Presented pursuant to the GRA Act 2000, c.20, s.6

Department for Environment, Food and Rural Affairs

Resource Accounts 2002–03

LONDON: The Stationery Office
HC 189

28 January 2004
£11.00

Presented pursuant to the GRA Act 2000, c.20, s.6

Department for Environment, Food and Rural Affairs Resource Accounts 2002–03

(For the year ended 31 March 2003)

Ordered by the House of Commons to be printed 28 January 2004

LONDON: The Stationery Office
HC 189

28 January 2004
£11.00

Contents

Annual Report

For the year ended 31 March 2003

General

The Department for Environment, Food and Rural Affairs (Defra) was created on 8 June 2001 by merging a number of Government departments. This included the greater part of the former Ministry of Agriculture, Fisheries and Food (MAFF), the environmental work of the former Department of the Environment, Transport and the Regions (DETR) and related work previously undertaken within the Home Office. It was created to bring together economic, social and environmental concerns in the pursuit of sustainable development.

Basis of accounts

These accounts have been prepared to comply with the Government Resources and Accounts Act 2000, and the requirements of HM Treasury. Merger accounting principles have been adopted in the prior year to show the Department as if it had existed for the whole of the financial year ended 31 March 2002.

Entities within the Departmental accounting boundary

The entities within the Departmental accounting boundary during 2002–03 comprise the Core-Department, its Executive Agencies and Non-Departmental Public Bodies as shown in Note 32 to the Accounts.

Bodies outside the Departmental accounting boundary

These comprise public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year. They are listed in Note 33 to the Accounts.

Aim and objectives of Defra

Defra's aim is sustainable development, which means a better quality of life for everyone, now and for generations to come, including:

- A better environment at home and internationally plus sustainable use of natural resources;
- Economic prosperity through sustainable farming, fishing, food, water and other industries that meet consumers' requirements;
- Thriving economies and communities in rural areas and a countryside for all to enjoy.

During 2002–03, the aim was underpinned by seven objectives covering the span of the Department's responsibilities:

Objective 1: To protect and improve the rural, urban, marine and global environment and conserve and enhance biodiversity; to lead integration of these with other policies across Government and internationally;

Objective 2: To enhance opportunity and tackle social exclusion through promoting sustainable rural areas with a dynamic and inclusive economy, strong rural communities and fair access to services;

Objective 3: To promote a sustainable, competitive and safe food supply chain which meets consumers' requirements;

Objective 4: To improve enjoyment of an attractive and well-managed countryside for all;

Objective 5: To promote sustainable, diverse, modern and adaptable farming through domestic and international actions and further ambitious Common Agricultural Policy (CAP) reform;

Objective 6: To promote sustainable management and prudent use of natural resources domestically and internationally;

Objective 7: To promote the public's interest in relation to environmental impacts and health, including in relation to diseases which can be transmitted through food, water and animals; to ensure high standards of animal health and welfare.

The Department's objectives for 2003–04 to 2005–06 have been updated as part of the Spending Review 2002 settlement. From 1 April 2003, Objective 4 has been omitted and the remaining objectives amended as follows:

Objective 1: Protect and improve the rural, urban, marine and global environment; to lead integration of these with other policies across Government and internationally;

Objective 2: Enhance opportunity and tackle social exclusion in rural areas;

Objective 3: Promote a sustainable, competitive and safe food supply chain which meets consumers' requirements;

Objective 4: Promote sustainable, diverse, modern and adaptable farming through domestic and international actions;

Objective 5: Promote sustainable management and prudent use of natural resources domestically and internationally;

Objective 6: Protect the public's interest in relation to environmental impacts and health; ensure high standards of animal health and welfare.

Principal activities

Defra works for the essentials of life – food, air, land, water, people, animals and plants. Success matters to everyone. Our remit is the pursuit of sustainable development – weaving together economic, social and environmental concerns. Therefore, Defra:

- brings all aspects of the environment, rural matters, farming and food production together for the first time;
- is a focal point for all rural policy, relating to people, the economy and the environment; and
- has roles in both European Union (EU) and global policy making, so that its work has a strong international dimension.

These responsibilities include negotiating with the EU and liaising with the devolved administrations on the implementation of the Common Agricultural and Common Fisheries Policies in the UK.

In accordance with best practice laid down for Government departments, Defra consults as widely as possible with people, organisations and businesses on proposed policies and on the services provided.

Departmental Report

The Departmental Report 2003 (Cm 5919) was published in spring 2003. This provides an overview of Defra's key activities in 2002–03, sets out some of the key challenges for 2003–04 and outlines expenditure plans through to 2005–06.

The Autumn Performance Report 2003 was published in November 2003. This provides an overview of Defra's progress against all outstanding Public Service Agreement Targets from each Spending Review.

Important events which have occurred since the financial year end

In June 2003, following a Government reshuffle, ministerial portfolios were redefined as follows:

Secretary of State: The Rt Hon Margaret Beckett MP

The Secretary of State has overall responsibility for all Departmental issues on the environment, food (including agriculture, horticulture and fisheries) and rural affairs. Mrs Beckett represents the UK at the EU Agriculture and Fisheries Council and at the EU Environment Council. She leads for the UK in international negotiations on sustainable development and climate change.

Minister of State (Rural Affairs and Local Environmental Quality): The Rt Hon Alun Michael MP

Responsible for Rural Policy (Rural Economies and Communities, Rural White Paper implementation; chairs Rural Affairs Forum for England), hunting with dogs, inland waterways, the Countryside Agency, the Rural Payments Agency, access, rights of way and commons, national parks, horse issues, general oversight of England Rural Development Programme (ERDP), local environment quality issues, lead Defra Minister on Planning, Regional and Local Government issues, environmental liability, pesticides policy (including Pesticides Safety Directorate) and chemicals.

Minister of State (Environment and Agri-Environment): Elliot Morley MP

Responsible for climate change, global and marine biodiversity (including Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR)), Genetically Modified Organisms (GMO's), policy on agri-environment (including relative aspects of ERDP), waste (including incineration issues), radioactive substances, chair of Green Ministers (ENV(G)), the Environment Agency, water, floods and coastal defence, horizontal environmental issues and lead responsibility for Business Continuity and Resilience.

Parliamentary Secretary (Commons) (Nature Conservation and Fisheries): Ben Bradshaw MP

Responsible for biodiversity (including whales and Centre for Environment, Fisheries and Aquaculture Science), nature conservation, Sites of Special Scientific Interest (SSSI's) and English Nature, areas of outstanding natural beauty, forestry, fisheries, plant health, plant variety rights and seeds, organic food and farming, animal health and welfare (including Veterinary Laboratories Agency and Veterinary Medicines Directorate).

Parliamentary Under Secretary (Lords) (Food, Farming and Sustainable Energy): The Lord Whitty of Camberwell

Responsible for sustainable farming (including horticulture), Common Agricultural Policy (CAP), trade issues, food industry, science issues (including Central Science Laboratory), transport and the environment, air quality and noise, business and the environment, energy issues (including energy efficiency), non-food crops, Kew, Horticulture Research International, Covent Garden Market Authority, Smart Regulation and Departmental Green Minister.

Operating and Financial Review

Major events during the year

Spending Review 2002

On 15 July 2002 Secretary of State Margaret Beckett announced details of the outcome of the 2002 Spending Review. The Government is committed to sustainable development, and a better environment in the UK and internationally, enabling a thriving rural economy and delivering a sustainable future for farming and food. The Spending Review delivers an additional £421 million in 2005–06 compared with 2002–03, representing an increase of 2.7% in real terms.

World Summit on Sustainable Development

In August 2002 Margaret Beckett led for the UK at the World Summit on Sustainable Development (WSSD). Preparation for WSSD required partnership between many Government departments, and involved a wide range of stakeholders. The outcome overall was better than many had expected. Agreement was reached on important new commitments, targets and work programmes on access to sanitation, water and energy, restoration of fish stocks, and sustainable consumption and production. The Government as a whole, not just Defra, is committed to implementing these commitments.

Although WSSD rightly focused attention on global sustainability and brings some important new commitments, it would be wrong to suggest that these represented a fundamental change of direction for the UK Government; rather, they gave added impetus to well established policies.

Sustainable food and farming

In December 2002 Defra published the *Government's Strategy for Sustainable Farming and Food: Facing the Future*. The Strategy followed up the Policy Commission's report on the future of Farming and Food, published in January 2002. The Policy Commission, chaired by Sir Donald Curry, made a series of recommendations designed to ensure a sustainable future for farming and food industries. The Strategy sets out how industry, Government and consumers can work together to secure a profitable and internationally competitive future for our industries, whilst contributing to a better environment, improving nutrition and public health and prosperous communities.

As part of the 2002 Spending Review, the Government set aside £500 million over the next three years to bring about real change. To act as a driver for change an Implementation Group chaired by Sir Donald Curry, with a small membership drawn from key organisations with expertise in farming, food and the countryside has been established. Although Defra has lead responsibility for delivering the Strategy, the remit is wider than Defra and will involve working together with other Government departments, the industry and other Stakeholders.

Reform of the Common Fisheries Policy

In 2002–03 Defra was heavily engaged in work to review and reform the Common Fisheries Policy (CFP) (*www.europa.eu.int/comm/fisheries/doc_et_publ/cfp_en.htm*) so that a new legal basis could be established to apply from 1 January 2003. The objectives for the new CFP were achieved and the EU regulation adopted at the Fisheries Council in December 2002 included provisions establishing:

- an end-date for counter-productive subsidies;
- retention of access restrictions in the 6 –12 mile zone;
- a science-based approach to sustainable, precautionary fisheries management;
- provision for multi-annual and recovery plans;
- retention of national quota shares determined by relative stability and the Hague Preference;
- provision for more uniform and enhanced enforcement; and
- the means for setting up regional advisory councils.

Agreement was also reached on an important emergency measure to promote the recovery of key cod stocks by limiting the time vessels could spend at sea. The interim arrangements secured a balance between the need to reduce cod mortality and the UK industry's need for a viable level of activity. Following the Council's agreement in December, the UK completed urgent arrangements enabling the scheme to apply from 1 February 2003.

The Developing Defra Programme

The Developing Defra Programme is a crucial driver in shaping the Department into a modern, forward-looking, innovative organisation that is fit and able to achieve its objectives. The first phase of Developing Defra has been successfully completed. This supported the transition to the new Department and focused on establishing:

- a new aim and objectives;
- a set of shared values and common working practices;
- an agreed set of strategic priorities; and
- those Public Service Agreement targets that were inherited from the former Ministry of Agriculture, Fisheries and Food (MAFF) and the former Department of the Environment, Transport and the Regions (DETR);

as well as:

- assimilating staff from a range of departments into a single department; and
- creating common finance, IT and management systems.

Defra has now entered a more radical phase of change, which will support the Department in achieving its aim of sustainable development. Defra's most important priorities, as set out in *Our Strategy 2003–06*, have Public Service Agreement targets against which their performance can be measured. Defra's targets have evolved over time, as reflected in our Departmental Report 2002–03 and may evolve into the future in subsequent Spending Reviews, although our focus remains on achieving our highest priority, long-term targets.

Financial review

Significant variances against Estimate

The outturn for the year compared to the Estimate shows a net underspend of £24.2m, representing 0.9% of the total Estimate. This has resulted from numerous minor under and overspends.

The impact of the Foot and Mouth Disease (FMD) outbreak in 2001 has now diminished. A reduction of FMD related work and effective utilisation of FMD provisions has resulted in an underspend of £9m on the FMD Estimate allocation this year.

Further analysis of these variances against the Estimate is given in Schedule 1.

Note 7 to the accounts provides a detailed analysis of income and expenditure analysed against the Department's objectives. There are two significant variances within this note because £2,300m CAP income has been allocated to a single objective in the Estimates, whereas the outturn data apportions the income across two objectives (see Note 7 for further details). It was not possible after the year-end, when this mismatch became apparent, to adjust the Estimates. This problem will not recur in future year's accounts. In the 2003–04 Estimates the CAP income will be apportioned to objectives consistent with the treatment of the 2002–03 outturn and any variances should be limited in nature. Furthermore, from 2004–05, Defra has received HM Treasury approval to produce functionally-based Estimates and Note 7 will no longer be presented on an objective basis. The analysis of income and expenditure by objective will only appear in Schedule 5 to the accounts. This arrangement reflects the approach adopted by other departments.

Management

Ministers

The Ministers who had responsibility for the Department during the year were:

Secretary of State: The Rt Hon Margaret Beckett MP

The Secretary of State has overall responsibility for all Departmental issues on the environment, food (including agriculture, horticulture and fisheries) and rural affairs. Mrs Beckett represents the UK at the EU Agriculture and Fisheries Council and at the EU Environment Council. She leads for the UK in international negotiations on sustainable development and climate change.

Minister of State (Environment and Agri-Environment): The Rt Hon Michael Meacher MP

Responsible for climate change, horizontal and international environmental issues (represents the UK in the EU Environment Council), GMO's, plant health, plant variety rights and seeds, Agri-environment, non-food crops, organics, chemicals, waste (including radioactive waste and incineration issues), the Environment Agency, business and the environment, chair of Green Ministers (ENV(G)).

Minister of State (Rural Affairs and Urban Quality of Life): The Rt Hon Alun Michael MP

Responsible for Rural Policy (Rural Economies and Communities Rural White Paper implementation; chairs Rural Affairs Forum for England), hunting with dogs, inland waterways, the Countryside Agency, the Rural Payments Agency, landscape, national parks, areas of outstanding natural beauty, access, rights of way and commons, horse issues, England Rural Development Programme (ERDP), urban liveability issues, lead Defra Minister on Planning, Regional and Local Government issues, environmental liability, air quality, noise, Departmental Green Minister and Smart Regulation (e-business strategy).

Parliamentary Under Secretary (Commons) (Fisheries, Water and Nature Protection): Elliot Morley MP

Responsible for nature conservation and biodiversity (including marine), water (including the Centre for Environment, Fisheries and Aquaculture Science), fisheries (represents the UK at the Agriculture and Fisheries Council), floods, forestry, animal health and welfare (including the Veterinary Laboratories Agency and Veterinary Medicines Directorate).

Parliamentary Under Secretary (Lords) (Farming, Food and Sustainable Energy): The Lord Whitty of Camberwell

Responsible for sustainable farming (including horticulture) and the food industry, CAP (responsible for cross-cutting EU issues), trade issues, science issues (including the Central Science Laboratory), lead responsibility for the review of all Defra's Agencies, pesticides policy (including the Pesticides Safety Directorate), transport and the environment, energy efficiency and other energy issues, Kew Gardens, Horticulture Research International and Covent Garden Market Authority.

Permanent Head of the Department and Management Board

The Management Board comprised of the following members of staff during 2002–03:

Sir Brian Bender	Permanent Secretary
Bill Stow (from 20 March 2003) Dinah Nichols (to 3 February 2003)	Director General: Environmental Protection
Andy Lebrecht	Director General: Food, Farming and Fisheries
Anna Walker	Director General: Land Use and Rural Affairs
Donald Macrae (from 30 June 2002) Kathryn Morton (to 30 June 2002)	Solicitor and Director General: Legal Services
Mark Addison	Director General: Operations and Service Delivery
Professor Howard Dalton	Chief Scientific Advisor
Jim Scudamore	Chief Veterinary Officer and Director General of Animal Health and Welfare Directorate
Andrew Burchell	Finance Director: Finance, Planning and Resources Directorate
Francesca Okosi (from 3 February 2003) Brian Harding (to 21 January 2003)	Director: Policy and Corporate Strategy Unit, Departmental Change Programme and Secretary to Management Board
Lucian Hudson	Communications Director

Non-executive members of the Management Board:

Alison Huxtable

Elizabeth Ransom

Richard Wakeford

The Agency Chief Executives are not technically members of the Management Board but receive all papers and are invited to attend Board meetings as appropriate:

Professor Michael Roberts	Central Science Laboratory (CSL)
Dr Peter Greig-Smith	Centre for Environment, Fisheries and Aquaculture Science (CEFAS)
Dr Kerr Wilson	Pesticides Safety Directorate (PSD)
Johnston McNeill	Rural Payments Agency (RPA)
Professor Stephen Edwards	Veterinary Laboratories Agency (VLA)
Steve Dean (from 1 April 2002)	Veterinary Medicines Directorate (VMD)

Appointment of the Permanent Secretary and members of the Management Board

The permanent head of a department is appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial Head of the department. The appointment is for an indefinite period under the terms of the Senior Civil Service contract. The rules for termination are set out in Chapter 11 of the Civil Service Management Code. Sir Brian Bender was previously the Permanent Secretary of MAFF and transferred to head Defra at the time it was created.

