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

Department for Environment, Food and Rural Affairs

Resource Accounts 2004-05

LONDON: The Stationery Office
HC 445

10 October 2005
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(For the year ended 31 March 2005)

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Contents

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2005

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 boundary

The entities within the Departmental boundary during 2004-05 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 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 2004-05, 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.

Strategic Priorities

As well as the six objectives, Defra has five strategic priorities which underpin its overarching aim of promoting sustainable development. Ministers have agreed that, to make progress against these strategic priorities, it will be necessary to secure a number of key outcomes[1], the majority of which are expressed as Public Service Agreement (PSA) targets:

- **Climate change and energy** – making a full contribution, domestically and internationally, to addressing the long-term threats presented by climate change and unsustainable energy use, and to ensure adequate mitigation of the consequences which are already unavoidable;
- **Sustainable consumption and production** – breaking the link between economic growth and environmental degradation and resource use through promoting and enabling more sustainable patterns of consumption and production;
- **Protecting the countryside and natural resource protection** – creating a robust policy framework and evidence base, in order to promote the sustainable use and enhancement of the country's natural heritage and ecosystems;
- **Sustainable rural communities** – encouraging sustainable regeneration in disadvantaged rural areas, promoting social inclusion and reducing deprivation, ensuring higher quality, more accessible public services to rural communities;
- **A sustainable farming and food sector including animal health and welfare** – helping create a sustainable food and farming supply chain serving the market and the environment; putting in place systems to reduce risks of animal diseases, and being ready to control them when they occur.

In addition, the Department recognises that a significant part of its work is concerned with preparedness for emergencies and contingencies.

Five Year Strategy

Defra's *Five Year Strategy, Delivering the Essentials of Life*[2], builds on the work the Department has been doing for some time to progressively clarify the Department's purpose and define its priorities. The strategy identifies the priorities the Department will need to achieve over the next five years and beyond. Its themes and outcomes are in line with the PSA[3] targets agreed in the 2004 Spending Review. The document sets out areas where additional emphasis is needed and where, if Defra is to make real progress, it needs to go further than PSA targets (an example is the sustainable balance between supply and demand for water, where the Department has clear objectives but no PSA target).

Defra's new strategy will make a difference in two main ways: through environmental leadership and putting sustainable development into practice – in its key areas of supporting rural communities, implementing the Strategy for Sustainable Farming and Food and in its role as the Government's champion of sustainable development. The Department will continue to take action and provide leadership locally, nationally and globally; not least by embedding the principles of sustainable development into all aspects of government, and by making it easier for individuals and businesses to behave more sustainably. The Department also recognises the importance of its role in emergency planning and protecting the nation from threats, such as flooding and animal disease, and also the key role it will play in taking forward the Government's better regulation agenda.

1 *Outcomes sought under each strategic priority can be found in Annex B of Defra's Five Year Strategy at http://www.defra.gov.uk/corporate/5year-strategy/5year-strategy.pdf*

2 *The Five Year Strategy can be found on the Defra website at: http://www.defra.gov.uk/corporate/5year-strategy/5year-strategy.pdf*

3 *http://www.defra.gov.uk/corporate/busplan/busplan.htm*

Departmental Report

The 2005 Departmental Report (Cm 6537) was published in June 2005[4]. It sets out the Department's progress[5] in delivering its aim and objectives and Spending Review 2002 PSA targets, by reference to the Department's strategic priorities. It also covers other key areas of the Department's work, which support its objectives, and sets out key achievements during 2004-05 and a forward look to 2007-08. This includes detailed financial tables, which show Defra's staffing and expenditure plans (for the period of the 2002 and 2004 Spending Review), in resource terms.

The Report also focuses on Defra's Executive Agencies and NDPBs and how they work in partnership with the Core-Department to achieve its aim and objectives. This includes the work of the Forestry Commission and contains details of its 2005 Annual Report.

The Report also looks at the management of the Department, its Policy Centre Review Programme (PCRP), its corporate services and systems aligned to business needs and the progress of Departmental Reform.

Events during the year

In December 2004, Margaret Beckett, Secretary of State for Environment, Food and Rural Affairs, launched the Department's Five Year Strategy. This builds on the foundations Defra has laid since 2001 and sets out new focus on environmental leadership, caring for rural England and delivering a sustainable future for farming.

In March 2005, with the Prime Minister, Margaret Beckett launched the new UK Sustainable Development Strategy. The Strategy represents a new level of commitment, from and across different departments. A new emphasis has been placed on delivery, rather than on more challenging aspirations, so this document is not just another government publication but a challenging programme of action. Since the last strategy, Defra has achieved a lot in the UK, but is aware that more needs to be done, as it is clear that sustainable development cannot be delivered by government alone. Businesses, the public sector, voluntary and community organisations, and communities and families all need to make more sustainable choices.

The Department continued to make good progress against the targets agreed under the 2002 Spending Review. 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. This year, 2005, the UK holds the Presidency of the G8 group of countries and from July 2005, the Presidency of the European Union. Climate change, along with Africa, will be our top priorities for these two Presidencies. 2005 offers us the opportunity to work with our G8 and EU partners to demonstrate a common resolve. In March 2005, the first ever meeting of G8 Environment and Development Ministers was held in Derbyshire. Ministers agreed the urgent need to assist Africa to reduce vulnerability to the impact of climate change and recognised the need to build scientific capacity and to integrate measures to address the impact of climate change into development plans. This represented a significant step forward in tackling the growing problem of climate change and will help to save lives. Also, in March 2005, the Energy and Environment Ministerial Roundtable in London set up a new collaborative dialogue between energy and environment ministers from 20 countries with significant energy needs.

In July 2004, the Government's Rural Strategy 2004 was announced, outlining our radical reforms to the delivery of the Government's rural policies. The delivery arrangements that the Department is implementing through the Modernising Rural Delivery Programme are aimed at delivering services in a more streamlined, customer-focussed way, by a smaller number of organisations with devolved responsibility, with clearer roles and working in partnership within an overarching sustainable development framework. These include the establishment of the NDPB Natural England, to provide an integrated approach to sustainable management, enhancement and use of the natural environment.

4 http://www.defra.gov.uk/corporate/deprep/default.htm

5 The Department also provides regular on-line updates against its 2002 Spending Review targets. These can be found on HM Treasury's website at: www.hm-treasury.gov.uk/performance/

In March 2005, the Department launched the Environmental Stewardship Scheme. This is a new agri-environment scheme which provides funding to farmers and other land managers in England, who deliver effective environmental management on their land. The scheme is intended to build on the recognised success of the Environmental Sensitive Areas Scheme and the Countryside Stewardship Scheme.

Investment for the future

Departmental Reform Programme

We are developing a new 'business model' for how the Department organises itself and behaves. This is also being informed by thinking across government on reform and professionalism, including the Professional Skills for Government (PSG) work. The three programmes driving internal change are Defra's Delivery Strategy, the Policy Centre Review Programme (PCRP), and the Corporate Centre Programme. Defra's Delivery Strategy describes how Defra will achieve its outcomes through more effective partnerships between its policy and delivery functions. The PCRP is looking radically at the kind of Core-Department Defra needs to deliver its Five Year Strategy and secure the efficient delivery of its strategic priorities in the future. PCRP is looking at the skills and expertise the Department needs to deliver effective policy, the role of specialists, how the Department organises policy support activity, and how Defra forms and disbands policy teams. The Corporate Centre Programme will make Defra's corporate centre substantially more efficient and more joined up, and will examine how IT, HR, Finance and Estates can deliver high quality, professional support to the new Department. More details of the Departmental Reform Programme can be found in Chapter 6 of the 2005 Departmental Report.

Departmental Investment Strategy

Defra's Departmental Investment Strategy 2005-08 describes the investment programmes planned for the 2004 Spending Review, and outlines the outcome of previous investment activity. This strategy is available on the Defra website[6]. The Department continues to invest in upgrading and developing its own internal infrastructure, and maintaining the asset base of its Executive Agencies and NDPBs. It also invests in essential assets deployed by local authorities to act on behalf of Defra; for example, the provision and maintenance of flood and coastal defences.

Learning and development

The Defra Learning and Development Strategy sets out Defra's highest priority learning needs and aims to ensure that staff have the skills needed to deliver for 2004-07, and identifies the key capability gaps to be as follows:

- leading & managing people;
- professional expertise;
- business management;
- working in partnership.

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.

The Professional Skills for Government (PSG) programme was launched by Sir Andrew Turnbull in October 2004. It is a new programme to develop and improve the Civil Service by providing clear career paths and better support to staff to develop their careers. In the first stage of implementation in late 2004, Defra conducted a wide ranging consultation exercise across the Department with the broad result that PSG was welcomed as being both timely and fitting well with a number of things that the Department is already doing. More detail on each of the above can be found in Defra's Departmental Report (Cm 6537, June 2005).

6 *http://defraweb/corporate/busplan/dis/index.htm*

Financial review

Significant variances against Estimate

During the year the Department spent £271m lower than its original Estimate. This underspend is comprised of:

- **£178m underspend** planned to be carried over into 2005-06 to fund ministerial priorities, of which £86m was retained centrally by the Department and £92m was identified by the business areas in year;
- **£123m net over-provision** caused by the double inclusion of £180m for flood management grant-in-aid to the Environment Agency, less £57m for the costs of the Intervention Board not included;
- **Less £30m increase in the Environment Agency closed pension scheme** to cover pre-1974 liabilities that were quantified after the Estimate had been submitted.

Going Concern

The balance sheet at 31 March 2005 shows negative Taxpayers Equity of £334,753,000. This reflects the inclusion of liabilities falling due in future years, which are to be financed, mainly, by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet Defra's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from the Department's income, are surrenderable to the Fund.

In common with other government departments, the future financing of Defra's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2005-06 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Events since the Balance Sheet date

Following Ministers' acceptance of the recommendations of the 2004 Purnell Report into the future of the State Veterinary Service (SVS), a formal programme was established during 2004-05 to turn the SVS into an Executive Agency. The programme included a public consultation that was carried out in the summer of 2004. The responses from this informed both the programme and the decision to proceed. Accordingly, the SVS launched as an Executive Agency on 1 April 2005. The role of the Agency, as set out in its Framework Document, is as follows:

- implementation and enforcement of specific national and EU legislation and regulations relating to animal welfare, the control and eradication of animal diseases, and the facilitation of international trade as agreed with Defra and the Devolved Administrations;
- inspection and surveillance, licensing, certification and registration, and investigation and enforcement;
- contributing to evidence-based policy development by providing advice on the deliverability, implementation and effectiveness of existing policies and new proposals, and by providing information and veterinary and industry surveillance to inform policy development;
- discharging specific responsibilities and functions in the case of any outbreak of exotic or other animal disease as set out in detailed Departmental contingency plans.

Two further Executive Agencies will come into operation on 1 October 2005:

- The Government Decontamination Service (GDS) will provide expert advice, guidance and a streamlined ability to decontaminate buildings and the environment after a chemical, biological, radiological or nuclear incident;

- The Marine Fisheries Agency (MFA) will serve England and Wales, to secure the enforcement of UK, EU and international fisheries law and regulations. It will also undertake work in support of the conservation of the marine environment.

Two more NDPBs of Defra have also been created:

- On 1 April 2005 the Gangmasters Licensing Authority (GLA) was set up. The Authority has responsibility for the introduction and operation of the new licensing arrangements for gangmasters, following the Gangmasters (Licensing) Act 2004;
- Under the Water Act 2003, the consumer water body, WaterVoice, will be fully separated from the water industry regulator, Ofwat. It will be re-constituted as the Consumer Council for Water (CCW). This will take effect from 1 October 2005.

The Landfill Allowance Trading Scheme (LATS), introduced in April 2005, is a further step in the drive to move to more sustainable waste management practices. The scheme, the first of its kind in the municipal waste sector, has been developed by government to help local authorities meet targets under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill.

On 7 April 2005, the Clean Neighbourhoods and Environment Bill received Royal Assent, and became the Clean Neighbourhoods and Environment Act. It deals with many of the problems affecting the quality of our local environment, which forms part of a continuum of anti-social behaviour, vandalism, disorder and levels of crime. It also provides local authorities, parish and community councils and the Environment Agency with more effective powers and tools to tackle poor environmental quality and anti-social behaviour. In particular, the Bill includes sections on crime and disorder, nuisance and abandoned vehicles, litter, graffiti, waste, noise and dogs.

In the *Five Year Strategy*, Defra also committed to establish a new carbon offsetting scheme for official air travel. This was extended to a cross-Government commitment at the launch of the UK Sustainable Development Strategy in March 2005. Defra is now chairing an interdepartmental working group to implement this commitment to offset carbon dioxide emissions from official travel in central government, from April 2006. Defra piloted offsetting during the G8 Presidency, by announcing a tender for an African based offsetting project, to offset emissions associated with the G8 summit and associated events under the G8 Presidency. Defra will also take a leading role in offsetting emissions arising from our EU Presidency in the second half of 2005.

The award of £3.5m of funding to Oxford University's Environmental Change Institute for the UK Climate Impacts Programme (UKCIP) was announced by Elliot Morley on 16 May 2005. The funding will allow UKCIP to develop strategic research on the impact of climate change across the UK, and also strengthen the role that the Programme plays in equipping organisations, such as local authorities, businesses, services and utilities and regional government, to prepare themselves for climate change.

The EU Emissions Trading Scheme was given the green light on 24 May 2005, with the publication of allowances for installations covered by Phase 1 of the Scheme. The Scheme is one of the main components in the fight against climate change. It is set to help reduce carbon dioxide by around 65m tonnes (around 8%) below projected emissions covered by the Scheme over the next three years.

The Permanent Secretary of Defra, Sir Brian Bender, will be leaving his post on 30 September 2005 to move to the Department of Trade and Industry (DTI).

MANAGEMENT

Ministers

The Ministers who had responsibility for the Department during the year 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. She leads for the UK in international negotiations on sustainable development and climate change. Mrs Beckett represents the UK at the EU Agriculture and Fisheries Council and at the EU Environment Council.

