Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6 (4)

Department for Environment, Food and Rural Affairs

Resource Accounts 2007–08

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(For the year ended 31 March 2008)

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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

Defra has made solid progress towards delivering the Department's Public Service Agreement (PSA) targets under the 2004 Spending Review (SR04) covering the period 2005–08. These targets have contributed to Defra's overall effectiveness, whilst also putting the Department in a position to deal effectively with the sorts of emergencies that have occurred in the past year.

The following commentary sets out Defra's strategy and mission including the two new Defra–led PSAs for the 2007 Comprehensive Spending Review (CSR07) period (2008–11). It highlights progress against the SR04 PSA targets and SR04 efficiency targets. It also records the progress made through the Renew Defra Programme which will enable Defra to deliver efficient and high quality services and outcomes. Finally it sets out the achievements of Defra's Executive Agencies and delivery partners.

For more detailed information on Defra's progress in 2007–08, please see the Defra Departmental Report 2008([1]).

Development and Performance of the Department

Defra's mission is to enable everyone to live within our environmental means. This and Defra's new strategy are underpinned by two high level goals of:

- avoiding dangerous climate change; and
- maintaining and enhancing the natural asset base.

The section below reports on Defra's delivery against the Department's SR04 PSA targets. The activities under these PSA targets will now be taken forward as part of the new PSAs and Departmental Strategic Objectives (DSO). Defra is committed to engaging with stakeholders to inform and guide the development of policies to deliver on the Department's priorities.

[1] http://www.defra.gov.uk/corporate/deprep/2008/index.htm

PSA target 1: To promote sustainable development across Government and 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; and
- progress towards internationally agreed commitments to tackle climate change.

Delivery of this target is on course. Year on year, there are fewer indicators showing negative trends. The goals set for the part of this PSA dealing with international climate change commitments were assessed as having been largely met at Gleneagles and Heiligendamm, with further progress in Bali, in 2007.

PSA target 2: To 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 (CO_2) emissions below 1990 levels by 2010 through measures including energy efficiency and renewables (Joint with Department for Business, Enterprise and Regulatory Reform (BERR) and Department for Transport (DfT)).

The UK is on course to meet the Kyoto element of this PSA target. The Department now estimates that in 2010, and including the effect of the EU Emissions Trading Scheme, CO_2 emissions will be about 16% below 1990 levels, and emissions of all greenhouse gases will be about 24% below Kyoto–base year levels. The UK therefore remains on target to meet its Kyoto target. However, Defra's domestic goal to reduce CO_2 emissions to 20% below 1990 levels by 2010, which was always designed to be stretching, now looks increasingly difficult to achieve.

The December 2007 Bali Climate Change Conference established a Bali Action Plan to take forward international efforts to combat global warming. In addition to the action plan, Bali also resulted in some significant breakthroughs on technology transfer, deforestation, adaptation and carbon markets, which are now being initiated.

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.

The Department is on course to meet the target of reversing the long–term decline in the number of farmland birds by 2020.

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 by 2010 95% of all nationally important wildlife sites.

There is currently slippage against the target, although progress continues to be made. On the basis of latest condition assessment on each unit of land by the end of March 2008, 82.7% of the total Site of Special Scientific Interest (SSSI) area was in Target Condition. Whilst this represents a shortfall of 0.3% against the intermediate milestone of 83% it is a significant improvement on the position at the end of 2006–07 when there was a 2.6% shortfall. This reflects a record in–year gain of 7.3%. It is expected that the 83% milestone will be achieved during the first quarter of 2008–09.

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.

The design of this target has been found not to be effective in addressing our sustainable rural communities objectives. Looking forward, Defra has developed the *Strong Rural Communities* DSO. This will be measured against two intermediate outcomes:

- the evidenced needs of rural people and communities are addressed through mainstream public policy and delivery; and

- economic growth is supported in rural areas with the lowest levels of performance.

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; and secure further progress via Common Agricultural Policy (CAP) and World Trade Organisation (WTO) negotiations in reducing CAP trade–distorting support.

Overall Defra is on course to meet this target, although the ability to deliver one element of this target (to be on an agreed track by 2008 for tariff reductions) is heavily dependent on a successful conclusion of WTO negotiations.

Defra's role is to facilitate behavioural change within the sector that will enable it to become more competitive at home and abroad, while at the same time ensuring it improves its net environmental contribution. Both in respect of tackling climate change, but also by managing the landscape and the natural assets that underpin it.

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

Overall Defra is on course to meet this target. Defra has met the 2005–06 target of 25% of household waste to be recycled or composted and this is well on course to show further improvement by 2008.

PSA target 7: Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government's Fuel Poverty Strategy Objective.

Currently there is some slippage against the target. The Government's plan provides a strong framework for vulnerable people, and was successful in reducing fuel poverty between 1996 and 2004 by 3m households across England. But Defra faces new challenges. Rising energy prices since 2003 have inevitably had an impact. Results of the 2005 *English House Conditions Survey* show that 2005 was the first year since 1996 in which the number of households in the UK in fuel poverty actually rose.

Progress between 1996 and 2004 was positive, with total numbers in fuel poverty in England falling from 5.1m to 1.2m. However, latest figures show that 1.5m households in England were in fuel poverty in 2005. A rise in fuel costs has been the main reason for the increase in fuel poverty.

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 (joint target with the DfT).

Currently there is some slippage against the target. The Government's air quality policies are helping to bring about significant cuts in the concentration of pollutants. *The Air Quality Strategy*, published in July 2007, also sets out measures for meeting air quality objectives between 2000 and 2020, while taking into account economic efficiency, practicability, technical feasibility and timescale. Defra is currently considering other measures set out in the Strategy, such as the incentivisation of early uptake of new European vehicle emissions standards (Euro–standards) and the increased uptake of low emission vehicles.

PSA target 9: To improve the health and welfare of kept animals, and protect society from the impact of animal diseases, through sharing the management of risk with industry, including:

- a reduction of 40% in the prevalence of scrapie infection (from 0.33% to 0.2%) by 2010;
    - based on the latest modelling results it is expected that the 40% reduction required will not be achieved until 2011. This target was based on a 2004 model that assumed there would be an EU requirement to replace the existing voluntary Great Britain Ram Genotyping Scheme (RGS) with a compulsory genotyping scheme. That requirement was dropped by the EU Commission at the end of 2006. In the light of developing science on scrapie Defra is currently consulting on the future of the voluntary GB RGS with a view to closure or transfer to industry ownership.

- 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;
    - the overall assessment is that the 2006 target was reached in 2007. Although the incidence of BSE in Great Britain is very low and is continuing to decline there is a risk that Defra will not meet the 2010 target. However, any cases in 2010 will be the result of infection several years previously because of the long incubation period of BSE. Defra expects the number of new infections in 2010 to be close to zero although it will not be possible to confirm this until at least 2015;
    - there were 104 BSE cases in Great Britain in 2006. In 2007, the number of cases fell by 49% to 53.

- a reduction in the spread of Bovine Tuberculosis (TB) to new parishes to below the incremental trend of 17.5 confirmed new incidents per annum by the end of 2008.
    - Defra expects to meet the 2008 target of limiting the spread of Bovine TB to areas currently free from the disease. Bovine TB nevertheless remains a significant problem for the farming industry in those areas of the country where the disease is prevalent.

Future Priorities

Defra's two high level goals have informed the two new Defra–led PSAs which were agreed as part of the CSR07 settlement and will be embedded in the Government's overall thinking for the new CSR period 2008–11. These are to:

- secure a healthy natural environment for today and the future; and
- lead the global effort to avoid dangerous climate change.

These are refined through eight new DSOs around:

- tackling climate change internationally, and through domestic action to reduce greenhouse gas emissions;
- a healthy, resilient, productive and diverse natural environment;
- sustainable patterns of consumption and production;
- economy and society resilient to environmental risk and adapted to the impacts of climate change;
- a thriving farming and food sector, with an improving net environmental impact;
- championing sustainable development across Government, across the UK and internationally;
- strong rural communities; and
- a respected department delivering efficient and high quality services and outcomes.

Below these DSOs, Defra will have 32 Intermediate Outcomes which will each be measured by one or more indicators. Further information is available on these([2]).

Better Regulation and Simplification

Defra is reviewing its policies, practices and operational structures to ensure better regulation outcomes. Defra remains committed to tackling aggressive, over–zealous or restrictive regulatory and administrative practices. Year on year, the Department is making significant progress in this endeavour. The December 2007 simplification plan, Cutting Red Tape, identified progress to date and projected that by 2010 Defra would have reduced the overall administrative burden imposed on business stakeholders from £527.8m to around £395.8m: an overall reduction of £132m or 25%, against the Department's target of 25%.

[2] http://www.defra.gov.uk/corporate/busplan/spending-review/psa2007.htm

Significant Bodies within the Departmental Boundary

Significant bodies are listed below; additional ones are included in note 38.

Animal Health (AH)

A Great Britain wide organisation dealing with animal health, public health, animal welfare and international trade. In 2007–08, the Egg Marketing Inspectorate was amalgamated. Formerly the State Veterinary Service (SVS), the agency's name was changed to Animal Health (AH) on 1 April 2007.

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 PSA 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 materials.

Marine and Fisheries Agency (MFA)

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

Pesticides Safety Directorate (PSD)

Responsibilities are linked directly to Defra's strategic priorities on sustainable farming and food, sustainable consumption and production, natural resource protection and better regulation. PSD transferred from Defra on 1 April 2008 and became an agency of the Health and Safety Executive (HSE).

Rural Payments Agency (RPA)

RPA administers a range of Common Agricultural Policy (CAP) Schemes including: Single Payment Scheme (SPS), internal market schemes covering dairy products, crops, fruit and vegetables, external trade measures, milk quotas and the Older Cattle Disposal Scheme. RPA also holds responsibility for making payments under the England Rural Development Programme (ERDP) and its successor. The Agency is the operational delivery body for the Livestock ID Programme, RPA Customer Register and the Rural Land Register.

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.

Defra's Delivery Partners

For information on all Defra's delivery partners please see the Departmental Report and note 39([3]). Defra's larger delivery partners during 2007–08 were as follows:

- Forestry Commission;
- Environment Agency (EA);
- Natural England (NE);
- British Waterways.

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 listed in note 39.

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

Significant Variances against Estimate

Explanation of the Underspend against the Estimate

The underspend against the Request for Resources (RfR) voted by the Spring Supplementary Estimate was £735m, as shown in the Statement of Parliamentary Supply. More detail breaking this total into the main RfR categories is shown in note 2 to these resource accounts. Only £9m (1%) of the total underspend against the RfR relates to voted Departmental Expenditure Limit (DEL) Budget that might have been available for use on general expenditure in the pursuit of the Departments Public Service Agreement (PSA) targets i.e. expenditure that was not ring–fenced or otherwise classified outside of DEL. However even this £9m underspend was balanced by a small provisional overspend on the equivalent non–voted part of the DEL Budget set by the HM Treasury Spending Review 2004. This left only a net £4m (0.1%) underspend against a total DEL Budget of £3,828m, before allowing for ring–fenced items. These results (together with the ring–fenced items) are as reported to HM Treasury for the Public Expenditure Outturn White Paper, which is published in July.

The remainder of the underspend against the RfR (£726m) is a result of technical accounting differences which had no impact on the delivery of any of the Department's PSA targets and which were almost wholly outside of the Department's control.

These differences fall into the following categories:

- £446m on EU funded schemes where there is a matching fall in European Commission (EC) income which, while offsetting in the DEL Budget, does not affect the RfR. This is because the income is excluded from the RfR under HM Treasury rules.

  This difference results from three sources:
  - changes in the accounting treatment relating to the modulation on EU funded schemes;
  - over–accruals in 2006–07; and
  - a lower than expected take–up of certain market support schemes.

  All of these differences occurred or were discovered after the Main Estimate 2007–08 was voted. As there is only limited scope for reducing the RfR in Supplementary Estimates once the Main Estimate has been voted, it was not possible to avoid this technical underspend.