The Permanent Secretary appointed other members of the Management Board. Again, these appointments are made in accordance with the Civil Service Management Code, including the rules for terminating the contract, which are set out in Chapter 11.

Ministers' and Board members' remuneration

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995 (Hansard, ls. 245-247).

For other members of the Management Board, pay is determined by the Permanent Secretary in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

Further details on remuneration are set out in Note 2 to these accounts.

Employment of disabled persons

Defra follows the Civil Service Code of Practice on the Employment of Disabled people which aims to ensure that there is no discrimination on the grounds of disability, and that access to employment and career advancement with the Department is based solely on ability, qualifications and suitability for the work.

Diversity and Equality

The Department encourages staff involvement in the day to day running of its activities through normal line management contacts. Both the Intranet and regular Office Notices are used to disseminate information. Defra encourages personal development and follows an equal opportunities policy for fair and open recruitment of permanent staff regardless of sex or ethnic origin. Staff have access to welfare facilities and Trade Union membership and representation. A network of Diversity and Equality officers has been set up throughout Defra and there are also several staff networks that help develop and inform staff of the Department's Diversity and Equality policies.

It is Departmental policy that there shall be no discrimination against staff on grounds of colour, race, ethnic or (subject to Civil Service rules) national origins, religion, sex, sexual orientation, marital status, age or disability. Employment and promotion is solely on merit. Precisely the same standards apply in the assessment of women and men regardless of marital status, domestic responsibilities, ethnic or national origin. Staff who work reduced hours are assessed on exactly the same basis as those working full-time, and without regard to part-time status, subsequent availability, or availability of posts. A Departmental Equal Opportunity Officer has been appointed and a network of Equal Opportunity Officers set-up throughout Defra.

Employee involvement

Defra recognises the very large part that its staff have to play in the development of the organisation. Supported by effective leadership, staff actively seek better ways to deliver Defra's outputs and develop, focus and exploit their skills to make maximum impact on the achievement of Defra priorities. Achievements and initiatives carried forward during the period include:

- The first staff survey was held in July 2002 and included everyone in Defra. Its purpose was to measure staff views in relation to their working life, to understand staff attitudes and opinions on key issues and identify priority areas for change.
- Defra was re-awarded its Investors in People accreditation in June 2003 in recognition of the continuing efforts in the development and training of its staff.
- Management and staff representatives meet regularly in a number of fora including the Defra Whitley Council.
- All staff have been trained in Personal Development Planning, supported by a framework of key Competencies developed for Defra.

Payment of suppliers

Standard contractual terms of payment require that valid invoices are paid within 30 days of satisfactory receipt of goods and services, or an agreed invoice, if that is later. Where determined by supplier contract, the contractual terms will take precedence. Defra has recently renewed its commitment to the Better Payment Practice Code (BPPC) and is determined to honour these commitments. The current payment performance target for Defra is 100% for all valid payments to be made by the due date. Defra's performance for the year was 91.43%. The total number of supplier invoices paid during the year was 174,777, with 159,800 paid on time.

Auditor

The Comptroller and Auditor General is the auditor for the Department's accounts.

Sir Brian Bender

Accounting Officer for the Department for Environment, Food and Rural Affairs 12 December 2003

Statement of Accounting Officer's Responsibilities

The Department has prepared Resource Accounts for the year ended 31 March 2003 in accordance with the Resource Accounting Manual detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The Resource Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of the Department for Environment, Food and Rural Affairs as Principal Accounting Officer for the Department with responsibility for preparing the Department's Accounts and for transmitting them to the Comptroller and Auditor General. The Chief Executive of the Rural Payments Agency is an Additional Accounting Officer in respect of Request for Resources 2, whilst other Agency Chief Executives are Agency Accounting Officers.

In preparing the Accounts, the Accounting Officer is required to comply with the Resource Accounting Manual prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed and disclose and explain any material departures in the Accounts;
- prepare the financial Accounts on the going concern basis.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officer Memorandum, issued by HM Treasury and published in *Government Accounting*.

Statement on Internal Control

Scope of responsibility

As principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Defra'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*.

Defra delivers its aims and objectives in partnership with its Agencies, Non-Departmental Public Bodies, public corporations and the other bodies sponsored by the Department. Accounting Officers for these bodies are appointed in accordance with the requirements of *Government Accounting* and their accountability arrangements with Defra are described in Accounting Officer letters and memoranda, framework documents, management statements, financial memoranda and other documents. The Chief Executive of each of Defra's Agencies and sponsored bodies is responsible for the maintenance and operation of the system of internal control in that body, and where appropriate is required to sign a statement on internal control which is reproduced in the body's accounts.

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. I expect to have the procedures in place in March 2004 necessary to implement HM Treasury guidance on the system of internal control.

Development of risk management

Current status

In April 2002 Defra put in place a Risk Management Strategy approved by its Management Board. This defines the principles and processes for addressing risk throughout the Department. The Board has identified and agreed Defra's top threats with its Ministers and individual Board Members have taken responsibility for addressing the threats.

The Department has considered contextual elements of its risk management approach, including consultation with stakeholders. Under Defra's risk and control framework, Directorates and Agencies capture information on known risks on local risk registers which include details of countermeasures and contingency arrangements. These are updated periodically and the information is accessible across the Department. Risks to programmes and projects are evaluated and managed under the responsibility of Senior Responsible Officers, Programme Managers and Project Managers.

I have had discussions with Ministers and held a workshop with Defra's senior managers on cultural and embedding aspects of risk management. Management Board Members have identified Defra's top threats and developed action plans to address them. The Board has subsequently reviewed the top threats and periodically considers reports on risk management and progress in embedding the process across the Department.

The Department is involved in the central Risk Improvement Programme which includes the development and sharing of good practice. The Department's Strategy and other risk management information, including copies of risk registers, is accessible to all staff on Defra's intranet. Good practice guidance is also placed on the intranet and is promulgated through risk forum meetings to help staff share experience and develop skills. The Department has hosted a lunchtime seminar on risk management, with BP as the speakers, which was attended by 160 staff.

Plans for further development

Defra's Audit and Risk Sub-Committee has considered reports from the Departmental Risk Co-ordinator, Internal Audit and external consultants evaluating the Department's risk management systems. During the period to 31 March 2004, Defra will further develop its risk management processes to implement HM Treasury guidance, taking account of the recommendations from recent reviews and the linking into good practice emerging from the central Risk Improvement Programme. The key elements of its plans are to:

- encourage a consistent classification of risk, using three main groupings – external risk, risks inherent in the business and self-imposed risk;
- develop risk management in the delivery plans that underpin the Department's PSA targets;
- enhance reporting and management of risks at Management Board level through the development of a balanced scorecard reporting process;
- encourage a consistent approach to risk appetite (i.e. the level of risk it is prepared to accept across its major programmes and policies);
- develop the assessment of risk in resource allocation decision-making and improve the challenge element in the preparation of business plans (particularly at Director General level);
- improve integration of risk assessment processes between Defra and its delivery partners;
- elaborate guidance on the concept of residual risk and the assessment of countermeasures.

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 Department 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.

The Department has applied the following processes in maintaining and reviewing the effectiveness of the system of internal control:

- regular meetings of the Defra Management Board to consider the strategic direction, plans and performance of the Department. The Board comprises the senior members of the Department and three external members;
- the implementation of a major change programme for Defra. Following a joint review with the Office of Public Services Reform, Stage II of the programme commenced in July 2002 and is being carried forward through four strands: Strategic Direction; Effective Policy Development and Delivery to Customers; Aligning Corporate Systems with Business Need; and People and Performance;
- regular meetings of the Audit and Risk Committee which is a sub-committee of the Management Board. It considers the adequacy of audit arrangements (internal and external) and the implications of assurances provided in respect of risk and control in the organisation;
- reports by Internal Audit, to Government Internal Audit Standards, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement;
- reports by the Departmental Risk Co-ordinator on the implementation of the Risk Management Strategy;
- the application of formal project management disciplines, including use of the OGC Gateway process. Defra has established a Centre of Excellence to improve the successful delivery of programmes and projects;

- the implementation of actions agreed by the Cabinet in autumn 2002, to improve the success rate of Government IT-enabled projects and programmes. As at July 2003 the actions taken include establishment of the Programme and Project Management Centre of Excellence; a review reporting to me on major IT-enabled projects and programmes in Defra, its Agencies and NDPBs to ensure that common causes of failure are being addressed; and prioritisation of all existing and new projects;
- the creation of a Delivery Strategy Team to improve the consistency of service delivery through its Agencies, NDPBs and other accountable bodies and it has enhanced its emergency planning and business continuity systems;
- there were some problems with control against the Rural Payments Agency Supply Estimates during the year and the Department is taking steps to address this issue. Defra has continued implementation of other improvements in financial controls during the period including: strengthened business planning; the publication of a budgetary framework document which clarifies roles and processes for budgetary management; strengthening of the Financial Co-ordinator network; implementation of a new financial training plan; improved timetabling and management of the accounting process; and the introduction of a network of Account Managers across all the Department’s business areas. In addition we have piloted a single integrated financial system which we plan to implement across the Department by April 2004 and in June 2003 we commenced a revision of the Finance Manual.

Sir Brian Bender

Accounting Officer for the Department for Environment, Food and Rural Affairs 12 December 2003

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

I certify that I have audited the financial statements on pages 21 to 63 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 30 to 34.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 12, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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 if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 13 to 15 reflects the Department's compliance with Treasury's guidance *Corporate Governance: Statement on Internal Control.* I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department'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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department for Environment, Food and Rural Affairs at 31 March 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; 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.

My report on these financial statements is on pages 18 to 20

John Bourn
Comptroller and Auditor General

20 January 2004

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

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

Summary

1. Since 1999-2000 the Department for Environment, Food and Rural Affairs has, in line with other Government departments, been required by directions issued by HM Treasury to prepare and publish annual accruals based accounts known as Resource Accounts. The Resource Accounts should be prepared in accordance with HM Treasury's Resource Accounting Manual and should give a true and fair view of the state of affairs of the Department and of its net operating costs, recognised gains and losses and cash flows for the year.

2. In April 2001 the Government moved to a new resource based financial management system as a result of the Government Resources and Accounts Act 2000. Resource budgeting requires the use of resource accounting information to inform the production of departmental Supply Estimates, which are the means by which Government seeks authority from Parliament for its spending each year.

3. The Department for Environment, Food and Rural Affairs ('Defra' or 'the Department'), was created on 8 June 2001 from the former Ministry of Agriculture, Fisheries and Food (MAFF) and the Environment Protection and Wildlife and Countryside Directorates of the former Department for Environment, Transport and the Regions (DETR). The Department, and before that the Ministry from which the Department inherited its budgeting, monitoring and accounting systems, had difficulties in implementing resource accounting and budgeting. This was exacerbated by the pressures resulting from the creation of Defra including significant reorganisation within the Department, and from the Foot and Mouth Disease crisis. In my report on the 2001-02 accounts I concluded that the Department had difficulty in monitoring expenditure in resource terms and that:

- the Department needed to join up its financial processes so that the estimating process by which the Department requested the resources was fully understood by staff responsible for monitoring and reporting on actual expenditure and vice versa;
- budgets should be set and monitored fully in resource terms; and
- management accounting systems should hold accurate and timely information so that the Department could monitor effectively against the Parliamentary and HM Treasury control totals.

However, I also concluded more positively that the Department had strengthened year-end data validation procedures at directorate level and demonstrated more robust control procedures in utilising this data in the final accounts compared to the previous year.

4. Paragraphs 5 to 11 report the progress made by the Department in implementing resource accounting and budgeting, and paragraphs 12 and 13 outline the changes it intends to implement. Compared with the quality of the resource accounts in 2000-01 where I was unable to provide an opinion due to a range of accounting deficiencies, the Department has made good progress in improving the quality of its accounts and I have not qualified my opinion this year.

Progress since my last report on Resource Budgeting and Accounting

Resource Budgeting

5. Government seeks authority from Parliament for its spending each year via the Supply Estimates. The use of income and cash by departments is also subject to strict Parliamentary control and the amounts that can be offset against expenditure are voted as Appropriations-in-Aid via the Supply Estimates process. The Main Estimates are presented to Parliament at the start of the financial year. Departments may request additional provision by presenting Supplementary Estimates to Parliament. Provision and the authority to offset the income a department receives against expenditure can be asked for via one or more Request for Resources (RfR). Departments are not able to re-allocate resources from one RfR to another without Parliamentary approval through the Supply Estimates

process. Underpinning Parliament's approval of departments' requests for resources is the assumption that departments have adequate systems for monitoring expenditure in sufficient detail, both in resource and cash terms, to be able to control it, to demonstrate that it is allocated to approved purposes and to report subsequently to Parliament through Resource Accounts.

6. As I noted in my report on the 2001-02 accounts, the financial processes were not sufficiently joined up, and the estimating process by which the Department requested resources was not therefore fully understood by staff responsible for monitoring and reporting on actual expenditure and vice versa. For 2002-03 the Department has improved its in-year monitoring of expenditure and income by:

- allocating clear responsibility for resources and budgets at the Management Board level;
- improving the quality of financial information provided to the Management Board and to budget holders throughout the Department; and
- embarking on a comprehensive training programme to improve the financial skills of budget holders.

7. In 2001-02, following the establishment of Defra's largest agency, the Rural Payments Agency, to make payments on European Union funded schemes, Defra requested its provision through two RfRs. In 2002-03, the Department rationalised the allocation of resource between the two requests to give it more flexibility to manage its budgets. As a result Rural Payments Agency expenditure and income relating to European Union funded programmes plus the associated Exchequer programme costs were retained in RfR2 and all other costs for the Rural Payments Agency were transferred to RfR1.

8. In allocating the costs of the Rural Payments Agency between two RfRs, Defra and RPA needed to clearly understand the basis of the allocation and monitor accordingly by RfR. My staff found that the Agency was asked to monitor a number of different expenditure categories but not explicitly against each of the two RfRs. As a result, Defra did not have a clear view of how the costs were allocated between the RfRs either for in-year monitoring purposes or for reporting via the Resource Accounts until after the year-end. The Department did report and forecast by RfR to the HM Treasury but was not able to do this effectively because of deficient information requested from the Agency. In addition my staff found that some of the costs were treated as negative income for in-year monitoring but as expenditure in the RPA's own accounts. The Department's problems with monitoring expenditure against Supply Estimates are highlighted in the Statement of Internal Control. The Department was not able to determine whether its expenditure on RfR2 was within the Parliamentary limit for expenditure until 8 months after the year-end. Without adequate understanding of how costs were allocated or effective monitoring, Defra ran the risk of exceeding the net expenditure authorised by Parliament and thus incurring an Excess Vote.

9. From 2003-04 onwards Defra has requested all of its provision from Parliament through one RfR. In addition, the Department has strengthened its internal reporting and monitoring process which now takes as its principal starting-point the need to control expenditure within all the limits set out in the Supply Estimates. The quality of data is also being strengthened through changes to internal procedures, notably the introduction of full accruals-based reporting at each period end. At the same time the Department is strengthening its processes for reporting data from its Executive Agencies and key Non Departmental Public Bodies.

