
  - (d) decide in conjunction with Defra as appropriate, all aspects of the remuneration of the Chief Executive;
  - (e) agree, upon the recommendation of the Chief Executive, any bonus payments (or other form of performance related pay awards) to directors;
  - (f) review the broad policy of remuneration for other senior executives, and the framework for succession planning for key posts;
  - (g) receive annual statement of expenses incurred by Board members.

#### Business Conducted in Year

The Remuneration Committee met three times during the year ended 31 March 2006. It agreed the bonuses of the executive directors for 2004/05 and the Chief Executive's appraisal for 2004/05, and objectives for 2005/06.

During the year, the Committee also:

- reviewed the Chief Executives new contract;
- discussed succession planning for the Directors Team;
- endorsed recommendations for the 2006/2007 pay review; and
- discussed the Environment Agency's current approach to the reward strategy.

#### Remuneration of Non-Executive Board Members

Under section 1 of the Environment Act 1995, Board members are appointed by the Secretary of State for the Environment, Food and Rural Affairs and the Welsh Assembly Government. The Act provides for the Environment Agency to pay its members such remuneration as may be determined by the appropriate Minister. The level of remuneration is subject to review in the context of decisions taken by ministers from time to time in relation to salaries of this type. Non-executive Board members are not eligible for membership of the Environment Agency pension scheme or compensation for loss of office.

## Board Members' Remunerations

The following table provides details of the appointment and emoluments of Board members:

Board Member	Date of Appointment or Re-appointment	Period of appointment (years)	Time commitment (days per month)	Remuneration in 2005/06 £	Remuneration in 2004/05 (Re-stated) £
Sir John Harman	01 Jan 2004	4	3½ days per week	97,421	92,916
Mr James Braithwaite CBE (i)	01 July 2005	3	4	11,434	-
Mr Peter Bye	01 Sep 2003	3	7	27,407	23,597
Mr Edward Cante CBE (ii)	15 Sep 2003	3	7	25,409	22,310
Dr Ruth Hall (iii)	01 July 2005	3	4	11,434	-
Mr John Edmonds (iv)	01 Jun 2005	3	6	22,848	22,310
Mr Peter Matthews (v)	15 Sep 2003	3	7	25,409	22,310
Ms Sara Parkin OBE	15 Sep 2003	3	5	19,055	18,590
Mr Richard Percy (vi)	01 Nov 2003	3	6	21,596	18,590
Professor Donald Ritchie (vii)	01 Jul 2001	3	8	8,651	33,465
Mr Malcolm Smith	01 Sept 2004	3	7	26,676	15,184
Dr Lyndon Stanton (viii)	01 Jun 2005	3	6	22,871	22,310
Councillor Kay Twitchen (ix)	01 April 2004	3	5	17,763	14,875
Professor Lynda Warren	10 Oct 2003	3	7	26,681	26,030
Barbara Young (x)	01 July 2005	8	Full Time	163,150	144,281
<b>Total</b>				<b>527,805</b>	<b>476,768</b>

Note: Board members have no entitlement to bonuses, performance related pay, pension contributions or other benefits.

- (i) Mr James Braithwaite CBE was appointed to the Board with effect from 1 July 2005
- (ii) Mr Edward Cante CBE time commitment changed to seven days per month from 1 August 2005
- (iii) Dr Ruth Hall was appointed to the Board with effect from 1 July 2005
- (iv) Mr John Edmonds was re-appointed to the Board for a further three years with effect from 1 June 2005
- (v) Mr Peter Matthews time commitment changed to seven days per month from 1 August 2005
- (vi) Mr Richard Percy's time commitment changed to six days per month from 1 August 2005
- (vii) Professor Donald Ritchie retired from the Board on 30 June 2005
- (viii) Dr Lyndon Stanton was re-appointed to the Board for a further three years with effect from 1 June 2005
- (ix) Councillor Kay Twitchen time commitment changed to six days per month from 1 August 2005
- (x) Barbara Young's total emoluments are disclosed in the Executive Directors' table on page 81

**Executive Directors' Emoluments**

The Environment Agency employs eight executive directors in addition to the Chief Executive. The following table provides details of their appointments and emoluments.

Executive Director	Date of Appointment	Total Emoluments (Range £'000)	Accrued Pension at 31/03/06 (Range £'000)	Increase in Accrued Pension During the Year (Range £'000)	Accrued Lump Sum at 31/03/06 (Range £'000)	Increase in Lump Sum During the Year (Range £'000)	CETV at 31/03/05 £'000	CETV at 31/03/06 £'000	Real increase in CETV £'000	Benefits in Kind (£)
Barbara Young, (i) Chief Executive	01 Jul 2005	215 - 220	70 - 75	7.5 - 10.0	220 - 225	17.5 - 20.0	972	1167	123	-
Mr Chris Bale, Director of Performance and Innovation	08 Sep 2003	135 - 140	50 - 55	0 - 2.5	160 - 165	2.5 - 5.0	309	344	20	5323
Mr Giles Duncan, (ii) Director of Human Resources	08 Aug 1995	Consent to disclosure withheld								
Mr Graham Ledward, (iii) Director of Human Resources	03 Jan 2006	35 - 40	25 - 30	-	80 - 85	-	-	13	13	141
Mr David King, Director of Water Management	08 Jul 2002	135 - 140	45 - 50	0 - 2.5	140 - 145	2.5 - 5.0	617	669	27	3673
Dr Paul Leinster, Director of Operations	01 Mar 2004	160 - 165	40 - 45	0 - 2.5	110 - 115	2.5 - 5.0	364	414	26	5513
Mrs Helen McCallum Director of Corporate Affairs	03 Jul 2001	130 - 135	45 - 50	2.5 - 5.0	145 - 150	7.5 - 10.0	516	590	41	-
Mr Ric Navarro, Director of Legal Services	08 Aug 1995	100 - 105	35 - 40	0 - 2.5	115 - 120	2.5 - 5.0	592	656	22	1543
Mr Nigel Reader, Director of Finance	08 Aug 1995	140 - 145	55 - 60	0 - 2.5	175 - 180	0 - 2.5	827	895	13	2193
Ms Patricia Henton, Director of Environmental Protection	07 Mar 2005	135 - 140	40 - 45	2.5 - 5.0	125 - 130	2.5 - 5.0	538	546	18	-

Note:

Total emoluments include gross salaries, performance related pay, lease car benefits and employer's pensions contribution.

*Continued...*

Continued...

The Chief Executive's performance related pay is calculated by reference to the extent to which pre-determined objectives have been achieved, with a maximum value of 25% of basic pay. The Chief Executive is an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency pays employer's pension contributions into the Active Fund at the same rate as for other ordinary participants. At the end of the year, her accrued pension entitlement from the Environment Agency's pension scheme was £74,222. She is eligible for compensation for early termination of her appointment. The level of compensation is dependent on the circumstances of the loss of office, the Chief Executive's salary, and the unexpired period of her term of office.

- (i) Barbara Young was re-appointed Chief Executive of the Environment Agency. Her contract of employment commenced on the 1 July 2005 and will terminate automatically on her 65<sup>th</sup> Birthday.
- (ii) Mr Giles Duncan tendered his resignation as Director of Human Resources on 30 September 2005. Mr Duncan has specifically withheld his consent to the disclosure of information regarding his remuneration
- (iii) Mr Graham Ledward was appointed Director of Human Resources on 3 January 2006.

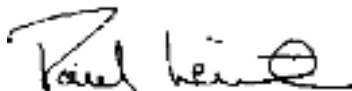
The executive directors' total pay includes an element of performance related pay which is calculated by reference to the extent to which pre-determined objectives have been achieved, with a maximum value of 15% of basic pay. They are also ordinary members of the Environment Agency's Active Fund pension scheme.

#### Cash Equivalent Transfer Value (CETV)

This 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. It is a payment made by a 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 membership of the pension scheme, not just their current appointment as a Board Member, Executive Director or Senior Manager. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute of Faculty of Actuaries.

#### Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contribution paid by the member and uses common market valuations for the start and end of the period.



**PAUL LEINSTER**  
**ACCOUNTING OFFICER**  
12 July 2006

#### **IV STATEMENT OF THE ENVIRONMENT AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES**

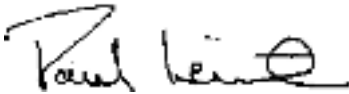
Under section 45 of the Environment Act 1995, Defra have directed the Environment Agency to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State, with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the Environment Agency's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing accounts the Environment Agency is required to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Environment Agency will continue in operation.

The Accounting Officer of Defra designated the Chief Executive of the Environment Agency as the Accounting Officer for the Environment Agency. The Chief Executive's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

The maintenance and integrity of the Environment Agency website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.



**PAUL LEINSTER**  
**ACTING CHIEF EXECUTIVE AND ACCOUNTING OFFICER**  
12 July 2006

## **V THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL**

### **CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS, THE BOARD OF THE ENVIRONMENT AGENCY, THE SECRETARY OF STATE FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS AND THE NATIONAL ASSEMBLY FOR WALES.**

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2006 under the Environment Act 1995 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out in Section VI.