Minister of State for Rural Affairs and Local Environmental Quality – Rt Hon Alun Michael MP

Responsible for rural policy (rural economies and communities, rural strategy implementation; chairs Rural Affairs Forum for England); hunting with dogs; inland waterways; Countryside Agency; Rural Payments Agency; access; rights of way and commons; national parks; horse issues; general oversight of the England Rural Development Programme; local environment quality issues; environmental liability; pesticides policy (including the Pesticides Safety Directorate); chemicals; and is the lead Defra Minister on planning, regional and local government issues.

Minister of State for 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 the England Rural Development Programme; waste (including incineration issues); radioactive substances; chair of Green Ministers (ENV(G)); Environment Agency; water; floods and coastal defence; lead responsibility for business continuity and resilience; and horizontal environmental issues.

Minister for Farming, Food and Sustainable Energy – Lord Whitty of Camberwell

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

Minister for Nature Conservation and Fisheries – Ben Bradshaw MP

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

Permanent Head of the Department and Management Board

The Management Board comprised of the following members of staff during 2004-05:

Sir Brian Bender	Permanent Secretary
Bill Stow	Director General: Environment
Andy Lebrecht	Director General: Sustainable Farming, Food and Fisheries
Ursula Brennan[7] (from 19 April 2004)	Director General: Natural Resources 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 and Director General: Science, Economics and Statistics Science Head of Profession
Dr Debby Reynolds	Chief Veterinary Officer and Director General: Animal Health and Welfare Veterinary Head of Profession
Andrew Burchell	Director: Finance, Planning and Resources Directorate
Francesca Okosi	Director: Improvement and Delivery Group

Non-executive members of the Management Board

Bill Griffiths

Elizabeth Ransom

Johnston McNeill[8]
(from January 2005)

Richard Wakeford[9]
(until December 2004)

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)
Mark Farrar (Acting from 1 August 2004) Dr Peter Greig-Smith (until 31 July 2004)	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)

7 *The responsibilities of the Director General: Natural Resources and Rural Affairs were carried out by 4 Directors within the Directorate General from 27 January 2004 when Anna Walker left until Ursula Brennan started on 19 April 2004.*

8 *Johnston McNeill's appointment to the board is to strengthen the representation on the Board of people with skills in operational delivery and process excellence. It is also in keeping with the proposals for Corporate Governance in central government departments that recommend that the Board should consider appointing, as members of the Departmental Board, one or more senior officials from significant agencies or any NDPB through which it conducts its business.*

9 *Richard Wakeford resigned following his appointment as Head of the Scottish Executive Environment and Rural Affairs Department (SEERAD).*

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.

Ministerial salaries are determined by the Cabinet Office, under the Ministerial and Other Salaries Act 1997. The Senior Salaries Review Body (SSRB) makes recommendations about the remuneration of the Management Board. The 27th Report of the Review Body on Senior Salaries was implemented in February 2005.

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 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's priorities. Achievements and initiatives carried forward during the period include:

- Core-Defra ran four, sample-based, "Pulse" staff surveys between April 2004 and January 2005. An action plan addressing priority areas is being implemented. Progress will be measured against the results of the full staff survey which took place in July 2005;

- Defra is currently working to ensure Investors in People accreditation beyond the current recognition date of May 2006, maintaining its continuing commitment to its people, and recognising the benefits of external assessment on strategic direction, management capability and HR policies;

- 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. Core-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 Core-Defra is 100% for all valid payments to be made by the due date. Defra's performance for the year, excluding RPA, was 92.97%. The total number of supplier invoices paid during the year was 152,377, with 142,040 paid on time. For RPA 83.35% of all invoices relating to administration expenditure were paid within 30 days. No interest was payable under the Late Payment of Commercial Debts (Interest) Act 1998 (2003-04 £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 **27 September 2005**

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

The Department is required to prepare Resource Accounts for the year ended 31 March 2005 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, Non-Departmental Public Bodies (NDPBs), and public corporations. It also works to achieve its aim in partnership with other bodies, some of which receive funds from the Department. The delegated authorities and accountabilities that apply to Defra's relationship with all these bodies are described in Accounting Officer letters, Framework documents, Management Statements, Financial Memoranda, Offer of Grant letters 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 statement on internal control.

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

Leadership

Defra's Management Board continues to provide the strategic lead on risk management in the Department. Risk is regularly on the Board's agenda, both in terms of the individual policy and delivery areas being discussed and, more formally, in its review of key performance management information from around the Department. The latter is co-ordinated via the corporate Balanced Scorecard: itself a high-level risk management tool that carries information on the status of Defra's mission critical programmes, Public Service Agreement (PSA) targets and Top Threats. Throughout the year, we have regularly reviewed the action plans underpinning the Department's Top Threats. These are the strategic, crosscutting risks which, if realised, would have a major impact on our ability to meet one or more of Defra's strategic outcomes and on the Department's reputation. With the help of challenge from the Non-executive Directors, the Management Board has developed its collective ownership of these risks and its understanding of where the key actions need to be targeted.

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.

Guidance and training

Defra continues to engage with HM Treasury's Risk Support Team and the dissemination of good practice via the Risk Improvement Manager Network. Since April 2005, I have taken over the leadership of the risk improvement agenda across Whitehall, chairing a sub-group of the Civil Service Management Board.

To help build the capability of middle managers in our policy teams, we are in the process of rolling out additional risk management training. There continues to be a strong risk element to other key training courses: Programme and Project Management (PPM) and better policy-making. 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, tools and good practice on risk management.

With more and more of our routine business being handled in a PPM environment, an increasing number of our staff are handling risk in a more systematic way. We continue to monitor our staffs' view of our approach to risk via Staff Survey feedback, which shows a steadily increasing number who feel encouraged to identify and address risks locally, free from the fear of blame.

The risk and control framework

Risk management strategy

Much of Defra's work involves understanding and anticipating risks and putting credible contingency plans in place. It includes assessing the risks posed to the public 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 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. Under the strategy, Directorate and programme managers should capture information on known risks on local risk registers (which include details of countermeasures, contingencies and residual risk) and escalate concerns up the management chain as appropriate. There is growing evidence of risk registers becoming more commonplace around the Department, but the quality of data and the consistency of format is variable, as is effective management use of registers. Risk management software is now being piloted as a tool to improve the consistency of our recording and reporting on risk.

The Department's risk appetite (i.e. the balance between reducing risk in some areas and taking risks in others) is an implicit factor in strategic decision-making by Ministers and the Management Board. However, we aim to make determination of risk appetite more explicit and consistent by improving ministerial submissions, by using risk management software and through the 2007 Spending Review discussions between our business areas, Ministers and HM Treasury.

Embedding risk management

The delivery plans for our PSA targets are underpinned by risk assessments and regular reviews of risk management. I have appointed a Senior Responsible Officer for each target, who is responsible for the programme of work to achieve the target; the Officer is accountable to the Management Board for delivery. The Department provides progress reports to HM Treasury for each PSA target on a six-monthly basis. This report contains a suite of performance management information, including an overall assessment of the likelihood of delivery. These reports are also scrutinised at Board-level before they are assessed and challenged by HM Treasury. The governance and challenge arrangements for our other 'Mission Critical' programmes are similar, though with review by the Management Board every three months.

Two of the main performance management processes (PPM procedures and the use of the Balanced Scorecard) have been further rolled out throughout the year, with Scorecards now being introduced at Director-level. This is helping us adopt a more structured and active 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 crosscutting risks to their programmes. During the year, we have also reviewed how risks are handled and presented in submissions to Ministers. This exercise has allowed us to identify a number of opportunities to improve the consistency of our approach; throughout 2005-06 these will be implemented and monitored.

As with other departments, managing risk in delivery partnerships continues to be a very challenging area. We are currently arranging a number of workshops with groups of our delivery bodies to discuss current arrangements and obstacles and to identify and broadcast good practice. Examples of improvement include greater engagement with our partners through the PPM process (e.g. on the Modernising Rural Delivery Programme Board).

We have reported our progress on embedding good risk management to HM Treasury every six months (using the Risk Management Assessment Framework (RMAF)). Our reports have shown clear evidence of improvement in each of the key elements of the RMAF.

Emergency preparedness

Throughout the year, the Department has continued to make progress in improving its emergency preparedness and contingency planning. On the animal health and welfare front, for example, Defra's exotic animal disease generic contingency plan was laid before Parliament in July 2005. The plan sets out the structures and systems that would be implemented in an outbreak of disease and describes the Government's capability to provide the resources to implement the control policies. Exercise Hornbeam – a national foot and mouth disease exercise that took place in June 2004 – provided a valuable check on our plans. Our emergency plans have also been tested by real-life situations, such as the flooding incidents of Boscastle (August 2004) and Carlisle (January 2005), and the outbreak of Newcastle Disease, a highly contagious disease of birds (July 2005), and lessons learned exercises are regularly conducted afterwards. Defra has assessed the current risks from avian influenza and we continue to monitor these with EU colleagues. Our emergency plans for any outbreak of the disease are being kept under review (for example a cross-government desk-top exercise is planned for the near future), and we have taken other steps to manage the risks, including the use of import controls and the issue of guidance.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review 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 roles and processes in the Department's ongoing review of the effectiveness of the system of internal control, and plans for further improvements, are described in the following paragraphs.

Management Board

The Management Board provides strategic leadership for the Department and is responsible for ensuring effective performance, risk management and control. The Board is chaired by me and comprises the senior staff of the Department and three non-executive members. The Board meets 11 times a year, with further joint meetings with Ministers, and team building away-days. Minutes of its meetings are published on Defra's intranet. The Board is supported by 4 sub-committees which deal with Strategy, Corporate Resources, Performance and Improvement, and Audit and Risk Management.

The Balanced Scorecard is a key tool for the Board and Ministers in maintaining oversight of the Department's performance and reviewing effectiveness. It tracks our progress against strategic priorities and key programmes and projects, highlights risks which may influence our future success, and identifies actions to improve performance. It focuses on four areas: Results; Customers and Stakeholders; Processes; People, Knowledge and Culture. The Performance and Improvement Committee is developing a more robust challenge of the information provided by the Scorecard process, and all staff now have access to the Scorecard through the intranet. Other aspects of the Board's role in areas such as risk management, financial management, and delivery of "Mission Critical" Programmes and PSA targets are described elsewhere in this statement.

Audit and Risk Committee

The Audit and Risk Committee is chaired by a non-executive member of the Board and has two other non-executive members. It considers the adequacy of audit arrangements (internal and external) and is continuing to develop strategic oversight and challenge to assurances from Internal Audit, the NAO, the Departmental Risk Co-ordinator and others on our risk management, control and governance processes. The Committee met 7 times during the 2004-05 financial year. The Committee has developed its scrutiny of the Accounts and is working more closely with the Audit and Risk Committees of our Agencies and NDPBs to ensure that impacts of control, risk and governance issues are taken into account across the wider Defra family. As part of its role in monitoring the degree of embedding of good risk management and advising on risk appetite, the Committee reviews and challenges risk assurances from senior managers.

Defra Internal Audit reports to the Audit and Risk Committee on an agreed programme of audits. 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 continuously reviews the quality of its service. Internal Audit has also agreed with the Audit and Risk Committee a new Audit Strategy based on mapping Defra's assurance requirements, and using risk-based internal auditing to focus assurance work on the areas of greatest risk to the Department's achievement of its aim and objectives, to enhance the quality and sustainability of the opinion.

The Departmental Risk Co-ordinator reports to the Audit and Risk Committee and Board on the implementation of our Risk Management Strategy and our progress towards embedding good risk management into the organisation. Our review of the maturity of our risk management (using the RMAF) in the Core-Department has helped us to identify the following priority areas for development:

- Improving our handling of risk in policy submissions: more effectively alerting Ministers to the degree of risk involved in policy options and recommendations. Helping them to assure themselves that what is proposed is (a) proportionate to the level of risk involved, (b) within their own risk appetite and (c) within the Department's capability to deliver - before decisions are taken and policy announcements are made;

- Improving our management of risk in delivery partnerships: improving such things as the understanding of the risk environment in which both parties operate (sponsor and delivery partner), the allocation of risk ownership and the application of good practice in risk governance arrangements;

- Improving our understanding and management of the Department's portfolio of risk: ensuring that our risk reduction measures are being effective in key areas, whilst appropriate risk-taking and innovation are being encouraged in others and that new programmes and initiatives are not commenced without ensuring that the additional new risks they bring are sustainable.

Financial control

Financial control in Defra is based on a formal system of delegated authority supported by regular monitoring of financial management information, and compliance with financial regulations and procedures. I formally delegate budgets to Directors General and other executive Management Board members. Budgets are then sub-delegated to Directors, and in turn to Heads of Division who are principally responsible for managing budgets. 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. 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 original budgets against spend and revised forecasts quarterly during the year and decides on adjustments to funding in line with delivery priorities agreed with Ministers and the associated risk assessments. Budget holders are also asked to provide updates to the fixed assets records twice a year. The budget holders' stewardship reporting process includes in-year reporting and forecasting relative to spend, budget and profile. Stewardship reports are made to the Management Board to provide explanations for significant variance of outturn against budget and reports on assets for which the budget holder is responsible.