Resource Accounting

10. In my report on the 2001-02 accounts, I observed that the Department had introduced 'Developing Defra' a change management programme to improve systems, communications and delivery of the Department's targets. Within this programme are long term plans for developing the systems for implementing resource accounting and budgeting, and delivering the associated training across the Department. These plans could not be implemented in time to have a significant impact on the quality and timeliness of the production of the 2001-02 financial statements.

11. For 2002-03, my staff found that the understanding of resource accounting had improved, especially in the accounts production team. Defra was able to provide a quality reviewed account that complied with the Resource Accounting Manual and was approved by the Accounting Officer by 30 November 2003. Further work by the Department however, identified an error in the accounts that required the accounts to be re-signed and this was done on 12 December 2003.

12. The Department will need to accelerate the production of its accounts over the next 3 years to enable it to meet HM Treasury's timetable of publishing its 2005-06 accounts in time to lay before the House of Commons before Parliament rises for the summer recess. The Department has agreed a timetable with HM Treasury and my staff will continue to work closely with the Department in this task.

13. Longer-term systems improvements are also underway. The current use of two systems to record expenditure or to monitor budgets is being discontinued. From April 2004, the Department will move to a single system for holding budgets and reporting expenditure, the aim being to reduce the time spent reconciling different sets of figures and to align fully the process of budgeting, in-year control and financial reporting.

John Bourn
Comptroller and Auditor General

20 January 2004

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

SCHEDULE 1

Consolidated Summary of Resources Outturn
for the year ended 31 March 2003

	2002–03 Estimate Gross expenditure	Estimate A-in-A	Estimate Net Total	Outturn Gross expenditure	Outturn A-in-A	Outturn Net Total	Net total outturn compared with Estimate saving/ (excess)	2001–02 Prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	2,260,572	77,450	**2,183,122**	2,248,664	76,134	**2,172,530**	**10,592**	1,065,152
Request for Resources 2	2,838,641	2,465,342	**373,299**	2,825,061	2,465,342	**359,719**	**13,580**	312,078
Total resources (Note 7)	**5,099,213**	**2,542,792**	**2,556,421**	**5,073,725**	**2,541,476**	**2,532,249**	**24,172**	1,377,230
Non-operating cost A-in-A (Note 5.C)			**18,115**			**5,966**	**12,149**	19,568
Net cash requirement (Schedule 4)			**3,076,095**			**2,552,223**	**523,872**	2,992,242

Reconciliation of resources to cash requirement

	Note	Estimate Net Total	Outturn Net Total	Saving/(excess)	Prior year outturn
		£000	£000	£000	£000
Net total resources	6	**2,556,421**	**2,532,249**	**24,172**	1,377,230
Capital:					
Acquisition of fixed assets					
Cash purchase	9	184,288	94,640	89,648	64,377
Investments	11	—	—	—	1,537
Other financing	9	—	—	—	17
Non-operating cost A-in-A (Book value of fixed asset disposals)	5.C	(18,115)	(5,966)	(12,149)	(19,568)
Accruals adjustments:					
Non-cash items	3	(128,533)	(119,941)	(8,592)	(280,657)
Changes in working capital other than cash	12	301,634	(78,419)	380,053	351,704
Changes in creditors falling due after more than one year	16	—	(6,586)	6,586	—
Use of provisions	17	180,400	130,593	49,807	1,909,378
Transfer of functions – difference between resource and cash transfers					
DTLR		—	—	—	5,297
Intervention Board		—	—	—	(417,073)
Prior year adjustments		—	5,653	(5,653)	—
Net cash requirement (Schedule 4)		**3,076,095**	**2,552,223**	**523,872**	2,992,242

Explanation of the variation between Estimate and outturn (net total resources)

The outturn for the year has been largely in line with the Estimate, hence the net underspend of only £24,172,000 representing 0.9% of the total Estimate. The outturn reflects both relatively small underspends and overspends.

In particular, expenditure on Foot and Mouth Disease (FMD) was less than the Estimate due to the reduced FMD related work and utilisation of FMD provisions. Depreciation and cost of capital charges on net assets employed were less than originally estimated. The depreciation saving resulted from reduced capital expenditure spend and disposals higher than anticipated. Cost of capital charge savings resulted from a reduction in net assets employed compared to the Estimate. The main reason for this was an increase in creditors and accruals, where a FMD related reduction had been anticipated in the Estimate. The increase in debtors was also lower than anticipated.

There have been a number of small overspends in the year which are attributable to the transition from cash accounting to resource accounting. A major programme of change, including extensive staff training is in place to ensure that resource accounting is successfully embedded within Defra. This should reduce the risk of budgeting and outturn allocation errors associated with resource accounting issues in the future.

The Notes on pages 30 to 63 form part of these accounts.

Explanation of the variation between Estimate and outturn (net cash requirement)

Excess operating A-in-A of £141,814,000 occurred in RPA, primarily as a result of the actual EU expenditure and the matching receipts being more than originally expected. Purchases of fixed assets were £90m less than in the Estimate. Working capital other than cash reduced by £78m, compared with an increase in the Estimate of £302m. Debtors increased by £20m, compared to the Estimate increase of £150m, but the major saving was in creditors and accruals, which increased by £129m compared to a FMD related reduction in the Estimate. Drawdown of provisions was £50m less than anticipated. All these have contributed to the underspend on the cash requirement.

Prior year adjustments

The current year's figure for total resource outturn has been reduced by £5,653,000, due to a prior year adjustment in RPA's accounts. Further details of these adjustments are detailed in Note 31.

Actual outturn - resources:

Request for Resources 1: Actual amount net resources outturn £2,172,530,488.05. Actual amount of savings of resources over Estimate £10,591,511.95.

Request for Resources 2: Actual amount net resources outturn £359,718,763.35. Actual amount of savings of resources over Estimate £13,580,236.65.

Actual outturn - cash:

Net cash requirement: Outturn net requirement £2,552,222,989.69, which is £523,872,010.31 less than the Estimate.

Departmental resources are classified as:

Request for Resources 1: Ensuring that consumers benefit from competitively priced food, produced to high standards of safety, environmental care and animal welfare from a sustainable, efficient food chain, and to contribute to the well-being of rural and coastal communities;

Request for Resources 2: Funding aspects of the Common Agricultural Policy and England Rural Development Plan Guarantee Section as economically, efficiently and effectively as possible.

Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid the following income relates to the Department and is payable to the Consolidated Fund (cash receipts are shown in italics):

	2002–03 Forecast		2002–03 Outturn	
	Income	*Receipts*	Income	*Receipts*
	£000	£000	£000	£000
Operating income and receipts – excess A-in-A	—	—	141,814	*141,814*
Non-operating income and receipts – excess A-in-A	—	—	—	—
Sub-total	—	—	**141,814**	***141,814***
Other operating income and receipts not classified as A-in-A	23,208	*26,364*	54,033	*58,787*
Other non-operating income and receipts not classified as A-in-A (Note 5.C)	—	—	6,604	*6,604*
Total	**23,208**	***26,364***	**202,451**	***207,205***

The actual cash surrenderable to the Consolidated Fund is £207,204,138.27. Also due to the Consolidated Fund is £17,324,000 prior year cash balance.

Included within Consolidated Fund Extra Receipts is £25,144,000 which relate to sugar levies from the Rural Payments Agency.

The Notes on pages 30 to 63 form part of these accounts.

SCHEDULE 2

Consolidated Operating Cost Statement
for the year ended 31 March 2003

		2002–03		Restated 2001–02	
	Note	£000	£000	£000	£000
Administration costs					
Staff costs	2.A	338,411		334,023	
Other administration costs	3	298,785		340,007	
Gross administration costs			**637,196**		674,030
Operating income	5.A	(48,469)		(45,161)	
Net administration costs			**588,727**		628,869
Programme costs					
Request for Resources 1					
Expenditure	4	1,570,291		1,363,268	
Less: income	5.A	(89,183)		(243,692)	
			1,481,108		1,119,576
Frontline Services					
Staff costs	2.A & 4	42,620		—	
Other costs	4	7,896		—	
Less: income	5.A	(1,854)		—	
			48,662		—
Request for Resources 2					
Expenditure	4	2,850,955		2,670,957	
Less: income[1]	5.A	(2,627,397)		(2,316,641)	
			223,558		354,316
Net programme costs	4		**1,753,328**		1,473,892
Net operating cost[2]	6		**2,342,055**		2,102,761
Net resource outturn	6 & 7		**2,532,249**		1,377,230

of which:

[1] £2,620,150,000 – relates to payments for which Defra acts as an agent for the EU in making payments to third parties (2001–02 £2,325,250,000).

[2] £6,174,000 – relates to EU receipts, which are treated as negative public expenditure and reduce the burden on the UK Exchequer (2001–02 £2,682,000).

All income and expenditure is derived from continuing operations. For details of the prior year restated figures refer to Note 31.

The above layout has been amended to separately identify frontline services costs and income and to aid reconciliation to Notes 2 and 4.

Consolidated Statement of Recognised Gains and Losses
for the year ended 31 March 2003

	2002–03	2001–02
	£000	£000
Net gain on revaluation of tangible fixed assets	38,088	8,427
Net gain/(loss) on revaluation of investments	(18)	101
Total recognised gains and losses for the financial year	**38,070**	8,528
Prior year adjustments	(5,653)	(43,808)
Total recognised gains and losses since last annual report	**32,417**	(35,280)

For details of the prior year restated figures refer to Note 31.

The Notes on pages 30 to 63 form part of these accounts.

SCHEDULE 2

Core-Department Operating Cost Statement
for the year ended 31 March 2003

	Note	2002–03 £000	2002–03 £000	Restated 2001–02 £000	Restated 2001–02 £000
Administration costs					
Staff costs	2.A	192,908		197,571	
Other administration costs	3	162,681		189,014	
Gross administration costs			**355,589**		386,585
Operating income	5.A	(36,400)		(33,950)	
Net administration costs			**319,189**		352,635
Programme costs					
Request for Resources 1					
Expenditure	4	1,543,353		1,501,375	
Less: income	5.A	(35,376)		(243,692)	
			1,507,977		1,257,683
Frontline Services					
Staff costs	2.A & 4	42,408		—	
Other costs	4	7,896		—	
Less: income	5.A	(1,854)		—	
			48,450		—
Request for Resources 2					
Expenditure	4	—		—	
Less: income	5.A	—		—	
			—		—
Net programme costs	4		**1,556,427**		1,257,683
Net operating cost[1]	6		**1,875,616**		1,610,318
Net resource outturn	6 & 7		**1,875,616**		1,064,217

of which:

[1] £6,174,000 – relates to EU receipts, which are treated as negative public expenditure and reduce the burden on the UK Exchequer.

All income and expenditure is derived from continuing operations. For details of the prior year restated figures refer to Note 31.

The above layout has been amended to separately identify frontline services costs and income, to aid reconciliation to Notes 2 and 4.

Core-Department Statement of Recognised Gains and Losses
for the year ended 31 March 2003

	2002–03 £000	2001–02 £000
Net gain on revaluation of tangible fixed assets	6,158	59
Net gain/(loss) on revaluation of investments	(18)	101
Total recognised gains and losses for the financial year	**6,140**	160
Prior year adjustments	—	(43,808)
Total recognised gains and losses since last annual report	**6,140**	(43,648)

For details of the prior year restated figures refer to Note 31.

The Notes on pages 30 to 63 form part of these accounts.

SCHEDULE 3

Consolidated Balance Sheet
as at 31 March 2003

		31 March 2003		Restated 31 March 2002	
	Note	£000	£000	£000	£000
Fixed assets:					
Tangible assets	10.A	598,839		519,984	
Intangible assets	10.B	5,569		4,508	
Investments	11	16,194		2,198	
			620,602		526,690
Debtors falling due after more than one year	14		**12,907**		13,273
Current assets:					
Stocks	13	45,219		21,162	
Debtors	14	641,764		621,902	
Cash at bank and in hand	15	717,198		406,016	
		1,404,181		1,049,080	
Creditors (amounts falling due within one year)	16	(1,377,696)		(908,766)	
Net current assets/(liabilities)			**26,485**		140,314
Total assets less current liabilities			**659,994**		680,277
Creditors (amounts falling due after one year)	16	(41,816)		(20,494)	
Provisions for liabilities and charges	17	(237,947)		(345,060)	
			(279,763)		(365,554)
			380,231		314,723
Taxpayers' equity:					
General fund	24	269,103		240,334	
Revaluation reserve	18	111,128		74,389	
			380,231		314,723

Sir Brian Bender
Accounting Officer for the Department for Environment, Food and Rural Affairs 12 December 2003

For details of the prior year restated figures refer to Note 31.

The Notes on pages 30 to 63 form part of these accounts.

SCHEDULE 3

Core-Department Balance Sheet
as at 31 March 2003

	Note	31 March 2003 £000	31 March 2003 £000	31 March 2002 £000	31 March 2002 £000
Fixed assets:					
Tangible assets	10.A	228,744		197,080	
Intangible assets	10.B	3,560		3,385	
Investments	11	16,044		2,048	
			248,348		202,513
Debtors falling due after more than one year	14		**604**		514
Current assets:					
Stocks	13	—		—	
Debtors	14	709,831		258,754	
Cash at bank and in hand	15	166,735		318,296	
		876,566		577,050	
Creditors (amounts falling due within one year)	16	(914,340)		(594,893)	
Net current assets/(liabilities)			**(37,774)**		(17,843)
Total assets less current liabilities			**211,178**		185,184
Creditors (amounts falling due after one year)	16	(21,665)		—	
Provisions for liabilities and charges	17	(194,833)		(283,777)	
			(216,498)		(283,777)
			(5,320)		(98,593)
Taxpayers' equity:					
General fund	24	(50,413)		(137,724)	
Revaluation reserve	18	45,093		39,131	
			(5,320)		(98,593)

Sir Brian Bender
Accounting Officer for the Department for Environment, Food and Rural Affairs 12 December 2003

The Notes on pages 30 to 63 form part of these accounts.

SCHEDULE 4

Consolidated Cash Flow Statement
for year ended 31 March 2003

	2002–03	Restated 2001–02
	£000	£000
Net cash outflow from operating activities *(Note i)*	**(2,262,273)**	(4,090,799)
Capital expenditure and financial investment *(Note ii)*	**(86,761)**	(47,778)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	**6,604**	744
Payments of amounts due to the Consolidated Fund	**(254,081)**	(134,443)
Financing *(Note iii)*	**2,907,693**	4,505,470
Increase/(decrease) in cash in the period	**311,182**	233,194

Notes to the cash flow statement

	2002–03	Restated 2001–02
Note i: Reconciliation of operating cost to operating cash flows		
Net operating cost	**2,342,055**	2,102,761
Adjust for non-cash transactions	(127,203)	(278,697)
Adjust for movements in working capital other than cash	(83,172)	351,704
Use of provisions	130,593	1,909,378
Prior year adjustments	—	5,653
Net cash outflow from operating activities	**2,262,273**	4,090,799
Note ii: Analysis of capital expenditure and financial investment		
Tangible fixed asset additions	93,137	62,653
Intangible fixed asset additions	1,503	1,724
Proceeds of disposal of fixed assets	(7,879)	(18,153)
Loans to other bodies	—	1,554
Net cash outflow from investing activities	**86,761**	47,778
Note iii: Analysis of financing and reconciliation to the net cash requirement		
From Consolidated Fund (Supply): current year#	3,075,699	3,134,440
From Consolidated Fund (Supply): prior year*	(168,006)	—
Transfer to Defra from Intervention Board in respect of transfer of functions	—	603,675
Transfer to Defra from DTLR in respect of transfer of functions	—	767,355
Net financing	**2,907,693**	4,505,470
(Increase)/decrease in cash	(311,182)	(233,194)
Net cash flows other than financing	**2,596,511**	4,272,276
Adjustment for payments and receipts not related to Supply		
Amounts due to the Consolidated Fund received in prior year and paid over	(220,686)	(620)
Amounts due to the Consolidated Fund received and not paid over	176,398	218,795
NLF loans – interest received from other bodies	1,891	—
NLF loans – interest paid to the NLF	(1,891)	—
Repayment of Intervention Board prior year surplus	—	(133,823)
Transfer from Intervention Board in respect of transfer of functions	—	(603,675)
Transfer from DTLR in respect of transfer of functions	—	(767,355)
Balance due to DTLR	—	6,644
Net cash requirement (Schedule 1)	**2,552,223**	2,992,242

Amount of grant actually issued to support the net cash requirement was £3,075,699,000.

