Presented pursuant to the Government Resources and Accounts Act 2000, c.20, s.6

Department for Environment, Food and Rural Affairs

Resource Accounts 2003-04

LONDON: The Stationery Office
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(For the year ended 31 March 2004)

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Contents

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2004

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.

Entities within the Departmental accounting boundary

The entities within the Departmental accounting boundary during 2003-04 comprise the Core-Department, its Executive Agencies and Non-Departmental Public Bodies (NDPBs) as shown in Note 33 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 34 to the Accounts.

OPERATING AND FINANCIAL REVIEW

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 2003-04, the aim was underpinned by six objectives covering the span of the Department's responsibilities:

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

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

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

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

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

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

The Department's objectives for 2003-04 to 2005-06 were updated as part of the Spending Review (SR) 2002 settlement.

For 2002-03 the Department's objectives were as follows:

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.

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 liasing 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 2004 (Cm 6219) was published in April 2004. This provides an overview of Defra's key activities in 2003-04, sets out some of the key challenges for 2004-05 and outlines expenditure plans through to 2005-06.

In 2003 we published 'Our Strategy' setting out how Defra is aiming to deliver its commitments, agreed under the 2002 SR, for the environment, the farming and food industry and rural communities during 2003-04 to 2005-06. In November 2003, building on this and looking forward to the 2004 SR, Defra's Ministers agreed five strategic priorities for the Department under Defra's overall aim of promoting sustainable development. This Departmental Report sets out Defra's progress in delivering its aim and objectives, by reference to these strategic priorities:

- climate change and energy;
- sustainable consumption and production;
- natural resource protection;
- sustainable rural communities; and
- sustainable food and farming including animal health and welfare.

In addition, the Department recognises that a significant part of its work is concerned with preparedness for emergencies and contingencies. The Departmental Report also provides details of other areas of activity which support the Department in achieving its aim and objectives.

Events during the year

During 2003-04 Defra continued to make good progress across the range of areas for which it has responsibility and in particular those objectives set for it by the Prime Minister, which were to establish Defra as the leading voice in Government for sustainable development, environmental protection and the renewal of rural areas, including the future of the farming industry and to secure the trust and support of partners and stakeholders.

The Department continued to make good progress against the targets agreed under the 2002 SR. For example, Defra is on course to meet its Kyoto target and is moving towards our domestic commitment of cutting carbon dioxide (CO_2) emissions by 20% by 2010. The UK was the only Member State to meet the challenging deadline for transposing into national law the EU Emissions Trading Scheme, demonstrating its commitment to tackling climate change. In addition, the Department met its SR 2002 target to reduce fuel poverty in vulnerable households. From April 2001 to December 2003 over £470m was spent on installing insulation and heating measures, benefiting some 650,000 households.

Our focus on sustainable patterns of consumption and production is a far-reaching and ambitious agenda, for which there is no single, quick or easy solution. So we see the publication of *Changing Patterns: UK Government Framework for Sustainable Consumption and Production*, published in September 2003, as another important step in the process towards setting out the framework to achieve our aim of sustainable development.

In November 2002, Margaret Beckett, Secretary of State for Environment, Food and Rural Affairs, invited Lord Haskins to carry out an independent review of the arrangements for delivering government rural policies in England. Lord Haskins' report, which includes 33 separate recommendations for improving delivery of rural policies was published in November 2003. The Secretary of State set out the Government's initial response in a Parliamentary statement of the same date.

In February 2004 the Secretary of State announced the future shape of support for farmers in England under the reforms of the CAP, which were agreed in June 2003. The CAP reforms represent a major change, achieving the 'decoupling' of all main subsidies and production. They are consistent with the principles of the *Sustainable Food and Farming Strategy*, which we launched in 2002. The reforms will significantly change the way that farmers are supported, moving from the existing multiple scheme subsidy support system to a simpler One Single Payment scheme which rewards sustainable farming based on environmental criteria.

Investment for the future

Change programme

Defra is engaged in a major programme of change and modernisation. Our Change Programme brings together a series of initiatives that are designed to develop Defra into an innovative and high-performing Department, designed to improve our capacity to deliver the Department's objectives. This programme of change encompasses two main elements of work:

- internal enablers – the 'Developing Defra Change Programme'; and
- a wider programme of reform which brings together much of our work on improving delivery and on clarifying the relationship between policy and delivery.

Departmental Investment Strategy

Defra's *Departmental Investment Strategy* 2003-04 to 2005-06 describes the investment programmes planned for the 2002 SR and outlines the outcome of previous investment activity. An updated *Departmental Investment Strategy* will be produced following the 2004 SR process taking the strategy to 2007-08.

Learning and development

We are working to produce a strategy for Defra's corporate learning and development for 2004-05 to 2006-07 that will identify key capability gaps, define clear success measures for learning, linked to Defra's strategic priorities and clearly justify and encourage our investment in learning. We plan to develop the strategy further during 2004-05 to cover the wider Defra family and it will evolve over time to reflect changing priorities.

Defra has also been working to improve leadership capability within the Department through its Senior Management Leadership Development Programme (SMLDP), which was launched in July 2003. The programme aims to increase the leadership effectiveness of senior staff in Defra i.e. our Senior Civil Service and staff in Grades 7 and 6 who manage staff.

More detail on each of the above can be found in Defra's Departmental Report (Cm 6219, April 2004).

Financial review

Significant variances against Estimate

The outturn for the year compared to the Estimate shows a net underspend of £1,174.4m. This has resulted from corporate underspends, revaluation of provisions and minor under and overspends within the business units. During the course of 2003-04 Defra received £932.4m via a Supplementary Estimate to meet anticipated shortfall on the Environment Agency (EA) closed pension fund. Although adjustments totalling £865m have been made in the Accounts regarding the EA closed pension fund, only £116.3m of these impacted upon the final resource outturn.

Corporately, £144m was retained and not allocated to business areas as it was planned to be carried forward and utilised in 2004-05 to meet expected costs related to the Over Thirty Months Scheme (OTMS). The creation of the provision for the EA closed pension scheme resulted in cost of capital savings of £35.8m. Actual depreciation was £16m less than budget, due in part to the realignment of Modified Historical Cost Accounting (MHCA) indices to a new base year.

The Rural Payments Agency (RPA) generated underspends of £35m due to lower animal throughput and decreased costs for the OTMS. Greater than expected claims from large sugar producers offset savings in intervention costs within the beef and cereal markets.

Slippages and deferral of programmes were responsible for the majority of the minor underspends within Defra. There were some ongoing costs related to the 2001 outbreak of Foot and Mouth Disease (FMD), which were funded from provisions created in prior years.

Events since April 2004

In May 2004 the UK published the first phase of its plan to significantly reduce industrial emissions as part of an EU-wide carbon-trading scheme. The country's National Allocation Plan (NAP) for CO_2 emissions was submitted to the European Commission (EC) on 30 April and will join the domestic plans of other Member States under the European Union Emissions Trading Scheme (EU ETS). The UK's plan will put the country on course to exceed its Kyoto targets and move towards its domestic goal of a 20% reduction of 1990 CO_2 emissions levels by 2010. The NAP sets out how emission allowances will be allocated to the affected UK industry sectors for the first phase of the EU ETS which runs from 2005-06 to 2006-07.

In July 2004 the Secretary of State, Margaret Beckett, announced the Government's Rural Strategy 2004 which explains our new approach to policy and delivery – based on targeting the greatest needs and working in partnership at national, regional and local level. The Rural Strategy 2004 sets out our rural policy for the next 3-5 years and describes how we will reform delivery arrangements to deliver to our customers in the most effective and efficient way. The future delivery arrangements are based on Defra's *Delivery Strategy* principles of devolving delivery and empowering front line staff.

The Secretary of State also announced further measures concerning the implementation of the decoupled Single Payment in England. These include measures to promote more environment-friendly and sustainable farming to go alongside the reduction in red tape and boost to farm incomes that CAP reform will deliver. As part of the reform, farmers in England sharing some £1.7 billion of payments under the CAP will have to meet new 'cross-compliance' standards designed to protect the environment, animal health and welfare, public health and plant health. The Secretary of State has decided upon a series of practical cross-compliance measures that will set a new baseline standard for environmental performance for agriculture. They will help contribute to a number of the Government's objectives set out in the *Strategy for Sustainable Farming and Food* by protecting soils, wildlife habitats and the landscape.

Also in July 2004 details of Defra's settlement under the 2004 SR were announced. As part of the SR settlement Defra has announced its Public Service Agreement (PSA) for 2005-06 to 2007-08 setting out the new Departmental PSA targets. The PSA targets have been developed in the context of the Department's five strategic priorities. The targets set out some of the key spending areas for the Department over the SR period, provide a clear statement of what we want to achieve in these areas and link resources to published, targeted outcomes. The settlement also includes efficiency targets for Defra, amongst which is a reduction of around 2,400 posts within the Core-Department and Executive Agencies and a relocation of up to 390 posts out of London and the South East.

MANAGEMENT

Ministers

The Ministers who had responsibility for the Department from June 2003 were:

Secretary of State: 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): 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 RPA, access, rights of way and commons, national parks, horse issues, general oversight of the England Rural Development Programme (ERDP), local environment quality issues, environmental liability, pesticides policy (including Pesticides Safety Directorate), chemicals and lead Defra Minister on Planning, Regional and Local Government issues.

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 (GMOs), policy on agri-environment including relevant 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 (SSSIs) 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) (Farming, Food and Sustainable Energy): Lord Whitty of Camberwell

Responsible for sustainable farming (including horticulture), 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 Gardens, Horticulture Research International, Covent Garden Market Authority, Smart Regulation and Departmental Green Minister.

Ministerial responsibilities up to June 2003:

Secretary of State: 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): Rt Hon Michael Meacher MP

Responsible for climate change, horizontal and international environmental issues, GMOs, plant health, plant variety rights and seeds, Agri-environment, non-food crops, organics, chemicals, waste (including radioactive waste and incineration issues), (chair of Green Ministers (ENV(G))), business and the environment, the EA.

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

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

Parliamentary 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, floods, forestry, animal health and welfare (including the Veterinary Laboratories Agency and Veterinary Medicines Directorate).

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

Responsible for sustainable farming (including horticulture) and the food industry CAP, trade issues, science issues (including the Central Science Laboratory), 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 2003-04:

Sir Brian Bender	Permanent Secretary
Bill Stow	Director General: Environment
Andy Lebrecht	Director General: Food, Farming and Fisheries
Anna Walker (until 27 January 2004)	Director General: Land Use and Rural Affairs
Donald Macrae	Solicitor and Director General: Legal Services
Mark Addison	Director General: Operations and Service Delivery
Professor Howard Dalton	Chief Scientific Advisor
Dr Debby Reynolds (from 22 March 2004) Jim Scudamore (until 22 March 2004)	Chief Veterinary Officer and Director General: Animal Health and Welfare Directorate
Andrew Burchell	Finance Director: Finance, Planning and Resources Directorate
Francesca Okosi	Director: Policy and Corporate Strategy Unit
Lucian Hudson	Communications Director

The responsibilities of Anna Walker, the Director General: Land Use and Rural Affairs were carried out by 4 Directors within the Directorate General until Ursula Brennan started on 19 April 2004.

Non-executive members of the Management Board:

Bill Griffiths (Alison Huxtable left in November 2003)

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 Steven Edwards	Veterinary Laboratories Agency (VLA)
Steve Dean	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.

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. In addition, the Department also operates the 'Two Ticks' scheme whereby disabled job applicants are guaranteed an interview if they meet the minimum criteria for that job.

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 age, disability, sex or ethnic origin. Staff have access to welfare facilities, Trade Union membership and representation. In addition there are also several staff networks that help develop policy 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 second staff survey was held in January 2004 and included everyone in the Core-Department. Its purpose was to measure and understand staff attitudes and opinions on key issues and identify what aspects of work people at Defra find motivating or frustrating;
- in June 2003 Defra was once again awarded its Investors in People accreditation 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 94.61%. The total number of supplier invoices paid during the year was 167,572, with 158,543 paid on time. No interest was payable on late payments (2002-03 £Nil).

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 **25 October 2004**

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

The Department is required to prepare Resource Accounts for the year ended 31 March 2004 in accordance with the Resource Accounting Manual (RAM) 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 Principal Accounting Officer appoints Chief Executives of Executive Agencies as Agency Accounting Officers.

In preparing the Accounts, the Accounting Officer is required to comply with the RAM 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 RAM, have been followed and disclose and explain any material departures in the Accounts;
- prepare the 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's 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, aim 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 aim and objectives in partnership with its Agencies, NDPBs, public corporations and other bodies funded by the Department. The delegated authorities and accountabilities that apply to Defra's relationship with these bodies are described in Accounting Officer letters, Framework documents, Management Statements, Financial Memoranda and other documents applicable to each body. Accounting Officers for Defra's Agencies and sponsored public bodies are appointed in accordance with the requirements of *Government Accounting*. Each Accounting Officer, Chief Executive and Board is responsible for the maintenance and operation of a system of internal control relevant to the body and where appropriate is required to sign a statement on internal control which is reproduced in the body's accounts. These statements contribute to the assurances supporting Defra's own statement on internal control.

Ministers are regularly involved in major policy and implementation decisions (in which delivery risk is an important consideration) and take specific briefings on our emergency preparedness for responding to some of our key risks.

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, aim 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, aim and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has continued to develop during the year, up to the date of approval of the annual report and accounts and accords with HM Treasury guidance.

Capacity to handle risk

Defra's Management Board provides the strategic lead on risk management. Risk has been on the Management Board's agenda regularly, both in terms of the policy areas being discussed and, more formally, in its review of the action plans supporting Defra's Top Threats – the key strategic risks, for which individual Board members take the lead. These are also reviewed as part of Defra's Balanced Scorecard.

Defra is heavily engaged with HM Treasury in improving Government's handling of risk and I am an active member of the Implementation Steering Group of the Risk Programme, led by Sir David Omand.

Leading the work on enhancing the capacity of the Department to deliver is of primary interest to the Management Board. I have recently established a Performance and Improvement Committee (a sub-committee of the Management Board) to ensure that we have coherence and efficacy within Defra's Change Portfolio (including having mapping, monitoring and decision-taking arrangements in place) and ensure that the key programmes in Defra's Delivery Portfolio have access to the right people at the right time, so that we have the flexibility to react rapidly.