While the Comptroller and Auditor General certified the Defra 2003-04 Resource Account with an unqualified opinion, and recognised the Department's progress in improving financial management, the NAO's audit of the accounts raised a number of issues which the Department is addressing to enhance controls. These and other key areas of improvement in financial control are summarised below:

- Defra has taken some steps to improve its financial forecasting but it also commissioned Ernst & Young to undertake a review of its planning and forecasting processes. The Management Board accepted the review's recommendations which the Department is implementing. Improvements include embedding a more consistent and robust approach to resource allocation, enhancing forecasting and other capabilities of our financial software, undertaking more rigorous reviews of underspends, and the introduction of improved monthly financial reports to the Board. These measures have been prompted in part by the Department's underspend in 2003-04 (totalling £1,174m in net resources, though £816m of this was due to the incorrectly anticipated costs of funding the Environment Agency pension scheme) which highlighted the need for improvements in financial monitoring and forecasting, as well as better resource allocation. The over-provision of £123m in the 2004-05 Main Estimate also underlined this issue, though the error was identified earlier in the year and the figure could not be adjusted in-year due to Parliamentary rules;

- the Department has improved its guidance and procedures in order to ensure that Consolidated Fund Extra Receipts are managed effectively both within Defra and its agencies;

- the Department has taken steps to improve communication and procedures to ensure correct forecasting and accounting in relation to the Environment Agency's pension scheme following mistakes in treatment of the scheme last year which also contributed significantly to the unplanned underspend described above;

- Defra has enhanced its financial management system so that one system is providing information both for financial and management accounts and it is working to improve the quality of in-year data. In addition, Defra has put in place more active in-year management of assets and liabilities and is monitoring control accounts on a monthly basis. Finance and business areas are reviewing provisions quarterly, and the Department is planning to undertake a programme of rolling financial reviews of Directors General over the course of the year. Defra is also implementing the new Procure-to-Pay system so that most procurements will be recorded on the purchase ledger at the point of order. These measures should also help to bring about faster closing of the accounts. The Department is developing a strategy to meet HM Treasury's target of a July closure date for the annual accounts, based on a risk-based approach towards upgrading and streamlining our processes. Defra is also revising its anti-fraud policy and introducing a fraud response plan.

Other assurances on internal control

The internal control system provides assurances from executive managers through the line/functional management accountability structure, and from Project Managers and Senior Responsible Owners of programmes and projects. Our Programme and Project Management Unit's work as a centre of excellence includes provision of best practice guidance, health checks on mission-critical programmes and projects and progress reports to the Management Board. In addition, the Office of Government Commerce (OGC) examines some of our Programmes at critical stages in their lifecycles ("Gateways") to provide assurance that they can progress successfully to the next stage. Other assurances on the system of internal control include self-assessments by Directors and Directors General on Risk Management, Governance and Control issues, reviews and assurances on Emergency and Continuity Planning and reports from our Health and Safety and Security Units.

As part of its new strategy agreed with the Audit and Risk Committee, Internal Audit continues to develop a map of assurances on the system of internal control, and is developing processes to review and integrate these in its ongoing independent assurance to myself and the Committee.

Significant internal control issues

In considering the significance of internal control developments during the period we review Defra's own systems and also take into account Statements on Internal Control and other assurances from the Department's Agencies, NDPBs and other delivery partners. Any significant control issues which might impact on the Department's overall internal control environment are highlighted in the Departmental statement.

Procurement controls

During 2004-05 an issue arose in one of our bodies in respect of controls around the procurement and receipting of goods and services. The effect of this control weakness, though not material to Defra, was to alert the Department to the need to pay particular attention to the controls being embedded in respect of the increased automation of procurement, invoice processing and travel and subsistence claims.

Single Payment Scheme

Another significant issue concerns the difficulties of implementing the Single Payment Scheme (SPS) which is due to replace the present range of Common Agricultural Policy (CAP) payments by February 2006. The issue arises from the challenge of developing the necessary IT capability to administer SPS, and process applications for the Scheme, within the planned timescales. This presents us with reputational and other risks since the new Scheme is key to Defra's Sustainable Farming and Food Strategy, and to one of our PSA targets.

The SPS IT system has required significant additional changes during its development due mainly to the complexity of the Scheme and the late determination of SPS policy. Processing of applications has been affected by incomplete applications, a high volume of late submissions about land holdings, poor performance of the land register system, greater than expected numbers of customer enquiries and delays in establishing the system to capture SPS claims. These problems have in turn placed a substantial strain on staff resources; greater numbers have been required for longer than anticipated and there has been less time to train staff on the new systems.

Mitigating actions have been taken to counter these problems and ensure that the extensive system changes and ongoing work are both delivered within a robust control environment. Actions include the recruitment of additional temporary staff, the strategic apportionment of staff skills and experience, and training on the internal control environment. Senior staff and myself have been kept closely engaged in the progress of SPS implementation through the governance structure of the CAP Reform Programme, and updates are regularly provided to Ministers. An OGC Gateway review in January 2005 identified the significant pressures surrounding the reform of CAP payments but noted that there was strong leadership, professional, committed management and a high level of Departmental support for the changes.

IT systems

The Department recognises the need for a robust governance framework overseeing the management of our computer systems, as we become increasingly reliant on technology to deliver our objectives. We have established an *e-business* management function dedicated to meeting our IT needs known as the Intelligent Customer Function (ICF).

Defra is establishing revised governance arrangements to ensure a strategic alignment of our IT programme with our five year strategy. Within the short term we expect to review our IT investment plans, and include targets for the ICF to ensure that the Department is compliant with BS7799 by the Cabinet Office's proposed deadline for all central Departments of 2008.

Departmental reform and restructuring

Under our Departmental Reform Programme, Defra is implementing changes to improve the delivery of outcomes, reduce the regulatory burden and meet our efficiency commitments. Our strategy is to establish more effective partnerships between policy and delivery by organisational separation between the two functions, underpinned by clear governance and accountability arrangements. The business of delivery is being passed to bodies who have a shared understanding with the Core-Department on their role in both delivering outcomes and supporting policy development. The policy function in the Core-Department is being redefined and restructured to better provide the skills and expertise needed, and our corporate support services are being reorganised to make them more efficient and joined up.

Two new delivery bodies have been established during the period: the State Veterinary Service and the Gangmasters Licensing Authority, with two more (the Government Decontamination Service and the Marine Fisheries Agency) due to be launched from 1 October. A new body, Natural England, is being established to deliver our rural development policy objectives in a more coherent way through major reorganisation of the current structures, involving changes to the Rural Development Service, the Rural Payments Agency, the Countryside Agency and English Nature. We are also rationalising our inspectorate functions under the Hampton review.

These fundamental developments imply substantial changes to our risk profile during the current period and next few years. A key risk is a lack of coherence in the governance arrangements between the Core-Department and its delivery bodies. Under our delivery strategy we are developing, and publishing advice on, a governance framework and culture which ensures there is a “golden thread” of accountability for delivery and which provides effective joined-up management of risks and performance. We are also establishing a new departmental governance structure which includes the creation of a Defra Collaboration Group – a joint Defra–delivery body strategic forum which will advise Defra on design and investment issues which impact upon the Defra family. This will substantially enhance Departmental oversight of the shared issues between Core-Defra and our delivery bodies, and facilitate formal escalation of risk concerns.

We have also defined the overall risk to the Department as an inability to see through our Reform Programme whilst also ensuring effective delivery of Defra’s priorities. This constitutes one of our “Top Threats”, and I take the lead in our response which is directed at two linked internal control challenges: ensuring that we have coherence and efficacy in our change portfolio, and also have the capacity to simultaneously deliver major priorities. We have developed a management action plan to meet these challenges which was reviewed by the Audit and Risk Committee in March 2005, and a revised version was agreed by the Management Board at its April 2005 meeting. Governance of the Reform Programme is focused on application of the PPM framework and oversight by the Management Board through the Performance and Improvement Committee, which I also chair.

Sir Brian Bender
Accounting Officer for the Department for Environment, Food and Rural Affairs **27 September 2005**

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 23 to 74 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 32 to 37.

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 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 I have 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 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 20 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. 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 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

3 October 2005

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

The maintenance and integrity of the Department's website is the responsibility of its 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 2005

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, to contribute to the well-being of rural and coastal communities and funding aspects of the Common Agricultural Policy and England Rural Development Plan Guarantee Section as economically, efficiently and effectively as possible.

	2004-05							2003-04
	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	6,685,092	3,451,349	**3,233,743**	6,344,099	3,381,162	**2,962,937**	**270,806**	2,623,155
Total resources (Note 7)	**6,685,092**	**3,451,349**	**3,233,743**	**6,344,099**	**3,381,162**	**2,962,937**	**270,806**	2,623,155
Non-operating cost A-in-A (Note 6.C.)			**8,034**			**8,034**	**-**	18,892
Net cash requirement (Schedule 4)			**3,203,626**			**2,848,844**	**354,782**	2,600,210

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)

		2004-05 Forecast		2004-05 Outturn	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	£000	£000	£000
Total	5	**22,764**	***25,924***	**125,934**	***110,165***

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

The outturn was £271m lower than the Estimate. This was due to £178m of planned underspend plus an accidental net over-provision of £123m in the 2004-05 Main Estimate less a £30m increase to the provision for the Environment Agency Closed Pension Scheme.

Of the £178m planned underspend, £86m was retained centrally by the Department and not allocated to the Department's business areas during the year as it was planned to be carried over into 2005-06 to fund ministerial priorities. An additional £92m of underspend was forecast by the business areas during the year against their allocation that was also planned to be carried over into 2005-06 to fund ministerial priorities.

The £123m net over-provision in the 2004-05 Main Estimate consisted of £180m, included twice for flood management grant-in-aid to the Environment Agency, less £57m for the costs of the Intervention Board not included. These were identified earlier in the year but the net figure could not be returned in the Spring Supplementary Estimate because it is not possible, within Parliamentary rules, to create a negative Supplementary Estimate.

In addition to the actuarially anticipated Environment Agency Closed Pension Scheme provision increase, there was a further £30m increase to cover pre-1974 liabilities only recently quantified with sufficient confidence to include in the accounts.

SCHEDULE 1 (continued)

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

The reconciliation between the net resource and net cash requirement is shown below.

The expenditure on fixed assets was lower than expected as a result of rescheduling major information technology projects consistent with business area needs.

Proceeds from the disposal of fixed assets were higher than expected. This was due to the completion of the sale of information technology assets, as part of the Department's outsourcing arrangements (£14m of which is excess non-operating cost A-in-A, see note 6.C.).

The increased adjustment for non-cash items included adding back provisions created to pay for corporate re-organisation and other normal business area activities, together with movements on the Environment Agency Closed Pension Fund provision.

Other variances to Estimate include:

- a greater than expected movement in working capital of £9.5m, partly due to a decrease in stocks;
- a decrease in creditors falling due after one year of £12.6m, due to balances moving to short term creditors in 2004-05.

The payment of claims relating to the Foot and Mouth Disease outbreak in 2001 were set against the existing provisions.

Reconciliation of resources to cash requirement

			2004-05		2003-04
		Estimate	**Outturn**	**Net total outturn compared with Estimate saving/ (excess)**	Prior year outturn
	Note	£000	£000	£000	£000
Net total resources	7	**3,233,743**	**2,962,937**	**270,806**	2,623,155
Capital:					
Acquisition of fixed assets	10	157,052	129,160	27,892	129,190
Non-operating cost A-in-A					
(Proceeds of fixed asset disposals)	6.C.	(8,034)	(8,034)	-	(18,892)
Accruals adjustments:					
Non-cash items	3.B.	(130,954)	(258,272)	127,318	(155,803)
Changes in working capital other than cash	13	(48,181)	(65,068)	16,887	22,811
Changes in creditors falling due after more than one year	17	-	12,651	(12,651)	3,248
Use of provisions	18.A.	-	75,470	(75,470)	72,563
Prior year adjustments		-	-	-	(76,062)
Net cash requirement (Schedule 4)		**3,203,626**	**2,848,844**	**354,782**	2,600,210

The notes on pages 32 to 74 form part of these accounts.

SCHEDULE 2

Consolidated Operating Cost Statement

for the year ended 31 March 2005

	Note	2004-05 £000	2004-05 £000	2003-04 £000	2003-04 £000
Administration costs					
Staff costs	2.A.	249,573		234,162	
Non-staff administration costs	3	263,049		250,112	
Gross administration costs			**512,622**		484,274
Operating income[1]	6.A.	(51,940)		(51,753)	
Net administration costs			**460,682**		432,521
Programme costs					
Request for Resources 1					
Expenditure[2]	4	5,484,465		4,874,783	
Less: income[1,3]	6.A.	(3,438,361)		(3,098,971)	
			2,046,104		1,775,812
Frontline Services					
Staff costs[2]	2.A. & 4	208,827		174,672	
Other costs[2]	4	147,574		122,506	
Less: income[1]	6.A.	(2,913)		(3,265)	
			353,488		293,913
Net programme costs	4		**2,399,592**		2,069,725
Net operating cost[4]	7 & 8		**2,860,274**		2,502,246
Net resource outturn	7 & 8		**2,962,937**		2,623,155

of which:

[1] Total operating income is £3,493,214,000 (2003-04 £3,153,989,000) - see Note 6.A.

[2] The total programme expenditure is £5,840,866,000 (2003-04 £5,171,961,000) - see Note 4.

[3] £3,296,998,000 – relates to income for which Defra acts as an agent for the EU in making payments to third parties (2003-04 £3,009,090,000).

[4] £7,470,532 – relates to EU receipts, which are treated as negative public expenditure and reduce the burden on the UK Exchequer (2003-04 £18,615,530).

All income and expenditure is derived from continuing operations.

Consolidated Statement of Recognised Gains and Losses

for the year ended 31 March 2005

	2004-05 £000	2003-04 £000
Net gain on revaluation of tangible fixed assets	32,921	65,612
Net gain on revaluation of investments	13	71
Actuarial gain/(loss)	6,600	(136,600)
Recognised gains and losses for the financial year	**39,534**	(70,917)
Prior year adjustments	-	(662,100)
Recognised gains and losses since last annual report	**39,534**	(733,017)

The Notes on pages 32 to 74 form part of these accounts.