* Amount of grant actually issued to support the prior year net cash requirement was £168,006,303.21.

For details of the prior year restated figures refer to Note 31.

The Notes on pages 30 to 63 form part of these accounts.

SCHEDULE 4

Core-Department Cash Flow Statement
for year ended 31 March 2003

	2002–03	2001–02
	£000	£000
Net cash outflow from operating activities *(Note i)*	**(2,372,038)**	(3,580,427)
Capital expenditure and financial investment *(Note ii)*	**(47,866)**	(22,800)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	**4,630**	743
Payments of amounts due to the Consolidated Fund	**(221,735)**	(620)
Financing *(Note iii)*	**2,485,448**	3,904,872
Increase/(decrease) in cash in the period	**(151,561)**	301,768

Notes to the cash flow statement

Note i: Reconciliation of operating cost to operating cash flows

Net operating cost	**1,875,616**	1,610,318
Adjust for non-cash transactions	(36,504)	(142,232)
Adjust for movements in working capital other than cash	426,168	532,161
Use of provisions	106,758	1,580,180
Net cash outflow from operating activities	**2,372,038**	3,580,427

Note ii: Analysis of capital expenditure and financial investment

Tangible fixed asset additions	55,107	38,114
Intangible fixed asset additions	374	1,323
Proceeds of disposal of fixed assets	(7,615)	(18,024)
Loans to other bodies	—	1,387
Net cash outflow from investing activities	**47,866**	22,800

Note iii: Analysis of financing and reconciliation to the net cash requirement

From Consolidated Fund (Supply): current year#	3,075,699	3,134,440
From Consolidated Fund (Supply): prior year*	(168,006)	—
Movement in Agency funding	(422,245)	3,077
Transfer to Defra from DTLR in respect of transfer of functions	—	767,355
Net financing	**2,485,448**	3,904,872
(Increase)/decrease in cash	151,561	(301,768)
Net cash flows other than financing	**2,637,009**	3,603,104
Adjustment for payments and receipts not related to Supply		
Amounts due to the Consolidated Fund received in prior year and paid over	(218,795)	(620)
Amounts due to the Consolidated Fund received and not paid over	1,690	218,795
NLF loans – interest received from other bodies	1,891	—
NLF loans – interest paid to the NLF	(1,891)	—
Transfer from DTLR in respect of transfer of functions	—	(767,355)
Balance due to DTLR	—	6,644
Net cash requirement	**2,419,904**	3,060,568

Amount of grant actually issued to support the net cash requirement was £3,075,699,000.

* Amount of grant actually issued to support the prior year net cash requirement was £168,006,303.21.

The Notes on pages 30 to 63 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2003

Defra works for the essentials of life – food, air, land, water, people, animals and plants. Success matters to everyone. Our remit is the pursuit of sustainable development – weaving together economic, social and environmental concerns. Therefore, Defra:

- brings all aspects of the environment, rural matters, farming and food production together for the first time;
- is a focal point for all rural policy, relating to people, the economy and the environment; and
- has roles in both European Union and global policy making, so that its work has a strong international dimension.

The aim is underpinned by seven objectives covering the span of the Department's responsibilities:

	2002–03			Restated 2001–02		
	Gross	**Income**	**Net**	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Protect & improve environment	684,880	(109,502)	**575,378**	731,556	(289,225)	442,331
Enhance opportunity & sustainable rural areas	108,409	(2,090)	**106,319**	144,666	(40,839)	103,827
Sustainable food supply	890,575	(755,332)	**135,243**	755,053	(634,276)	120,777
Attractive & well managed countryside	130,019	(24,302)	**105,717**	195,941	(76,886)	119,055
Sustainable & adaptable modern farming	1,660,095	(1,496,651)	**163,444**	1,331,577	(1,088,238)	243,339
Sustainable management & prudent use of resources	452,488	(61,714)	**390,774**	412,220	(74,717)	337,503
Protect public health & animal welfare	1,182,492	(317,312)	**865,180**	1,137,242	(401,313)	735,929
Net operating costs	**5,108,958**	**(2,766,903)**	**2,342,055**	4,708,255	(2,605,494)	2,102,761

For details of the prior year restated figures refer to Note 31.

The Notes on pages 30 to 63 form part of these accounts.

Notes to the Departmental Resource Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2002–03 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Department, for the purpose of giving a true and fair view, has been selected. The Department's accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

1.1. Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the Department by reference to their current costs.

1.2. Basis of consolidation

These accounts comprise a consolidation of those entities that fall within the Departmental boundary as defined in the Resource Accounting Manual issued by HM Treasury. Transactions between entities included in the consolidation have been eliminated. A list of those entities within the Departmental boundary is given at Note 32.

1.3. Grants and subsidies

EC regulations, for the schemes operated by RPA, state that no legal entitlement to payment exists until the claims have been checked as complying with the scheme and authorised. An accrual point has been established for each scheme or group of schemes according to the individual rules and regulations applying and any unpaid claims where the accrual point falls on or before the balance sheet date are recognised as creditors in the current year's financial statements. In most cases, there is an offsetting reimbursement from EAGGF, which similarly is recognised as a debtor.

Other grants, for example Government Grant-in-Aid and Government grants paid or payable, are recorded as expenditure on an annual basis.

EC contributions are accounted for on the basis of claims submitted to the European Commission for the reimbursement of market support expenditure incurred by the UK. These contributions are subject to adjustments following the annual clearance of EAGGF accounts by the Commission auditors. Annual clearance may lead either to a charge on the UK or an additional contribution to the UK in respect of amounts under claimed. RPA makes provision in the accounts for any additional charge when it is clear that a liability will arise. RPA does not anticipate additional contributions and these are only credited to the accounts when agreed by the Commission.

1.4. Tangible fixed assets

Freehold land and buildings are stated at current cost and are professionally revalued by the Valuation Office every five years, at existing use value in accordance with guidance issued by the Royal Institute of Chartered Surveyors. Surplus properties are revalued at open market value. The last revaluation took place in June 2000; this resulted in a net upward revaluation of £28m. Non specialised properties are revised annually by means of a desk top review, undertaken by the Valuation Office, where every valuation is reviewed having regard to local as well as national indices and local knowledge. Specialised properties are updated annually by adopting the Building Cost Information Service All-in Tender Price Index supplied by the Royal Institute of Chartered Surveyors. Other tangible assets have been stated at current cost using appropriate indices provided by the Office of National Statistics. The minimum level of capitalisation in the Core-Department and entities within the Departmental boundary is as follows:

	£
Core-Department	2,000
CSL	2,000
CEFAS	3,000
PSD	2,000
RPA	2,000
VLA	2,000
VMD	500

Tangible fixed assets are capitalised if the purchase cost equals or exceeds the above thresholds and where there is an expected useful economic life of more than one year.

Internally developed computer software has been capitalised in accordance with HM Treasury instructions as a tangible asset and included with IT equipment. This includes capitalisation of internal IT staff work on projects costing in excess of £50,000 for the Core-Department and £100,000 for RPA (known as Delta rate software capitalisation). Such projects are capitalised on the basis of planned staff day input, by grade at standard salary rates. Following the completion of a project the actual staff input is reviewed. Any material differences to the original plan are reflected in revisions to the original capitalisation figures.

1.5. Intangible fixed assets

The Department holds a number of licences and copyrights but the income from these is of a minor nature and they have not been capitalised. Should the income from these licences or copyrights increase to be of a material amount then capitalisation will be reconsidered. In addition the Department holds various software licences which were capitalised at purchase cost. Such assets are re-valued only where it is possible to obtain a reliable estimate of their market value. They are reviewed annually for any impairment to ensure they are not carried in the balance sheet above their recoverable amounts.

1.6. Depreciation

Depreciation is provided at rates calculated to write-off the valuation of freehold buildings and other tangible fixed assets by the straight line method over the estimated useful life of the asset and is charged in the month of disposal but not in the month of purchase. Depreciation is not charged on assets declared surplus and for sale, freehold land and assets under the course of construction. Lives are normally in the following ranges:

Freehold Buildings	4 to 60 years
Property on Historic Lease	Remaining life of lease
Scientific Equipment	5 to 15 years
IT	2 to 10 years
Furniture and Fittings	5 to 15 years
Vehicles, Plant and Machinery	4 to 25 years
Office Equipment	5 to 11 years
Intangible Assets	3 to 20 years
Vessels	1 to 30 years

1.7. Investments

The Department holds a small quantity of shares in three companies, the entire share capital of CEFAS Technology Limited and an NLF loan on-lent to British Waterways. A number of properties are held on a short-term basis following the Foot and Mouth disease outbreak. All investments are shown at market value. Further details are provided in Note 11.

Notes to the Departmental Resource Accounts *(continued)*

1.8. Stocks and work in progress

(a) CEFAS, CSL, RPA and VLA hold stock levels material to their business. With the exception of RPA, these are brought into the consolidated accounts at the lower of cost (or at current replacement cost where materially different) and net realisable value. RPA's stock comprises agricultural commodities purchased into intervention under terms specified by the Commission and valued in accordance with their directions. The valuation is at cost, adjusted by any depreciation or revaluation prescribed by the Commission which brings it into line with market values. The stated stock values are therefore realisable through a combination of sales revenue and the contribution provided by the Commission. Costs of depreciation and any losses on sales are borne by EAGGF, any profits on upward revaluation or sales are surrendered to EAGGF. This basis of valuation does not conform to SSAP9, which would give a misleading view; the basis of valuation has been specifically approved in the RAM (para 3.11.15).

(b) Work in progress is valued at the lower of cost (including appropriate overheads) and net realisable value.

1.9. Research and development

Research and development expenditure is capitalised under the following conditions:

(a) the product or service is supplied on a full cost recovery basis;

(b) development expenditure meets all of the following criteria;

- there is a clearly defined project;
- related expenditure is separately identifiable;
- outcome of the project has been assessed with reasonable certainty as to its technical feasibility, and will result in a product or service which will eventually be brought into use;
- adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increase in working capital.

Otherwise, development expenditure is written off in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work. There are no projects that currently meet the criteria for capitalisation.

1.10. Operating income

Operating income is income which relates directly to the operating activities of the Department. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from investments. It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income, and receipts from the European Union.

1.11. Administration and programme expenditure and income

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the Department as defined under the administration cost-control regime, together with associated operating income. Income is analysed in the notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against administration cost limit, and that operating income which is not. Programme costs reflect administration costs of frontline services and all other non-administration costs, including payments of grants, subsidies and other disbursements by the Department.

1.12. Capital charge

A charge reflecting the cost of capital utilised by the Department is included in operating costs. The charge is calculated at the Government's standard rate of 6% on all assets less liabilities, except for donated assets, and cash balances with the Office of the Paymaster General. It has not been possible to completely analyse the cost of capital between administration and programme so the unallocated cost has been charged to administration as the more significant of the two. The capital charge for RPA has, however, been allocated to both administration and programme capital.

1.13. Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling at the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used. Balances held in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

1.14. Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus).

The provisions of the Principal Civil Service Pension Scheme (PCSPS) cover present and past employees; which is mainly non-contributory and unfunded.

Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Departments, Agencies and other bodies covered by the PCSPS meet the cost of the pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate statement for the PCSPS as a whole.

New entrants after 1 October 2002 may choose between membership of the Premium defined benefit scheme or joining a good quality 'money purchase' stakeholder-based arrangement with a significant employer contribution (the Partnership Pension Account). Further information is provided in Note 2.

1.15. Early departure costs

The Department is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

1.16. Provisions

The Department provides for obligations arising from past events where it is probable that it will be required to settle the obligation and a reliable estimate can be made. Where material, the future costs have been discounted using the rate of 3.5% per annum as directed by HM Treasury (see Note 17).

1.17. Leases

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. If the present value of the minimum lease payments amount to 90% or more of the fair value of the assets, then the lessee is assumed to carry all of the risk. An operating lease is a lease other than a finance lease.

Both the asset value and liability to pay future rentals under a finance lease are discounted at the interest rate implicit in the lease to derive the present value. Assets obtained under a finance lease are re-valued and depreciated. The Department does not have material finance lease commitments.

All payments under operating leases are charged to the Operating Cost Statement as they are incurred.

Notes to the Departmental Resource Accounts *(continued)*

1.18. Value Added Tax

Most of the activities of the Department are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input tax is recoverable the amounts are stated net of VAT.

1.19. Contingent liabilities

In addition to contingent liabilities disclosed in accordance with Financial Reporting Standard (FRS) 12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £100,000 (or lower, where required by statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental minute prior to the Department entering into the arrangement;
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the RAM to be noted in the resource accounts.

1.20. Third-party assets

One of the Department's Agencies, PSD, holds as custodian, advance funding from the European Community. This funding is not recognised in the accounts since neither the Agency, Defra, nor the UK Government more generally has a direct beneficial interest.

1.21. Schedule 5 estimation techniques

Schedule 5 reports expenditure and income against each of the Department's seven objectives. Snap shot surveys from the Department's business areas, including the Agencies, were used to obtain information on the distribution of work across objectives. These provided a set of apportionments used for spreading both expenditure and income. This objective-level information is derived from an underpinning structure of financial programmes which are based on the Department's functions. Programme expenditure is directly attributed to these financial programmes, from where it is apportioned to one or more of the objectives. The administrative costs directly incurred in delivering programmes are subject to a two-stage apportionment process, initially to financial programmes and then to objectives using the same basis as applied to programme expenditure. Remaining administration costs relating to central overhead activities are spread across objectives based upon staff numbers engaged in the delivery of each objective.

The apportionments to spread the costs and income of the Agencies are based on the payments made under contract by Core-Department policy customers.

The Department's capital assets are mainly employed for administrative purposes. The distribution of capital expenditure between objectives is therefore not markedly different from the proportion of the related gross administrative costs.

2. Staff numbers and costs

A. Staff costs consist of:

Consolidated	**Administrative**				**Programme**		
	Officials	Ministers	Special Advisors	**Total Admin**	Officials	**2002–03 Total**	Restated 2001–02 Total
	£000	£000	£000	£000	£000	£000	£000
Salaries and wages	274,482	366	96	**274,944**	30,803	**305,747**	261,674
Social security costs	18,532	35	—	**18,567**	2,099	**20,666**	22,948
Other pension costs	35,022	—	—	**35,022**	4,172	**39,194**	36,226
Sub-total	**328,036**	**401**	**96**	**328,533**	**37,074**	**365,607**	320,848
Agency staff	9,609	—	—	**9,609**	297	**9,906**	12,705
Inward secondments	269	—	—	**269**	12	**281**	470
Contract staff	—	—	—	**—**	5,237	**5,237**	—
Total	**337,914**	**401**	**96**	**338,411**	**42,620**	**381,031**	334,023
Less: recoveries in respect of outward secondments	(635)	—	—	**(635)**	(38)	**(673)**	(609)
Total net costs *	**337,279**	**401**	**96**	**337,776**	**42,582**	**380,358**	333,414

Core-Department	**Administrative**				**Programme**		
	Officials	Ministers	Special Advisors	**Total Admin**	Officials	**2002–03 Total**	Restated 2001–02 Total
	£000	£000	£000	£000	£000	£000	£000
Salaries and wages	151,527	366	96	**151,989**	30,627	**182,616**	146,852
Social security costs	10,800	35	—	**10,835**	2,087	**12,922**	15,051
Other pension costs	20,206	—	—	**20,206**	4,148	**24,354**	22,493
Sub-total	**182,533**	**401**	**96**	**183,030**	**36,862**	**219,892**	184,396
Agency staff	9,609	—	—	**9,609**	297	**9,906**	12,705
Inward secondments	269	—	—	**269**	12	**281**	470
Contract staff	—	—	—	**—**	5,237	**5,237**	—
Total	**192,411**	**401**	**96**	**192,908**	**42,408**	**235,316**	197,571
Less: recoveries in respect of outward secondments	(635)	—	—	**(635)**	(38)	**(673)**	(609)
Total net costs *	**191,776**	**401**	**96**	**192,273**	**42,370**	**234,643**	196,962

* Out of the total, £910,360 has been charged to capital.