#### **Respective responsibilities of the Environment Agency, the Chief Executive and Auditor**

The Environment Agency and Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Environment Act 1995 and directions made thereunder by the Secretary of State, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Environment Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Environment Act 1995 and directions made thereunder by the Secretary of State. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Environment Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 76-78 reflects the Environment Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Environment Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report, the unaudited part of the Remuneration Report and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

#### **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Environment Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Environment Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Environment Act 1995 and directions made thereunder by the Secretary of State, of the state of the Environment Agency's affairs as at 31 March 2006 and of its surplus before reserve transfers for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Environment Act 1995 and directions made thereunder by the Secretary of State; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



**John Bourn**  
**Comptroller and Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SP**

18 July 2006

## **VI STATEMENT OF ACCOUNTING POLICIES**

### **(a) Basis of Accounting**

The financial statements have been prepared in accordance with the Direction on the Annual Accounts made by the Secretary of State for Environment, Food and Rural Affairs, and the National Assembly for Wales under section 45 of the Environment Act 1995.

### **(b) Accounting Conventions**

The financial statements are prepared in accordance with the Financial Reporting Manual (FReM) and the historical cost convention modified by the revaluation of tangible fixed assets, and generally accepted accounting principles in the United Kingdom, with the following exceptions, as required by the Accounts Direction:

- i Expenditure in the income and expenditure account shall include a notional cost of capital for each class of business. The amounts included shall be reversed after the line showing the surplus or deficit for the year.
- ii Revaluation gains on fixed assets paid for from Government grant are taken to the grant reserve in the balance sheet. This is contrary to the Companies Act 1985, which requires such gains to be credited to the revaluation reserve.
- iii On the disposal of a fixed asset paid for wholly by Government grant, an amount equal to the profit or loss on disposal is transferred from the grant reserve to the income and expenditure account. Where government grant is only used to pay for part of the cost of the asset, the amount of the transfer is reduced in proportion. These requirements are different from those in accounting standard FRS 3 which says that an amount transferred to a reserve, other than from the income and expenditure account, should not be recognised in subsequent income and expenditure accounts.
- iv Government grants used to pay for fixed assets are credited to a grant reserve, rather than deferred income which is the normal practice under accounting standard SSAP 4.

### **(c) FRS 18 Accounting Policy**

In accordance with FRS 18 the Environment Agency has reviewed its accounting policies and no change has occurred during the year. An additional policy has been added to disclose the accounting treatment for Public Private Partnership contracts.

FRS 18 requires the Environment Agency to provide a description of those estimation techniques adopted that are significant. A technique would only be significant if the range of values resulting from different reasonable assumptions is so large that the use of a different amount within that range could materially affect the view shown by the financial statements.

The Environment Agency has specific complex disclosures of its functional spend which require direct allocation and apportionment of costs on the basis of estimation. National and regional procedures exist for cost allocations, and these procedures are constantly being refined. A review of estimation techniques used in allocating costs to functions identified that the estimation techniques adopted by the Environment Agency are not significant in accordance with the requirements of FRS 18.

### **(d) Income**

Income represents total income, exclusive of VAT, receivable in the year for functions undertaken and grant-in-aid received from Defra and NAW. Grant-in-aid has been received from Defra in respect of capital and revenue expenditure on environmental protection, navigation, recreation, conservation and Fisheries activities in England, and from NAW in respect of those activities plus fisheries in Wales.

### **(e) Capital Grants and Contributions**

Grants that relate to specific capital expenditure are treated as deferred grants and contributions, which is then credited to the income and expenditure account over the asset's useful life.

### **(f) Capital Reserve**

On the date of transfer of the predecessors' assets to the Environment Agency, the value of tangible fixed assets was reflected at their replacement cost in the capital reserve. It is the Environment Agency's policy to make such transfers to/from the income and expenditure account so as to maintain the capital reserve, taken together with the balance of deferred grants and contributions, at a level equal to the book value of its tangible fixed assets.

The balance on the income and expenditure account then represents accumulated surpluses/deficits in respect of revenue expenditure and related income.

**(g) Capital Works Expensed in Year**

Capital works which are expensed in year comprise river bank, channel and related works which are of no realisable value to the Environment Agency or works on structures and properties belonging to third parties where the ownership of the works undertaken does not vest in the Environment Agency.

**(h) Tangible Fixed Assets**

Land and administrative buildings are stated on the basis of open market value for existing use and are subject to independent professional revaluation in accordance with the RICS Appraisal and Valuation Manual every five years. During the intervening years they are subject to an annual revaluation through the use of suitable indices. Other tangible fixed assets are valued at net current replacement cost. Their values are also revised annually through the use of suitable indices. Depreciation is calculated so as to write off the valuation of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned.

The principal economic lives used for depreciation purposes are:

- Operating Structures 20-100 years
- Freehold Buildings 10-60 years
- Plant and Machinery 3-20 years
- Vehicles 3-20 years
- Fixtures and Fittings 3-10 years; and
- IT Equipment 5-10 years

Freehold land is not depreciated.

Tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value if higher. The discount rate applied is based upon the rates used for the notional cost of capital calculation (see note 3) as notified by Defra.

Any differences between physical assets and asset registers identified as a result of the Environment Agency's continuous programme of asset verification are treated as revaluation adjustments (see note 5) in the fixed asset statements, in the year in which identified.

**(i) Flood Defence Account**

To eliminate fluctuations in Departmental Expenditure Limits, S47 balances are accounted for in working capital rather than reserves. The Environment Agency therefore, recognises only as much income from levy as it needs in order to provide its flood risk management service in the year. Any excess of income is therefore treated as deferred until such time as it needs to be spent. The resulting impact of the change will be that the Environment Agency does not have a retained surplus/deficit after reserve transfers.

Any balances at the end of the year will either be held to service short-term liabilities or as amounts repayable to levy/charge payers. The accounting treatment follows the re-classification policy disclosure requirements and complies with FRS 3.

**(j) Water Resources Account**

Accumulated surpluses/deficits on the water resources account (see Section XI(c)) are treated as amounts recoverable from/sums repayable to abstractors, taking each regional account separately. These are credited to the income and expenditure account as water resources costs exceed income from charges to abstractors. Deficits are treated as amounts due from abstractors and are charged to the income and expenditure account as income from charges exceeds costs. Any cash surpluses arising from including a rate of return in charges to abstractors are used to offset grant-in-aid requirements.

**(k) Environmental Protection Account**

The environmental protection account is divided into two parts. One relates to activities associated with general environment control; the other concerns the monitoring of the activities of environmental licence holders. As regards the latter, the Environment Agency has to ensure that charges cover relevant costs, taking one year with another. Surpluses and deficits on this part of the environmental protection account are treated in the same way as those on the water resources account (see paragraph (j) above).

**(l) Leases**

Costs in respect of operating leases are charged to the income and expenditure account over the lease term.

**(m) Research and Development**

Expenditure on research is not capitalised. Development expenditure is capitalised and written off over the useful life of the asset if it meets the criteria specified in H M Treasury's Financial Reporting Manual which are adapted from SSAP 13 to take account of the not-for-profit context.

Expenditure which does not meet the criteria for capitalisation is charged to the income and expenditure account in the year in which it is incurred.

Fixed assets required for research and development are depreciated over the life of the associated project or according to the asset category if the asset is to be used for subsequent research and development work

**(n) Pensions**

The Environment Agency makes regular contributions to the Environment Agency's Pension Fund (known as the 'Active Fund') only. They are charged to the income and expenditure account taking account of the expected pension costs over the service lives of the employees and are set at a level sufficient to ensure the scheme is fully funded following formal actuarial valuations of the fund. Liabilities for enhancements to employees' pension arrangements under the Environment Agency's voluntary severance scheme are accounted for in the year in which applications for severance are approved.

The Environment Agency also effects payment of certain unfunded pensions to former, pre-privatisation water industry employees on behalf of the Government. Such pensions payments are met entirely from grant-in-aid.

**(o) Foreign Currency**

Foreign currency transactions are translated into sterling at a pre-determined rate during the year. Foreign currencies on account at the year-end are translated into sterling at the rates ruling at 31 March, any realised or unrealised exchange gains and losses are recognised in the income and expenditure account.

**(p) Short Term Deposits**

These comprise short-term loans to the Debt Management Agency and are included at book value.

**(q) Public Private Partnership**

PPP transactions are accounted for in accordance with Technical Note 1 (Revised) "How to account for PFI Transactions) as required by the FReM.

The Environment Agency has two PFI contracts for the provision of services and therefore there are no assets recognised for in the balance sheet.

Expenditure incurred during the year on both contracts is charged to the income and expenditure account.