Training in risk management has been an integral part of the roll-out of Programme and Project Management (PPM). The latter is continuing, reflecting the fact that more and more of the Department's business is being run on PPM grounds. Individual training has also occurred throughout the year, as business areas have consulted the Department's full-time Risk Co-ordinator for advice on specific issues. The Risk Co-ordinator hosts a risk management site on the Department's intranet, which acts as the focal point for written advice, guidance and good practice on risk management. We have tapped into emerging good practice from other Departments via our involvement in the central Risk Programme (particularly in terms of using their recommended self-assessment tool (the Risk Management Assessment Framework)) and have linked up with British Petroleum (BP) to broadcast their approach to risk management at a seminar for staff.

The risk and control framework

Much of Defra's work involves understanding and anticipating risks and putting credible contingency plans in place. It includes assessing the risks posed to people and the environment by factors such as: pollutants, climate change, agricultural pesticides, veterinary products, novel crops such as GMs, flooding and animal and plant disease. Our main risk priorities have revolved around policy development and project implementation.

Our approach to risk management is set out in Defra's Risk Management Strategy (April 2002), which describes where we want to be over a 5 year period. Risks are identified and addressed at all levels in the organisation, from the strategic down to project level. Directorates and programmes capture information on known risks on local risk registers (which include details of counter-measures, contingencies and residual risk) and escalate concerns up the management chain as appropriate. The Department's Balanced Scorecard acts as the focal point for summarising much of this information: the various traffic lights that show the state of play for each of the scorecard measures, our top programmes, our PSA targets and our Top Threats, are all informed by local assessments of risk.

As the key areas of the Department's business are increasingly being run on PPM grounds, this is helping us adopt a more structured approach to the appraisal, review and escalation of risk (through projects and workstreams and up to the Senior Responsible Owner), with Programme Boards reviewing the cross-cutting risks to the programme. It is also helping us to improve the risk relationship with delivery partners and a number of the major Programme Boards now have external partners as board members. Programme Boards (and the Management Board) are also developing their ability to understand their risk profile and give strategic guidance on what is acceptable.

Much of the Department's business is delivered by its Agencies and NDPBs who have developed their own risk and control strategies. These bodies deal with a number of major risks, which are top threats for the Department as a whole. A key example is the RPA's involvement in the delivery of the CAP Reform Programme where threats include insufficient control of costs and the reputational damage of failure to implement CAP reform effectively in time. In order to manage such cross-cutting risks the Department is adopting the PPM approach referred to above and has put in place governance arrangements such as the Executive Review Group on CAP reform which I chair. In addition a member of Defra's Management Board has overall responsibility for managing this top threat through an action plan agreed with the RPA and reports on this to the Board.

Another key risk for Defra is our ability to react to ensure that emergencies are handled effectively. During the period the Department carried out testing on several areas of its contingency planning. Exercise Hornbeam was a national exercise to test our plans to control a future outbreak of FMD. The 2 day exercise was designed to create a realistic and challenging environment and involved more than 500 people from Defra, other government departments and our operational partners. The State Veterinary Service (SVS) will publish a report on lessons learned later this year. Other testing included plans to deal with a national scale flood and to ensure continuity of Defra's operations in the event of major catastrophic events. The Department also has a programme to ensure that it has a full set of up-to-date Emergency Plans for its Lead Government Department responsibilities.

A third major risk is the ability to manage a series of major change programme across the Department whilst maintaining delivery of the Department's major priorities. This risk is being managed through the PPM process (being used for example in the implementation of Defra's major IT improvement programme) and I have taken direct responsibility for this as a top threat at Management Board level. Delivery of Defra's main priorities is being monitored through a delivery self-assessment process at Board level and the use of other tools such as the Balanced Scorecard. The Board is also overseeing the coherence of the change programmes and the interactions between the "big ticket" items.

We regularly consult public stakeholders via normal channels, as policy proposals are being developed. Additionally, information on specific risks is available through Defra's website, particularly around managing risks related to plant and animal diseases.

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

Key aspects of the processes applied by the Department in maintaining, reviewing and developing the effectiveness of the system of internal control and plans for further improvements in these systems are described below.

Management Board

Defra's Management Board provides strategic leadership for the Department with the emphasis on robust planning, performance, governance and the management of Defra's Top Threats. The Board is chaired by me and comprises the senior staff of the Department and three non-executive members. It meets monthly and minutes of the meetings are published on Defra's intranet. Following a review of our governance structure the Management Board is now supported by three key groups dealing with Strategy, Corporate Resources and Performance and Improvement. During the period the Management Board has also been developing use of a Balanced Scorecard as a strategic performance management tool. The overall purpose of the Scorecard is to enable the Board and Ministers to maintain oversight of the Department's performance. It does this by showing our progress against strategic priorities and key programmes and projects and highlighting issues which may influence our future success. The Scorecard focuses on four areas: Results – Defra's outcomes and objectives; Customers and stakeholders – Defra's relationships and ability to work with other organisations; Processes – Defra's internal processes that are key to sustaining an effective organisation (e.g. quality of policy formulation, effectiveness of landscape/delivery bodies, effectiveness of IT services, quality of risk management, effectiveness of financial management, quality of programme management, extent to which policies are evidence-based, holistic approach to regulation); People, knowledge and culture – the workforce, culture and support mechanisms that are essential to develop a productive organisation. The Management Board reviews this information on a quarterly basis and use of this tool is being extended to Directorate and Divisional level. We are also developing more robust in-year stewardship reporting arrangements linking strategy, business planning, delivery and performance.

Financial control

Financial control in Defra is based on a system of delegation and accountability supported by regular management information, financial regulations and procedures. Budgets are formally delegated by me to Director Generals and other executive Management Board members as budget holders. They are then sub-delegated to Directors and further to Heads of Division who form the main budget management focus. This is to ensure that control over forecasting and spending is conducted at a level where policy and business drivers for spend are well understood. A letter formally delegating budgets to budget holders sets out their responsibilities for effective financial management and Directors are required to provide Stewardship Reports to the Board after the year end. Budgets delegated by the Management Board are integrated with the Business plans for delivery of the Department's PSA and objectives.

The Management Board formally reviews budgets against spend and forecasts in July, October and January and decides on adjustments in line with delivery priorities agreed with Ministers and associated assessments of risk. Budget holders are also asked to provide updates to the fixed assets records twice a year. The Stewardship reporting process includes in-year reporting and forecasting relative to spend, budget and profile. After the year end the Stewardship Reports to the Management Board provide explanations for significant variance of outturn against budget and reports on assets for which the budget holder is responsible. This, together with the Analytical Review of expenditure also provides supporting evidence for the audit of the Accounts by the National Audit Office (NAO).

Improvements in financial control

Having received an audit qualification on its 2001-02 Accounts, Defra achieved an unqualified audit report from the Comptroller and Auditor General for the 2002-03 Accounts. The Comptroller and Auditor General in his 2002-03 report noted the progress made on resource accounting and budgeting so far but identified a number of control weaknesses and some of the steps the Department had taken to address these. The paragraphs below outline further progress made by the Department:

Firstly, in response to problems in allocating expenditure between the Department's two Request for Resources and the difficulties in monitoring expenditure against the Supply Estimates, the Department has consolidated the Estimate into one Request for Resource; introduced a comprehensive monthly finance report to the Management Board covering the whole of the Department and its Agencies; introduced quarterly in-year review and forecasting exercises with an internal challenge process to ensure that they are robust; and worked more closely with the RPA and our other Agencies on in-year finance issues of mutual interest.

Secondly, on the issue of unplanned prior year adjustments by Defra's Agencies, which could result in an Excess Vote if appropriate provision was not requested in the Supply Estimates, the Department has strengthened its liaison and communication with its Agencies.

Thirdly, in order to help improve the understanding and involvement of senior managers in financial management, the Management Board finance reports have been redesigned to place emphasis on both the Parliamentary and HM Treasury targets. The role of the Audit and Risk Committee has been strengthened to provide advice to the Accounting Officer on the format and quality of the draft accounts. These specific actions are being backed up by our 'Fit for Purpose' Finance Function initiative to ensure that senior budget managers understand their responsibilities as budget holders and can exercise proper stewardship of the funds under their control. Ultimately we look to managers to understand how they can control delivery of organisational aim and objectives through pro-active management of financial resources.

Fourthly, the Comptroller and Auditor General commented on the variable quality of in-year monitoring of expenditure across the Department and the relevance of this issue has been emphasised by the fact that Defra's forecast of final expenditure in January 2004 was significantly higher than the final outturn. To improve this, the importance of scrutiny and correction of errors has been underlined in training provided to staff. Finance are working with business areas to underline the importance of good communication of budget changes and better challenge of forecasts. Additionally, implementation of an integrated financial system during 2004-05, merging the budgeting and cost-recording systems into one, should significantly reduce the risk of mispostings going uncorrected. Improvements include stronger input controls and the ability to drill down from high-level budget/outturn reports into individual transactions.

Other planned measures to strengthen financial management include: continuing in 2004-05 and beyond a major programme of financial management training to raise skill levels and financial awareness; updating guidance for staff in the Finance Manual and Financial Management Framework; developing a coherent strategy to manage the risk of fraud in accordance with HM Treasury guidance and providing guidance to staff on fraud response planning; and including assets, revaluation costs and cash management as part of in-year reviews. Defra is also developing a budgeting framework which sets 3 year budgets to reflect the SR process and provide more certainty for planning purposes.

Audit and Risk Committee

The Audit and Risk Committee is a sub-committee of the Management Board. It is chaired by a non-executive member of the Board and has two other non-executive members. It has met 8 times during the year to date and considers the adequacy of audit arrangements (internal and external) and provides strategic oversight and challenge to assurances and reports from Internal Audit, the NAO and others on our risk management, control and governance processes. Over the year the Committee has developed the extent of its scrutiny of the accounts and is also taking steps to enhance links with the Audit and Risk Committees of our Agencies and NDPBs.

Defra Internal Audit reports to the Committee on an agreed programme of audits and the Head of Internal Audit provides an independent assurance to the Audit and Risk Committee and myself as Accounting Officer on the adequacy and effectiveness of the Department's risk management, control and governance processes, together with recommendations for improvement. Internal Audit also reviews assurances from other delivery agents and partners in the Defra family, including its Agencies and NDPBs. Internal Audit operates to Government Internal Audit Standards and during the year was subject to an external quality assurance review. A plan of actions responding to the recommendations from the review have been agreed with the Committee.

The Departmental Risk Co-ordinator reports to the Audit and Risk Committee and Board on the implementation of our Risk Management Strategy. As part of the annual assurance process, we have conducted a review of the maturity of our risk management (using the Risk Management Assessment Framework) in the Core-Department. This has given us helpful information on the variation of maturity and allowed us to identify the following areas for continuing development: being more systematic about our engagement with Ministers; oversight of the change and delivery portfolios; the risk relationship with our delivery partners; and providing risk support in key business areas (particularly in the context of business planning).

Other reviews and assurances

Other assurances provided on the system of internal control have included self-assessments by Directors and Director Generals on Corporate Governance, reviews and assurances on Emergency & Continuity Planning in the Department and reports from the Department's Health and Safety and Security Units. We have also taken into account Statements on Internal Control from the Department's Agencies and NDPBs and there are no reported significant control issues in these bodies.

In order to ensure that we focus on the outcomes the Department is seeking to achieve, work is organised on a mixture of a PPM basis (with individual Senior Responsible Owners and Project Managers with clear accountabilities) and line/functional management (with senior managers ensuring that the staff under their direct responsibility work effectively with colleagues across the Department and outside). This arrangement increasingly involves the application of formal PPM disciplines, including use of the OGC Gateway process. Defra has established a Centre of Excellence (under the Programme and Project Management Unit) to ensure the successful delivery of programmes and projects – the Unit also provides assurance through health checks on mission-critical programmes and projects and provides reports to the Management Board.

Defra is continuing a broad-based change process to improve delivery which is being driven through a number of key programmes. As part of the 2004 SR Defra is also committed to efficiency targets linked to the Gershon and Lyons reviews and which build on Defra's Delivery Strategy and other change and review activities under way across the Defra family. The major targets are to achieve a reduction of around 2,400 jobs and relocation of 390 posts out of the South East.

Most of the efficiencies will be achieved through existing change programmes, such as restructuring and streamlining the work of the RPA and rationalising Defra corporate services in Finance, IT and Human Resources. Under the Delivery Strategy we aim to improve our effectiveness through greater clarity in the relationship between policy and delivery and by matching delivery to customer requirements. Implementation has included merging the British Cattle Movement Service (BCMS) with RPA and transfer of delivery functions to the Rural Development Service. Further plans include the establishment of the SVS as an Agency and, following the Haskins review, the rationalisation of delivery under the Modernising Rural Development Programme.

Sir Brian Bender
Accounting Officer for the Department for Environment, Food and Rural Affairs **25 October 2004**

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 22 to 69 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 31 to 35.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 13, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM 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 regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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 HM 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 14 to 19 reflects the Department's compliance with HM Treasury's guidance *Statement on Internal Control*. I report if it does not meet the requirements specified by HM Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

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 2004 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 HM 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

25 October 2004

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

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

SCHEDULE 1

Consolidated Summary of Resources Outturn

for the year ended 31 March 2004

	2003-04							2002-03
	Estimate			Outturn				
	Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total	Net total outturn compared with Estimate saving/ (excess)	Prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1*	6,904,629	3,107,027	**3,797,602**	5,711,651	3,088,496	**2,623,155**	**1,174,447**	2,172,530
Request for Resources 2	–	–	–	–	–	–	–	359,719
Total resources (Note 7)	**6,904,629**	**3,107,027**	3,797,602	**5,711,651**	**3,088,496**	2,623,155	1,174,447	2,532,249
Non-operating cost A-in-A (Note 6.C.)			**20,532**			**18,892**	**1,640**	5,966
Net cash requirement (Schedule 4)			**3,305,953**			**2,600,210**	**705,743**	2,552,223

Summary of income payable to the Consolidated Fund

In addition to Appropriations-in-Aid (A-in-A) the following income relates to the Department and is payable to the Consolidated Fund:

(cash receipts are shown in italics)

	Note	2003-04 Forecast Income	2003-04 Forecast *Receipts*	2003-04 Outturn Income	2003-04 Outturn *Receipts*
		£000	£000	£000	£000
Total	5	**22,764**	***25,974***	**48,032**	***48,001***

*A provision has been created to cover the remaining liabilities of the EA closed pension scheme (see Note 18.B.)

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

The outturn was significantly lower than the Estimate. This was due to planned corporate underspends as well as relatively small under and overspends within business units together with anticipated resources not being required.

