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

Department for Environment, Food and Rural Affairs

Resource Accounts 2006–07

LONDON: The Stationery Office
HC 585

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(For the year ended 31 March 2007)

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Introduction

The Department for Environment, Food and Rural Affairs (Defra) works for the essentials of life — food, air, land, water, people, animals and plants. Defra's remit is the pursuit of sustainable development — weaving together economic, social and environmental concerns. Defra therefore:

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

Basis of Accounts

These accounts have been prepared to comply with the Government Resources and Accounts Act 2000 and the requirements of HM Treasury.

Management Commentary

During 2006–07, Defra made significant progress across its Public Service Agreement (PSA) targets. Particular successes included the groundbreaking Animal Welfare Act, handling emergencies, reforming the Common Agricultural Policy (CAP), providing international leadership on climate change and implementing the highly successful Environmental Stewardship Scheme.

In addition to meeting existing commitments, Defra has made organisational changes to help meet the challenges of the future:

- along with other government departments, Defra created the Office of Climate Change (OCC) – a shared government resource for climate change analysis and policy development;
- Defra established Natural England to conserve and enhance England's valuable natural environment;
- Defra established the Commission for Rural Communities to provide a stronger voice for rural communities;
- Defra has developed the Renew Defra programme to help deliver a strategic vision([1]).

This commentary highlights progress against the PSA targets for Defra's developing strategic priorities. It also sets out some of the achievements of Defra's Executive Agencies and delivery partners and looks forward to the future priorities.

For more detailed information on Defra's progress in 2006–07, please see the Defra Departmental Report 2007([2]).

1 http://www.defra.gov.uk/corporate/deprep/2007/chapter01.pdf
2 The Departmental Report is available from The Stationery Office (TSO) or at http://www.tso.co.uk/

Development and performance of the Department

PSA targets within the developing strategic priorities are as follows:

- tackling climate change;
- sustainable development;
- sustainable consumption and production;
- protecting the natural environment;
- sustainable farming and food;
- sustainable rural communities;
- preparing for emergencies;
- better regulation and corporate services.

Tackling climate change

PSA target 2: Reduce greenhouse gas emissions to 12.5% below 1990 levels in line with our Kyoto commitment and move towards a 20% reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables:

- Defra is on course to reach the Kyoto target. In 2006, emissions of gases covered by the Kyoto protocol were around 15% below the base year;

- the Climate Change Programme, published in March 2006, aims to reduce emissions to 23.6% below base year levels by 2008–12;

- between 2005 and 2007, the UK National Allocation Plan is set to deliver carbon dioxide emission savings of around 8% below current emissions covered by the scheme;

- the inception of the OCC in October 2006 created a shared government resource for analysis and development of climate change policy and strategy;

- Defra is continuing the Climate Change Agreements with energy-intensive industries. In the second target period, 21 out of 42 sectors met their targets outright and there was continued improvement across all sectors;

- between June 2000 and March 2007, 1.4 million households have received measures to improve energy efficiency in their home.

PSA target 7: Eliminate fuel poverty in vulnerable households in England by 2010 in line with the government's fuel poverty strategy objective:

- there is some slippage against this target, due to the recent increase in fuel costs. In 2004 there were 1.2 million English households in fuel poverty, of which 1 million were vulnerable. The situation is now likely to be worse. It is anticipated that fuel price rises between 2004 and 2006 will have placed an additional 1 million vulnerable households into fuel poverty in England. The 2005 figures will be available in the forthcoming 5th Annual Progress Report;

- the Fuel Poverty Advisory Group will continue to play an important role in drawing together key partners to consider the fuel poverty agenda.

PSA target 8: Improve air quality by meeting the Air Quality Strategy targets for carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene and 1,3-butadiene:

- this target is on course overall. In 2006, Defra met objectives for benzene, 1,3-butadiene, carbon monoxide and lead. Defra is meeting current objectives in most parts of the country – up to 95% in some cases – and there are only a limited number of remaining hotspots;

- however, the 2005 nitrogen dioxide and 2004 particles objectives were not met in some parts of the country, particularly in some major urban areas and alongside busy roads, primarily due to traffic emissions;

- Defra has worked with the Department for Transport (DfT) and other stakeholders to identify possible new measures to move closer to air quality objectives. This includes the review of the Air Quality Strategy, the Climate Change Programme and negotiation of air quality directives and protocols at European and international levels;

- Defra and the DfT continue to work closely with local authorities to progress action and delivery of targets at a local level.

Sustainable development

PSA target 1: Promote sustainable development across government, in the UK and internationally, as measured by: the achievement of positive trends in the government's headline indicators of sustainable development; the UK's progress towards delivering the World Summit on Sustainable Development commitments, notably in the areas of sustainable consumption and production, chemicals, biodiversity, oceans, fisheries and agriculture; progress towards internationally agreed commitments to tackle climate change:

- overall, Defra is on course to meet this target. A wide range of measures show improvement, including renewable electricity, waste recycling, emissions of air pollutants and local environment quality. However, there is deterioration in some areas, including aviation emission of greenhouse gases and water loss through leakages;

- the Sustainable Development Commission has expanded to play a watchdog role in addition to its advisory, capacity-building and advocacy roles. Last year the first round of Sustainable Development Action Plans were published by government departments;

- Defra and other government departments have agreed a new framework of ambitious targets for the government office estate, including making it carbon neutral by 2012;

- the launch of the Every Action Counts initiative provides community groups with tools, information and face-to-face support for taking action on sustainable development. Some 250 organisations have signed up to the initiative;

- Defra continues to work at European Union (EU) and international levels and have made progress in a number of areas, including further ministerial statements signed under the Sustainable Development Dialogues with Mexico and South Africa;

- international efforts to tackle climate change continued and in many cases stepped up a gear. For example, Defra worked closely with HM Treasury and other departments to promote the messages of the Stern Report on the Economics of Climate Change. The year culminated in the European Union Spring Council which committed EU Member States to serious emissions reductions. There is still a long way to go, but Defra, working with and through others, made progress in 2006–07 towards changing the terms of the international debate.

Sustainable consumption and production

PSA target 6: Enable at least 25% of household waste to be recycled or composted by 2005–06, with further improvement by 2008:

- Defra has met the first part of this target and are on course to meet the second. However, local authority waste management costs are rising steadily. A minimum level of 20% of recycled waste has been set for achievement by all local authorities in 2007–08 to help bridge the gap between the best and worst recyclers. Over the past three years, the Waste Implementation Programme distributed £4.6m of direct consultancy support to over 294 authorities;

- in 2005 Defra launched the Landfill Allowance Trading Scheme to encourage local authorities to increase recycling and composting. To date, 681,000 landfill allowances have been sold;

- Defra backs the Waste and Resources Action Programme, which aims to create stable and efficient markets for recycled materials and products and remove barriers to waste minimisation, re-use and recycling. It has supplied one million home composting bins to households across England and has secured signatures from thirteen leading grocery retailers and four leading brands to the Courtauld Commitment.

Protecting the natural environment

PSA target 3a: Care for our natural heritage, make the countryside attractive and enjoyable for all and preserve biological diversity by reversing the long term decline in the number of farmland birds by 2020, as measured annually against underlying trends:

- Defra is on course to meet this target: the rate of decline of Farmland Bird Index will slow in the period to 2009, and the index will start to increase between 2014 and 2020. Monitoring of the impact of Environmental Stewardship and CAP reforms over the coming years will be key to the success of this target.

PSA target 3b: Care for our natural heritage, make the countryside attractive and enjoyable for all and preserve biological diversity by bringing into favourable condition 95% of all nationally important wildlife sites by 2010:

- there is currently some slippage against this target (an interim target of 78% for March 2007 has not been reached). However, Defra established Natural England in October 2006 to act as a champion for the natural environment. It has introduced an online reporting system that will reduce the risk of slippage in future years. In the same month, Defra launched the National Wildlife Crime Unit to provide support for Wildlife Inspectors;

- the Commons Act 2006 received Royal Assent in July 2006 and will help protect common land and village greens, and deliver real benefits in terms of sustainable farming, public access and biodiversity;

- the drought planning regime enabled Defra to cope with one of the most severe droughts of the last 100 years;

- Defra created a new Marine and Fisheries Directorate in April 2006 to bring together fisheries and wider marine policies and to promote the sustainable development of the marine environment. In addition, Defra published *A Sea Change:* a Marine Bill White Paper in March 2007;

- Defra has made significant contributions to improving the local environment, including leading the Chewing Gum Action and Cigarette Litter Action groups and working with stakeholders to reduce the environmental impact of paper and plastic bags.

Sustainable farming and food

PSA target 5: Secure further progress via CAP and World Trade Organisation negotiations in reducing CAP trade-distorting support:

- overall, Defra is on course to reach this target. However, the suspension of the Doha Development Agenda negotiations in the summer of 2006 affected the government's ability to secure further progress in reducing CAP trade-distorting support;

- Defra agreed a £3.9 billion budget for the England Rural Development Programme (2007–13).

PSA target 5: Deliver more customer-focused, competitive and sustainable farming and food as measured by the increase in agriculture's gross value added per person excluding support payments:

- overall, Defra is on course to reach this target;

- the Whole Farm Approach was successfully released in March 2006, and will save the farmer 15% of time completing forms;

- the government is taking forward the Strategy for non-Food Crops and Uses.

PSA target 9: A reduction of 40% in the prevalence of Scrapie infection (from 0.33% to 0.20%) by 2010:

- there is some slippage against this target. Since the launch of the National Scrapie Plan, there have been over 56,000 farm visits and over 2.1 million animals have been tested. However, the absence of EU-driven compulsory ram genotyping will affect the ability to meet the target.

PSA target 9: A reduction in the number of cases of Bovine Spongiform Encephalopathy (BSE) detected by both passive and active surveillance to less than 60 in 2006 with the disease being eradicated by 2010:

- there is some slippage against this target, as the 2006 target was not met. However, the epidemic continues to show a steady decline. The export of beef resumed in May 2006, and 35,000 tonnes were exported during 2006.

PSA target 9: A reduction in the spread of Bovine Tuberculosis to new parishes to below the incremental trend of 17.5 confirmed new incidents per annum by the end of 2008:

- Defra is currently on course to meet this target. Over 93% of British herds were officially free of Bovine Tuberculosis at the end of 2006;

- the Animal Welfare Act 2006 has modernised welfare legislation relating to farmed and non-farmed animals.

Sustainable rural communities

PSA target 4: Reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2008 demonstrating progress by 2006 and improve the accessibility of services for people in rural areas:

- there is some slippage against this target, mainly because Defra does not have the levers to ensure delivery. There is also concern over the availability of data to enable government to monitor progress. However, the Commission for Rural Communities, created in October 2006, has reported steady progress in rural proofing across the country;

- during 2006, 1,026 England Rural Development Programme projects were approved, amounting to £40.5m in grants;

- the England Rural Development Programme (2007–2013) is soon to start, following approval by the European Commission;

- the launch of the Rural Social and Community Programme in April 2006 addressed issues such as community capacity building, improving access to and the use of community buildings, work to improve the supply of affordable rural housing, parish and community planning and promotion of social enterprise solutions.

Preparing for emergencies

- During 2006 Defra worked with the water companies and other government agencies to refine an appropriate planning framework for water supply incidents;

- throughout 2006–07 Defra conducted emergency exercises with other government departments and industry to test and refine food sector emergency plans;

- in the past year, Defra pledged a further £10m to the global effort to tackle Avian Influenza;

- Defra has further developed and implemented an enhanced EU plant health-checking regime for imports, and has introduced tighter legislation and a consultation on a new generic contingency plan for responding to outbreak of bee diseases;

- between April 2005 and March 2007, some 88,000 households benefited from improved arrangements to minimise the risk of flooding and coastal erosion.

Better regulation and corporate services

- In December 2006, Defra published *Minimising Burdens, Maximising Outcomes*. It sets out the Department's plans for reducing the administrative burden imposed by regulations on business by 25% by 2010;

- during 2006–07 Defra progressed with the recommendations made in the Hampton Review, merging six of the Hampton bodies into thematic regulators and making decisions around the remaining Hampton bodies;

- during the Spending Review period, Defra realised more than £25m in receipts from the disposal of assets. By the end of December 2006, Defra had delivered financial efficiencies worth £410m;

- three of Defra's buildings have won sustainability awards;

- Defra has reduced civil service posts by 735 and relocated 199 posts from London and the South East.

Defra's executive agencies

Rural Payments Agency (RPA)

The Rural Payments Agency provides a range of services, including making rural payments, carrying out rural inspections and livestock tracing. Its main priority is delivering the Single Payment Scheme (SPS). There have been problems with delivering the 2005 SPS in 2006–07. However, a recovery campaign is beginning to improve SPS delivery. More details are shown on page 137 of the Departmental Report 2007([3]) and in the 'Statement on Internal Control'.

Veterinary Laboratories Agency (VLA)

The Veterinary Laboratories Agency provides Defra and other government customers with specialist veterinary research, consultancy, surveillance and laboratory services. The Agency increased surveillance for Avian Influenza in wild birds to support EU policy and played a pivotal role in the examination of wild bird carcasses. It also continued to explore opportunities for greater collaboration with the Institute for Animal Health, following the postponement of the decision by Defra and the Biotechnology and Biological Sciences Research Council on whether a merger should take place for at least 2 years. The Agency's income for 2006–07 was £111m.

Central Science Laboratory (CSL)

The Central Science Laboratory provides Defra with an efficient and competitive service in scientific support, research and advice to meet both statutory and policy objectives and Defra's PSA targets. The Science Audit that took place in September 2006 concluded that the Central Science Laboratory is 'clearly a national centre of excellence whose work and facilities are valued highly both in Europe and the wider international community'. Furthermore, its sustainable development plan was assessed and judged to provide a good example for other agencies to follow. In 2006–07, the Central Science Laboratory's income was £48m.

[3] http://www.defra.gov.uk/corporate/deprep/2007/index.htm

Centre for Environment, Fisheries and Aquaculture Science (CEFAS)

The Centre for Environment, Fisheries and Aquaculture Science provides multidisciplinary scientific research, consultancy and high-value technical services that support delivery of Government's objectives for the marine environment. In 2006–07, science action plans were drafted to promote excellence in the Agency's science and to foster innovation. There was also a £1.5m increase in competitively won, non-Defra income. The Agency is initiating major projects to deliver the business transformation in accordance with the agreed Laboratory Strategy programme. In 2006–07, income was £43.3m.

Pesticides Safety Directorate (PSD)

The responsibilities of the Pesticides Safety Directorate link directly to Defra's strategic priorities on sustainable farming and food, sustainable consumption and production, natural resource protection and better regulation. The Directorate is taking forward the action plans and promoting the Code of Practice for the government's Strategy for the Sustainable Use of Plant Protection Products. Similarly, it is working with Defra to take forward the recommendations contained in the government's response to the report of the Royal Commission on Environmental Pollution.

Veterinary Medicines Directorate (VMD)

The vision of the Veterinary Medicines Directorate is the responsible, safe and effective use of veterinary medicinal products. The Veterinary Medicines Regulations 2006 came into force in October 2006. The Directorate has implemented the small animal exemption scheme, a blood bank scheme for companion animals and a menu-based fee system to bring the cost of applications for new Marketing Authorisations more in line with the volume of work. The Agency achieved Investors in People accreditation and instigated a change programme to deal with developments in the next decade.

State Veterinary Service (SVS)

In October 2006 the State Veterinary Service merged with the Dairy Hygiene Inspectorate. In April 2007 the SVS, the Egg Marketing Inspectorate, the Wildlife Licensing and Registration Service and the Livestock Data Division merged to form Animal Health. Animal Health helps to deliver a sustainable food and farming sector, protects the health and welfare of farmed animals and minimises the impact of animal health issues on public health. In 2006–07, the SVS dealt successfully with a number of disease outbreaks, including H5N1 in Fife and H7N1 in East Anglia and Newcastle disease in East Lothian. For a brief summary of recent events regarding the Foot and Mouth Disease (FMD) outbreak please see the post balance sheet events, note 35.

Marine Fisheries Agency (MFA)

The Marine Fisheries Agency's work includes the delivery of services such as inspection and enforcement, marine environmental work, vessel licensing quota management, grants and statistics. During 2006–07, the Agency implemented UK-wide IT systems for crosschecking of key management data. It simplified arrangements for the issue of fishing vessel licences and contributed to the agreement of European Fisheries Fund regulation 2007–2013. It also created the National (England and Wales) Strategic Liaison Group to increase inter-agency co-operation for more effective fisheries enforcement, a better service for the fishing industry and greater value for money.

Government Decontamination Service (GDS)

The Government Decontamination Service's purpose is to increase the nation's resilience to the consequences of terrorist or major accidental incidents involving the release of chemical, biological or radiological materials. In the past year, the Service completed its recruitment processes and successfully occupied the new headquarters in Stafford and tested the call-out procedures, the Emergency Operations Centre and emergency arrangements. It also agreed extensions of the supplier framework agreement with the Office of Government Commerce and suppliers.

Defra's delivery partners

This summarises the achievements of Defra's larger delivery partners during 2006–07, for information on all Defra's delivery partners please see the Departmental Report and note 39([4]).

Forestry Commission

The Forestry Commission delivers sustainable development through woodlands and forestry throughout Great Britain. During 2006–07, the Forestry Commission published an environmental policy statement for its activities and published a Simplification Plan to reduce the burden on its business. It also agreed an action plan for the next 7 years to implement the EU Forest Strategy and promote sustainable forest management across Europe. The Commission also supported Defra in key areas of its working, including revising the England Forestry Strategy, responding to the Biomass Task Force Report and developing the role of woodlands and forests in the Rural Development Programme for England. The Forestry Commission receives parliamentary funding.

Environment Agency

The Environment Agency ensures the protection and enhancement of the environment. Its work includes preventing flooding and pollution incidents; reducing industry's impacts on the environment; cleaning up rivers, coastal waters and managing water resources; contaminated land; improving wildlife habitats; improving and enhancing inland waterways and public access to them and ensuring sustainable inland fisheries. In the first three quarters of the last year the Agency protected 19,355 houses from flooding. For the remainder of 2006–07, the agency was making good progress with both large capital schemes and smaller capital maintenance schemes. The Agency is above target for both landfill and process industry permitting programmes. Under its new strategy, more rural land is covered by environmental agreements that protect soil and water.

Natural England

Natural England's remit is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations. Since its inception in October 2006, Natural England's achievements have included delivering Environmental Stewardship and advising government to introduce legislation to create a new right of public access to England's coastline along a continuous access corridor. It has developed a project with the Heritage Lottery Fund to improve access to the environment to people in the most deprived urban communities. It has also run campaigns to increase health professionals' understanding of the health benefits of the natural environment and, through its Breathing Places campaign, to mobilise more than a million people to become involved with the environment.

[4] Details of Defra's other public bodies can be found at: http://www.defra.gov.uk/corporate/delivery/landscape/bodies/index.htm

British Waterways

British Waterways cares for a 3,250 kilometre network of historic canals and navigable rivers in England, Scotland and Wales. Its aim is for a sustainable and integrated network of waterways throughout Britain providing maximum benefit and enjoyment to society. In 2006–07 its key achievements have included securing £70m of external funding for waterway restoration projects that will create new homes and jobs and improve the lives of people in Liverpool, Glasgow, Droitwich, Manchester and Stroud. It has developed and rolled out a Customer Service Transformation Programme to improve customer service for people visiting the country's waterways. It has also implemented a business restructure to improve efficiency and focus investment on maintaining and improving attractive waterways.

Future priorities

To deliver its strategic vision, Defra will need to become more flexible and responsive to the needs of Ministers, Defra's customers and citizens. The Renew Defra change programme will help Defra to become a department that is more customer-oriented, effective and quick on its feet, able to adapt to a more dynamic policy environment. Inevitably, Defra will need to become a smaller department, and is re-orientating the way it works towards projects and programmes. Defra is also focusing on the ways in which it works across complex delivery networks, so that the Department can strengthen partnership working.

Renew Defra will also enable the Department to respond to the recommendations for improvements contained in the Capability Review. As well as the changes outlined above, Defra is giving particular attention to building a high performance culture, developing more robust business processes and strengthening the senior leadership team. Defra has an action plan for delivering recommendations from the Review.

Defra will also continue to build on the strengths that the Review revealed, which are signs of the Department's excellence, professional expertise, commitment, world-leading scientific evidence, excellence at negotiating in Europe, sound contingency plans and innovative ways of engaging citizens.

Significant variances against Estimate

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

During the year the Department spent £751m less than the amount in the Spring Supplementary Estimate (SSE). The underspend is equivalent to 11.8% of the voted Request for Resources (RfR). These variances are mainly split between the Estimate categories of Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME).

The detail of note 2, summarised in the following table, shows some large variances between the different areas of Defra. These are explained in more detail below, but the majority of these have arisen because the plans held in the Estimate are not currently comparable at a detailed level to the budget that Defra manages against internally. Only the main control totals are consistent. A project is underway to address this and ensure that Defra's budget and Estimate will be comparable at both control total and a detailed level for future years.

Summary of note 2 — net total outturn compared with Estimate

	2006-07
	£000
Request for resources 1:	
Spending in Departmental Expenditure Limits (DEL)	
Animal Health and Welfare	92,665
Environment	158,697
Sustainable Food Farming and Fisheries	39,047
Natural Resources and Rural Affairs	(175,040)
Department Operations	(320,541)
Rural Payment Agency	863,056
Other Executive Agencies	(52,272)
Total	605,612
Request for resources 1:	
Spending in Annually Managed Expenditure (AME)	
Environment	122,414
Total	122,414
Request for resources 1:	
Non-budget	
Environment	28,000
Sustainable Food Farming and Fisheries	2,853
Natural Resources and Rural Affairs	(6,930)
Department Operations	2,880
Rural Payment Agency	(3,998)
Total	22,805
Resource Outturn	750,831

Explanations for the significant variances are as follows:

Departmental Expenditure Limit

- the £93m underspend on Animal Health and Welfare was mainly caused by:
  - £54m plans for the Animal Health Agency still being recorded under Animal Health and Welfare in the Estimate;
  - £31m plans for BSE being overstated in the Estimate compared to internal budgets.

- the underspend of £159m on Environment was mainly caused by:
  - £90m plans for reducing greenhouse gases being overstated in the Estimate compared to internal budgets;
  - £62m plans for Flood Management, Fuel Poverty and Environmental Protection Measures all being overstated in the Estimate compared to internal budgets.

- the £39m underspend on Sustainable Food, Farming and Fisheries was mainly caused by:
  - £19m plans for the Marine Fisheries Agency still being recorded under Sustainable Food, Farming and Fisheries in the Estimate;
  - £27m plans for the England Rural Development Plan and various Fisheries schemes being overstated in the Estimate compared to internal budgets.

- the overspend of £175m on Natural Resources and Rural Affairs was mainly due to the plans for ERDP being held under RPA in the Estimate whilst expenditure of £153m is recorded under Natural Resources and Rural Affairs.