  Appropriate adjustments have been made within the Treasury database system which is used for all Departmental Main Estimates to ensure that there is no repeat performance in a future year. In particular, the issue had been corrected in the 2008–09 Main Estimate before Parliament was asked to vote on it;

- £82m of underspends against ring–fenced DEL Budgets, which by their nature cannot be used for any other purpose. The Department has no control over the timing of expenditure against these DEL Budgets;

- £146m of technical accounting issues relating largely to the EA Closed Pension Scheme (CPS). These issues were all classified as Annually Managed Expenditure (AME) under HM Treasury rules and so are outside of DEL; and

- £52m within Non–Budget relating to timing differences in the drawdown of voted grant–in–aid by Non–Departmental Public Bodies (NDPBs). Grant–in–aid is the cashflow support that the Department provides to support the resource and capital consumption of the NDPBs that it sponsors. The resource and capital consumption of NDPBs is included within the non–voted DEL Budget. This split treatment of cash and accruals accounting for NDPBs is one of the major differences between the RfR and the DEL Budget.

Explanation of the variation between the net cash outturn and the Estimate

The underspend against the net cash requirement voted as part of the RfR by the Spring Supplementary Estimate was £308m, as shown in the Statement of Parliamentary Supply. The main reasons why the cash underspend was much lower than the resources underspend were (i) changes in working capital (largely due to the improved payment performance on CAP schemes at RPA) and (ii) overall movements on provisions covered in note 21 to these resource accounts.

The full reconciliation of the net resource outturn to the net cash outturn is shown by note 4 in these resource accounts.

Reconciliation of Resource Expenditure between Estimates, Accounts and Budgets

Consolidated 12 months to 31 March 2008	**2007-08**	Restated 2006-07
	£000	£000
Net Resource Outturn (Estimates)	5,150,240	5,604,761
Consolidated Fund Extra Receipts (CFERs) in the Operating Cost Statement	(1,872,193)	(1,998,083)
Net Operating Costs (Accounts)	3,278,047	3,606,678
Adjustments to remove:		
capital grants	(543,313)	(544,783)
gains/losses from the sale of capital assets	(5,429)	-
voted expenditure outside the Budget	(5,462)	(3,998)
Adjustments to additionally include:		
other Consolidated Fund Extra Receipts - Sugar Levies	52,527	(9,647)
resource consumption of Non-Departmental Public Bodies, net of Grant-in-Aid	(73,658)	(79,844)
Levy Funded Bodies resource costs	62,481	61,532
cost of capital for Public Corporations	15,508	16,817
Other adjustments	-	(15,748)
Resource Budget Outturn (Budget)*	2,780,701	3,031,007
of which:		
Departmental Expenditure Limit	2,809,204	3,036,289
Annually Managed Expenditure	(28,503)	(5,282)

* Reported to HM Treasury as the provisional outturn for the Public Expenditure Outturn White Paper.
The final Budget Outturn is calculated once all the relevant resource accounts have been laid.

The differing treatments of income and expenditure between Estimates, Accounts and Budgets are driven by the classification rules set by Parliament and HM Treasury, for example:

- all Consolidated Funds Extra Receipts (CFER) income is excluded from the Estimate but most is included in the Accounts and the Budget. Some is included in the Accounts but excluded from the Budget;
- Capital Grants are treated as part of resources in the Estimate and Accounts but as part of Capital in the Budget;
- the cash provided to NDPBs is included within the Estimate and Accounts but the Budget excludes this in favour of including the resource consumption of those bodies; and
- the resource costs of Levy Funded Bodies associated with the Department are excluded from the Estimate and Accounts but are included in the Budget. Within the Budget these costs are classified as AME.

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

The net book value of the fixed assets controlled by Defra including its Executive Agencies, NDPBs and Public Corporations is approximately £4.5bn. This includes flood and coastal defences held by EA and a major portfolio of land and buildings including internationally important laboratory and research facilities. Assets that are no longer required for the Department's business are sold in accordance with the principles of 'Managing Public Money', which requires the Department to ensure best value for the taxpayer. During 2007–08, the Department disposed of land and buildings worth £9.5m.

Defra's Asset Management and Investment Strategy outlines the Department's capital investment plans for the 3 years 2008–11. Defra will be providing a total of over £1bn each year for investment in flood defences; to provide capital grants to local authorities to invest for example in waste recycling facilities; to help improve the heating and energy efficiency of vulnerable homes; and to maintain and upgrade the Department's asset base which underpins the work of the Department and its sponsored bodies.

Public Interest

Renew Defra Programme

Renew Defra aims to make Defra one of the top performing departments in Whitehall, to respond to the challenges set in the 2007 Defra Capability Review, and to meet the funding and prioritisation challenges it will face over the Comprehensive Spending Review period (2008–11).

Renew will help ensure that Defra delivers what is needed, in a way that focuses on the needs of the people and organisations it serves, and makes sure it lives within its means. Making that happen means focusing resources (people and money) on priorities. It means being able to move resources to where they are needed. It means holding people to account for the jobs they have to do, while enabling them to take this accountability. It means adopting a standard Defra way of doing things that allows those people to get to grips with new work quickly and develop innovative solutions rather than reinvent processes.

This vision for the future is now being implemented immediately in the following ways:

- flexible staff resourcing — processes and systems to enable people to move to where they are needed;
- individual performance management and competency framework — capability building within the Department's leadership teams; and
- planning and performance — portfolio management and corporate performance reporting.

On a slightly longer timescale, with delivery by September 2008, Renew will deliver other changes, such as new policy and Programme and Project Management (PPM) processes, Knowledge Management, and IT systems. These further changes will play a central role in delivering other elements of the Renew vision, in particular, by making Defra a leader in Whitehall, and a hive of policy innovation.

Employee Policy and Achievements

There has been significant progress since the launch of the People Strategy in 2006. Defra has established a Shared Services Organisation and achieved significant headcount reductions as part of the Department's commitment to deliver leaner, more cost effective and efficient corporate services. Defra's strategic Human Resources function has achieved a headcount ratio which is in line with Government best practice.

The 2007 pay award, effective from 1 July 2007, was the second pay award following the conclusion of Defra's 4–year, multi–year pay settlement and the award maintained the pay arrangements already in place. The general level of pay award was lower than in previous years which was inevitable given the Department's strong position in relation to pay levels in other Government departments and the general pay constraint across the public sector.

Defra is now focused on the development of a new pay and reward strategy, to be implemented from 1 July 2008, more suited to the business needs of the renewed Defra. This will be done in consultation and negotiation with the unions and with reference to public sector pay policy and affordability.

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.

Diversity

To ensure that Defra effectively meets the general and specific duties of the equalities legislation it has replaced the Joint Equality Scheme with three separate schemes. These separate schemes provide more focused and targeted activity in respect of disability, race and gender. Defra is also introducing Advisory Groups of external and internal disabled experts as a mechanism to enhance the execution of the new equality schemes and to ensure a wider perspective is taken into account in carrying out the action plans.

The strengthening of relationships with the staff networks and Trade Unions has enhanced partnership working on diversity initiatives, increasing their impact, effectiveness and reach. There has also been ongoing activity to support the Cabinet Office 10–point plan, 'Delivering a Diverse Senior Civil Service', including mentoring schemes for women, disabled staff and staff from ethnic minority backgrounds in management grades.

To further support the mainstreaming of diversity into the core business of Defra, the Diversity Equality Impact Assessment process has been embedded into the Department's policy and project planning processes. There has also been a significant investment in the training of decision makers and policy makers in the use of the revised Defra Equality Impact Assessment tool. This tool enables the potential impact that a policy, process or function may have on different groups to be assessed and addressed, both retrospectively and predictively.

Corporate Social Responsibility and Wellbeing

A draft strategy for Wellbeing and Corporate Social Responsibility at work has been developed for consideration by the Management Board. It takes a holistic view of people issues by incorporating them into a framework that highlights the close links between Corporate Social Responsibility actions and employee wellbeing, and supports the key employment aspects of staff recruitment and retention. In this way, the strategic framework aims to provide a clear rationale for the development and promotion of an ongoing activities programme within Defra that supports the achievement of the organisation's strategic goals.

Estates and Sustainable Operations

Defra Estates Division (ED) has delivered and exceeded the target of a 50% reduction in the London estate with the recent vacation of Ashdown House and Cromwell House. This target will be further exceeded with the disposal of Page Street, which is now surplus to requirement.

In 2007–08 the holding cost of the Defra Estate was some £132m. In addition to this ED also managed a Capital Investment Programme which during 2007 spent less than £20m.

During the year there were some significant achievements in the area of sustainability on the estate portfolio:

- Defra was awarded Energy Efficiency Accreditation Scheme (EEAS) status – to become the first national Government department to be accredited by the EEAS for its whole estate, including agencies. This is regarded as the gold standard in energy management by The Carbon Trust;

- Sustainable Operations on the Government Estate (SOGE) – Defra achieved several highlights in this year's report including Defra's carbon management programme which was cited as an exemplar programme — and featured the PowerPerfector initiative as an in depth case study. Year on year, Defra improved the overall target score from 58% in 2005–06 (three stars) to 72.9% in 2006–07 (four stars);

- carbon neutrality – Defra completed phase 1 of their new offices in Alnwick, Northumberland, which features the latest renewable technologies (wind, solar, biomass, rainwater harvesting etc) and which once fully complete in summer 2008, will be the first carbon neutral building on its estate and in line with all new builds and major refurbishments will also achieve a British Research Establishment (BRE) Environmental Assessment Method (BREEAM) Excellent rating;

- Green Apple Award – during the year the Mills building at VLA Weybridge received yet a further award to add to the already received Royal Institution of Chartered Surveyors (RICS) and BRE sustainability awards and was awarded a Green Apple for environmental best practice by the Green Organisation.

Efficiency

Defra is on course to meet its target for delivering financial efficiencies during the 2004 Spending Review period. By December 2007, it had delivered £358m through the Defra network (Defra's Efficiency Technical Note([4]) (ETN), sets out how the efficiencies were to be delivered) and £245m through more efficient waste services provided by Local Authorities (for which Defra has a policy lead).

At 31 March 2008, Defra had delivered 1,560 workforce reductions and relocated 348 civil service posts from London and the South East.

New Value for Money (VFM) targets of £379m have been set for the new (2008–11) spending period. Defra's plans for delivery of these will include an element of cashable, sustainable savings achieved during the SR04 period.

Personal Data Related Incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

[4] http://www.defra.gov.uk/corporate/busplan/spending-review/pdf/efficiencynote-0511.pdf

Summary of protected personal data related incidents formally reported to the Information Commissioners Office in 2007-08

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
November 2007	Loss of paper documents from outside secured Government premises	Payslips – name, National Insurance number, taxcode, salary and bank account details	14	Individuals notified by e-mail
January 2008	Unauthorised disclosure	Name,employment record and details of skills	1	Individual notified by e-mail

Further action on information risk

The Department will continue to monitor and assess its information risks, in light of the events noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems. Since December 2007, full bank account details are no longer included on Defra's payslips. In addition, Royal Mail special delivery will be used for future deliveries to the office involved in the loss of payslips.

Summary of other protected personal data related incidents in 2007-08

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	5
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	10
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-
IV	Unauthorised disclosure	-
V	Other	-

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table above. Small, localised incidents are not recorded centrally and are not cited in these figures. The figures contained in this table include incidents recorded by NE.

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 2008–09 expenditure plans for the Department and the new targets and objectives agreed under the Comprehensive Spending Review 2007 settlement.

The report makes many references to other related publications and websites, which hold more detailed information. The Departmental Report is published in the spring of each year. The 2007 report was published on 19 May 2008.

Autumn Performance Report

This report compliments the Departmental Report and is a 6–monthly update of progress against Defra's live PSA targets. The 2007 report was published on 13 December 2007.