## VII INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2006

	See Note	2005-06 Total £m	2004-05 (Restated) Total £m	2005-06 Service Accounts £m	2004-05 (Restated) Service Accounts £m	2005-06 Flood Defence £m	2004-05 (Restated) Flood Defence £m
<b>Income</b>							
Income from activities		395.9	334.5	320.8	283.5	75.1	51.0
Government grant-in-aid		635.0	513.9	175.8	158.3	459.2	355.6
Capital grants and contributions		7.7	7.5	0.4	0.3	7.3	7.2
		<u>1038.6</u>	<u>855.9</u>	<u>497.0</u>	<u>442.1</u>	<u>541.6</u>	<u>413.8</u>
<b>Expenditure</b>							
Staff costs	1	424.4	389.8	283.5	267.2	140.9	122.6
Depreciation and capital works expensed in year		277.1	219.8	23.6	22.8	253.5	197.0
Operating cost on pension scheme	14(d)	52.3	33.9	32.3	21.0	20.0	12.9
Other operating costs		284.6	225.9	148.8	125.8	135.8	100.1
		<u>1038.4</u>	<u>869.4</u>	<u>488.2</u>	<u>436.8</u>	<u>550.2</u>	<u>432.6</u>
Operating surplus/(deficit)		0.2	(13.5)	8.8	5.3	(8.6)	(18.8)
Notional cost of capital	3	(76.6)	(78.5)	(16.8)	(17.5)	(59.8)	(61.0)
Interest receivable	4	7.5	3.7	0.9	0.9	6.6	2.8
Sales of Assets		2.8	2.2	0.5	0.6	2.3	1.6
Financing income on pension schemes assets and liabilities	14(e)	1.2	5.6	0.7	3.5	0.5	2.1
Deficit for the year after charging notional cost of capital		(64.9)	(80.5)	(5.9)	(7.2)	(59.0)	(73.3)
Reversal of notional cost of capital		76.6	78.5	16.8	17.5	59.8	61.0
Surplus/(deficit) for the year before reserve transfers		11.7	(2.0)	10.9	10.3	0.8	(12.3)
<b>Transfers (to)/from reserves</b>							
Capital reserve	10(a)	(11.7)	2.0	(10.9)	(10.3)	(0.8)	12.3
Retained surplus/(deficit) after reserve transfers		-	-	-	-	-	-
Balance brought forward		-	-	-	-	-	-
<b>Balance carried forward</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Note:

As a result of following the recommendations of Treasury to adopt the original disclosure requirements of FRS 17, the Environment Agency's income from activities has been increased by £51.1m respectively. A corresponding entry is made to the expenditure account in respect of operating costs on the pension scheme of £52.3m and a financing income on pension scheme assets and liabilities of £1.2m.

Prior year comparatives have been restated to separate sales of assets from other operating costs.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 March 2006**

		2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
	See Note	Total	Total	Service Accounts	Service Accounts	Flood Defence	Flood Defence
		£m	£m	£m	£m	£m	£m
Surplus/(deficit) for the year		11.7	(2.0)	10.9	10.3	0.8	(12.3)
Actuarial gain recognised in the Active pension scheme	14(f)	18.5	41.9	12.3	26.0	6.2	15.9
Unrealised surplus on revaluation of tangible fixed assets	10(a)	75.2	63.1	13.5	11.8	61.7	51.3
Adjustments to fixed assets	10(a)	(19.4)	78.5	(24.0)	32.7	4.6	45.8
<b>Total gains since the last annual report</b>		<b>86.0</b>	<b>181.5</b>	<b>12.7</b>	<b>80.8</b>	<b>73.3</b>	<b>100.7</b>

Note:

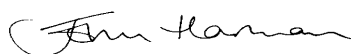
All of the Environment Agency's income and deficit for the year were derived from continuing activities.

## VIII BALANCE SHEET AT 31 March 2006

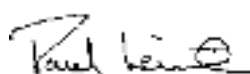
	See Note	31 March 2006	31 March 2005 (Restated)	31 March 2006	31 March 2005 (Restated)	31 March 2006	31 March 2005 (Restated)
		Total	Total	Service Accounts	Service Accounts	Flood Defence	Flood Defence
		£m	£m	£m	£m	£m	£m
<b>Fixed assets</b>							
Tangible assets	5	2,309.6	2,242.3	500.9	499.2	1,808.7	1,743.1
<b>Current assets</b>							
Debtors	6	104.8	90.6	82.6	67.8	22.2	22.8
Short term Deposits	21	115.8	115.7	23.1	7.8	92.7	107.9
<b>Total current assets</b>		<b>220.6</b>	<b>206.3</b>	<b>105.7</b>	<b>75.6</b>	<b>114.9</b>	<b>130.7</b>
Creditors – amounts falling due in less than one year	7	(274.2)	(229.0)	(134.2)	(92.4)	(140.0)	(136.6)
<b>Net current assets/(liabilities)</b>		<b>(53.6)</b>	<b>(22.7)</b>	<b>(28.5)</b>	<b>(16.8)</b>	<b>(25.1)</b>	<b>(5.9)</b>
<b>Total assets less current liabilities</b>		<b>2,256.0</b>	<b>2,219.6</b>	<b>472.4</b>	<b>482.4</b>	<b>1,783.6</b>	<b>1,737.2</b>
Creditors – amounts falling due in more than one year		(4.9)	(4.5)	(3.3)	(1.7)	(1.6)	(2.8)
Provisions for liabilities and charges	8	(2.2)	(4.8)	(1.3)	(2.7)	(0.9)	(2.1)
<b>Net assets excluding net pension assets</b>		<b>2,248.9</b>	<b>2,210.3</b>	<b>467.8</b>	<b>478.0</b>	<b>1,781.1</b>	<b>1,732.3</b>
<b>Unfunded pensions - liabilities</b>		<b>(22.3)</b>	<b>(21.3)</b>	<b>(14.5)</b>	<b>(13.2)</b>	<b>(7.8)</b>	<b>(8.1)</b>
<b>Funded pensions – assets</b>		<b>48.7</b>	<b>39.4</b>	<b>31.7</b>	<b>24.4</b>	<b>17.0</b>	<b>15.0</b>
<b>Net assets including net pension assets</b>		<b>2,275.3</b>	<b>2,228.4</b>	<b>485.0</b>	<b>489.2</b>	<b>1,790.3</b>	<b>1,739.2</b>
<b>Financed by</b>							
Deferred grants and contributions	9	66.5	66.7	8.4	7.1	58.1	59.6
<b>Reserves</b>							
Capital reserve	10(a)	2,243.1	2,175.6	492.5	492.1	1,750.6	1,683.5
Grant-in-aid reserve	10(b)	(60.7)	(32.0)	(33.0)	(21.2)	(27.7)	(10.8)
Pensions reserve		26.4	18.1	17.1	11.2	9.3	6.9
Income and expenditure account		-	-	-	-	-	-
		<b>2,275.3</b>	<b>2,228.4</b>	<b>485.0</b>	<b>489.2</b>	<b>1,790.3</b>	<b>1,739.2</b>

Note: Prior year comparatives have been restated to separately disclose unfunded and funded pensions assets

The financial statements on pages 89 to 111 were approved by the Board on 12 July 2006 and were signed on its behalf by:



CHAIRMAN



ACTING CHIEF EXECUTIVE AND ACCOUNTING OFFICER

**IX CASH FLOW STATEMENT FOR THE YEAR ENDED 31 March 2006**

	See Note	2005-06 Total £m	2004-05 (Restated) Total £m	2005-06 Service Accounts £m	2004-05 (Restated) Service Accounts £m	2005-06 Flood Defence £m	2004-05 (Restated) Flood Defence £m
<b>Reconciliation of operating deficit to net cash inflow</b>							
Operating surplus/(deficit)		0.2	(13.5)	8.8	5.3	(8.6)	(18.8)
Depreciation and capital works expensed in year (net of grants)		271.7	214.5	23.3	22.6	248.4	191.9
Other non-cash movements		3.2	4.2	3.5	3.4	(0.3)	0.8
(Increase)/decrease in debtors		(14.2)	(12.5)	(14.8)	(15.3)	0.6	2.8
(Decrease)/increase in creditors		17.1	25.9	25.9	7.5	(8.8)	12.8
<b>Net cash inflow from operating activities</b>		<b>278.0</b>	<b>213.0</b>	<b>46.7</b>	<b>23.5</b>	<b>231.3</b>	<b>189.5</b>
<b>Returns from investments and servicing of finance</b>							
Interest received		7.5	3.7	0.9	0.9	6.6	2.8
<b>Capital expenditure and financial investment</b>							
	21(a)	(290.8)	(210.9)	(38.4)	(30.8)	(252.4)	(180.1)
<b>Management of liquid resources</b>							
	21(b)	(0.1)	(33.0)	(15.3)	5.0	15.2	(38.0)
<b>Financing</b>							
	21(c)	8.1	7.6	1.8	2.0	6.3	5.6
<b>Increase/(decrease) in cash for year</b>		<b>2.7</b>	<b>(19.6)</b>	<b>(4.3)</b>	<b>0.6</b>	<b>7.0</b>	<b>(20.2)</b>
<b>Reconciliation of net cash flow to movement in net funding</b>							
	21(d)						
Increase/(decrease) in cash for year		2.7	(19.6)	(4.3)	0.6	7.0	(20.2)
Cash inflow/(outflow) from increase/(decrease) in liquid resources		0.1	(33.0)	15.3	(5.0)	(15.2)	38.0
Change in net funding		2.8	13.4	11.0	(4.4)	(8.2)	17.8
Net funding at 1 April		78.8	65.4	5.3	9.6	73.5	55.8
<b>Net funding at 31 March</b>		<b>81.6</b>	<b>78.8</b>	<b>16.3</b>	<b>5.2</b>	<b>65.3</b>	<b>73.6</b>