- the overspend of £321m on Department Operations was mainly due to:
  - a credit of £35m for the cost of capital charge relating to the Environment Agency closed pension fund being recorded as AME whilst the plans were held centrally in DEL under Departmental Operations;
  - £198m CAP provision being raised and managed within Departmental Operations, but the plans being held under RPA in the Estimate;
  - £63m interest on late payment penalties from the EU for CAP scheme payments where the plans are held under RPA.

- the underspend of £863m on the Rural Payments Agency was mainly caused by:
  - plans of £305m for the CAP disallowance provision being held under RPA in the estimate, with the outturn recorded under Departmental Operations. There was an overall underspend of £107m on the CAP provision;
  - £133m underspend due to cautious budgeting on CAP scheme payments;
  - £117m due to the plans being overstated in the Estimate for SPS compared to internal budgets;
  - £66m reduction in outturn due to an adjustment to 2005–06 ERDP;
  - plans for ERDP being held under RPA in the Estimate whilst expenditure of £153m is recorded under Natural Resources and Rural Affairs;
  - plans of £67m for interest on late payment penalties from the EU for CAP scheme payments being held under RPA in the Estimate, with the outturn recorded under Departmental Operations.

- the overspend of £52m on Other Executive Agencies was mainly due to plans for the Animal Health Agency and the Marine Fisheries Agency being held against Animal Health and Welfare and Sustainable Food, Farming and Fisheries in the Estimate, as detailed above.

Annually Managed Expenditure

- the underspend of £122m against Environment was mainly due to:
    - £90m credit against the EA closed pension fund that was excluded from the Estimate;
    - £35m credit for the cost of capital charge relating to the closed pension fund that was excluded from AME in the Estimate.

Consolidated Fund Extra Receipts

- CFER income was £490m less than expected. This was mainly due to:
    - CFER income being overstated in the Estimate by £380m compared to internal budgets;
    - CAP income from the EU being £100m lower than planned, a consequence of payments being lower than planned (see above explanation under Rural Payments Agency).

The Department not only has to keep within, and explain variances from, the total RfR voted to it by Parliament, but it also has to monitor against control totals agreed with HM Treasury (HMT), the main focus being the DEL Budget. The Department's provisional outturn relating to its budgets showed a marginal underspend on three of the totals and a small overspend on the fourth (Capital DEL expenditure), whereas the Department has a large underspend in Estimate terms.

One of the main differences between the Supply Estimate and the budgets agreed with HMT is the way that Consolidated Fund Extra Receipts (CFERs) are treated. This provides a key reason for the underspend against the Estimate which is not reflected in the budget. EC scheme expenditure is matched by a similar amount of CFER income in each financial year. In Defra's budgets, the income and expenditure are netted off. In the Estimate and in the net resource outturn in the accounts, however, the expenditure is recognised but not the CFER income. In 2006-07, there has been £490m less CFER income than the amounts that Defra included in the Estimate.

The remainder of the difference between the Estimate and DEL Budget outturns relates to an underspend of £122m on the EA closed pension fund which is included in AME rather than DEL, plus other smaller items relating to differences in how the Estimate and budget are determined.

Although these were real underspends in Estimate terms, the DEL Budget was so tight, the Department could not have used this underspend elsewhere without breaching HMT control totals.

Explanation of variances between Estimate and Outturn (net cash requirement)

Full details of the £978m variance can be seen in note 4 and the explanations for this are listed below.

The main reason for the favourable variance of £750.8m on the Resource outturn is explained on page 12 of the Resource Accounts 2006–07.

Fixed asset acquisitions are down by £33.8m against Estimate, of which £17.9m is IT Projects and £6m is property within Core-Defra. This is offset by £21.2m less on asset disposals due to the non sale of Long Benton £10.0m, Grain Store Receipts £3.2m, and other miscellaneous non disposals.

Non-cash items — within new provisions there is a £107m saving on the SPS provision due to a re-estimation following the claim made on the reserve in the SSE. This is offset against £133.2m of EA Closed Pension provision which is £77.6m more than in the Estimate due to changes in financial assumptions underlying the present value of the scheme liabilities. Other provision movements were £30m less than included in the Estimate, mainly due to downward revisions of FMD disposal sites, Modernising Rural Delivery (MRD) and other provisions. Depreciation and cost of capital was £23m greater than in the Estimate.

Changes in working capital — the £407m favourable variance is largely due to the RPA payments in respect of the SPS being lower than anticipated at the time of the SSE.

Use of provision —the £150.6m adverse variance relates to £63m utilisation for the creation of an accrual for SPS disallowance and £90.9m EA Closed Pension as noted above.

Reconciliation of Resource Expenditure between Estimates, Accounts and Budgets

Consolidated 12 months to 31 March 2007	2006-07	2005-06
	£000	£000
Net Resource Outturn (Estimates)	5,604,761	5,687,490
Prior year change to Accounts: transferred out of Defra		(4,827)
Prior year change to Accounts: transferred to Natural England		(1,212)
Consolidated Fund Extra Receipts (CFERs) in the OCS	(1,998,083)	(2,486,449)
Other adjustments:		
excess A-in-A		5,520
budget regime changes		1,246
other		387
Net Operating Costs (Accounts)	3,606,678	3,202,155
Prior year change to Accounts: transferred out of Defra		4,827
Prior year change to Accounts: transferred to Natural England		1,212
Adjustments to remove:		
capital grants	(532,201)	(381,715)
gains/losses from sale of capital assets		(1,246)
voted expenditure outside the budget	(3,998)	618
Adjustments to additionally include:		
other Consolidated Fund Extra Receipts - sugar levies	(9,647)	22,802
other Consolidated Fund Extra Receipts - other		63,561
resource consumption of non-departmental public bodies*	(42,554)	(39,212)
levy funded bodies resource costs*	56,212	
Other adjustments:		
excess A-in-A		(5,520)
budget regime changes		(1,246)
other		(387)
Resource Budget Outturn (Budget)	3,074,490	2,865,849
of which:		
Departmental Expenditure Limit (DEL)	3,141,304	2,740,329
Annually Managed Expenditure (AME)	(66,814)	125,520

* These figures are from the Public Expenditure Outturn White Paper (PEOWP). The final outturn is calculated once these Accounts have been laid.

Contingency planning

Details on Defra's contingency planning can be found in the Statement on Internal Control and from page 96 in the 2007 Departmental Report.

Managing principal risks and uncertainties

Details on managing Defra's principal risks and uncertainties can be found in the Statement on Internal Control.

Investment strategy

Defra's Departmental Investment Strategy 2005–08([5]) describes the investment programmes planned for the 2004 Spending Review, and outlines the outcome of previous investment activity.

Defra and its Agencies' fixed assets include a major portfolio of land and buildings, for example, internationally important laboratory and research facilities. Where assets are no longer required for the Department's business, they are sold either to other departments or to the private sector.

The Department plans to invest over £900m in 2007–08 to maintain and upgrade its assets; to provide capital grants to local authorities to invest, for example in waste recycling and flood management; and to provide funding under the Warm Front scheme to improve the heating and energy efficiency of vulnerable homes.

Estates strategy

Defra has made considerable progress in improving efficiency and moving towards sustainable operations within its own estate. The size of the estate has reduced by 16% during the Spending Review period. There are plans in place to vacate more buildings in London thereby exceeding the Management Board's target for reducing the London estate by 50% by 2010.

Various upgrades of the South East estate have earned 3 Royal Institute of Chartered Surveyors (RICS) sustainability building awards and the highest British Research Establishment Environmental Assessment Method (BREEAM) rating was awarded to the Defra HQ building.

Defra has established an auditable baseline across the estate to measure performance in meeting Ministerial sustainability targets. Additionally, tools are in place to show operational performance, trends and highlight any shortfalls for each site in the estate. On carbon neutrality, Defra has identified and piloted new technology to secure voltage optimisation which will be rolled out to 20 sites on the estate.

The Estates Division has investigated and secured additional funding from within Defra and other government departments (including the DTI) for a range of sustainable technologies, such as biomass burners. Additionally, Defra is undertaking a rationalisation exercise for Facilities Management across the Defra Network. This exercise could well realise significant benefits in terms of efficiencies and moving towards carbon neutrality.

[5] http://www.defra.gov.uk/corporate/busplan/spending-review/pdf/dis0508.pdf

Public interest

Employee policy and achievements

Defra has remodelled its Human Resources (HR) function and created a new, streamlined group covering HR, Organisational Design and Development (OD&D) and Diversity. The new core structure reflects a move towards a small team of specialists working either at a strategic or a complex operational level across these three areas of expertise.

The Renew Defra Programme has highlighted the need for the flexible allocation of people to priority projects. Defra needs to be quicker and more flexible in getting the right number of people, with the right skills, at the right time in the right place. Defra has developed a People Strategy which is about creating a high performing Department focused around 3 key themes:

- getting the basics right;
- building leadership and organisational capability;
- maximising flexibility.

The Renew Defra programme means that Defra's accreditation as an Investor in People (IiP) remains of great importance. Defra's most recent assessment, completed in May 2006, showed us to be performing well in most areas. The external assessor found examples of best practice across the Department, but identified a need for a consistent approach across the organisation.

During 2006, the Department started the roll out of Professional Skills for Government (PSG), below Senior Civil Servant (SCS) level. The Core Competences Framework has been revised to include the PSG Core skills as well as other new and emerging skills required for the future and has been in use from April 2007.

Employee consultation

Defra recognises and values each person's individual contribution to the organisation. Managers lead, manage and develop their staff, and all staff are encouraged to actively seek better ways to develop personally and to deliver Defra's outputs. Recent notable achievements and initiatives include:

- Defra's predecessor MAFF was first recognised as an IiP organisation in December 2000 and re-accreditation was achieved by Defra in May 2003. The last assessment, completed in May 2006, showed the Department to be performing well in most areas but in some parts of the organisation there is a need to make further improvements. For further accreditation the Department intends to embed IiP into the fabric of everyday working life through links with the Capability Review and the Renew Defra Programme.

  Going forward the Department will seek to ensure that it is:
  - exercising good management and leadership skills at all levels;
  - communicating change, and involving everyone in its planning and implementation;
  - linking learning and development with performance outcomes, and monitoring the resources dedicated to learning and development, and evaluating effectiveness;
  - providing good quality training and induction for people taking up new roles.

- an online survey, designed by Government Skills (the Sector Skills Council of the Cabinet Office), was set up in October 2006 to get an overall picture of skills across government departments, agencies and non-departmental public bodies. Staff from Core-Defra, PSD, VMD, GDS and MFA were asked to take part in a pilot survey in early 2007 and the information gathered will be used by Defra's Learning and Development Team to identify skills gaps and provide what is required;

- in December 2006 “Tell David” was introduced on the Defra intranet; this facility allowed staff the opportunity to provide feedback or pose questions to the Secretary of State on general subjects or a regular discussion topic;

- senior management and the Trade Union Side (TUS) representatives continue to meet regularly to discuss a range of issues from Shared Services to the Renew Defra programme;

- a key ingredient of the Renew Defra consultation process is the participation of the TUS and staff. Regular meetings to discuss developments within the programme are held with the TUS. Staff at all levels are encouraged to:
  - comment and submit their views via the Renew mailbox;
  - attend the regular round of “Have Your Say” workshops in 2007;
  - join the “Have Your Say” online forum.

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 within the Department is based solely on ability, qualifications and suitability for the work. In addition, the Department also operates the 'Two Ticks' scheme whereby job applicants with disabilities are guaranteed an interview if they meet the minimum criteria for that job. At 31 March 2007, 6.3% (31 March 2006 – 6.4%) of the staff in Defra and its Agencies were disabled. This may be an under-estimate because not everyone declares their disability.

Diversity

The Department has developed an overarching Diversity Strategy, agreed at Management Board level, supported by a Delivery Plan which demonstrates how the Department will meet the targets identified in the Cabinet Office 10 point plan for Delivering a Diverse SCS. Both the strategy and the plan are designed to help Defra embed diversity into all aspects of the Department’s work and fabric. A key element of the Diversity Strategy is achieving greater representation of minority groups in the SCS and at Grades 6 and 7. Actions include a series of Positive Action Mentoring programmes for staff in minority groups.

To ensure that both current diversity and equality issues are mainstreamed into the core business of Defra, the Department has moved towards a more strategic business focused diversity framework, with ownership and responsibility at senior management level. Senior level commitment to this is illustrated in the Joint Equality Scheme.

Defra is now delivering on diversity and wellbeing at work through a newly recruited Diversity, Corporate and Social Responsibility and Wellbeing at Work team, who will develop Defra’s strategies. The role of the team is to help support Defra’s people management strategy but it will also importantly make a significant contribution to Defra’s core business through modelling corporate social responsibility both internally and externally.

Departmental reporting cycle

Departmental Report

This report presents an overview and assessment of Defra's performance over the past year. It includes details of progress against Defra's Spending Review 2004 Public Service Agreement targets. It also sets out the 2007–08 expenditure plans for the Department. The report makes many references to other related publications and websites, which hold more detailed information. The Departmental Report is published in the spring each year. The 2007 report was published on 17 May 2007.

Autumn Performance Report

This report runs in conjunction with the Departmental Report and is a six-monthly update of progress against Defra's live PSA targets. The 2006 report was published on 15 December 2006.

The latest versions of the Departmental Report and Autumn Performance Report are published on the Defra website([6]).

Estimates

The Estimate reporting cycle is detailed in the Statement of Parliamentary Supply.

Entities within the Departmental boundary

The entities within the Departmental accounting boundary during 2006–07 comprise the Core-Department, its Executive Agencies and Non Departmental Public Bodies (NDPBs) as shown in note 38 to the Accounts. The term 'Core-Department' is used to refer to the Department alone, excluding Agencies, NDPBs and other bodies.

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 39 to the Accounts.

Remote contingent liabilities

Defra has entered into a number of remote contingent liabilities that are disclosed in note 32 under parliamentary reporting requirements. These are outside the meaning of Financial Reporting Standard (FRS) 12 since the possibility of a transfer of economic benefit in settlement is too remote. Details on Defra's significant remote contingent liabilities are as follows:

- Defra has entered into guarantees for the Carbon Trust and Energy Savings Trust to ensure funding is available to honour programmes, where grant offer letters have been issued. Defra's remote liability could be as much as £13m. The Department minimises its risk by seeking legal advice on the drafting of the guarantee to prevent Directors from being exposed to any liabilities;

- Defra has an indemnity to maintain an offshore works, built in the 1970s to assess the feasibility of offshore reservoirs, and ensure that no danger, nuisance or annoyance is caused. To reduce the risk of a liability crystallising Defra pays for the works to be marked with a beacon and a navigation buoy and for a lifebuoy station to be maintained;

[6] http://www.defra.gov.uk/corporate/deprep/default.htm

- Defra indemnifies the Royal Society against legal costs and damages, should they arise, following publication of their report on 'Infectious Diseases in Livestock'. The risk of a liability crystallising is remote as the report has been in the public domain since 2002, with no adverse claims made;

- Defra also indemnifies the UK Chemical Stakeholders Forum against legal action by companies affected by Forum decisions or announcements on chemicals. To minimise the risk of the liability crystallising Defra seeks advice on the wording of Forum announcements;

- Defra has a remote liability of £100m from legal action taken 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 in August 2006. The possibility of further appeals is becoming increasingly unlikely as is their chance of success;

- Defra received an EU Article 226 letter dated 4 April 2006 relating to the Drinking Water Directive (98/83/EC). Should the case reach the Article 228 European Court of Justice (ECJ) stage (around 2009–10), the Court would determine the extent of any fines. Defra is unable to quantify these possible fines at this stage, but they may be backdated and substantial.

Research and development

Defra spends around one-third of a billion pounds annually on science, with £96m being invested in research and development in 2006–07. Around 95% of Defra's research and development budget is spent by policy groups to directly support their strategic priorities, with the remaining funds being used by the Chief Scientific Advisor to fund cross-cutting and horizon scanning. Defra also funds approximately £200m on other science, including surveillance and monitoring, field trials and knowledge transfer.

In December 2006, the Office of Science and Innovation (OSI) published its Review of Defra Science([7]). The review was very positive and praised the excellence of Defra Science. The review made a number of recommendations as to how Defra should further develop its management and use science, including further developing the strategic approach to planning science through the Evidence and Innovation Strategy([8]).

A review of performance in 2006–07 and a forward look for 2007–08 can be found in Chapter 9 of Defra's Departmental Report([9]).

Payment of suppliers

Standard contractual terms of payment require that valid invoices be 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. The Core-Department has implemented a 'No Purchase Order No Pay' policy in line with its continuous development of the 'Procure 2 Pay' process. This policy will enable improvement of the payment performance. Defra continues to maintain its commitment to the Better Payment Practice Code and is determined to honour these commitments. The current payment performance target for the Core-Department is 100% for all valid payments to be made by the due date. Defra's performance for the year, excluding RPA, was 94.32% (2005–06 94.19%). The total number of supplier invoices paid during the year was 139,401 (2005–06 157,574), with 131,484 (2005–06 148,423) paid on time. £811.11 was payable under the Late Payment of Commercial Debts (Interest) Act 1998 (2005–06 £Nil). For RPA, the largest agency, 85.25% (2005–06 82.78%) 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 (2005–06 £Nil).

[7] http://www.berr.gov.uk/files/file35751.pdf
[8] http://www.defra.gov.uk/science/how/documents/EvidenceAndInnovation.pdf
[9] http://www.defra.gov.uk/corporate/deprep/2007/chapter09.pdf

Going concern

The balance sheet at 31 March 2007 shows negative Taxpayers Equity of £1,461,889,000 (2005–06 £2,106,064,000). 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 that 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, must be surrendered 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 2007-08 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

Details of the events since the balance sheet date are included within note 35.

Pension liabilities

Details of the treatment of pension liabilities can be found in note 1.14 and pension entitlements of Ministers and senior officials are detailed in the Remuneration Report.

Auditor

The Comptroller and Auditor General is the auditor for the Department’s Accounts. All external audit remuneration is for audit work undertaken on the Accounts. The notional cost for the audit of the Core account was £300,000 and for the Consolidated account was £30,000.

As far as the Accounting Officer is aware, there is no relevant audit information of which Defra’s auditors are unaware. The Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that Defra’s auditors are aware of that information.

The Comptroller and Auditor General also undertakes value for money examinations under Section 6 of the National Audit Office Act 1983. In 2006–07, the NAO published reports on the following subjects:

- the delays in administering the 2005 Single Payment Scheme in England (HC 1631 2005–06);
- reducing the reliance on landfill in England (HC 1177 2005–06);
- the right of access to the open countryside (HC 1046 2005–06).

In June 2007, the NAO published a further report on building and maintaining river and coastal flood defences in England (HC 528 2006–07).

The ongoing programme of value for money work includes:

- an update on the Single Payment Scheme;
- resource management in Defra and its delivery bodies;
- the Carbon Trust.

Management

Ministers

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

Secretary of State([10]) — Rt Hon Margaret Beckett MP (until 4 May 2006)
Rt Hon David Miliband MP (from 5 May 2006)

Parliamentary Under-Secretary (Commons) for Rural Affairs, Landscape & Biodiversity — Jim Knight MP (until 4 May 2006)

Parliamentary Under-Secretary (Commons) for Biodiversity, Landscape & Rural Affairs — Barry Gardiner MP (from 5 May 2006)

Minister of State for Climate Change & Environment — Elliot Morley MP (until 4 May 2006)

Minister of State for Climate Change & Environment — Ian Pearson MP (from 5 May 2006)

Parliamentary Under-Secretary (Lords) for Sustainable Farming and Food — Lord Bach of Lutterworth (until 4 May 2006)

Minister of State (Lords) for Sustainable Farming and Food — Lord Rooker (from 5 May 2006)

Parliamentary Under-Secretary (Commons) for Local Environment, Marine and Animal Welfare — Ben Bradshaw MP

[10] Hilary Benn was appointed as Secretary of State on the 28 June 2007 along with a new ministerial team.

Management Board members

The Management Board comprised the following members of staff during 2006–07:

Permanent Secretary	Helen Ghosh
Director General: Environment	Bill Stow
Director General: Sustainable Farming, Food and Fisheries	Andy Lebrecht
Director General: Living Land and Seas	Ursula Brennan (until 5 May 2006) John Adams (8 May 2006 – 8 January 2007) Peter Unwin (from 29 January 2007)
Solicitor and Director General: Legal Services	Donald Macrae (until 31 December 2006) Gill Aitken (temporary from 1 January 2007, permanent from 19 March 2007)
Chief Operating Officer and Director General: Operations and Service Delivery	Andrew Burchell
Chief Scientific Advisor and Director General: Science, Economics and Statistics Science Head of Profession	Professor Howard Dalton
Chief Veterinary Officer and Director General: Animal Health and Welfare Veterinary Head of Profession	Dr Debby Reynolds
Director: Finance, Planning and Resources	Ian Grattidge

Non-executive members of the Management Board

Bill Griffiths
Elizabeth Ransom (until November 2006)
Janet Grossman (from 1 January 2007)

Management Board directorships and other significant interests

Any potential conflict of interest is handled in line with the Civil Service Code.

Debby Reynolds is a member of the Governing Board of the Institute for Animal Health (see note 34).

Helen Ghosh 24 October 2007
Accounting Officer for the Department for Environment, Food and Rural Affairs

Corporate Governance

Requirements of the code

The Department is required to give a clear account of how far it has complied with key aspects of the Code for the year ended 31 March 2007 in accordance with DAO (GEN) 05/06([11]) — Corporate Governance in Central Government Departments.

Defra seeks to use the Code to guide both the day-to-day business of the Management Board (the Board) and future development.

The Accounting Officer believes that Defra complies with the Code, having followed the action plan which ensured full compliance by 31 March 2007.

Operation and decision making practice

The Permanent Secretary chairs Management Board meetings. She ensures that the Management Board makes effective decisions which are communicated to the Department and provides direction to the implementation of decisions. Where appropriate, Ministers may provide guidance to assist the Board in their discussion and decision making in particular through discussion at the weekly Business Meeting which is held jointly between them and Executive Board members.

In order to best achieve the objective of allocating and monitoring the use of financial and human resources in the Department, the Finance Director is a member of the Management Board, and the Human Resource Director advises on specific matters.

The Board's([12]) duties are:

- with Ministers, set and oversee the Department's strategy and allocate resources accordingly;
- to improve the capability of the Department and Executive Agencies through ensuring strong financial management capabilities are in place, developing talent and creating a high performance culture;
- performance and risk management of Defra, its Agencies and Non-Departmental Public Bodies (NDPBs) against the strategy.

The Management Board meets regularly (monthly excluding August, and for ad hoc meetings to discuss specific issues) and receives monthly written updates from sub-groups. The Board also receives oral updates from the Audit and Risk Committee.