The above layout has been amended to reflect additional disclosure requirements and to improve the transparency and understanding of the accounts.

For details of the prior year restated figures refer to Note 31.

Notes to the Departmental Resource Accounts *(continued)*

B. The average number of whole-time equivalent persons employed, including senior management, during the year was as follows:

Objective	2002–03 Number	2001–02 Number
Protect & improve environment	1,803	1,317
Enhance opportunity & sustainable rural areas	267	336
Sustainable food supply	1,606	1,372
Attractive & well managed countryside	672	568
Sustainable & adaptable modern farming	2,659	2,496
Sustainable management & prudent use of resources	922	532
Protect public health & animal welfare	6,251	9,399
Total	**14,180**	16,020
Staff engaged on capital projects	111	65

C. The salary and pension entitlements of Ministers and senior officials during the year were:

Name and title	Age	Salary as defined below	Real increase in pension at age 60	Total accrued pension at age 60 as at 31 March 03
		£000	£000	£000
Ministers				
The Rt Hon Margaret Beckett MP	60	65–70	0–2.5	10–12.5
The Rt Hon Michael Meacher MP*	63	35–40	N/A	N/A
The Rt Hon Alun Michael MP	59	35–40	0–2.5	2.5–5
Elliot Morley MP	50	25–30	0–2.5	2.5–5
The Lord Whitty of Camberwell	59	90–95	0–2.5	7.5–10
* Michael Meacher has opted out of the supplementary pension scheme				
Management Board				
Sir Brian Bender Permanent Secretary	54	145–150	2.5–5	50–55
Bill Stow (from 20 March 2003) Director General: Environment Protection	55	0–5	0–2.5	40–45
Andy Lebrecht Director General: Food, Farming and Fisheries	51	95–100	0–2.5	30–35
Anna Walker Director General: Land Use and Rural Affairs	51	110–115	0–2.5	35–40
Donald Macrae (from 30 June 2002) Solicitor and Director General: Legal Services	51	65–70	5–7.5	35–40
Mark Addison Director General: Operations and Service Delivery	52	115–120	0–2.5	35–40
Jim Scudamore Chief Veterinary Officer and Director General of Animal Health and Welfare Directorate	59	115–120	2.5–5	35–40
Andrew Burchell Finance Director: Finance, Planning and Resources Directorate	48	85–90	0–2.5	25–30
Francesca Okosi (from 3 February 2003) Director: Policy and Corporate Strategy Unit, Departmental Change Programme and Secretary to Management Board	37	10–15	0–2.5	0–5
Lucian Hudson Communications Director	42	80–85	0–2.5	10–15

Management Board members who have served during 2002–03, but are not in post as at 31 March 2003, were:

Name and title	Age	Salary as defined below	Real increase in pension at age 60	Total accrued pension at age 60 as at 31 March 03
		£000	£000	£000
Dinah Nichols – retired 3 February 2003 Director General: Environmental Protection	59	100–105	2.5–5	55–60
Brian Harding – retired from Management Board 21 January 2003 Director of Policy and Corporate Strategy and Secretary to Management Board	50	65–70	0–2.5	30–35
Kathryn Morton – retired 30 June 2002 Solicitor and Director General: Legal Services	56	35–40	12.5–15	40–45

NB. Professor Howard Dalton (Chief Scientific Advisor) has withheld his consent to disclosure of his age, salary and pension details.

In addition to the above, Elizabeth Ransom, Alison Huxtable and Richard Wakeford were paid a total of £8,782 for their services and expenses as Non-Executive Board members.

The information given above relates to the Permanent Secretary and senior managers of the Department. Equivalent information relating to the Agencies consolidated into the Departmental Resource Accounts is given in their separate accounts.

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. It does not include the estimated monetary value of benefits in kind.

Pension

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is mainly an unfunded multi-employer defined benefit scheme but Defra is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office under Civil Superannuation (www.civilservice-pensions.gov.uk). For 2002–03, employer's contributions of £39,194,000 (2001–02 £36,226,000) were payable to the PCSPS at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for the coming years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (Partnership Pension Account).

(a) Classic Scheme:

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Notes to the Departmental Resource Accounts *(continued)*

(b) Premium Scheme:

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme:

This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

Pensions payable under Classic, Premium and Classic Plus are increased in line with the Retail Prices Index.

(d) Partnership Pension Account:

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

D. Staff loans

Loans are made to staff to cover season ticket advances and house purchase on relocation. The outstanding balance as at 31 March 2003 was £1,500,264.92. Included in this total were 110 balances of more than £2,500.

3. Other administration costs

	Consolidated		Core-Department	
	2002–03	Restated 2001–02	2002–03	Restated 2001–02
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machinery	5	228	—	—
Other operating leases	20,746	32,854	14,880	27,306
Interest charges:				
Finance leases	7	—	—	—
PFI service charges:				
Off-balance sheet contracts	140	188	140	188
Travel, subsistence and hospitality	16,644	42,665	10,737	36,862
Non-cash items:				
Depreciation and amortisation of fixed assets:				
Civil Estate	18,420	17,523	9,482	11,160
Other tangible fixed assets	32,739	41,674	18,715	26,457
Intangible assets	331	465	199	166
(Profit)/loss on the disposal of fixed assets	1,696	(1,960)	1,420	(3,003)
Impairment	471	—	—	—
Downward revaluation	138	—	—	—
Cost of capital charge: Civil Estate	18,347	16,578	3,318	7,500
Cost of capital charge: other items	12,803	(28,340)	7,919	(37,455)
Auditor's remuneration and expenses	759	826	272	262
Provisions:				
Provided in year net of releases	1,819	14,133	(2,109)	(1,430)
Unwinding of discount on provisions	291	—	307	—
Other non-cash items	4,966	911	4,765	93
Other expenditure	168,463	202,262	92,636	120,908
Total	**298,785**	340,007	**162,681**	189,014

Note a – the total of non-cash transactions included in the Reconciliation of Operating Costs to Operating Cash Flows in Schedule 4 comprises:

	Consolidated	Core-Department
	£000	£000
Other administration costs – non-cash items (as above)	92,780	44,288
Other non-cash amounts charged to operating expenditure	38,032	(4,175)
Less: non-cash income – profit on sale of fixed assets	(3,609)	(3,609)
Total non-cash transactions	**127,203**	**36,504**

Note b – the total of non-cash items included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 comprises:

	Consolidated
	£000
Total non-cash transactions as above	127,203
Adjustment for profits and losses on disposal of fixed assets:	
Losses on disposal of tangible fixed assets	(1,696)
Profits on disposal of tangible fixed assets	3,609
Other creditors greater than one year	(6,586)
Adjustment for CFER accrual	(2,589)
Non-cash items per reconciliation of resources to net cash requirement	**119,941**

The auditor's remuneration shown is for audit work undertaken only.

For details of the prior year restated figures refer to Note 31.

Notes to the Departmental Resource Accounts *(continued)*

4. Net programme costs

	Consolidated		Core-Department	
	2002–03	Restated 2001–02	**2002–03**	2001–02
	£000	£000	£000	£000
Current grants and other current expenditure				
Frontline Services – staff costs	42,620	—	42,408	—
Frontline Services – other costs	7,896	—	7,896	—
EU funded	2,645,939	2,322,657	14,754	10,872
Exchequer funded	1,511,796	1,473,249	1,265,088	1,252,184
Capital grants	261,620	238,319	261,620	238,319
Interest on NLF loans on-lent to British Waterways	1,891	—	1,891	—
Total programme expenditure	**4,471,762**	4,034,225	**1,593,657**	1,501,375
Less: programme income *(Note 5)*				
Frontline Services	(1,854)	—	(1,854)	—
EU current	(2,630,808)	(2,534,157)	(10,377)	(229,148)
Exchequer current	(82,265)	(25,132)	(21,492)	(13,500)
Capital grants	(1,616)	(1,044)	(1,616)	(1,044)
Interest on NLF loans on-lent to British Waterways	(1,891)	—	(1,891)	—
Total programme income	**(2,718,434)**	(2,560,333)	**(37,230)**	(243,692)
Total	**1,753,328**	1,473,892	**1,556,427**	1,257,683

Included in the above expenditure is £102,919,109 spent on Research and Development (2001–02 £158,222,700).

In 2002–03 a number of extra statutory contributions totalling £4,961,000 were made to the Environment Agency in connection with flood management (2001–02 £12,483,000).

The above expenditure includes cost of capital charges totalling £20,072,000 (2001–02 £14,059,000) relating to the Rural Payments Agency.

A total of £1,810,000 referring to unwinding of discount has been charged to programme expenditure.

Included within staff costs above are agency staff, contract staff and staff on inward secondments. See Note 2 for further details.

For details of the prior year restated figures refer to Note 31.

5. Income and appropriations-in-aid (see also Note 1.11)

A. Operating income analysed by classification and activity

Consolidated

	Appropriated -in-aid	Netted-off gross expenditure in net sub head	Payable to Consolidated Fund	**Income included in Operating Cost Statement**
	£000	£000	£000	£000
2002–03				
Administration income				
Fees and charges to external customers	35,173	578	—	**35,751**
Fees and charges to other departments	11,879	696	143	**12,718**
	47,052	**1,274**	**143**	**48,469**
Programme income				
Frontline Services	1,854	—	—	**1,854**
EU funding	2,491,955	6,174	143,649	**2,641,778**
Other	20,856	—	52,055	**72,911**
	2,514,665	**6,174**	**195,704**	**2,716,543**
	2,561,717	**7,448**	**195,847**	**2,765,012**
Interest on NLF loans on-lent to British Waterways	—	1,891	—	**1,891**
Sub-total (Schedule 2)	**2,561,717**	**9,339**	**195,847**	**2,766,903**
Prior year adjustments	(20,241)			
Total (Schedule 1)	**2,541,476**			
Restated 2001–02				
Administration income				
Fees and charges to external customers	32,236	—	—	32,236
Fees and charges to other departments	12,058	867	—	12,925
	44,294	867	—	45,161
Programme income				
EU funding	2,314,570	2,682	216,905	2,534,157
Other	25,011	18	1,147	26,176
	2,339,581	2,700	218,052	2,560,333
Total (Schedule 2)	2,383,875	3,567	218,052	2,605,494

The above layout has been amended to reflect additional disclosure requirements and to improve the transparency and understanding of the accounts.

For details of the prior year restated figures refer to Note 31.

Notes to the Departmental Resource Accounts *(continued)*

Core-Department	Appropriated -in-aid	Netted-off gross expenditure in net sub head	Payable to Consolidated Fund	**Income included in Operating Cost Statement**
	£000	£000	£000	£000
2002–03				
Administration income				
Fees and charges to external customers	4,070	578	—	**4,648**
Fees and charges to other departments	419	696	—	**1,115**
Fees and charges to agencies	5,647	24,990	—	**30,637**
	10,136	**26,264**	**—**	**36,400**
Programme income				
Frontline Services	1,854	—	—	**1,854**
EU funding	4,203	6,174	—	**10,377**
Other	23,108	—	—	**23,108**
	29,165	**6,174**	**—**	**35,339**
	39,301	**32,438**	**—**	**71,739**
Interest on NLF loans on-lent to British Waterways	—	1,891	—	**1,891**
Total (Schedule 2)	**39,301**	**34,329**	**—**	**73,630**
Restated 2001–02				
Administration income				
Fees and charges to external customers	8,302	—	—	8,302
Fees and charges to other departments	728	867	—	1,595
Fees and charges to agencies	24,053	—	—	24,053
	33,083	867	—	33,950
Programme income				
EU funding	9,561	2,682	216,905	229,148
Other	13,379	18	1,147	14,544
	22,940	2,700	218,052	243,692
Total (Schedule 2)	56,023	3,567	218,052	277,642

The Core-Department receives rental income from other Government departments (£808,869) and external customers (£2,072,287).

The above layout has been amended to reflect additional disclosure requirements and to improve the transparency and understanding of the accounts.

For details of the prior year restated figures refer to Note 31.

B. Miscellaneous Core-Department income

Information required by HM Treasury in *The Fees and Charges Guide:*

Service	2002–03 Income	2002–03 Full cost	2002–03 Surplus/(deficit)	2001–02 Income	2001–02 Full cost	2001–02 Surplus/(deficit)
	£000	£000	£000	£000	£000	£000
Beef Assurance Scheme	5	37	**(32)**	6	28	(22)
Date Based Export Scheme	1	3	**(2)**	—	47	(47)
Artificial Breeding of Livestock	170	315	**(145)**	133	281	(148)
AHVG: Approval of Premises	—	4	**(4)**	—	—	—
Export of Birds, Poultry & Hatching Eggs	—	5	**(5)**	2	4	(2)
Animal Import Services	110	180	**(70)**	73	141	(68)
Veterinary Checks at VFS Controlled BIPs	2	2	**—**	2	2	—
Animal Export Services	22	45	**(23)**	8	17	(9)
IFMVB	9	11	**(2)**	10	10	—
Cattle Tracing System	154	23,143	**(22,989)**	109	23,278	(23,169)
Superannuation & Welfare Services	1	1	**—**	1	1	—
Fisheries–External Statistical Requests	1	1	**—**	3	2	1
Inspections of Fruit/Vegetables/Citrus	60	67	**(7)**	63	68	(5)
LIFFE Potato Inspections & External Training	45	45	**—**	57	56	1
Legal Services	127	157	**(30)**	177	174	3
Egg Sampling	17	17	**—**	17	12	5
Plant Health Propagation Scheme	—	—	**—**	—	70	(70)
Seed Potato Classification Scheme	249	264	**(15)**	225	256	(31)
Plant Passport Scheme	149	—	**149**	145	153	(8)
Plant Health Import Licensing	21	25	**(4)**	22	25	(3)
Plant Export Certification	—	627	**(627)**	—	387	(387)
Brown Rot Testing of Imported Seed Potatoes	1	3	**(2)**	3	3	—
Plant Breeders' Rights	743	813	**(70)**	650	837	(187)
National Listing of Seed Varieties	1,550	2,046	**(496)**	1,388	2,140	(752)
Seed Certification	1,455	1,695	**(240)**	1,565	1,820	(255)
Mink & Coypu Licensing	1	1	**—**	6	10	(4)
UKROFS Secretariat Services	—	—	**—**	40	39	1
FEPA 1985–Receipts from Licensing	1,268	1,219	**49**	1,078	1,008	70
National Food Survey: Extraction of Statistics	—	—	**—**	2	—	2
Agricultural Census: Extraction of Statistics	2	3	**(1)**	5	3	2
Agricultural Market Report	1	25	**(24)**	2	26	(24)
Approval of Disinfectants	23	41	**(18)**	35	44	(9)
Animal Health Schemes	32	31	**1**	30	32	(2)
Poultry Health Scheme	38	38	**—**	47	42	5
Poultry Breeding Flocks, Hatcheries & Processed Animal (Fees) Order	12	16	**(4)**	6	9	(3)
Other Services	141	1,509	**(1,368)**	174	1,766	(1,592)
	6,410	**32,389**	**(25,979)**	**6,084**	**32,791**	**(26,707)**

The above income forms part of the *Other Fees and Charges Administration Income* shown in Note 5.A.