The latest versions of the Departmental Report and the Autumn Performance Report are published on the Defra website([5]).

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.

The Main Estimate is usually published in April. There are usually two Supplementary Estimates: Winter and Spring, which are produced in November and January respectively. Details of all Estimates can be found on HM Treasury's website([6]).

5 http://www.defra.gov.uk/corporate/deprep/default.htm
6 http://www.hm-treasury.gov.uk/documents/public_spending_reporting/estimates/psr_estimates_main06_07.cfm

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 £29m. 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;

- 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 Chemicals 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 back–dated and substantial.

Research and Development

Defra spends around one–third of a billion pounds annually on science, with around £130m per year being invested in research and development. Around 95% of Defra's research and development budget is spent by policy groups to support their strategic priorities directly, with the remaining funds being used by the central evidence teams to fund cross–cutting and horizon scanning work. The remaining £200m funds other science, including surveillance and monitoring, field trials and knowledge transfer.

Defra's focus is on ensuring that the science the Department procures and uses is both fully relevant to the Department's needs and of the highest quality.

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 continues to use a 'No Purchase Order No Pay' policy in line with its continuous development of the ‘Procure 2 Pay’ process. 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 94.64% (2006–07 94.32%). The total number of supplier invoices paid during the year was 121,303 (2006–07 139,401), with 114,804 (2006–07 131,484) paid on time. £436.71 was payable under the Late Payment of Commercial Debts (Interest) Act 1998 (2006–07 £811.11). For RPA, the largest agency, 88% (2006–07 85.25%) 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 (2006–07 £Nil).

Going Concern

The balance sheet at 31 March 2008 shows negative Taxpayers Equity of £1,032,867,000 (2006–07 £1,461,889,000). 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 2008–09 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 £320,000 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.

Management

Ministers

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

Secretary of State	Rt Hon David Miliband MP (until 28 June 2007) Rt Hon Hilary Benn MP (from 29 June 2007)
Minister of State for Climate Change and Environment	Ian Pearson MP (until 29 June 2007)
Minister for Climate Change, Biodiversity and Waste	Joan Ruddock MP (from 30 June 2007)
Minister of State for the Environment	Phil Woolas MP (from 30 June 2007)
Minister for Biodiversity, Landscape and Rural Affairs	Barry Gardiner MP (until 29 June 2007)
Minister for Marine, Landscape and Rural Affairs	Jonathan Shaw MP (from 30 June 2007)
Minister for Marine, Local Environment and Animal Health and Welfare	Ben Bradshaw MP (until 29 June 2007)
Minister for Sustainable Food and Farming Minister for Sustainable Food and Farming and Animal Health	Lord Rooker (until 2 July 2007) Lord Rooker (from 2 July 2007)

Management Board members

The Management Board comprised the following members of staff during 2007–08:

Permanent Secretary	Helen Ghosh
Director General: Strategy and Evidence Group	Bill Stow
Director General: Food and Farming Group	Andy Lebrecht (until 31 December 2007) Brian Harding (acting from 10 December 2007 until 29 February 2008) Katrina Williams (from 3 March 2008)
Director General: Climate Change Group	Mike Anderson (from 16 April 2007)
Director General: Natural Environment Group	Peter Unwin
Solicitor and Director General: Legal Group	Gill Aitken
Director General: Service Transformation Group	Andrew Burchell (until 31 March 2008)
Chief Scientific Advisor	Professor Howard Dalton (until 28 September 2007) Professor Robert Watson (from 17 September 2007)
Chief Veterinary Officer	Dr Debby Reynolds (until 30 September 2007) Fred Landeg (from 1 October 2007 until 30 April 2008)
Director General: Finance Group	Ian Grattidge (until 31 May 2007) Stephen Park (interim Finance Director General from 30 April 2007)

Non–executive members of the Management Board
Bill Griffiths
Poul Christensen (from 1 June 2007)
Janet Grossman (until 21 September 2007)
Alexis Cleveland (from 24 January 2008)

Management Board directorships and other significant interests
Any potential conflict of interest is handled in line with the Civil Service Code. Details of Management Board directorships and other significant interests, including non–executives, are given in note 34.

Helen Ghosh 14 July 2008
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 of Good Practice' on corporate governance in Central Government Departments for the year ended 31 March 2008 in accordance with DAO (GEN) 09/05([7]) — Corporate Governance in Central Government Departments. The Accounting Officer confirms that Defra complies with the Code.

Operation and Decision Making Practice

The Secretary of State for Environment, Food and Rural Affairs is responsible and answerable to Parliament for all the policies, decisions and actions of the Department including its Executive Agencies. Under the Secretary of State, the Permanent Secretary as Defra's Accounting Officer is also personally responsible and accountable to Parliament for the management and organisation of the Department, including the use of public money and the stewardship of its assets.

The Permanent Secretary chairs Management Board meetings. She ensures that the 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. The Finance Director General is a member of the Board and presents a monthly report on the allocation and use of the Department's financial resources.

The Board's([8]) duties are:

- with Ministers, to set and oversee the Department's strategy and allocate resources accordingly;
- to improve the capability of the Department and Executive Agencies by ensuring strong financial management skills are in place, developing talent and creating a high performance culture; and
- performance and risk management of Defra, its Agencies and NDPBs against the strategy and resource allocations.

The Board meets monthly (excluding August) and for ad–hoc meetings to discuss specific issues. It receives monthly reports from all sub–groups and oral updates from the Audit and Risk Committee.

The Department has developed a new Performance Programme, with tools to measure and monitor progress on departmental outcomes and objectives. The Board now reviews the Corporate Dashboard, reports on DSOs and Board programmes on a quarterly basis. Performance update reports are discussed monthly, and Senior Responsible Owners (SROs) are regularly challenged, through both formal and informal mechanisms, on their performance in delivering on the Department's objectives and the other expectations on them outlined in their Delegated Authority Documents.

Defra has an internal audit service which operates in accordance with Government Internal Audit Standards.

[7] DAO (Dear Accounting Officer) (GEN) 09/05 is online at: http://www.hm-treasury.gov.uk

[8] 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

The Management Board sub–groups in 2007–08 were the:

- Audit and Risk Committee;
- Investment Board;
- Senior Appointments Board;
- Strategy Group;
- Renew Executive (including Workforce Monitoring Group, now disbanded);
- Defra Network Delivery Group;
- Corporate Resources Group (suspended).

Audit and Risk Committee

The Audit and Risk Committee considers and advises the Accounting Officer and the Management Board on the following:

- internal audit matters that include the appointment of the Head of Internal Audit, terms of reference for internal audit, work prioritisation and planning, resource requirements, and audit reports;

- 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;

- oversight of the management process for risk;

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

- arrangements for combating fraud;

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

- engagement 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.

The Committee comprises four non–executives, one of whom acts as Chair and is also a non–executive member of the Management Board, and one executive member. The Permanent Secretary appoints members of the ARC.

Investment Board

From 1 April 2007 an Investment Board was created to be responsible for the approval of new programmes of activity with significant resource implications. As a new sub–committee of the Management Board its functions were initially subsumed by the Management Board itself while sufficient experience was gained of operating a formal approvals mechanism. It was decided to replace the Investment Board from 1 April 2008 with a Central Approvals Panel as part of a new approvals process in the Core–Department. The Central Approvals Panel will be central to the implementation of Portfolio Management within the Department.

Senior Appointments Board

The Senior Appointments Board oversees the appointment to Senior Civil Service (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.

Strategy Group

The Strategy Group advises the Management Board and Ministers on Defra's strategy, with particular reference to policy and delivery priorities, futures thinking and horizon scanning, the evidence base, strategic communications and stakeholder relations. It keeps the strategy under review and assures the Management Board and Ministers of the overall coherence and relevance of Defra's strategy.

Renew Executive

The Renew Executive is the Programme Board for Defra's Renew Programme. Renew is a Defra–wide change programme that is radically changing the way the Department operates. The Renew Programme Executive provides leadership and a single point of ownership and accountability for decision making on cross–cutting strategic and policy issues. 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).

The Renew programme is scheduled to be completed in the autumn of 2008, and post–programme governance arrangements will include a high–level Benefits Committee.

The Workforce Monitoring Group

As a sub–group of the Renew Executive, the Workforce Monitoring Group was set up in 2007–08 to focus on delivering Defra's headcount efficiency targets for SR04, to achieve these targets in a sustainable manner and to ensure that headcount reductions also contributed to the planned re–shaping of the Department under the Renew Programme. In particular, the sub–group was responsible for monitoring and reporting, managing exit mechanisms and risk, and ensuring consistent communication. Having successfully delivered (and exceeded) Defra's SR04 headcount targets, the Workforce Monitoring Group was formally disbanded in April 2008.

Defra Network Delivery Group

Replacing the former Defra Collaboration Group (now abolished), the Defra Network Delivery Group provides a forum for discussion of issues and agreement of investments that affect the delivery network, including the Executive Agencies which are part of the Department and Defra's main NDPBs.

Corporate Resources Group

The Corporate Resources Group is currently suspended until further notice, with decisions being taken in other Renew led fora, including the Renew Executive.

Non–executive members of the Management Board

The Non–Executive Directors (NEDs) of the Management Board provide an independent view on departmental performance; on financial controls and risk management; and have a role in challenging the policy formulation process. Currently, three NEDs sit on the Management Board. The NEDs are appointed by the Permanent Secretary.

Working Relationships with Arms Length Bodies (ALBs)

Defra is actively embedding good governance and strong working relationships with ALBs in order to pursue its outcomes through more effective partnerships between policy and delivery. This is based on organisational separation between policy and delivery and underpinned by consistent and well–understood principles and accountabilities.

Defra has set up a central Delivery Transformation Programme which includes:

- promoting best practice in working with ALBs; and
- producing and regularly updating web–based sponsorship guidance and guidance on merging and de–merging delivery bodies and functions.

Defra's Capability Review identified creating a true partnership with delivery partners as a key action. As a result, work to implement the Department's Governance of Delivery Review was embedded as an Action Plan within Defra's department–wide Renew change programme. Actions taken include:

- improving and clarifying Defra's relationships with its delivery bodies and promoting a partnership approach, by:
    - defining and clarifying governance structures and accountabilities; and
    - holding conferences for delivery body Chairs and Chief Executive Officers (CEOs). These have led to proposals for 'Deals' being developed between Defra and a number of delivery bodies to go beyond formal arrangements and encourage true partnership working.
- implementing a consistent approach to governance of Executive Agencies that distinguishes the customer and corporate ownership roles the Department has in relation to them;
- working to strategically align ALBs' business plans with the Department's objectives;
- ensuring that the policy cycle developed to provide a common approach to policy development across the Department embeds both a customer focus and involvement of delivery partners throughout;
- appointing a Defra delivery body representative as a NED on the Defra Management Board;
- establishing a formal programme for bi–annual engagement between Defra Ministers and the Management Board and EA, NE, RPA and AH;
- instituting a new group, the Defra Network Delivery Group, as a replacement for the Defra Collaboration Group. The new group provides a forum for discussion of issues and agreement of investments that affect the delivery network.

The Delivery Transformation Programme continues to oversee implementation of the Action Plan with the aim of completion during 2008–09.

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 (SSRB) recommendations and produces guidance for departments to follow.