On performance management, the Corporate Balanced Scorecard is designed to be the strategic tool for the Department, helping Defra deliver its objectives. It indicates performance and whether the measure is achieving its key milestones. The Management Board review the scorecard quarterly and challenge measure owners over the content and status of the measures. Each measure has an associated Risks page which is updated and monitored by the measure owner, each risk is given a Red, Amber, Green (RAG) status and mitigating actions are shown. Defra is currently working to update and streamline the Department's business performance management framework.

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[11] DAO (Dear Accounting Officer) (GEN) 05/06 is online at: http://www.hm-treasury.gov.uk/media/B/7/dao0506revised.pdf

[12] Members of the Board attend Board meetings in a corporate capacity, not to represent their areas of work. Substitutes are not normally allowed to attend, although may do so at the discretion of the chair.

Management Board sub-groups

Sub-groups report directly to the Management Board, and are chaired by members of the Management Board. They are:

- Audit and Risk Committee;
- Investment Board (from 1 April 2007);
- Senior Appointments Board;
- The Strategy Group;
- Renew Executive;
- Corporate Resources Group;
- Defra Collaboration Group (until February 2007).

Audit and Risk Committee

The Audit and Risk Committee (ARC) was established to support and advise on issues of risk, control, governance and other related matters. The Committee will also provide advice to the Management Board on these matters. The Committee supports both the audit (internal and external) and risk management roles and status within the Department.

The Audit and Risk Committee comprises three non-executives, one of whom acts as Chair and is also a non-executive member of the Board, and one executive member. The Accounting Officer confirms all appointments for a fixed term, after which the appointment will end or become eligible for renewal up to a maximum of 5 years. Financial Strategy Division (FSD) provides the Audit and Risk Committee with a secretariat function.

The Audit and Risk Committee meets at least five times a year. Meetings are scheduled at key points in the accounts timetable. The Chair of the Audit and Risk Committee may convene additional meetings when he considers it necessary, or at the request of other members. The Chair also meets periodically with the Chairs of the Audit Committees of Defra's Executive Agencies and NDPBs.

The Chairman provides the Management Board with regular written and oral updates and an Annual Report of the Audit and Risk Committee activities at the end of each financial cycle. The Audit and Risk Committee's Terms of Reference is available on the internet([13]).

Responsibilities

In detail, the ARC considers and advises the Accounting Officer and the Management Board on the following:

- Internal Audit Division (IAD) matters that include the appointment of the Head of Internal Audit, terms of reference for Internal Audit, prioritisation and planning of audit work, resources required, reports on audit activity including scrutiny of recommendations not accepted or implemented by managers and the Head of Internal Audit's Annual Report;

- Defra's Annual Resource Accounts, the accounting policies and the External Audit Management Letter;

- the strategic processes for risk management, control and governance and the Statement on Internal Control;

- the balance between opportunity or innovation and risk. The committee also maintains oversight of the management process for risk, including top threat identification and assessment, risk management policy, prioritisation of action, top threat ownership, review and reporting processes and audit risk management;

[13] http://www.defra.gov.uk/corporate/manboard/audit-tor.pdf

- consideration of the National Audit Office (NAO) plans for Financial and Value for Money audits, the results of their work, their reports and follow up action;

- arrangements for combating fraud, i.e. policy on fraud, reports on fraud activity (e.g. annual fraud return) and effectiveness of controls over fraud;

- awareness of external impacts on Defra's control environment to include auditing and accounting standards, Government and Parliament, the EU and other stakeholders;

- Agency/NDPB/Public Corporation issues. The Audit and Risk Committee will engage with Defra's Executive Agencies, NDPBs and Public Corporations to provide assurance and advice to the Accounting Officer on control, risk and governance issues as they impact on Defra as a whole.

Investment Board

From 1 April 2007 the Management Board proposes a separate Investment Board which will be responsible for the approval of new programmes of activity that will have significant resource implications. In exercising this function, the Investment Board will assess, inter alia, the strategic fit; value for money; affordability; the capacity and capability of the Department to carry out the activity; the need to re-prioritise activity in order to accommodate it. The Investment Board will also wish to be satisfied that the proposal is underpinned by sufficient planning to increase the probability of successful delivery.

As a new sub-committee of the Management Board, initially it is expected that the Management Board will subsume its functions until sufficient experience has been gained of operating a formal approvals mechanism. In due course, the Management Board expects to delegate much of the decision making to the Investment Board itself, and at this time its membership will be determined. Membership is expected to be drawn from Directors General (DGs) and Directors and chaired by a member of the Management Board.

Senior Appointments Board

The Senior Appointments Board oversees the appointment to SCS posts within Core-Defra and its Executive Agencies. It is also responsible for succession planning and talent management of the SCS cadre and its feeder grades and doubles up as the SCS Pay Committee. Membership comprises DGs and the Permanent Secretary as chair, and when acting as the Pay Committee is joined by a non-executive of the Management Board.

The Strategy Group

The Strategy Group advises the Board and Ministers on Defra's Strategy, with particular reference to policy and delivery priorities, the evidence base, strategic communications and stakeholder relations, by keeping matters under review and assuring the Board and Ministers of the overall coherence and relevance of Defra's Strategy.

The following key areas of work were identified for the group, the focus of which should be on taking a medium/long term perspective:

- overseeing the development of the Department's Strategic Priorities and outcomes;
- ensuring that these drive the business, including resource allocation;
- horizon scanning;
- understanding the Government agenda and Defra's place in it;
- the evidence base - scientific and socio-economic;
- oversight of other cross-cutting issues;
- spotting the gaps in light of the above;
- stakeholder engagement — especially other government departments (OGDs) and the non-Defra world.

Renew Executive

The Renew Executive is the Programme Board for Defra's Renew Programme. This change programme has far-reaching effects on all areas of Defra's work, encompassing the delivery of a number of key enabling tools, many of which have strong interdependencies. The delivery, use and ultimately the value Defra derives from these tools requires high level input and co-operation from the policy, corporate and delivery business areas. Much of this work cuts across traditional organisational boundaries and departmental structures and the governance structures for the programme need to reflect this.

The Renew Executive's objectives fall into three main areas:

- **Governance:** strategic direction, benefits and outcomes, risk, relationship with delivery bodies;
- **People:** leadership, staff and organisational development, behaviour change;
- **Delivery:** strategic framework, targets, principles and Key Performance Indicators (KPIs).

It provides cross-cutting leadership, and a single point of ownership and accountability for decision-making. It owns the vision for Renew, agrees strategic outcomes and scope for the programme, owns the programme business case, secures resources, aligns with, and prioritises against wider Defra activities, and is ultimately accountable for realising benefits. It will remove barriers within Defra which could impede Programme delivery and decide on critical cross-cutting strategic and policy issues referred to it from its subcommittee, the Renew Delivery Board. It is chaired by the Permanent Secretary, and membership includes Defra's Directors General together with two non-executives. It was formed in January 2007, and replaced the Departmental Reform Group.

Corporate Resources Group

From June 2007, the Corporate Resources Group (CRG) was suspended until further notice with decisions being taken in other Renew Defra led forums. The CRG was responsible for decision making in respect of strategic decisions surrounding corporate services and formulating proposals for approval of the Management Board, for example, the Department's Estates and People Strategies, the Smart Working Programme, and electronic records management. It was chaired by the DG of the Service Transformation Group and membership comprised directors from policy groups and corporate services. It also had responsibility for overseeing the "Defra as Leader" programme which included the Department's performance against the targets set in respect of the sustainable operations of the government estate and the Department's Sustainability Action Plan.

Defra Collaboration Group

The Defra Collaboration Group was the forum for strategic decisions on cross-cutting Defra family business and IT design and investment issues. It worked in parallel with the Departmental Reform Group. It brought together Chief Executive Officers from across the Defra family to improve collaborative working, in order to improve the customer experience, and to make best use of Defra's collective capacity and investments. Its aim was to add value, not to cut across existing structures. This group was formally closed in August 2007 and is to be replaced by the Defra Network Delivery Group.

Non-executive members of the Management Board

The non-executive members of the Management Board have a unique and vital role in providing an independent view on departmental performance and progress; providing a critical overview of financial controls and procedures for effective risk management and in challenging the policy formulation process. Currently, two non-executive members sit on the Management Board. However, Defra is in the process of recruiting a new non-executive from one of the Department's NDPBs, and a fourth from the private sector.

Working relationships with arms length bodies

The Department has in place arrangements and procedures for dealing with Arms Length Bodies (ALBs). The overarching governance arrangements are contained in Defra's Delivery Strategy which describes how Defra will achieve its outcomes through more effective partnerships between policy and delivery. This means an organisational separation between the two functions, but one underpinned by consistent and well-understood principles which are published on Defra's public website.

The ALBs have clear governance and accountability arrangements, and their roles and responsibilities are, and will be, strategically aligned to the Department's objectives. Where appropriate delivery bodies will seek to develop and share core information and systems, and provide customers with one-stop entry points.

Defra has a central Delivery Relationship Team that promotes best practice in working with ALBs and has produced and regularly updates web-based sponsorship guidance, and guidance on merging and de-merging delivery bodies and functions. The Department holds risk management workshops with ALBs as part of its programme of embedding risk management in business processes.

This year the Department reviewed its arrangements for governance of delivery. The resulting recommendations for improvements in structures, skills and behaviours were endorsed by the Defra Management Board and are being implemented as part of the Defra response to the Capability Review. This includes contracting with delivery bodies for customer focused outcomes, more effective management of delivery performance, increased budgetary stability for delivery bodies and enhancement of delivery skills at senior levels within the Core-Department. For the Executive Agencies Defra has already begun refocusing and renewing governance arrangements, clarifying the interactions between the owner, customer and stakeholder interests and improving ownership support arrangements. A more consistent approach to governance surrounding the Department's relationship with the Executive Agencies has emerged and strengthened governance arrangements. This distinguishes the customer and corporate ownership roles which the Department has in relation to these bodies and ensures that the corporate owner is supported by access to an Advisory Board with specialist knowledge.

Examples of other activities aimed at building better relationships in 2006–07 are regular ALB Chief Executive conferences, hosted by the Defra Permanent Secretary and joint 'away days' for senior staff of Defra and the Environment Agency. This year the Department also tried out joint strategic team building exercises for senior staff of Defra and the Environment Agency. If they are deemed successful the intention is to roll them out to the other three large delivery bodies (Natural England, Rural Payments Agency and Animal Health).

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on senior salaries. The Cabinet Office advises the Department in March or April each year of the Government's response to the Senior Salaries Review Body's recommendations and produces guidance for departments to follow.

Defra's Remuneration Committee is made up as follows:

Chair	Helen Ghosh
Members	Andrew Burchell
	Ursula Brennan (until 5 May 2006)
	Howard Dalton
	Andy Lebrecht
	Donald Macrae (until 31 December 2006)
	Debby Reynolds
	Bill Stow
	Bill Griffiths
	Peter Unwin (from 29 January 2007)
	Gill Aitken (from 19 March 2007)

Defra developed its Senior Civil Service (SCS) Pay Strategy within the Cabinet Office framework and has contained individual awards within the set range, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed. Defra's SCS Pay Strategy sets out the circumstances which govern the basis for line managers making pay recommendations, based on Cabinet Office guidance. The Remuneration Committee takes the final decisions on relative assessments of staff performance. The Human Resource team carries out the calculations to make individual payments based on a matrix. Individual performance for the majority in the SCS is assessed relative to all others in their peer group. Consolidated pay awards and unconsolidated bonuses are calculated entirely on the basis of their achievements. Each consolidated award is different depending on their position on the pay range and their level of performance.

Directors, excluding the Permanent Secretary, are eligible to be considered for individual levels of non pensionable, discretionary bonus up to a maximum of 20% of their salary which is performance related and approved by the Remuneration Committee. In 2007, bonuses were paid from a bonus pot of 7.6% (6.5% in 2006) of the total salary bill and paid to about 70% of the SCS in Defra and its Agencies (75% in 2006). The Permanent Secretary is eligible to be considered for a non pensionable, non consolidated bonus award calibrated against achievement of objectives, subject to a maximum of 15% of salary. Such awards are made by the Permanent Secretaries' Remuneration Committee which comprises the Chairman of the SSRB (who acts as Chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury. All bonuses are paid in arrears in the financial year after that in which they were earned.

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

Service Contracts

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 SCS contract. The rules for termination are set out in Chapter 11 of the Civil Service Management Code.

The Permanent Secretary appoints 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. Under standard SCS contracts, individuals have to give 3 months notice on resignation. On dismissal for inefficiency, the Department would have to give 5 weeks for less than 4 years service, 1 week plus 1 week for every year of continuous service up to a maximum of 13 weeks, for 4 years and over, or if terminated compulsorily 6 months notice. The Civil Service compensation scheme would apply in the case of redundancy, early departure or severance. All Defra Management Board members are on permanent Civil Service contracts except for Howard Dalton, who is on a secondment contract until 31 July 2007.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and Management Board members of the Department. These sections under the Remuneration Report have been subject to audit.

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

Ministers

Name and title		Column 1 Salary as defined below		Column 2 Prior year salary as defined below	Column 3 Real increase in pension at age 65	Column 4 Total accrued pension at age 65 as at 31 March 2007	Column 5 CETV at 31 March 2006	Column 6 CETV at 31 March 2007	Column 7 Real increase in CETV *
	£		£	£000	£000	£000	£000	£000
Ministers								
Rt Hon David Miliband MP *(from 5 May 2006)*	63,479		-	0-2.5	5-10	29	38	3
Ian Pearson MP *(from 5 May 2006)*	32,929		-	0-2.5	0-5	36	44	3
Barry Gardiner MP *(from 5 May 2006)*	24,994		-	0-2.5	0-5	15	22	4
Lord Rooker *(from 5 May 2006)*	98,225		-	0-2.5	15-20	184	212	14
Ben Bradshaw MP	34,260		29,491	0-2.5	0-5	28	35	3
Ministers who have served during 2006-07, but are not in post as at 31 March 2007 were:								
Rt Hon Margaret Beckett MP *(until 4 May 2006)*	12,484		74,902	0-2.5	15-20	243	248	2
Lord Bach *(until 4 May 2006)*	27,504	**	85,775	0-2.5	10-15	124	126	1
Jim Knight MP *(until 4 May 2006)*	4,915		26,320	0-2.5	0-5	5	6	-
Elliot Morley MP *(until 4 May 2006)*	13,608	**	38,854	0-2.5	5-10	90	97	7

Full year equivalents for part year Ministers for 2006-07 were:

Rt Hon David Miliband MP	76,088
Ian Pearson MP	39,469
Barry Gardiner MP	29,958
Lord Rooker	117,252
Rt Hon Margaret Beckett MP	74,902
Lord Bach	103,819
Jim Knight MP	29,491
Elliot Morley MP	39,243

* after adjustment for inflation and changes in market investment factors
** includes payment of compensation for loss of office under the terms of an approved Compensation Scheme

Senior Officials

	Column 1 Salary as defined below	Column 2 Prior year salary as defined below	Column 3 Real increase in pension and related lump sum at age 60	Column 4 Total accrued pension at age 60 at 31 March 2007 and related lump sum	Restated Column 5 CETV at 31 March 2006	Column 6 CETV at 31 March 2007	Column 7 Real increase in CETV *
	£000	£000	£000	£000	£000	£000	£000
Helen Ghosh *Permanent Secretary*	135-140	40-45	5-7.5 plus 15-17.5 lump sum	45-50 plus 140-145 lump sum	730	852	105
Bill Stow *Director General*	135-140	125-130	(2.5)-0 plus (2.5)-0 lump sum	65-70 plus 195-200 lump sum	1,609	1,592	(18)
Andy Lebrecht *Director General*	120-125	110-115	0-2.5 plus 0-2.5 lump sum	40-45 plus 120-125 lump sum	814	859	14
Andrew Burchell *Director*	115-120	110-115	2.5-5 plus 7.5-10 lump sum	40-45 plus 130-135 lump sum	756	836	56
Dr Debby Reynolds *Chief Veterinary Officer* *& Director General*	120-125	110-115	0-2.5 plus 2.5-5 lump sum	40-45 plus 130-135 lump sum	845	907	31
Ian Grattidge *Director*	95-100	25-30	0-2.5 plus 5-7.5 lump sum	15-20 plus 50-55 lump sum	295	346	40
Professor Howard Dalton ** *Chief Scientific Officer*	155-160	150-155	-	-	-	-	-
Peter Unwin *Director General* (from 29 January 2007)	20-25	-	0-2.5 plus 0-2.5 lump sum	45-50 plus 145-150 lump sum	925	937	5
Gill Aitken *Solicitor and Director General* (from 19 March 2007)	0-5	-	0-2.5 plus 0-2.5 lump sum	15-20 plus 45-50 lump sum	261	270	2
Management Board members who have served during 2006-07, but are not in post as at 31 March 2007 were:							
Ursula Brennan (until 5 May 2006) *Direcor General*	10-15	135-140	0-2.5 plus 0-2.5 lump sum	50-55 plus 155-160 lump sum	1,043	978	(1)
Donald Macrae (until 31 December 2006) *Solicitor and Director General*	95-100	120-125	0-2.5 plus 0-2.5 lump sum	45-50 plus 135-140 lump sum	935	967	8
John Adams (from 8 May 2006 - 26 January 2007) *Director General*	110-115	-	2.5-5 plus 12.5-15 lump sum	45-50 plus 145-150 lump sum	891	973	89

Full year equivalents for part year officials for 2006-07 were:

	2006-07	2005-06
Peter Unwin	120-125	-
Gill Aitken	100-105	-
Helen Ghosh (part time - 32 hours per week)	-	100-105
Ian Grattidge	-	90-95
Ursula Brennan	125-130	-
Donald Macrae	125-130	-
John Adams	120-125	-

* after adjustment for inflation and changes in market investment factors
** Professor Dalton does not receive a pension from Defra

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 a Member of Parliament (MP) £60,277 from 1 November 2006, £59,686 from 1 April 2006, (2005–06 £59,095) 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 can not 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.

In addition to the above, Elizabeth Ransom (non-executive member until November 2006) and Bill Griffiths were paid a total of £44,404 for their services and expenses as non-executive board members. Janet Grossman (non-executive member from 1 January 2007) did not receive any payment.

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.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. No Management Board members were in receipt of any benefits in kind during 2006–07 (2005–06 £Nil).

Pension benefits

Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended). Those Ministers who are MPs may also accrue an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been $1/40^{th}$ since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a $1/50^{th}$ accrual rate for a 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 $1/50^{th}$ accrual rate. Those members who have opted for the $1/40^{th}$ accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 26.8% of the ministerial salary.

The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension (CSP) 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 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 $1/80^{th}$ of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years' pension is payable on retirement. For Premium, benefits accrue at the rate of $1/60^{th}$ 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60. Further details about the CSP arrangements can be found on the Internet([14]).

Cash Equivalent Transfer Values

Columns 5 and 6 of the tables on pages 31 and 32, regarding the pension details for Ministers and Officials, 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 for Management Board Members 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. Similarly for Ministers, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Regarding the Management Board, the CETV figures 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.

[14] www.civilservice-pensions.gov.uk

Real increase in CETV

For the Management Board, column 7 of the tables, on pages 31 and 32, reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee or Minister (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.

For Ministers, column 7 of the tables, on pages 31 and 32, reflects the increase in accrued pension due to the Department's contributions to the PCPF, and excludes increases due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

Helen Ghosh 24 October 2007
Accounting Officer for the Department for Environment, Food and Rural Affairs

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Environment, Food and Rural Affairs to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the Accounts;
- prepare the Accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department for Environment, Food and Rural Affairs. The responsibilities of an 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 and accountability arrangements

As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Defra's policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

Defra delivers its aims and objectives in partnership with its Agencies, NDPBs, Public Corporations and other delivery partners. The delegated authorities and accountabilities that apply to Defra's relationship with these bodies are described in Accounting Officer letters, Framework documents, Management Statements, Financial Memoranda, Offer of Grant letters and other documents. Accounting Officers for Defra's Agencies and sponsored public bodies are appointed in accordance with the requirements of *Managing Public Money*. 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. The statements contribute to the assurances supporting my Statement on Internal Control (SIC).

As Accounting Officer I work with Ministers and my senior managers to achieve the Department's aims. I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent Defra's objectives being achieved.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has continued to change and develop during the year, up to the date of approval of the Annual Report and Accounts and accords with HM Treasury guidance.

Review of the effectiveness of internal control

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 by the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework and by 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 is in place to address weaknesses and assure improvement of the system.

I receive information on internal control from my senior executive managers during the year through normal management reporting, as described elsewhere in the SIC. Each Director General and Director also provides me with a formal annual assurance statement on the system of internal control and reports areas of weakness and improvement in the system. To inform their statements, key control issues are explored in workshops with relevant senior staff. The Management Board holds a similar workshop to consider the control issues raised and what should be reported in the SIC. I also receive management assurances on emergency and continuity planning, health and safety and security.

The Audit and Risk Committee reviews the adequacy of audit arrangements, considers the results of the NAO's work and provides strategic oversight and challenge to assurances from Internal Audit, the Departmental Risk Co-ordinator and senior managers on our risk management, control and governance processes. The Head of Internal Audit provides an independent assurance to the Audit and Risk Committee and me on the adequacy and effectiveness of the Department's risk management, control and governance processes, together with recommendations for improvement. The Departmental Risk Co-ordinator leads on our risk improvement activities and reports to the Audit and Risk Committee and Board on our progress towards embedding good risk management in the organisation.

The system of internal control

The main elements of Defra's system of internal control are summarised below. I reported a number of control problems in the 2005–06 SIC (covering the period April 2005 to October 2006) which I considered to be indicative of a deterioration in some aspects of our management systems. Whilst there have been improvements in some areas, the evidence from my effectiveness review is that, overall, the system of internal control continued to weaken during 2006–07. I identify below steps we have taken during the first 6 months of 2007–08 and our ongoing actions, to strengthen controls in areas of concern, and to address subsequently emerging control issues. I shall report in the statement on internal control for 2007–08, on the extent to which these actions have strengthened the control environment. I also refer to the impact on the system of Defra's change programme "Renew Defra". Our highest priority issues for improvement are described under the "Significant Control Issues" section.

Governance, strategy and planning

Under our top level governance arrangements the Management Board provides corporate strategic leadership for the Department and is accountable for the effectiveness of our performance, risk management and control. The Board is chaired by me and comprises the senior staff of the Department and three non-executive members. Defra's accountability arrangements with its delivery bodies are based on the formal responsibilities of Accounting Officers and Boards and the application of performance management processes. We have established the Defra Network Delivery Group to act as a forum for agreement of initiatives that are dependent on joint action with our delivery partners and to improve services to our customers. (Please see the Remuneration Report for more information on the Management Board and page 10 of the Annual Report for more information on our delivery bodies).