Corporately, £144m was retained to carry forward to 2004-05. It was anticipated that programme requirements arising from the Over Thirty Months Scheme (OTMS) would require £95m and further pressures throughout the organisation requiring £49m. Defra also carried forward £95m to fund payments under the EA closed pension scheme. During the course of 2003-04 Defra received £932.4m via a supplementary Estimate to meet anticipated shortfall on the EA closed pension fund. As a result of information which became available after the Estimate was requested, only £116.3m was utilised against the Estimate. This represents the costs of the EA closed pension scheme from 2001-02 to 2003-04 in accordance with HM Treasury guidelines. Although a further £748.7m of net adjustments relating to the pension scheme have been included in the Accounts, these have been made against the general fund and did not impact upon the final Request for Resources. As a consequence of the creation of the provision for the EA's closed pension fund savings of £35.8m in cost of capital charges against budget were generated. In addition, a realignment of the MHCA indices to a new base year led to savings in depreciation of £16m.

RPA generated underspends of £35m due to lower animal throughput and decreased costs for the OTMS. Claims from large sugar producers were greater than expected, offsetting savings in intervention costs within the beef and cereal markets.

Slippage, deferral and late funding of programmes were responsible for £19m of the remaining underspend within Defra with transfers to provisions accounting for the remainder.

SCHEDULE 1 (continued)

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

In addition to the variation between Estimate and outturn for net total resources:

It was anticipated that an increase in working capital would be in the vicinity of £290m, however there were significant increases in EU creditors (£122.5m) and accruals (£86.1m) which were not fully anticipated in the Estimate. Other variances to Estimate include less than expected utilisation of provisions (£37.4m) and acquisition of fixed assets (£59.7m).

As a result of implementing the requirements of Financial Reporting Standard (FRS) 17 regarding deficits on pension funds, a prior year charge was posted to the provision. This was accounted for as a non-cash item in the 2003-04 Estimate and a prior year adjustment in the outturn.

Reconciliation of resources to cash requirement

			2003-04		2002-03
		Estimate	**Outturn**	**Net total outturn compared with Estimate saving/ (excess)**	Prior year outturn
	Note	£000	£000	£000	£000
Net total resources	7	**3,797,602**	**2,623,155**	**1,174,447**	2,532,249
Capital:					
Acquisition of fixed assets					
Cash purchase	10	188,894	129,190	59,704	94,640
Non-operating cost A-in-A					
(Proceeds of fixed asset disposals)	6.C.	(20,532)	(18,892)	(1,640)	(5,966)
Accruals adjustments:					
Non-cash items	3	(1,060,904)	(155,803)	(905,101)	(119,941)
Changes in working capital other than cash	13	290,893	22,811	268,082	(78,419)
Changes in creditors falling due after more than one year	17	–	3,248	(3,248)	(6,586)
Use of provisions	18.A.	110,000	72,563	37,437	130,593
Prior year adjustments*	32	–	(76,062)	76,062	5,653
Net cash requirement (Schedule 4)		**3,305,953**	**2,600,210**	**705,743**	2,552,223

*The current year's figure for total resource outturn has been decreased by £76,062,000, due to a prior year adjustment relating to the creation of a provision to cover the remaining liabilities of the EA closed pension fund. This comprises £37,700,000 for 2002-03 (see Note 18.B.) and £38,362,000 relating to 2001-02.

Non-operating cost A-in-A of £5,966,000 in 2002-03 relates to the net book value of fixed asset disposals. The 2003-04 corresponding figure of £18,892,000 relates to proceeds of fixed asset disposals as redefined by the RAM.

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. Funding aspects of the CAP and England Rural Development Plan Guarantee Section as economically, efficiently and effectively as possible.

In 2002-03 Request for Resources were split as follows:

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 CAP and England Rural Development Plan Guarantee Section as economically, efficiently and effectively as possible.

The Notes on pages 31 to 69 form part of these accounts.

SCHEDULE 2

Consolidated Operating Cost Statement
for the year ended 31 March 2004

	Note	2003-04 £000	2003-04 £000	Restated 2002-03 £000	Restated 2002-03 £000
Administration costs					
Staff costs	2.A.	234,162		221,389	
Other administration costs	3	250,112		235,441	
Gross administration costs			**484,274**		456,830
Operating income	6.A.	(51,753)		(47,487)	
Net administration costs			**432,521**		409,343
Programme costs					
Request for Resources 1					
Expenditure	4	4,874,783		1,607,991	
Less: income[1]	6.A.	(3,098,971)		(89,183)	
			1,775,812		1,518,808
Frontline Services					
Staff costs	2.A. & 4	174,672		159,642	
Other costs	4	122,506		71,240	
Less: income	6.A.	(3,265)		(2,836)	
			293,913		228,046
Request for Resources 2					
Expenditure	4	–		2,850,955	
Less: income[1]	6.A.	–		(2,627,397)	
			–		223,558
Net programme costs	4		**2,069,725**		1,970,412
Net operating cost[2]	7 & 8		**2,502,246**		2,379,755
Net resource outturn	7 & 8		**2,623,155**		2,532,249

of which:
[1] £3,009,090,000 – relates to payments for which Defra acts as an agent for the EU in making payments to third parties (2002-03 £2,620,150,000).
[2] £18,615,530 – relates to EU receipts, which are treated as negative public expenditure and reduce the burden on the UK Exchequer (2002-03 £6,174,000).

All income and expenditure is derived from continuing operations. For details of the prior year restated figures refer to Note 32.

Consolidated Statement of Recognised Gains and Losses
for the year ended 31 March 2004

	2003-04 £000	2002-03 £000
Net gain on revaluation of tangible fixed assets	65,612	38,088
Net gain/(loss) on revaluation of investments	71	(18)
Actuarial loss	(136,600)	–
Recognised gains and losses for the financial year	**(70,917)**	38,070
Prior year adjustments	(662,100)	(5,653)
Recognised gains and losses since last annual report	**(733,017)**	32,417

For details of the prior year restated figures refer to Note 32.

The Notes on pages 31 to 69 form part of these accounts.

SCHEDULE 2 (continued)

Core-Department Operating Cost Statement
for the year ended 31 March 2004

	Note	2003-04 £000	2003-04 £000	Restated 2002-03 £000	Restated 2002-03 £000
Administration costs					
Staff costs	2.A.	151,911		146,130	
Other administration costs	3	148,693		139,615	
Gross administration costs			**300,604**		285,745
Operating income	6.A.	(35,018)		(39,860)	
Net administration costs			**265,586**		245,885
Programme costs					
Request for Resources 1					
Expenditure	4	1,595,958		1,579,074	
Less: income	6.A.	(65,968)		(35,376)	
			1,529,990		1,543,698
Frontline Services					
Staff costs	2.A. & 4	84,083		79,100	
Other costs	4	21,850		18,301	
Less: income	6.A.	(2,926)		(2,215)	
			103,007		95,186
Net programme costs	4		**1,632,997**		1,638,884
Net operating cost[1]	7		**1,898,583**		1,884,769
Net resource outturn	7		**1,997,020**		1,847,069

of which:
[1] £18,615,530 – relates to EU receipts, which are treated as negative public expenditure and reduce the burden on the UK Exchequer. (2002-03 £6,174,000)

All income and expenditure is derived from continuing operations. For details of the prior year restated figures refer to Note 32.

Core-Department Statement of Recognised Gains and Losses
for the year ended 31 March 2004

	2003-04 £000	2002-03 £000
Net gain on revaluation of tangible fixed assets	17,876	6,158
Net gain/(loss) on revaluation of investments	71	(18)
Actuarial loss	(136,600)	–
Recognised gains and losses for the financial year	**(118,653)**	6,140
Prior year adjustments	(662,100)	–
Recognised gains and losses since last annual report	**(780,753)**	6,140

For details of the prior year restated figures refer to Note 32.

The Notes on pages 31 to 69 form part of these accounts.

SCHEDULE 3

Consolidated Balance Sheet
as at 31 March 2004

	Note	31 March 2004 £000	31 March 2004 £000	Restated 31 March 2003 £000	Restated 31 March 2003 £000
Fixed assets:					
Tangible assets	11.A.	741,239		598,839	
Intangible assets	11.B.	12,874		5,569	
Investments	12	15,665		16,194	
			769,778		620,602
Debtors falling due after more than one year	15		**10,090**		12,907
Current assets:					
Stocks	14	61,892		45,219	
Debtors	15	814,229		641,764	
Cash at bank and in hand	16	97,361		717,198	
		973,482		1,404,181	
Creditors (amounts falling due within one year)	17	(943,858)		(1,377,696)	
Net current assets/(liabilities)			**29,624**		26,485
Total assets less current liabilities			**809,492**		659,994
Creditors (amounts falling due after one year)	17	(37,968)		(41,816)	
Provisions for liabilities and charges	18.A.	(211,935)		(237,947)	
Pension Liability	18.B.	(826,600)		(662,100)	
			(1,076,503)		(941,863)
			(267,011)		(281,869)
Taxpayers' equity:					
General fund	25	(440,843)		(392,997)	
Revaluation reserve	19	173,832		111,128	
			(267,011)		(281,869)

Sir Brian Bender
Accounting Officer for the Department for Environment, Food and Rural Affairs **25 October 2004**

For details of the prior year restated figures refer to Note 32.

The Notes on pages 31 to 69 form part of these accounts.

SCHEDULE 3 (continued)

Core-Department Balance Sheet
as at 31 March 2004

	Note	31 March 2004 £000	31 March 2004 £000	Restated 31 March 2003 £000	Restated 31 March 2003 £000
Fixed assets:					
Tangible assets	11.A.	277,828		220,448	
Intangible assets	11.B.	8,061		3,428	
Investments	12	15,515		16,044	
			301,404		239,920
Debtors falling due after more than one year	15		**511**		604
Current assets:					
Stocks	14	–		–	
Debtors	15	99,727		709,825	
Cash at bank and in hand	16	1,274		166,735	
		101,001		876,560	
Creditors (amounts falling due within one year)	17	(365,061)		(914,340)	
Net current assets/(liabilities)			**(264,060)**		(37,780)
Total assets less current liabilities			**37,855**		202,744
Creditors (amounts falling due after one year)	17	(21,065)		(21,665)	
Provisions for liabilities and charges	18.A.	(182,910)		(194,833)	
Pension Liability	18.B.	(826,600)		(662,100)	
			(1,030,575)		(878,598)
			(992,720)		(675,854)
Taxpayers' equity:					
General fund	25	(1,055,684)		(720,947)	
Revaluation reserve	19	62,964		45,093	
			(992,720)		(675,854)

Sir Brian Bender
Accounting Officer for the Department for Environment, Food and Rural Affairs **25 October 2004**

For details of the prior year restated figures refer to Note 32.

The Notes on pages 31 to 69 form part of these accounts.

SCHEDULE 4

Consolidated Cash Flow Statement
for year ended 31 March 2004

	2003-04	Restated 2002-03
	£000	£000
Net cash outflow from operating activities *(Note i)*	**(2,445,127)**	(2,262,273)
Capital expenditure and financial investment *(Note ii)*	**(110,298)**	(86,761)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	**3,143**	6,604
Payments of amounts due to the Consolidated Fund	**(236,333)**	(254,081)
Financing *(Note iii)*	**2,168,778**	2,907,693
Increase/(decrease) in cash in the period	**(619,837)**	311,182

Notes to the cash flow statement

Note i: Reconciliation of operating cost to operating cash flows		
Net operating cost	**2,502,246**	2,379,755
Adjust for non-cash transactions (Note 3a)	(152,555)	(164,903)
Adjust for movements in working capital other than cash (Note 13)	22,873	(83,172)
Use of provisions	72,563	130,593
Net cash outflow from operating activities	**2,445,127**	2,262,273
Note ii: Analysis of capital expenditure and financial investment		
Tangible fixed asset additions	121,621	93,137
Intangible fixed asset additions	7,569	1,503
Proceeds of disposal of fixed assets	(18,892)	(7,879)
Net cash outflow from investing activities	**110,298**	86,761
Note iii: Analysis of financing and reconciliation to the net cash requirement		
From Consolidated Fund (Supply): current year #	2,692,475	3,075,699
From Consolidated Fund (Supply): prior year *	(523,476)	(168,006)
Additional Income	(221)	–
Net financing	**2,168,778**	2,907,693
(Increase)/decrease in cash	619,837	(311,182)
Net cash flows other than financing	**2,788,615**	2,596,511
Adjustment for payments and receipts not related to Supply		
Amounts due to the Consolidated Fund received in prior year and paid over	(191,374)	(220,686)
Amounts due to the Consolidated Fund received and not paid over	2,969	176,398
NLF loans – interest received from other bodies	1,691	1,891
NLF loans – interest paid to the NLF	(1,691)	(1,891)
Net cash requirement (Schedule 1)	**2,600,210**	2,552,223

Amount of grant actually issued to support the net cash requirement was £2,692,475,000.00 (2002-03 £3,075,699,000.00).

* Amount of grant actually issued to support the prior year net cash requirement was £523,476,010.31 (2002-03 £168,006,303.21).

In addition to £2,969,000 in year receipts due to the Consolidated Fund and not paid over, Defra holds £2,127,000 prior year receipts, also due to the Consolidated Fund.

For details of the prior year restated figures refer to Note 32.

The Notes on pages 31 to 69 form part of these accounts.

SCHEDULE 4 (continued)

Core-Department Cash Flow Statement
for year ended 31 March 2004

	2003-04	Restated 2002-03
	£000	£000
Net cash outflow from operating activities *(Note i)*	**(1,251,387)**	(2,343,485)
Capital expenditure and financial investment *(Note ii)*	**(41,557)**	(47,701)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	**3,143**	4,630
Payments of amounts due to the Consolidated Fund	**(186,409)**	(221,735)
Financing *(Note iii)*	**1,310,749**	2,456,730
Increase/(decrease) in cash in the period	**(165,461)**	(151,561)

Notes to the cash flow statement

Note i: Reconciliation of operating cost to operating cash flows

	2003-04	2002-03
Net operating cost	**1,898,583**	1,884,769
Adjust for non-cash transactions (Note 3a)	(62,939)	(74,204)
Adjust for movements in working capital other than cash (Note 13)	(638,160)	426,162
Use of provisions	53,903	106,758
Net cash outflow from operating activities	**1,251,387**	2,343,485

Note ii: Analysis of capital expenditure and financial investment

	2003-04	2002-03
Tangible fixed asset additions	53,613	55,107
Intangible fixed asset additions	4,172	209
Proceeds of disposal of fixed assets	(16,228)	(7,615)
Net cash outflow from investing activities	**41,557**	47,701

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

	2003-04	2002-03
From Consolidated Fund (Supply): current year #	2,692,475	3,075,699
From Consolidated Fund (Supply): prior year *	(523,476)	(168,006)
Movement in Agency funding**	(858,250)	(422,245)
Transfer to(–)/from (+) department in respect of transferred function RPA	–	(28,718)
Net financing	**1,310,749**	2,456,730
(Increase)/decrease in cash	165,461	151,561
Net cash flows other than financing	**1,476,210**	2,608,291
Adjustment for payments and receipts not related to Supply		
Amounts due to the Consolidated Fund received in prior year and paid over	(161,672)	(218,795)
Amounts due to the Consolidated Fund received and not paid over	781	1,690
NLF loans – interest received from other bodies	1,691	1,891
NLF loans – interest paid to the NLF	(1,691)	(1,891)
Transfer to(+)/from (–) department in respect of transferred function RPA	–	28,718
Net cash requirement	**1,315,319**	2,419,904

Amount of grant actually issued to support the net cash requirement was £2,692,475,000.00 (2002-03 £3,075,699,000.00).