SCHEDULE 2 (continued)

Core-Department Operating Cost Statement
for the year ended 31 March 2005

	Note	2004-05 £000	2004-05 £000	2003-04 £000	2003-04 £000
Administration costs					
Staff costs	2.A.	164,472		151,911	
Non-staff administration costs	3	157,485		148,693	
Gross administration costs			**321,957**		300,604
Operating income[1]	6.A.	(22,376)		(35,018)	
Net administration costs			**299,581**		265,586
Programme costs					
Request for Resources 1					
Expenditure[2]	4	1,975,729		1,595,958	
Less: income[1]	6.A.	(76,274)		(65,968)	
			1,899,455		1,529,990
Frontline Services					
Staff costs[2]	2.A. & 4	88,537		84,083	
Other costs[2]	4	21,739		21,850	
Less: income[1]	6.A.	(2,767)		(2,926)	
			107,509		103,007
Net programme costs	4		**2,006,964**		1,632,997
Net operating cost [3]	7		**2,306,545**		1,898,583
Net resource outturn	7		**2,349,070**		1,997,020

of which:

[1] Total operating income is £101,417,000 (2003-04 £103,912,000) - see Note 6.A.

[2] The total programme expenditure is £2,086,005,000 (2003-04 £1,701,891,000)- see Note 4.

[3] £7,470,532 – relates to EU receipts, which are treated as negative public expenditure and reduce the burden on the UK Exchequer (2003–04 £18,615,530).

All income and expenditure is derived from continuing operations.

Core-Department Statement of Recognised Gains and Losses
for the year ended 31 March 2005

	2004-05 £000	2003-04 £000
Net gain on revaluation of tangible fixed assets	23,190	17,876
Net gain on revaluation of investments	13	71
Actuarial gain/(loss)	6,600	(136,600)
Recognised gains and losses for the financial year	**29,803**	(118,653)
Prior year adjustments	-	(662,100)
Recognised gains and losses since last annual report	**29,803**	(780,753)

The Notes on pages 32 to 74 form part of these accounts.

SCHEDULE 3

Consolidated Balance Sheet
as at 31 March 2005

	Note	31 March 2005 £000	31 March 2005 £000	31 March 2004 £000	31 March 2004 £000
Fixed assets:					
Tangible assets	11.A.	813,374		741,239	
Intangible assets	11.B.	15,414		12,874	
Investments	12	12,094		15,665	
			840,882		769,778
Debtors falling due after more than one year	15		**422,598**		10,090
Current assets:					
Stocks	14	23,665		61,892	
Debtors	15	766,851		814,229	
Cash at bank and in hand	16	273,275		97,361	
		1,063,791		973,482	
Creditors (amounts falling due within one year)	17	(1,511,989)		(943,858)	
Net current assets/(liabilities)			**(448,198)**		29,624
Total assets less current liabilities			**815,282**		809,492
Creditors (amounts falling due after one year)	17	(25,317)		(37,968)	
Provisions for liabilities and charges	18.A.	(232,718)		(211,935)	
			(258,035)		(249,903)
Net assets/(liabilities) excluding pension liability			**557,247**		559,589
Pension liability	18.B.1.	(892,000)		(826,600)	
			(892,000)		(826,600)
Net assets/(liabilities) including pension liability			**(334,753)**		(267,011)
Taxpayers' equity:					
General fund	25	(530,552)		(440,843)	
Revaluation reserve	19	195,799		173,832	
			(334,753)		(267,011)

Sir Brian Bender
Accounting Officer for the Department for Environment, Food and Rural Affairs **27 September 2005**

The Notes on pages 32 to 74 form part of these accounts.

SCHEDULE 3 (continued)

Core-Department Balance Sheet
as at 31 March 2005

	Note	31 March 2005 £000	31 March 2005 £000	31 March 2004 £000	31 March 2004 £000
Fixed assets:					
Tangible assets	11.A.	340,108		277,828	
Intangible assets	11.B.	10,682		8,061	
Investments	12	11,944		15,515	
			362,734		301,404
Debtors falling due after more than one year	15		**9,696**		511
Current assets:					
Stocks	14	-		-	
Debtors	15	159,294		99,727	
Cash at bank and in hand	16	121,832		1,274	
		281,126		101,001	
Creditors (amounts falling due within one year)	17	(630,270)		(365,061)	
Net current assets/(liabilities)			**(349,144)**		(264,060)
Total assets less current liabilities			**23,286**		37,855
Creditors (amounts falling due after one year)	17	(10,770)		(21,065)	
Provisions for liabilities and charges	18.A.	(168,624)		(182,910)	
			(179,394)		(203,975)
Net assets/(liabilities) excluding pension liability			**(156,108)**		(166,120)
Pension liability	18.B.1.	(892,000)		(826,600)	
			(892,000)		(826,600)
Net assets/(liabilities) including pension liability			**(1,048,108)**		(992,720)
Taxpayers' equity:					
General fund	25	(1,134,191)		(1,055,684)	
Revaluation reserve	19	86,083		62,964	
			(1,048,108)		(992,720)

Sir Brian Bender
Accounting Officer for the Department for Environment, Food and Rural Affairs **27 September 2005**

The Notes on pages 32 to 74 form part of these accounts.

SCHEDULE 4

Consolidated Cash Flow Statement
for the year ended 31 March 2005

	2004-05	2003-04
	£000	£000
Net cash outflow from operating activities *(Note i)*	**(2,638,381)**	(2,445,127)
Capital expenditure and financial investment *(Note ii)*	**(109,274)**	(110,298)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	**8,976**	3,143
Payments of amounts due to the Consolidated Fund	**(80,377)**	(236,333)
Financing *(Note iii)*	**2,994,970**	2,168,778
Increase/(decrease) in cash in the period	**175,914**	(619,837)

Notes to the cash flow statement

	2004-05	2003-04
Note i: Reconciliation of operating cost to operating cash flows		
Net operating cost	**2,860,274**	2,502,246
Adjust for non-cash transactions (Note 3a)	(245,621)	(152,555)
Adjust for movements in working capital other than cash (Note 13)	(51,742)	22,873
Use of provisions	75,470	72,563
Net cash outflow from operating activities	**2,638,381**	2,445,127
Note ii: Analysis of capital expenditure and financial investment		
Intangible fixed asset additions	3,447	7,569
Tangible fixed asset additions	112,721	121,621
Proceeds of disposal of fixed assets	(6,894)	(18,892)
Net cash outflow from investing activities	**109,274**	110,298
Note iii: Analysis of financing and reconciliation to the net cash requirement		
From Consolidated Fund (Supply): current year #	2,994,970	2,692,475
From Consolidated Fund (Supply): prior year *	-	(523,476)
Additional Income	-	(221)
Net financing	**2,994,970**	2,168,778
(Increase)/decrease in cash	(175,914)	619,837
Net cash flows other than financing	**2,819,056**	2,788,615
Adjustment for payments and receipts not related to Supply		
Amounts due to the Consolidated Fund received in prior year and paid over	(5,097)	(191,374)
Amounts due to the Consolidated Fund received and not paid over	34,885	2,969
NLF loans - interest received from other bodies	1,691	1,691
NLF loans - interest paid to the NLF	(1,691)	(1,691)
Net cash requirement (Schedule 1)	**2,848,844**	2,600,210

Amount of grant actually issued to support the net cash requirement was £2,994,969,816.77 (2003-04 £2,692,475,000.00).
* Amount of grant actually issued to support the prior year net cash requirement was £nil (2003-04 £523,476,010.31).

The Notes on pages 32 to 74 form part of these accounts.

SCHEDULE 4 (continued)

Core-Department Cash Flow Statement
for the year ended 31 March 2005

	2004-05	2003-04
	£000	£000
Net cash outflow from operating activities *(Note i)*	**(2,202,077)**	(1,251,387)
Capital expenditure and financial investment *(Note ii)*	**(76,467)**	(41,557)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	**8,976**	3,143
Payments of amounts due to the Consolidated Fund	**(51,290)**	(186,409)
Financing *(Note iii)*	**2,441,416**	1,310,749
Increase/(decrease) in cash in the period	**120,558**	(165,461)

Notes to the cash flow statement

Note i: Reconciliation of operating cost to operating cash flows		
Net operating cost	**2,306,545**	1,898,583
Adjust for non-cash transactions (Note 3a)	(120,587)	(62,939)
Adjust for movements in working capital other than cash (Note 13)	(43,621)	(638,160)
Use of provisions	59,740	53,903
Net cash outflow from operating activities	**2,202,077**	1,251,387

Note ii: Analysis of capital expenditure and financial investment		
Intangible fixed asset additions	1,875	4,172
Tangible fixed asset additions	78,327	53,613
Proceeds of disposal of fixed assets	(3,735)	(16,228)
Net cash outflow from investing activities	**76,467**	41,557

Note iii: Analysis of financing and reconciliation to the net cash requirement		
From Consolidated Fund (Supply): current year #	2,994,970	2,692,475
From Consolidated Fund (Supply): prior year *	-	(523,476)
Movement in Agency funding**	(553,554)	(858,250)
Net financing	**2,441,416**	1,310,749
(Increase)/decrease in cash	(120,558)	165,461
Net cash flows other than financing	**2,320,858**	1,476,210
Adjustment for payments and receipts not related to Supply		
Amounts due to the Consolidated Fund received in prior year and paid over	(781)	(161,672)
Amounts due to the Consolidated Fund received and not paid over	993	781
NLF loans - interest received from other bodies	1,691	1,691
NLF loans - interest paid to the NLF	(1,691)	(1,691)
Net cash requirement	**2,321,070**	1,315,319

Amount of grant actually issued to support the net cash requirement was £2,994,969,816.77 (2003-04 £2,692,475,000.00).

* Amount of grant actually issued to support the prior year net cash requirement was £nil (2003-04 £523,476,010.31).

** Amount of the grant issued and transferred to the Agencies to support their net cash requirement was £553,554,000 (2003-04 £858,250,000).

The Notes on pages 32 to 74 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2005

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.

The aim is underpinned by six objectives covering the span of the Department's responsibilities (further details can be found on page 3):

		2004-05			Restated 2003-04	
Aim:	**Gross**	**Income**	**Net**	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Protect rural, urban & global environments	1,666,169	(666,548)	999,621	1,007,987	(63,828)	944,159
Promote sustainable rural areas	221,747	(72,752)	148,995	70,095	(20,594)	49,501
Promote safe food supply chain	417,154	(360,017)	57,137	1,127,373	(966,127)	161,246
Promote sustainable farming	1,814,083	(1,655,966)	158,117	1,906,846	(1,664,397)	242,449
Promote prudent use of resources	801,317	(480,522)	320,795	422,136	(173,803)	248,333
Protect public health & animal welfare	1,433,018	(257,409)	1,175,609	1,121,798	(265,240)	856,558
Net operating costs	**6,353,488**	**(3,493,214)**	**2,860,274**	5,656,235	(3,153,989)	2,502,246

For a description of the methodology used see Note 1.20.

The 2003-04 figures have been restated where there has been a re-assessment of the apportionments to reflect more appropriate allocations than those used in the previous year.

The Notes on pages 32 to 74 form part of these accounts.

Notes to Departmental Resource Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2004-05 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which 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.

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

For each of the schemes administered by RPA an accrual point has been established according to the applicable scheme rules and regulations. Where an obligation is identified to fall on or before the balance sheet date, it is shown as a creditor in the current year's financial statements, with the EC funded element as a debtor. Similarly, any elements paid in advance of these accrual points are treated as prepayments, with an offsetting creditor. Clearance decisions by the European Agricultural Guidance and Guarantee Fund (EAGGF) are charged as described below.

EC funding, except Intervention is accounted for on the same basis as RPA scheme costs and uses the same accrual point.

Other UK Paying Agencies make payments to claimants for certain schemes and account for them. RPA funds this expenditure and accounts to the EC for it. These contributions are accounted for on the basis of claims submitted to the EC for the reimbursement of scheme expenditure incurred by them and are subject to adjustments following clearance decisions by EAGGF as described below.

RPA accrues for liabilities which are to be included in EC clearance decisions when the EC have made formal proposals for disallowance under Article 8-1. The exception to this is disallowance for late payments which are accrued when known, in accordance with the formulae in Regulation 296/96.

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

Note 1.3. (continued)

Modulation

Modulation is a vehicle for redirecting into Rural Development a proportion of direct payments to farmers. This process is supported by EC and National legislation.

Under Council Regulation (EC) 1259/1999, modulation is applied to all payments made under certain schemes, with the gross amounts being claimed from the EC and the net amounts being paid to traders or farmers. Modulation amounts applicable to England, are retained by RPA as deferred income against future Rural Development expenditure and contingently for repayment to EAGGF. Expenditure on schemes subject to modulation is shown gross of modulation and any modulation balance is held against future Rural Development expenditure. When payments are made out of modulation funds on Rural Development measure, the modulation funds are applied as income against total expenditure. If the funds are not employed on the prescribed Rural Development measures within four years of the end of EAGGF year in which they were retained, then they must be repaid to the EAGGF. From January 2005, with the introduction of the Single Payment Scheme (SPS), there are two types of modulation – Compulsory EC Modulation and Voluntary National Modulation. National Modulation can be claimed from the EC and accounted for in the same manner as Modulation under regulation 1259/1999. EC funding under regulation 1782/2003 can be claimed from the EC net of modulation. The UK will receive a minimum of 80% of the funds it generated from modulation within the UK. Expenditure and income on EC modulation will be accounted for gross of modulation as it will be for National Modulation.

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 2005, 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 costs 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	1 to 30 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) CSL, RPA and VLA hold stock levels material to their business. With the exception of RPA, these are brought into the Consolidated Accounts at the lower of cost (or at current replacement cost where materially different) and net realisable value.

RPA's stock comprises agricultural commodities purchased into intervention under terms specified by the 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. 3.11.3). Tallow and meat and bone meal (MBM) stocks are valued at the balance sheet date in accordance with SSAP 9, reflecting their value to the business.

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

1.9. Research and development

Research and development expenditure is written off in the year in which it is incurred. However, if development expenditure met the following conditions it would be capitalised:

(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, in accordance with the RAM, is 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 whole of the activities of RPA relate to programme expenditure. 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% (2003-04 3.5%) on all assets less liabilities, except for donated assets and cash balances with the Office of HM 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 expenditure.

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. These translation differences are dealt with in the Operating Cost Statement. In line with HM Treasury guidance, gains are treated as Consolidated Funds Extra Receipts (CFERs) and losses as programme expenditure.