We have been revisiting our strategic priorities, ways of working and organisational structures in parallel with the Comprehensive Spending Review 2007 (CSR07). These priorities will shape the way the Department works as we enter the CSR07 period and are formalised in new Public Service Agreements (PSAs) and Departmental Strategic Objectives. The refreshed strategy is also a driver for the Renew Defra change programme (see below). Our strategy forms the basis of our annual business plans for each area of the Department's activities, which in turn inform the allocation of resources and performance management. I chair a panel which reviews and challenges our business plans.

Management of delivery

Delivery of our strategy and PSA targets is underpinned by risk assessment and the application of Programme and Project Management (PPM) methodologies. I have appointed Senior Responsible Officers (SROs) who are accountable for the delivery for each PSA target. The Management Board receives a quarterly progress update for each PSA target and scrutinises our six monthly PSA performance report to HMT, which includes an overall assessment of the likelihood of delivery. The governance and challenge arrangements for our other mission critical programmes are similar, with quarterly reviews by the Management Board, increased to monthly for programmes and projects considered to be particularly high risk.

We have a PPM team to help support these processes. It acts as a centre of excellence and provides 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.

The 2005–06 SIC reported several control problems with the establishment of some of our new delivery bodies in the period to October 2006 including: shortcomings in project managing the process; accounting weaknesses; deficiencies in staff transfers and in support services and gaps in the processes for ensuring the legality of new services. Though no new delivery bodies have been formed since then, we have taken action on these points and also drawn up guidance on preparing future new bodies in areas such as: financial controls and accounting, the legal basis for new activities and the arrangements for staffing. The Capability Review identified room for improvement in the way we manage our delivery partner relationships, assess their performance and hold them to account. A review of Defra's governance of its delivery partners was conducted last year and an action plan to address these issues is a key strand under Renew Defra and the Department's response to the Capability Review.

Change management – Renew Defra

The Renew Defra Programme commenced in February 2007 and is designed to help meet the challenges under SR04, CSR07 and our refreshed strategy and address the recommendations of Defra's Capability Review. It focuses on our performance and customer needs and is due to conclude at the end of August 2008. It is a major change programme with a key element being the adoption of PPM as our preferred way of working (details of its deliverables and planned outcomes are shown at page 4 of the 2007 Departmental Report([15]). The programme risks will be managed through the PPM process itself, with escalation up to Management Board level as appropriate. As with any major change programme, we will need to ensure that we mitigate any risk to our ability to maintain "business as usual" and, in particular, our response to operational contingencies such as a major animal disease outbreak. The Management Board has overall responsibility for delivering the programme and for managing the risks it presents to the Department.

Changes under Renew will help provide a basis for strengthening the control environment across Defra through:

- improved processes and related systems based on business requirements, leading to: clearer and tightened processes, better management information for decision making and better take up of systems by the business areas that have helped to shape them;
- clarification of roles, responsibilities and behaviours across Defra, driving improved accountability;
- better collaboration and cohesion across functional areas and between people in similar roles, helping to close control gaps and provide solutions to shared issues/risks.

Risk management and emergency preparedness

Risks are considered in all aspects of our decision making, including in my weekly meetings with Directors General and weekly business meetings of the Management Board and the ministerial team. In general, challenge to strategic level decision making is provided by key individuals and groups, such as: non-executives on the Management Board, the Audit and Risk Committee, the Science Advisory Council, the Ministerial Challenge Panel on Regulation, the Contingency Planning Programme Board and OGC Gateway Reviews.

[15] A copy of the Departmental Report is available from The Stationery Office (TSO) or can be downloaded at: http://www.defra.gov.uk/corporate/deprep/2007/index.htm

Our approach to risk management is set out in Defra's Risk Management Strategy (April 2002). We are working to refresh this strategy as part of Renew Defra, with particular focus on providing clarity on our tolerance for risk materialisation in each area of our operations. This will draw in part upon research we have commissioned on risk assessment and resource allocation, and on the findings of the Science Advisory Council's review of our handling of natural risks occurring outside the Department. We recognise the need for clarity of vision about Defra's future risk management framework in the light of Renew Defra and the "Our Way" workstreams should ensure consistency of process. Currently, information on risk is captured locally, reviewed by managers (through such mechanisms as project boards, team meetings and business case and scorecard reviews) and escalated as appropriate up the management chain. Parts of the Department have been trialling an approvals gateway for new policy initiatives and other proposals involving major investment. A risk management site on the Department's intranet acts as the focal point for written advice, guidance, tools, e-learning and good practice, supported by a full-time Risk Co-ordinator to advise on specific issues. Ongoing monitoring via staff survey feedback allows us to see the degree to which staff feel encouraged to identify and address risks locally, free from the fear of blame.

Defra's systems for dealing with emergencies are based on our Contingency Planning Strategy which is owned by the Contingency Planning Board (CPB) consisting of Directors General and other senior officials. The Strategy sets out our aims to: deal quickly and efficiently with emergencies and our related Lead Department responsibilities; deliver critical business activities in the face of serious disruption and recover quickly from such disruption. We regularly test and update all plans using risk analysis, lessons from real events and exercises. The CPB receives quarterly reports on the implementation of the Strategy, the latest of which assesses Defra as Amber/Green (robust plans are mostly in place but there are a few gaps).

Tests of our emergency and business continuity preparations in real events such as the Avian Influenza (AI) outbreaks, the summer floods, the Foot and Mouth Disease outbreak, the Litvinenko incident and exercises such as those on human pandemic influenza and disaster recovery, have shown them to be up to date and broadly fit for purpose. Indeed, Defra received favourable press coverage of its response to the AI outbreak at the Bernard Matthews factory in Suffolk and the Cabinet Office has complimented us on our commitment to emergency response planning. Additionally the Lessons Learned Review chaired by Sir Michael Pitt, might identify measures to strengthen further our preparedness for flooding emergencies. Reviews of lessons from the FMD outbreak, such as the independent Anderson review, and consideration of issues at the Pirbright facility([16]) will be applied to improve preparedness and resilience in this area. All lessons will be shared across Defra and this work will be underpinned by phase 2 of our Contingency Planning Strategy, which was agreed in July 2007. Work is in hand to address issues raised in the 2005–06 SIC in terms of: the ability to augment staffing levels quickly, and Hazardous Material planning to respond to incidents such as Buncefield.

Performance and resource management

Our corporate balanced scorecard has been a key tool for the Management Board and Ministers in overseeing the Department's performance and in reviewing our 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. During 2007 we have reviewed the scorecard in the context of Renew Defra and plan to replace it with a simplified and more focused corporate "dashboard" which will provide a strategic overview of delivery and allow detailed performance management of our key programmes.

[16] The Pirbright facility includes the Institute of Animal Health (IAH), a research institute sponsored and grant-aided by the Biotechnology and Biological Sciences Research Council (a Non-Departmental Public Body of the Department for Innovation, Universities and Science). Defra provides the IAH with some capital funding and purchases some of its contracted services. Details of the Government's response to investigations into the probable release of FMD virus from Pirbright are at: http://www.defra.gov.uk/animalh/diseases/fmd/investigations/pdf/govstatement_fmd2007.pdf

Our management of resources is based on a formal system of delegated authority supported by regular monitoring of financial management information and compliance with financial regulations and procedures. In 2006–07 executive Management Board members delegated budgets to Directors, who in turn delegated to Heads of Division; for 2007–08 I have delegated budgets directly to Directors. Budget holders receive a formal letter of delegation setting out their responsibilities for effective financial management. The Management Board reviews spend against original budgets and revised forecasts monthly during the year, reviews reasons for significant variances and decides on any adjustments to funding in line with delivery priorities agreed with Ministers. Renew Defra will move us towards greater focus on controlling and reporting finance by outcomes and objectives, in line with Treasury reporting requirements. We are putting in place the systems to support this approach (for more details of our financial systems please see pages 118–22 of the 2007 Departmental Report). Despite progress made in these areas there has been a deterioration in the financial control environment during 2006–07 as indicated below under the "Significant control issues" section.

Corporate support systems

During the year we set up the Shared Services Directorate (SSD), with its own Chief Executive, to provide shared support systems such as IT, HR and financial transaction processing. These systems are critical to the delivery of Defra's objectives and are key elements of the system on internal control. The SSD delivers these services using the Oracle Business Suite platform.

Our IT infrastructure is managed under a strategic partnership with an external contractor and I reported in the 2005–06 SIC our disappointment about the quality of our IT services. A 12 month "Effectiveness Plan" for the calendar year 2007 has been put in place to remedy the situation — and is being closely monitored by senior executives. There is encouraging evidence of "green shoots"; for example, major incidents are down as are helpdesk calls. Our teams continue to work closely with IBM to drive rapid improvement in key areas of service. Other initiatives on issues raised in the 2005–06 SIC are a reduction of bureaucracy in change control procedures for IT project management and a re-organisation of the IT finance function. These are both expected to increase the efficiency of our IT services. The Department has been slow to produce the documents required to evidence compliance with recognised IT security standards, but some progress has been made since the end of the year to allocate responsibility and progress the work required.

Defra's 2005–06 SIC also identified control issues in our HR systems. Concerns over the clarity of responsibility for, and effectiveness of, controls in payroll reconciliations have been addressed and a Government-wide SAS70 review of the systems of the payroll provider has provided independent assurance on the operation of their internal processes. We have also strengthened the senior HR team in Defra. Following last year's concerns over authority for novel and contentious payments, we have reinforced guidance on novel and contentious payment and severance procedures. The number of cases has reduced but we are continuing to monitor this issue closely.

Despite the progress outlined above, we have continued to have significant control issues in our Corporate Support Systems since October 2006 which are set out below.

Significant control issues

In this section of the SIC I highlight those control issues which significantly impact our delivery and are therefore prioritised for improvement. Whilst they remain unresolved there is a risk that the Department's systems could fail to support the significant and rapid changes envisaged under Renew Defra. They are therefore included in a high level action plan which will be overseen by the Management Board to ensure that the necessary improvements in our control framework are made.

Single Payment Scheme

The Single Payment Scheme (SPS) consists of EU direct payments made to farmers and is a major element of the Common Agricultural Policy (CAP) Reform Programme. The Scheme is key to Defra's Sustainable Farming and Food Strategy and to one of our PSA targets. The Rural Payments Agency (RPA), one of our Executive Agencies, administers the SPS and started making payments for the 2005 scheme year in February 2006.

There were a number of significant problems surrounding the introduction of SPS which I reported in detail in the 2005–06 SIC. Despite measures to speed up the payment process, we narrowly failed to achieve the European Commission requirement of completing 96.14% (by value) of payments by the end of June 2006. Failure to meet the 2005 SPS payment target, together with other errors, has resulted in the non-reimbursement by the EC of late payments, and financial corrections (disallowance) are expected for which the Department had to recognise provisions (£150m) and contingent liabilities (£63.5m) in the 2005–06 account. A further provision for disallowance on SPS and other schemes of £198m has been made in 2006–07. The RPA has made good progress in improving delivery of the SPS and this year it achieved the 2006 SPS payment target. Nevertheless, SPS delivery in 2007–08 and beyond remains challenging, with major reputational and financial risks.

The reasons for the failure to achieve our target for 2005 SPS payment have been investigated and reported on by both the NAO and the Parliamentary Select Committee on Environment, Food and Rural Affairs (EFRA Committee). The OGC, Defra managers and internal audit have also reviewed the role and governance of the RPA. The main areas of our focus in strengthening the control environment have been:

- to ensure that the governance arrangements between Defra and RPA provide clear accountability and enable effective direction, oversight and challenge on the actions being taken. There have been significant improvements, including a simpler, clearer accountability structure and a more effective interface between policy and delivery. More challenge is being developed, particularly on performance management, risk management and contingency planning;
- to establish objective and effective measurement of performance and progress. Improvements include the development of a balanced scorecard as a high level performance management tool. There is more work being done in further developing useful and objective measures (particularly on disallowance risk), in ensuring clear understanding of the measures and in providing assurance on the validity of performance information;
- to put in place effective risk management and contingency planning. A key action has been the establishment of the Disallowance Working Group, chaired by Defra's Finance Director, to help assess the impact of EU disallowance risks. Other actions include live testing of the 2006 SPS payment process in January 2007 and the transfer of 700 RPA staff from casual to fixed term basis to help improve knowledge retention. Communication and knowledge transfer in our risk management is being improved and we are establishing an adequate level of assurance on disaster resilience.

Corporate Support and Management Information Systems

The 2005–06 SIC identified the poor quality of financial reports provided to the business and the need for more action to ensure the system meets user and business requirements. There were also flaws in the integrity of our HR data and access to it. While there have been some improvements in the financial reporting function, there continues to be problems with the quality of reports, training and user-friendliness which we are in the process of tackling.

Issues in relation to ease of use, flexibility and compliance of our HR systems are being addressed through improvement of system look, training and the introduction of reporting tools. However, in the latter part of the financial year we experienced significant problems with the roll-out of self-service HR systems, culminating in substantial disruptions to the service platform. This affected all systems and was due to both hardware and software problems. A Post Incident Review has been establishing the causes and will help us take action to reduce the likelihood and impact of a recurrence. Because of our level of dependence on our IT outsource partner we continue to monitor closely performance and value for money in this rapidly changing environment. We are also reviewing disaster recovery plans for all business critical IT systems to ensure that these plans are aligned with Directorate continuity plans.

Some of our delivery partners also experienced significant financial and management information control problems due to the services they receive from Shared Services Directorate (SSD). SSD have agreed an improvement plan for these support systems which will be closely monitored by Defra. Looking more to the future there is some lack of clarity concerning the ownership of, and strategy for, our IT platform, including the role of the Shared Services Directorate, which has implications for the Renew programme. In order to strengthen accountability and optimise the effective use of our systems we are carrying out a thorough review of the platform's governance and implementation in Defra.

Financial control environment

The 2005–06 SIC identified concerns around our expenses and procurement processes. There are also concerns over the data integrity of Buy4Defra and the ability to produce clear audit trails of transactions processed. Tests undertaken in Internal Audit's annual review of key controls found that a large proportion of those relating to core systems were weak or failed to operate. These included failings of oversight and challenge, lack of compliance with Departmental procedures and poor segregation of duties in electronic workflow systems. There was also a lack of escalation of known problems and delays in actioning identified systems improvements. Urgent action is being taken by the new Finance Director to reinforce guidance, re-introduce management controls and checks and to revise delegations as appropriate.

Financial management and accounting

During 2006–07 Defra had to reduce its initial budget allocations to areas of the business by £200m, impacting on our delivery plans as well as drawing criticism from the EFRA Committee. This was due in part to factors beyond our control such as the spring 2006 AI outbreak, but a contributory element was differences in the interpretation of complex Treasury rules on matters such as the end of 2005–06 financial year flexibility arrangements. In managing the subsequent budgetary pressures we took action to protect our key priorities and our Ministers consulted closely with stakeholders. Formal delegation of 2006–07 budgets to budget holders were delayed until December 2006 due to the uncertainties over allocation, while there were also uncertainties over final allocations for 2007–08, initial budgets were formally delegated in April. There was also an overspend of £38m on our 2006–07 Capital Budget outturn.

Actions we are taking to improve budgetary control include:

- strengthening of arrangements for Management Board review of financial issues, including the development of compliance and exception reports in support of the existing variance analysis reports;
- enhancing governance arrangements and controls on capital expenditure;
- improving business planning through integration with a devolved project approvals process and a more outcome focused resource allocation exercise under Renew Defra. We will also bring forward the date by which budget allocations will be set each year, so that these are reconciled and loaded into our systems before the start of the financial year.

The Department not only has to keep within budgetary control totals agreed with HMT but also has to keep within the total Request for Resources voted to it by Parliament. In 2006–07 there was an underspend of £751m. Detailed explanations of this can be found on page 12. One of the main differences between the Supply Estimate and the budgets agreed with HMT is the way that Consolidated Fund Extra Receipts (CFERs) are treated. This provides a key reason for the underspend against the Estimate which is not reflected in the budget. Defra's Budgets are allocated on a different basis to the Estimate and reporting against the Estimate involves mappings from those allocations. A project is underway to implement better controls and audit trails. This will also establish greater transparency and enable the Department to explain its budget allocations in terms of the CSR settlements. However, as Estimates have already been submitted for 2007–08 and given uncertainties for 2008–09, it is likely that underspends will occur in these years whilst these improvements are being implemented. Although these were real underspends in Estimate terms, the Department could not have used this underspend elsewhere without breeching HMT control totals.

As in 2005–06, Defra has failed to meet the faster close timetable for the completion of its 2006–07 Accounts. A significant factor has been delays in resolving issues in relation to financial information from our Agencies. The Department will carry out further work, including identification of any lessons from this year's process (and with particular reference to the issues described in the Comptroller and Auditor General's Report on pages 47–49 of these accounts), to ensure that this key requirement is achieved next year.

Helen Ghosh 24 October 2007

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

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

I certify that I have audited the financial statements of the Department for Environment, Food and Rural Affairs for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Report and the Corporate Governance Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Management Report and the Corporate Governance Report, is consistent with the financial statements.

Audit Opinion on Regularity

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

My observations on these financial statements are contained in my Report on pages 47 to 49.

John Bourn 26 October 2007
Comptroller and Auditor General
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 the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

Control weaknesses in the administration of the European Commission Single Payment Scheme

During 2006–07, the Rural Payments Agency, the Defra Executive Agency responsible for the administration of the European Commission Single Payment Scheme (the Scheme) to farmers and landowners in England, experienced considerable problems in completing payments to discharge the £1.4 billion liability in respect of unpaid 2005 Scheme claims accrued for at 31 March 2006. The results of my separate examination were presented to Parliament on 18 October 2006 (HC 1631/2005–06, *The Delays in Administering the 2005 Single Payment Scheme in England*).

The Agency has continued to experience problems in achieving timely payment of claims relating to the 2006 Scheme, although it was able to meet the European Commission requirement to make 96 per cent of the total Scheme payments by the deadline of 30 June 2007. I will report separately in due course on the completion of the arrangements for the 2005 Scheme and the administration of the 2006 Scheme.

Provision for Disallowance

In its 2005–06 Resource Accounts, the Department established a provision of £150.2 million for potential disallowance of funding to the Exchequer. Disallowance is where the European Commission levies a flat rate penalty because it takes the view that the United Kingdom paying agencies, including the Rural Payments Agency, have not complied with the detailed Scheme Regulations. The Department also established a contingent liability of £63.5 million for potential costs in respect of partial and late payments covering the 2005 Scheme for the Exchequer as a whole, and including previous schemes which the European Commission may not reimburse.

As at the date of my report, the Department has not agreed with the European Commission any final amounts payable for determinations in respect of the failings in the Agency's systems and controls that were reflected in the provision at 31 March 2006. The Department has made further provision in 2006–07 of £198 million for the costs of disallowance, bringing the total amount provided for in the balance sheet to £348 million at 31 March 2007. This increase comprises additional amounts for the 2005 Scheme together with amounts for the 2006 Scheme and other, earlier, payment schemes. There remains significant uncertainty about the timing of eventual payments and the size of the financial losses that are likely to be incurred. When disallowance penalties are confirmed, the amounts which will be deemed to be irregular expenditure will be charged against the disallowance provision. If these amounts are material to Defra's financial statements in future years, then I will need to qualify my opinion in this respect.

Non-reimbursement of late payments

In addition to the provision for disallowance, the Department has raised an accrual of £63 million at 31 March 2007 for Scheme payments not reimbursable by the European Commission because they were paid late. The Regulation concerning the arrangements for funding the Scheme stipulates that reimbursement by the European Commission shall be reduced on a sliding scale for payments made after the payment deadline set out in the Scheme Regulations. Between July 2006 and June 2007, non-reimbursable late payments of some £63 million in relation to the 2005 Scheme had been made by the Agency. In accordance with its accounting policy, Defra bears the risks of disallowance and of late payments and has therefore established the accrual to reimburse the Rural Payments Agency for the amounts that cannot be collected. The Agency acknowledges that up to a further £7 million of payments have still to be made for the 2005 Scheme but this total is not yet certain, pending the final assessment of amounts for some claimants.

The non-reimbursement of £63 million results in losses to Exchequer funds because Scheme payments that could have been eligible to be funded by monies from the European Commission will be funded instead from Parliamentary Supply. As and when the residual further payments for the 2005 Scheme are confirmed, they will also have to be met from UK Exchequer funds.

The Department's financial management

For 2006–07, the Department had requested an initial net resource requirement of £5.934 billion which was increased by a Winter Supplementary Estimate to £6.022 billion, and by a Spring Supplementary Estimate to £6.356 billion.

In July 2007, the Department produced its draft consolidated account figures for the 2006–07 financial year. The final account figures show that the Department had underspent against its resource estimate of £6.356 billion by £751 million (12 per cent).

My staff asked the Department to provide explanations for the significant underspend against the resource limit provided by Parliament. The Department has now included (in its Management Commentary and Note 2 to the 2006-07 Resource Accounts) explanations for the large underspend. The Department's plans that fed into the Estimate were shown to be significantly overstated because they were based on inaccurate information, compounded by the inherent uncertainties in forecasting future receipts from the European Commission.

The House of Commons Environment, Food and Rural Affairs Committee took evidence from the Department in July and December 2006 on its financial management (HC 132 2006–07, *Defra's Departmental Report 2006 and Defra's Budget*). My staff are currently examining financial management across the Department and its delivery bodies and will consider the issues raised by this underspend as part of that wider examination. I will be reporting to Parliament in due course on the findings of my examination.

The Department's inability to deliver financial statements on a timely basis

The Department has not been able to produce accounts for audit and publication by the Summer Recess timetable as required by HM Treasury's faster closing timetable. The timetable is intended to ensure more timely reporting to Parliament, thereby enhancing the accountability of government departments.

The process of producing Defra's consolidated Resource Accounts begins with the preparation of core Department and Executive Agency accounts. The figures from the individual accounts are submitted, using standardised templates, to Defra's consolidated accounts team.

A first set of consolidated account figures was provided for audit on 18 July, but significant further work was still needed by the Department to complete and quality assure all elements of the accounts and the accompanying annual report. A crucial factor in the Department failing to meet the faster closing timetable was a number of significant delays that arose from resolving issues in relation to financial information submitted by its Executive Agencies and to agree necessary accounting adjustments.

The main delay arose from Defra's decision, as part of the 2006–07 budgeting process, to move the budget and accountability for the England Rural Development Programme from the Rural Payments Agency to the core Department. The accounting implications of the change were not identified by the Department until my staff found, during interim audit work in March 2007 that Scheme transactions were being accounted for by both the Rural Payments Agency and the core Department. The change in responsibilities meant that the transactions needed to be reflected only in the core Department's accounts but it took the Department until July to conclude with the Agency on all the details of the change in accounting treatment and to reflect it in the 2006–07 accounts.

The Department has also struggled to explain the financial outturn against its Supply Estimate, as referred to above. This has delayed the production of the Management Commentary and key notes to the Resource Accounts which require the Department to provide figures and explain its financial outturn against the Supply Estimate for the year.