Defra's Remuneration Committee is made up as follows:

Chair	Helen Ghosh
Members	Andrew Burchell (until 31 March 2008)
	Howard Dalton (until 28 September 2007)
	Andy Lebrecht (until 31 December 2007)
	Gill Aitken
	Debby Reynolds (until 30 September 2007)
	Peter Unwin
	Bill Stow
	Bill Griffiths
	Mike Anderson (from 16 April 2007)
	Robert Watson (from 17 September 2007)

Defra developed its 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. All bonuses are paid in arrears in the financial year after that in which they were earned. For 2006–07 this was up to a maximum of 20% of their salary which was performance related and approved by the Remuneration Committee. For 2006–07, bonuses were paid from a bonus pot of 7.6% of the total salary bill and paid to approximately 70% of the SCS in Defra and its Agencies. The Permanent Secretary is eligible to be considered for a non–pensionable, non–consolidated bonus award calibrated against achievement of objectives, which for 2006–07 was 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. Ministerial salaries are determined by the Cabinet Office, under the Ministerial and Other Salaries Act 1997.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open–ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found on the Civil Service Commissioners website([9]). All Defra Management Board members are on permanent Civil Service contracts with the exception of Robert Watson who is on a Fixed Term contract due to end on 16 September 2010 and Stephen Park, who was employed as a contractor and whose appointment ended on 30 June 2008.

[9] http://www.civilservicecommissioners.org

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. The following tables in the Remuneration Report have been subject to audit.

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

Ministers

	Salary as defined below	Prior year salary as defined below	Real increase in pension at age 65	Total accrued pension at age 65 as at 31 March 2008	CETV at 31 March 2007	CETV at 31 March 2008	Real increase in CETV *
	£	£	£000	£000	£000	£000	£000
Ministers							
Rt Hon Hilary Benn MP *(from 29 June 2007)*	51,269	-	0-2.5	5-10	65	78	6
Phil Woolas MP *(from 30 June 2007)*	26,595	-	0-2.5	5-10	44	53	3
Jonathan Shaw MP *(from 30 June 2007)*	20,583	-	0-2.5	0-5	6	10	2
Joan Ruddock MP *(from 30 June 2007)*	22,794	-	0-2.5	0-5	-	8	6
Lord Rooker	124,827	98,225	0-2.5	15-20	178	199	13
Ministers who have served during 2007-08, but are not in post as at 31 March 2008 were:							
Rt Hon David Milliband MP *(until 28 June 2007)*	25,635	63,479	0-2.5	5-10	38	41	1
Ian Pearson MP *(until 29 June 2007)*	13,298	32,929	0-2.5	5-10	44	47	1
Barry Gardiner MP *(until 29 June 2007)*	15,140	24,994	0-2.5	0-5	22	24	1
Ben Bradshaw MP *(until 29 June 2007)*	13,298	34,260	0-2.5	0-5	39	41	1

Full year equivalents for part year officials for 2007-08 were:

Rt Hon David Milliband MP	76,904
Rt Hon Hilary Benn MP	76,904
Phil Woolas MP	39,893
Jonathan Shaw MP	30,280
Joan Ruddock MP	30,280
Ian Pearson MP	39,893
Barry Gardiner MP	30,280
Ben Bradshaw MP	39,893

* after adjustment for inflation and changes in market investment factors

Senior Officials

	Salary as defined below	Prior year salary as defined below	Real increase in pension and related lump sum at pension age	Total accrued pension at pension age as at 31 March 2008 and related lump sum	CETV at 31 March 2007	CETV at 31 March 2008	Real increase in CETV *
	£000	£000	£000	£000	£000	£000	£000
Officials							
Helen Ghosh *Permenant Secretary*	145-150	135-140	0-2.5 plus 0-2.5 lump sum	45-50 plus 145-150 lump sum	852	993	14
Bill Stow *Director General*	135-140	135-140	(2.5)-0 plus (7.5-5) lump sum	65-70 plus 190-195 lump sum	1,550	1,696	(58)
Andrew Burchell *(until 31 March 2008)* *Director General*	115-120	115-120	0-2.5 plus 2.5-5 lump sum	45-50 plus 140-145 lump sum	836	985	26
Peter Unwin *Director General*	135-140	20-25	0-2.5 plus 0-2.5 lump sum	50-55 plus 150-155 lump sum	921	1,062	(2)
Gill Aitken *Solicitor and Director General*	115-120	0-5	2.5-5 plus 7.5-10 lump sum	15-20 plus 55-60 lump sum	271	365	51
Professor Robert Watson *(from 17 September 2007)* *Chief Scientific Advisor*	70-75	-	2.5-5 no lump sum	0-5 no lump sum	-	58	55
Fred Landeg *(from 1 October 2007)* *Chief Veterinary Officer*	45-50	-	2.5-5 plus 7.5-10 lump sum	35-40 plus 110-115 lump sum	826	997	70
Mike Anderson *(from 16 April 2007)* *Director General*	105-110	-	0-2.5 no lump sum	5-10 no lump sum	71	119	32
Katrina Williams *(from 3 March 2008)* *Director General*	5-10	-	0-2.5 plus 0-2.5 lump sum	25-30 plus 80-85 lump sum	460	463	2
Management Board members who have served during 2007-08, but are not in post as at 31 March 2008 were:							
Andy Lebrecht *(until 31 December 2007)* *Director General*	100-105	120-125	0-2.5 plus 2.5-5 lump sum	40-45 plus 130-135 lump sum	861	973	36
Professor Howard Dalton** *(until 28 September 2007)* *Chief Scientific Advisor*	85-90	155-160	-	-	-	-	-
Dr Debby Reynolds *(until 30 September 2007)* *Chief Veterinary Officer* *& Director General*	65-70	120-125	0-2.5 plus 2.5-5 lump sum	45-50 plus 140-145 lump sum	908	958	24
Ian Grattidge *(until 31 May 2007)* *Director General*	15-20	95-100	0-2.5 plus 0-2.5 lump sum	35-40 plus 110-115 lump sum	739	712	9
Brian Harding *(from 10 December 2007* *until 29 February 2008)* *Director General*	25-30	-	0-2.5 plus 2.5-5 lump sum	40-45 plus 130-135 lump sum	898	946	24

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

Stephen Park, the interim Finance Director General is excluded from the above table as his services are provided via a third party. During the period from 30 April 2007 to 31 March 2008 payments totalling £495,000 were made to the third party in respect of his services.

Full year equivalents for part year officials were:

	2007-08	2006-07
Peter Unwin	-	120-125
Gill Aitken	-	100-105
Mike Anderson	110-115	-
Andy Lebrecht	125-130	-
Brian Harding	110-115	-
Howard Dalton	160-165	-
Robert Watson	135-140	-
Debby Reynolds	125-130	-
Fred Landeg	95-100	-
Ian Grattidge	90-95	-
Katrina Williams	100-105	-

Due to certain factors being incorrect in the programme used to calculate last years Cash Equivalent Transfer Values (CETV) there are some small differences between the final period CETV for 2006–07 and the start period CETV for 2007–08.

Andrew Burchell left under Compulsory Early Retirement Terms on 31 March 2008. He received immediate payment of his pension and associated lump sum plus a compensation payment of £59,923.

Debby Reynolds left under Compulsory Early Retirement Terms on 26 November 2007. She received immediate payment of her pension and associated lump sum plus a compensation payment of £60,000.

Ian Grattidge left under Compulsory Early Retirement Terms on 31 May 2007. He received immediate payment of his pension and associated lump sum plus a compensation payment of £46,000.

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) (£61,820 from 1 November 2007, £61,181 from 1 April 2007, £60,277 from 1 November 2006, £59,686 from 1 April 2006) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

In addition to the above, Poul Christensen (non–executive member from 1 June 2007) and Bill Griffiths were paid a total of £17,178 for their services and expenses as non–executive board members. Janet Grossman (non–executive member until 21 September 2007) and Alexis Cleveland (non–executive member from 24 January 2008) 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 2007–08 (2006–07 £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 (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th 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 1/50th 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 (RPI). Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate or 10% of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary. 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 arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a ‘final salary’ scheme (classic, premium or classic plus); or a ‘whole career’ scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the RPI. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality ‘money purchase’ stakeholder pension 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, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings 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 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member’s earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes 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 from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these 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 pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found on the Civil Service website([10]).

Cash Equivalent Transfer Values

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. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

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.

Real Increase in CETV

For the Management Board, this 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 (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, this is effectively the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister and are calculated using common market valuation factors for the start and end of the period.

Helen Ghosh 14 July 2008
Accounting Officer for the Department for Environment, Food and Rural Affairs

[10] http://www.civilservice-pensions.gov.uk

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 *Managing Public Money* published by HM Treasury.

Statement on Internal Control

Scope of Responsibility and Accountability Arrangements

As 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*([11]).

Defra delivers its aims and objectives in partnership with its Agencies, NDPBs, Public Corporations and other delivery partners. Accounting Officers for Defra's Agencies and sponsored public bodies are appointed in accordance with the requirements of *Managing Public Money*. Each is responsible for the operation of a system of internal control and is required to sign a statement on internal control which is reproduced in the body's annual accounts. These statements contribute to the assurances supporting my Statement on Internal Control (SIC). I have seen statements for 2007–08 from all of the Department's Executive Agencies and NDPBs.

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 effectively, efficiently and economically. The system of internal control has been in place in Defra for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity to Handle Risk

Many of the Department's policies, particularly on environmental challenges, are concerned with understanding, assessing, handling and communicating risk. The Defra Management Board has collective responsibility for managing the overall portfolio of risk and ensuring that the Department's exposure is within its risk management capability. The Board is chaired by me and comprises the senior staff of the Department and three non–executive members. This year to promote risk handling capacity, additional guidance, training and support has been made available to help staff develop and deliver policy taking due account of risk. SROs are from April 2008 required to agree assurance frameworks for their programmes which will improve the scrutiny of risks.

By August 2008, Defra expects to have entered a 3–year partnership with three of the national Research Councils to sponsor a Collaborative Centre of Excellence in Understanding and Managing Natural and Environmental Risks. This will give us a professor–level Centre Director to engage with senior decision–makers and ministers, and will bring in a range of secondees skilled in risk appraisal techniques to help us improve the consistency and quality of our scientific risk assessment.

In 2007 Defra brought together senior civil servants across Whitehall to encourage the right risk management mindset amongst senior managers. The group reported to the Cabinet Secretary in January 2008 and stressed the importance of culture over process. We are drawing on the lessons from this group.

[11] Available online at http://www.hm-treasury.gov.uk

The Risk and Control Framework

In July 2007, the Management Board agreed a new vision statement for risk management. This highlighted three important areas: the key role of the Management Board; the need to build a sustainable risk management capability; and the need to focus on successful delivery of outcomes. We have also put in place processes which should bolster risk management across the Department. For example, a revised approach to corporate performance monitoring has been established with a clear focus on the DSOs and major programmes. This provides senior managers with a 'dashboard' of performance assessments which indicate progress towards key targets and outcomes. Six–monthly performance dialogues take place between the 'Big Four' delivery bodies (Environment Agency, Natural England, Rural Payments Agency and Animal Health) and their lead Minister and Director General sponsor. The Management Board also holds a 6–monthly discussion about the combined performance of the 'Big Four'.

This approach is augmented by weekly discussions of tactical risk between the Permanent Secretary and Director Generals, and between the Ministerial team and the Executive Management Board, and 6–monthly discussions by the full Management Board of the longer–term risk landscape of the Department. One of these discussions is timed to coincide with the commencement of future resource allocations exercises, and is supported by information and evidence from the Department's horizon scanning and futures programme.

Under our Renew Programme described in more detail below, an approvals system has been established to bring greater consistency and control to the release of local funds for new work, and to help manage Defra's work as a single strategic portfolio. These approaches are all still in their early days and significant work will be required to raise and maintain the quality of the risk information underpinning the various elements – creating a coherent view of risk across the Department.

Review of 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 internal auditors and by executive managers within the Department who have responsibility for the development and maintenance of the internal control framework and who provide me with a formal annual assurance statement on the system of internal control and report areas of weakness. I also take account of comments made by external auditors in their management letter and other reports. I have been advised by the Management Board and the Audit and Risk Committee (ARC) on the implications of the result of my review, and a plan to address weaknesses and ensure continuous improvement of the system is in place. More information on the ARC and Defra's internal audit service is contained in the *Corporate Governance* section of these Accounts.