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 past and present 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. In respect of defined contribution schemes, the Department recognises the contributions payable for the year.

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. 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 Framework Programme (FP). Secondly, each FP is mapped to one or more of Defra's six objectives.

Administration costs are spread across objectives based upon already distributed programme expenditure. The Department's capital assets are mainly employed for administrative purposes. Consequently, the distribution of depreciation and capital charges between objectives, except RPA which are coded to a particular scheme, is made on the same basis as other administrative costs.

The apportionments made to distribute the costs and income of the other Agencies are based on the split of staff numbers involved in the Agencies activities by objective.

The 2003-04 figures have been restated where there has been a re-assessment of the apportionments to reflect more appropriate allocations than those used in the previous year.

2. Staff Numbers and Costs

2.A. Staff costs consist of:

Consolidated	**Administrative**					**Programme**			
	Permanently employed staff	Others	Ministers	Special Advisors	Total Admin	Permanently employed staff	Others	**2004-05 Total**	2003-04 Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Salaries and wages	194,298	12,616	275	153	207,342	139,576	8,615	355,533	339,563
Social security costs	15,494	370	17	3	15,884	10,420	317	26,621	24,772
Other pension costs	26,845	6	-	12	26,863	49,839	60	76,762	45,309
Sub-total	**236,637**	**12,992**	**292**	**168**	**250,089***	**199,835**	**8,992**	**458,916**	409,644
Less: recoveries in respect of outward secondments	(1,017)	-	-	-	(1,017)	(26)	-	(1,043)	(635)
Total net costs	**235,620**	**12,992**	**292**	**168**	**249,072**	**199,809**	**8,992**	**457,873**	409,009

Core-Department	**Administrative**					**Programme**			
	Permanently employed staff	Others	Ministers	Special Advisors	Total Admin	Permanently employed staff	Others	**2004-05 Total**	2003-04 Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Salaries and wages	126,267	9,826	275	153	136,521	69,316	4,142	209,979	195,480
Social security costs	10,373	306	17	3	10,699	5,264	317	16,280	15,025
Other pension costs	17,751	4	-	12	17,767	9,438	60	27,265	26,014
Sub-total	**154,391**	**10,136**	**292**	**168**	**164,987***	**84,018**	**4,519**	**253,524**	236,519
Less: recoveries in respect of outward secondments	(951)	-	-	-	(951)	(26)	-	(977)	(635)
Total net costs	**153,440**	**10,136**	**292**	**168**	**164,036**	**83,992**	**4,519**	**252,547**	235,884

* Out of the total, £516,091 (£515,091 Core-Department) has been charged to capital and the balance of £249,573,000 (£164,472,000 Core-Department) has been charged in Schedule 2.

Principle 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 2003. Details can be found in the Resource Accounts of the Cabinet Office under Civil Superannuation (www.civilservice-pensions.gov.uk). For 2004-05, employer's contributions of £44,169,568 (2003-04 £45,004,000) 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.A. (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 £454,473 for 2004-05, (£299,000 for 2003-04) 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 £30,782 for 2004-05 (£6,000 for 2003-04), 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.

19 persons (2003-04: 7 persons) retired early on ill health grounds: the total additional accrued pension liabilities in the year amounted to £35,819 (2003-04: £13,980).

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

OBJECTIVE	**Permanently employed staff**	**Others**	**Ministers**	**Special Advisors**	**2004-05 Total**	2003-04 Restated Total
	Number	Number	Number	Number	Number	Number
Objective 1	3,815	330	2	1	4,148	5,210
Objective 2	464	42	-	-	506	72
Objective 3	777	58	-	-	835	1,523
Objective 4	2,088	179	-	-	2,267	2,406
Objective 5	1,472	117	1	1	1,591	1,159
Objective 6	4,597	318	2	1	4,918	3,932
Sub Total	**13,213**	**1,044**	**5**	**3**	**14,265**	14,302
Staff engaged on capital projects					16	164
Total					**14,281**	14,466

The 2003-04 figures have been restated in line with the changes in apportionment of Schedule 5.

2.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 65**	**Column 3 Total accrued pension at age 65 as at 31 March 2005**	**Column 4 CETV at 31 March 2004**	**Column 5 CETV at 31 March 2005**	**Column 6 Real increase in CETV ***
	£	£	£000	£000	£000	£000	£000
Ministers							
Rt Hon Margaret Beckett MP	72,862	71,433	0 - 2.5	10 - 15	151	183	14
Ben Bradshaw MP	28,688	28,125	0 - 2.5	0 - 5	15	21	2
Rt Hon Alun Michael MP	37,796	37,055	0 - 2.5	5 - 10	57	72	7
Elliot Morley MP	37,796	35,244	0 - 2.5	5 - 10	45	58	6
Lord Whitty of Camberwell	101,768	96,300	0 - 2.5	10 - 15	114	142	13

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)

Officials	Column 1 Salary as defined below	Prior year salary as defined below	Column 2 Real increase in pension and related lump sum at age 60	Column 3 Total accrued pension at age 60 at 31 March 2005 and related lump sum	Column 4 CETV at 31 March 2004	Column 5 CETV at 31 March 2005	Column 6 Real increase in CETV *
	£000	£000	£000	£000	£000	£000	£000
Sir Brian Bender *Permanent Secretary*	155-160	155-160	0-2.5 plus 5-7.5 lump sum	55-60 plus 130-135 lump sum	914	990	32
Bill Stow *Director General*	115-120	115-120	0-2.5 plus 5-7.5 lump sum	65-70 plus 190-195 lump sum	1,085	1,169	24
Andy Lebrecht *Director General*	105-110	100-105	0-2.5 plus 5-7.5 lump sum	35-40 plus 105-110 lump sum	536	605	33
Donald Macrae *Solicitor & Director General*	115-120	105-110	0-2.5 plus 2.5-5 lump sum	40-45 plus 125-130 lump sum	638	700	21
Mark Addison *Director General*	130-135	125-130	0-2.5 plus 5-7.5 lump sum	50-55 plus 150-155 lump sum	792	860	21
Andrew Burchell *Director*	105-110	100-105	0-2.5 plus 5-7.5 lump sum	30-35 plus 100-105 lump sum	484	544	27
Francesca Okosi *Director*	95-100	90-95	0-2.5	0-5	17	33	17
Dr Debby Reynolds *Chief Veterinary Officer & Director General*	105-110	0-5	10-12.5 plus 32.5-35 lump sum	35-40 plus 115-120 lump sum	421	633	183
Ursula Brennan (from 19 April 2004) *Director General*	115-120	-	2.5-5.0 plus 12.5-15 lump sum	45-50 plus 135-140 lump sum	631	746	72

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 2004-05, but are not in post as at 31 March 2005, were:

Lucian Hudson (until 26 July 2004) *Director*	35-40	95-100	0-2.5 plus 0-2.5 lump sum	10-15 plus 40-45 lump sum	173	183	6

* after adjustment for inflation and changes in market investment factors.

In addition to the above, Elizabeth Ransom, Richard Wakeford (until December 2004), Bill Griffiths and Johnston McNeill (from January 2005) were paid a total of £22,228 for their services and expenses as Non-Executive Board Members.

No Management Board Members were in receipt of any benefits in kind, during 2004-05 (2003-04 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 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.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP £57,485 (2003–04 £56,358) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the department and is therefore shown in full in the figures above.

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 centrally-provided 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.

2.D. Loans are made to staff to cover season ticket advances and to relocate. As at 31 March 2005 there were outstanding balances to Management Board Members totalling £7,743.

3. Non staff administration costs

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machinery	65	113	-	-
Other operating leases	23,344	23,242	22,691	22,606
Interest charges:				
Finance leases	8	8	-	-
PFI service charges:				
Off-balance sheet contracts	858	126	858	126
Travel, subsistence and hospitality	12,023	15,005	9,023	11,985
Non-cash items (Note a):				
Depreciation and amortisation of fixed assets:				
Civil Estate	14,686	14,037	3,199	3,368
Other tangible fixed assets	18,729	13,377	11,550	6,812
Intangible assets	620	428	517	336
Profit on the disposal of fixed assets	(676)	(9,223)	(299)	(9,220)
Loss on the disposal of fixed assets	106	4,201	103	4,121
Impairment	5,043	197	-	-
Downward revaluation	5,831	6,443	5,501	6,187
Cost of capital charge: Civil Estate	16,133	12,685	4,462	2,182
Cost of capital charge: other items	(12,028)	(5,959)	(14,152)	(8,111)
Auditor's remuneration and expenses*	435	430	272	272
Provisions:				
Provided in year net of releases	17,383	7,833	16,209	6,512
Unwinding of discount on provisions	(26)	52	-	-
Other non-cash items	1,994	(348)	1,830	(348)
Other expenditure (Note c)	158,521	167,465	95,721	101,865
Total	**263,049**	250,112	**157,485**	148,693

* The total auditor's remuneration, which is for audit work undertaken only, is £747,000 (2003-04 £752,000) (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 2004-05	**Core-Department 2004-05**
	£000	£000
Other administration costs - non-cash items (as above)	68,230	29,192
Other non-cash amounts charged to operating expenditure	184,041	108,364
Less: notional income	-	(9,445)
Less: other non-cash items	(6,650)	(7,524)
Total non-cash transactions	**245,621**	**120,587**

Note 3. (continued)

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

	Consolidated 2004-05
	£000
Total non-cash transactions as above	245,621
Other creditors greater than one year	12,651
Non-cash items per reconciliation of resources to net cash requirement	**258,272**

Note c - Within other expenditure the main categories of expenditure are as follows:

	Consolidated 2004-05	Core-Department 2004-05
	£000	£000
Consumables	22,563	-
Vessels	3,122	-
IT Services/Software/Hardware	35,853	34,725
Estate Management	64,498	31,578
Consultancy/Subcontracting	24,264	20,104
Training	5,796	4,777
Early Retirement	2,271	2,257
Others	154	2,280
Total other expenditure	**158,521**	**95,721**

4. Net programme costs

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Current grants and other current expenditure				
Frontline Services - staff costs	208,827	174,672	88,537	84,083
Frontline Services - other costs	147,574	122,506	21,739	21,850
EU funded	3,320,800	3,067,657	4,056	12,609
Exchequer funded	2,031,631	1,607,716	1,839,639	1,383,939
Capital grants	130,343	197,719	130,343	197,719
Interest on NLF loans on-lent to British Waterways	1,691	1,691	1,691	1,691
Total programme expenditure	**5,840,866**	5,171,961	**2,086,005**	1,701,891
Less: programme income (Note 6.A.)				
Frontline Services	(2,913)	(3,265)	(2,767)	(2,926)
EU current	(3,352,178)	(3,053,806)	(55,181)	(44,524)
Exchequer current	(84,492)	(43,276)	(19,402)	(19,555)
Capital grants	-	(198)	-	(198)
Interest on NLF loans on-lent to British Waterways	(1,691)	(1,691)	(1,691)	(1,691)
Total programme income	**(3,441,274)**	(3,102,236)	**(79,041)**	(68,894)
Total	**2,399,592**	2,069,725	**2,006,964**	1,632,997

Included in the above expenditure is £114,431,087 spent on Research and Development (2003-04 £105,170,311).

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 (Core £2,338,000; RPA £14,082,000) and loss on disposal of fixed assets (Core £22,000; RPA £305,000).

The above expenditure includes cost of capital charges totalling £12,470,000 (2003-04 £13,101,000) relating to RPA.

See Note 8 for details of total programme expenditure by function.

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):

		2004-05 Forecast		2004-05 Outturn	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	£000	£000	£000
Non-operating income and receipts – excess A-in-A	6.C.	-	-	14,337	-
Sub-total		**-**	**-**	**14,337**	**-**
Other operating income and receipts not classified as A-in-A		22,764	*25,924*	102,663	*101,189*
Other non-operating income and receipts not classified as A-in-A	6.C.	-	-	8,934	*8,976*
Total		**22,764**	***25,924***	**125,934**	***110,165***

The actual cash surrenderable to the Consolidated Fund is £110,165,060.30.

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

6.A. Operating income analysed by classification and activity:

Consolidated

	Resource Outturn	Reconciliation to Operating Cost Statement		Operating Cost Statement
	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
2004-05				
Administration income				
Fees and charges to external customers	39,451	227	6	39,684
Fees and charges to other departments	12,256	-	-	12,256
	51,707	**227**	**6**	**51,940**
Programme income				
Frontline Services	2,913	-	-	2,913
EU funding	3,302,182	7,471	42,525	3,352,178
Other	24,360	-	60,132	84,492
	3,329,455	**7,471**	**102,657**	**3,439,583**
	3,381,162	**7,698**	**102,663**	**3,491,523**
Interest on NLF loans on-lent to British Waterways	-	1,691	-	1,691
Total (Schedule 1 & 2)	**3,381,162**	**9,389**	**102,663**	**3,493,214**
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 2)	3,088,496	20,646	44,847	3,153,989

Note 6.A. (continued)

Core-Department

	Resource Outturn	**Reconciliation to Operating Cost Statement**		**Operating Cost Statement**
	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
2004-05				
Administration income				
Fees and charges to external customers	3,690	227	-	3,917
Fees and charges to other departments	473	-	-	473
Fees and charges to Agencies	2,360	15,626	-	17,986
	6,523	**15,853**	**-**	**22,376**
Programme income				
Frontline Services	2,767	-	-	2,767
EU funding	5,185	7,471	42,525	55,181
Other	19,402	-	-	19,402
	27,354	**7,471**	**42,525**	**77,350**
	33,877	**23,324**	**42,525**	**99,726**
Interest on NLF loans on-lent to British Waterways	-	1,691	-	1,691
Total (Schedule 2)	**33,877**	**25,015**	**42,525**	**101,417**
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

The Core-Department receives rental income of £1,138,351 (2003-04 £1,034,688) from other government departments and £1,528,140 (2003-04 £2,006,971) from external customers.