These issues are indicative of wider difficulties that the Department has had in ensuring that it is able to identify and resolve, at an early stage in the accounts process, significant issues that can impact on the delivery of audited financial statements for Parliament by the recess deadline. A wider business area and corporate commitment is needed if the financial statements are to be delivered to the faster closing timetable. My staff have provided Defra with more detailed observations and recommendations, which include: the need to complete a formal hard close to prepare an interim set of consolidated financial statements at the end of December each year; the need to develop the responsiveness of the Department's business units to bring forward the preparation of the core financial statements; and the need to develop more effective working relations between Defra's finance team and those in the executive agencies, in particular the Rural Payments Agency.

Of the 56 2006–07 Resource Accounts produced by government bodies, the Defra accounts are now one of only four that have not met the faster closing target. Defra will need to give appropriate priority to managing the group's financial management, control and accounting processes to ensure that the timetable can be met for 2007–08.

John Bourn 26 October 2007
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
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London SW1W 9SP

Statement of Parliamentary Supply

Consolidated Summary of Resources Outturn 2006–07

Estimates

Estimates are the means of obtaining from Parliament the legal authority to consume the resources and spend the cash the Government needs to finance the Department's agreed spending programmes for the financial year (April to March).

Parliament gives statutory authority for both the consumption of resources and for cash to be drawn from the Consolidated Fund (the Government's general bank account at the Bank of England) by Acts of Parliament known as Consolidated Fund Acts and by an annual Appropriation Act. This process is known as the ‘Supply Procedure’. The Main Estimates start the Supply Procedure and are presented by HM Treasury around the start of the financial year to which they relate. HM Treasury presents, alongside the Main Estimates, a set of supplementary budgetary information tables reconciling the Estimates to departmental report tables. At various points in the year HM Treasury presents revised and/or Supplementary Estimates asking Parliament for approval for any necessary additional resources and/or cash revisions to the Main Estimates.

The Main Estimate is usually produced in February and details can be found on HM Treasury’s website([17]).

There are usually two Supplementary Estimates: Spring and Winter, which are produced in January and November respectively. These are also available on HM Treasury’s website([18]).

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.

		2006-07							Restated 2005-06
		Estimate			Outturn			Net total outturn compared with Estimate: saving /(excess)	Outturn
	Note	Gross expenditure	A-in-A	Net total	Gross expenditure	A-in-A	Net total		Net total
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1		7,660,465	1,304,873	6,355,592	6,751,301	1,146,540	5,604,761	750,831	5,688,604
Total resources	3	**7,660,465**	**1,304,873**	**6,355,592**	**6,751,301**	**1,146,540**	**5,604,761**	**750,831**	5,688,604
Non-operating cost A-in-A				**40,394**			**19,155**	**21,239**	15,163

17 http://www.hm-treasury.gov.uk/documents/public_spending_reporting/estimates/psr_estimates_main06_07.cfm
18 http://www.hm-treasury.gov.uk/documents/public_spending_reporting/estimates/psr_estimates_supplementary.cfm

Net cash requirement 2006–07

	Note	2006-07 Estimate	2006-07 Outturn	Net total outturn compared with Estimate: saving /(excess)	2005-06 Outturn
		£000	£000	£000	£000
Net cash requirement	4	7,243,316	6,265,477	977,839	3,927,775

Summary of the 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 being shown in italics)

	Note	2006-07 Forecast Income	2006-07 Forecast *Receipts*	2006-07 Outturn Income	2006-07 Outturn *Receipts*
		£000	*£000*	£000	*£000*
Total	5	2,487,753	*3,946,664*	2,000,642	*2,348,912*

Explanations of variances between Estimate and outturn are given in the Management Commentary on page 12.

The notes on pages 59 to 109 form part of these accounts.

Consolidated Operating Cost Statement

for the year ended 31 March 2007

	Note	2006-07 Staff costs £000	2006-07 Other costs £000	2006-07 Income £000	Restated 2005-06 £000
Administration costs					
Staff costs	9.1	271,812			271,746
Other administration costs	10		274,517		275,316
Operating income	12.1			(64,434)	(60,780)
					486,282
Programme costs					
Request for Resources 1					
Programme costs*	11		5,861,669		5,999,832
Income***	12.1			(3,082,704)	(3,594,578)
					2,405,254
Frontline services					
Staff costs*	9.1	180,388			167,857
Programme costs*	11		170,371		145,262
Income	12.1			(4,941)	(2,500)
					310,619
Total		452,200	6,306,557	(3,152,079)	
Net operating cost**	3.1, 13			3,606,678	3,202,155

* The total programme expenditure is £6,212,428,000 (Restated 2005–06 £6,312,951,000).

** Some EU receipts are treated as negative public expenditure and reduce the burden on the UK Exchequer, for 2006–07 these were £6,082,000 (2005–06 £Nil).

*** Defra acts as an agent for the EU in making payments for third parties, income relating to this for 2006–07 was £3,071,578,000 (2005–06 £3,450,685,000).

Consolidated Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	2006-07 £000	2005-06 £000
Net gain/(loss) on revaluation of tangible fixed assets	26,051	19,840
Net gain/(loss) on revaluation of investments	30	6
Actuarial gain/(loss)	(80,607)	(47,025)
Recognised gains and losses for the financial year	**(54,526)**	(27,179)

The notes on pages 59 to 109 form part of these accounts.

Core-Department Operating Cost Statement

for the year ended 31 March 2007

	Note	2006-07 Staff costs £000	2006-07 Other costs £000	2006-07 Income £000	Restated 2005-06 £000
Administration costs					
Staff costs	9.1	175,121			178,520
Other administration costs	10		154,163		155,926
Operating income	12.1			(27,915)	(30,367)
					304,079
Programme costs					
Request for Resources 1					
Programme costs*	11		3,007,005		2,718,341
Income	12.1			(200,026)	(248,308)
					2,470,033
Frontline services					
Staff costs*	9.1	4,381			4,745
Programme costs*	11		35,695		3,591
Income	12.1			(807)	(13)
					8,323
Total		179,502	3,196,863	(228,748)	
Net operating cost**				3,147,617	2,782,435

* The total programme expenditure is £3,047,081,000 (Restated 2005–06 £2,726,677,000).

** Some EU receipts are treated as negative public expenditure and reduce the burden on the UK Exchequer, 2006–07 these were £969,000 (2005–06 £Nil).

All income and expenditure is derived from continuing operations.

Core-Department Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	2006-07 £000	Restated 2005-06 £000
Net gain/(loss) on revaluation of tangible fixed assets	13,802	2,174
Net gain/(loss) on revaluation of investments	30	6
Actuarial gain/(loss)	(80,607)	(47,025)
Recognised gains and losses for the financial year	**(66,775)**	(44,845)

The recognised losses for the 2005–06 financial year have increased by £3,000 as a result of prior year adjustments. The notes on pages 59 to 109 form part of these accounts.

Consolidated Balance Sheet

as at 31 March 2007

	Note	31 March 2007 £000	31 March 2007 £000	Restated 31 March 2006 £000
Fixed assets				
Tangible assets	14	957,311		892,228
Intangible assets	15	15,537		16,560
Investments	16	8,905		11,185
			981,753	919,973
Debtors falling due after more than one year	18.1		1,054	437,396
Current assets				
Stocks	17	3,679		5,341
Debtors	18.1	2,233,953		2,167,598
Cash at bank and in hand	19	180,726		1,762,189
		2,418,358		3,935,128
Creditors falling due within one year	20.1	(3,310,699)		(6,058,620)
Net current assets/(liabilities)			(892,341)	(2,123,492)
Total assets less current liabilities			90,466	(766,123)
Creditors falling due after more than one year	20.1	(18,897)		(20,871)
Provisions for liabilities and charges	21.1	(522,758)		(340,370)
			(541,655)	(361,241)
Net assets/(liabilities) excluding EA pension liability			(451,189)	(1,127,364)
Environment Agency pension liability	21.2.1		(1,010,700)	(978,700)
Net assets/(liabilities) including EA pension liability			(1,461,889)	(2,106,064)
Taxpayers' equity				
General fund	22	(1,691,454)		(2,316,600)
Revaluation reserve	23	229,565		210,536
			(1,461,889)	(2,106,064)

Helen Ghosh 24 October 2007
Accounting Officer for the Department for Environment, Food and Rural Affairs

The notes on pages 59 to 109 form part of these accounts.

Core-Department Balance Sheet

as at 31 March 2007

	Note	31 March 2007 £000	31 March 2007 £000	Restated 31 March 2006 £000
Fixed assets				
Tangible assets	14	442,246		395,804
Intangible assets	15	11,308		11,174
Investments	16	8,752		11,035
			462,306	418,013
Debtors falling due after more than one year	18.1		1,011	2,893
Current assets				
Stocks	17	-		-
Debtors	18.1	223,519		187,657
Cash at bank and in hand	19	11,510		26,023
		235,029		213,680
Creditors falling due within one year	20.1	(499,363)		(1,746,074)
Net current assets/(liabilities)			(264,334)	(1,532,394)
Total assets less current liabilities			198,983	(1,111,488)
Creditors falling due after more than one year	20.1	(15,149)		(16,892)
Provisions for liabilities and charges	21.1	(486,585)		(290,911)
			(501,734)	(307,803)
Net assets/(liabilities) excluding EA pension liability			(302,751)	(1,419,291)
Environment Agency pension liability	21.2.1		(1,010,700)	(978,700)
Net assets/(liabilities) including EA pension liability			(1,313,451)	(2,397,991)
Taxpayers' equity				
General fund	22	(1,413,757)		(2,486,124)
Revaluation reserve	23	100,306		88,133
			(1,313,451)	(2,397,991)

Helen Ghosh 24 October 2007
Accounting Officer for the Department for Environment, Food and Rural Affairs

The notes on pages 59 to 109 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Note	2006-07 £000	Restated 2005-06 £000
Net cash outflow from operating activities	24.1	(3,821,983)	(3,262,366)
Capital expenditure and financial investment	24.2	(97,140)	(99,535)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		2,559	1,890
Payments of amounts due to the Consolidated Fund		(2,637,790)	(148,746)
Financing	24.4	4,972,891	4,997,671
Increase/(decrease) in cash in the period	24.5	**(1,581,463)**	1,488,914

The notes on pages 59 to 109 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

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 countryside for all to enjoy.

The aim is underpinned by six objectives covering the span of the Department's responsibilities. These objectives are integrated within the Strategic Priorities, which are summarised on page 3.

During 2006–07, the six objectives for the Department were:

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.

	2006-07			Restated 2005-06		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Objective 1	2,483,495	(1,056,859)	1,426,636	2,334,731	(1,171,573)	1,163,158
Objective 2	492,503	(259,532)	232,971	521,530	(317,206)	204,324
Objective 3	350,478	(243,059)	107,419	390,295	(309,565)	80,730
Objective 4	1,032,756	(799,099)	233,657	1,072,687	(914,512)	158,175
Objective 5	921,275	(627,011)	294,264	1,026,762	(666,676)	360,086
Objective 6	1,478,250	(166,519)	1,311,731	1,513,705	(278,023)	1,235,682
Net operating cost	6,758,757	(3,152,079)	3,606,678	6,859,710	(3,657,555)	3,202,155

For a description of the methodology used see note 1.20.

For a further breakdown see note 25.

The 2005–06 figures have been restated where there has been a material re-assessment of the apportionments to reflect more appropriate allocations than those used in the previous year.

The notes on pages 59 to 109 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2006–07 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirements and the net cash requirement. The Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the FReM permits a choice of accounting policy, a judgement has been made to select the most appropriate policy to suit the particular circumstances of the Department, for the purpose of giving a true and fair view. The Department's accounting policies 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.

1.2 Basis of consolidation

These accounts comprise a consolidation of those entities that fall within the departmental boundary as defined in the FReM. Transactions between entities included in the consolidation have been eliminated. A list of those entities within the departmental boundary is given in note 38.

1.3 Scheme costs and grants

1.3.1 For each of the schemes administered by RPA, with the exception of the Single Payment Scheme (SPS), an accrual point has been established according to the applicable scheme rules and regulations. SPS expenditure is accrued evenly over each calendar year to which it applies. 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 European Commission (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. With the exception of intervention income, EC income is accrued where the related expenditure has been accrued and is deferred where the related expenditure has been prepaid. As from 1 April 2006 England Rural Development Programme (ERDP) funding is managed by RPA on behalf of Defra.

Other UK paying agencies make payments to claimants under EAGGF schemes up to 15 October 2006 and then under European Agricultural Guarantee Fund (EAGF) or European Agriculture Fund for Rural Development (EAFRD) from 16 October 2006. As these payments are made they are funded by RPA and subsequently recovered from the EC. These recoveries are subject to adjustments following clearance decisions by EAGGF.

The Core-Department maintains a provision for potential disallowance penalties, which covers all UK paying agencies for probable liabilities incurred up to 31 March 2006 and England only for liabilities arising thereafter. The Core-Department also provides for liabilities arising from the EC's non-reimbursement of any late payments made under the SPS.

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

1.3.2 Modulation

Modulation is a vehicle for redirecting into Rural Development a proportion of support payments to farmers and other SPS claimants. This process is supported by EC and national legislation. Under these arrangements there are two types of modulation – Voluntary National Modulation and Compulsory EC Modulation.

The SPS 2005 and SPS 2006 payments to which National Modulation applies are reclaimed on a gross basis from the EC but the net amounts are paid to traders or farmers. The modulation amounts applicable to England are retained by RPA. If the funds are not employed on the prescribed Rural Development measures within 4 years of the end of the EAGGF year in which they were retained, then they must be repaid to the EAGGF.

The National Modulation is managed on Defra's behalf with the cash retained on the RPA bank account. The funds are accounted for as deferred income to fund future Rural Development expenditure in Defra's account.

From SPS 2007 onwards payments will be reclaimed net of all modulation with National Modulation funds generated by the UK reclaimed from the EC when the Rural Development expenditure is incurred.

EC Modulation reduces the net amounts paid to traders and farmers, but unlike the National Modulation the funds are retained in the first instance by the EC. However, the EC has committed at least 80% of these funds to be available to cover Rural Development expenditure in the UK Compulsory Modulation will be reclaimed from the EC when the Rural Development expenditure is incurred.

Within these accounts SPS is reported net of Compulsory Modulation and SPS 2007 National Modulation.

From 16 October 2006, EAGGF has been split into two separate funds, namely EAGF to cover Pillar 1 expenditure and EAFRD to cover Rural Development expenditure. Separate claims will be made to the two funds with modulation reclaimed from EAFRD.

1.4 Tangible fixed assets

Freehold land and buildings are stated at current cost and are professionally revalued by the Valuation Office at least every 5 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 is £2,000. Other entities within the departmental boundary are not materially different.

Tangible fixed assets are capitalised if the purchase cost equals or exceeds the capitalisation thresholds and where there is an expected useful economic life of more than 1 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, £50,000 for MFA and £100,000 for RPA.

Further details are provided in note 14.

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 where this exceeds capitalisation thresholds. 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. Further details are provided in note 15.

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	2 to 12 years
Furniture and fittings	3 to 30 years
Vehicles, plant and machinery	4 to 25 years
Office equipment	5 to 11 years
Intangible assets	2 to 20 years
Vessels	15 to 30 years

Further details are provided in note 14 and 15.

1.7 Investments

The Department holds a small quantity of shares in a number of plc's, the entire share capital of CEFAS Technology Limited and a National Loan Fund (NLF) loan, which in turn, has been lent to British Waterways. The plc shares are revalued at the share price on the London Stock Exchange on an annual basis.

A number of properties are held on a short-term basis following the Foot and Mouth Disease (FMD) outbreak. The properties are professionally revalued by the Valuation Office on an annual basis, in accordance with guidance issued by the Royal Institute of Chartered Surveyors. Other investments are shown at cost where market value cannot be readily ascertained. Further details are provided in note 16.

1.8 Stocks and works in progress

1.8.1 CEFAS, CSL, RPA, SVS and VLA hold stock levels material to their business. With the exception of RPA, these are brought into the consolidated accounts at the lower of cost (or at current replacement cost where materially different) or net realisable value.

RPA's stock comprises agricultural commodities purchased into intervention under terms specified by the EAGGF and valued in accordance with their directions. The stated stock values are therefore realisable through a combination of sales revenue and the contribution provided by the EC. This basis of valuation does not conform to the Statement of Standard Accounting Practice (SSAP) 9, which would give a misleading view; the basis of valuation has been specifically approved in the FReM (para 6.3.4). Tallow and meat and bone meal stocks are valued at the balance sheet date in accordance with SSAP 9, reflecting their value to the business.

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

Further details are provided in note 17.

1.9 Research and development

Research and development expenditure has been written off in the year in which it is incurred. The latter would be capitalised under the following conditions:

1.9.1 The product or service is supplied on a full cost recovery basis.

1.9.2 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 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 due to the Consolidated Fund (which in accordance with the FReM is treated as operating income) and receipts from the EU.

1.11 Administration and programme expenditure and income

The Operating Cost Statement (OCS) is analysed between administration and programme costs. The classification of expenditure and income as administration or programme follows the definition set by HM Treasury. 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 is allowed to be offset against gross administrative costs 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.

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% (2005–06 3.5%), on the average carrying amount on all assets less liabilities, except for donated assets, cash balances with the Office of the Paymaster General and amounts due from or to the Consolidated Fund and liabilities in respect of advances outstanding from the Contingencies Fund. It has not been possible to completely analyse the cost of capital between administration and programme so the unallocated cost has been charged to administration as the more significant of the two. The capital charge for RPA has been allocated to programme.

1.13 Foreign exchange

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

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). New entrants after 1 October 2002 may choose between membership of Premium or Partnership pension account.

The provisions of the Principal Civil Service Pension Scheme (PCSPS) cover present and past employees. It is mainly non-contributory and unfunded except in respect of dependent's benefits.

Although the scheme is a defined benefit scheme, departments, agencies and other bodies covered by the PCSPS recognise the cost of the elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on PCSPS. In respect of defined contribution schemes, the Department recognises the contributions payable for the year.

The Department has now fully adopted Financial Reporting Standard (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 1.8% from 31 March 2007 (2.8% from 31 March 2006). 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 the Remuneration Report and note 9.

1.15 Early departure costs

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

Further information is provided in note 21.

1.16 Provisions

The Department provides for obligations arising from past events where the Department has a present obligation at the balance sheet date, and 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 2.2% per annum as directed by HM Treasury.

The Department considers that an obligation arises in relation to payments made on schemes regulated by the EC when a breach in the EC's regulations has been identified, and moreover that it is probable this breach will lead to financial corrections, known as disallowances.

Further information is provided in note 21.

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. Some recoveries of input tax do take place under the contracted out services provisions applicable to government departments. 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 statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Government Accounting*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

Further information is provided in notes 31 and 32.

1.20 Consolidated Statement of Operating Costs by Departmental Aim and Objectives

The Consolidated Statement of Operating Costs by Departmental Aim and Objectives reports expenditure and income against each of the Department's six objectives.

The apportionment of programme expenditure for the Core-Department and RPA 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 for the Core-Department 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 is made on the same basis as other administrative costs.

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

1.21 Merger accounting

Under Merger accounting rules the Accounts for the Core-Department for 2005–06 have been restated. This is as a result of the creation of Natural England, and transfers of operation of Horticultural Marketing Inspectorate (HMI), Dairy Hygiene Inspectorate (DHI) and Socio-economic Funding. The Balance Sheet and income and expenditure for the year ended 31 March 2006 were extracted for each of the entities transferring in or out of the Core-Department to establish a restated Core-Department position as at 1 April 2006.

1.22 Change in policy

As from 1 April 2006 the budgets for ERDP, Structural Funds and Transmissible Spongiform Encephalopathy (TSE), previously administered by RPA, are administered by Core-Defra. As a consequence the outturn for these programmes/schemes for 2006–07 is reported as part of the Core-Defra accounts. A prior year adjustment has been made to transfer the 2005–06 outturn from RPA to Core-Defra. The transfer has been effected as a movement through the general fund.

2 Analysis of net resource outturn by section

	2006-07								Restated 2005-06
	Outturn						Estimate		
	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net total	Net total	Net total outturn compared with Estimate	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	26,356	231,080	11,075	268,511	(9,486)	259,025	351,690	92,665	263,809
Environment	40,570	514,046	502,462	1,057,078	(5,013)	1,052,065	1,210,762	158,697	842,750
Sustainable Food Farming and Fisheries	34,884	71,268	724	106,876	(3,202)	103,674	142,721	39,047	135,622
Natural Resources and Rural Affairs	17,824	476,573	36,496	530,893	(220)	530,673	355,633	(175,040)	238,082
Department Operations	244,707	341,439	-	586,146	(21,598)	564,548	244,007	(320,541)	268,480
Rural Payment Agency	-	2,151,665	6,915	2,158,580	(623)	2,157,957	3,021,013	863,056	695,435
Other Executive Agencies	42,587	119,152	-	161,739	(58,866)	102,873	50,601	(52,272)	93,164
Total	406,928	3,905,223	557,672	4,869,823	(99,008)	4,770,815	5,376,427	605,612	2,537,342
Request for resources 1:									
Spending in Annually Managed Expenditure (AME)									
Environment	(35,375)	-	(31,439)	(66,814)	-	(66,814)	55,600	122,414	54,900
Rural Payment Agency	-	-	-	-	-	-		-	2,288,688
Total	(35,375)	-	(31,439)	(66,814)	-	(66,814)	55,600	122,414	2,343,588
Request for resources 1:									
Non-budget									
Animal Health and Welfare	-	-	-	-	-	-		-	(7,923)
Environment	-	-	663,655	663,655	-	663,655	691,655	28,000	572,827
Sustainable Food Farming and Fisheries	-	-	6,524	6,524	-	6,524	9,377	2,853	9,846
Natural Resources and Rural Affairs	-	-	204,564	204,564	-	204,564	197,634	(6,930)	142,811
Department Operations	-	-	22,019	22,019	-	22,019	24,899	2,880	24,899
Rural Payment Agency	-	1,051,530	-	1,051,530	(1,047,532)	3,998	-	(3,998)	63,133
Other Executive Agencies	-	-	-	-	-	-	-	-	2,081
Total	-	1,051,530	896,762	1,948,292	(1,047,532)	900,760	923,565	22,805	807,674
Resource Outturn	371,553	4,956,753	1,422,995	6,751,301	(1,146,540)	5,604,761	6,355,592	750,831	5,688,604
Netted-off expenditure	318	7,138		7,456	(7,456)				
Net control agencies internal income	174,458	(174,458)							
Non-supply income/expenditure including CFER's:									
Operating income not classified as A in A					(1,998,083)	(1,998,083)	(2,487,753)	(489,670)	
Net Operating Cost	546,329	4,789,433	1,422,995	6,758,757	(3,152,079)	3,606,678	3,867,839	261,161	
Programme grants and other current expenditure (Note 25)		4,789,433	1,422,995	6,212,428					

Refer to the Statement of Parliamentary Supply for a description of Request for Resources 1.