* Amount of grant actually issued to support the prior year net cash requirement was £523,476,010.31 (2002-03 £168,006,303.21).

** Amount of the grant issued and transferred to the Agencies to support their net cash requirement was £858,250,000 (2002-03 £422,245,000).

For details of the prior year restated figures refer to Note 32.

The Notes on pages 31 to 69 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2004

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 EU and global policy making, so that its work has a strong international dimension.

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

		2003-2004			Restated 2002-03	
	Gross	**Income**	**Net**	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Protect rural, urban & global environments	591,067	(45,754)	545,313	623,310	(105,397)	517,913
Promote sustainable rural areas	128,149	(20,305)	107,844	94,565	(13,280)	81,285
Promote safe food supply chain	1,134,999	(974,219)	160,780	905,414	(785,621)	119,793
Promote sustainable farming	1,941,169	(1,662,423)	278,746	1,707,865	(1,473,657)	234,208
Promote prudent use of resources	748,801	(189,855)	558,946	513,194	(68,368)	444,826
Protect public health & animal welfare	1,112,050	(261,433)	850,617	1,302,310	(320,580)	981,730
Net operating costs	**5,656,235**	**(3,153,989)**	**2,502,246**	5,146,658	(2,766,903)	2,379,755

The aim in 2002-03 was underpinned by seven objectives covering the span of the Department's responsibilities:

		Restated 2002-03	
	Gross	Income	Net
	£000	£000	£000
Protect & improve environment	722,580	(109,502)	613,078
Enhance opportunity & sustainable rural areas	108,409	(2,090)	106,319
Sustainable food supply	890,575	(755,332)	135,243
Attractive & well managed countryside	130,019	(24,302)	105,717
Sustainable & adaptable modern farming	1,660,095	(1,496,651)	163,444
Sustainable management & prudent use of resources	452,488	(61,714)	390,774
Protect public health & animal welfare	1,182,492	(317,312)	865,180
Net operating costs	5,146,658	(2,766,903)	2,379,755

With the reduction of the number of Defra Objectives from seven in 2002-03 to six in 2003-04, we have remapped the expenditure shown against Objective 4 for 2002-03, so that a comparison of outturn in 2002-03 can be made with 2003-04 in this year's Resource Accounts. We have also reassessed the apportionments to objectives made in 2002-03 and restated the figures for both years accordingly.

The methodology for this remapping was as follows:

Each scheme code (objective code) is mapped to a Framework Programme (FP). Each FP is owned by a Departmental Directorate and contributes to the achievement of one or more of the Department's objectives. The percentage contributions of programmes to objectives are agreed each year between central finance and the policy Directorates. At the beginning of the financial year 2003-04, each Directorate reassessed the percentage contributions of these programmes to the six objectives for 2003-04. As a result, a number of the percentages changed, due to both the reduction of objectives from seven to six and to reflect more appropriate allocations than were assigned in 2002-03.

As a result of the above changes to the allocations against objectives we have restated the 2002-03 figures to provide a meaningful comparison.

For details of the prior year restated figures refer to Note 32.

The Notes on pages 31 to 69 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 2003-04 RAM issued by HM Treasury. 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 and stocks where material, at their value to the Department by reference to their current costs. Merger accounting rules under FRS 6 have been applied to the activities of BCMS which was transferred from Defra to RPA from 1 April 2003.

1.2. Basis of consolidation

These accounts comprise a consolidation of those entities that fall within the Departmental boundary as defined in the RAM 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 33.

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 the European Agricultural Guidance and Guarantee Fund (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 EC 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.

Modulation

Council regulations (EC) 1259/1999 provides that Member States may, for certain schemes, reduce the amount of payment that would otherwise have been made to farmers and traders on claims by an amount known as modulation. Member States claim EAGGF Guarantee funding as if no modulation had taken place.

The differences between the claims and the actual payments constitute the modulation amounts and are used by Member States to fund Rural Development measures in the EAGGF year of modulation and/or the next three years, provided the modulation funds are matched 100% by the member states. If modulated amounts remain unspent after that time, the Member State must return them to EAGGF.

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, with the exception of RPA which occurred in March 2003. 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 and 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	No de minimis
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 fixed assets are recognised as construction in progress (CIP) and treated as capital expenditure, but not depreciated until the project is brought into service. CIP is not revalued. Internally developed computer software 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. If the income from these licences or copyrights increases to 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 revalued 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 to requirements 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
Information Technology	3 to 10 years
Furniture and Fittings	5 to 10 years
Vehicles, Plant and Machinery	4 to 25 years
Office Equipment	5 to 10 years
Intangible Assets	2 to 20 years
Vessels	1 to 30 years

1.7. Investments

The Department holds a small quantity of shares in 3 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 FMD outbreak. All investments are shown at market value or at cost where market value cannot be readily ascertained. Further details are provided in Note 12.

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) or net realisable value. RPA's stock comprises agricultural commodities purchased into intervention under terms specified by the EAGGF and valued in accordance with their directions. The stated stock values are therefore realisable through a combination of sales revenue and the contribution provided by the EC. This basis of valuation does not conform to SSAP 9, 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) or net realisable value.

1.9. Research and development

Research and development expenditure has been written off in the year in which it is incurred. It would be 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.

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 income appropriated-in-aid of the Estimate, income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income and receipts from the EU.

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, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

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 real rate set by HM Treasury currently 3.5% (2002-03 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 been allocated to programme.

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 except in respect of dependent's benefits.

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.

The Department has now fully adopted FRS 17 Retirement Benefits. Under FRS 17 the defined benefit scheme's assets are measured using market values. Pension scheme liabilities are measured using the projected unit method and discounted at the rate of 3.5%. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in net finance costs. Actuarial gains and losses are recognised in the Statement of Recognised Gains and Losses. The Department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme to the extent that the Department has a legal or constructive obligation to make good the deficit in the scheme.

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 HM 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 18).

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 revalued 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.

1.18. Value Added Tax (VAT)

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 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 six objectives.

The apportionment of programme expenditure is a two stage process. Firstly, each scheme code (objective code) is mapped to a FP. Secondly, each FP is mapped to one or more of Defra's six objectives. Administration expenditure directly incurred in delivering programmes is mapped to the relevant FP.

Remaining administration costs relating to central overhead activities are spread across objectives based upon already distributed programme and administration expenditure. The Department's capital assets are mainly employed for administrative purposes. Consequently the distribution of depreciation and capital charges between objectives is made on the same basis as other administrative costs.

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

2. Staff Numbers and Costs

A. Staff costs consist of:

Consolidated	Administrative				Programme		
	Officials	Ministers	Special Advisors	**Total Admin**	Officials	**2003-04 Total**	Restated 2002-03 Total
	£000	£000	£000	£000	£000	£000	£000
Salaries and wages	186,930	275	130	**187,335**	138,276	**325,611**	305,747
Social security costs	14,839	29	9	**14,877**	9,895	**24,772**	20,666
Other pension costs	25,792	–	28	**25,820**	19,489	**45,309**	39,194
Sub-total	**227,561**	**304**	**167**	**228,032**	**167,660**	**395,692**	365,607
Agency & Contract staff	6,850	–	–	**6,850**	7,012	**13,862**	15,143
Inward secondments	90	–	–	**90**	–	**90**	281
Total	**234,501**	**304**	**167**	**234,972**	**174,672**	**409,644***	381,031
Less: recoveries in respect of outward secondments	(635)	–	–	**(635)**	–	**(635)**	(673)
Total net costs	**233,866**	**304**	**167**	**234,337**	**174,672**	**409,009**	380,358

Core-Department	Administrative				Programme		
	Officials	Ministers	Special Advisors	**Total Admin**	Officials	**2003-04 Total**	Restated 2002-03 Total
	£000	£000	£000	£000	£000	£000	£000
Salaries and wages	120,478	275	130	**120,883**	67,785	**188,668**	175,074
Social security costs	9,876	29	9	**9,914**	5,111	**15,025**	12,506
Other pension costs	17,034	–	28	**17,062**	8,952	**26,014**	23,466
Sub-total	**147,388**	**304**	**167**	**147,859**	**81,848**	**229,707**	211,046
Agency & Contract staff	4,487	–	–	**4,487**	2,235	**6,722**	13,903
Inward secondments	90	–	–	**90**	–	**90**	281
Total	**151,965**	**304**	**167**	**152,436**	**84,083**	**236,519***	225,230
Less: recoveries in respect of outward secondments	(635)	–	–	**(635)**	–	**(635)**	(673)
Total net costs	**151,330**	**304**	**167**	**151,801**	**84,083**	**235,884**	224,557

* Out of the total, £810,241 (£525,574 Core-Department) has been charged to capital.

For details of the prior year restated figures refer to Note 32.

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for most employees of the Department are provided through the 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 2003-04, employer's contributions of £45,004,000 (2002-03 £39,194,000) 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.

Note 2 (continued)

Other Pension Schemes

Employees joining after 1 October 2002 could opt to open a partnership account, a stakeholder pension with employer contribution. Employer's contribution of £299,000 was paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £6,000, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

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

Objective	Ministers	Special Advisors	Senior Management	Officials	Staff on inward secondment	Agency/ temporary and contract staff	2003-04 Total	Restated 2002-03 Total
	Number	Number	Number	Number	Number	Number	Number	Number
Objective 1	1	1	15	1,653	7	107	1,784	1,864
Objective 2	–	–	2	453	2	35	492	267
Objective 3	–	–	10	572	1	25	608	1,700
Objective 4	1	–	11	4,966	5	384	5,367	2,773
Objective 5	1	1	9	1,207	6	82	1,306	982
Objective 6	2	1	27	4,420	17	278	4,745	6,594
Sub Total	**5**	**3**	**74**	**13,271**	**38**	**911**	**14,302**	14,180
Staff engaged on capital projects							**164**	111
Total							**14,466**	14,291

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

Name and title	Column 1 Salary as defined below	Prior year salary as defined below	Column 2 Real increase in pension at age 60	Column 3 Total accrued pension at age 60 as at 31 March 2004	Column 4 CETV at 31 March 2003	Column 5 CETV at 31 March 2004	Column 6 Real increase in CETV*[2]
	£000	£000	£000	£000	£000	£000	£000
Ministers							
Rt Hon Margaret Beckett MP	70-75	65-70	0-2.5	10-15	125	155	15
Ben Bradshaw MP*[3]	25-30	N/A	0-2.5	0-5	9	15	3
Rt Hon Alun Michael MP	35-40	35-40	0-2.5	0-5	43	57	7
Elliot Morley MP	35-40	25-30	0-2.5	0-5	35	45	5
Lord Whitty of Camberwell	95-100	90-95	0-2.5	5-10	89	114	13

Ministers who have served during 2003-04, but are not in post as at 31 March 2004, were:

Rt Hon Michael Meacher MP*[1] (retired 13 June 2003)	5-10	35-40	N/A	N/A	N/A	N/A	N/A

*[1] Michael Meacher has opted out of the supplementary pension scheme.
*[2] Real increase in CETV after adjustment for contributions, inflation and changes in market investment factors (page 39).
*[3] Ben Bradshaw became a Defra Minister on 13 June 2003.

Note: As the House of Commons (or House of Lords) meets the Exchequer contribution to the cost of pension provision for Ministers, not Defra, the pension details are included on a 'for information' basis.

Note 2.C. (continued)

Name and title	Column 1 Salary as defined below	Prior year salary as defined below	Column 2 Real increase in pension at age 60	Column 3 Total accrued pension at age 60 as at 31 March 2004	Column 4 CETV at 31 March 2003	Column 5 CETV at 31 March 2004	Column 6 Real increase in CETV*[2]
	£000	£000	£000	£000	£000	£000	£000
Management Board							
Sir Brian Bender *Permanent Secretary*	155-160	145-150	2.5-5 plus 7.5-10 lump sum	55-60 plus 165-170 lump sum	823	914	49
Bill Stow *Director General*	115-120	0-5	5-7.5 plus 20-22.5 lump sum	60-65 plus 180-185 lump sum	925	1085	112
Andy Lebrecht *Director General*	100-105	95-100	0-2.5 plus 5-7.5 lump sum	30-35 plus 95-100 lump sum	479	536	30
Donald Macrae *Solicitor & Director General*	105-110	65-70	2.5-5 plus 7.5-10 lump sum	35-40 plus 115-120 lump sum	554	638	53
Mark Addison *Director General*	125-130	115-120	2.5-5 plus 7.5-10 lump sum	45-50 plus 140-145 lump sum	707	792	33
Andrew Burchell *Director*	100-105	85-90	2.5-5 plus 7.5-10 lump sum	30-35 plus 95-100 lump sum	419	484	39
Francesca Okosi *Director*	90-95	10-15	0-2.5	0-5	2	17	11
Lucian Hudson *Director (until 23 July 2004)*	95-100	80-85	0-2.5 plus 2.5-5 lump sum	10-15 plus 40-45 lump sum	150	173	14
Dr Debby Reynolds *Chief Veterinary Officer & Director General (from 22 March 2004)*	0-5	–	–	–	–	–	–

Professor Howard Dalton (*Chief Scientific Officer*) has withheld his consent to the disclosure of his salary and pension details.