I have set out below the most important actions we have taken in the last year to improve the effectiveness of internal control and separately any 'Significant control issues' that remain. I believe that overall, internal control has improved during the period since the last report although there is more that we still need to do. It is critical that new procedures we have introduced are fully embedded, but I am confident that improvements will continue in the coming year. Two important indications of improved internal control are the completion of these accounts to meet HM Treasury's Faster Close timetable, and the setting of a balanced budget for 2008–09 with no over–programming, including a Departmental Unallocated Provision (DUP), well before the start of the financial year and in a challenging budgetary context.

It has also been a year of significant change within the Core–Department as we have planned and begun implementation of our Renew Programme, one of the most ambitious change programmes in Central Government. Renew has reorganised the Department around programme and project activity; will require the allocation and management of resources against priorities; has introduced new flexible staffing processes to enable people to be moved to where they are needed; and will help to develop the skills and capabilities of our staff. While many of the changes introduced still need to be fully embedded, I believe that they will improve our capacity to deliver against our aims and objectives and will further strengthen internal controls.

Governance, Strategy and Planning

The Management Board provides strategic leadership for the Department and is accountable for our performance, risk management and control. The Board acts corporately when allocating resources and prioritising work. It continues to improve its focus on strategy, leadership, and performance management, and is more visible in its oversight of key programmes. These improvements have been acknowledged by the Cabinet Office's Capability Review Team. I have also taken action to strengthen the senior leadership team, and Board members and Directors have completed a Leadership Development Programme and undertaken 360° feedback.

I believe that the Department has a clear focus and set of priorities. Over the last 18 months, we have reviewed our strategic priorities and these have been formalised in new PSAs and DSOs for the Comprehensive Spending Review period from 2008–11. To help ensure that resources are then allocated to deliver against our strategic priorities, annual business plans are in place for each area of the Department's activities. A senior review and challenge of each Director's business plan has taken place as part of the process of approval by the Management Board.

Management of Delivery

The application of Programme and Project Management (PPM) methodologies is key to the delivery of our DSOs and PSAs, and this reflects the work the Department has done over the last 4 years to embed PPM skills among our staff. Our internal auditors have confirmed that during 2007–08, programme and project controls continued to strengthen and the application of PPM principles has improved. In the coming year, we need to embed the Renew–driven changes which include a step–change in our application of PPM working. We will continue to ensure that members of staff have the PPM skills necessary to help deliver our programmes and projects.

We have made significant progress in improving the way we manage our delivery partner relationships. We have developed 'Deals' between Defra and a number of delivery bodies to promote partnership working; formal governance structures and accountabilities have been improved; and a Defra Network Delivery Group has been established to provide a forum for discussion of issues that affect the delivery network. We have also established as indicated above, 6–monthly discussions between Defra Ministers, Management Board and the 'Big Four' delivery partners. We will continue this work to strengthen relationships with our delivery partners.

Change Management

Our Renew Programme is one of the most ambitious change programmes undertaken across Whitehall. Although I believe that it will significantly strengthen internal controls, it does pose a threat to these controls during the implementation phase. It is vital, therefore, that the programme is managed effectively, and I believe that we have done this.

The programme has strong internal governance arrangements including an Executive Group (Management Board level) and a Delivery Board (Director level). We have developed governance structures appropriate to the later stages of the programme including a high level Benefits Committee. The programme has also benefited from external scrutiny which has validated our approach and provided additional guidance. The most recent indicator of our progress came when the Cabinet Office revisited Defra in April 2008 to consider progress in the 12 months after publication of their original Capability Review. This stock take provided strongly positive feedback on progress in delivering flexible staff resourcing and Development Managers, while noting there was still work to be done, including additional focus on customer perceptions and on treatment of risk. The programme has also been subject to an Office of Government Commerce (OGC) Gateway 0 Review. In June 2007 they assessed the programme status as Amber (i.e. proceed while acting on specific recommendations). The programme was also reviewed by our internal auditors during spring 2008 and they confirmed that adequate controls were in operation. They also highlighted that substantial parts of Renew remain to be implemented, so robust management of the programme must continue to ensure a smooth transition of the changes being introduced into 'business as usual'.

Effectiveness of Risk Management

I believe that the developments outlined above under ‘Capacity to handle risk’ and ‘The risk and control framework’, for example our revised corporate performance management system and risk appraisal capability building, have improved risk awareness and management during 2007–08. Our new vision for risk, together with increased programme management working, should help to continue these improvements over the next year.

The Department’s emergency response capability was tested during summer 2007, with significant flooding events and Foot and Mouth Disease (FMD) outbreaks happening at the same time as other animal disease challenges such as Avian Influenza and Blue Tongue. The subsequent reviews, conducted by Sir Michael Pitt on flooding and Sir Iain Anderson on FMD, have set out the ‘risk improvement challenge’ for the Department. In this context, it is encouraging to note Sir Iain Anderson’s conclusions that the overall response to the FMD outbreak was ‘good’ and ‘much improved’ from the 2001 outbreak.

Information Risk Management

In response to the HM Revenue and Customs loss of personal data, the Cabinet Secretary, Sir Gus O’Donnell set up the Data Handling Review on instruction from the Prime Minister. As part of Defra’s response to the Review, we have raised awareness of existing policies, procedures and good practice relevant to the use and storage of protected personal and other sensitive information. Members of staff across the Defra network have been reminded about their personal obligation to observe the existing guidance on handling information. This is being embedded through new information management accountabilities now being put in place, including a Board–level Senior Information Risk Owner and a network of Information Asset Owners.

A project on data handling procedures has been set up to deliver enhanced information assurance in Defra and its delivery network. A project board (consisting of representative key delivery bodies, business areas holding significant personal data and information risk experts) has been established to support the work to implement the requirements of the Data Handling review. This includes ensuring appropriate accountabilities and responsibilities for information assurance; putting in place technical and other measures to ensure that protected personal and other sensitive information is adequately secured (including the roll out of a new fully encrypted laptop solution); and continuing improvements to security policies and procedures to ensure staff understand how data should be classified, stored, and handled. An information risk assessment workshop is scheduled for July in order to meet our obligation to begin conducting quarterly information risk assessments, building towards an annual assessment to support the information risk element of the Statement on Internal Control.

Corporate Support Systems

Our IT infrastructure is managed under a partnership with an external contractor. During 2007 the availability of applications at the desktop has steadily improved, and performance overall on projects and services is now much more in line with industry norms. The number of Major Incidents lasting more than 2 hours, for example, was down to 76 compared to 126 in 2006.

While reporting from the Shared Services Directorate to its customers has improved, and in several areas processing controls are sound and complemented by effective manual controls, more work will be done during 2008–09 to establish the required level of controls operating over access to the Oracle system, over system auditing, and over individual permissions.

Performance and Resource Management

As mentioned earlier, we have replaced our corporate–level balanced scorecard with a more focused corporate performance management 'dashboard'. I believe that this provides a better strategic overview of delivery and allows detailed performance management of our key programmes. The dashboard was successfully introduced in January 2008, and the transition from the previous set of controls and performance targets was managed effectively. As well as quarterly discussion of the corporate dashboard, the Management Board also receives monthly performance update reports. I believe that the changes introduced by Renew, particularly the reorganisation of the Department around programme and project activity, and the adoption of portfolio management techniques, will significantly improve the visibility and management of performance against objectives and targets.

Our management of budgets is based on a formal system of delegated authority supported by regular monitoring of management information. This includes a monthly finance report submitted to the Management Board by the Finance Director General. We have allocated budgets for 2008–09 against programmes and projects, including our Administration spend. This ensures that budgets are better aligned to our objectives and will improve the management of interdependencies between programmes and projects. We will also be able to respond better to changing demands on budgets. We have established Central and Local Approvals Panels to make resource prioritisation decisions. These changes need to become part of normal business, but they will strengthen our resource management through their emphasis on living within a finite budget for a portfolio of business.

We have continued to reduce the size of our workforce in line with a commitment agreed with HM Treasury to deliver a total reduction of 1,400 posts by the end of 2007–08. By the end of March we had exceeded this commitment, reducing posts by 1,560. We have taken steps to minimise the loss of corporate knowledge resulting from this reduction in our workforce. The process was managed through a strictly controlled early departures scheme and the approval of applications was based on the needs of the business and aimed at posts identified as surplus. There were a number of senior departures, and in all cases responsibilities were covered by experienced deputies or interim managers whilst permanent replacements were recruited.

As part of the Renew programme, we have introduced a flexible staff resourcing system to identify staffing requirements and allow staff to be moved to where they are needed. We have also introduced a new staff development process including the assignment from 1 April 2008 of a Development Manager for each member of staff. We expect these new arrangements to help provide staff with the skills they need to do their jobs and for the benefits of this to be seen in 2008–09 and beyond. These changes have received positive feedback from the Cabinet Office's Capability Review Team.

Significant Control Issues

Single Payment Scheme

The Single Payment Scheme (SPS) consists of EU direct payments made to farmers and is a major element in 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 problems surrounding the introduction of SPS resulting in late payment and potential disallowance penalties from the EU. These problems were reported in detail in the 2005–06 and 2006–07 Statements on Internal Control. I am able to report that some significant improvements have been made in the last year to the manual processes and the computer systems, where various upgrades have been implemented. In particular, the upgrades have addressed whole case working, improvements in entitlement transfers and the introduction of electronic application forms. The NAO's follow up report on the administration of the scheme, published on 12 December 2007([12]), acknowledged the clearer sense of direction and drive to raise performance within the Agency and the improvements implemented, although further progress is still required.

These improvements have been reflected by RPA making payments earlier and to more customers than in previous years. For SPS 2007, as with 2006, RPA met the EC target of making 96.154% of total payments by 30 June, thereby ensuring that late payment penalties would not be incurred. RPA have also started to improve data quality within the Rural Land Register (RLR) which will also help improve the timeliness of processing claims, although benefits will not begin to be realised until 2009.

The Department has made provision in its accounts for potential financial corrections (disallowance) in respect of breaches of EC regulations when making payments to farmers. At the time of completing these Accounts, the EC had not made any proposals in respect of possible disallowance relating to SPS and discussions are still in progress.

Emergency Preparedness and Business Continuity Planning

Our ability to respond to a succession of disease outbreaks has been tested a number of times during the year including by multiple outbreaks which we have contained. I am aware, however, that we may not be able to cope so well with a larger outbreak in terms of the number and resourcing of the local Disease Control Centres we might require. We are working with our Executive Agencies on the steps we might take to mitigate this risk as part of our response to Dr Iain Anderson's report on the 2007 outbreak of FMD.

Whilst we have Business Continuity Plans in place throughout the Department, some have not been updated or tested to reflect the new reporting arrangements under flexible staff resourcing and Renew. We have worked with our IT supplier this year to improve IT back–up arrangements and will continue this work in the coming year.

Financial Management

We have taken a number of actions to improve financial management. The senior finance capability of the Department was strengthened by the appointment of a new Interim Finance Director General in April 2007 (and his permanent successor in May 2008), and by the appointment of senior accountants to be Heads of Finance and Business Affairs in each of the policy Groups.

[12] Available online at http://www.nao.org.uk/pn/07-08/070810.htm

We have also instigated a Financial Management Improvement Programme (FMIP) which has ensured that only the resources available to the Department are allocated to budget holders; improved the quality and timeliness of the Department's month–end financial reporting; improved financial management capabilities across the Department; ensured an outturn for 2007–08 which is almost exactly on budget (see page 9 for an explanation of the underspend against the Estimate); and ensured completion of these annual accounts to meet HM Treasury's Faster Close timetable. A number of other improvements have also addressed specific control weaknesses in our financial systems and processes. We have put in place clear agreements setting out the service and performance expected from the Shared Services Directorate in respect of the financial services they provide for the Department. This includes a much improved range of month–end management reports. These improvements in the management of expenditure were recognised by the National Audit Office in a report in March 2008([13]) and the Cabinet Office Capability Review 12 month stock take report. All this work will continue during 2008–09.