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Management Commentary on page 12.

3 Reconciliation of outturn to net operating cost and against administration budget

3.1 Reconciliation of net resource outturn to net operating cost

	Note	2006-07 Estimate £000	2006-07 Outturn £000	Outturn compared with Estimate £000	Restated 2005-06 Outturn £000
Net resource outturn	2	6,355,592	5,604,761	750,831	5,688,604
Non-supply income (CFERs)	5	(2,487,753)	(1,998,083)	(489,670)	(2,486,449)
Net operating cost		**3,867,839**	**3,606,678**	**261,161**	3,202,155

Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement. 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 Statement of Parliamentary Supply.

3.2 Outturn against final administration budget

	2006-07 Budget £000	2006-07 Outturn £000	Restated 2005-06 Outturn £000
Gross Administration Budget	584,700	546,011	546,858
Income allowable against the Administration Budget	(249,242)	(238,892)	(231,348)
Net outturn against final Administration Budget	**335,458**	**307,119**	315,510

Due to changes in the 2006–07 Estimate process, the budget figures are now stated prior to any inter-departmental activity eliminations. For comparability the outturn figures have been adjusted to the same basis.

4 Reconciliation of resources to cash requirement

	Note	2006-07 Estimate £000	2006-07 Outturn £000	2006-07 Net total outturn compared with Estimate: saving/(excess) £000	Restated 2005-06 Outturn £000
Resource outturn	2	6,355,592	5,604,761	750,831	5,688,604
Capital					
Acquisition of fixed assets	24.3	156,868	123,078	33,790	140,799
Non-operating cost A-in-A					
(Proceeds of fixed asset disposals)	24.3	(40,394)	(19,155)	(21,239)	(15,163)
Accruals adjustments					
Non-cash items		(495,796)	(456,196)	(39,600)	(309,513)
Changes in working capital other than cash		1,200,000	793,322	406,678	(1,665,137)
Changes in creditors falling due after more than one year	20.1	-	1,974	(1,974)	4,444
Use of provision	21	67,046	217,693	(150,647)	83,741
Net cash requirement		7,243,316	6,265,477	977,839	3,927,775

For an explanation of variances see the Management Commentary.

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).

	Note	Forecast 2006-07 Income £000	Forecast 2006-07 *Receipts £000*	Outturn 2006-07 Income £000	Outturn 2006-07 *Receipts £000*
Other operating income & receipts, not classified as A-in-A		2,487,753	*3,946,664*	1,998,083	*2,341,345*
		2,487,753	***3,946,664***	**1,998,083**	***2,341,345***
Non operating income & receipts - excess A-in-A	7			-	*5,008*
Other non-operating income & receipts not classified as A-in-A	8			2,559	*2,559*
Total income payable to the Consolidated Fund		2,487,753	*3,946,664*	2,000,642	*2,348,912*

6 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2006-07 £000	Restated 2005-06 £000
Operating income	12	3,152,079	3,657,858
Income authorised to be A-in-A		(1,146,540)	(1,169,739)
Netted-off gross expenditure in net sub head		(7,456)	(1,670)
Operating income payable to the Consolidated Fund	5	1,998,083	2,486,449

7 Non-operating income — excess A-in-A

No income has been recognised in 2006–07 (2005–06 £Nil).

8 Non-operating income not classified as A-in-A

The following amounts are not regarded as income in 2006–07 for the Department and are surrendered to the Consolidated Fund:

	2006-07 Income £000	*Receipts £000*
Gangmaster Licensing Authority - surrender to Department of surplus funds	1,406	*1,406*
Environment Agency - surrender to Department of surplus funds	1,028	*1,028*
Miscellaneous non-operating receipts	125	*125*
Total amounts surrendered to the Consolidated Fund	**2,559**	***2,559***

9 Staff numbers and related costs

9.1 Staff costs comprise:

	2006-07					Restated 2005-06
	Permanent employed staff	Others	Ministers	Special advisors	Total	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	324,717	41,236	267	100	**366,320**	356,465
Social security costs	26,133	431	27	12	**26,603**	25,819
Other pension costs	60,107	19	-	1	**60,127**	57,417
Sub-total	**410,957**	**41,686**	**294**	**113**	**453,050**	439,701
Less: recoveries in respect of outward secondments	(2,307)	-	-	-	**(2,307)**	(1,704)
Total net costs	**408,650**	**41,686**	**294**	**113**	**450,743**	437,997
Of which:						
Core-Department (Restated)	**168,349**	**9,289**	**294**	**113**	**178,045**	181,663

Out of the total, £2,307,000 (£2,307,000 Core-Department) recoveries in respect of outward secondments have been netted off, £850,000 (£850,000 Core-Department) has been charged to capital and the balance of £452,200,000 (£179,502,000 Core-Department) has been charged in the Operating Cost Statement.

Principal Civil Service Pension Scheme

Pension benefits for most employees of the Department are provided through the PCSPS. The PCSPS is an unfunded multi-employer defined benefit scheme. 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 publications within the Cabinet Office Civil Superannuation Resource Accounts([19]).

For 2006–07, employer's contributions of £59,253,000 (2005–06 £54,985,000) were payable to the PCSPS at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005–06 were between 16.2% and 24.6%). The Scheme Actuary reviews employer contributions every 4 years following a full scheme valuation. From 2007–08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006–07 to be paid when the member retires, and not the benefits paid during this period to current pensioners.

[19] www.civilservice-pensions.gov.uk

Other pension schemes

Employees joining after 1 October 2002 can opt to open a partnership account, a stakeholder pension with an employer contribution. Employer's contributions of £853,000 for 2006–07 (2005–06 £605,000) were paid to one or more of a panel of three 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 £21,000 for 2006–07 (2005–06 £34,000), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future 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 (2005–06 17 persons) retired early on ill health grounds: the total additional accrued pension liabilities in the year amounted to £31,000 (2005–06 £55,000).

Loans are made to staff to cover season ticket advances and to relocate. As at 31 March 2007, there were outstanding balances to Management Board Members totalling £8,483.

9.2 Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

	2006-07					Restated 2005-06
Objective	**Permanent employed staff**	**Others**	**Ministers**	**Special advisors**	**Total**	Total
	Number	Number	Number	Number	Number	Number
Objective 1	2,616	570	2	1	**3,189**	3,643
Objective 2	681	166	-	-	**847**	677
Objective 3	703	143	-	-	**846**	771
Objective 4	1,368	380	-	-	**1,748**	1,513
Objective 5	1,278	297	1	1	**1,577**	1,605
Objective 6	4,445	326	2	1	**4,774**	5,061
Staff engaged on capital projects	18	-	-	-	**18**	38
Total	**11,109**	**1,882**	**5**	**3**	**12,999**	13,308
Of which:						
Core-Department	**3,790**	**318**	**5**	**3**	**4,116**	4,413

10 Other administration costs

	Note	2006-07 Core-Department £000	2006-07 Consolidated £000	Restated 2005-06 Core-Department £000	Restated 2005-06 Consolidated £000
Rentals under operating leases		22,216	23,526	19,926	20,629
PFI service charges		1,031	1,031	1,024	1,024
Travel, subsistence and hospitality		7,965	12,011	10,013	13,866
Consumables		-	26,585	-	26,996
Vessels		-	3,091	-	3,579
IT Services/software/hardware		51,123	52,009	41,712	43,049
Estate management		30,402	65,644	30,695	65,960
Consultancy/subcontracting		12,398	17,005	19,837	23,328
Training		3,896	4,973	4,919	5,940
Early retirement		-	-	8,043	8,069
Exchange rate losses		-	110	-	10
Bad debts expense		-	85	-	-
Other		4,924	8,602	720	4,125
Non-cash items					
Depreciation		37,540	58,817	17,488	36,964
Amortisation		498	605	633	728
Profit on the disposal of fixed assets		(804)	(809)	(994)	(994)
Loss on the disposal of fixed assets		4,716	4,895	6,692	6,835
Impairment		-	3,034	-	7,193
Downward revaluation		(8,679)	(8,814)	-	(2,277)
Cost of capital charge		(20,907)	(6,409)	(20,631)	(6,479)
Auditors' remuneration & expenses		330	515	292	427
Provisions provided for in year		7,202	7,648	14,120	14,825
Unwinding of discount on provisions	21.1	-	51	-	82
Other non-cash items		312	312	1,437	1,437
Total		**154,163**	**274,517**	155,926	275,316

Included in the downward revaluation is an upward revaluation element in the Core-Department of £8,774,000 that relates to the revaluation of IT assets. In 2005–06 IT assets reported a downward revaluation of £50,000. This is as a result of the Department using a more appropriate revaluation index obtained from the Office for National Statistics.

With prior approval from HM Treasury, payments to staff relating to early departure have been moved from administration to programme costs in 2006–07.

11 Programme costs

11.1 Analysis of programme costs

	2006-07		Restated 2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Rentals under operating leases	23	5,465	26	5,546
Interest charges	1,056	1,056	1,466	1,466
Research and development expenditure	96,204	96,204	109,981	109,981
Travel, subsistence and hospitality	566	4,574	640	4,200
Consumables	-	1,238	-	564
IT Services/software/hardware	11,215	69,012	142	73,630
Estate management	382	10,298	36	10,255
Consultancy/subcontracting	5,346	15,242	980	3,521
Training	84	5,829	74	4,905
Early retirement	16,250	16,250	-	-
Other	685,558	547,728	837,644	710,178
Non-cash items				
Depreciation	258	18,782	1,446	17,003
Amortisation	233	2,294	-	2,467
Profit on the disposal of fixed assets	-	(3,668)	-	(4,200)
Loss on the disposal of fixed assets	-	-	-	8
Impairment	-	5	-	-
Downward revaluation	-	836	-	61
Cost of capital charge	-	17,763	-	9,116
Auditors' remuneration and expenses	-	576	-	472
Provisions provided for in year	352,220	360,943	219,641	232,607
Other non-cash items	-	-	-	(59)
Grants & subsidies: EU	170,397	3,135,257	159,400	3,478,992
Grants & subsidies: Other	1,702,908	1,726,356	1,390,456	1,484,381
Total	3,042,700	6,032,040	2,721,932	6,145,094

With prior approval from HM Treasury, payments to staff relating to early departure have been moved from administration to programme costs in 2006–07.

The depreciation charge recorded in the Operating Cost Statement differs to that reflected in the fixed assets note (see note 14) by £5,777,777. This is because an asset owned by Defra is used by Natural England and a recharge has been made to Natural England to reduce the cost reflected by the Core-Department.

11.2 Analysis of major scheme expenditure

The consolidated programme costs above include expenditure on the following major schemes:

	2006-07 Consolidated £000
Grant in Aid: Environment Agency	554,457
ERDP Scheme Payments	335,083
Fuel Poverty (Warm Front)	325,980
Environment Agency Closed Pension Fund	90,939
Grant in Aid: Natural England	191,527
Brew Programme	74,277
Coast Protection Works	67,690
TSE Surveillance Programme	62,573
Performance Reward Grant	54,847
Waste Implementation Programme	54,284
Regional Development Agency	51,359
RPA scheme expenditure	3,049,287
RPA running costs	116,301

12 Income

12.1 Analysis of operating income

	2006-07		Restated 2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Administration income				
Fees and charges to external customers	5,773	48,191	4,931	43,435
Fees and charges to other departments	3,212	16,243	5,455	17,345
Fees and charges to other agencies	18,930	-	19,981	-
	27,915	64,434	30,367	60,780
Programme income				
Frontline services	807	4,941	13	2,500
EU funding	179,253	3,071,578	223,197	3,542,003
Other	19,717	10,070	23,645	51,109
	199,777	3,086,589	246,855	3,595,612
Interest on NLF loans on-lent to British Waterways	1,056	1,056	1,466	1,466
Total	228,748	3,152,079	278,688	3,657,858

The Core-Department receives rental income of £474,715 (2005–06 £525,407) from other government departments and £1,319,597 (2005–06 £1,523,198) from external customers.

The information is provided for fees and charges purposes and not for SSAP 25 purposes.

12.2 Miscellaneous Core-Department income

	2006-07			2005-06		
	Income	Full cost	Surplus/ (Deficit)	Income	Full cost	Surplus/ (Deficit)
	£000	£000	£000	£000	£000	£000
National listing of seed varieties	782	871	(89)	845	1,328	(483)
Seed certification and seed training	1,283	1,304	(21)	1,390	1,377	13
FEPA 1985* - Part II -license fees	1,131	2,019	(888)	1,443	2,168	(725)
Issue of CITES** permits	69	1,408	(1,339)	71	1,161	(1,090)
Plant Health Import Inspections	948	2,397	(1,449)	805	1,124	(319)
	4,213	7,999	(3,786)	4,554	7,158	(2,604)

* Food and Environment Protection Act 1985

** Convention on International Trade in Endangered Species

Miscellaneous other services, not reportable to HM Treasury, attracted accrued revenue of £1,966,000 (2005–06 £2,063,000), against costs of £2,726,000 (2005–06 £3,441,000), giving a deficit of £760,000 (2005–06 £1,378,000).

The above income forms part of the other fees and charges administration income shown in note 12.1.

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

13 Analysis of net operating cost by spending body

	2006-07		Restated 2005-06
	Estimate	Outturn	Outturn
	£000	£000	£000
Spending body			
Core-Department	2,119,238	2,210,555	1,804,206
Agencies			
RPA	533,260	333,684	327,160
CEFAS	82	(176)	(197)
CSL	1,569	(276)	3,137
GDS	-	2,204	950
MFA	-	17,621	18,319
PSD	(483)	(40)	(102)
SVS	51,506	106,452	97,009
VLA	(1,466)	(19)	(3,490)
VMD	(607)	(389)	(343)
NDPBs			
Commission for Rural Communities	9,965	8,008	-
Consumer Council for Water	6,488	5,075	-
Environment Agency	685,167	554,457	574,666
Food from Britain	6,077	6,014	6,420
Gangmasters Licensing Authority	3,300	2,732	1,552
National Forest Company	4,000	3,401	4,200
Natural England	183,669	191,527	220,782
Royal Botanic Gardens, Kew	24,899	25,521	25,190
Wine Standards Board	-	143	617
Total grants to local authorities	241,175	140,184	122,079
Net operating cost	3,867,839	3,606,678	3,202,155

14 Tangible fixed assets

Consolidated

	Freehold land & buildings	Leasehold land & buildings	Dwellings	Scientific equipment	IT	Furniture & fittings	Vehicles, plant & machinery	Office equipment	Payments on account & CIP	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
Restated										
At 1 April 2006	584,879	38,937	3,789	66,539	246,825	43,797	36,818	10,096	103,574	**1,135,254**
Additions	431	3,736	-	4,515	17,148	989	2,421	245	91,494	**120,979**
Transfers	1,673	198	-	19	8,518	59	51	114	(2,203)	**8,429**
Disposals	(2,100)	(370)	(635)	(1,326)	(10,834)	(338)	(1,758)	(600)	(79)	**(18,040)**
Reclassifications	(32,047)	6,249	44	-	16,793	40,510	-	(48)	(31,579)	**(78)**
Revaluations	16,481	3,504	(535)	(298)	21,714	1,842	111	(90)	-	**42,729**
At 31 March 2007	569,317	52,254	2,663	69,449	300,164	86,859	37,643	9,717	161,207	1,289,273
Depreciation										
Restated										
At 1 April 2006	59,913	4,189	-	46,796	103,025	16,286	7,749	5,068	-	**243,026**
Charges in year	19,820	2,622	-	5,351	44,346	9,013	1,895	1,052	2,317	**86,416**
Transfers	(2)	8	-	14	7,907	18	68	100	-	**8,113**
Disposals	(1,003)	(345)	-	(1,035)	(9,501)	(223)	(1,462)	(481)	-	**(14,050)**
Reclassifications	(1,456)	-	-	-	(26)	1,450	-	(19)	-	**(51)**
Revaluations	2,251	85	-	(144)	5,551	719	65	(19)	-	**8,508**
At 31 March 2007	79,523	6,559	-	50,982	151,302	27,263	8,315	5,701	2,317	331,962
Net book value 31 March 2007	489,794	45,695	2,663	18,467	148,862	59,596	29,328	4,016	158,890	957,311
Net book value 31 March 2006	524,966	34,748	3,789	19,743	143,800	27,511	29,069	5,028	103,574	892,228
Assets financing										
Owned	489,794	15,759	2,663	18,467	148,862	59,596	29,328	4,016	158,890	**927,375**
Finance leased	-	29,936	-	-	-	-	-	-	-	**29,936**
Net book value 31 March 2007	489,794	45,695	2,663	18,467	148,862	59,596	29,328	4,016	158,890	957,311

The 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 £25,203,000 (2005–06 £26,044,000).

Additions include a non-cash element represented by creditors and transfers. Cash additions amount to £119,620,000 (Restated 2005–06 £116,954,000), as per note 24.2.

Depreciation charged against assets held under finance leases amounted to £2,622,000 (2005–06 £2,145,000).

The net book value of leasehold land and buildings at 31 March 2007 comprises £15,961 for short leasehold and £29,734 for long leasehold.

The current year depreciation for CIP, £2,317,000, is due to an impairment charge in VLA related to preparatory works on assets under construction.

Core-Department

	Freehold land & buildings	Long Leasehold land & buildings	Dwellings	Scientific equipment	IT	Furniture & fittings	Vehicles, plant & machinery	Office equipment	Payments on account & CIP	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
Restated										
At 1 April 2006	161,017	22,052	3,789	16,015	113,820	38,489	3,157	1,075	84,521	**443,935**
Additions	-	-	-	849	1,628	7	1,962	144	61,694	**66,284**
Transfers	2,658	198	-	-	(4,878)	65	(99)	(24)	(309)	**(2,389)**
Disposals	-	-	(635)	(3)	(1,660)	(49)	(959)	(259)	(79)	**(3,644)**
Reclassifications	(46,583)	6,029	44	-	7,907	40,510	-	-	(7,907)	**-**
Revaluations	3,514	2,888	(535)	(64)	20,076	1,836	27	(12)	-	**27,730**
At 31 March 2007	120,606	31,167	2,663	16,797	136,893	80,858	4,088	924	137,920	531,916
Depreciation										
Restated										
At 1 April 2006	2,779	544	-	11,361	19,046	11,860	1,805	736	-	**48,131**
Charges in year	4,053	887	-	2,183	27,166	8,650	555	82	-	**43,576**
Transfers	(2)	2	-	-	(4,652)	(2)	(82)	1	-	**(4,735)**
Disposals	-	-	-	(2)	(1,291)	(13)	(833)	(224)	-	**(2,363)**
Reclassifications	(1,450)	-	-	-	-	1,450	-	-	-	**-**
Revaluations	-	-	-	-	4,310	714	26	11	-	5,061
At 31 March 2007	5,380	1,433	-	13,542	44,579	22,659	1,471	606	-	89,670
Net book value 31 March 2007	115,226	29,734	2,663	3,255	92,314	58,199	2,617	318	137,920	442,246
Net book value 31 March 2006	158,238	21,508	3,789	4,654	94,774	26,629	1,352	339	84,521	395,804
Assets financing										
Owned	115,226	-	2,663	3,255	92,314	58,199	2,617	318	137,920	**412,512**
Finance leased	-	29,734	-	-	-	-	-	-	-	**29,734**
Net book value 31 March 2007	115,226	29,734	2,663	3,255	92,314	58,199	2,617	318	137,920	442,246

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.

Land and buildings (including dwellings) include properties with a value of £12,824,325, which are surplus to requirements. These properties are valued at open market value and are not depreciated. These surplus properties are a combination of ex-laboratory, warehouse, residential and office accommodation. At year end some of those properties were under contract to be sold and ongoing efforts are being made by Defra agents to sell the remainder during 2007–08.

Depreciation charged against assets held under finance leases amounted to £887,000 (2005–06 £544,000).

The net book value of leasehold land and buildings at 31 March 2007 is £29,734,000 (2005–06 £21,508,000) for long leasehold.

15 Intangible fixed assets

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

	Core-Department £000	Consolidated £000
Cost or valuation		
Restated		
At 1 April 2006	13,254	25,071
Additions	926	2,096
Transfers	(59)	(59)
Disposals	(20)	(443)
Reclassifications	-	(22)
At 31 March 2007	14,101	26,643
Amortisation		
Restated		
At 1 April 2006	2,080	8,511
Charged in year	731	2,899
Transfers	(14)	(14)
Disposals	(4)	(309)
Reclassifications	-	19
At 31 March 2007	2,793	11,106
Net Book Value at 31 March 2007	11,308	15,537
Net Book Value at 31 March 2006	11,174	16,560

Additions for the consolidated figures include a non-cash element represented by creditors. Cash additions amount to £1,683,000 (2005–06 £2,752,000), as per note 24.2.

16 Investments

	Property investments	British Waterways	Stocks and shares			Total
		NLF loan on-lent	Genus plc	Dairy Crest plc	CEFAS Technology Ltd	
	£000	£000	£000	£000	£000	£000
Consolidated						
Balance at 1 April 2006	1,040	9,912	21	62	150	**11,185**
Additions	3	-	-	-	-	**3**
Disposals	(265)	-	-	-	-	**(265)**
Revaluations	-	-	5	25	-	**30**
Loan repayable within 12 months transferred	-	(2,048)	-	-	-	**(2,048)**
Balance at 31 March 2007	778	7,864	26	87	150	8,905
Of which:						
Core-Department	775	7,864	26	87	-	8,752

Receipts from disposal of investments totals £236,500 (2005-06 £245,021).

The National Milk Records plc is not shown in the above table as the actual balances are less than £1,000.

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

	CEFAS Technology Limited
	£000
Net assets at 31 March 2007	818
Turnover	659
Profit for the year (before financing)	168

The investment movements for the year shown above excludes on-lent National Loans Fund loans.

During the reporting period, UK Nirex Ltd, owned jointly by Defra and DTI, was wound up. The Department no longer owns a share of their net assets. UK Nirex became a full subsidiary of the Nuclear Decommissioning Authority (NDA).

17 Stocks and work in progress

	2006-07		2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Stocks	-	1,648	-	3,592
Work in progress	-	2,031	-	1,749
	-	3,679	-	5,341

18 Debtors

18.1 Analysis by type

	2006-07		Restated 2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	30,775	48,569	30,515	26,866
Deposits and advances	490	564	722	775
VAT	16,082	21,373	15,642	21,208
Other debtors	12,415	38,661	9,884	20,350
Current part of NLF loan	2,048	2,048	640	640
Prepayments/accrued income	161,709	2,122,738	130,254	2,097,759
Total due within one year	223,519	2,233,953	187,657	2,167,598
Amounts falling due after more than one year				
Trade debtors	161	161	2,627	2,627
Deposits and advances	150	186	266	308
Other debtors	700	700	-	-
Prepayments/accrued income	-	7	-	434,461
Total due after more than one year	1,011	1,054	2,893	437,396
Total debtors	224,530	2,235,007	190,550	2,604,994

Included within debtors is £1,606,120,000 (2005–06 £1,954,390,000) that will be due to the Consolidated Fund once the debts are collected. The majority relates to EU income.