Management Board Members who have served during 2003-04, but are not in post as at 31 March 2004, were:

Jim Scudamore *retired 23 March 2004 Chief Veterinary Officer & Director General*	135-140	115-120	0-2.5 plus 5-7.5 lump sum	45-50 plus 140-145 lump sum	798	865	20
Anna Walker *Director General (until 27 January 2004)*	100-105	110-115	2.5-5 plus 7.5-10 lump sum	35-40 plus 115-120 lump sum	553	640	53

Kelly Freeman took over from Lucian Hudson as Acting Director of Communications on 26 July 2004. Ursula Brennan took over from Anna Walker as Director General of Natural Resources & Rural Affairs on 19 April 2004.

In addition to the above, Elizabeth Ransom, Richard Wakeford, Alison Huxtable (until October 2003) and Bill Griffiths (from October 2003) were paid a total of £19,718 for their services and expenses as Non-Executive Board Members.

No Management Board Members were in receipt of any benefits in kind, during 2003-04 (2002-03 Nil)

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.

Note 2.C. (continued)

Minister's and Management Board Pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument 1993 No 3253, as amended).

Those Ministers who are Members of Parliament (MPs) are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister (the accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution).

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

Columns 4 and 5 of the above table show the Cash Equivalent Transfer Value (CETV) of the member's pension benefits accrued at the beginning and the end of the reporting period. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. Regarding the Management Board, the CETV figures and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service scheme and for which the scheme has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Column 6 reflects the real increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Salary

'Salary' includes gross salary; performance related 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.

Note 2.C. (continued)

Employee Pensions

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. Civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New employees joining after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic 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. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The partnership pension account is a stakeholder pension 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 chosen by the employee. 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% of pensionable salary (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).

Further details about the Civil Service pension arrangements can be found on the internet at www.civilservice-pensions.gov.uk.

D. Loans are made to staff to cover season ticket advances and to relocate. As at 31 March 2004 there were outstanding balances to Management Board Members totalling £4,551.

3. Other administration costs

	Consolidated		Core-Department	
	2003-04	Restated 2002-03	2003-04	Restated 2002-03
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machinery	113	5	–	–
Other operating leases	23,242	15,179	22,606	14,799
Interest charges:				
Finance leases	8	7	–	–
PFI service charges:				
Off-balance sheet contracts	126	140	126	140
Travel, subsistence and hospitality	15,005	13,704	11,985	10,578
Non-cash items (Note a):				
Depreciation and amortisation of fixed assets:				
Civil Estate	14,037	18,420	3,368	9,482
Other tangible fixed assets	13,377	17,383	6,812	11,865
Intangible assets	428	325	336	193
Profit on the disposal of fixed assets	(9,223)	–	(9,220)	–
Loss on the disposal of fixed assets	4,201	1,483	4,121	1,420
Impairment	197	471	–	–
Downward revaluation	6,443	138	6,187	–
Cost of capital charge: Civil Estate	12,685	18,347	2,182	3,318
Cost of capital charge: other items	(5,959)	10,873	(8,111)	7,418
Auditor's remuneration and expenses	430	431	272	272
Provisions:				
Provided in year net of releases	7,833	223	6,512	(2,109)
Unwinding of discount on provisions	52	291	–	307
Other non-cash items	(348)	4,765	(348)	4,765
Other expenditure	167,465	133,256	101,865	77,167
Total	**250,112**	235,441	**148,693**	139,615

NB. The total auditor's remuneration, which is for audit work undertaken only, is £752,000 (2002-03 £759,000) (see Note 25). The additional remuneration relates to the audit of RPA. RPA's costs are defined as frontline services and are disclosed as programme costs.

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)	44,153	12,111
Other non-cash amounts charged to operating expenditure	118,752	78,221
Less: non-cash income – notional income	605	(14,352)
Less: other non-cash items	(10,955)	(13,041)
Total non-cash transactions	**152,555**	**62,939**

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	152,555
Other creditors greater than one year	3,248
Non-cash items per reconciliation of resources to net cash requirement	**155,803**

For details of the prior year restated figures refer to Note 32.

4. Net programme costs

	Consolidated		Core-Department	
		Restated		Restated
	2003-04	2002-03	**2003-04**	2002-03
	£000	£000	£000	£000
Current grants and other current expenditure				
Frontline services – staff costs	174,672	159,642	84,083	79,100
Frontline services – other costs	122,506	71,240	21,850	18,301
EU funded	3,067,657	2,645,939	12,609	14,754
Exchequer funded	1,607,716	1,479,850	1,383,939	1,231,163
Capital grants	197,719	331,266	197,719	331,266
Interest on NLF loans on-lent to British Waterways	1,691	1,891	1,691	1,891
Total programme expenditure	**5,171,961**	4,689,828	**1,701,891**	1,676,475
Less: programme income (*Note 6*)				
Frontline services	(3,265)	(2,836)	(2,926)	(2,215)
EU current	(3,053,806)	(2,630,808)	(44,524)	(10,377)
Exchequer current	(43,276)	(82,265)	(19,555)	(21,492)
Capital grants	(198)	(1,616)	(198)	(1,616)
Interest on NLF loans on-lent to British Waterways	(1,691)	(1,891)	(1,691)	(1,891)
Total programme income	**(3,102,236)**	(2,719,416)	**(68,894)**	(37,591)
Total	**2,069,725**	1,970,412	**1,632,997**	1,638,884

Included in the above expenditure is £105,170,311 spent on Research and Development (2002-03 £102,919,109).

In 2002-03 a number of additional statutory contributions totalling £4,961,000 were made to the EA in connection with flood management, none were made in 2003-04 due to a change in statute.

Included within 'frontline services – staff costs' above are agency staff, contract staff and staff on inward secondments. See Note 2 for further details. Included within 'frontline services – other costs' are non-cash items relating to depreciation and profit on disposal of fixed assets.

The above expenditure includes cost of capital charges totalling £13,101,000 (2002-03 £22,002,000) relating to the RPA.

For details of the prior year restated figures refer to Note 32.

5. Analysis of income payable to the Consolidated Fund

In addition to A-in-A, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

		2003-04 Forecast		2003-04 Outturn	
	Note	**Income**	***Receipts***	**Income**	***Receipts***
		£000	£000	£000	£000
Operating income and receipts – excess A-in-A	6	–	–	–	–
Non-operating income and receipts – excess A-in-A	6	–	–	–	–
Sub-total	35	–	–	–	–
Other operating income and receipts not classified as A-in-A		22,764	*25,974*	44,847	*44,858*
Other non-operating income and receipts not classified as A-in-A	6.C.	–	–	3,185	*3,143*
Total	35	**22,764**	***25,974***	**48,032**	***48,001***

The actual cash surrenderable to the Consolidated Fund is £48,001,443.95.

6. Income and A-in-A (see also Note 1.11.)

A. Operating income analysed by classification and activity:

Consolidated

	A-in-A	Netted – off gross expenditure in net sub head	Payable to Consolidated Fund	Income included in Operating Cost Statement
	£000	£000	£000	£000
2003-04				
Administration income				
Fees and charges to external customers	38,068	338	7	38,413
Fees and charges to other departments	13,340	–	–	13,340
	51,408	**338**	**7**	**51,753**
Programme income				
Frontline services	3,265	–	–	3,265
EU funding	3,012,820	18,616	22,370	3,053,806
Other	21,003	1	22,470	43,474
	3,037,088	**18,617**	**44,840**	**3,100,545**
	3,088,496	**18,955**	**44,847**	**3,152,298**
Interest on NLF loans on-lent to British Waterways	–	1,691	–	1,691
Total (Schedule 1 & 2)	**3,088,496**	**20,646**	**44,847**	**3,153,989**
Restated 2002-03				
Administration income				
Fees and charges to external customers	34,354	578	–	34,932
Fees and charges to other departments	11,859	696	–	12,555
	46,213	1,274	–	47,487
Programme income				
Frontline services	2,693	–	143	2,836
EU funding	2,491,955	6,174	143,649	2,641,778
Other	20,856	–	52,055	72,911
	2,515,504	6,174	195,847	2,717,525
	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	2,541,476			

Note 6.A. (continued)

Core-Department

	A-in-A	Netted – off gross expenditure in net sub head	Payable to Consolidated Fund	Income included in Operating Cost Statement
	£000	£000	£000	£000
2003-04				
Administration income				
Fees and charges to external customers	3,030	338	5	3,373
Fees and charges to other departments	321	–	–	321
Fees and charges to Agencies	1,605	29,719	–	31,324
	4,956	**30,057**	**5**	**35,018**
Programme income				
Frontline services	2,926	–	–	2,926
EU funding	3,538	18,616	22,370	44,524
Other	19,752	1	–	19,753
	26,216	**18,617**	**22,370**	**67,203**
	31,172	**48,674**	**22,375**	**102,221**
Interest on NLF loans on-lent to British Waterways	–	1,691	–	1,691
Total (Schedule 2)	**31,172**	**50,365**	**22,375**	**103,912**
Restated 2002-03				
Administration income				
Fees and charges to external customers	3,575	578	–	4,153
Fees and charges to other departments	419	696	–	1,115
Fees and charges to Agencies	5,627	28,965	–	34,592
	9,621	30,239	–	39,860
Programme income				
Frontline services	2,215	–	–	2,215
EU funding	4,203	6,174	–	10,377
Other	23,108	–	–	23,108
	29,526	6,174	–	35,700
	39,147	36,413	–	75,560
Interest on NLF Loans on-lent to British Waterways	–	1,891	–	1,891
Total (Schedule 2)	39,147	38,304	–	77,451

The Core-Department receives rental income of £1,034,688 (2002-03 £808,869) from other government departments and £2,006,971 (2002-03 £2,072,287) from external customers.

For details of the prior year restated figures refer to Note 32.

6.B. Miscellaneous Core-Department income

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

Service	2003-04 Income	2003-04 Full cost	2003-04 Surplus/ (deficit)	Restated 2002-03 Income	Restated 2002-03 Full cost	Restated 2002-03 Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Beef Assurance Scheme	4	34	(30)	5	37	(32)
Date Based Export Scheme	17	295	(278)	1	3	(2)
Artificial breeding of livestock	145	304	(159)	170	315	(145)
AHVG: Approval of Premises	–	–	–	–	4	(4)
Export of Birds, Poultry & Hatching Eggs	–	–	–	–	5	(5)
Animal Import Services	150	218	(68)	110	180	(70)
Veterinary Checks at VFS controlled BIPs	5	6	(1)	2	2	–
Animal Export Services	13	31	(18)	22	45	(23)
IFMVB	16	16	–	9	11	(2)
Superannuation & Welfare Services	1	1	–	1	1	–
Fisheries – External Statistical Requests	1	1	–	1	1	–
Inspections of Fruit/Vegetables/Citrus	55	55	–	60	67	(7)
LIFFE Potato Inspections & external training	–	–	–	45	45	–
Legal Services	178	173	5	127	157	(30)
Egg Sampling	17	17	–	17	17	–
Plant Health Propagation Scheme	–	53	(53)	–	–	–
Seed Potato Classification Scheme	230	266	(36)	249	264	(15)
Plant Passport Scheme	165	204	(39)	149	–	149
Plant Health Import Licensing	20	44	(24)	21	25	(4)
Plant Export Certification	–	453	(453)	–	627	(627)
Brown Rot testing of Imported Seed Potatoes	1	1	–	1	3	(2)
Plant Breeders' Rights	550	575	(25)	743	813	(70)
National Listing of Seed Varieties	1,287	2,420	(1,133)	1,550	2,046	(496)
Seed Certification	1,477	1,482	(5)	1,455	1,695	(240)
Mink & Coypu Licensing	1	2	(1)	1	1	–
UKROFS Secretariat Services (up to June 2003)	12	12	–	–	–	–
ACOS (Advisory Group) – (from July 2004)	24	33	(9)	–	–	–
FEPA 1985 – Receipts from Licensing	785	1,745	(960)	1,268	1,219	49
Agricultural Census: Extraction of Statistics	–	–	–	2	3	(1)
Agricultural Market Report	–	–	–	1	25	(24)
Approval of Disinfectants	22	59	(37)	23	41	(18)
Animal Health Schemes	3	3	–	32	31	1
Poultry Health Scheme	40	47	(7)	38	38	–
Poultry Breeding Flocks, Hatcheries & Processed Animal (Fees) Order	14	14	–	12	16	(4)
Other Services	346	1848	(1,502)	141	1,509	(1,368)
	5,579	**10,412**	**(4,833)**	6,256	9,246	(2,990)

The above income forms part of the *Other Fees and Charges Administration Income* shown in Note 6.A.

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

For details of the prior year restated figures refer to Note 32.

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

	Income	Receipts
	£000	£000
Amounts surrendered to the Consolidated Fund (see below)	3,185	3,143
	3,185	**3,143**

The following amounts are not regarded as income in 2003-04 for the Department and are surrendered to the Consolidated Fund:

	£000
Countryside Agency sale of property	1,190
Royalties	17
Environment Agency – relating to discharge consents/interest on abstraction receipts	1,733
ADAS – prior year bank balances	100
Miscellaneous non-operating receipts	145
	3,185

Non-operating A-in-A

	2003-04	2002-03
	£000	£000
Proceeds from the disposal of fixed assets	18,892	7,879
	18,892	7,879

7. Reconciliation of net operating cost and net resource outturn

	Consolidated		**Core-Department**	
	2003-04	Restated 2002-03	**2003-04**	Restated 2002-03
	£000	£000	£000	£000
Net operating cost *(Note a)*	**2,502,246**	2,379,755	**1,898,583**	1,884,769
Remove non-supply expenditure (-) and income (+), including income scored as Consolidated Fund Extra Receipts (CFERs)				
– Operating income not classified as A-in-A - excess A-in-A	–	195,847	–	–
– Operating income not classified as A-in-A - operating CFERs	44,847	–	22,375	–
Adjust for the effects of prior year adjustments	76,062	(43,353)	76,062	(37,700)
Net resource outturn *(Note a)*	**2,623,155**	2,532,249	**1,997,020**	1,847,069

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 Resources Outturn (Schedule 1).

For details of the prior year restated figures refer to Note 32.