Income from services provided by the Agencies can be found in their respective accounts.

Notes to the Departmental Resource Accounts *(continued)*

C. Consolidated non-operating income not classified as A-in-A

	Income	Receipts
	£000	£000
Amounts surrendered to the Consolidated Fund (see below)	6,604	6,604
	6,604	**6,604**

The following amounts are not regarded as income in 2002–03 for the Department and are surrendered to the Consolidated Fund

	£000
Countryside Agency surplus grant in aid funds relating to FMD	1,016
Royalties	134
Environment Agency – relating to discharge consents/interest on abstraction receipts	2,382
ADAS – prior year bank balances	852
Miscellaneous non-operating receipts	2,220
	6,604

Non-operating appropriations-in-aid

	2002–03	2001–02
	£000	£000
Disposal of fixed assets	5,966	19,568
	5,966	19,568

6. Reconciliation of net operating cost to control total and net resource outturn

	Consolidated		Core-Department	
	2002–03	Restated 2001–02	**2002–03**	2001–02
	£000	£000	£000	£000
Net operating cost *(Note a)*	**2,342,055**	2,102,761	**1,875,616**	1,610,318
Remove non-supply expenditure (-) and income (+), including income scored as Consolidated Fund Extra Receipts (CFERs) – Operating income not classified as A-in-A	195,847	218,052	—	218,052
Adjust for the effects of prior year adjustments	(5,653)	5,653	—	—
Adjust for transfer of Estimate cover in respect of transfer of functions from DTLR	—	(764,153)	—	(764,153)
Adjust for transfer of Estimate cover in respect of transfer of functions from Intervention Board	—	(185,083)	—	—
Net resource outturn *(Note a)*	**2,532,249**	1,377,230	**1,875,616**	1,064,217

Note a: Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to Parliamentary approval and included in the Department's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

For details of the prior year restated figures refer to Note 31.

7. Analysis of net resource outturn by objective and reconciliation to Operating Cost Statement

2002–03	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net Total	Estimate	Net total outturn compared with Estimate	Restated prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1									
Objective 1	65,937	88,398	375,699	**530,034**	(6,646)	**523,388**	566,397	43,009	63,316
Objective 2	5,525	47,734	50,956	**104,215**	(36)	**104,179**	115,941	11,762	62,737
Objective 3	102,381	52,846	2,344	**157,571**	(20,304)	**137,267**	120,243	(17,024)	87,057
Objective 4	11,556	6,207	63,818	**81,581**	(569)	**81,012**	175,590	94,578	5,971
Objective 5	87,891	53,934	7,349	**149,174**	(9,945)	**139,229**	100,586	(38,643)	126,836
Objective 6	51,926	143,240	206,505	**401,671**	(10,691)	**390,980**	523,138	132,158	19,044
Objective 7	310,706	349,076	164,636	**824,418**	(27,943)	**796,475**	581,227	(215,248)	700,191
Total	**635,922**	**741,435**	**871,307**	**2,248,664**	**(76,134)**	**2,172,530**	**2,183,122**	**10,592**	1,065,152
Request for Resources 2									
Objective 1	—	116,176	38,175	**154,351**	(95,390)	**58,961**	63,478	4,517	32,031
Objective 2	—	3,138	1,042	**4,180**	(1,891)	**2,289**	—	(2,289)	3,370
Objective 3	—	554,316	176,398	**730,714**	(676,966)	**53,748**	1,163,383	1,109,635	30,344
Objective 4	—	36,242	12,041	**48,283**	(21,847)	**26,436**	62,470	36,034	22,427
Objective 5	—	1,144,404	361,790	**1,506,194**	(1,373,881)	**132,313**	(1,027,031)	(1,159,344)	88,839
Objective 6	—	38,331	12,327	**50,658**	(47,652)	**3,006**	20,470	17,464	7,667
Objective 7	—	241,113	115,462	**356,575**	(267,956)	**88,619**	90,529	1,910	127,400
Sub-total	**—**	**2,133,720**	**717,235**	**2,850,955**	**(2,485,583)**	**365,372**	**373,299**	**7,927**	312,078
Prior year adjustments				**(25,894)**	20,241	**(5,653)**	—	5,653	—
Total				**2,825,061**	**(2,465,342)**	**359,719**	**373,299**	**13,580**	312,078
Resource outturn (Schedule 1)				**5,073,725**	**(2,541,476)**	**2,532,249**	**2,556,421**	**24,172**	1,377,230

Reconciliation to Operating Cost Statement

	Gross resource expenditure	A-in-A	Net Total	Restated prior year outturn
Netted-off expenditure	**9,339**	(9,339)	**—**	—
Non supply income/expenditure including CFERs:				
Operating income not classified as A-in-A	**—**	(54,033)	**(54,033)**	(216,905)
Operating income excess A-in-A	**—**	(141,814)	**(141,814)**	(1,147)
Estimate transfer in respect of A-in-A for transfer of functions:				
DTLR	**—**	—	**—**	764,153
Intervention Board	**—**	—	**—**	185,083
Prior year adjustments	**25,894**	(20,241)	**5,653**	(5,653)
Net operating cost (Schedule 2)	**5,108,958**	**(2,766,903)**	**2,342,055**	2,102,761

Refer to Schedule 5 for description of objectives.

Two significant variances lie within RfR 2 which broadly offset each other. The variances arose because the income in the accounts has been apportioned to objectives in direct proportion to the expenditure to which it relates – the vast majority falling under Objectives 3 and 5. However, in the Estimates, £2,300m income relating to market support measures under the Common Agricultural Policy (CAP) has been attributed to Objective 5. The effect when comparing outturn data against the Estimates is to significantly overstate the position for one objective, and understate against the other.

For details of the prior year restated figures refer to Note 31.

Notes to the Departmental Resource Accounts *(continued)*

8. Administration cost limits (see also Note 1.11)

The outturn within the administration costs control regime shown against individual administration cost limits is as follows:

2002–03	**Consolidated** Outturn	Limit	**Core-Department** Outturn	Limit
	£000	£000	£000	£000
Request for Resources 1	449,404	460,473	316,920	313,314
Request for Resources 2	—	—	—	—
Total within administration cost control	**449,404**	**460,473**	**316,920**	**313,314**
Administration expenditure excluded from administration cost limit	190,756	190,793	40,844	57,399
Administration income allowable within the administration cost limit	914	845	892	845
Less: administration provisions utilised in year	(3,878)	(7,000)	(3,067)	(7,000)
Total administration outturn	**637,196**	**645,111**	**355,589**	**364,558**

Restated 2001–02	**Consolidated** Outturn	Limit	**Core-Department** Outturn	Limit
	£000	£000	£000	£000
Request for Resources 1	523,482	527,263	516,861	521,449
Request for Resources 2	109,342	126,384	—	—
Total within administration cost control	632,824	653,647	516,861	521,449
Administration expenditure excluded from administration cost limit	156,189	180,310	(15,265)	54,303
Administration income allowable within the administration cost limit	1,122	845	1,094	845
Less: administration provisions utilised in year	(116,105)	(140,000)	(116,105)	(140,000)
Total administration outturn	674,030	694,802	386,585	436,597

The above layout has been amended to improve transparency and understanding of the accounts.

For details of the prior year restated figures refer to Note 31.

9. Analysis of capital expenditure, financial investment and associated A-in-A

Consolidated

	2002–03				2001–02			
	Capital expenditure	**Loans etc**	**A-in-A**	**Net Total**	Capital expenditure	Loans etc	A-in-A	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	94,640	—	—	**94,640**	65,914	17	—	65,931
Request for Resources 2	—	—	—	**—**	—	—	—	—
Non-operating A-in-A income from disposal of fixed assets	—	—	(5,966)	**(5,966)**	—	—	(16,193)	(16,193)
Net profit from sale of fixed assets	—	—	(1,913)	**(1,913)**	—	—	(1,960)	(1,960)
Net	**94,640**	**—**	**(7,879)**	**86,761**	65,914	17	(18,153)	47,778

Core-Department

	2002–03				2001–02			
	Capital expenditure	**Loans etc**	**A-in-A**	**Net Total**	Capital expenditure	Loans etc	A-in-A	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	55,481	—	—	**55,481**	40,824	—	—	40,824
Request for Resources 2	—	—	—	**—**	—	—	—	—
Non-operating A-in-A income from disposal of fixed assets	—	—	(5,426)	**(5,426)**	—	—	(15,021)	(15,021)
Net profit from sale of fixed assets	—	—	(2,189)	**(2,189)**	—	—	(3,003)	(3,003)
Net	**55,481**	**—**	**(7,615)**	**47,866**	40,824	—	(18,024)	22,800

10. Fixed assets

A. Tangible assets

Consolidated

	Freehold land & buildings	**Long leasehold land & buildings**	**Dwellings**	**Scientific eqpt**	**IT**	**Furniture & fittings**	**Vehicles, plant & machinery**	**Office eqpt**	**Payments on account & CIP**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2002	362,682	52,838	1,619	55,194	123,203	23,910	11,072	10,589	57,163	**698,270**
Additions	4,358	504	55	3,420	40,644	3,884	1,530	486	40,093	**94,974**
Transfers	(270)	—	—	—	(1,339)	—	30,900	—	(30,029)	**(738)**
Disposals	(4,965)	(793)	(934)	(2,661)	(14,412)	(781)	(1,368)	(370)	—	**(26,284)**
Reclassifications	1,328	(6,157)	—	(752)	234	7,479	(4)	(3,304)	1,176	—
Revaluations	36,029	2,213	1,105	818	(1,963)	462	(246)	134	—	**38,552**
31 March 2003	**399,162**	**48,605**	**1,845**	**56,019**	**146,367**	**34,954**	**41,884**	**7,535**	**68,403**	**804,774**
Depreciation										
At 1 April 2002	26,127	16,972	25	28,345	89,428	5,079	5,564	6,746	—	**178,286**
Charged in year	12,098	6,602	14	3,575	26,351	1,983	1,891	772	—	**53,286**
Transfers	(978)	—	—	—	(229)	—	978	—	—	**(229)**
Disposals	(578)	(903)	(38)	(1,389)	(8,600)	(751)	(1,043)	(333)	—	**(13,635)**
Reclassifications	—	—	—	—	(26)	2,349	(4)	(2,319)	—	—
Revaluations	3,682	1,496	(1)	446	(17,451)	145	(228)	138	—	**(11,773)**
31 March 2003	**40,351**	**24,167**	**—**	**30,977**	**89,473**	**8,805**	**7,158**	**5,004**	**—**	**205,935**
Net book value at 31 March 2003	**358,811**	**24,438**	**1,845**	**25,042**	**56,894**	**26,149**	**34,726**	**2,531**	**68,403**	**598,839**
31 March 2002	336,555	35,866	1,594	26,849	33,775	18,831	5,508	3,843	57,163	519,984
Asset financing:										
Owned	358,811	8,135	1,845	25,042	56,829	26,149	34,726	2,531	68,403	**582,471**
Finance leased	—	16,303	—	—	65	—	—	—	—	**16,368**
31 March 2003	**358,811**	**24,438**	**1,845**	**25,042**	**56,894**	**26,149**	**34,726**	**2,531**	**68,403**	**598,839**

The above layout has been amended to reflect additional disclosure requirements and to improve the transparency and understanding of the accounts.

The difference between consolidated Note 10 additions and the additions per the consolidated cash flow statement is due to accruals (£1,837,000).

Notes to the Departmental Resource Accounts *(continued)*

Core-Department	Freehold land & buildings	Long leasehold land & buildings	Dwellings	Scientific eqpt	IT	Furniture & fittings	Vehicles, plant & machinery	Office eqpt	Payments on account & CIP	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2002	84,659	43,375	1,619	15,502	37,170	22,445	4,846	5,270	35,766	**250,652**
Additions	1,354	—	55	269	36,347	3,771	1,175	356	11,780	**55,107**
Transfers	(193)	—	—	—	—	—	—	—	—	**(193)**
Disposals	(4,442)	—	(934)	(1,170)	(8,999)	(56)	(925)	(101)	—	**(16,627)**
Reclassifications	1,329	(6,157)	—	(752)	268	4,130	—	6	1,176	**—**
Revaluations	2,402	1,474	1,105	148	11,357	474	(68)	159	—	**17,051**
31 March 2003	**85,109**	**38,692**	**1,845**	**13,997**	**76,143**	**30,764**	**5,028**	**5,690**	**48,722**	**305,990**
Depreciation										
At 1 April 2002	3,131	15,676	25	1,974	23,376	4,243	2,021	3,126	—	**53,572**
Charged in year	2,447	5,415	14	603	18,718	1,497	902	552	—	**30,148**
Transfers	—	—	—	—	—	—	—	—	—	**—**
Disposals	(69)	(135)	(38)	13	(3,532)	(26)	(667)	(69)	—	**(4,523)**
Revaluations	174	1,433	(1)	31	(3,900)	175	(22)	159	—	**(1,951)**
31 March 2003	**5,683**	**22,389**	**—**	**2,621**	**34,662**	**5,889**	**2,234**	**3,768**	**—**	**77,246**
Net book value at 31 March 2003	**79,426**	**16,303**	**1,845**	**11,376**	**41,481**	**24,875**	**2,794**	**1,922**	**48,722**	**228,744**
31 March 2002	81,528	27,699	1,594	13,528	13,794	18,202	2,825	2,144	35,766	197,080
Asset financing:										
Owned	79,426	—	1,845	11,376	41,481	24,875	2,794	1,922	48,722	**212,441**
Finance leased	—	16,303	—	—	—	—	—	—	—	**16,303**
31 March 2003	**79,426**	**16,303**	**1,845**	**11,376**	**41,481**	**24,875**	**2,794**	**1,922**	**48,722**	**228,744**

The above layout has been amended to reflect additional disclosure requirements and to improve the transparency and understanding of the accounts.

Land and buildings include properties with a value of £10,681,000 (Core-Department) which are surplus to requirements. For consolidation, vehicles, plant and machinery include vessels owned by CEFAS valued at £25,625,000.

Disposals are valued on a historic cost basis.

The Department's premises, including properties in London, York and Guildford, are Civil Estate property on which the Department pays a capital charge in its capacity as major occupier. The Minister holds certain agricultural properties referred to as 'The Minister's Estate' and are included in the above. IT includes equipment and internally developed software.

B. Intangible assets

The Department's intangible fixed assets comprise purchased software licences.

	Consolidated	Core-Department
	£000	£000
Cost or valuation		
At 1 April 2002	5,822	3,819
Additions	1,698	374
Transfers	159	—
Disposals	(96)	—
31 March 2003	**7,583**	**4,193**
Amortisation		
At 1 April 2002	1,314	434
Charged in year	750	199
Transfers	44	—
Disposals	(94)	—
31 March 2003	**2,014**	**633**
Net book value at 31 March 2003	**5,569**	**3,560**
Net book value at 31 March 2002	4,508	3,385

The difference between consolidated Note 10 additions and the additions per the consolidated cash flow statement is due to accruals (£195,000).