18.2 Intra-government balances

Consolidated

	2006-07	Restated 2005-06	2006-07	Restated 2005-06
	Amounts due within one year		Amounts due after one year	
	£000	£000	£000	£000
Balances with other central government bodies	46,538	29,822	-	-
Balances with local authorities	202	12,182	-	-
Balances with NHS trusts	123	60	-	-
Balances with public corporations and trading funds	2,098	729	-	-
Subtotal: intra-government balances	**48,961**	42,793	-	-
Balances with bodies external to government	2,184,992	2,124,747	1,054	437,396
Debtors at 31 March	2,233,953	2,167,540	1,054	437,396

19 Cash at bank and in hand

	2006-07		2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	26,023	1,762,189	109,667	273,275
Net change in cash balance	(14,513)	(1,581,463)	(83,644)	1,488,914
Balance at 31 March	**11,510**	**180,726**	26,023	1,762,189
The following balances at 31 March are held at:				
Office of HM Paymaster General	10,989	175,946	25,846	1,758,623
Commercial bank accounts and cash in hand	521	4,780	177	3,566
Balance at 31 March	**11,510**	**180,726**	26,023	1,762,189

Included within the closing cash at bank figure above is £896,000 relating to third party collaborators held by CSL.

20 Creditors

20.1 Analysis by type

	2006-07 Core-Department	2006-07 Consolidated	Restated 2005-06 Core-Department	Restated 2005-06 Consolidated
	£000	£000	£000	£000
Amounts falling due within one year				
Trade creditors	124,536	150,892	91,161	190,490
Other creditors	6,150	39,075	14,306	67,768
Accruals and deferred income	338,328	1,323,097	302,657	2,071,847
Other taxation and social security	5,148	10,227	6,350	11,294
Current part of NLF loan	2,048	2,048	640	640
Amounts issued from the Consolidated Fund for supply but not spent at year end	14,214	14,214	1,308,288	1,308,288
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
Received	6,152	165,026	14,321	453,903
Receivable	2,787	1,606,120	8,351	1,954,390
Total due within one year	**499,363**	**3,310,699**	1,746,074	6,058,620
Amounts falling due after more than one year				
NLF loan	7,864	7,864	9,912	9,912
Others	7,285	11,033	6,980	10,959
Total due after more than one year	**15,149**	**18,897**	16,892	20,871
Total creditors	**514,512**	**3,329,596**	1,762,966	6,079,491

20.2 Intra-government balances

Consolidated

	2006-07 Amounts due within one year	Restated 2005-06 Amounts due within one year	2006-07 Amounts due after one year	2005-06 Amounts due after one year
	£000	£000	£000	£000
Balances with other central government bodies	1,802,049	3,835,685	7,864	13,765
Balances with local authorities	20,564	25,912	-	-
Balances with NHS trusts	10	15	-	-
Balances with public corporations and trading funds	854	263	-	-
Subtotal: intra-government balances	**1,823,477**	3,861,875	**7,864**	13,765
Balances with bodies external to government	1,487,222	2,196,745	11,033	7,106
Creditors at 31 March	**3,310,699**	6,058,620	**18,897**	20,871

21 Provisions for liabilities and charges

21.1 Provisions for liabilities and charges (excluding Environment Agency pension liability)

	Early departure costs	Foot and Mouth	EAGGF financial corrections	Programme provisions	Admin provisions	Total
	£000	£000	£000	£000	£000	£000
Consolidated						
Balance at 1 April 2006	35,135	41,123	150,222	94,274	19,616	340,370
Provided in the year	14,784	107	260,784	51,126	7,627	334,428
Provisions not required written back	(1,730)	(8,406)	-	(15,168)	(33)	(25,337)
Provisions utlised in year	(15,429)	(6,416)	(62,972)	(40,821)	(1,116)	(126,754) *
Unwinding of discount	51	-	-	-	-	51
Balance at 31 March 2007	32,811	26,408	348,034	89,411	26,094	522,758
Core-Department						
Restated						
Balance at 1 April 2006	13,417	41,123	150,222	66,733	19,416	290,911
Provided in the year	13,642	107	260,784	39,389	7,235	321,157
Provisions not required written back	(488)	(8,406)	-	(12,308)	(33)	(21,235)
Provisions utlised in year	(5,918)	(6,416)	(62,972)	(27,826)	(1,116)	(104,248)
Balance at 31 March 2007	20,653	26,408	348,034	65,988	25,502	486,585

* The use of provisions reported in notes 4 and 24.1 differs from the amount above because some of the utilisation relates to the sponsor contributions of the EA closed pension fund, see note 21.2.2.

21.1.1 Early departure costs

The early departure costs are those additional costs of benefits beyond the normal PCSPS benefits, in respect of employees who retire early. These are met by the Department by paying the required amount 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 2.2% in real terms.

21.1.2 Other provisions

FMD provisions

The reduction in the FMD provision relates mainly to a re-assessment of the costs of reinstatement work following the 2001 outbreak and favourable settlements with a number of suppliers. The main balance relates to the costs of bringing back into use the land that was contaminated and dilapidation costs attributable to the 2001 outbreak.

Disallowance provision: EAGGF financial corrections

The EC can apply these corrections if Defra (through RPA) does not comply with EC regulations for payments funded by the European Agricultural Guidance and Guarantee Fund (EAGGF). Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent negotiations with the EC in accordance with the Commission's clearance of accounts procedure.

In response to the difficulties in implementing the Single Payment Scheme, the Department reviewed its recognition point for financial corrections in 2005–06. There has since been a change in 2006–07 in the Estimate categorisation of disallowance expenditure. Prior to the current year, this expenditure was classified as Annually Managed Expenditure (AME) but for the current and future years it has been categorised as part of the Departmental Expenditure Limit (DEL).

As a result, this provision has been recognised on the following basis:

- covering all cases where the EC has notified that a financial correction is being considered;
- representing for SPS an appraisal of what the Commission is likely to assess as an appropriate correction based on indications previously provided by the EC around partial payments and on perceived weaknesses in complying with EC regulations on control requirements.

As a further consequence of this change, the Department no longer makes provisions relating to the risk of disallowance in respect of other UK Devolved Administrations.

EC non-reimbursement of late payments relating to SPS 2005 and other schemes have been accrued for and are included in the total accruals figure per note 20.

Further amounts in relation to the Single Payment Scheme are recognised as a contingent liability in these accounts (see note 31).

The programme provisions include:

- the Modernising Rural Delivery (MRD) funding of redundancy costs provision of £5.6m which relates to the redundancy and relocation elements associated with the set-up of Natural England (NE) and Commission for Rural Communities (CRC) (as well as the implications for those individuals identified as transferring to the Defra family Shared Services Directorate). An obligation has been created in respect of funding these costs by the MRD Programme Management Board and the provision of funding this obligation lies within the scope of the MRD programme;
- the Classical Swine Fever (CSF) provision of £7.5m includes the costs payable to suppliers over disputed invoicing for CSF in 1999 and 2000. It is expected to be utilised by March 2008;
- the Flood and Coastal Defence provision of £7.3m relates to a 5% retention of grants outstanding to Local Authorities (LAs) for grant eligible work. 95% of the grant has already been paid, with the 5% retention payable to the LA when a final statement of account is provided to the Department. This is generally expected to be within 2 years of the work being completed;
- the Fur Farming provision of £6.1m was set up to provide compensation to fur farmers resulting from the Fur Farming (Prohibition) Act 2000. It is expected that the provision will be fully utilised during 2007–08;
- the Masters Sand Pit provision of £5.6m, the Hatfield Moor provision of £3.5m and the Arne Claypit provision of £3.5m relate to an obligation arising from Government's Outline Position 1998, in which the Government set out circumstances in which it would meet compensation payable by local planning authorities in meeting its responsibilities under regulation 50 of the Conservation (Natural Habitats) Regulations 1994;
- NCC pension provision £18.1m (see note 21.3);
- former Countryside Agency pension provisions £2.9m (see note 21.4).

The administration provisions include:

- the Contaminated Land provision of £5.4m comprises the maintenance costs for land used during the Second World War for production of mass gas. The Department has a legal obligation to maintain the site to the required environmental standard. The provision will be utilised on a yearly basis up to 2023;
- Horticultural Research International pension provision £15.4m (see note 21.5).

21.2 Provision for Environment Agency pension liability

21.2.1 The Environment Agency closed fund (the Fund) is vested in the EA by Regulation 2(1) of the Local Government Pension Scheme 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. These are met out of the Fund to persons who were ex-employees of regional water authorities and other water industry bodies at the time of water privatisation in 1989 (the Closed Fund members).

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

	Long-term rate of return expected at 31 March 07	**Value at 31 March 07**	Long-term rate of return expected at 31 March 06	Value at 31 March 06	Long-term rate of return expected at 31 March 05	Value at 31 March 05
		£000		£000		£000
Equities	n/a	-	n/a	-	7.7%	76,000
Bonds	4.9%	97,800	4.1%	78,200	4.8%	77,000
Cash	4.9%	2,500	4.6%	13,200	4.8%	17,300
Market value of assets		100,300		91,400		170,300
Present value of scheme liabilities		(1,111,000)		(1,040,100)		(1,032,300)
Net pension liabilities (as per Actuarial Report)		(1,010,700)		(948,700)		(862,000)
Pension increase (pre 1974)				(30,000)		(30,000)
Net pension liabilities (Balance Sheet)		**(1,010,700)**		(978,700)		(892,000)

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 2007	At 31 March 2006	At 31 March 2005
Rate of increase in salaries	4.8%	5.1%	4.9%
Rate of increase in pensions in payment and deferred pensions	2.8%	3.1%	2.9%
Inflation assumption	2.8%	3.1%	2.9%
Discount rate	4.6%	6.0%	6.5%

The scheme managers are responsible for providing the Actuary with the 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.

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. The managers of the scheme accept that, as a consequence, 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 21.2.4. and 21.2.5. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

21.2.2 Analysis of movement in scheme liability

	2006-07	2005-06
	£000	£000
Scheme liability at 1 April	(978,700)	(892,000)
Sponsor contributions	90,939	-
Contributions in respect of unfunded benefits	11,900	12,400
Other expenses	(3,800)	(3,000)
Net return on assets (Note 21.2.3.)	(55,700)	(51,900)
Actuarial gain/(loss) (Note 21.2.4.)	(75,339)	(44,200)
Scheme liability at 31 March	(1,010,700)	**(978,700)**

21.2.3 Analysis of the amount charged to operating costs

	2006-07	2005-06
	£000	£000
Expected return on pension scheme assets	3,800	7,600
Interest on pension scheme liabilities	(59,500)	(59,500)
Net return on assets	(55,700)	(51,900)
Other expenses	(3,800)	(3,000)
Charged to operating cost	**(59,500)**	(54,900)

21.2.4 Analysis of amount recognised in the Statement of Recognised Gains and Losses

	2006-07	2005-06
	£000	£000
Actual return less expected return on pension scheme assets	3,900	4,800
Experience (losses) arising on the scheme liabilities	(33,339)	(100)
Changes in financial assumptions underlying the present value of the scheme liabilities	(75,900)	(48,900)
Amount previously recognised	30,000 *	-
Actuarial gain/(loss) recognised in the statement of recognised gains and losses	**(75,339)**	**(44,200)**

* Full membership data (estimated where necessary) was used by the Actuary in 2006–07 to value the liabilities in respect of the Pre 1974 Pension Increase recharges. £30m relating to this has been previously recognised through the General Fund in 2004–05 and the amount recognised in 2006–07 has therefore been adjusted by this amount.

21.2.5 History of experience gains and losses

	2006-07	2005-06	2004-05	2003-04	2002-03
Difference between the expected and actual return on scheme assets					
Amount (£000)	3,900	4,800	9,300	16,900	(62,300)
Percentage of assets	3.9%	5.3%	5.4%	7.1%	(21.0%)
Experience gains/(losses) on liabilities					
Amount (£000)	(33,339)	(100)	(2,700)	(153,500)	5,300
Percentage of assets	(3.0%)	-	(0.3%)	(14.4%)	0.6%
Total amount recognised in statement of total recognised gains and losses					
Amount (£000)	(105,339) *	(44,200)	6,600	(136,600)	(57,000)
Percentage of assets	(9.5%)	(4.2%)	0.6%	(12.8%)	(5.9%)

21.3 Nature Conservancy Council pension provision

21.3.1 The Nature Conservancy Council (NCC) pensions provision provides for former NCC staff who were not transferred when the NCC was disbanded. A full valuation was carried out at 31 March 2007 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	31 March 2007	31 March 2006	31 March 2005
Rate of increase in salaries	4.3%	4.0%	4.0%
Increase in pensions in payment	2.8%	2.5%	2.5%
Discount rate	4.6%	5.4%	6.1%
Inflation assumption	2.8%	2.5%	2.5%

21.3.2 Analysis of movement in scheme liability

	2006-07	2005-06
	£000	£000
Scheme liability at 1 April	16,289	16,607
Interest on scheme liability	845	863
Benefits payable	(1,281)	(1,249)
Pension payments to and on account of leavers	-	(9)
Actuarial (gain)/loss	2,258	77
	18,111	16,289

During the year ended 31 March 2007 no contributions were paid to the scheme.

21.3.3 Analysis of benefits paid

	2006-07	2005-06
	£000	£000
Pensions of annuities to retired employees and dependents	1,249	1,243
Communications and lump sum benefits on retirement	32	6
Per cash flow statement	1,281	1,249

21.3.4 Analysis of payments to and on account of leavers

	2006-07	2005-06
	£000	£000
Individual transfers to other schemes	-	9
Per cash flow statement	-	9

21.3.5 Analysis of amount recognised in the Statement of Recognised Gains and Losses (SRGL)

	2006-07	2005-06
	£000	£000
Experience gains and losses arising on the scheme liabilities	(262)	(55)
Changes in assumptions underlying the present value of scheme liabilities	(1,996)	(22)
Total actuarial (losses)/gains	(2,258)	(77)

21.3.6 History of experience gains and losses

	2006-07	2005-06
Experience (gains)/losses on liabilities		
Amount (£000)	262	55
Percentage of the present value of scheme liabilities	1.4%	0.3%
Total amount recognised in the STRGL		
Amount (£000)	2,258	77
Percentage of the present value of scheme liabilities	12.5%	0.5%

21.4 Former Countryside Agency pension schemes (RCC & Ex-Chairman schemes)

21.4.1 The former Countryside Agency Rural Community Councils (RCC) and Ex-Chairman pension provisions were transferred to the Core-Department on 30 September 2006. The RCC fund is managed by the Paymaster General and any pensions are administered by them in accordance with standard rules (by-analogy with the PCSPS). An actuarial valuation was carried out on both schemes as at 31 March 2007 by the Government Actuary's Department. The major assumptions used were:

	31 March 2007	31 March 2006	31 March 2005
Rate of increase in salaries	4.3%	4.0%	4.0%
Increase in pensions in payment	2.8%	2.5%	2.5%
Discount rate	4.6%	5.4%	6.1%
Inflation assumption	2.8%	2.5%	2.5%

21.4.2 Analysis of Movement in Scheme Liability – RCC

	30 September 2006 - 31 March 2007
	£000
Scheme liability at 30 September	2,228
Current service cost	28
Employee contributions	2
Interest on scheme liability	58
Benefits payable	(106)
Actuarial (gain)/loss	435
Scheme liability at 31 March	**2,645**

21.4.3 Analysis of Movement in Scheme Liability – Ex-Chairman

	30 September 2006 - 31 March 2007
	£000
Scheme liability at 30 September	234
Interest on scheme liability	6
Benefits payable	(4)
Actuarial (gain)/loss	27
Scheme liability at 31 March	263

21.4.4 Analysis of benefits paid

	30 September 2006 - 31 March 2007
	£000
Pensions of annuities to retired employees and dependents	
RCC Directors	38
Ex-Chairman	4
Commutations and lump sum benefits on retirement	
RCC Directors	68
Per cash flow statement	110

21.4.5 Analysis of amount recognised in the Statement of Recognised Gains and Losses (SRGL)

	30 September 2006 - 31 March 2007
	£000
Experience gains and losses arising on the scheme liabilities	
RCC Directors	(68)
Ex-Chairman	1
Changes in assumptions underlying the present value of scheme liabilities:	
RCC Directors	(367)
Ex-Chairman	(28)
Total actuarial (losses)/gains	(462)

21.4.6 History of experience gains and losses: RCC Directors

	2006-07
Experience gains and losses on scheme liabilities	
Amount (£000)	68
Percentage of scheme liabilities	2.6%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£000)	435
Percentage of scheme liabilities	16.4%

21.4.7 History of experience gains and losses: Ex-Chairman

	2006-07
Experience gains and losses on scheme liabilities	
Amount (£000)	(1)
Percentage of scheme liabilities	0.2%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£000)	27
Percentage of scheme liabilities	10.4%

21.5 Horticultural Research International pension scheme

21.5.1 £15.4m relating to the Horticultural Research International (HRI) pension scheme. The HRI pension scheme is now closed following the restructuring of HRI in 2004. There are no active members in the scheme, only pensioners (deferred and current). The HRI pension scheme is PCSPS by-analogy and is a final salary scheme providing a combination of pension and lump sum benefits on a range of contingencies: retirement, death and resignation. A full valuation was carried out at 31 March 2007 by the Government Actuary's Department. The major assumptions used were:

	31 March 2007	31 March 2006	31 March 2005
Rate of increase in salaries	4.3%	4.0%	4.0%
Increase in pensions in payment	2.8%	2.5%	2.5%
Discount rate	4.6%	5.4%	6.1%
Inflation assumption	2.8%	2.5%	2.5%

21.5.2 Analysis of movement in scheme liability

	2006-07
	£000
Scheme liability at 1 April	12,634
Interest on scheme liability	669
Benefits payable	(464)
Pension payments to add on account of leavers	(27)
Actuarial (gain)/loss	2,548
Scheme liability at 31 March	**15,360**

During the year ended 31 March 2007 no contributions were paid to the scheme.

21.5.3 Analysis of benefits paid

	2006-07
	£000
Pensions of annuities to retired employees and dependents	337
Communications and lump sum benefits on retirement	127
Per cash flow statement	**464**

21.5.4 Analysis of payments to and on account of leavers

	2006-07
	£000
Individual transfers to other schemes	27
Per cash flow statement	27

21.5.5 Analysis of amount recognised in the Statement of Recognised Gains and Losses (SRGL)

	2006-07
	£000
Experience gains and losses arising on the scheme liabilities	(190)
Changes in assumptions underlying the present value of scheme liabilities	(2,358)
Total actuarial (losses)/gains	(2,548)

21.5.6 History of experience gains and losses

	2006-07
Experience (gains)/losses on liabilities	
Amount (£000)	190
Percentage of the present value of scheme liabilities	1.2%
Total amount recognised in the STRGL	
Amount (£000)	2,548
Percentage of the present value of scheme liabilities	16.6%

22 General fund

The general fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

	2006-07		Restated 2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	(2,486,124)	(2,316,600)	(1,134,449)	(531,500)
Net operating cost for the year	(3,147,617)	(3,606,678)	(2,782,435)	(3,202,155)
Income not A-in-A payable to the Consolidated Fund	(167,956)	(1,998,083)	(83,282)	(2,480,929)
Net Parliamentary Funding				
Drawn down	4,971,743	4,971,743	4,997,331	4,997,331
Deemed	1,308,288	1,308,288	238,392	238,392
Net financing from the Contingencies Fund	(340)	(340)	340	340
Transfer from revaluation reserve	1,659	7,052	101	5,127
Transfer to general fund - net asset transfer	(1,543)	(716)	1,330	(541)
Non-operating A-in-A	11,712	11,712	2,293	2,293
Non-cash charges				
Early departure	-	-	-	(75)
Cost of capital	(20,907)	11,354	(20,631)	2,637
Auditors remuneration	330	1,091	292	899
Other	(15,886)	1,156	(17,549)	14
Additional A-in-A	-	-	(5,520)	(5,520)
Pension actuarial gain/(loss)	(80,607)	(80,607)	(47,025)	(47,025)
Contributions in respect of unfunded benefits	11,900	11,900	12,400	12,400
Funding to Agencies	(1,784,195)	-	(2,339,424)	-
Funding from OGDs	-	1,488	-	-
Year end adjustment				
Supply creditor - current year	(14,214)	(14,214)	(1,308,288)	(1,308,288)
General fund at 31 March	**(1,413,757)**	**(1,691,454)**	(2,486,124)	(2,316,600)

23 Revaluation reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

	2006-07		Restated 2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	88,133	210,536	86,054	195,785
Arising on revaluation during the year (net)	13,832	26,081	2,180	19,878
Transferred from general fund in respect of realised element of revaluation	(1,659)	(7,052)	(101)	(5,127)
Balance at 31 March	**100,306**	**229,565**	88,133	210,536

24 Notes to the consolidated Cash Flow Statement

24.1 Reconciliation of operating cost to operating cash flows

	Note	2006-07 £000	Restated 2005-06 £000
Net operating cost	13	3,606,678	3,202,155
Adjustments for non-cash transactions		(456,196)	(309,513)
Increase/(decrease) in stock		(1,662)	(18,324)
Increase/(decrease) in debtors		(369,987)	1,415,725
less movements in debtors relating to items not passing through the OCS		3,600	8,215
(Increase)/decrease in creditors		2,749,895	(4,545,737)
less movements in creditors relating to items not passing through the OCS		(1,928,038)	3,426,104
Use of provisions	21	217,693	83,741
Net cash outflow from operating activities		**3,821,983**	3,262,366

24.2 Analysis of capital expenditure and financial investment

	Note	2006-07 £000	Restated 2005-06 £000
Intangible fixed asset additions	15	1,683	2,752
Tangible fixed asset additions	14	119,620	116,954
Proceeds from disposals of fixed assets		(24,163)	(20,171)
Net cash outflow from investing activities		**97,140**	99,535

24.3 Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure £000	A-in-A £000	Net Total £000
Request for Resources 1	121,303	(24,163)	97,140
Net movement in debtors/creditors	1,775	5,008	6,783
Total 2006-07	**123,078**	**(19,155)**	**103,923**
Total 2005-06 (Restated)	140,799	(15,163)	125,636

24.4 Analysis of financing

	Note	2006-07 £000	2005-06 £000
From Consolidated Fund (Supply): current year	22	4,971,743	4,997,331
Advances from the Contingencies Fund		(340)	340
Agency funding - received from OGDs (GF)		1,488	-
Net financing		**4,972,891**	4,997,671

24.5 Reconciliation of net cash requirement to increase in cash

		2006-07	2005-06
		£000	£000
Net cash requirement	4	6,265,477	3,927,775
From Consolidated Fund (Supply): net financing	24.4	(4,972,891)	(4,997,671)
Amounts due to the Consolidated Fund received in prior year and paid over		453,903	34,885
Amounts due to the Consolidated Fund received and not paid over		(165,026)	(453,903)
NLF loan - interest received from other bodies		(1,056)	(1,466)
NLF loan - interest paid to the NLF		1,056	1,466
(Increase)/decrease in cash		**1,581,463**	(1,488,914)

25 Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

Programme grants and other current expenditures have been allocated as follows:

	2006-07	Restated 2005-06
	£000	£000
Objective 1	2,322,474	2,172,817
Objective 2	469,275	503,586
Objective 3	320,888	365,460
Objective 4	987,711	1,039,939
Objective 5	876,101	978,304
Objective 6	1,235,979	1,252,845
	6,212,428	6,312,951

For a description of the Objectives see page 57.