Although the NAO report referred to above recognised that financial management has improved, it stressed that more needs to be done, and I agree with this analysis. For example, although balanced budgets have been set for 2008–09, it will be a challenge to live within them and this will only be achieved by continuing the improvements in financial management begun in 2007–08. Many of the improvements we have introduced, for example the performance agreements with the Shared Service Directorate and the changes brought about by the FMIP, only occurred towards the end of 2007–08 or at the start of 2008–09, and they need to be properly embedded before we begin to see tangible results. We will need to work hard for example, to ensure that the new Approval Panels work effectively. I am confident, however, that the changes we have put in place will lead to continued improvements in financial management. The situation overall during 2007–08 is an improving one compared with my assessment in 2006–07. Foundations for further significant improvement have been laid and these need to be built on over the coming 12 months.

Helen Ghosh 14 July 2008

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

[13] Available online at http://www.nao.org.uk/publications/nao_reports/07-08/0708309.pdf

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 2008 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 Cash Flow 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, the information which comprises the Management Report and Corporate Governance, included in the Annual 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. This other information comprises the unaudited part of the Remuneration Report. 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

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 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows 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 which comprises the Management Report and Corporate Governance included within the Annual 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.

Report

My report is on pages 41 to 42

T J Burr 16 July 2008
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

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

The Single Payment Scheme (the Scheme) was introduced by Member States of the European Union as part of the Common Agricultural Policy reforms which replaced 11 separate crop and livestock based production subsidies with a single payment based on land area.

The Rural Payments Agency experienced considerable difficulties in capturing and processing the data required to process payments for the first year of the Scheme (2005) and as a result incurred losses through the European Commission not reimbursing late payments. The Agency was able to meet the European Commission requirement to make 96 per cent, by value, of payments for the second year by the deadline of 30 June 2007. Achieving the target meant that the Agency did not incur late payment losses in respect of the second Scheme year.

The Agency has taken action to improve the administration of the Scheme and, for the second successive year, it met the European Commission's requirement to make 96 per cent of the total Scheme payments by the deadline of 30 June. The Agency's difficulties to date may result in the European Commission imposing financial penalties, although no such penalties have yet been proposed. The Department therefore continues to show a provision in its annual Resource Accounts for losses that might arise from the Single Payment Scheme and also from its predecessor schemes.

We reported on the Department's Resource Accounts for 2005–06 and 2006–07 about the Rural Payments Agency's administration of the European Commission Single Payment Scheme. We also reported on the Scheme to Parliament on 18 October 2006 *The Delays in Administering the 2005 Single Payment Scheme in England* (HC 1631/2005–2006) and again on 12 December 2007 *A Progress Update in Resolving the Difficulties in Administering the Single Payment Scheme in England* (HC 10/2007–2008).

Provision for Disallowance

The Department's 2007–08 Resource Accounts include a provision of £320 million for potential disallowance of funding to the Exchequer. Disallowance arises when the European Commission levies a flat rate penalty because, in the Commission's view the United Kingdom paying agencies, including the Rural Payments Agency, have not complied with the detailed Scheme Regulations.

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 over the Single Payment Scheme for 2005 and 2006, reflected in the provision at 31 March 2007. The Agency's improved administration of the Scheme has led the Department to conclude that it does not need to make material additional provision in respect of the third Scheme year. This judgement has been made in accordance with the requirements of Financial Reporting Standard 12 on *Provisions, Contingent Liabilities and Contingent Assets.*

The timing and size of the financial losses that are likely to arise is therefore uncertain. Once determined, disallowance penalties will be charged against the disallowance provision.

Since the balance sheet date the Commission has confirmed a decision on disallowance relating to the Arable Area Payments Scheme, which existed before the current Single Payment Scheme. It was the largest European Union Common Agricultural Policy scheme in England with payments of £1.1 billion each year to some 47,000 farmers. Farmers claimed area–based payments for growing certain arable crops — cereals, oil seeds, linseed and protein crops — on eligible land. The Commission has determined that the Agency had not accurately determined the area eligible for payments and had undertaken required field visits at inappropriate times.

The penalty, which is included in the total disallowance provision, amounts to £55 million and it will be deducted from future payments of claims submitted by the Rural Payments Agency for the Single Payment Scheme in England. The Department is currently considering its legal position on this matter, as it considers that the penalty is disproportionate.

The Department's financial management

The Department's Resource Accounts for the 2006–07 financial year showed that the Department had underspent against its Resource Estimate of £6.356 billion by £751 million (12 per cent). The significant underspending has recurred in 2007–08 and the Resource Accounts show underspending of £735 million against the Resource Estimate of £5.885 billion (12.5 per cent). As in 2006–07, the principal reason for the underspending was the inherent uncertainties in forecasting expenditure on schemes funded by the European Commission. The Department explains this in detail in its Management Report ("Significant Variances against Estimate").

We reported to Parliament on 6 March 2008 on Defra's financial management *DEFRA: Management of Expenditure* (HC 309/2007–2008). The Department continues to improve its financial management and control and has made a significant investment in enhancing its financial management capabilities. Alongside work done to enhance its Estimate processes, the Department has set a balanced budget for 2008–09, following the 2007 Comprehensive Spending Review. It has also enhanced its financial controls. I continue to monitor the Department's progress on these matters and in particular the Department's actions to better integrate its performance monitoring and financial management regimes.

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

The improvements in financial management have enabled the Department to produce accounts for audit certification by the Summer Recess for the first time, allowing more timely reporting to Parliament and enhancing accountability. To achieve this success, the Department prepared an interim set of consolidated financial statements at the end of December for my staff to audit, which allowed more timely resolution of issues. The preparation of the accounts has been closely monitored and managed by senior staff. Defra is now better placed to tackle the challenges ahead, including the implementation of International Financial Reporting Standards in 2009–10. The Department could further improve its financial accounting processes by improving the responsiveness of its business units to requests for evidence and to issues that arise.

T J Burr 16 July 2008
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Statement of Parliamentary Supply

Consolidated Summary of Resources Outturn 2007–08

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

		2007-08							2006-07
		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		7,198,205	1,313,352	5,884,853	6,268,866	1,118,626	5,150,240	734,613	5,604,761
Total resources	3	**7,198,205**	**1,313,352**	**5,884,853**	**6,268,866**	**1,118,626**	**5,150,240**	**734,613**	5,604,761
Non-operating cost A-in-A				**12,035**			**9,942**	**2,093**	19,155

Net Cash requirement 2007–08

		2007-08			2006-07
	Note	Estimate	Outturn	Net total Outturn compared with Estimate: saving /(excess)	Outturn
		£000	£000	£000	£000
Net cash requirement	4	**5,862,118**	**5,554,341**	**307,777**	6,265,477

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).

		2007-08 Forecast		2007-08 Outturn	
	Note	Income	*Receipts*	Income	*Receipts*
		£000	*£000*	£000	*£000*
Total	5	**2,282,356**	***2,415,966***	**1,875,965**	***2,758,094***

Explanations of variances between Estimate and outturn are given in the Management Commentary on page 9.

The notes on pages 48 to 90 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2008

		2007-08						2006-07	
		Core-Department			Consolidated			Core-Department	Consolidated
	Note	Staff costs £000	Other costs £000	Income £000	Staff costs £000	Other costs £000	Income £000	£000	£000
Administration costs									
Staff costs	9.1	161,646			259,667			175,121	271,812
Other administration costs	10		252,582			376,145		154,163	274,517
Operating income	12.1			(34,678)			(72,327)	(27,915)	(64,434)
								301,369	481,895
Programme costs									
Request for Resources 1									
Programme costs*	11		2,721,078			5,260,578		3,007,005	5,861,669
Income***	12.1			(264,564)			(2,914,018)	(200,026)	(3,082,704)
								2,806,979	2,778,965
Frontline services									
Staff costs*	9.1	4,399			192,081			4,381	180,388
Programme costs*	11		26,148			181,432		35,695	170,371
Income	12.1			(1,180)			(5,511)	(807)	(4,941)
								39,269	345,818
Total		**166,045**	**2,999,808**	**(300,422)**	**451,748**	**5,818,155**	**(2,991,856)**		
Net operating cost**	3.1, 13			**2,865,431**			**3,278,047**	3,147,617	3,606,678

* The total programme expenditure for Consolidated is £5,634,091,000 (2006–07 £6,212,428,000). The total programme expenditure for the Core–Department is £2,751,625,000 (2006–07 £3,047,081,000).

** Some EU receipts are treated as negative public expenditure and reduce the burden on the UK Exchequer, for 2007–08 these were: Consolidated £Nil (2006–07 £6,082,000), Core–Department £Nil (2006–07 £969,000).

*** Defra acts as an agent for the EU in making payments to third parties, income relating to this for 2007–08 was: Consolidated £2,823,606,000 (2006–07 £3,071,578,000).

Statement of Recognised Gains and Losses

for the year ended 31 March 2008

	2007-08		2006-07	
	Core-Department £000	Consolidated £000	Core-Department £000	Consolidated £000
Net gain/(loss) on revaluation of fixed assets	17,586	38,345	13,802	26,051
Net gain/(loss) on revaluation of investments	(20)	(23)	30	30
Actuarial gain/(loss)	(90,626)	(90,626)	(80,607)	(80,607)
Recognised gains and losses for the financial year	**(73,060)**	**(52,304)**	(66,775)	(54,526)

The notes on pages 48 to 90 form part of these accounts.

Balance Sheet

as at 31 March 2008

		31 March 2008		Restated 31 March 2007	Restated 31 March 2007
		Core-Department	**Consolidated**	Core-Department	Consolidated
	Note	**£000**	**£000**	£000	£000
Fixed assets					
Tangible assets	14	414,715	970,449	442,246	957,311
Intangible assets	15	9,791	12,193	11,308	15,537
Investments	16	7,708	7,858	8,752	8,905
		432,214	990,500	462,306	981,753
Debtors falling due after more than one year	18.1	8,501	8,545	1,011	1,054
Current assets					
Stocks	17	4,836	8,451	-	3,679
Debtors	18.1	304,970	1,340,970	223,519	2,233,953
Cash at bank and in hand	19	98,916	813,281	11,510	180,726
		408,722	2,162,702	235,029	2,418,358
Creditors falling due within one year	20.1	(771,882)	(2,609,978)	(499,363)	(3,310,699)
Net current assets/(liabilities)		(363,160)	(447,276)	(264,334)	(892,341)
Total assets less current liabilities		77,555	551,769	198,983	90,466
Creditors falling due after more than one year	20.1	(13,987)	(50,239)	(15,149)	(18,897)
Provisions for liabilities and charges	21.1.1	(424,063)	(451,464)	(450,206)	(486,379)
		(438,050)	(501,703)	(465,355)	(505,276)
Net assets/(liabilities) excluding pension liability		(360,495)	50,066	(266,372)	(414,810)
Pension liability	21.1.2	(1,082,933)	(1,082,933)	(1,047,079)	(1,047,079)
Net assets/(liabilities) including pension liability		(1,443,428)	(1,032,867)	(1,313,451)	(1,461,889)
Taxpayers' equity					
General fund	22	(1,560,566)	(1,292,554)	(1,413,757)	(1,691,454)
Revaluation reserve	23	117,138	259,687	100,306	229,565
		(1,443,428)	(1,032,867)	(1,313,451)	(1,461,889)

The prior year restatement refers to the separate disclosure of all pension liabilities from 2007–08. In 2006–07 only EA Closed Fund was disclosed separately, other pension liabilities were included within Provisions for liabilities and charges.

Helen Ghosh 14 July 2008
Accounting Officer for the Department for Environment, Food and Rural Affairs

The notes on pages 48 to 90 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2008

	Note	**2007-08** **£000**	2006-07 £000
Net cash outflow from operating activities	24.1	(2,700,460)	(3,821,983)
Capital expenditure and financial investment	24.2	(99,504)	(97,140)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		3,717	2,559
Payments of amounts due to the Consolidated Fund		(2,388,665)	(2,637,790)
Financing	24.4	5,817,467	4,972,891
Increase/(decrease) in cash in the period	24.5	**632,555**	(1,581,463)

The notes on pages 48 to 90 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2008

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 six objectives were set in SR04. These have been replaced by new objectives set in CSR07.