11. Investments

	Balance at 1 April 2002	Additions	Disposals	Revaluations	Loan repayments	Balance at 31 March 2003
	£000	£000	£000	£000	£000	£000
Consolidated						
Property investments	1,387	—	(130)	—	—	**1,257**
British Waterways: NLF Loan on-lent	—	16,336	—	—	(1,600)	**14,736**
Stocks and shares						
Genus plc	6	—	—	1	—	**7**
Dairy Crest plc	62	—	—	(19)	—	**43**
National Milk Records plc	1	—	—	—	—	**1**
Permanent Milk Quota	592	—	(592)	—	—	**—**
CEFAS Technology Ltd	150	—	—	—	—	**150**
Total	**2,198**	**16,336**	**(722)**	**(18)**	**(1,600)**	**16,194**
Core-Department						
Property investments	1,387	—	(130)	—	—	**1,257**
British Waterways: NLF Loan on-lent	—	16,336	—	—	(1,600)	**14,736**
Stocks and shares						
Genus plc	6	—	—	1	—	**7**
Dairy Crest plc	62	—	—	(19)	—	**43**
National Milk Records plc	1	—	—	—	—	**1**
Permanent Milk Quota	592	—	(592)	—	—	**—**
Total	**2,048**	**16,336**	**(722)**	**(18)**	**(1,600)**	**16,044**

Notes to the Departmental Resource Accounts *(continued)*

12. Movements in working capital other than cash

	Consolidated		Core-Department	
	2002–03	Restated 2001–02	**2002–03**	2001–02
	£000	£000	£000	£000
(Increase)/decrease in stocks and work in progress	(24,057)	(10,462)	—	—
(Increase)/decrease in debtors	(19,515)	67,324	(452,937)	(225,959)
Increase/(decrease) in creditors falling due within one year	128,776	(410,425)	26,769	(306,202)
	85,204	(353,563)	**(426,168)**	(532,161)
Adjustment for fixed asset addition accruals	(2,032)	—	—	—
Prior year adjustments	—	1,859	—	—
Net (increase)/decrease in working capital other than cash (Schedule 4)	**83,172**	(351,704)	**(426,168)**	(532,161)
Adjustment not related to voted resource consumption	(4,753)			
Net (increase)/decrease in working capital other than cash (Schedule 1)	**78,419**			

For details of the prior year restated figures refer to Note 31.

13. Stocks and work in progress

	Consolidated		Core-Department	
	2002–03	2001–02	**2002–03**	2001–02
	£000	£000	£000	£000
Stocks	43,274	19,325	—	—
Work in progress	1,945	1,837	—	—
	45,219	21,162	**—**	—

14. Debtors

	Consolidated 2002–03	Consolidated Restated 2001–02	Core-Department 2002–03	Core-Department Restated 2001–02
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	56,230	61,894	9,838	7,048
Deposits and advances	1,291	1,065	1,291	1,045
VAT	13,955	13,444	10,478	10,057
Other debtors	18,691	19,880	8,418	16,220
Agency debtor	—	—	642,750	182,429
Prepayments/accrued income: EU	472,356	513,211	—	—
Other	105,437	49,725	37,617	40,540
	667,960	659,219	**710,392**	257,339
Less: bad debt provisions	(26,330)	(37,470)	(695)	(489)
	641,630	621,749	**709,697**	256,850
Agency surplus prior year	134	153	134	1,904
Total due within one year	**641,764**	621,902	**709,831**	258,754
Amounts falling due after more than one year				
Trade debtors	12	—	12	—
Deposits and advances	592	514	592	514
Prepayments/accrued income: EU	12,279	12,664	—	—
Other	24	95	—	—
Total due after more than one year	**12,907**	13,273	**604**	514
Total debtors	**654,671**	635,175	**710,435**	259,268

Included within trade debtors is £16,567,000 (2001–02 £21,320,000) that will be due to the Consolidated Fund once the debts are collected.

For details of the prior year restated figures refer to Note 31.

15. Cash at bank and in hand

	Consolidated 2002–03	Consolidated Restated 2001–02	Core-Department 2002–03	Core-Department 2001–02
	£000	£000	£000	£000
Balance at 1 April	406,016	172,822	318,296	16,528
Net change in cash balances	311,182	233,194	(151,561)	301,768
Balance at 31 March	**717,198**	406,016	**166,735**	318,296
The following balances at 31 March are held at:				
Office of HM Paymaster General	716,166	403,866	166,433	317,691
Commercial banks and cash in hand	1,032	2,150	302	605
	717,198	406,016	**166,735**	318,296
The balance at 31 March comprises:				
Amounts issued from the Consolidated Fund for supply but not spent at year end	523,476	168,006	165,045	99,501
Consolidated Fund Extra Receipts received and due to be paid to the Consolidated Fund	34,584	4,994	1,690	743
Other payments due to be paid to the Consolidated Fund	159,138	218,052	—	218,052
Other	—	14,964	—	—
	717,198	406,016	**166,735**	318,296

Other payments due to be paid to the Consolidated Fund comprises £141,814,000 excess A-in-A and £17,324,000 prior year cash balance.

For details of the prior year restated figures refer to Note 31.

Notes to the Departmental Resource Accounts *(continued)*

16. Creditors

	Consolidated 2002–03	Consolidated Restated 2001–02	Core-Department 2002–03	Core-Department 2001–02
	£000	£000	£000	£000
Amounts falling due within one year				
Trade creditors	52,656	28,528	40,592	8,489
Other creditors: EU	45,488	10,480	5,137	10,480
Other	12,734	12,718	387	7,860
Accruals and deferred income	533,010	463,429	181,948	174,466
Other taxation and social security	43	—	—	—
	643,931	515,155	**228,064**	201,295
Balance due to DTLR in respect of transferred functions	—	6,644	—	6,644
Consolidated creditor to HM Treasury	523,476	168,006	523,476	168,006
Consolidated Fund Extra Receipts received and receivable and other due to be paid to the Consolidated Fund	210,289	218,961	162,800	218,948
Total due within one year	**1,377,696**	908,766	**914,340**	594,893
Amounts falling due after more than one year				
Finance leases	46	78	—	—
NLF loans	14,736	—	14,736	—
Others	27,034	20,416	6,929	—
Total due after more than one year	**41,816**	20,494	**21,665**	—
Total creditors	**1,419,512**	929,260	**936,005**	594,893

For details of the prior year restated figures refer to Note 31.

17. Provisions for liabilities and charges (see also Notes 1.15 and 1.16)

Consolidated

	Foot and Mouth	Factortame	Flood and coastal defence	Admin provisions	Programme provisions	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2002	215,960	15,150	5,901	23,942	98,519	**359,472**
Prior year adjustments	1,029	—	—	(4,983)	(10,458)	**(14,412)**
Restated balance at 1 April 2002	216,989	15,150	5,901	18,959	88,061	**345,060**
Provided in the year	14,837	—	6,176	6,067	40,197	**67,277**
Provisions not required written back	(15,901)	(5,372)	(5,540)	(4,248)	(14,246)	**(45,307)**
Provisions utilised in year	(92,683)	(9,128)	(360)	(4,782)	(24,231)	**(131,184)**
Unwinding of discount	1,810	—	—	291	—	**2,101**
Balance at 31 March 2003	**125,052**	**650**	**6,177**	**16,287**	**89,781**	**237,947**

Core-Department

	Foot and Mouth	Factortame	Flood and coastal defence	Admin provisions	Programme provisions	Total
Balance at 1 April 2002	215,960	15,150	5,901	4,991	41,775	**283,777**
Prior year adjustments	1,029	—	—	9,429	(10,458)	**—**
Restated balance at 1 April 2002	216,989	15,150	5,901	14,420	31,317	**283,777**
Provided in the year	14,837	—	6,176	2,161	34,697	**57,871**
Provisions not required written back	(15,901)	(5,372)	(5,540)	(4,270)	(11,091)	**(42,174)**
Provisions utilised in year	(92,683)	(9,128)	(360)	(3,067)	(1,520)	**(106,758)**
Unwinding of discount	1,810	—	—	307	—	**2,117**
Balance at 31 March 2003	**125,052**	**650**	**6,177**	**9,551**	**53,403**	**194,833**

The prior year adjustments within the Core-Department primarily relate to the reclassification of a contaminated land provision from programme to administration provisions and the reclassification of the LVI/TVI pay award provision from programme provisions to the FMD provision.

The consolidated administrative provision is reduced by £14,412,000 because RPA have reclassified their EAGGF provision as creditors. See Note 31 for further details.

The administrative provision includes Early Departure Pension Costs and impending Veterinary Pay Awards. The Department is required to meet the cost of paying the pensions of former MAFF employees who retired early, from the date of their retirement until they reach normal pensionable age. These liabilities are provided for in full. In certain circumstances some or all of the liability may be settled in advance by making payment to the Paymaster General's account for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments. The total pensions liability outstanding was charged as a provision in 1998-99, with funds being released from the provision annually to fund pensions and related benefits payments. The facility to prefund future liabilities ceased from 1 April 2000.

The programme provision includes programmes such as the Contaminated Land, Fur Farming, Classical Swine Fever, Meat and Livestock Commission (MLC) Lamb Provision Scheme and backdated Slaughter Premium claims.

The majority of the reduction in the FMD provision relates to invoices from the original outbreak being paid during the year, a number of which relate to the settlement of disputes with vendors. The outstanding balance mainly comprises items still in dispute with vendors and other ongoing work such as disposal site monitoring and claims against the Department.

Of the brought forward £15,150,000 Factortame provision, £9,128,000 has been utilised in year. The remaining downward movement of £5,372,000 reflects the success of the negotiating team in reaching settlements with regard to claimants legal costs. £650,000 has been carried forward to 2003-04 to cover the settlement of the costs of one remaining claimant.

The use of provisions reported in Schedules 1 and 4 differs from the amount above because some of the utilisation relates to notional charges (£591,000).

18. Reserves

	Revaluation reserve			
	Consolidated		Core-Department	
	2002–03	2001–02	**2002–03**	2001–02
	£000	£000	£000	£000
Balance at 1 April	74,389	68,390	39,131	39,071
Arising on revaluation during the year (net)	38,070	8,711	6,140	160
Transferred from general fund in respect of realised element of revaluation reserve (Note 24)	(1,331)	(2,712)	(178)	(100)
Balance at 31 March	**111,128**	74,389	**45,093**	39,131

19. Capital commitments

	Consolidated		Core-Department	
	2002–03	2001–02	**2002–03**	2001–02
	£000	£000	£000	£000
Capital commitments at 31 March for which no provision has been made:				
Authorised and contracted	64,561	30,822	51,150	13,126
Authorised but not contracted	45,904	57,192	—	—

Notes to the Departmental Resource Accounts *(continued)*

20. Commitments under operating and finance leases

Commitments under leases to pay rentals during the year following the year of these Accounts are given in the table below, analysed according to the period in which the lease expires.

	Consolidated		Core-Department	
	2002–03	Restated 2001–02	**2002–03**	2001–02
	£000	£000	£000	£000
Obligations under operating leases comprise:				
Land and buildings				
Expiry within one year	439	348	396	335
Expiry within two to five years	1,417	1,133	1,289	1,055
Expiry thereafter	22,721	21,853	17,596	16,950
Amount payable in the following year	**24,577**	23,334	**19,281**	18,340
Other				
Expiry within one year	162	4,216	80	4,103
Expiry within two to five years	4,567	7,284	4,334	6,878
Expiry thereafter	69	23	68	20
Amount payable in the following year	**4,798**	11,523	**4,482**	11,001
Obligations under finance leases comprise:				
Rentals due within one year	69	—	21	—
Rentals due within two to five years	161	—	106	—
Rentals due thereafter	1,062	21	1,062	21
Less: interest element	(17)	—	—	—
Amount payable in the following year	**1,275**	21	**1,189**	21

For details of the prior year restated figures refer to Note 31.

21. Other financial commitments

The Department is committed to making payments to non-cancellable contracts (which are not leases or PFI contracts). The payments to which the Department is committed to make during 2003-04, analysed by the period during which the commitment expires, is as follows:

	Consolidated		Core-Department	
	2002–03	2001–02	**2002–03**	2001–02
	£000	£000	£000	£000
Expiry within one year	82,107	75,480	82,107	75,480
Expiry within two to five years	35,619	55,185	35,619	55,185
Expiry thereafter	9,390	66,000	9,390	66,000
	127,116	196,665	**127,116**	196,665

22. Contingent liabilities and assets

22.1. Contingent liabilities

There are a number of future events with an uncertain outcome that could lead to potential liabilities for the Department. Given such uncertainties, these items have not been accrued in the Accounts, but are instead listed separately as contingent liabilities. At 31 March 2003 the main items under this heading were:

- legal action for £245m damages by importers of seed potatoes alleging that the potatoes were diseased on arrival in Argentina. The Argentinean authorities destroyed the potatoes. The Court of Appeal gave a judgement in favour of HM Government but the claimants have lodged an appeal to the Supreme Court and we are awaiting the outcome of this;
- liability for landfill sites that do not reach the standards required by Pollution Prevention and Control (PPC) regulations if the licence holder becomes insolvent. Potential liability estimated at £350m;
- potential disallowance in respect of non-compliance with EU regulations in respect of various schemes (£27m);
- obligations following Horticulture Research International (HRI) restructuring. The potential liability is estimated at £20m;
- liabilities arising from reviews of consents under the Habitats Directive (£22.1m);
- various legal claims connected with the FMD outbreak (unquantifiable).

Apart from these, other items include:

- tallow, produced as a by-product of the rendering process, may prove to be unsaleable. The potential cost of disposal is £10m;
- employment tribunal for equal pay claim. This has Government wide implications so the potential liability is impossible to quantify;
- indemnity against all action, costs and expenses made against National Institute of Agricultural Botany (NIAB) arising from their contract with Defra. We cannot quantify the value of any such possible future actions, but to minimise liability the contract requires NIAB to take out a £5m professional insurance;
- a claim for unfair treatment in the tendering process for an Over Thirty Month Scheme (OTMS) slaughtering contract in 1999. This claim is for £2.9m per annum from January 2000;
- dilapidations on leased properties, potential liability not more than £3m;
- steps required to regularise non-statutory collection of certain seed certification and plant health schemes, potential liability estimated at no more than £6m;
- investment guarantees up to a maximum of £5.6m related to the Waste and Resources Action Programme (WRAP);
- potential liabilities arising from small claims against Defra, potential liability estimated at no more than £4.1m.

Defra has the lead responsibility for a large number of NDPBs and public corporations (see Note 33). Although these sponsored bodies lie outside the accounting boundary, the Department is still required to meet any liabilities they are unable to absorb themselves.

The Environment Agency has responsibility for a closed pension fund for former employees of the water authorities prior to privatisation. There is a requirement for the Secretary of State to meet future benefit entitlements. As there is currently insufficient funds to meet the remaining pension liabilities, discussions are ongoing between ourselves and HM Treasury over the longer term funding of this liability. In accordance with FRS17 and the RAM, for the accounting period 2003-04, a provision will be created to cover the remaining liabilities of this pension fund. The purpose of this note is for completeness of reporting, bringing this liability into the public domain.

Notes to the Departmental Resource Accounts *(continued)*

22.2. Contingent assets

Future income arising from Foot and Mouth Disease control process

The EU Commission has agreed to reimburse the UK Government a proportion of the expenditure on compensation for animals slaughtered, and on certain other disease control activities, during the Foot and Mouth Disease control process. The Department submitted an initial claim to the EU for approximately £1,000m in December 2001 and further amendments to the claim were submitted between December 2001 and October 2003.

However, because of concerns over the financial controls exercised by Defra over the compensation scheme, it is unlikely to receive the full claim. The Commission is currently auditing the claim and following their interim findings have reduced the claim. The full extent of the reductions will not be clear until the EU has concluded the audit.

An advance of £217m was received by the Department in March 2002 and brought to account as income in the 2001–02 Resource Account. No further amounts were received in 2002–03 but further reimbursement is probable.

Arable crops

The Rural Payments Agency is awaiting judgement from the European Court on a case relating to the perceived lack of supervision of Field Officers. If successful, previous disallowance of £2.9m may be reclaimable.

23. Contingent liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability

23.1. Quantifiable

Defra has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these are contingent liabilities within the meaning of FRS12 since the likelihood of a transfer of economic benefits in settlement is too remote.

	1 April 2002	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2003
	£000	£000	£000	£000	£000
Statutory guarantees					
Guarantee of British Waterways borrowing	3,000	—	—	—	**3,000**
Statutory indemnities					
CHPQA contractors wrongly assessing a scheme	100	—	—	—	**100**

23.2. Unquantifiable

Defra has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these are contingent liabilities within the meaning of FRS12 since the possibility of a transfer of economic benefits in settlement is too remote.