26 Capital commitments

	2006-07		2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	27,837	50,616	10,742	17,977

The prior year figures have been restated as detailed in note 36.

27 Commitments under leases

27.1 Operating leases

Commitments under leases to pay rentals during 2006–07 are given in the table below, analysed according to the period in which the lease expires.

	2006-07		Restated 2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Obligations under operating leases comprise				
Land and buildings				
Expiry within 1 year	683	857	671	1,286
Expiry within 2 to 5 years	2,821	4,367	1,732	2,113
Expiry thereafter	18,336	23,573	19,738	25,497
Amount payable in the following year	**21,840**	**28,797**	22,141	28,896
Other				
Expiry within 1 year	-	54	-	43
Expiry within 2 to 5 years	1	523	1	495
Expiry thereafter	-	12	-	-
Amount payable in the following year	**1**	**589**	1	538

27.2 Finance leases

Obligations under finance leases are as follows:

	2006-07		2005-06	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Obligations under finance leases comprise				
Rentals due within 1 year	7	7	7	7
Rentals due within 2 to 5 years	29	29	36	36
Rentals due thereafter	389	389	382	382
Amount payable	**425**	**425**	425	425

28 Commitments under Private Finance Initiative (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 £9.42m was received in October 2006 (incorporating £4.42m final payment and an overage payment of £5m to acknowledge the increase in value of the land).

28.2 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 £1,031,422 (2005–06 £1,024,219). The payments to which the Department is committed during 2007–08 analysed by the period during which the commitment expires, are as follows:

	2006-07		2005-06	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Expiry within 26 to 30 years	-	-	1,023	1,023
	-	-	1,023	1,023

29 Other financial commitments

The Department is committed to making payments to non-cancellable contracts (which are not leases or PFI contracts). The payments which the Department is committed to make during 2007–08, analysed according to the period in which the commitment expires, are as follows:

	2006-07		Restated 2005-06	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Expiry within 1 year	62,422	86,820	46,475	121,475
Expiry within 2 to 5 years	135,765	190,103	92,589	92,589
Expiry thereafter	19,998	20,059	53,734	53,734
	218,185	**296,982**	192,798	267,798

The prior year figures have been restated as detailed in note 36.

Defra also entered into multi-annual agreements with beneficiaries under a number of schemes within the England Rural Development Programme and its successor the Rural Development Programme for England. 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.

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.

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.

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.

30.2 Liquidity risk

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

30.3 Foreign currency risk

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 3 weeks later generates an exchange difference. In 2006–07 this has generated an exchange loss of £1.2m, bringing the total net gain to date to £40.5m (2005–06 generated an exchange gain of £0.2m).

30.4 Funding risk

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 2006–07 HM Treasury has agreed to offset the loss in 2006–07 against the premium received as part of the foreign exchange hedging facility with The Royal Bank of Scotland. For the reporting period this amounted to £17.5m.

As of April 2005, HM Treasury have confirmed that an appropriate hedging strategy can be put in place to reduce the risk of foreign currency exchange movement. After consultation with HM Treasury, RPA decided to hedge the foreign currency risk between submission of the indent and the date of the reimbursement from the Commission, using an appropriate financial instrument. In March 2006, RPA contracted The Royal Bank of Scotland to provide a foreign exchange hedging facility to reduce the risk of exchange rate movement between the periods above. Furthermore, an additional hedge security was put in place on 6 October 2006 to cover foreign exchange fluctuations on the Single Payment Scheme 2006. The cover amounted to €3.8bn.

30.5 Securities and guarantees

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 may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. Bank and other guarantees totalling £358.3m (2005–06 £392.9m) and cash totalling £2.4m (2005–06 £2.2m) were held at 31 March 2006 by RPA.

31 Contingent liabilities disclosed under FRS 12 and contingent assets

31.1 Contingent liabilities

There are a number of events, with uncertain outcomes, that could potentially lead to 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 2007, the main items under this heading were:

- a potential disallowance liability in respect of late payments attributed to the SPS, estimated at £7m;
- liability for landfill sites that do not reach the standards required by Pollution Prevention and Control regulations if the licence holder becomes insolvent. Potential liability estimated at £20m;
- swill feeder claims connected with the FMD outbreak (unquantifiable);
- FMD Farm Burial Ground claims. Potential liability estimated at a maximum of £4m;
- infringements of the Urban Waste Water Treatment Directive could lead to substantial fines from the EU (unquantifiable);
- the Government has an obligation under Article 14.2 of an agreement of 1988, registered with the UN, to support the Commonwealth Agricultural Bureau International (CABI). For the year to 31 December 2006, Defra provided 35% of the member contributions towards CABI's costs. Under the Agreement, the Government is required to underwrite any future deficit or recover any surplus on winding up of CABI in the same proportion as its members' contributions. Defra considers that, on the basis of the assessment of CABI's management, the liabilities gap is currently falling, and that the residual obligation is potentially below £5m;
- investment guarantees, up to a maximum of £5.6m, related to the Waste and Resources Action Programme (WRAP), together with various liabilities concerning WRAP lease commitments to a maximum of £0.8m, due in stages to 2011;
- indemnity against all actions, costs and expenses made against the National Institute of Agricultural Botany (NIAB) arising from their contract with Defra. The Department cannot quantify the value of any such possible future actions but, to minimise liability, the contract requires NIAB to take out £5m professional insurance;
- potential costs of remediation of radioactive contaminated land in accordance with Part 2A of the Environmental Protection Act 1990 (unquantifiable);
- potential liabilities arising from small claims against Defra. The potential liability is estimated at no more than £6m;
- a provision has been made in the Accounts for decommissioning the Over Thirty Month Slaughter Scheme (OTMS) tallow storage facility. Events since the balance sheet date now suggest that a further provision may be required to cover the final settlement. This is contingent on further negotiations and is at present unquantifiable.

Defra has the lead responsibility for a large number of NDPBs and public corporations (see note 39). Although these sponsored bodies lie outside the accounting boundary, the Department is still required to meet any liabilities they are unable to absorb themselves.

31.2 Contingent assets

- a surplus of £0.3m may arise as a result of a reorganisation of the Sugar Board Pension Scheme. This was provided for in 1976 by a group annuity policy, but this is now disproportionate for the small number of surviving pensioners;
- entitlement to receive part of the funds of disposal of the NIAB site in Cambridge when the property is disposed of by the developer who previously purchased from Defra (unquantifiable);
- ministerial approval has been given to allow stored tallow to be sold to Waste Incineration Directive (WID) compliant customers. Income from sale of tallow has been estimated to be £0.575m;
- approval has been given by the commission for the onward sale of Older Cattle Disposal Scheme (OCDS) hides. Estimated sales income amounts to £6.636m.

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

32.1 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 2006	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2007
	£000	£000	£000	£000	£000
Guarantees					
Guarantee of British Waterways borrowing	3,000	-	-	-	**3,000**
Guarantee for Carbon Trust Directors - prevent Director liabilities	17,831	-	-	(8,601)	**9,230**
Guarantee for Energy Trust Directors - prevent Director liabilities	38,785	-	-	(35,749)	**3,036**
Guarantee for Agricultural Loan	-	150	-	-	**150**
Indemnities					
CHPQA1 contractors wrongly assessing a scheme	100	-	-	-	**100**

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

A transfer of economic benefits is also 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 a subsequent appeal was rejected in August 2006. The possibility of further appeals is becoming increasingly unlikely as is their chance of success;

- a possible obligation, under the High Activity Sealed Sources (HASS) Directive, to meet the costs (possibly in the order of £6m) of retrieving and disposing of sealed radioactive sources in the event that a company keeping such sources becomes bankrupt.

CEFAS have agreed to reimburse costs of £295k relating to the provision of new office and laboratory facilities should the project not progress to the signing of a mutual rental agreement.

32.2 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;
- indemnity to maintain an offshore works, built in the 1970s, to ensure that no danger or nuisance is caused.

A transfer of economic benefits is also considered to be remote on the following;

- Defra received an EU Article 226 letter dated 4 April 2006 relating to the Drinking Water Directive (98/83/EC). [EU case reference: 06/2005.] UK joint response of 15 June 2006. Should the case reach the Article 228 ECJ stage (around 2009-10), the Court would determine the extent of any fines. Fines may be back-dated and substantial; however, unable to quantify at this stage.

33 Losses and special payments

33.1 Losses statement

	2006-07		2005-06	
	No. of cases	Value £000	No. of cases	Value £000
Cash losses	148	492	141	2,621
Stores losses	25	67	9	27
Fruitless payments	8	4,590	6	4,427
Claims abandoned	1,474	292	800	512
Total losses	**1,655**	**5,441**	956	7,587

Details of cases over £250,000

Fruitless payments and constructive losses:

- one case totalling £2,635,157 to IBM relating to disaster recovery project for several IT systems which was abandoned due to affordability and absence of value for money;
- one case totalling £1,953,557 relating to the e-CP CMS Web project which was abandoned due to lack of funding;

33.2 Special payments

	2006-07		2005-06	
	No. of cases	Value £000	No. of cases	Value £000
Special payments	**4,904**	**3,172**	169	246

Details of cases over £250,000

- one case totalling £1,250,000 relating to a special payment made by RPA to Burgess Salmon;
- one case totalling £750,000 relating to a special payment made by RPA to WD Meats.

33.3 Non-reimbursement of SPS 2005 claim expenditure

The Single Payment Scheme Regulation (Regulation (EC) No 1782/2003) sets a payments deadline of 30 June in the following year. Subject to a 4% tolerance, Regulation (EC) No 883/2006 sets out that European Funding is progressively reduced until SPS payments made more than 4 months after the deadline are wholly funded by the UK Exchequer. Applying these rules to the SPS 2005 payments made up to 30 June 2007 gives rise to £63m claims to be funded by the UK Exchequer. This amount has been provided for in these accounts.

34 Related party transactions

The Department is the parent of the Agencies shown in note 38. The Department's NDPBs within the Departmental accounting boundary are also shown in note 38 and those outside the boundary are shown in note 39. 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. DTI, Food Standards Agency, the Devolved Administrations, Department of Communities 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, a member of the former RPA Ownership Board until it was dissolved in 2006–07, is a Director of Farmcare (part of the Co-operative Group). In 2006–07, Farmcare received £4,174,342 (2005–06 £178,200), together with an additional outstanding balance, as at 31 March 2007, of £1,209,000 (2005–06 £2,199,602) 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 former RPA Ownership Board and is a Director of GR & SK Meek. In 2006–07, GR & SK Meek received £90,974 (2005–06 £31,054), together with an additional outstanding balance, as at 31 March 2007, of £Nil (2005–06 £47,393) in scheme payments from RPA.

Katie Davis, member of the RPA Strategic Advisory Board, holds shares and share options in Accenture. She was a former partner in Accenture and her shares must be held until July 2009. Her husband is a current employee of Accenture and also holds shares. Accenture provided RPA with new IT systems under the Change Programme.

As part of her Chief Veterinary Officer (CVO) responsibilities, Debby Reynolds, is required to be a member of the Governing Board of the Institute for Animal Health (IAH), which is dedicated to the study of infectious diseases in farm animals. The IAH is a registered charity trust and the CVO receives no financial payments for her membership.

The Institute for Animal Health held contracts with the Veterinary Directorate in 2006–07 for the Laboratory Facilities for Exotic Diseases, receiving £1,698,889 (2005–06 £1,698,889) and research and development for Transmissible Spongiform Encephalopathy, Bovine TB, and Salmonella, receiving £5,803,552 (2005–06 £6,400,000).

In partnership with both DTI and Biotechnology and Biological Sciences Research Council (BBSRC) the Veterinary Directorate contributed a capital grant towards IAH Laboratories Pirbright rebuilding programme, of which the Veterinary Directorate's share was £6,300,000 in the year (2005–06 £4,868,000).

Robert Bolton held the position of Commercial Director of CSL and Chief Executive of Forsite Diagnostics Ltd during the formation and legal proceedings relating to the spin-out of Forsite Diagnostics from CSL. Mr Bolton did not receive any financial recompense for this. CSL received £240k consideration for the sale of the Company. All matters were conducted at arms length in the presence of lawyers.

35 Post balance sheet events

Defra's Financial Statements are laid before the House of Commons by HM Treasury. Financial Reporting Standard 21: *Events after the Balance Sheet Date* requires Defra to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are dispatched by Defra to HM Treasury. The authorised date for issue is 29 October 2007.

Following Ministers' acceptance of the recommendation in the 2005 Hampton Review on reducing administration burdens, the Egg Marketing Inspectorate, Wildlife Licensing and Registration Service and the Livestock Data Division transferred operations from the Core-Department to become part of Animal Health (formerly SVS) with effect from 1 April 2007.

Also, as part of Defra's Delivery Strategy Review, and following Hampton Review principles, residual delivery functions identified in the Marine and Fisheries Directorate (in the Marine Consents and Environment Unit) were transferred out of the Core-Department to the Marine and Fisheries Agency with effect from 1 April 2007.

Since the balance sheet date, a number of Foot and Mouth Disease cases have been identified in Surrey. Whilst the outbreak has at present been contained to a limited geographical area, the Department knows from past experience that it will face costs including compensation, cleansing and disinfecting, securing and maintaining safe burial sites([20]).

There have also been a number of Bluetongue cases identified in Suffolk. The Department may face some associated control costs([21]).

In June 2007, the Civil Service Appeals Board ruled that Defra should make a compensation payment of £60,792 to Johnston McNeill, the former Chief Executive of the Rural Payments Agency. An employment tribunal is considering Mr McNeill's case for further compensation from Defra. A full breakdown of the payments made to Mr McNeill since 16 March 2006 was provided to the Committee of Public Accounts in support of its hearing on *The Delays in Administering the 2005 Single Payments Scheme in England*([22]).

More information about these events can be found on the website([23]).

[20] More information about the outbreak can be found on our website at http://www.defra.gov.uk/footandmouth/.
[21] Additional information can be found on our website at http://www.defra.gov.uk/animalh/diseases/notifiable/bluetongue/index.htm.
[22] http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/893/893.pdf
[23] http://www.defra.gov.uk

36 Prior year adjustments

Core-Department

Details of Core-Department prior year adjustments are as a result of restating prior year balances under FRS 6 (Mergers and Acquisitions). The adjustments under FRS 6 are to take account of the transfer of operation of HMI and DHI to Executive Agencies, Socio-economic Funds to Regional Development Agencies as sponsored by DTI and the remainder of RDS towards the creation of Natural England. These are transfers of function out of the Core-Department.

Following a change of policy, two programmes of schemes, ERDP (English Rural Development Programme) and Structural Funds, are to be accounted for in the Core-Department, although RPA remains the paying agency. The Structural Funds programme of schemes relates to targeted funding for specifically named socially deprived areas. The ERDP programme of schemes includes land management schemes, such as agri-environment and hill-farming allowances. Other schemes in the ERDP programme include forestry schemes, energy crop schemes, and socio-economic schemes. This has meant a re-statement in the Core-Department and RPA, but it does not affect the Consolidated accounts. This is a transfer of function to the Core-Department.

The net effect of all the above prior year adjustments is shown below:

- net operating costs for 2005–06 increase by £184,605,000 of which £194,096,000 relates to transfer in, £9,491,000 relates to transfers out. Within the Net Operating Cost, expenditure of £80,205,000 relating to Natural England has been re-classified as a grant payment;

- revaluation reserve at 31 March 2006 decrease by £20,000;

- tangible fixed assets at 31 March 2006 decrease by £2,609,000;

- intangible assets at 31 March 2006 decrease by £40,000;

- debtors at 31 March 2006 increase by £82,471,000 of which £83,132,000 relates to transfer in, and a decrease of £661,000 relating to transfers out;

- creditors at 31 March 2006 increase by £99,805,000 of which £105,177,000 relates to transfers in, and a decrease of £5,372,000 relating to transfers out;

- operating leases at 31 March 2006 decrease by £1,848,000 of which £373,000 relates to transfers to Natural England.

Additionally, other financial commitments (note 29) has increased by £43,165,000 in expiry thereafter following a re-assessment of prior year commitments.

Consolidated

The transfer of Socio-economic Funds to Regional Development Agencies as sponsored by DTI and the remainder of the Rural Development Service to Natural England have had an effect on the Consolidated accounts. These adjustments affect the majority of the statements and notes. The overall effect on the Department's prior year figures is as follows:

- net resource outturn and net operating costs for 2005–06 decrease by £6,039,000. Within the Net Operating Cost, expenditure of £80,205,000 relating to Natural England has been re-classified as a grant payment;
- revaluation reserves at 31 March 2006 decrease by £17,000;
- tangible fixed assets at 31 March 2006 decrease by £1,068,000;
- intangible fixed assets at 31 March 2006 decrease by £40,000;
- debtors at 31 March 2006 decrease by £273,000;
- creditors at 31 March 2006 decrease by £5,245,000;
- operating leases at 31 March 2006 decrease by £1,848,000 of which £373,000 relates to transfers to Natural England.

In addition to the above, there have been adjustments within the RPA accounts for the recording of EU Modulation balances, as follows:

- debtors at 31 March 2006 decrease by £55,830,000;
- creditors at 31 March 2006 decrease by £55,830,000.

Additionally, other financial commitments (note 29) has increased by £43,165,000 in expiry thereafter following a re-assessment of prior year commitments.

37 Third Party Assets

The Department holds money relating to Twinning and ERA-NET([24]) projects on behalf of European Partners and Defra.

These are not Departmental Assets and are not included in the accounts. The assets held at the balance sheet date to which it is practical to ascribe a monetary value comprised monetary assets, such as bank balances and monies on deposits. They are set out in the table below:

	2006-07	2005-06
	£000	£000
Monetary assets	771	1,416
	771	1,416

[24] http://cordis.europa.eu/coordination/era-net.htm

38 Entities within the Departmental boundary

The entities within the Departmental boundary during 2006–07 comprise the Core-Department, its Executive Agencies and NDPBs as follows:

Executive agencies

Centre for Environment, Fisheries and Aquaculture Science (CEFAS)

Provides multi-disciplinary scientific research, consultancy and high value technical services that support delivery of Government objectives for the marine environment.

Central Science Laboratory (CSL)

The primary aim is to provide Defra with an efficient and competitive service in scientific support, research and advice to meet both statutory and policy objectives and Defra's Public Service Agreement targets.

Government Decontamination Service (GDS)

The purpose of the GDS is to increase the nation's resilience to the consequences of terrorist or major accidental incidents, involving the release of chemical, biological or radiological (CBR) materials.

Marine Fisheries Agency (MFA)

Work includes the delivery of services such as inspections and enforcement, marine environmental work, vessel licensing quota management and grants and statistics.

Pesticides Safety Directorate (PSD)

Responsibilities link directly to Defra's strategic priorities on sustainable farming and food, sustainable consumption and production, natural resource protection and better regulation.

Rural Payments Agency (RPA)

Payment of EAGGF and Exchequer grants and subsidies to the rural and farming community, carrying out rural inspections and livestock tracing.

State Veterinary Service (SVS)

A Great Britain wide organisation dealing with animal health, public health, animal welfare and international trade. In 2006–07 the Dairy Hygiene Inspectorate was brought in and in 2007–08 the Egg Marketing Inspectorate was brought in. The agency name changed to Animal Health (AH) on 1 April 2007.

Veterinary Laboratories Agency (VLA)

Provides Defra and other Government customers with specialist veterinary research, consultancy, surveillance and laboratory services.

Veterinary Medicines Directorate (VMD)

Aims to protect public health, animal health, the environment and promote animal welfare by assuring the safety, quality and efficacy of veterinary medicines.

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
Agricultural Wages Committee

Advisory NDPBs (Defra funded)

Advisory Committee on Hazardous Substances
Advisory Committee on Organic Standards
Advisory Committee on Packaging
Advisory Committee on Pesticides
Advisory Committee on Releases to the Environment
Agricultural Dwelling House Advisory Committees
Air Quality Expert Group
Animal Health and Welfare Strategy England Implementation Board
Committee on Agricultural Valuation
Committee of Investigation for Great Britain – disbanded October 2006
Committee on Products and Processes for Use in Public Water Supply – disbanded 31 March 2007
Committee on Radioactive Waste Management
Consumers Committee for Great Britain under the Agricultural Marketing Act 1958 – disbanded October 2006
Darwin Advisory Committee (the Darwin Initiative)
Expert Panel on Air Quality Standards
Farm Animal Welfare Council
Independent Agricultural Appeals Panel
Independent Scientific Group on Cattle TB
Inland Waterways Amenity Advisory Council
Pesticide Residues Committee
Royal Commission on Environmental Pollution
Science Advisory Council
Sustainable Development Commission
Veterinary Products Committee
Veterinary Residues Committee
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)
Commons Commissioners
Dairy Produce Quota Tribunal
Plant Varieties and Seeds Tribunal

39 Bodies outside the Departmental boundary

The public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year, are as follows:

Executive NDPBs

British Potato Council

Countryside Agency – disbanded 30 September 2006, Natural England and the Commission for Rural Communities est. 1 October 2006 took over this NDBP's role.

Commission for Rural Communities – Est. 1 October 2006

Consumer Council for Water

English Nature - disbanded 30 September 2006, Natural England est. 1 October 2006 took over this NDPB's role.

Environment Agency

Food from Britain

Gangmasters Licensing Authority

Home Grown Cereals Authority

Horticultural Development Council

Joint Nature Conservation Committee (funded from Natural England Grant in Aid)

Meat and Livestock Commission

Milk Development Council

National Forest Company

Natural England – Est. 1 October 2006

Royal Botanic Gardens, Kew

Sea Fish Industry Authority

Wine Standards Board (part of FSA from 1 July 2006)

Public corporations

British Waterways Board

Covent Garden Market Authority

Nuclear Industry Radioactive Waste Executive – Nirex CLG Limited (jointly owned, 50% DTI and 50% Defra) – ownership transferred to NDA, a DTI sponsored NDPB, during 2006–07.

Other bodies

British Wool Marketing Board

The Broads Authority

National Parks Authorities

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