Note:

Prior year comparatives have been restated to separate sales of assets from operating surplus/(deficit)

**X NOTES TO THE FINANCIAL STATEMENTS**

	2005-06 £m	2004-05 £m
<b>1. Information Regarding Employees</b>		
Salaries and wages	298.8	290.4
Social security costs	25.4	23.3
Contribution to pension schemes (defined benefit scheme)	32.5	29.4
Other staff related costs	84.9	65.1
Amounts payable under the voluntary severance scheme	0.2	0.4
<b>Sub-total</b>	<b>441.8</b>	<b>408.6</b>
Less amounts charged to capital projects	(17.9)	(19.3)
	<b>423.9</b>	<b>389.3</b>
Amounts payable to Board members (see table on page 82)	0.5	0.5
<b>Total</b>	<b>424.4</b>	<b>389.8</b>
Average number of persons employed during the year:		
	2005-06 Number	2004-05 Restated Number
Executive managers	150	134
Other non-manual employees	10,689	9,920
Manual employees	1,608	1,723
Temporary employees	1327	1,009
<b>Total</b>	<b>13,774</b>	<b>12,786</b>

Information on the emoluments of Board members is given in the Report of the Remuneration Committee in Section III.

	2005-06 £m	2004-05 £m
<b>2 Operating Deficit</b>		
The operating deficit is arrived at after charging:		
External Auditor's remuneration:		
Audit work	0.2	0.2
Non-audit work	-	-
Research and development	8.2	8.6
Operating lease rentals:		
Plant & Machinery	19.4	15.7
Other	11.0	10.0
Provision for bad and doubtful debt	1.3	(0.1)
Bad debt write-off	2.2	0.2
Hired and contracted services	38.3	35.2
Travel, transport, subsistence and hospitality costs:		
Board members	0.3	0.1
Employees	30.0	27.8
Losses and special payments, (as defined in government accounting) amounts to 1,180 in number (1,037 in 2004/05) including 6 amount in excess of £25,000	1.7	1.3
Depreciation of tangible fixed assets	70.0	65.2
Capital works expensed in year	207.0	154.6

### 3 *Notional Cost of Capital*

The notional cost of capital is calculated, for each class of business, to the extent that there is no real charge for this using the real rate set by Treasury (currently 3.5%) of the annual average value of assets and liabilities in the Balance Sheet at the 31 March 2006.

	Fixed Assets & Deferred Grants	Debtors	Creditors	Cash	Total	Total Notional Cost of Capital
Service Accounts						£m
Water Resources	255.4	8.4	(23.1)	-	<b>240.7</b>	<b>8.4</b>
Environmental Protection	89.4	57.2	(64.1)	-	<b>82.5</b>	<b>2.9</b>
Fisheries	20.2	8.4	(8.5)	-	<b>20.1</b>	<b>0.7</b>
Recreation	5.3	0.1	(0.3)	-	<b>5.1</b>	<b>0.2</b>
Conservation	2.2	0.8	(0.8)	-	<b>2.2</b>	<b>0.1</b>
Navigation	119.8	0.2	(2.1)	-	<b>117.9</b>	<b>4.1</b>
National Funds	-	-	-	10.8	<b>10.8</b>	<b>0.4</b>
Sub-total	<b>492.3</b>	<b>75.1</b>	<b>(98.9)</b>	<b>10.8</b>	<b>479.3</b>	<b>16.8</b>
Flood Defence	1717.0	22.5	(103.1)	69.4	<b>1,705.8</b>	<b>59.7</b>
<b>Total</b>	<b>2209.3</b>	<b>97.6</b>	<b>(202.0)</b>	<b>80.2</b>	<b>2,185.1</b>	<b>76.5</b>

### 4 *Interest Receivable*

	2005-06 £m	2004-05 £m
Interest receivable from short-term fixed interest deposits	7.5	3.7

**5 Tangible Fixed Assets**

## (a) Analysis by Type

	At Valuation						At Cost	
	Total £m	Freehold Land £m	Freehold Buildings & Operational Structures £m	Plant and Machinery £m	Vehicles £m	Fixtures and Fittings £m	IT Equipment £m	Assets Under Construction £m
<b>Cost or Valuation</b>								
At 1 April 2005	4,020.4	60.8	3,150.2	477.1	33.7	111.9	96.4	90.3
Acquisitions	87.8	0.9	23.9	9.2	7.0	5.1	33.3	8.4
Disposals	(26.1)	(0.3)	(8.7)	(4.8)	(4.8)	(1.9)	(5.6)	-
Indexation	131.0	-	120.5	8.0	0.8	1.1	0.6	-
Reclassification	-	0.1	(0.1)	-	-	-	-	-
Revaluation adjustment	(181.9)	(0.4)	(32.0)	(46.1)	10.2	(52.4)	(58.3)	(2.9)
<b>At 31 March 2006</b>	<b>4,031.2</b>	<b>61.1</b>	<b>3,253.8</b>	<b>443.4</b>	<b>46.9</b>	<b>63.8</b>	<b>66.4</b>	<b>95.8</b>
<b>Depreciation</b>								
At 1 April 2005	1,778.1	-	1,218.2	381.3	18.5	82.0	78.1	-
Provided during the year	70.0	-	43.2	10.1	4.4	5.4	6.9	-
Disposals	(20.5)	-	(4.9)	(4.0)	(4.6)	(1.7)	(5.3)	-
Indexation	55.7	-	47.7	6.5	0.5	0.6	0.4	-
Reclassification	-	-	-	-	-	-	-	-
Revaluation adjustments	(161.7)	-	(19.7)	(39.6)	8.4	(52.5)	(58.3)	-
<b>At 31 March 2006</b>	<b>1,721.6</b>	<b>-</b>	<b>1,284.5</b>	<b>354.3</b>	<b>27.2</b>	<b>33.8</b>	<b>21.8</b>	<b>-</b>
<b>Net Book Value At 31 March 2006</b>	<b>2,309.6</b>	<b>61.1</b>	<b>1,969.3</b>	<b>89.1</b>	<b>19.7</b>	<b>30.0</b>	<b>44.6</b>	<b>95.8</b>
Net Book Value At 1 April 2005	2,242.3	60.8	1,932.0	95.8	15.2	29.9	18.3	90.3

## b) Details of Valuation:

All of the Environment Agency's Land and administration buildings except assets under construction were re-valued at 1 April 2001 on the basis of open market value for existing use. The valuations of land and administrative buildings were carried out by a number of firms of Chartered Surveyors. Plant and machinery, fixtures and fittings and operating structures (also classified under freehold buildings) were valued internally at 1 April 1996 based upon replacement costs and were revalued internally at 31 March 2006 using suitable indices and re-living, the effects are shown in the indexation and revaluation adjustment lines above.

(c) Analysis by Function

	Total £m	Flood Defence £m	Service Accounts Total £m	Water Resources £m	Environmental Protection £m	Fisheries £m	Recreation £m	Conservation £m	Navigation £m
<b>Cost or Valuation</b>									
At 1 April 2005	4,020.4	3,057.2	963.2	499.1	182.2	36.2	9.7	3.3	232.7
Acquisitions	87.8	51.7	36.1	7.8	15.7	1.2	0.8	0.6	10.0
Disposals	(26.1)	(10.9)	(15.2)	(8.2)	(5.3)	(1.1)	(0.1)	(0.1)	(0.4)
Indexation	131.0	104.7	26.3	14.8	2.1	0.8	0.3	-	8.3
Reclassification	-	18.4	(18.4)	(18.4)	-	-	-	-	-
Revaluation adjustments	(181.9)	(75.8)	(106.1)	(41.5)	(56.4)	(4.4)	(0.7)	(0.4)	(2.7)
<b>At 31 March 2006</b>	<b>4,031.2</b>	<b>3,145.3</b>	<b>885.9</b>	<b>453.6</b>	<b>138.3</b>	<b>32.7</b>	<b>10.0</b>	<b>3.4</b>	<b>247.9</b>
<b>Depreciation</b>									
At 1 April 2005	1,778.1	1,314.1	464.0	232.9	95.2	14.9	4.6	0.8	115.6
Provided during the year	70.0	50.0	20.0	8.8	7.2	1.0	0.2	0.1	2.7
Disposals	(20.5)	(9.0)	(11.5)	(5.5)	(4.8)	(0.8)	(0.1)	(0.1)	(0.2)
Indexation	55.7	42.9	12.8	7.1	0.9	0.3	0.2	-	4.3
Reclassification	-	10.0	(10.0)	(10.0)	-	-	-	-	-
Revaluation adjustments	(161.7)	(71.6)	(90.1)	(26.0)	(56.6)	(4.4)	(0.7)	(0.4)	(2.0)
<b>At 31 March 2006</b>	<b>1,721.6</b>	<b>1,336.4</b>	<b>385.2</b>	<b>207.3</b>	<b>41.9</b>	<b>11.0</b>	<b>4.2</b>	<b>0.4</b>	<b>120.4</b>
<b>Net Book Value At 31 March 2006</b>	<b>2,309.6</b>	<b>1,808.9</b>	<b>500.7</b>	<b>246.3</b>	<b>96.4</b>	<b>21.7</b>	<b>5.8</b>	<b>3.0</b>	<b>127.5</b>
Net Book Value At 1 April 2005	2,242.3	1,743.1	499.2	266.2	87.0	21.3	5.1	2.5	117.1