6.B. Miscellaneous Core-Department income

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

Service	2004-05 Income	2004-05 Full cost	2004-05 Deficit	2003-04 Income	2003-04 Full cost	2003-04 Deficit
	£000	£000	£000	£000	£000	£000
National Listing of Seed Varieties	1,372	1,948	(576)	1,287	2,420	(1,133)
Seed Certification and Seed Training	1,456	1,459	(3)	1,477	1,482	(5)
FEPA 1985[1] - Part II -License Fees	951	1,627	(676)	785	1,745	(960)
Issue of CITES[2] Permits	64	1,133	(1,069)	64	1,167	(1,103)
Other Services	2,821	3,852	(1,031)	1,966	3,598	(1,632)
	6,664	**10,019**	**(3,355)**	5,579	10,412	(4,833)

[1] Food and Environment Protection Act 1985
[2] Convention on International Trade in Endangered Species

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.

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

	Income	Receipts
	£000	£000
Amounts surrendered to the Consolidated Fund (see below)	8,934	8,976
	8,934	**8,976**

The following amounts are not regarded as income in 2004-05 for the Department and are surrendered to the consolidated fund:

	£000
Transfer of HRI Pension fund	7,342
Countryside Agency - surrender to Department of surplus funds	81
Royalties	51
Environment Agency - surrender to Department of surplus funds	991
Energy Savings Trust - surrender to the Department of surplus funds	327
Miscellaneous non-operating receipts	184
	8,976

Non-operating A-in-A

	2004-05	2003-04
	£000	£000
Proceeds from the disposal of fixed assets	22,371	18,892
	22,371*	18,892

*This includes excess non-operating A-in-A of £14,337,000.

7. Reconciliation of net operating cost and net resource outturn

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Net operating cost*	**2,860,274**	2,502,246	**2,306,545**	1,898,583
Remove non-supply expenditure (-) and income (+), including income scored as Consolidated Fund Extra Receipts (CFERs)				
- Operating income not classified as A-in-A - operating CFERs	102,663	44,847	42,525	22,375
Adjust for the effects of prior year adjustments	-	76,062	-	76,062
Net resource outturn*	**2,962,937**	2,623,155	**2,349,070**	1,997,020

* 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).

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

2004-05	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net total	Estimate	Net total outturn compared with Estimate	2003-04 Restated Prior-year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1: Spending in Departmental Expenditure Limits (DEL)									
Animal Health and Welfare	30,463	242,990	40,554	314,007	(8,730)	305,277	267,801	(37,476)	210,536
Environmental Protection	39,999	532,181	141,861	714,041	(6,860)	707,181	790,057	82,876	641,686
Food Farming and Fisheries	36,871	108,135	6,890	151,896	(5,469)	146,427	142,045	(4,382)	97,886
Land Use and Rural Affairs	24,851	104,810	85,444	215,105	(2,572)	212,533	186,477	(26,056)	187,298
Department Operations	189,545	49,987	13,558	253,090	(7,885)	245,205	474,298	229,093	303,950
Rural Payment Agency	-	732,860	-	732,860	(5,219)	727,641	685,113	(42,528)	629,360
Other Executive Agencies	38,119	4,482	-	42,601	(47,544)	(4,943)	(1,693)	3,250	137,140
Total	**359,848**	**1,775,445**	**288,307**	**2,423,600**	**(84,279)**	**2,339,321**	**2,544,098**	**204,777**	2,207,856
Request for resources 1: Spending in Annually Managed Expenditure (AME)									
Rural Payment Agency	-	2,358,461	5,517	2,363,978	(110,487)	2,253,491	2,263,147	9,656	2,123,083
Total	**-**	**2,358,461**	**5,517**	**2,363,978**	**(110,487)**	**2,253,491**	**2,263,147**	**9,656**	2,123,083
Request for resources 1: Non-budget									
Animal Health and Welfare	-	-	(287)	(287)	-	(287)	(4,687)	(4,400)	(3,608)
Environmental Protection	-	84,100	492,509	576,609	-	576,609	691,815	115,206	246,110
Food Farming and Fisheries	-	-	9,123	9,123	-	9,123	(1,778)	(10,901)	(3,708)
Land Use and Rural Affairs	-	-	164,599	164,599	-	164,599	169,275	4,676	149,456
Department Operations	-	-	16,299	16,299	-	16,299	17,299	1,000	(601)
Rural Payment Agency	-	-	790,178	790,178	(3,186,396)	(2,396,218)	(2,445,426)	(49,208)	(2,171,495)
Sub-total	**-**	**84,100**	**1,472,421**	**1,556,521**	**(3,186,396)**	**(1,629,875)**	**(1,573,502)**	**56,373**	(1,783,846)
Prior year adjustments									76,062
Total	**-**	**84,100**	**1,472,421**	**1,556,521**	**(3,186,396)**	**(1,629,875)**	**(1,573,502)**	**56,373**	(1,707,784)
Resource Outturn (Sch 1)	**359,848**	**4,218,006**	**1,766,245**	**6,344,099**	**(3,381,162)**	**2,962,937**	**3,233,743**	**270,806**	2,623,155
Reconciliation to Operating Statement									
Netted-off expenditure	227	9,162		9,389	(9,389)	-			
Net control agencies internal income	152,547	(152,547)		-					
Non supply income/ expenditure including CFERs: Operating income not classified as A-in-A				-	(102,663)	(102,663)			(44,847)
Prior year adjustments				-	-	-			(76,062)
Net operating cost (Sch 2)	**512,622**	**4,074,621**	**1,766,245**	**6,353,488**	**(3,493,214)**	**2,860,274**			2,502,246
Total programme expenditure (Note 4)		**4,074,621**	**1,766,245**	**5,840,866**					

Refer to Schedule 1 for description of Request for Resources 1.

The analysis of the outturn for the year has been prepared in the same organisational structure as the Parliamentary Estimate. This is a change from last year, when the data was shown by internal objective, so as to aid comparison to the Estimate.

Variances between the Estimate and outturn by organisational structure inevitably occur due to the dynamic nature of the Department's activities. Initially, the detail within the Estimate is based on the anticipated activity by business area and submitted to Parliament for approval in March 2004. During the course of the year, priorities change between business areas that are not reflected in the Supplementary Estimates, as they do not affect the overall Request for Resources.

A number of reclassifications between DEL, AME and Non-budget outturn figures for 2003-04 have been made to improve the comparability between the two years. The gross value of these reclassifications was £87m.

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:

2004-05	**Consolidated**		**Core-Department**	
	Outturn	Limit	Outturn	Limit
	£000	£000	£000	£000
Request for Resources 1	315,434	395,673	315,434	395,673
Total within administration cost control	315,434	395,673	315,434	395,673
Administration expenditure excluded from administration cost limit	190,665	204,721	-	-
Administration income allowable within the administration cost limit	6,523	5,982	6,523	5,982
Total administration outturn	**512,622**	**606,376**	**321,957**	**401,655**

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

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

Consolidated	**2004-05**				2003-04			
	Capital expenditure	**Loans etc**	**A-in-A**	**Net Total**	Capital expenditure	Loans etc	A-in-A	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	129,160	-	(22,371)*	**106,789**	129,190	-	(18,892)	110,298

Core-Department	**2004-05**				2003-04			
	Capital expenditure	**Loans etc**	**A-in-A**	**Net Total**	Capital expenditure	Loans etc	A-in-A	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	87,751	-	(19,213)	**68,538**	57,785	-	(16,228)	41,557

The amounts included within A-in-A for 2004-05 relate to proceeds of fixed asset disposals, in line with the amended RAM requirements.

* This includes excess non-operating A-in-A of £14,337,000.

11. Fixed assets

11.A. Tangible assets

Consolidated

	Freehold land & buildings	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										
Re-stated										
At 1 April 2004	474,410	51,140	2,530	60,011	169,139	36,107	41,482	7,554	136,328	**978,701**
Additions	1,448	2,304	-	4,155	18,519	875	1,370	1,206	95,856	**125,733**
Transfers	(1,596)	-	-	-	(5,027)	(32)	(118)	(112)	(2,344)	**(9,229)**
Disposals	(1,594)	(14,765)	(229)	(1,260)	(48,676)	(309)	(4,431)	(891)	(50)	**(72,205)**
Reclassifications	380	1,088	768	42	19,693	5,005	-	81	(27,075)	**(18)**
Revaluations	(18,501)	6,519	1,099	262	(3,255)	1,332	1,280	91	-	**(11,173)**
31 March 2005	**454,547**	**46,286**	**4,168**	**63,210**	**150,393**	**42,978**	**39,583**	**7,929**	**202,715**	**1,011,809**
Depreciation										
Re-stated										
At 1 April 2004	57,565	26,821	-	36,358	92,261	10,816	8,337	5,304	-	**237,462**
Charged in year	18,335	2,133	-	5,949	20,467	1,969	2,354	680	1,486	**53,373**
Transfers	(923)	(3,939)	-	-	715	(3)	(24)	(90)	-	**(4,264)**
Disposals	(659)	(14,765)	-	(1,220)	(30,172)	(291)	(2,575)	(864)	-	**(50,546)**
Reclassifications	(398)	69	-	-	(68)	329	-	48	-	**(20)**
Revaluations	(32,306)	(7,580)	-	189	1,655	375	16	81	-	**(37,570)**
31 March 2005	**41,614**	**2,739**	**-**	**41,276**	**84,858**	**13,195**	**8,108**	**5,159**	**1,486**	**198,435**
Net book value at										
31 March 2005	**412,933**	**43,547**	**4,168**	**21,934**	**65,535**	**29,783**	**31,475**	**2,770**	**201,229**	**813,374**
31 March 2004	416,845	24,319	2,530	23,653	76,878	25,291	33,145	2,250	136,328	741,239
Asset financing:										
Owned	412,933	11,102	4,168	21,934	65,520	29,783	31,475	2,770	201,229	**780,914**
Finance leased	-	32,445	-	-	15	-	-	-	-	**32,460**
31 March 2005	**412,933**	**43,547**	**4,168**	**21,934**	**65,535**	**29,783**	**31,475**	**2,770**	**201,229**	**813,374**

Additions include a non-cash element represented by creditors and transfers. Cash additions amount to £112,721,000 (as per Schedule 4).

Depreciation charged against assets held under finance leases amounted to £883,000 (2003-04 £1,544,000). The £1,486,000 CIP depreciation charges in year relate entirely to an impairment of assets under construction held by VLA.

The table above includes the professional revaluation of all land and buildings by the Valuation Office as at March 2005, except RPA, which was carried out in March 2003.

Vehicles, plant and machinery include vessels owned by CEFAS valued at £25,863,000.

Note 11.A. (continued)

Core-Department

	Freehold land & buildings	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 2004	108,984	38,118	2,530	15,240	71,617	31,749	5,239	3,564	75,175	**352,216**
Additions	692	59	-	419	8,441	646	842	336	74,441	**85,876**
Transfers	(1,541)	-	-	-	(6,023)	(32)	(118)	(112)	(2,344)	**(10,170)**
Disposals	(200)	(14,533)	(229)	(25)	(40,827)	(244)	(1,005)	(854)	-	**(57,917)**
Reclassifications	(7,724)	1,048	768	(26)	14,073	4,525	-	29	(12,693)	**-**
Revaluations	(774)	7,559	1,099	(90)	(5,436)	1,324	38	75	-	**3,795**
31 March 2005	**99,437**	**32,251**	**4,168**	**15,518**	**41,845**	**37,968**	**4,996**	**3,038**	**134,579**	**373,800**
Depreciation										
At 1 April 2004	6,707	23,824	-	5,533	25,895	7,462	2,637	2,330	-	**74,388**
Charged in year	2,389	810	-	2,890	8,127	1,563	987	321	-	**17,087**
Transfers	(923)	(3,939)	-	-	329	(3)	(24)	(90)	-	**(4,650)**
Disposals	-	(14,533)	-	(25)	(22,779)	(243)	(902)	(840)	-	**(39,322)**
Reclassifications	(168)	69	-	-	(18)	99	-	18	-	**-**
Revaluations	(8,000)	(6,231)	-	-	-	375	14	31	-	**(13,811)**
31 March 2005	**5**	**-**	**-**	**8,398**	**11,554**	**9,253**	**2,712**	**1,770**	**-**	**33,692**
Net book value at										
31 March 2005	**99,432**	**32,251**	**4,168**	**7,120**	**30,291**	**28,715**	**2,284**	**1,268**	**134,579**	**340,108**
31 March 2004	102,277	14,294	2,530	9,707	45,722	24,287	2,602	1,234	75,175	277,828
Asset financing:										
Owned	99,432	-	4,168	7,120	30,291	28,715	2,284	1,268	134,579	**307,857**
Finance leased	-	32,251	-	-	-	-	-	-	-	**32,251**
31 March 2005	**99,432**	**32,251**	**4,168**	**7,120**	**30,291**	**28,715**	**2,284**	**1,268**	**134,579**	**340,108**

Additions include a non-cash element represented by creditors and transfers. Cash additions amount to £78,327,000 (as per Schedule 4).

Depreciation charged against assets held under finance leases amounted to £810,000 (2003-04 £1,513,000).

The table above includes the professional revaluation of all land and buildings by the Valuation Office as at March 2005. Land and buildings include properties with a value of £25,567,000 (Core-Department) which are surplus to requirements. These surplus properties are a combination of ex-laboratory, warehouse, residential and office accommodation. Due to the delay in obtaining the relevant documentation and information, the sale of some of these properties could not take place in 2004-05. However, Defra agents are working hard to ensure those surplus properties are sold in 2005-06.

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. Included in the above are certain agricultural properties referred to as 'The Minister's Estate'. These properties are experimental husbandry farms owned by Defra.

IT asset disposals include equipment with a value of £17,982,000 which has been transferred to IBM. The remaining value for IT assets relates to internally developed software.