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

2003-04	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net Total	Estimate	Net total outturn compared with Estimate	Restated 2002-03 RfR 1 prior year outturn	Restated 2002-03 RfR 2 prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1										
Spending in Departmental Expenditure Limits (DEL)										
Objective 1	81,818	199,507	96,574	377,899	(6,188)	371,711	346,584	(25,127)	217,149	7,150
Objective 2	23,212	22,609	31,458	77,279	(54)	77,225	157,324	80,099	43,666	1,358
Objective 3	57,354	124,669	2,884	184,907	(17,322)	167,585	140,625	(26,960)	112,217	38,827
Objective 4	63,405	190,889	7,335	261,629	(10,334)	251,295	168,390	(82,905)	159,723	75,939
Objective 5	71,394	268,358	139,599	479,351	(10,522)	468,829	628,459	159,630	259,756	3,568
Objective 6	259,774	589,162	139,862	988,798	(31,022)	957,776	1,054,809	97,033	726,916	16,364
Sub-total	**556,957**	**1,395,194**	**417,712**	**2,369,863**	**(75,442)**	**2,294,421**	**2,496,191**	201,770	1,519,427	143,206
Prior year adjustments	(69,844)	69,844	–	–	–	–	–	–	–	(11,167)
Total				**2,369,863**	**(75,442)**	**2,294,421**	**2,496,191**	201,770	1,519,427	132,039
Request for Resources 1										
Spending in Annually Managed Expenditure (AME)										
Objective 1	–	29,155	–	29,155	–	29,155	329,926	300,771	6,948	98,656
Objective 2	–	8,644	–	8,644	–	8,644	5,487	(3,157)	1,615	18,901
Objective 3	–	708,089	–	708,089	–	708,089	535,566	(172,523)	10,917	533,080
Objective 4	–	1,229,314	–	1,229,314	–	1,229,314	1,211,364	(17,950)	9,010	1,041,930
Objective 5	–	116,364	–	116,364	–	116,364	86,034	(30,330)	10,205	49,179
Objective 6	–	15,604	–	15,604	(3,608)	11,996	15,000	3,004	40,637	225,807
Sub-total	**–**	**2,107,170**	**–**	**2,107,170**	**(3,608)**	**2,103,562**	**2,183,377**	79,815	79,332	1,967,553
Prior year adjustments	–	–	–	–	–	–	–	–	–	5,514
Total				**2,107,170**	**(3,608)**	**2,103,562**	**2,183,377**	79,815	79,332	1,973,067
Request for Resources 1										
Non-budget										
Objective 1	–	–	183,190	183,190	(38,706)	144,484	20,668	(123,816)	210,663	(53,840)
Objective 2	–	–	38,522	38,522	(16,530)	21,992	8,421	(13,571)	22,208	(5,498)
Objective 3	–	–	239,485	239,485	(945,634)	(706,149)	(494,455)	211,694	(796)	(516,596)
Objective 4	–	–	447,724	447,724	(1,636,269)	(1,188,545)	(1,151,554)	36,991	32,501	(978,302)
Objective 5	–	–	142,829	142,829	(168,914)	(26,085)	(30,000)	(3,915)	164,941	(38,902)
Objective 6	–	–	106,806	106,806	(203,393)	(96,587)	(167,446)	(70,859)	144,254	(152,249)
Sub-total	**–**	**–**	**1,158,556**	**1,158,556**	**(3,009,446)**	**(1,850,890)**	**(1,814,366)**	36,524	573,771	(1,745,387)
Prior year adjustments	–	76,062	–	76,062	–	76,062	932,400	856,338	–	–
Total				**1,234,618**	**(3,009,446)**	**(1,774,828)**	**(881,966)**	892,862	573,771	(1,745,387)
Resource outturn (Schedule 1)				**5,711,651**	**(3,088,496)**	**2,623,155**	**3,797,602**	1,174,447	2,172,530	359,719
Reconciliation to Operating Cost Statement										
Netted-off expenditure				20,646	(20,646)	–				
Non supply income/expenditure including CFERs:										
Operating income not classified as A-in-A				–	(44,847)	(44,847)			–	(54,033)
Operating income excess A-in-A				–	–	–			–	(141,814)
Prior year adjustments				(76,062)	–	(76,062)			37,700	5,653
Net operating cost (Schedule 2)				**5,656,235**	**(3,153,989)**	**2,502,246**			2,210,230	169,525

Refer to Schedule 5 for description of objectives.

Note 8. (continued)

Variances between Estimate and outturn by objective inevitably occur due to the nature of the Estimate setting process. Initially the main Estimate is based on anticipated activity by programme for the year and submitted to Parliament for approval in April 2003. During the year mapping of objectives to programmes is reviewed to better reflect activity. These changes are not reflected in either the Winter or Spring Supplementaries, as they are not perceived to warrant amendment; hence the final outturn by objective is likely to vary from the Estimate. An exception is the prior year adjustment for Non-budget Estimate. Originally Defra requested additional funds of £932.4m to fund the shortfall in the EA closed pension scheme. This request was based on the latest actuarial valuation available as at December 2003. When the fund was valued as at 31 March 2004, applying FRS 17, only £76.1m was recognised as a prior year adjustment, resulting in a variance of £856.3m. This underspend arose as full information was not available when the Estimate was compiled.

For details of the prior year restated figures refer to Note 32.

9. 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:

2003-04	**Consolidated**		**Core-Department**	
	Outturn	Limit	Outturn	Limit
	£000	£000	£000	£000
Request for Resources 1	295,083	347,532	295,791	340,181
Total within administration cost control	295,083	347,532	295,791	340,181
Administration expenditure excluded from administration cost limit	177,050	130,977	–	–
Administration income allowable within the administration cost limit	12,141	23,672	4,813	9,485
Total administration outturn	**484,274**	**502,181**	**300,604**	**349,666**

2002-03	**Consolidated**		**Core-Department**	
	Restated Outturn[3]	Limit	Restated Outturn[1,2]	Restated Limit[1]
	£000	£000	£000	£000
Request for Resources 1	262,647	460,473	254,434	288,639
Total within administration cost control	262,647	460,473	254,434	288,639
Administration expenditure excluded from administration cost limit	196,358	190,793	33,486	57,399
Administration income allowable within the administration cost limit	892	845	892	845
less: Administration provisions utilised in year	(3,067)	(7,000)	(3,067)	(7,000)
Total administration outturn	**456,830**	**645,111**	**285,745**	**339,883**

Prior year adjustments

[1] BCMS has been excluded from the Core-Department limit (£24,675) and outturn (£22,746) as this service has been transferred to RPA on 1 April 2003.

[2] SVS has been excluded from the Core-Department and Consolidated outturn (£47,097) as this has been transferred to frontline services in 2003-04.

[3] RPA (including BCMS transferred from Core-Department) has been excluded from the Consolidated outturn (£110,522 and £22,746 BCMS) as this expenditure has been transferred to programme in 2003-04.

For further details of the prior year restated figures refer to Note 32.

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

Consolidated	2003-04 Capital expenditure	2003-04 Loans etc	2003-04 A-in-A	2003-04 Net Total	2002-03 Capital expenditure	2002-03 Loans etc	2002-03 A-in-A	2002-03 Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	129,190	–	(18,892)	**110,298**	94,640	–	(7,879)	86,761

Core-Department	2003-04 Capital expenditure	2003-04 Loans etc	2003-04 A-in-A	2003-04 Net Total	Restated 2002-03 Capital expenditure	Restated 2002-03 Loans etc	Restated 2002-03 A-in-A	Restated 2002-03 Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	57,785	–	(16,228)	**41,557**	55,316	–	(7,615)	47,701

The amounts included within A-in-A for 2003-04 relate to proceeds of fixed asset disposals, in line with the amended RAM requirements.

For details of the prior year restated figures refer to Note 32.

11. Fixed assets

11.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 2003	399,162	48,605	1,845	56,019	146,367	34,954	41,884	7,535	68,403	**804,774**
Additions	4,193	1,907	–	4,698	28,166	1,840	1,215	853	99,353	**142,225**
Transfers	5	2	–	53	(338)	(6)	133	11	(1,131)	**(1,271)**
Disposals	(14,361)	–	(1,315)	(818)	(12,245)	(30)	(1,912)	(392)	(265)	**(31,338)**
Reclassifications	15,808	–	444	–	13,152	–	–	–	(30,030)	**(626)**
Revaluations	69,502	626	1,556	59	(5,940)	(657)	155	(444)	–	**64,857**
31 March 2004	**474,309**	**51,140**	**2,530**	**60,011**	**169,162**	**36,101**	**41,475**	**7,563**	**136,330**	**978,621**
Depreciation										
At 1 April 2003	40,351	24,167	–	30,977	89,473	8,805	7,158	5,004	–	**205,935**
Charged in year	12,987	2,467	5	5,935	26,093	2,115	2,876	1,067	–	**53,545**
Transfers	–	–	–	–	–	74	(5)	(69)	–	**–**
Disposals	(1,903)	(94)	(71)	(699)	(12,869)	(30)	(1,563)	(379)	–	**(17,608)**
Reclassifications	(66)	–	66	–	(350)	–	–	–	–	**(350)**
Revaluations	6,092	281	–	145	(10,059)	(156)	(133)	(310)	–	**(4,140)**
31 March 2004	**57,461**	**26,821**	**–**	**36,358**	**92,288**	**10,808**	**8,333**	**5,313**	**–**	**237,382**
Net book value at										
31 March 2004	**416,848**	**24,319**	**2,530**	**23,653**	**76,874**	**25,293**	**33,142**	**2,250**	**136,330**	**741,239**
31 March 2003	358,811	24,438	1,845	25,042	56,894	26,149	34,726	2,531	68,403	598,839
Asset financing:										
Owned	416,848	9,844	2,530	23,653	76,839	25,293	33,142	2,250	136,330	**726,729**
Finance leased	–	14,475	–	–	35	–	–	–	–	**14,510**
31 March 2004	**416,848**	**24,319**	**2,530**	**23,653**	**76,874**	**25,293**	**33,142**	**2,250**	**136,330**	**741,239**

Additions include a non-cash element represented by creditors and transfers. Cash additions amount to £121,621,000 (as per Schedule 4).

Depreciation charged against assets held under finance leases amounted to £1,544,000 (2002-03 £5,435,000)

Note 11.A. (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										
Restated										
At 1 April 2003	85,107	38,692	1,845	13,997	64,436	30,757	4,971	3,770	46,459	**290,034**
Additions	3,700	206	–	1,431	14,745	1,492	795	469	48,457	**71,295**
Transfers	–	–	–	–	(735)	–	–	–	(1,106)	**(1,841)**
Disposals	(11,297)	–	(1,315)	(17)	(5,078)	(30)	(633)	(366)	(265)	**(19,001)**
Reclassifications	13,696	–	444	–	4,230	–	–	–	(18,370)	**–**
Revaluations	17,778	(780)	1,556	(171)	(5,981)	(470)	106	(309)	–	**11,729**
31 March 2004	**108,984**	**38,118**	**2,530**	**15,240**	**71,617**	**31,749**	**5,239**	**3,564**	**75,175**	**352,216**
Depreciation										
Restated										
At 1 April 2003	5,683	22,389	–	2,621	28,229	5,884	2,208	2,572	–	**69,586**
Charged in year	1,270	1,513	5	2,958	13,872	1,643	965	323	–	**22,549**
Transfers	–	–	–	–	–	–	–	–	–	**–**
Disposals	(744)	(94)	(71)	(9)	(6,093)	(30)	(541)	(359)	–	**(7,941)**
Reclassifications	(66)	–	66	–	–	–	–	–	–	**–**
Revaluations	564	16	–	(37)	(10,113)	(35)	5	(206)	–	**(9,806)**
31 March 2004	**6,707**	**23,824**	**–**	**5,533**	**25,895**	**7,462**	**2,637**	**2,330**	**–**	**74,388**
Net book value at										
31 March 2004	**102,277**	**14,294**	**2,530**	**9,707**	**45,722**	**24,287**	**2,602**	**1,234**	**75,175**	**277,828**
31 March 2003	79,424	16,303	1,845	11,376	36,207	24,873	2,763	1,198	46,459	220,448
Asset financing:										
Owned	102,277	–	2,530	9,707	45,722	24,287	2,602	1,234	75,175	**263,534**
Finance leased	–	14,294	–	–	–	–	–	–	–	**14,294**
31 March 2004	**102,277**	**14,294**	**2,530**	**9,707**	**45,722**	**24,287**	**2,602**	**1,234**	**75,175**	**277,828**

Additions include a non-cash element represented by creditors and transfers. Cash additions amount to £53,613,000 (as per Schedule 4).

Depreciation charged against assets held under finance leases amounted to £1,513,000 (2002-03 £5,415,000).

£94,000 shown against depreciation on disposals of leasehold land and buildings relates to an adjustment to depreciation charged incorrectly in 2002-03.

Land and buildings include properties with a value of £22,746,000 (Core-Department) which are surplus to requirements. For Consolidation, vehicles, plant and machinery include vessels owned by CEFAS valued at £25,558,000.

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.

For details of the prior year restated figures refer to Note 32.

11.B. Intangible assets

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

	Consolidated	Core-Department Restated
	£000	£000
Cost or valuation		
At 1 April 2003	7,583	4,045
Additions	7,827	4,172
Reclassifications	626	–
Revaluations	–	–
Transfers	797	797
Disposals	(47)	–
31 March 2004	**16,786**	**9,014**
Amortisation		
At 1 April 2003	2,014	617
Charged in year	1,590	336
Reclassifications	350	–
Revaluations	–	–
Transfers	–	–
Disposals	(42)	–
31 March 2004	**3,912**	**953**
Net book value at 31 March 2004	**12,874**	**8,061**
Net book value at 31 March 2003	5,569	3,428

Additions for the consolidated figures include a non-cash element represented by creditors. Cash additions amount to £7,569,000 (as per Schedule 4). For details of the prior year restated figures refer to Note 32.

12. Investments

	Balance at 1 April 2003	Additions	Disposals	Revaluations	Loan repayments	Balance at 31 March 2004
	£000	£000	£000	£000	£000	£000
Consolidated						
Property investments	1,257	–	–	63	–	**1,320**
British Waterways: NLF Loan on-lent	14,736	–	–	–	(600)	**14,136**
Stocks and shares						
Genus plc	7	–	–	1	–	**8**
Dairy Crest plc	43	–	–	8	–	**51**
*National Milk Records plc	1	–	–	(1)	–	**–**
CEFAS Technology Ltd	150	–	–	–	–	**150**
Total	**16,194**	**–**	**–**	**71**	**(600)**	**15,665**
Core-Department						
Property investments	1,257	–	–	63	–	**1,320**
British Waterways: NLF Loan on-lent	14,736	–	–	–	(600)	**14,136**
Stocks and shares						
Genus plc	7	–	–	1	–	**8**
Dairy Crest plc	43	–	–	8	–	**51**
*National Milk Records plc	1	–	–	(1)	–	**–**
Total	**16,044**	**–**	**–**	**71**	**(600)**	**15,515**

The investment movements for the year included in Schedule 1 excludes on-lent National Loans Fund loans.