	2005-06 £m	2004-05 £m
<b>6 Debtors</b>		
<b>Within one year:</b>		
Trade debtors	9.9	12.8
Other debtors:		
Grants	1.5	1.0
VAT	26.7	20.6
Employee loans	0.1	0.2
Other	1.5	1.0
Water resources expenditure recoverable from abstractors	4.9	0.8
Environmental protection expenditure recoverable from licence holders	29.3	33.5
Prepayments	20.8	12.3
Accrued income	10.0	8.1
	<b>104.7</b>	<b>90.3</b>
<b>More than one year:</b>		
Employee loans	0.2	0.3
<b>Total</b>	<b>104.9</b>	<b>90.6</b>
	2005-06 £m	2004-05 £m
<b>7 Creditors</b>		
<b>Within one year:</b>		
Bank overdraft	34.2	36.9
Trade creditors and accruals	56.3	26.2
Other creditors	4.6	5.9
Capital creditors and accruals	48.6	33.8
Flood Defence income repayable to levy/charge payers	21.4	39.1
Water Resources income repayable to abstractors	3.9	1.5
Environmental protection income repayable to licence holders	23.5	28.3
Grant-in-aid income repayable to Defra	-	-
Tax and social security	7.6	7.3
FRS 17 – Pension costs	51.1	28.3
Customer deposits and receipts in advance	23.0	21.7
	<b>274.2</b>	<b>229.0</b>
<b>More than one year:</b>		
Capital creditors and accruals	0.6	1.4
Other creditors and accruals	4.3	3.1
<b>Total</b>	<b>4.9</b>	<b>4.5</b>
	2005-06 £m	2005-06 £m
<b>8 Provisions for Liabilities and Charges</b>		
	Added Years Pensions	Insurance & Other Claims
At 1 April 2005 (as previously reported)	4.1	0.7
Increase/(reversal) charged to the income and expenditure	(3.7)	-
Utilised during the year	(0.4)	1.5
At 31 March 2006	-	2.2

Note: The insurance provisions relate to claims against the Environment Agency, which can take up to five years before settlement is reached.

	2005-06 £m	2004-05 £m
<b>9 Deferred Grants and Contributions</b>		
At 1 April 2005	66.7	66.6
Amounts receivable in the year	2.7	2.3
Amortisation in year	(2.3)	(2.2)
Disposals/Adjustments	(0.6)	-
At 31 March 2006	66.5	66.7

Note: In addition to the deferred grants and contributions received in respect of tangible fixed assets, there were grants and contributions receivable of £5.4m relating to capital works expensed in the year.

	Total £m	Service Accounts £m	Flood Defence £m
<b>10 Reserves and Retained Surpluses</b>			
<b>(a) Capital Reserve</b>			
At 1 April 2005	2,175.6	492.1	1,683.5
Transfer from income and expenditure account	11.7	10.9	0.8
Revaluation surplus on tangible fixed assets	75.2	13.5	61.7
Adjustment to fixed assets	(19.4)	(24.0)	4.6
At 31 March 2006	2,243.1	492.5	1,750.6

Note:

The capital reserve includes an amount totalling £573.4m in respect of revaluation surpluses accumulated to 31 March 2006.

The transfer from income and expenditure account is calculated as follows:

	Total £m	Service Accounts £m	Flood Defence £m
Purchase of fixed assets	87.8	36.1	51.7
Grants and contributions (net)	(0.5)	(1.5)	1.0
Depreciation (including capitalised depreciation)	(70.1)	(20.1)	(50.0)
Disposals	(5.5)	(3.6)	(1.9)
At 31 March 2006	11.7	10.9	0.8

	Total £m	Service Accounts £m	Flood Defence £m
<b>(b) Grant-in-Aid Reserve</b>			
At 1 April 2005	(32.0)	(21.2)	(10.8)
Transfer to income and expenditure account	(28.7)	(11.8)	(16.9)
At 31 March 2006	(60.7)	(33.0)	(27.7)

Note:

The Environment Agency's grant-aided functions are partly funded from charges and partly from Government grant-in-aid. Consequently, the grant awarded is not easily attributable to revenue or capital expenditure. As allowed under the Financial Reporting Manual (FRm) guidance the balance remaining on the income and expenditure account is transferred to the grant-in-aid reserve.

Note: The transfer to income and expenditure account is calculated as follows:

	Total £m	Defra (GIA) £m	Defra (FDGIA) £m	Defra (Other) £m	NAW £m
Grant-in-aid received in year	617.9	139.9	426.9	6.3	44.8
Grant-in-aid balances brought forward	1.6	1.6	-	-	-
Grant released to income and expenditure account	(622.7)	(135.8)	(435.8)	(6.3)	(44.8)
To cover unfunded pensions	(12.3)	(12.3)	-	-	-
	(15.5)	(6.6)	(8.9)	-	-
Grant-in-aid surpluses carried forward	-	-	-	-	-
Adjustment to Grant-in-aid reserves	(13.2)	(5.2)	(8.0)	-	-
	(28.7)	(11.8)	(16.9)	-	-

### 11 *Contingent Liabilities*

The Environment Agency has the following unprovided contingent liabilities:-

	2005-06 £m	2004-05 £m
(a) Contaminated assets	5.3	23.2
(b) Contractors' claims	3.9	4.0
(c) Insurance claims	1.5	3.7
(d) Public and employer liability claims	0.1	1.1
	10.8	32.0

Where appropriate liabilities that only have a possible chance of crystallising and do not meet the provisions criteria have been classified as contingent liabilities. These include possible obligations for remedial works on contaminated assets should the Environment Agency dispose of them and legal claims by third parties

### 12 *Capital Commitments*

Contracted for but not provided in the financial statements

2005-06 £m	2004-05 £m
142.0	72.9

### 13 *Operating Leases*

At the 31 March 2006 the Environment Agency had annual commitments under operating leases as follows: -

Leases expiring:

	2005-06 Land & Buildings £m	2005-06 Other £m	2004-05 Land & Buildings £m	2004-05 Other £m
Within one year	0.1	1.8	0.5	2.9
In the second to fifth years inclusive	1.8	13.8	0.6	11.8
Over 5 years	8.5	-	9.3	-
	10.4	15.6	10.4	14.7

### 14 *Pension Obligations*

The Environment Agency operates a defined benefit pension scheme for employees and transferees from the former Defra, NRA, HMIP, LWRA and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 1997.

In 2005/06 the total pension cost for the Environment Agency was £32.5m (2004/05 £29.4m). The pension cost relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs. The latest formal triennial actuarial valuation of the scheme was at 31 March 2004. The assumptions having the most significant effect on the valuation were those relating to the rate of return on investments and the rate of increases in salaries and pensions. It was assumed that the existing investment return would be 6.2% per annum, that salary increases would average 4.9% per annum and that present and future pensions would increase at the rate of 2.9% per annum.

At the date of the last actuarial valuation, the market value of the assets of the pension scheme was £983.0m. The actuarial value of the assets (using the projected unit method) was sufficient to cover 94% of the benefits, which had accrued to members. The Environment Agency has accepted their recommendation in respect of future employer contributions and has applied a rate of 200% of members' contributions for the period 2005/06, and will apply 225% for 2006/07 and 250% for 2007/08 respectively.

### FRS 17 Disclosure

The table below set out the disclosures requirements of FRS 17 'Retirement Benefits' for the current year in relation to the Environment Agency's Active Fund.

All calculations have been made by a qualified independent actuary based on the most recent full actuarial valuation of the fund at 31 March 2005 updated to 31 March 2006.