11.B. Intangible assets

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

	Consolidated	Core-Department
	£000	£000
Cost or valuation		
At 1 April 2004	16,786	9,014
Additions	3,427	1,875
Transfers	1,325	1,324
Disposals	(363)	(72)
Reclassifications	18	-
31 March 2005	**21,193**	**12,141**
Amortisation		
At 1 April 2004	3,912	953
Charged in year	2,125	517
Transfers	-	-
Disposals	(278)	(11)
Reclassifications	20	-
31 March 2005	**5,779**	**1,459**
Net book value at 31 March 2005	**15,414**	**10,682**
Net book value at 31 March 2004	12,874	8,061

Additions for the consolidated figures include a non-cash element represented by creditors. Cash additions amount to £3,447,000 (as per Schedule 4).

12. Investments

	Balance at 1 April 2004	Additions	Disposals	Revaluations	Loan Repayments	Loan repayments < 12 months transferred to debtors	Balance at 31 March 2005
	£000	£000	£000	£000	£000	£000	£000
Consolidated							
Property investments	1,320	-	-	(5)	-	-	**1,315**
British Waterways:							
NLF Loan on-lent	14,136	-	-	-	-	(3,584)	**10,552**
Stocks and shares							
Genus plc	8	-	-	6	-	-	**14**
Dairy Crest plc	51	-	-	12	-	-	**63**
National Milk Records plc*	-	-	-	-	-	-	**-**
CEFAS Technology Ltd	150	-	-	-	-	-	**150**
Total	**15,665**	**-**	**-**	**13**	**-**	**(3,584)**	**12,094**
Core-Department							
Property investments	1,320	-	-	(5)	-	-	**1,315**
British Waterways:							
NLF Loan on-lent	14,136	-	-	-	-	(3,584)	**10,552**
Stocks and shares							
Genus plc	8	-	-	6	-	-	**14**
Dairy Crest plc	51	-	-	12	-	-	**63**
National Milk Records plc*	-	-	-	-	-	-	**-**
Total	**15,515**	**-**	**-**	**13**	**-**	**(3,584)**	**11,944**

Note 12. (continued)

* The National Milk Records plc investment is showing a nil balance as at 31 March 2005, as the actual balance is less than £1,000.

The Department's share of the net assets and results of CEFAS Technology Ltd are summarised below.

	Consolidated
	£000
Net Assets at 31 March 2005	476
Turnover	442
Surplus/profit for the year (before financing)	59

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	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Increase/(decrease) in stocks and work in progress	(38,227)	16,673	-	-
Increase/(decrease) in debtors	365,130	169,781	68,752	(610,058)
(Increase)/decrease in creditors falling due within one year	(376,158)	(183,274)	(104,443)	(44,041)
	(49,255)	3,180	**(35,691)**	(654,099)
Movement in working capital related to the acquisition/disposal of tangible fixed assets	(2,487)	19,693	(7,930)	15,939
Net increase/(decrease) in working capital other than cash (Schedule 4)	**(51,742)**	22,873	**(43,621)**	(638,160)
Adjustment for working capital not related to supply	(15,813)	(62)	(14,337)	-
Movement in working capital related to the acquisition/disposal of tangible fixed assets	2,487	-	7,930	-
Net increase/(decrease) in working capital other than cash (Schedule 1)	**(65,068)**	22,811	**(50,028)**	(638,160)

14. Stocks and work in progress

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Stocks	21,940	60,286	-	-
Work in progress	1,725	1,606	-	-
	23,665	61,892	**-**	-

15. Debtors

		Consolidated		Core-Department	
		2004-05	2003-04	**2004-05**	2003-04
		£000	£000	£000	£000
Amounts falling due within one year					
Trade debtors		54,472	49,307	19,690	11,712
Deposits and advances		1,062	1,436	1,062	1,436
VAT		15,150	20,646	14,269	14,862
Other debtors		29,518	16,809	19,750	8,561
Agency debtor		-	-	-	5,400
Current part of NLF Loan		3,584	600	3,584	600
Prepayments/accrued income:	EU	593,209	702,791	-	5,980
	Other	97,014	45,406	101,034	51,398
		794,009	836,995	**159,389**	99,949
Less: bad debt provisions		(27,158)	(22,767)	(95)	(223)
		766,851	814,228	**159,294**	99,726
Prior year Agency CFERs		-	1	-	1
Total due within one year		**766,851**	814,229	**159,294**	99,727
Amounts falling due after more than one year					
Trade debtors		9,345	67	9,345	67
Deposits and advances		351	444	351	444
Other debtors		-	-	-	-
Prepayments/accrued income:	EU	412,886	9,547	-	-
	Other	16	32	-	-
Total due after more than one year		**422,598**	10,090	**9,696**	511
Total debtors		**1,189,449**	824,319	**168,990**	100,238

Included within trade debtors is £35,349,000 (2003-04 £19,578,000) that will be due to the Consolidated Fund once the debts are collected.

16. Cash at bank and in hand

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Balance at 1 April	97,361	717,198	1,274	166,735
Net change in cash balances	175,914	(619,837)	120,558	(165,461)
Balance at 31 March	**273,275**	97,361	**121,832**	1,274
The following balances at 31 March are held at:				
Office of HM Paymaster General	271,161	95,654	121,377	1,044
Commercial banks and cash in hand	2,114	1,707	455	230
	273,275	97,361	**121,832**	1,274
The balance at 31 March comprises:				
Amounts issued from the Consolidated Fund for supply but not spent at year end	238,392	92,265	120,839	493
Consolidated Fund Extra Receipts received and due to be paid to the Consolidated Fund	34,885	3,126	993	781
Other payments due to be paid to the Consolidated Fund	(2)	1,970	-	-
	273,275	97,361	**121,832**	1,274

17. Creditors

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Amounts falling due within one year				
Trade creditors	107,541	33,553	95,148	21,985
Other creditors: EU	80,545	168,023	21,454	16,238
Other	20,974	5,348	11,008	1,953
Accruals and deferred income	981,036	619,134	239,640	231,329
Other taxation and social security	9,683	547	5,714	-
Current part of NLF loans	3,584	600	3,584	600
	1,203,363	827,205	**376,548**	272,105
Consolidated creditor to HM Treasury	238,392	92,265	238,392	92,265
Consolidated Fund Extra Receipts received and receivable and other due to be paid to the Consolidated Fund	70,234	24,388	15,330	691
Total due within one year	**1,511,989**	943,858	**630,270**	365,061
Amounts falling due after more than one year				
Finance leases	-	5	-	-
NLF loans	10,552	14,136	10,552	14,136
Others	14,765	23,827	218	6,929
Total due after more than one year	**25,317**	37,968	**10,770**	21,065
Total creditors	**1,537,306**	981,826	**641,040**	386,126

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

Consolidated	Early Departure Costs	Foot and Mouth	Flood and coastal defence	Programme provisions	Admin provisions	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2004 (restated)	12,974	91,030	2,396	97,464	8,071	**211,935**
Reclassification	-	1,124	-	-	(1,124)	-
Provided in the year	41,410	8,784	4,070	40,292	8,548	**103,104**
Provisions not required written back	(238)	(4,001)	(576)	(1,359)	(52)	**(6,226)**
Provisions utilised in year	(6,371)	(38,440)	(1,393)	(27,907)	(1,958)	**(76,069)***
Unwinding of discount	(26)	-	-	-	-	**(26)**
Balance at 31 March 2005	**47,749**	**58,497**	**4,497**	**108,490**	**13,485**	**232,718**

Core-Department

	Early Departure Costs	Foot and Mouth	Flood and coastal defence	Programme provisions	Admin provisions	Total
Balance at 1 April 2004 (restated)	5,484	91,030	2,396	75,929	8,071	**182,910**
Reclassification	-	1,124	-	-	(1,124)	**-**
Provided in the year	7,713	8,784	4,070	22,172	8,548	**51,287**
Provisions not required written back	-	(4,001)	(576)	(1,204)	(52)	**(5,833)**
Provisions utilised in year	(2,085)	(38,440)	(1,393)	(15,864)	(1,958)	**(59,740)**
Unwinding of discount	-	-	-	-	-	**-**
Balance at 31 March 2005	**11,112**	**58,497**	**4,497**	**81,033**	**13,485**	**168,624**

This year the Early Departure Pension Costs (EDPC) have been identified separately from the administration provision and programme provision for RPA. The EDPC 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 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 reclassification of £1,124k relates to a provision for dilapidations which was included as administration provision in 2003-04, but in fact related to costs borne from the FMD outbreak, hence the movement to the FMD provision in 2004-05.

The flood and coastal defence provision includes grants to local authorities (LAs) and internal drainage boards (IDBs) to support projects to manage flood and coastal erosion risk.

The programme provision includes programmes such as Fur Farming, Structural Funds, Classical Swine Fever and the Horticulture Research International (HRI) redundancy provision.

The administration provision includes the costs of bringing back into use the contaminated land and the HRI pension provision.

*The use of provisions reported in Schedules 1 and 4 differs from the amount above because some of the utilisation relates to notional charges (£599,000).

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 05	**Value at 31 March 05**	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
		£000		£000		£000
Equities	7.7%	76,000	7.7%	107,200	8.0%	123,500
Bonds	4.8%	77,000	5.1%	104,800	4.8%	135,800
Cash	4.8%	17,300	4.0%	26,300	4.0%	36,900
Market value of assets		170,300		238,300		296,200
Present value of scheme liabilities		(1,032,300)		(1,064,900)		(958,300)
Net pension liabilities (as per Actuarial Report)		(862,000)		(826,600)		(662,100)
Pension increase (pre 1974)		(30,000)		-		-
Net pension liabilities (Schedule 3)		**(892,000)**		(826,600)		(662,100)

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 2005	At 31 March 2004	At 31 March 2003
Rate of increase in salaries	4.9%	4.9%	4.5%
Rate of increase in pensions in payment and deferred pensions	2.9%	2.9%	2.5%
Inflation assumption	2.9%	2.9%	2.5%
Discount rate	6.5%	6.5%	6.1%

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;
- 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.

18.B.1. (continued)

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

	2004-05	2003-04
	£000	£000
Scheme liability at 1 April	**(826,600)**	(662,100)
Current service cost	-	-
Past service costs	-	-
Contributions in respect of unfunded benefits	12,100	12,300
Net return on assets (Note 18.B.3.)	(54,100)	(40,200)
Actuarial gain/(loss) (Note 18.B.4.)	6,600	(136,600)
Sub - total	(862,000)	(826,600)
Pension increase (pre 1974)	(30,000)	-
Scheme liability at 31 March	**(892,000)**	(826,600)

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

	2004-05	2003-04
	£000	£000
Expected return on pension scheme assets	11,800	15,200
Interest on pension scheme liabilities	(65,900)	(55,400)
Net return on assets	(54,100)	(40,200)
Pension increase (pre 1974)	(30,000)	-
Charged to operating cost	**(84,100)**	(40,200)

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

	2004-05	2003-04
	£000	£000
Actual return less expected return on pension scheme assets	9,300	16,900
Experience gains/(losses) arising on the scheme liabilities	(2,700)	(153,500)
Actuarial gain/(loss) recognised in the statement of recognised gains and losses	**6,600**	(136,600)

18.B. (continued)

18.B.5. History of experience gains and losses

	2004-05	2003-04	2002-03
Difference between the expected and actual return on scheme assets:			
Amount (£000)	9,300	16,900	(62,300)
Percentage of assets	5.4%	7.1%	(21.0%)
Experience gains/(losses) on liabilities:			
Amount (£000)	(2,700)	(153,500)	5,300
Percentage of assets	(0.3%)	(14.4%)	0.6%
Total amount recognised in statement of recognised gains and losses:			
Amount (£000)	6,600	(136,600)	(57,000)
Percentage of assets	0.6%	(12.8%)	(5.9%)

19. Revaluation reserve

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Balance at 1 April	173,832	111,128	62,964	45,093
Arising on revaluation during the year (net)	32,934	65,683	23,203	17,947
Transferred from general fund in respect of realised element of revaluation reserve (Note 25)	(10,967)	(2,979)	(84)	(76)
Balance at 31 March	**195,799**	173,832	**86,083**	62,964

20. Capital commitments

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Capital commitments at 31 March for which no provision has been made:				
Authorised and contracted	88,633	41,520	74,952	18,308
Authorised but not contracted	4,050	3,234	-	2,234

21. Commitments under leases

Commitments under leases to pay rentals during 2005-06 are given in the table below, analysed according to the period in which the lease expires.

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Obligations under operating leases comprise:				
Land and buildings				
Expiry within one year	710	339	679	335
Expiry within two to five years	2,583	1,525	2,432	1,338
Expiry thereafter	25,458	25,328	19,579	19,760
Amount payable in the following year	**28,751**	27,192	**22,690**	21,433
Other				
Expiry within one year	163	50	41	31
Expiry within two to five years	829	593	424	346
Expiry thereafter	-	6	-	-
Amount payable in the following year	**992**	649	**465**	377
Obligations under finance leases comprise:				
Rentals due within one year	13	69	7	21
Rentals due within two to five years	30	89	30	83
Rentals due thereafter	412	1,065	412	1,065
Less: interest element	(1)	(9)	-	-
	454	1,214	**449**	1,169

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 2005-06, analysed according to the period in which the commitment expires, are as follows:

	Consolidated		Core-Department	
	2004-05	2003-04	**2004-05**	2003-04
	£000	£000	£000	£000
Expiry within one year	48,915	26,952	28,615	26,952
Expiry within two to five years	85,285	3,000	85,285	3,000
Expiry thereafter	-	296	-	296
	134,200	30,248	**113,900**	30,248

Defra also enters into multi-annual agreements with beneficiaries under a number of schemes within the England Rural Development Programme (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 disclosed under FRS12 and Contingent 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 2005 the main items accrued for under this heading were:

- 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;
- 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 £33m. This is less than the cost in 2003-04 due to reduced stock levels.