* The National Milk Records plc investment is showing a nil balance as at 31 March 2004, as the actual balance is less than £1,000.

13. Movements in working capital other than cash

The movements in working capital used in the reconciliation of resources to cash requirement comprise:

	Consolidated		Core-Department	
				Restated
	2003-04	2002-03	**2003-04**	2002-03
	£000	£000	£000	£000
(Increase)/decrease in stocks and work in progress	(16,673)	(24,057)	–	–
(Increase)/decrease in debtors	(169,781)	(19,515)	610,058	(452,931)
Increase/(decrease) in creditors falling due within one year	183,274	128,776	44,041	26,769
	(3,180)	85,204	**654,099**	(426,162)
Adjustment for fixed asset addition accruals	(19,693)	(2,032)	(15,939)	–
Net (increase)/decrease in working capital other than cash (Schedule 4)	**(22,873)**	83,172	**638,160**	(426,162)
Adjustment for working capital not related to supply	62	(4,753)		
Net (increase)/decrease in working capital other than cash (Schedule 1)	**(22,811)**	78,419		

The large decrease in Core-Department debtors is due to the Agencies repaying their funding loan. For details of the prior year restated figures refer to Note 32.

14. Stocks and work in progress

	Consolidated		Core-Department	
	2003-04	2002-03	**2003-04**	2002-03
	£000	£000	£000	£000
Stocks	60,286	43,274	–	–
Work in progress	1,606	1,945	–	–
	61,892	45,219	**–**	–

15. Debtors

	Consolidated		Core-Department	
				Restated
	2003-04	2002-03	**2003-04**	2002-03
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	49,307	56,230	11,712	9,832
Deposits and advances	1,436	1,291	1,436	1,291
VAT	20,646	13,955	14,862	10,478
Other debtors	16,809	18,691	8,561	8,418
Agency debtor	–	–	5,400	642,750
Current part of NLF Loan	600	–	600	–
Prepayments/accrued income: EU	702,791	472,356	5,980	–
Other	45,406	105,437	51,398	37,617
	836,995	667,960	**99,949**	710,386
Less: bad debt provisions	(22,767)	(26,330)	(223)	(695)
	814,228	641,630	**99,726**	709,691
Prior year Agency CFERs	1	134	1	134
Total due within one year	**814,229**	641,764	**99,727**	709,825
Amounts falling due after more than one year				
Trade debtors	67	12	67	12
Deposits and advances	444	592	444	592
Prepayments/accrued income: EU	9,547	12,279	–	–
Other	32	24	–	–
Total due after more than one year	**10,090**	12,907	**511**	604
Total debtors	**824,319**	654,671	**100,238**	710,429

Note 15. (continued)

The large decrease in Core-Department debtors is due to the Agencies repaying their funding loan.

Included within trade debtors is £19,537,000 (2002-03 £19,474,000) that will be due to the Consolidated Fund once the debts are collected.

For details of the prior year restated figures refer to Note 32.

16. Cash at bank and in hand

	Consolidated		Core-Department	
	2003-04	2002-03	**2003-04**	2002-03
	£000	£000	£000	£000
Balance at 1 April	717,198	406,016	166,735	318,296
Net change in cash balances	(619,837)	311,182	(165,461)	(151,561)
Balance at 31 March	**97,361**	717,198	**1,274**	166,735
The following balances at 31 March are held at:				
Office of HM Paymaster General	95,654	716,166	1,044	166,433
Commercial banks and cash in hand	1,707	1,032	230	302
	97,361	717,198	**1,274**	166,735
The balance at 31 March comprises:				
Amounts issued from the Consolidated Fund for supply but not spent at year end	92,265	523,476	493	165,045
Consolidated Fund Extra Receipts received and due to be paid to the Consolidated Fund	3,126	34,584	781	1,690
Other payments due to be paid to the Consolidated Fund	1,970	159,138	–	–
	97,361	717,198	**1,274**	166,735

17. Creditors

	Consolidated		Core-Department	
	2003-04	2002-03	**2003-04**	2002-03
	£000	£000	£000	£000
Amounts falling due within one year				
Trade creditors	33,553	52,656	21,985	40,592
Other creditors: EU	168,023	45,488	16,238	5,137
Other creditors: Other	5,348	12,734	1,953	387
Accruals and deferred income	619,134	533,010	231,329	181,948
Other taxation and social security	547	43	–	–
Current part of NLF loans	600	–	600	–
	827,205	643,931	**272,105**	228,064
Consolidated creditor to HM Treasury	92,265	523,476	92,265	523,476
Consolidated Fund Extra Receipts received and receivable and other due to be paid to the Consolidated Fund	24,388	210,289	691	162,800
Total due within one year	**943,858**	1,377,696	**365,061**	914,340
Amounts falling due after more than one year				
Finance leases	5	46	–	–
NLF loans	14,136	14,736	14,136	14,736
Others	23,827	27,034	6,929	6,929
Total due after more than one year	**37,968**	41,816	**21,065**	21,665
Total creditors	**981,826**	1,419,512	**386,126**	936,005

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

Consolidated Restated	**Foot and Mouth**	**Flood and coastal defence**	**Programme provisions**	**Admin provisions**	**Total**
	£000	£000	£000	£000	£000
Balance at 1 April 2003	125,052	6,177	94,118	12,600	**237,947**
Provided in the year	3,959	407	42,576	8,093	**55,035**
Provisions not required written back	(3,950)	(1,339)	(2,047)	(260)	**(7,596)**
Provisions utilised in year	(34,031)	(2,849)	(32,921)	(3,702)	**(73,503)**
Unwinding of discount	–	–	–	52	**52**
Balance at 31 March 2004	**91,030**	**2,396**	**101,726**	**16,783**	**211,935**
Core-Department					
Balance at 1 April 2003	125,052	6,177	54,053	9,551	**194,833**
Provided in the year	3,959	407	37,865	6,526	**48,757**
Provisions not required written back	(3,950)	(1,339)	(1,474)	(14)	**(6,777)**
Provisions utilised in year	(34,031)	(2,849)	(14,515)	(2,508)	**(53,903)**
Unwinding of discount	–	–	–	–	–
Balance at 31 March 2004	**91,030**	**2,396**	**75,929**	**13,555**	**182,910**

The administration provision includes contaminated land and dilapidation costs. Early Departure pension costs are also included within this provision apart from those relating to RPA, which have been included in programme provisions.

The programme provision also includes programmes such as the Contaminated Land, Fur Farming, Structural Funds, Classical Swine Fever, NCC Pensions, Meat and Livestock Commission (MLC) Lamb Provision Scheme, Factortame and backdated Slaughter Premium claims. The Factortame provision of £650,000 has been consolidated within the Programme provisions with effect from 31 March 2003. Also included is the Horticulture Research International (HRI) redundancy provision to cover the costs of those staff affected by the restructuring of HRI.

The reduction in the FMD provision relates mainly to invoices from the original outbreak being paid during the year, a number of which relate to settlement of disputes with vendors. The outstanding balance mainly consists of items still in dispute with vendors and other ongoing work such as claims against the Department and as such the actual timing of the utilisation of the provision is uncertain.

The Early Departure pension costs are those additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early and are met by the Department by paying the required amounts annually to the PCSPS over the period between early departure and the normal retirement date. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the HM Treasury discount rate of 3.5% in real terms.

The use of provisions reported in Schedules 1 and 4 differs from the amount above because some of the utilisation relates to notional charges (£940,000).

For details of the prior year restated figures refer to Note 32.

18.B. Provision for pension liability

18.B.1. The EA Closed Fund ('the Fund') is vested in the EA by Regulation 2(1) of the Local Government Pension Scheme (Environment Agency) Regulations 1996. The Secretary of State has the function conferred by Section 173 of the Water Act 1989 ('the Act') to make such payments into the Fund as may be considered appropriate in respect of the actual and contingent liabilities falling from time to time to be met out of the Fund to persons who were ex-employees of regional water authorities and other water industry bodies at the time of water privatisation in 1989 ('the Closed Fund members').

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

	Long-term rate of return expected at 31 March 04	**Value at 31 March 04**	Long-term rate of return expected at 31 March 03	Value at 31 March 03	Long-term rate of return expected at 31 March 02	Value at 31 March 02
		£000		£000		£000
Equities	7.3%	107,200	8.0%	123,500	7.5%	175,300
Bonds	5.1%	104,800	4.8%	135,800	5.5%	184,000
Cash	4.0%	26,300	4.0%	36,900	4.0%	66,900
Market value of assets		238,300		296,200		426,200
Present value of scheme liabilities		(1,064,900)		(958,300)		(993,600)
Net pension liabilities (Schedule 3)		(826,600)		(662,100)		(567,400)

The major financial assumptions used by the Actuary when providing the assessment of the accrued liabilities as at the following dates for the Resource Accounting assessments were:

	% At 31 March 2004	% At 31 March 2003	% At 31 March 2002
Rate of increase in salaries	2.9%	2.5%	2.8%
Rate of increase in pensions in payment and deferred pensions	2.9%	2.5%	2.8%
Inflation assumption	2.9%	2.5%	2.8%
Discount rate	6.5%	6.1%	6.4%

The scheme managers are responsible for providing the Actuary with relevant information to carry out the valuation. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the scheme; and
- following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The value of the liability included on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to reduce the assumed rate of inflation, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. As a consequence the managers of the scheme accept that the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year, resulting from changes in assumptions, is disclosed in notes 18.B.4. and 18.B.5. The note also discloses 'experience' gains or losses for the year, showing the corresponding amount charged or credited, because events have not coincided with assumptions made for the last valuation.

18.B.2 Analysis of movement in scheme liability

	2003-04	2002-03
	£000	£000
Scheme liability at 1 April	**(662,100)**	(567,400)
Current service cost	–	–
Past service costs	–	–
Contributions in respect of unfunded benefits	12,300	–
Net return on assets (Note 18.B.3.)	(40,200)	(37,700)
Actuarial gain/(loss) (Note 18.B.4.)	(136,600)	(57,000)
Scheme liability at 31 March	**(826,600)**	(662,100)

18.B.3. Analysis of the amount charged to operating costs

	2003-04	2002-03
	£000	£000
Expected return on pension scheme assets	15,200	25,900
Interest on pension scheme liabilities	(55,400)	(63,600)
Net return on assets	**(40,200)**	(37,700)

18.B.4. Analysis of amount recognised in the statement of recognised gains and losses

	2003-04	2002-03
	£000	£000
Actual return less expected return on pension scheme assets	16,900	(62,300)
Experience gains/(losses) arising on the scheme liabilities	(153,500)	5,300
Actuarial loss recognised in the statement of recognised gains and losses	**(136,600)**	(57,000)

18.B.5 History of experience gains and losses

	2003-04	2002-03
Difference between the expected and actual return on scheme assets:		
Amount (£000)	16,900	(62,300)
Percentage of assets	7.1%	(21.0%)
Experience gains/(losses) on liabilities:		
Amount (£000)	(153,500)	5,300
Percentage of assets	(14.4%)	0.6%
Total amount recognised in statement of recognised gains and losses:		
Amount (£000)	(136,600)	(57,000)
Percentage of assets	(12.8%)	(5.9%)

19. Revaluation reserve

	Consolidated 2003-04	Consolidated 2002-03	Core-Department 2003-04	Core-Department 2002-03
	£000	£000	£000	£000
Balance at 1 April	111,128	74,389	45,093	39,131
Arising on revaluation during the year (net)	65,683	38,070	17,947	6,140
Transferred from general fund in respect of realised element of revaluation reserve (Note 25)	(2,979)	(1,331)	(76)	(178)
Balance at 31 March	**173,832**	111,128	**62,964**	45,093

20. Capital commitments

	Consolidated 2003-04	Consolidated 2002-03	Core-Department 2003-04	Core-Department 2002-03
	£000	£000	£000	£000
Capital commitments at 31 March for which no provision has been made:				
Authorised and contracted	41,520	64,561	18,308	51,150
Authorised but not contracted	3,234	45,904	2,234	–

21. Commitments under operating and finance leases

Commitments under leases to pay rentals during 2004-05 are given in the table below, analysed according to the period in which the lease expires.

	Consolidated 2003-04	Consolidated 2002-03	Core-Department 2003-04	Core-Department 2002-03
	£000	£000	£000	£000
Obligations under operating leases comprise:				
Land and buildings				
Expiry within one year	339	439	335	396
Expiry within two to five years	1,525	1,417	1,338	1,289
Expiry thereafter	25,328	22,721	19,760	17,596
Amount payable in the following year	**27,192**	24,577	**21,433**	19,281
Other				
Expiry within one year	50	162	31	80
Expiry within two to five years	593	4,567	346	4,334
Expiry thereafter	6	69	–	68
Amount payable in the following year	**649**	4,798	**377**	4,482
Obligations under finance leases comprise:				
Rentals due within one year	69	69	21	21
Rentals due within two to five years	89	161	83	106
Rentals due thereafter	1,065	1,062	1,065	1,062
Less: interest element	(9)	(17)	–	–
	1,214	1,275	**1,169**	1,189

22. Other financial commitments

The Department is committed to making payments to non-cancellable contracts (which are not leases or Private Finance Initiative (PFI) contracts). The payments which the Department is committed to make during 2004-05, analysed according to the period in which the commitment expires, are as follows:

	Consolidated		Core-Department	
	2003-04	2002-03	**2003-04**	2002-03
	£000	£000	£000	£000
Expiry within one year	26,952	82,107	26,952	82,107
Expiry within two to five years	3,000	35,619	3,000	35,619
Expiry thereafter	296	9,390	296	9,390
	30,248	127,116	**30,248**	127,116

Defra also enters into multi-annual agreements with beneficiaries under a number of schemes within the ERDP. Under these agreements payments are due annually to beneficiaries upon their submission of a signed claim form and following their completion of specified activities and adherence to laid down prescriptions. In the event of activities and prescriptions specified within the agreements not being undertaken there is no liability to pay.

23. Contingent liabilities and assets

23.1. 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 for in the Accounts, but are instead listed separately as contingent liabilities. At 31 March 2004 the main items accrued for 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 £20m. This liability has reduced from 2002-03 due to a reassessment of the probability of such an occurrence;
- various claims connected with the FMD outbreak (unquantifiable);
- tallow, produced as a by-product of the rendering process, may prove to be unsaleable. The potential cost of disposal is £80m. This is greater than the cost in 2002-03 due to increased environmental controls and may change further in the future.