#### (a) Financial Assumptions

The main financial assumptions used at 31 March 2006 for this purpose are as follows:

	2005/06 Per Annum	2005/06 Real per Annum	2004/05 Per Annum	2004/05 Real per Annum
Price Inflation	3.1%	-	2.9%	-
Rate of increase in Salary	5.1%	2.0%	4.9%	2.0%
Rate of increase in Pension	3.1%	-	2.9%	-
Discount Rate	6.0%	2.8%	6.5%	3.5%

#### (b) Expected Return on Assets

Asset Class	2005/06 Rate per Annum	2004/05 Rate per Annum
Equities	7.4%	7.7%
Bonds	4.9%	4.8%
Property	5.5%	5.7%
Cash	4.6%	4.8%

#### (c) Assets and Liabilities of the Fund at 31 March 2006

	2005/06 Fund Value £'m	2005/06 Return £'m	2004/05 Fund Value £'m	2004/05 Return £'m
Equities	907.6	67.2	709.0	54.6
Bond	338.9	16.6	312.2	15.0
Property	60.4	3.4	-	-
Cash	82.2	3.8	90.5	4.3
<b>Total value of assets (a)</b>	<b><u>1,389.1</u></b>	<b><u>91.0</u></b>	<b><u>1,111.7</u></b>	<b><u>73.9</u></b>
Present value of scheme liabilities				
Employee Members	977.1		743.0	
Deferred Pensioners	81.0		64.2	
Pensioners	282.3		265.1	
Unfunded liabilities	22.3		21.3	
<b>Total value of liabilities (b)</b>	<b><u>1,362.7</u></b>		<b><u>1,093.6</u></b>	
<b>Pension Assets/(Liability)</b>	<b><u>26.4</u></b>		<b>18.1</b>	

**(d) Movement in Surplus/Deficit During the year**

	£'m 2005/06	£'m 2004/05
At 1 <sup>st</sup> April 2005	18.1	(27.2)
Contributions Paid	36.6	30.3
Contributions in respect of unfunded benefits	1.3	1.4
Employer additional contributions	2.9	-
Current Service Cost	(50.7)	(32.9)
Curtailments	(0.6)	(0.5)
Past Service Cost	(0.9)	(0.5)
Financing Income	1.2	5.6
Actuarial Loss	18.5	41.9
<b>Surplus / (Deficit) at the end of year</b>	<b>26.4</b>	<b>18.1</b>

**(e) Analysis of Amount Charged to Operating Profit**

	£'m 2005/06	£'m 2004/05
<b>Amounts Charged to Operating Profit:</b>		
Service cost	50.7	32.9
Past service cost	0.9	0.5
Curtailments and settlements	0.6	0.5
Decrease in irrecoverable surplus	-	-
<b>Total Operating Charge (A)</b>	<b>52.3</b>	<b>33.9</b>
<b>Amounts Credited to Other Finance Income:</b>		
Expected return on pension scheme assets	74.7	71.6
Interest on pension scheme liabilities	(73.5)	(66.0)
<b>Net Return (B)</b>	<b>1.2</b>	<b>5.6</b>
<b>Net Revenue Account Cost (A) – (B)</b>	<b>51.1</b>	<b>28.3</b>

**(f) Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)**

	£'m 2005/06	£'m 2004/05
Actual return less expected return on pension scheme assets	177.4	43.0
Experience gains and losses arising on the scheme liabilities	0.7	(1.1)
Changes in financial assumptions underlying the present value of the scheme liabilities	(159.6)	-
<b>Actuarial Gain/(Loss) in Pension Plan</b>	<b>18.5</b>	<b>41.9</b>
Increase/(Decrease) in irrecoverable surplus from membership fall and other factors	-	-
<b>Actuarial Gain/(loss) recognised in STRGL</b>	<b>18.5</b>	<b>41.9</b>

**(g) History of Experience Gains and Losses**

Difference between the expected and actual return on assets	177.4	43.0
Value of assets	1,389.1	1,111.7
Percentage of scheme assets	12.8%	3.9%
Experience gains/(losses) on scheme liabilities	0.7	(1.1)
Total present value of liabilities:	1,362.7	1,093.6
<b>Percentage of the total present value of the liabilities</b>	<b>0.1%</b>	<b>(0.1%)</b>
Actuarial gains/(losses) recognised in STRGL	18.5	41.9
Total present value of liabilities	1,362.7	1,093.6
<b>Percentage of the total present value of liabilities</b>	<b>1.4%</b>	<b>3.8%</b>

The Environment Agency also effected aggregate payments of £12.3m in respect of unfunded pensions to former water industry employees, on behalf of the Government.

## 15 Corporation Tax and Value Added Tax

On the 6 July 1995 the Inland Revenue confirmed that the Environment Agency qualified for income and corporation tax exemption on the basis that it inherited the precepting powers of the National Rivers Authority. Accordingly no amounts for corporation tax have been provided in the financial statements.

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

## 16 Related Party Disclosures and Whole of Government Accounting

### (a) Related Party Disclosures

Financial Reporting Standard number 8 (FRS 8), 'Related Party Disclosures', requires the Environment Agency to provide information on its transactions with related parties, and further guidance has also been given by the Treasury.

The aggregate value of the relevant transactions in 2005/06 was:

	£'m
Defra grant-in-aid	140.9
Defra fisheries grant-in-aid	6.3
NAW grant-in-aid	21.4
NAW flood defence grants	23.4
Defra flood defence grant-in-aid	426.9
Levies on local authorities	25.3
Charges to the British Waterways Board	24.0

FRS 8, as adopted in the FReM, specifically excludes transactions between government departments and their sponsored entities from its disclosure requirements. For completeness and to distinguish between this class of transaction and others between the Environment Agency and its sponsors, grant-in-aid amounts for each department are included in the table above.

Peter Matthews, a member of the Environment Agency Board, became a Director of the Port of London Authority during 2005-06. The Environment Agency paid this company £1,047,577 for services performed in 2005-06. Peter Matthews has not played any role in the rewarding of any contracts or commissions to this company.

Professor Lynda Warren, a member of the Environment Agency Board, was also a Director of the British Geological Survey during 2005-06. The Environment Agency paid this public sector organisation £550,498 for services performed in 2005-06. Professor Lynda Warren has not played any role in the awarding of any contracts or commissioning to this organisation.

The Environment Agency had no other material related party transactions with organisations in which other Board members, Executive Directors or senior managers have declared an interest.

### (b) Whole of Government Accounting

Whole of Government Accounting is the production of one consolidated commercial style set of accounts covering the whole of the public sector. The Government is treated as if it were one single entity by eliminating all significant transactions between public sector entities.

The Environment Agency is committed to disclose balances between itself and other bodies within the public sector. The closing balances as at 31<sup>st</sup> March 2006 were:

	£'m 2005/06	£'m 2004/05
Creditors		
Other Government Departments	1.8	0.3
Local Authorities	7.2	-
NHS Trusts	-	-
Public Corporations and Trading Funds	0.4	-

Debtors		
Other Government Departments	0.5	3.0
Local Authorities	-	0.3
NHS Trusts	-	-
Public Corporations and Trading Funds	0.5	-

### 17 Commitments under Public Private Partnership (PPP) Contracts

The Environment Agency has entered into the following PPP contracts

#### (a) Broadland Flood Alleviation Project

The Broadland PPP contract commenced in February 2001 following a detailed negotiated tendering process with the private sector circa £100m over 20 years, the contract is the largest ever signed by the Environment Agency.

It covers all matters related to flood defence services associated with the agreed strategy for the Broadland tidal river system including maintenance, emergency response, strategic planning, design and improvement works. The improvement works are provided through the options of bank strengthening or setting-back of banks, all with erosion protection, and will result in enhanced flood defences to this internationally important wetland environment. In addition, modest first-time defences are being provided to undefended properties. All these works are planned and designed taking into account the effects of sea level rise.

The contract features target price incentives within the bounds of an overall fixed budget. The first five years have seen the completion of almost 300 maintenance projects, valued at £5.75m. New defences at Reedham and St Olaves, valued at £0.5m each, and seven major improvements works scheme worth £16m have been completed. Site works are underway at a further nine locations.

The latest annual review of the strategy, based on the latest topographic and condition surveys, confirms that the original scope of the project remains affordable and will form the basis for implementation of future improvement and maintenance works in the project.

Expenditure incurred during the year is charged to the income and expenditure account

#### (b) Pevensey Bay Sea Defences

The PPP contract with Pentium Coastal Defence Ltd for the Pevensey Bay Sea Defences has been running since 1 June 2000. This is the sixth year of the 25-year contract currently valued at £32.8m.

The PPP contractor continued to maintain the beach satisfactorily and met all the required levels of service. Activities included the importation of 18,000 cubic metres of shingle from off-shore sources and the transfer of 6000 cubic metres around Sovereign Harbour.

Annual Commitments for the Broadland and Pevensey contracts are as follows:

	2005/06 £m	2004/05 £m
Included in the income and expenditure 2005/06 accounts	7.7	10.7
Commitments within one year	8.8	8.7
The Environment Agency was committed to make the following payments during the next year in respect of PPP contracts which expire within:		
11–15 years	6.9	-
16–20 years	1.9	6.8
21–25 years	-	1.9

### 18 Flood Defence S47 Balance Restated

To eliminate fluctuations in Departmental Expenditure Limits, S47 balances are accounted for in working capital rather than reserves. The Environment Agency in agreement with Treasury will recognise only as much income from levy as it needs in order to provide service to Local Authorities. Any excess of income is therefore treated as

deferred within working capital until such time as it needs to be spent. The resulting impact of the change will be that the Environment Agency does not have a retained surplus/deficit in the income and expenditure account.

Any balances at the end of the year will either be held to service short-term liabilities or as amounts repayable to levy and or charge payers.

## **19 FRS 13 Derivatives and other Financial Instruments: Disclosure**

FRS 13 'Derivatives and other financial instruments: disclosures' requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. The Environment Agency holds financial instruments only to the extent that they are necessary to meet the normal operational activities of the Environment Agency. The Environment Agency has limited powers to borrow or invest surplus funds; financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the Environment Agency in undertaking its activities. Details explaining the risks and how they are managed are explained below. As permitted by FRS 13, debtors and creditors which mature or become payable within twelve months from the balance sheet date have been omitted from this disclosure note.