During 2007–08, the six objectives applicable for this financial year 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.

	2007-08			2006-07		
	Gross	**Income**	**Net**	Gross	Income	Net
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Objective 1	2,303,866	(1,003,138)	1,300,728	2,483,495	(1,056,859)	1,426,636
Objective 2	456,881	(246,340)	210,541	492,503	(259,532)	232,971
Objective 3	325,129	(230,705)	94,424	350,478	(243,059)	107,419
Objective 4	958,057	(758,479)	199,578	1,032,756	(799,099)	233,657
Objective 5	854,640	(595,139)	259,501	921,275	(627,011)	294,264
Objective 6	1,371,330	(158,055)	1,213,275	1,478,250	(166,519)	1,311,731
Net operating cost	**6,269,903**	**(2,991,856)**	**3,278,047**	6,758,757	(3,152,079)	3,606,678

For a description of the methodology used see note 1.20 and for a further breakdown see note 25.

The notes on pages 48 to 90 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 2007–08 *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 Costs 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 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 EC funded element as a debtor. Similarly, any elements paid in advance of these accrual points are treated as prepayments, with an offsetting creditor.

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. Funding of Rural Development expenditure under the Rural Development Programme for England (RDPE) is managed by RPA on behalf of Defra, but scheme income and expenditure is reported in the Core–Department resource account.

Other UK paying agencies make payments to claimants under (European Agricultural Guarantee Fund) EAGF and European Agricultural Fund for Rural Development (EAFRD). These payments are pre–funded by RPA and subsequently recovered from the EC.

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 accrues for liabilities arising from the EC's non–reimbursement of any late payments made under the SPS.

All RPA's scheme expenditure is pre–funded by the UK Exchequer. Subsequent receipts reclaimed from the EC budget (subject to retentions for Modulation) are surrendered to HM Treasury as Consolidated Funds Extra Receipts when received.

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 EAGF year in which they were retained, then they must be repaid to the EAGF.

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 are 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 with the funds 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. Modulation will be reclaimed from EAFRD when the Rural Development expenditure is incurred.

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

1.4 Tangible Fixed Assets

Freehold land and buildings are stated at current cost and are professionally revalued at least every 5 years at existing use value, in accordance with guidance issued by the Royal Institute of Chartered Surveyors, the last revaluation took place in 2005. Surplus properties are revalued at open market value. 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, where material, 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.

Internally developed fixed assets are recognised as construction in progress (CIP) and treated as capital expenditure, but not depreciated until the completed asset is brought into service. CIP is not revalued. Internally developed computer software includes capitalisation of internal IT staff costs on projects costing in excess of £50,000 for the Core–Department and £100,000 for RPA.

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 public limited companies (plc), 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 property is held on a short–term basis following the FMD outbreak. The property is 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 The Core–Department, CSL, AH and VLA recognise stock in their accounts. These are brought into the consolidated accounts at the lower of cost (or at current replacement cost where materially different) or net realisable value. The Core–Department only records stock over £250,000 due to the non–cost effectiveness of collecting this information.

The Core–Department has implemented a stock monitoring system as a protection against fraud and other losses and to ensure correct accounting treatment. A review of stock comprising tuberculin (an antigen used in the skin test for tuberculosis), avian influenza and FMD vaccines, has identified stock, the value of which was moved from the operating costs statement to the Core–Department's balance sheet for 2007–08 financial year end. Closing stock levels are now reviewed and revised every quarter.

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 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. All RPA scheme income with the exception of Other Paying Agencies income is paid directly to HM Treasury and is treated as Consolidated Funds Extra Receipts.

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% (2006–07 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. Core–Department cost of capital has been analysed between administration and programme. The programme element relates to EA closed pension fund. 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. 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 OCS. Exchange rate gains are treated as CFER.

In agreement with HM Treasury RPA hedges against currency movements associated with the EC reimbursement process. Reporting and disclosure is in line with FRS 25 and 26.

1.14 Pensions

Pension benefits are provided through the civil service pension arrangements, full details can be found in the Remuneration Report and in note 9.

Although the Principal Civil Service Pension Scheme (PCSPS) is a defined benefit scheme, departments, agencies and other bodies covered by the scheme 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.

Where the Department is responsible for pension schemes from delivery bodies, it has fully adopted FRS 17 Retirement Benefits. 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. For further details on pensions please see note 21.

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% 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 and a reliable estimate can be made. 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, Provisions, Contingent Liabilities and Contingent Assets, 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.

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, which were set in SR04. From CSR07 there will be eight DSOs, replacing those set in the previous spending review, which will be applied from 2008–09.

The apportionment of programme expenditure for the Core–Department and RPA is carried out by mapping each scheme code (objective code) to one or more of Defra's six objectives. 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.

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.

2 Analysis of Net Resource Outturn by Section

	2007-08								2006-07
	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	23,786	210,947	24,936	259,669	(14,693)	244,976	285,085	40,109	259,025
Environment	44,165	408,940	468,370	921,475	(25,066)	896,409	1,008,872	112,463	1,052,065
Sustainable Food Farming and Fisheries	35,780	80,788	1,403	117,971	(6,001)	111,970	131,440	19,470	103,674
Natural Resources and Rural Affairs	17,547	437,081	145,634	600,262	(161)	600,101	560,958	(39,143)	530,673
Department Operations	287,241	44,047	7,633	338,921	(13,148)	325,773	207,012	(118,761)	564,548
Rural Payment Agency EC Funded	-	1,655,477	4,844	1,660,321	-	1,660,321	2,077,614	417,293	2,157,957
Rural Payment Agency running costs	-	241,866	-	241,866	(293)	241,573	236,222	(5,351)	-
Rural Payment Agency Other	-	(7,784)	-	(7,784)	-	(7,784)	85,800	93,584	-
Other Executive Agencies	53,747	154,130	-	207,877	(64,244)	143,633	160,220	16,587	102,873
Local Area Agreements	-	-	118,473	118,473	-	118,473	118,459	(14)	-
Total	**462,266**	**3,225,492**	**771,293**	**4,459,051**	**(123,606)**	**4,335,445**	**4,871,682**	**536,237**	**4,770,815**
Request for resources 1:									
Spending in Annually Managed Expenditure (AME)									
Environment	-	(35,375)	(43,185)	(78,560)	-	(78,560)	55,600	134,160	(66,814)
Rural Payment Agency	-	(12,400)	-	(12,400)	-	(12,400)	-	12,400	-
Total	**-**	**(47,775)**	**(43,185)**	**(90,960)**	**-**	**(90,960)**	**55,600**	**146,560**	**(66,814)**
Request for resources 1:									
Non-budget									
Environment	-	-	691,617	691,617	-	691,617	704,530	12,913	663,655
Sustainable Food Farming and Fisheries	-	-	6,153	6,153	-	6,153	9,391	3,238	6,524
Natural Resources and Rural Affairs	-	-	184,923	184,923	-	184,923	218,751	33,828	204,564
Department Operations	-	-	17,600	17,600	-	17,600	24,899	7,299	22,019
Rural Payment Agency EC Funded	-	1,000,482	-	1,000,482	(995,020)	5,462	-	(5,462)	3,998
Total	**-**	**1,000,482**	**900,293**	**1,900,775**	**(995,020)**	**905,755**	**957,571**	**51,816**	**900,760**
Resource Outturn	**462,266**	**4,178,199**	**1,628,401**	**6,268,866**	**(1,118,626)**	**5,150,240**	**5,884,853**	**734,613**	**5,604,761**
Netted-off expenditure	148	889	-	1,037	(1,037)	-	-	-	
Net control agencies internal income	173,398	(173,398)	-	-	-	-	-	-	
Operating income not classified as A-in-A					(1,872,193)	(1,872,193)	(2,282,356)	(410,163)	
Net Operating Cost	**635,812**	**4,005,690**	**1,628,401**	**6,269,903**	**(2,991,856)**	**3,278,047**	**3,602,497**	**324,450**	
Programme grants and other current expenditure (Note 25)		4,005,690	1,628,401	5,634,091					

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 9.

3 Reconciliation of Outturn to Net Operating Cost and against Administration Budget

3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	2007-08 Estimate £000	2007-08 Outturn £000	2007-08 Outturn compared with Estimate £000	2006-07 Outturn £000
Net resource outturn	2	5,884,853	5,150,240	734,613	5,604,761
Non-supply income (CFERs)	5	(2,282,356)	(1,872,193)	(410,163)	(1,998,083)
Net operating cost		**3,602,497**	**3,278,047**	**324,450**	3,606,678

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

	2007-08 Budget £000	2007-08 Outturn £000	2006-07 Outturn £000
Gross Administration Budget	644,546	635,664	546,011
Income allowable against the Administration Budget	(250,602)	(245,725)	(238,892)
Net outturn against final Administration Budget	**393,944**	**389,939**	307,119

4 Reconciliation of Resources to Cash Requirement

	Note	2007-08 Estimate £000	2007-08 Outturn £000	2007-08 Net total outturn compared with Estimate: saving/(excess) £000	Restated 2006-07 Outturn £000
Resource outturn	2	5,884,853	5,150,240	734,613	5,604,761
Capital					
Acquisition of fixed assets	24.3	110,752	109,814	938	123,078
Non-operating cost A-in-A					
(Proceeds of fixed asset disposals)	24.3	(12,035)	(9,942)	(2,093)	(19,155)
Accruals adjustments					
Non-cash items		(264,462)	(182,941)	(81,521)	(456,196)
Changes in working capital other than cash		-	385,049	(385,049)	791,914
Changes in creditors falling due after more than one year		-	(32,366)	32,366	3,382
Use of provision	21	67,400	134,487	(67,087)	217,693
Excess cash receipts surrendable to the Consolidated Fund	5	75,610	-	75,610	-
Net cash requirement		**5,862,118**	**5,554,341**	**307,777**	**6,265,477**

The prior year restatement relates to the format of the note; the underlying totals are not affected.

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 2007-08		Outturn 2007-08	
		Income	***Receipts***	**Income**	***Receipts***
		£000	***£000***	**£000**	***£000***
Other operating income & receipts, not classified as A-in-A		2,282,356	*2,340,356*	1,872,193	*2,751,593*
		2,282,356	***2,340,356***	**1,872,193** *	***2,751,593***
Non operating income & receipts - excess A-in-A	7			-	*2,784*
Other non-operating income & receipts not classified as A-in-A	8			3,772	*3,717*
Excess cash surrenderable to the Consolidated Fund	4	-	*75,610*	-	-
Total income payable to the Consolidated Fund		**2,282,356**	***2,415,966***	**1,875,965**	***2,758,094***

* This figure differs to the amount that will actually be paid to the Consolidated Fund, as per note 22. This is due to an amount £67.8m relating to EC non–reimbursement of late payments for SPS 2005.

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

	Note	**2007-08**	2006-07
		£000	£000
Operating income	12	2,991,856	3,152,079
Income authorised to be A-in-A		(1,118,626)	(1,146,540)
Netted-off gross expenditure in net sub head		(1,037)	(7,456)
Operating income payable to the Consolidated Fund	5	**1,872,193**	1,998,083

7 Non–Operating Income — Excess A–in–A

No non–operating income relating to excess A–in–A has been recognised in 2007–08 (2006–07 £Nil).