Apart from these, other items include:

- potential creation of an "out-goers scheme" for swill feeders, who have had to restructure their businesses (£17.9m);
- currently, RPA bears the cost of all UK claims for EAGGF funds disallowed by the EC. It is therefore exposed to an ongoing contingency to events in other UK Paying Agencies which may give rise to disallowance. If necessary, RPA makes provision for constructive liabilities arising from the clearance of EAGGF accounts by EC auditors. There are two potential disallowance issues where the outcome and amounts involved are less certain (£38.5m);
- 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 £0.37m per annum; WRAP accommodation lease commitments to a maximum of £0.71m, due in stages to 2012;
- 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 Over Thirty Month Slaughter (OTMS) contract in 1999. This claim is for up to £12.3m from January 2000 to December 2004;
- in June 1991 a manufacturer of veterinary medicines commenced judicial review proceedings of certain licencing actions by the VMD. A preliminary ruling was given on 2 April 1998, but the case is now back with the Court of Appeal in Northern Ireland. The applicant has not, as yet, quantified the losses. Depending on the outcome, VMD may be liable for costs;
- potential liabilities arising from small claims against Defra, potential liability estimated at no more than £2m.

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

EC Funding

The EC retains funding on OTMS Scheme expenditure pending the disposal of tallow and MBM. The value of the retention at the balance sheet date is £84.3m.

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 2004	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2005
	£000	£000	£000	£000	£000
Statutory guarantees					
Guarantee of British Waterways borrowing	3,000	-	-	-	**3,000**
Agricultural Guarantee - Loan	320	-	-	-	**320**
Statutory indemnities					
CHPQA[1] contractors wrongly assessing a scheme	100	-	-	-	**100**

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

Also, a transfer of economic benefits is considered to be remote on the following:

- a legal action for £100m 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 and the claimants are unlikely to lodge a final appeal;
- Defra owns the Nuclear Industry Radioactive Waste Executive (NIREX) jointly with the Department of Trade and Industry (DTI). A decision on HM Government policy on managing the UK's radioactive waste, will probably be made in 2007, which will determine the long term future of NIREX. The staff at NIREX would probably be transferred within other HM Government organisations if NIREX were to cease, so any redundancy and pension costs, estimated at £7.65m, are unlikely to be incurred.

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;
- letter of guarantee as was requested by relevant Directorate to protect directors from liabilities;
- indemnity to maintain an offshore works, built in the 1970s, to ensure that no danger or nuisance is caused.

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

Consolidated		2004-05	2003-04
	£000	£000	£000
Net operating cost for the year (Schedule 2)		**(2,860,274)**	(2,502,246)
Income not A-in-A payable to the Consolidated Fund		(102,816)	(46,534)
		(2,963,090)	(2,548,780)
Drawn down funding	2,994,970		
Deemed supply funding	92,265		
Net Parliamentary Funding		**3,087,235**	2,692,475
Transfer of HRI Pension Fund		(7,342)	-
Transfer to general fund of realised element of revaluation reserve (Note 19)		10,967	2,979
Transfer to general fund - asset transfers		(279)	-
Non-operating A-in-A		432	390
Consolidated Fund creditor		(238,392)	(92,265)
Non-cash charges			
Cost of capital		16,575	19,827
Early departure		19	579
Auditors remuneration		747	752
Other		(944)	1,560
Additional A-in-A		(14,337)	(1,063)
Pension actuarial loss		6,600	(136,600)
Contributions in respect of unfunded benefits		12,100	12,300
Net increase in general fund		**(89,709)**	(47,846)
General fund at 1 April		(440,843)	(392,997)
General fund at 31 March (Schedule 3)		**(530,552)**	(440,843)

Core-Department		2004-05	2003-04
	£000	£000	£000
Net operating cost for the year (Schedule 2)		**(2,306,545)**	(1,898,583)
Income not A-in-A payable to the Consolidated Fund		(42,525)	(22,375)
		(2,349,070)	(1,920,958)
Drawn down funding	2,994,970		
Deemed supply funding	92,265		
Net parliamentary funding		**3,087,235**	2,692,475
Transfer of HRI Pension Fund		(7,342)	-
Transfer to general fund of realised element of revaluation reserve (Note 19)		84	76
Transfer to general fund - asset transfers		(1,262)	(570)
Non-operating A-in-A		432	390
Consolidated Fund creditor		(238,392)	(92,265)
Non-cash charges			
Cost of capital		(9,690)	(5,929)
Early departure		(744)	(361)
Auditors remuneration		272	272
Other		(10,413)	(13,355)
Balance due to PSD in respect of transferred functions		(426)	(1,546)
Balance due to RPA in respect of transferred functions		-	(11,544)
Agency funding		(553,554)	(858,250)
Additional A-in-A		(14,337)	1,128
Pension actuarial loss		6,600	(136,600)
Contributions in respect of unfunded benefits		12,100	12,300
Net increase in general fund		**(78,507)**	(334,737)
General fund at 1 April		(1,055,684)	(720,947)
General fund at 31 March (Schedule 3)		**(1,134,191)**	(1,055,684)

26. Analysis of net operating cost by spending body

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

Consolidated	2004-05 Budget	2004-05 Outturn	2003-04 Outturn
Spending body	£000	£000	£000
Department	4,666,024	4,352,842	3,733,692
Non-Departmental Public Bodies	876,611	562,887	438,185
Other central government	804,289	869,805	920,340
Local authorities	113,092	152,307	163,644
Other bodies	(3,249,037)	(3,161,667)	(2,793,815)
Closed pension	-	84,100	40,200
Net operating cost	**3,210,979**	**2,860,274**	2,502,246

Core-Department	2004-05 Budget	2004-05 Outturn	2003-04 Outturn
Spending body	£000	£000	£000
Core-Department	1,615,677	1,116,129	857,575
Executive Agencies	110,886	133,122	113,875
Non-Departmental Public Bodies	876,611	555,960	430,930
Other central government	-	81,590	80,880
Local authorities	106,662	152,366	163,691
Other bodies	-	183,278	211,432
Closed pension	-	84,100	40,200
Net operating cost	**2,709,836**	**2,306,545**	1,898,583

27. Losses and special payments

Losses Statement	2004-05		2003-04	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	136	420	236	851
Stores losses	12	107	21	84
Fruitless payments and constructive losses	2	1	10	8
Claims waived or abandoned	1,122	673	1,283	2,222
Special payments	1,188	282	157	544
	2,460	**1,483**	1,707	3,709

Details of cases over £100,000

Claims waived or abandoned:

One case totalling £193,611 relating to Milk quotas with Arla Foods UK Plc AKA (Express Ltd).
One case totalling £272,590 relating to the sheep variable premium with FG Machin & Sons Ltd.

28. Commitments under PFI contracts

28.1. Off-balance sheet

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.

28.2. On-balance sheet

There are no on-balance sheet commitments.

28.3. Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions was £858,000 (2003-04: £126,000).

The payments to which the Department is committed during 2005-06 analysed by the period during which the commitment expires , is as follows:

	2004-05	2003-04
	£000	£000
Expiry within 1 year	-	-
Expiry within 2 to 5 years	-	-
Expiry within 6 to 10 years	-	-
Expiry within 11 to 15 years	-	-
Expiry within 16 to 20 years	-	-
Expiry within 21 to 25 years	-	-
Expiry within 26 to 30 years	862	858
	862	858

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.

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 2004-05 Farmcare received £2.5m (2003-04 £2.6m) 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 2004-05 this company received £45,969 (2003-04 £54,000) in scheme payments from RPA. No balances were payable at 31 March 2005.

Richard Wakeford was a Non-Executive member of the Defra Management Board until December 2004 and the Chief Executive of the Countryside Agency until January 2005. In 2004-05 the Countryside Agency received £88.9m (2003-04 £90.3m) in grant payments from Defra. These external interests were known before appointment and were carefully considered by Defra.

Miles Parker, Director of Science, wife , Mrs C Parker, received £10,000 from the Environment Strategy Directorate by organising an Outreach Event in connection with G8 Environment & Development Ministers' Conference, Derby (16-18 March 2005).

Debby Reynolds, Chief Veterinary Officer, is a member of the Governing Board of the Institute of Animal Health, which is dedicated to the study of infectious diseases in farm animals.

The Institute of Animal Health held contracts with the Veterinary Directorate in 2004-05 for the Laboratory facilities for Exotic Diseases, receiving £1,692,015; Research and Development for Food Borne Zoonoses and TB, receiving £500,000 and £680,000 respectively and the rebuilding of Laboratory facilities at the Pribright site, receiving £27m over the period of 2004-05 to 2012-13.

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.

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 Common Agricultural Policy (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: From January 2003, in accordance with Commission Regulation 1997/2002 (amending Regulation 296/96), non-Eurozone member states have been 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 2004-05 this has generated an exchange gain of £30m, that in line with HM Treasury guidance, was treated as a CFER, bringing the total net gain to date to £41.5m. (2003-04 generated an exchange loss of £14.7m, that, in line with HM Treasury guidance, has been treated as Scheme Expenditure). RPA is exposed to a funding risk if it does not have budgetary cover for the increased scheme expenditure that may arise from any exchange losses incurred. For 2004-05 HM Treasury had agreed that the budgetary cover was available up to the limit of earlier net exchange gains. The extent that the exchange gains incurred in 2004-05 will also be available as a basis for budgetary cover for any future exchange losses has not yet been agreed with HM Treasury. No hedging contracts have been put in place, since HM Treasury have advised that there is a legal impediment against this.

Annex VIII to Regulation (EC) No. 1782/2003 establishes a National Ceiling in Euros for funding of the new Single Payment Scheme. An appropriate hedging strategy for the exchange exposure that may arise in relation to the application of the ceiling is being considered by RPA and HM Treasury.

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 £371.1m (2003-04 £354.2m) and cash totalling £2.1m (2003-04 £2.5m) were held at 31 March 2005 by RPA.

31. Post balance sheet events

Following Ministers' acceptance of the recommendations of the 2004 Purnell Report into the future of the State Veterinary Service (SVS), a formal programme was established during 2004-05 to turn the SVS into an Executive Agency. The programme included a public consultation that was carried out in the summer of 2004. The responses from this informed both the programme and the decision to proceed. Accordingly, the SVS launched as an Executive Agency on 1 April 2005. The role of the Agency, as set out in its Framework Document, is as follows:

- implementation and enforcement of specific national and EU legislation and regulations relating to animal welfare, the control and eradication of animal diseases, and the facilitation of international trade as agreed with Defra and the Devolved Administrations;
- inspection and surveillance, licensing, certification and registration, and investigation and enforcement;
- contributing to evidence-based policy development by providing advice on the deliverability, implementation and effectiveness of existing policies and new proposals, and by providing information and veterinary and industry surveillance to inform policy development;
- discharging specific responsibilities and functions in the case of any outbreak of exotic or other animal disease as set out in detailed Departmental contingency plans.

Two further Executive Agencies will come into operation on 1 October 2005:

- The Government Decontamination Service (GDS) will provide expert advice, guidance and a streamlined ability to decontaminate buildings and the environment after a chemical, biological, radiological or nuclear incident;
- The Marine Fisheries Agency (MFA) will serve England and Wales, to secure the enforcement of UK, EU and international fisheries law and regulations. It will also undertake work in support of the conservation of the marine environment.

In September 2005, the High Court released details of its judgement on the case of Ruttles vs the Department for Environment, Food and Rural Affairs. The Court ruled in favour of the plaintiff. The Department has paid some £11m, of which £9m has been provided for in the 2004-05 Resource Accounts, with the remaining £2m, up to now, being treated as contingent. The Department is also liable for legal costs, whose amount has yet to be established. The final determination of this liability, though important, is not considered so significant in the context of the accounts as a whole as to warrant an adjustment to these financial statements.

32. Prior year adjustments

There are no prior year adjustments.

33. Entities within the Departmental boundary

The entities within the Departmental boundary during 2004-05 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)

Note 33. (continued)

Advisory NDPBs (Defra funded)

Advisory Committee on Consumer Products and the Environment (ACCPE)
Advisory Committee on Hazardous Substances (ACHS)
Advisory Committee on Organic Standards
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 on 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
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
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 and Food Standards Agency)

Spongiform Encephalopathy Advisory Committee

Tribunal NDPBs (Defra funded)

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

34. Bodies outside the Departmental 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)
Joint Nature Conservation Committee (JNCC) (funded from English Nature GIA)
Meat and Livestock Commission (MLC)
Milk Development Council (MDC)
National Forest Company
Regional Flood Defence Committees (RFDC) (Committees of the Environment Agency)
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 on 31 March 1999, 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)
National Parks Authorities (NPA)
National Broads Authorities

35. Intra-government balances

Consolidated	Debtors: Amounts falling due within one year	Debtors: Amounts falling due after more than one year	Creditors: Amounts falling due within one year	Creditors: Amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	22,897	-	384,785	10,592
Balances with local authorities	11,598	-	58,179	-
Balances with NHS Trusts	29	-	-	-
Balances with public corporations and trading funds	5,916	-	5,886	-
Balances with bodies external to government	726,411	422,598	1,063,139	14,725
At 31 March 2005	**766,851**	**422,598**	**1,511,989**	**25,317**
Balances with other central government bodies	39,195	-	125,730	14,142
Balances with local authorities	11,610	-	68,796	-
Balances with NHS Trusts	26	-	6	-
Balances with public corporations and trading funds	91	-	958	-
Balances with bodies external to government	763,307	10,090	748,368	23,826
At 31 March 2004	814,229	10,090	943,858	37,968

Core	Debtors: Amounts falling due within one year	Debtors: Amounts falling due after more than one year	Creditors: Amounts falling due within one year	Creditors: Amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	26,505	-	325,649	10,552
Balances with local authorities	11,541	-	58,135	-
Balances with NHS Trusts	1	-	-	-
Balances with public corporations and trading funds	5,894	-	5,883	-
Balances with bodies external to government	115,353	9,696	240,603	218
At 31 March 2005	**159,294**	**9,696**	**630,270**	**10,770**
Balances with other central government bodies	51,013	-	131,041	14,136
Balances with local authorities	11,585	-	68,748	-
Balances with NHS Trusts	1	-	6	-
Balances with public corporations and trading funds	19	-	958	-
Balances with bodies external to government	37,109	511	164,308	6,929
At 31 March 2004	99,727	511	365,061	21,065

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