### **Liquidity risk**

The Environment Agency's net revenue resource requirements are mainly financed by grant-in-aid received from Defra. The Environment Agency is not therefore exposed to significant liquidity risks.

### **Interest rate risk**

All of the Environment Agency's financial assets and liabilities carry either nil, or in the case of short term deposits, fixed rates of interest which in view of such deposits' duration do not expose the Environment Agency therefore to significant interest rate risk.

### **Foreign currency risk**

The Environment Agency undertook a number of foreign currency transactions to convert grant received from European Institutions from Euro into sterling after discharging any euro payment obligations to its European partners out of such receipts. The Environment Agency is exposed to an exchange risk between the time that it calculates a grant claim from a sterling cost base until the time that the grant is converted into sterling. However, in overall terms the transactions as outlined are not considered material in the context of the overall activity of the Environment Agency. The Environment Agency is not therefore exposed to significant exchange rate risk.

### **Financial Assets/Liabilities**

The table below shows the Environment Agency interest rate risk profile of financial assets and liabilities as at 31 March 2006. All balances are shown in sterling.

Assets / (liabilities)	Floating Rate £m	Fixed Rate £m	Total £m
Short term investments	-	115.8	115.8
Cash at bank – Euro	1.3	-	1.3
Short term bank overdraft (net of Euro bank balance)	-	(34.2)	(34.2)

Book value of the assets and liabilities disclosed are not materially different from fair values.

## **20 Post balance sheet events**

There are no post balance sheet events to record.

## 21 Notes to the Cash Flow Statement

	2005-06 Total £m	2004-05 Total £m	2005-06 Service Accounts £m	2004-05 Service Accounts £m	2005-06 Flood Defence £m	2004-05 Flood Defence £m
<b>(a) Capital expenditure and financial investment</b>						
Payments to acquire tangible fixed assets	(87.8)	(64.1)	(36.1)	(30.6)	(51.7)	(33.5)
Receipts from sale of tangible fixed assets	2.8	2.2	0.5	0.6	2.3	1.6
Financing income on pension schemes assets and liabilities	1.2	5.6	0.7	3.5	0.5	2.1
Payments relating to capital works expensed in year	(207.0)	(154.6)	(3.5)	(4.3)	(203.5)	(150.3)
	(290.8)	(210.9)	(38.4)	(30.8)	(252.4)	(180.1)
<b>(b) Management of liquid resources</b>						
Deposits with the Debt Management Agency:						
At 1 April	115.7	82.7	6.5	11.5	109.2	71.2
Correction to opening balances	-	-	1.3		(1.3)	
At 31 March	115.8	115.7	23.1	6.5	92.7	109.2
	(0.1)	(33.0)	(15.3)	5.0	15.2	(38.0)
<b>(c) Financing</b>						
Capital grants and contributions for the purchase of:						
Tangible fixed assets	2.7	2.4	1.6	1.8	1.1	0.6
Capital works expensed in year	5.4	5.2	0.2	0.2	5.2	5.0
	8.1	7.6	1.8	2.0	6.3	5.6
<b>(d) Analysis of Changes in Net Funding</b>						
	1 April 2005 £m	Cash flow £m	31 March 2006 £m			
<b>Net Cash:</b>						
Cash at bank and in hand	115.7		115.8			
Less: deposits treated as liquid resources	115.7		115.8			
Bank overdraft	(36.9)	2.7	(34.2)			
<b>Liquid resources:</b>	(36.9)	2.7	(34.2)			
Deposits included in cash	115.7	0.1	115.8			
<b>Net Funding</b>	78.8	2.8	81.6			

**XI SUPPORTING STATEMENTS**

**(a) Analysis of Receipts and Payments for the Year Ended 31 March 2006**

	Total	Flood Defence	Total Service Accounts	Water Resources	Environmental Protection
	£m	£m	£m	£m	£m
<b>Receipts</b>					
Precepts & levies	34.2	34.2	-	-	-
Abstraction charges	114.3	-	114.3	114.3	-
Navigation licence receipts	3.3	-	3.3	-	-
Other operating receipts	280.2	63.2	217.0	-	188.1
Capital grants and contributions:					
Defra	0.5	0.3	0.2	-	0.2
NAW	-	-	-	-	-
ERDF	0.7	0.7	-	-	-
Other	6.4	4.9	1.5	0.2	0.3
Interest received	7.5	6.6	0.9	0.9	-
Grant-in-aid	620.4	450.3	170.1	0.9	115.8
<b>Total receipts</b>	<b>1067.5</b>	<b>560.2</b>	<b>507.3</b>	<b>116.3</b>	<b>304.4</b>
<b>Payments</b>					
Operating costs	770.6	324.1	446.5	89.9	295.4
Fixed assets including capital works expensed in year	280.9	244.3	36.6	7.3	15.6
Water resources interest paid to Defra in year	0.9	-	0.9	0.9	-
Unfunded pensions	12.3	-	12.3	-	-
Water resources cash surpluses applied to grant-aided functions in year	-	-	-	6.6	(6.6)
<b>Total payments</b>	<b>1064.7</b>	<b>568.4</b>	<b>496.3</b>	<b>104.7</b>	<b>304.4</b>
Cash surpluses	2.8	(8.2)	11.0	11.6	-
Net funding at 1 April 2005	78.8	73.5	5.3	3.9	-
<b>Net funding at 31 March 2006</b>	<b>81.6</b>	<b>65.3</b>	<b>16.3</b>	<b>15.5</b>	<b>-</b>
<b>Analysis of net funding at 31 March 2006</b>					
Flood defence balance	65.3	65.3	-	-	-
Water resources purposes	15.5	-	15.5	15.5	-
Special funds	0.8	-	0.8	-	-
Carried forward for general purposes (for grant-aided functions)	-	-	-	-	-
<b>Net funding at 31 March 2006</b>	<b>81.6</b>	<b>65.3</b>	<b>16.3</b>	<b>15.5</b>	<b>-</b>

	Fisheries	Recreation & Conservation	Navigation	Pensions
	£m	£m	£m	£m
<b>Receipts</b>				
Precepts & levies	-	-	-	-
Abstraction charges	-	-	-	-
Navigation licence receipts	-	-	3.3	-
Other operating receipts	27.1	0.9	0.9	-
Capital grants and contributions:				
Defra	-	-	-	-
NAW	-	-	-	-
ERDF	-	-	-	-
Other	-	-	1.0	-
Interest received	-	-	-	-
Grant-in-aid	16.5	10.7	13.9	12.3
<b>Total receipts</b>	<b>43.6</b>	<b>11.6</b>	<b>19.1</b>	<b>12.3</b>
<b>Payments</b>				
Operating costs	42.3	10.1	8.8	-
Fixed assets including capital works expensed in year	1.9	1.5	10.3	-
Water resources interest paid to Defra in year	-	-	-	-
Unfunded pensions	-	-	-	12.3
Water resources cash surpluses applied to grant-aided functions in year	-	-	-	-
<b>Total payments</b>	<b>44.2</b>	<b>11.6</b>	<b>19.1</b>	<b>12.3</b>
Cash surpluses	(0.6)	-	-	-
Net funding at 1 April 2005	1.4	-	-	-
<b>Net funding at 31 March 2006</b>	<b>0.8</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Analysis of net funding at 31 March 2006</b>				
Flood defence balance	-	-	-	-
Water resources purposes	-	-	-	-
Special funds	0.8	-	-	-
Carried forward for general purposes (for grant-aided functions)	-	-	-	-
<b>Net funding at 31 March 2006</b>	<b>0.8</b>	<b>-</b>	<b>-</b>	<b>-</b>

(b) **Flood Defence Income and Expenditure Account for Year Ended 31 March 2006**