Indemnities

- To indemnify the Royal Society against legal costs and damages should they arise following publication of their report on ‘Infectious Diseases in Livestock’.
- To indemnify the UK Chemicals Stakeholders Forum against legal action by companies affected by Forum decisions or announcements on chemicals.
- Letters of indemnity issued to the Carbon Trust protecting their directors and contracted third parties from liabilities.

24. Reconciliation of net operating cost to changes in the general fund

Consolidated

	2002–03	Restated 2001–02
	£000	£000
Net operating cost for the year (Schedule 2)	**(2,342,055)**	(2,102,761)
Income not appropriated in aid payable to the Consolidated Fund	(195,853)	(218,052)
	(2,537,908)	(2,320,813)
Net parliamentary funding	**3,075,699**	4,371,647
Funds brought forward	—	25,808
Transfer to general fund of realised element of revaluation reserve (Note 18)	1,331	2,712
Transfer to general fund – asset transfers	(335)	—
Non-operating A-in-A	(318)	9,053
Consolidated Fund creditor	(523,476)	(168,006)
Non-cash charges		
Cost of capital	51,222	2,297
Early departure	771	585
Auditors remuneration	759	826
Other	(2,738)	14,338
Balance due to DTLR in respect of transferred functions	6,644	(6,644)
Additional A-in-A	(17,324)	—
Prior year adjustments	(25,558)	(14)
Net increase in general fund	**28,769**	1,931,789
General fund at 1 April	240,334	(1,691,455)
General fund at 31 March (Schedule 3)	**269,103**	240,334

Core-Department

	2002–03	2001–02
	£000	£000
Net operating cost for the year (Schedule 2)	**(1,875,616)**	(1,610,318)
Income not appropriated in aid payable to the Consolidated Fund	—	(218,052)
	(1,875,616)	(1,828,370)
Net parliamentary funding	**3,075,699**	3,901,795
Funds brought forward	—	25,808
Transfer to general fund of realised element of revaluation reserve (Note 18)	178	100
Transfer to general fund – asset transfers	(2,798)	(6,257)
Non-operating A-in-A	(318)	9,053
Consolidated Fund creditor	(523,476)	(168,006)
Non-cash charges		
Cost of capital	11,237	(29,955)
Early departure	178	128
Auditors remuneration	272	262
Other	(19,562)	(60,027)
Balance due to DTLR in respect of transferred functions	6,644	(6,644)
Agency funding	(424,017)	—
Additional A-in-A	(161,110)	—
Prior year adjustments	—	—
Net increase in general fund	**87,311**	1,837,887
General fund at 1 April	(137,724)	(1,975,611)
General fund at 31 March (Schedule 3)	**(50,413)**	(137,724)

For details of the prior year restated figures refer to Note 31.

Notes to the Departmental Resource Accounts *(continued)*

25. Analysis of net operating cost by spending body

This note analyses funding by the Department to the relevant spending body.

Consolidated	**2002–03** Budget	**2002–03** Outturn	Restated 2001–02 Outturn
Spending body	£000	£000	£000
Department	1,241,983	754,675	1,224,293
Non-Departmental Public Bodies	463,052	441,182	61,522
Other central government	695,418	781,316	(180,345)
Local authorities	62,170	115,643	39,296
Other bodies	70,590	249,239	8,759
Transfer of functions	—	—	949,236
Net operating cost	**2,533,213**	**2,342,055**	2,102,761

Core-Department	**2002–03** Budget	**2002–03** Outturn	2001–02 Outturn
Spending body	£000	£000	£000
Core-Department	1,230,243	894,805	1,225,773
Executive Agencies	119,923	105,841	164,140
Non-Departmental Public Bodies	463,052	439,755	49,831
Other central government	(22)	69,587	(641,634)
Local authorities	54,675	115,653	39,296
Other bodies	70,590	249,975	8,759
Transfer of functions	—	—	764,153
Net operating cost	**1,938,461**	**1,875,616**	1,610,318

For 2001–02 the figures above were reported on a gross expenditure basis. For 2002–03 Defra are now able to report on a net expenditure basis. Therefore it is not possible to make a year on year basis comparison. For subsequent years the net expenditure basis will be adopted.

For details of the prior year restated figures refer to Note 31.

26. Losses and special payments

	2002–03		2001–02	
	No.of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	224	2,496	1,406	307
Stores losses	39	240	28	611
Fruitless payments and constructive losses	17	158	17	13
Claims waived or abandoned	1,800	10,003	144	132
Special payments	1,351	5,990	1,773	13,369
	3,431	**18,887**	3,368	14,432

Details of cases over £100,000

Cash losses: One case totalling £2,384,818 referring to non-payment of an invoice relating to incorrectly paid export refund.

Fruitless payments: One case totalling £152,369 relating to a payment for the Dumfries serology laboratory. The FMD outbreak was over before the building was finished.

Claims waived or abandoned: Seven cases totalling £9,246,065 referring to companies in liquidation.

Special payments: One case totalling £475,000 for an ex-gratia payment relating to compensation for lost value on imports following outbreak of FMD in Brazil. Two payments totalling £4,961,000 of extra statutory contributions to the Environment Agency in connection with flood management.

27. Commitments under PFI contracts

The majority of Private Finance Initiative (PFI) contracts associated with Defra are funded by NDPBs and public corporations outside the resource accounting boundary.

An off-balance sheet contract was signed by the Department in February 2001 to develop land at Brooklands Avenue, Cambridge. The scheme involves the PFI partner constructing an office building, for Defra and other Government departments to occupy, and for surplus land to be used for housing. The estimated capital value of the contract is £18.21m, of which a £0.25m deposit was paid during the contract exchange in February 2001. A further £5m was received in February 2002 after planning permission was granted. The project was completed in March 2003, phased occupation took place between March and April. The Department formally gave vacant possession of the site in April 2003 and £8.73m was received by Defra. A final payment of £4.23m is expected in November 2006.

28. Related party transactions

The Department is the parent of the Agencies shown in Note 32. The Department's NDPB's within the Departmental accounting boundary are also shown in Note 32, and those outside the boundary are shown in Note 33. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition the Department has had a number of transactions with other Government departments (e.g. Regional Development Agency Funding provided through DTI, the Devolved Administrations, Government Offices within the Cabinet Office) and other central Government bodies.

None of the Board members, key managerial staff or other related parties have undertaken any material transactions with the Department during the year.

Christine Tacon is a member of the RPA Ownership Board and a Director of Farmcare (part of the Co-operative Group (CWS) Ltd). In 2002–03 Farmcare received £2.4m in scheme payments from RPA. Richard Wakeford is a Non-Executive member of the Defra Management Board and the Chief Executive of the Countryside Agency. In 2002–03 the Countryside Agency received £98.7m in grant payments from Defra. These external interests were known before appointment and were carefully considered by Defra.

29. Financial instruments

29.1. The Department is required to disclose the role financial instruments had during the period in creating or changing the risks faced in undertaking its activities. The non-trading nature of Defra's activities and the way Government departments are financed, means the Department is not exposed to the degree of financial risk faced by business entities. Defra has very limited powers to borrow or invest surplus funds. Financial assets and liabilities generated by day to day operational activities are not held to change the risks facing the Department in undertaking its activities.

29.2. As permitted by FRS13 the Department has elected to exclude from disclosure all debtors and creditors which mature or become payable within 12 months from the balance sheet date.

29.3. With the exception of the Rural Payments Agency (RPA), the Department's exposure to risk can be summarised:

Liquidity risk: no significant exposure given the Department's net resource requirement is financed through resources voted annually by Parliament;

Interest rate risk: no exposure as the Department's main financial assets and liabilities carry nil or fixed rates of interest;

Foreign currency risk: not significant as foreign currency income and expenditure is negligible. Although no active hedging is utilised the accounting treatment adopted avoids gains and losses arising.

Notes to the Departmental Resource Accounts *(continued)*

29.4. Liquidity risk does, however, arise with RPA operations. The main driver is the successful recovery from the EU of funds paid to claimants under the Common Agricultural Policy (CAP). As these funds are financed by HM Treasury in the first instance, there is no exposure to interest rate risks.

29.5. Foreign currency risk: RPA did not have an exposure to foreign currency risk until December 2002. Until that date RPA, as UK Funding Body, was reimbursed in Sterling by the European Commission for UK EAGGF expenditure on CAP schemes. In November 2002 an EC Regulation was issued stating that from January 2003 non-Eurozone member states would be reimbursed in Euro. The timing difference between converting the indent (the claim for reimbursement for CAP expenditure) from Sterling to Euro and converting back to Sterling when received some three weeks later generates an exchange difference. In 2002–03 this has generated an exchange gain of £26.2m that, in line with HM Treasury guidance, has been treated as CFERs. In accordance with DAO(GEN)3/99 negotiations continue with HM Treasury and other paying agencies on hedging against exchange rate risks and the accounting treatment of any losses. To date, on HM Treasury advice, no such hedging contract had been activated but consultation continues with the EC, HM Treasury and the Bank of England on this matter.

29.6. Securities and guarantees: Traders wishing to undertake certain transactions under EC Regulations are required to guarantee completion of the transaction in question by lodging a security with RPA. The security could be either in the form of cash or guarantee by a bank or an insurance company acceptable to RPA. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. Bank and other guarantees totalling £326.5m and cash totalling £4.4m were held at 31 March 2003 by RPA.

30. Post balance sheet events

There were no reportable post balance sheet events.

31. Prior year adjustments

Core-Department

Details of Core-Department prior year adjustments are due to reclassifications and are as follows:

- Agency costs (£12,705,000) within administration costs (Note 3) reclassified as staff costs (Note 2);
- Other operating lease costs (£12,896,000) previously classified as hire of plant and machinery (Note 3);
- Accrued income (£23,065,000) previously classified as other debtors in 2001–02 (Note 14).

Rural Payments Agency (RPA)

RPA carried out a review of the underlying events and their application to scheme creditors for 2001–02 which has resulted in adjustments to the prior year figures. These relate to the Extensification Payment, Environmentally Sensitive Areas, Organic Farming and Slaughter Premium schemes. Additionally the provision for EAGGF financial adjustments of £14,412,000 has been reclassified as creditors (within one year) at 31 March 2002. The effect of these adjustments in the Accounts is as follows:

- Net operating costs for 2001–02 decrease by £5,653,000;
- Opening reserves increase by £17,266,000 at 1 April 2001 and £22,919,000 at 31 March 2002;
- Debtors at 31 March 2002 increase by £8,274,000;
- Creditors at 31 March 2002 increase by £233,000;
- Provisions at 31 March 2002 decrease by £14,412,000.

32. Entities within the Departmental accounting boundary

The entities within the Departmental accounting boundary during 2002–03 comprise the Core-Department, its Executive Agencies and Non-Departmental Public Bodies as follows:

Executive Agencies

Veterinary Laboratories Agency (VLA)
Specialist scientific and technical expertise and advice to Defra on animal and public health, including diagnostic, research and advisory services and products.

Veterinary Medicines Directorate (VMD)
Responsible to Ministers for the licensing of veterinary medicines; surveillance of veterinary medicine residues; servicing, developing and implementing new policy/legislation.

Central Science Laboratory (CSL)
Policy advice, technical support and enforcement underpinned by research and development to meet Defra's objectives.

Pesticides Safety Directorate (PSD)
Controlling the sale, supply, storage, advertisement and use of pesticides; implementing post approval controls over pesticides; provide policy advice to Defra.

Rural Payments Agency (RPA)
Payment of EAGGF and Exchequer grants and subsidies to the rural and farming community; implementation within the UK of the guarantee functions of the Common Agricultural Policy.

Centre for Environment, Fisheries and Aquaculture Science (CEFAS)
Specialist scientific, technical support and consultancy to Defra in fisheries science and management, aquaculture and fish health and environmental assessment.

The Executive Agencies accounts have been prepared under the direction of HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, and are published separately.

Executive NDPBs (Defra funded)

Agricultural Wages Board for England and Wales (AWB)
Agricultural Wages Committee (AWC)
United Kingdom Register of Organic Food Standards (UKROFS) *(Disbanded 17/07/03)*

Notes to the Departmental Resource Accounts *(continued)*

Advisory NDPBs (Defra funded)

Advisory Committee on Business and the Environment (ACBE)
Advisory Committee on Consumer Products and the Environment (ACCPE)
Advisory Committee on Hazardous Substances (ACHS)
Advisory Committee on Packaging
Advisory Committee on Pesticides (ACP)
Advisory Committee on Releases to the Environment (ACRE)
Agricultural Dwelling House Advisory Committees (ADHACS)
Air Quality Expert Group (replaces former Airborne Particles Expert Group)
Animal Diseases Insurance Working Group
Committee of Agricultural Valuation
Committee of Investigation for Great Britain
Committee on Products and Processes for Use in Public Water Supply and Swimming Pools
Committee on Radioactive Waste Management
Consumers Committee for Great Britain under the Agricultural Marketing Act 1958
Darwin Advisory Committee (the Darwin Initiative)
Expert Group on Cryptosporidium in Water Supplies
Expert Panel on Air Quality Standards
Expert Panel on Sustainable Development Education
Farm Animal Welfare Council (FAWC)
Government - Industry Forum on Non-Food Uses of Crops
Hill Farming Advisory Committee for England, Wales and Northern Ireland
Independent Scientific Group on Cattle TB (ISG)
Inland Waterways Amenity Advisory Council
Integrated Administration and Control System (IACS) Appeals Panel
National Expert Group on Transboundary Air Pollution
Pesticide Residues Committee
Radioactive Waste Management Advisory Committee
Review of Funding Mechanisms for Flood and Coastal Defence (steering group)
Royal Commission on Environmental Pollution
Science Advisory Council
Sustainable Development Commission
Veterinary Products Committee
Veterinary Residues Committee
Water Regulations Advisory Committee (WRAC)
Zoos Forum

Advisory NDPBs (jointly funded with Department of Health)

Spongiform Encephalopathy Advisory Committee

Tribunal NDPBs (Defra funded)

Agricultural Land Tribunal
Dairy Produce Quota Tribunal
Plant Varieties and Seeds Tribunal
Commons Commissioners

33. Bodies outside the Departmental accounting boundary

These comprise public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year. They were:

Executive NDPBs

Apple and Pear Research Council (APRC) *(Disbanded 01/04/03, responsibility taken up by HDC)*
British Potato Council (BPC)
Countryside Agency (CA)
English Nature (EN)
Environment Agency (EA)
Food from Britain (FFB)
Home Grown Cereals Authority (HGCA)
Horticultural Development Council (HDC)
Horticulture Research International (HRI)
Meat and Livestock Commission (MLC)
Milk Development Council (MDC)
National Forest Company
Royal Botanic Gardens, Kew (RBG KEW)
Sea Fish Industry Authority (SFIA)
Wine Standards Board (WSB)

Advisory NDPBs

Sugar Beet Research and Education Committee *(formally wound up 31/3/99, but White Paper Accounts until funds raised by statutory levy dispersed)*

Public corporations

British Waterways Board
Covent Garden Market Authority

Other bodies

British Wool Board
Joint Nature Conservation Committee
National Parks Authorities
National Broads Authorities
Regional Flood Defence Committees (Committees of the Environment Agency)

Printed in the UK by The Stationery Office Limited
On behalf of the Controller of Her Majesty's Stationery Office
01/04 019585 921055 162396

Published by TSO (The Stationery Office) and available from:

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Fax orders 0870 600 5533
Order through the Parliamentary Hotline *Lo-call* 0845 7 023474
Email book.orders@tso.co.uk
Textphone 0870 240 3701

TSO Shops
123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
0121 236 9696 Fax 0121 236 9699
9-21 Princess Street, Manchester M60 8AS
0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
18-19 High Street, Cardiff CF10 1PT
029 2039 5548 Fax 029 2038 4347
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders 020 7219 3866

TSO Accredited Agents
(See Yellow Pages)

and through good booksellers

ISBN 0-10-292676-X

9 780102 926767