Note 23.1 (continued)

Apart from these, other items include:

- potential disallowance in respect of non-compliance with EC regulations in respect of various schemes (£8.7m);
- possible future claims by farmers relating to compensation payments as part of the ERDP up to a maximum of £6.2m;
- investment guarantees up to a maximum of £5.6m related to the Waste and Resources Action Programme (WRAP) together with various liabilities concerning the administration of the programme to a maximum of £0.57m per annum;
- employment tribunal for equal pay claim. This has Government wide implications so the potential liability is impossible to quantify;
- indemnity against all actions, 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 OTMS slaughtering contract in 1999. This claim is for up to £6.4m from January 2002 to December 2002, however, it is likely that the period of the claim will extend to 31 December 2004, with a resultant increase in the claim for the loss of profits which has yet to be quantified;
- Defra is responsible for paying for pension transfer values following the privatisation of HRI. The Government Actuary and the Universities Superannuation Scheme Ltd Actuary are currently in negotiation over a final figure, until this time the liability is unquantifiable;
- potential liabilities arising from small claims against Defra, potential liability estimated at no more than £4m.

Defra has the lead responsibility for a large number of NDPBs and public corporations (see Note 34). Although these sponsored bodies lie outside the accounting boundary, the Department is still required to meet any liabilities they are unable to absorb themselves.

23.2. Contingent assets

Future income arising from FMD control process

The EC 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 FMD control process. The Department submitted an initial claim to the EC for approximately £1,000m in December 2001 to which further amendments have been made between December 2001 and April 2004.

However, because of concerns over the financial controls exercised by Defra over the compensation scheme, it is unlikely to receive the full claim. The full extent of the reductions will not be clear until the EC has concluded the audit.

An advance of £217m was received in March 2002 and brought to account as income in the 2001-02 Resource Accounts. No further amounts were received in 2002-03. A further advance of £22m was received in January 2004 and recorded as income in the 2003-04 Resource Accounts. In April 2004, the Department received £42m, making a total to date of £281m received from the EC.

Further receipts are probable, but not quantifiable. As the amount of reimbursement is dependent upon the findings of the EC auditors, it is impossible to say how much these receipts will be or when they are likely to be received.

24. Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability

24.1. 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 FRS 12 since the likelihood of a transfer of economic benefits in settlement is too remote.

	1 April 2003	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2004
	£000	£000	£000	£000	£000
Statutory guarantees					
Guarantee of British Waterways borrowing	3,000	–	–	–	**3,000**
Statutory indemnities					
CHPQA[1] contractors wrongly assessing a scheme	100	–	–	–	**100**

[1] CHPQA: Quality Assurance for Combined Heat and Power.

24.2. 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 FRS 12 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 guarantee issued to the Carbon Trust to protect directors from liabilities.
- Indemnity to maintain an offshore works, built in the 1970's, to ensure that no danger or nuisance is caused.

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

Consolidated	2003-04	Restated 2002-03
	£000	£000
Net operating cost for the year (Schedule 2)	**(2,502,246)**	(2,379,755)
Income not A-in-A payable to the Consolidated Fund	(46,534)	(195,853)
	(2,548,780)	(2,575,608)
Net Parliamentary Funding	**2,692,475**	3,075,699
Transfer to general fund of realised element of revaluation reserve (Note 19)	2,979	1,331
Transfer to general fund – asset transfers	–	(335)
Non-operating A-in-A	390	(318)
Consolidated Fund creditor	(92,265)	(523,476)
Non-cash charges		
Cost of capital	19,827	51,222
Early departure	579	771
Auditors remuneration	752	759
Other	1,560	(2,738)
Balance due to DTLR in respect of transferred functions	–	6,644
Additional A-in-A	(1,063)	(17,324)
Prior year adjustments	–	(25,558)
Pension actuarial loss	(136,600)	(57,000)
Pension prior year adjustment	–	(567,400)
Contributions in respect of unfunded benefits	12,300	–
Net increase in general fund	**(47,846)**	(633,331)
General fund at 1 April	(392,997)	240,334
General fund at 31 March (Schedule 3)	**(440,843)**	(392,997)

Core-Department	2003-04	Restated 2002-03
	£000	£000
Net operating cost for the year (Schedule 2)	**(1,898,583)**	(1,884,769)
Income not A-in-A payable to the Consolidated Fund	(22,375)	–
	(1,920,958)	(1,884,769)
Net Parliamentary Funding	**2,692,475**	3,075,699
Transfer to general fund of realised element of revaluation reserve (Note 19)	76	178
Transfer to general fund – asset transfers	(570)	(2,798)
Non-operating A-in-A	390	(318)
Consolidated Fund creditor	(92,265)	(523,476)
Non-cash charges		
Cost of capital	(5,929)	10,736
Early departure	(361)	178
Auditors remuneration	272	272
Other	(13,355)	(19,562)
Balance due to PSD in respect of transferred functions	(1,546)	–
Balance due to DTLR in respect of transferred functions	–	6,644
Balance due to RPA in respect of transferred functions	(11,544)	(36,480)
Agency funding	(858,250)	(424,017)
Additional A-in-A	1,128	(161,110)
Pension actuarial loss	(136,600)	(57,000)
Pension prior year adjustment	–	(567,400)
Contributions in respect of unfunded benefits	12,300	–
Net increase in general fund	**(334,737)**	(583,223)
General fund at 1 April	(720,947)	(137,724)
General fund at 31 March (Schedule 3)	**(1,055,684)**	(720,947)

For details of the prior year restated figures refer to Note 32.

26. Analysis of net operating cost by spending body

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

Consolidated	**2003-04 Budget**	**2003-04 Outturn**	Restated 2002-03 Outturn
Spending body	£000	£000	£000
Department	2,306,109	3,733,692	754,675
Non-Departmental Public Bodies	438,652	438,185	441,182
Other central government	809,621	920,340	781,316
Local authorities	132,604	163,644	115,643
Other bodies	87,852	(2,793,815)	249,239
Closed pension	932,400	40,200	37,700
Net operating cost	**4,707,238**	**2,502,246**	2,379,755

Core-Department	**2003-04 Budget**	**2003-04 Outturn**	Restated 2002-03 Outturn
Spending body	£000	£000	£000
Core-Department	1,439,693	857,575	894,805
Executive Agencies	116,839	113,875	105,841
Non-Departmental Public Bodies	438,652	430,930	439,755
Other central government	–	80,880	69,587
Local authorities	131,604	163,691	115,653
Other bodies	87,852	211,432	249,975
Closed pension	932,400	40,200	37,700
Transfer of functions	–	–	(28,547)
Net operating cost	**3,147,040**	**1,898,583**	1,884,769

For details of the prior year restated figures refer to Note 32.

27. Losses and special payments

	2003-04		2002-03	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	236	851	224	2,496
Stores losses	21	84	39	240
Fruitless payments and constructive losses	10	8	17	158
Claims waived or abandoned	1,283	2,222	1,800	10,003
Special payments	157	544	1,351	5,990
	1,707	**3,709**	3,431	18,887

Details of cases over £100,000

Cash losses:

One case totalling £529,263 relating to the write-off of incorrect balances brought forward on the financial upgrade.

Claims waived or abandoned:

One case totalling £372,193 relating to export refunds from Haines & Isaacs.
One case totalling £1,610,348 relating to the write-off of HRI redundancy programme debt.

28. Commitments under PFI contracts

The majority of 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 in May 2003. A final payment of £4.23m is expected in November 2006.

29. Related party transactions

The Department is the parent of the Agencies shown in Note 33. The Department's NDPBs within the Departmental accounting boundary are also shown in Note 33 and those outside the boundary are shown in Note 34. 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. Department of Trade and Industry (DTI), Food Standards Agency (FSA), the Devolved Administrations, Government Offices within the Office of the Deputy Prime Minister (ODPM)) and other central government bodies.

Henry Brown, related to a director of Land Management and Rural Development received £21,869 for consultancy services regarding the availability of large animal veterinary surgeons.

Apart from the case above, 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 General Manager of Farmcare (part of the Co-operative Group (CWS) Ltd). In 2003-04 Farmcare received £2.6m (2002-03 £2.4m) in scheme payments from RPA. These external interests were known before appointment and were carefully considered by Defra.

Gordon Meek is also a member of the RPA Ownership Board and a Director of GR & SK Meek. In 2003-04 this company received £54,000 (2002-03 £60,000) in scheme payments from RPA. No balances were payable at 31 March 2004.

Richard Wakeford is a Non-Executive member of the Defra Management Board and the Chief Executive of the Countryside Agency. In 2003-04 the Countryside Agency received £90.3m in grant payments from Defra. These external interests were known before appointment and were carefully considered by Defra.

30. Financial instruments

30.1. 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.

Note 30 (continued)

30.2. As permitted by FRS 13 the Department has elected to exclude from disclosure all debtors and creditors which mature or become payable within 12 months of the balance sheet date.

30.3. With the exception of RPA, the Department's exposure to risk can be summarised:

Liquidity risk: no significant exposure given that 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.

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

30.5. 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 2003-04 this has generated an exchange loss of £14.7m (2002-03 generated an exchange gain of £26.2m, that in line with HM Treasury guidance, was treated as a CFER) that, in line with HM Treasury guidance, has been treated as Scheme Expenditure. HM Treasury have agreed that, for budgeting purposes, such losses can be offset against previous exchange rate gains/losses and "should the loss be in excess of this amount (£26.2m) HM Treasury and RPA will need to consider the matter further". The exchange rate gain for 2002-03 was £26.2m which leaves a balance of £11.5m. No guarantee has been given from HM Treasury on budget cover for losses in excess of the £26.2m. No hedging contracts have been put in place, since HM Treasury have advised that there is a legal impediment against this. The EC may propose an amendment to Article 28 of the horizontal regulation, limiting reimbursement of direct payments to the Annex VIII ceilings in euro. Any additional budgetary cost due to exchange rate fluctuations would then fall to national budgets. The EC may be required to include a margin in the budget to provide for the possibility of such appreciation and this would have the effect of reducing direct payments across all member states by a further 4% – 5% by 2013. HM Treasury are considering whether or not they can accept the increased risks. HM Treasury and RPA are currently exploring the feasibility of using financial tools to minimise the risks e.g. buying sterling forward at a rate fixed on an agreed date in the future.

30.6. 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 £354.2m (2002-03 £326.5m) and cash totalling £2.5m (2002-03 £4.4m) were held at 31 March 2004 by RPA.

31. Post balance sheet events

There were no reportable post balance sheet events.

32. Prior year adjustments

Core-Department

Details of Core-Department prior year adjustments are due to reclassifications, the transfer of all BCMS balances to RPA and the creation of the EA closed pension provision are as follows:

- Local Authority Grant (£69,645,736) incorrectly included last year within Exchequer funded expenditure reclassified as capital grants (Note 4);
- SVS staff costs reclassified as frontline service staff costs (£36,691,718) (Sch 2, Note 4);
- SVS admin costs reclassified as frontline service other costs (£10,405,654) (Sch 2, Note 3, Note 4);
- SVS admin income reclassified as frontline service income (£361,205) (Sch 2, Note 4, Note 6);
- BCMS balances (net expenditure reduced by £28,546,677, debtors reduced by £5,947, intangible cash additions reduced by £165,000 and fixed assets reduced by £8,428,412). These adjustments affect the majority of the schedules and notes;
- EA closed pension provision:

  FRS 17 *Retirement Benefits* has been fully implemented for 2003-04. As a result, the Operating Cost Statement (Schedule 2) now recognises the movements in the scheme liability (other than those arising from actuarial gains and losses). The Operating Cost Statement for 2002-03 has been restated to reflect the new accounting policies. The estimated effect of the change in accounting policy on the results for 2003-04 is to increase the net outgoings by £40,200,000. The scheme liability at 1 April 2003 of £662,100,000 is recognised as a prior year adjustment in the statement of recognised gains and losses.

  As a result of recognising the pension scheme liabilities, there has been a movement in the reserves as at 31 March 2003 of £662,100,000 which has been noted in the analysis of movements in reserves. For the purposes of the Estimate, a prior year adjustment to the movement in the pension liability, excluding any actuarial gains and losses, in 2001-02 and 2002-03 was recognised. The outturn figure was £76,062,000.

Rural Payment Agency

Along with the Core-Department prior year adjustments detailed above, RPA prior year adjustments have affected the Consolidated accounts. These are due to reclassifications and the transfer of all BCMS from the Core-Department. Details are as follows:

- Admin staff costs reclassified as frontline service staff costs (£80,330,000) (Sch 2, Note 4);
- Admin costs reclassified as frontline service other costs (£52,939,000) (Sch 2, Note 3, Note 4);
- Admin income reclassified as frontline service income (£621,000) (Sch 2, Note 4, Note 6);
- BCMS balances (as disclosed above) have been taken on by RPA. The net effect on the Consolidated accounts is zero.

33. Entities within the Departmental accounting boundary

The entities within the Departmental accounting boundary during 2003-04 comprise the Core-Department, its Executive Agencies and NDPBs as follows:

Executive Agencies

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.

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 CAP.

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.

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)*

Note 33 (continued)

Advisory NDPBs (Defra funded)

Advisory Committee on Business and the Environment (ACBE) *(Disbanded 10/09/03)*
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)
Committee of Agricultural Valuation
Committee of Investigation for Great Britain
Committee on Products and Processes for Use in Public Water Supply
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
Pesticide Residues Committee
Radioactive Waste Management Advisory Committee *(Disbanded 17/03/04)*
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)

Advisory Committee on Organic Standards
Spongiform Encephalopathy Advisory Committee

Tribunal NDPBs (Defra funded)

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

34. 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

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 (SBREC) was formally wound up 31/03/99, but the fund known as the Home Grown Sugar Beet Research and Education Fund (SBREF) will continue to exist until all monies raised by statutory levy are dispersed. White Paper Accounts will be produced until funds are dispersed.

Public corporations

British Waterways Board
Covent Garden Market Authority (CGMA)

Other bodies

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

35. Actual outturn – resources and cash

Actual outturn – resources	**2003-04**	2002-03
Net resource outturn		
Actual amount net resource outturn:	£2,623,155,975.28	£2,532,249,251.40
Actual amount of savings over Estimate:	£1,174,446,024.72	£24,171,748.60
Actual outturn – cash		
Net cash requirement		
Net cash requirement: Outturn net requirement:	£2,600,209,864.22	£2,552,222,989.69
which is less than the Estimate by:	£705,743,135.78	£523,872,010.31
The actual receipts surrenderable to the Consolidated Fund were:	£48,001,443.95	£207,204,138.27

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