	Anglian		North East		North West	Midlands	
	Central	Eastern	Northern	Northumbria	Yorkshire		
	£m	£m	£m	£m	£m	£m	
<b>Income</b>							
Grant in aid	17.9	36.4	28.9	12.1	42.5	41.4	51.2
Local authority levies	0.9	2.1	1.4	1.0	0.4	3.1	2.9
General drainage charges	0.8	1.5	1.2	-	-	-	-
Internal drainage boards	2.1	0.5	2.4	-	1.0	-	0.8
Contributions from beneficiaries	0.1	0.1	0.1	-	1.1	-	0.1
Other income	(0.1)	0.4	4.9	0.2	2.2	2.9	0.1
Capital grants and contributions	0.2	1.9	0.8	0.1	0.3	0.1	0.9
Sale of Assets	0.1	0.1	0.2	-	-	0.1	0.2
Interest receivable	0.8	0.6	0.9	0.3	0.1	0.1	0.2
<b>Total income, including interest</b>	<b>22.8</b>	<b>43.6</b>	<b>40.8</b>	<b>13.7</b>	<b>47.6</b>	<b>47.7</b>	<b>56.4</b>
<b>Expenditure</b>							
Main river:							
Inland waters	7.1	9.0	11.2	-	-	-	-
Tidal waters	1.1	3.2	1.2	-	-	-	-
Sea defence	0.6	2.9	1.3	-	-	-	-
Flood warning	0.4	0.5	0.5	-	-	1.4	-
Other works	(3.0)	8.0	8.3	7.8	20.8	28.8	30.7
Depreciation and expenditure on capital works expensed in year	12.6	19.1	20.8	6.7	26.1	17.5	26.4
Internal drainage boards	1.5	0.4	0.6	-	0.4	-	-
<b>Total expenditure</b>	<b>20.3</b>	<b>43.1</b>	<b>42.9</b>	<b>14.5</b>	<b>47.3</b>	<b>47.7</b>	<b>57.1</b>
<b>(Deficit)/surplus for year</b>	<b>2.5</b>	<b>0.5</b>	<b>(2.1)</b>	<b>(0.8)</b>	<b>0.3</b>	<b>-</b>	<b>(0.7)</b>
Transfer from/(to) capital reserves	(5.5)	(0.9)	(1.4)	(0.1)	(0.5)	(0.4)	(0.1)
Surplus/(deficit)	(3.0)	(0.4)	(3.5)	(0.9)	(0.2)	(0.4)	(0.8)
Balances brought forward							
Local Levy Balances	1.4	1.3	1.3	0.5	0.1	0.1	0.8
S47 Balances	3.4	2.3	3.9	1.0	0.4	0.3	0.4
<b>Balances carried forward</b>							
Local Levy Balances	1.8	3.2	1.7	0.6	0.3	-	0.4
S47 Balances	-	-	-	-	-	-	-
Analysis of:							
Capital expenditure	14.2	23.8	21.0	-	-	17.2	29.0
Grants receipts – Defra	-	-	-	-	-	-	-
Grants receipts – NAW	-	-	-	-	-	-	-

Notes:

1. The Flood Defence account benefited from proceeds on the sale of assets amounting to £2.8m.
2. Expenditure includes an amount of £13.3m in respect of contracted services.
3. The amounts shown for Wales relate to the Environment Agency's Wales Region, which operates within a boundary drawn from river catchments as opposed to the NAW political boundary.

	Southern	South West	Thames	Wales	TOTAL	
		South West	Wessex			
	£m	£m	£m	£m	£m	
<b>Income</b>						
Grant in aid	62.4	13.4	33.1	81.3	29.7	<b>450.3</b>
Local authority levies	1.3	0.4	2.8	8.9	-	<b>25.2</b>
General drainage charges	-	-	-	-	-	<b>3.5</b>
Internal drainage boards	1.2	-	0.5	-	0.5	<b>9.0</b>
Contributions from beneficiaries	0.2	-	-	1.4	-	<b>3.1</b>
Other income	1.9	2.5	(0.5)	3.8	0.6	<b>18.9</b>
Capital grants and contributions	0.5	0.2	0.3	0.5	1.6	<b>7.4</b>
Sale of assets	0.1	-	0.3	1.1	-	<b>2.2</b>
Interest receivable	0.5	0.4	0.9	1.1	0.9	<b>6.8</b>
<b>Total income, including interest</b>	<b>68.1</b>	<b>16.9</b>	<b>37.4</b>	<b>98.1</b>	<b>33.3</b>	<b>526.4</b>
<b>Expenditure</b>						
Main river:						
Inland waters	-	-	-	24.8	-	<b>52.1</b>
Tidal waters	-	-	-	6.3	-	<b>11.8</b>
Sea defence	-	-	-	-	-	<b>4.8</b>
Flood warning	1.8	-	-	2.0	-	<b>6.6</b>
Other works	28.6	10.5	20.8	28.3	24.1	<b>212.7</b>
Depreciation and expenditure on capital works expensed in year	37.7	4.7	12.6	60.5	8.9	<b>253.6</b>
Internal drainage boards	0.3	-	-	-	-	<b>3.2</b>
<b>Total expenditure</b>	<b>68.4</b>	<b>15.2</b>	<b>33.4</b>	<b>121.9</b>	<b>33.0</b>	<b>544.8</b>
<b>(Deficit)/surplus for year</b>	<b>(0.3)</b>	<b>1.7</b>	<b>4.0</b>	<b>(23.8)</b>	<b>0.3</b>	<b>(18.4)</b>
Transfer from/(to) capital reserves	(1.3)	(2.8)	(5.7)	23.2	(3.7)	<b>0.8</b>
Surplus/(deficit)	(1.6)	(1.1)	(1.7)	(0.6)	(3.4)	<b>(17.6)</b>
Balances brought forward						
Local Levy Balances	0.6	0.7	1.9	2.7	-	<b>11.4</b>
S47 Balances	2.2	1.4	3.6	3.3	5.5	<b>27.7</b>
<b>Balances carried forward</b>						
Local Levy Balances	1.2	1.0	3.8	5.4	-	<b>19.4</b>
S47 Balances	-	-	-	-	2.1	<b>2.1</b>
Analysis of:						
Capital expenditure	38.6	-	-	-	12.7	<b>156.5</b>
Grants receipts – Defra	-	-	-	-	-	-
Grants receipts – NAW	-	-	-	-	-	-

(c) Water Resources Account by Region for the Year Ended 31 March 2006

	Total	Anglian	North East		North West	Midland	Southern	South West		Thames	Wales
			Northumbria	Yorkshire				South West	Wessex		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accumulated surplus/(deficit) At 1 April 2005	0.7	(1.2)	(0.6)	0.2	0.6	1.5	0.5	0.4	-	(0.3)	(0.4)
Income receivable	121.0	19.2	18.9	6.8	8.9	16.9	10.2	4.6	4.6	15.3	15.6
	121.7	18.0	18.3	7.0	9.5	18.4	10.7	5.0	4.6	15.0	15.2
Expenditure	122.6	21.2	18.0	6.8	8.7	17.2	10.1	4.3	4.4	15.8	16.1
<b>At 31 March 2006</b>	<b>(0.9)</b>	<b>(3.2)</b>	<b>0.3</b>	<b>0.2</b>	<b>0.8</b>	<b>1.2</b>	<b>0.6</b>	<b>0.7</b>	<b>0.2</b>	<b>(0.8)</b>	<b>(0.9)</b>

Notes:

Expenditure shown in the table includes a rate of return charge. Each region of the Environment Agency maintains its own water resources account and operates a national charging scheme with regional unit rates which are determined from local circumstances and approved by the Board. The amounts shown for Wales relate to the Environment Agency's Wales Region, which operates within a boundary drawn from river catchments as opposed to the NAW political boundary.

(d) Environmental Protection

	Total	General Environmental protection	Cost recovery activities
	£m	£m	£m
Income receivable	304.4	150.6	153.8
Expenditure including current cost depreciation and rate of return	304.9	150.6	154.3
<b>Deficit for the year</b>	<b>(0.5)</b>	<b>-</b>	<b>(0.5)</b>
Accumulated deficit at 1 April 2004	(5.3)		(5.3)
<b>At 31 March 2005</b>	<b>(5.8)</b>	<b>-</b>	<b>(5.8)</b>

Cost recovery activities relate to the granting and monitoring of consents, licences and authorisations. General environmental pollution control comprises the remaining activities of the environmental protection function. Charges to applicants for and holders of consents, licences and authorisations have to provide for current cost depreciation and a 3.5% rate of return on relevant assets.

The accumulated deficit on cost recovery activities represents the net aggregate balances on the accounts of ten separate charging schemes.

**(e) Grant-in-aid Received in the Year**

The following statement shows the amount of grant-in-aid received from the Defra and NAW according to the budgetary provision in Class III, Vote 3, Class XIV, Vote 2 and Class X, Vote 2 of the parliamentary supply estimates, respectively.

	TOTAL £m	Defra (GIA) £m	Defra (FDGIA) £m	NAW £m	Defra (Other) £m
Grant-in-aid received in year:	605.6	127.6	426.9	44.8	6.3
Balance brought forward	1.6	1.6	-	-	-
Transfer from grant-in-aid reserve	15.5	(6.6)	(8.9)	-	-
Surplus for the current year to be used to fund grant-aided functions in 2005/2006	-	-	-	-	-
Defra grant-in-aid to be carried forward to 2005/2006	-	-	-	-	-
Grant-in-aid received for unfunded pensions	12.3	12.3	-	-	-
Grant-in-aid included in income and expenditure account	635.0	148.1	435.8	44.8	6.3

**(f) Other Grants Received**

Project specific grants included in Supporting Statement XI(a) were received from the following sources:

	£m
Defra (Class III, Vote 3)	-
NAW (Class XIV, Vote 1)	0.2
European Community Funds	0.7
	<u>0.9</u>

**(g) Performance against Total Administrative Cost Limit**

Prior to the start of each financial year, or as soon as possible thereafter, the Environment Agency agrees with Defra a limit on the expenditure it may incur on Total Administrative Cost (TAC) in accordance with the Financial Memorandum.

The following table shows the limit agreed and outturn for 2005-06 as follows:

	£m
TAC limit assumed for 2005-06	113.0
TAC outturn for 2005-06	<u>115.5</u>
Variance	<u>(2.5)</u>



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