8 Non–Operating Income not Classified as A–in–A

The following amounts are not regarded as income in 2007–08 for the Department and are surrendered to the Consolidated Fund:

	2007-08	
	Income	***Receipts***
	£000	***£000***
Gangmaster Licensing Authority - surrender to the Department of surplus funds	1,644	*1,589*
Environment Agency - surrender to the Department of surplus funds	956	*956*
Energy Savings Trust - surrender to the Department of surplus funds	12	*12*
Miscellaneous non-operating receipts	1,160	*1,160*
Total amounts surrendered to the Consolidated Fund	**3,772**	***3,717***

9 Staff Numbers and Related Costs

9.1 Staff Costs Comprise:

	2007-08					2006-07
	Permanent employed staff	**Others**	**Ministers**	**Special advisors**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Salaries and wages	336,231	24,937	310	139	**361,617**	366,320
Social security costs	26,412	211	31	13	**26,667**	26,603
Other pension costs	63,513	16	4	16	**63,549**	60,127
Sub-total	**426,156**	**25,164**	**345**	**168**	**451,833**	453,050
Less: recoveries in respect of outward secondments	(4,234)	-	-	-	**(4,234)**	(2,307)
Total net costs	**421,922**	**25,164**	**345**	**168**	**447,599**	450,743
Of which:						
Core-Department	**156,578**	**4,876**	**345**	**168**	**161,967**	178,045

Out of the total, £4,234,000 (£4,163,000 Core–Department) recoveries in respect of outward secondments have been netted off, £85,000 (£85,000 Core–Department) has been charged to capital and the balance of £451,748,000 (£166,045,000 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 2007. Details can be found in the publications within the Cabinet Office Civil Superannuation Resource Accounts([14]).

For 2007–08, employer's contributions of £63,093,000 (2006–07 £59,253,000) 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 2006–07 were between 17.1% and 25.5%). The Scheme Actuary reviews employer contributions every 4 years following a full scheme valuation. From 2008–09, 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 2007–08 to be paid when the member retires, and not the benefits paid during this period to current pensioners.

[14] http://www.civilservice-pensions.gov.uk

Other Pension Schemes

Employees can opt to open a partnership account, a stakeholder pension with an employer contribution. Employer's contributions of £394,000 for 2007–08 (2006–07 £853,000) 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 £30,000 for 2007–08 (2006–07 £21,000), 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 £32,000. Contributions prepaid at that date were £Nil.

6 individuals (2006–07 19 individuals) retired early on ill health grounds: the total additional accrued pension liabilities in the year amounted to £15,000 (2006–07 £31,000).

Loans are made to staff to cover season ticket advances and to relocate. As at 31 March 2008, there were no outstanding balances to Management Board Members.

9.2 Average Number of Persons Employed

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

			2007-08			2006-07
Objective	**Permanent employed staff**	**Others**	**Ministers**	**Special advisors**	**Total**	Total
	Number	**Number**	**Number**	**Number**	**Number**	Number
Objective 1	2,655	333	2	1	**2,991**	3,189
Objective 2	609	92	-	-	**701**	847
Objective 3	718	91	-	-	**809**	846
Objective 4	1,409	215	-	-	**1,624**	1,748
Objective 5	1,310	178	1	-	**1,489**	1,577
Objective 6	4,517	274	2	1	**4,794**	4,774
Staff engaged on capital projects	4	-	-	-	**4**	18
Total	**11,222**	**1,183**	**5**	**2**	**12,412**	12,999
Of which:						
Core-Department	**3,321**	**221**	**5**	**2**	**3,549**	4,116

10 Other Administration Costs

	Note	2007-08 Core-Department £000	2007-08 Consolidated £000	Restated 2006-07 Core-Department £000	Restated 2006-07 Consolidated £000
Rentals under operating leases		19,342	20,809	22,216	23,526
PFI service charges		15	15	1,031	1,031
Travel, subsistence and hospitality		6,983	10,924	7,965	12,011
Consumables		-	24,411	-	26,585
Vessels		-	3,551	-	3,091
IT Services/software/hardware		45,774	47,054	51,123	52,009
Estate management		53,783	88,947	30,402	65,644
Consultancy/subcontracting		26,728	37,171	12,398	17,005
Training		2,970	4,229	3,896	4,973
Early retirement		15,499	15,608	-	-
Exchange rate losses		-	(95)	-	110
Other		18,189	18,719	4,924	8,687
Non-cash items					
Depreciation		37,861	58,471	37,540	58,817
Amortisation		1,131	1,247	498	605
Profit on the disposal of fixed assets		(3,618)	(3,618)	(804)	(809)
Loss on the disposal of fixed assets		5,129	5,230	4,716	4,895
Impairment		16,366	19,194	-	3,034
Downward revaluation		(116)	(258)	(8,679)	(8,814)
Cost of capital charge		(6,074)	8,879	(20,907)	(6,409)
Auditors' remuneration & expenses		350	540	330	515
Provisions provided for in year		11,833	14,616	7,202	7,648
Unwinding of discount on provisions	21.1	-	64	-	51
Other non-cash items		437	437	312	312
Total		**252,582**	**376,145**	154,163	274,517

The prior year restatement relates to the format of the note; the underlying totals are not affected.

11 Programme Costs

11.1 Analysis of Programme Costs

	2007-08		2006-07	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Rentals under operating leases	18	5,433	23	5,465
Interest charges	889	889	1,056	1,056
Research and development expenditure	98,858	98,858	96,204	96,204
Travel, subsistence and hospitality	231	7,043	566	4,574
Consumables	-	5,390	-	1,238
IT Services/software/hardware	7,254	54,558	11,215	69,012
Estate management	26	12,385	382	10,298
Consultancy/subcontracting	1,894	29,022	5,346	15,242
Training	53	6,266	84	5,829
Early retirement	15,803	15,803	16,250	16,250
Exchange rate losses	-	9,416	-	-
Other	569,367	426,057	685,558	547,728
Non-cash items				
Depreciation	(90)	21,448	258	18,782
Amortisation	337	1,900	233	2,294
Profit on the disposal of fixed assets	-	-	-	(3,668)
Loss on the disposal of fixed assets	40	527	-	-
Impairment	-	-	-	5
Downward revaluation	-	47	-	836
Cost of capital charge	(35,375)	(19,895)	-	17,763
Auditors' remuneration and expenses	-	565	-	576
Provisions provided for in year	35,213	41,520	352,220	360,943
Other non-cash items	-	29	-	-
Grants & subsidies: EU	221,435	2,885,548	170,397	3,135,257
Grants & subsidies: Other	1,831,273	1,839,201	1,702,908	1,726,356
Total	**2,747,226**	**5,442,010**	**3,042,700**	**6,032,040**

The depreciation reflects a recharge of £6,768,000 (2006–07 £5,777,777) to NE for the use of an asset owned by Defra.

11.2 Analysis of Major Scheme Expenditure

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

	2007-08
	Consolidated
	£000
Grant-in-Aid Environment Agency	569,756
Fuel Poverty (Warm Front)	361,795
Brew Programme	86,943
EA Closed Pension Fund	89,785
Grant-in-Aid Natural England	172,152
RPA scheme expenditure	2,660,378
RPA running costs	128,444
Regional Development Agencies	74,859
Performance Reward Grant	110,008
Rural Development Programme for England	362,628
Carbon Trust	64,167
British Waterways Board	76,911
Waste Implementation	51,007

12 Income

12.1 Analysis of Operating Income

	2007-08		2006-07	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Administration income				
Fees and charges to external customers	8,177	20,603	5,773	48,191
Fees and charges to other departments	3,999	51,724	3,212	16,243
Fees and charges to other agencies	22,502	-	18,930	-
	34,678	**72,327**	27,915	64,434
Programme income				
Frontline services	1,180	5,511	807	4,941
EU funding	226,734	2,823,661	179,253	3,071,578
Other	36,941	89,468	19,717	10,070
	264,855	**2,918,640**	199,777	3,086,589
Interest on NLF loans on-lent to British Waterways	889	889	1,056	1,056
Total	**300,422**	**2,991,856**	228,748	3,152,079

The Core–Department receives rental income of £480,832 (2006–07 £474,715) from other government departments and £877,133 (2006–07 £1,319,597) from external customers.

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

12.2 Miscellaneous Core–Department income

	2007-08			2006-07		
	Income	Full cost	Surplus/(Deficit)	Income	Full cost	Surplus/(Deficit)
	£000	£000	£000	£000	£000	£000
National listing of seed varieties	1,075	1,384	(309)	782	871	(89)
Seed certification and seed training	1,174	1,166	8	1,283	1,304	(21)
FEPA 1985* - Part II -license fees	-	-	-	1,131	2,019	(888)
Issue of CITES** permits	-	-	-	69	1,408	(1,339)
Plant Health Import Inspections	1,133	1,956	(823)	948	2,397	(1,449)
Provision of Corporate Services to NE	3,100	3,070	30	-	-	-
	6,482	**7,576**	**(1,094)**	4,213	7,999	(3,786)

* 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 £1,610,000 (2006–07 £1,966,000), against costs of £3,035,000 (2006–07 £2,726,000), giving a deficit of £1,425,000 (2006–07 £760,000).

The above income forms part of the Other Fees and Charges Administration Income shown in 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

	2007-08		Restated 2006-07
	Estimate	**Outturn**	Outturn
	£000	**£000**	£000
Spending body			
Core-Department	2,172,026	1,818,259	2,206,686
Agencies			
AH	118,287	118,598	106,452
CEFAS	25	(35)	(176)
CSL	5,709	(10)	(276)
GDS	1,252	1,979	2,204
MFA	31,039	30,451	17,621
PSD	(185)	(47)	(40)
RPA	312,680	262,111	333,684
VLA	4,065	235	(19)
VMD	28	(665)	(389)
NDPBs			
Commission for Rural Communities	9,965	7,538	8,008
Consumer Council for Water	6,500	5,300	5,075
Environment Agency	698,030	578,532	554,457
Food from Britain	6,081	5,965	6,014
Gangmasters Licensing Authority	3,310	2,855	2,732
Joint Nature Conservation Committee	1,920	4,835	3,869
National Forest Company	4,100	3,350	3,401
Natural England	202,766	184,992	191,527
Royal Botanic Gardens, Kew	24,899	25,693	25,521
Wine Standards Board	-	-	143
Total grants to local authorities	*	228,111	140,184
Net operating cost	**3,602,497**	**3,278,047**	3,606,678

The prior year restatement refers to the separate disclosure of the Joint Nature Conservation Committee. In 2006–07 the Joint Nature Conservation Committee's outturn was included within the Core–Department figure.

* the local authority estimate is included within the Core–Department figure.

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										
At 1 April 2007	569,317	52,254	2,663	69,449	300,164	86,859	37,643	9,717	161,207	**1,289,273**
Additions	6,656	1,142	-	4,943	30,399	1,678	258	(37)	64,682	**109,721**
Transfers	(3,575)	-	-	115	424	(8,816)	(1,466)	74	(6,261)	**(19,505)**
Disposals	(7,572)	(468)	(4,327)	(1,640)	(6,573)	(2,135)	(1,074)	(433)	(1,760)	**(25,982)**
Reclassifications	3,828	-	706	-	67,847	2,153	-	(40)	(74,803)	**(309)**
Revaluations	30,021	2,455	4,108	870	4,463	2,294	2,357	141	(20,926)	**25,783**
At 31 March 2008	**598,675**	**55,383**	**3,150**	**73,737**	**396,724**	**82,033**	**37,718**	**9,422**	**122,139**	**1,378,981**
Depreciation										
At 1 April 2007	79,523	6,559	-	50,982	151,302	27,263	8,315	5,701	2,317	**331,962**
Charges in year	19,711	2,876	-	4,450	49,781	8,944	1,871	1,128	-	**88,761**
Transfers	-	-	-	136	5	(335)	(162)	155	-	**(201)**
Disposals	(4,791)	(270)	-	(1,507)	(5,537)	(2,108)	(924)	(404)	-	**(15,541)**
Reclassifications	-	-	-	-	(309)	-	-	-	-	**(309)**
Revaluations	2,638	277	-	513	1,420	984	303	42	(2,317)	**3,860**
At 31 March 2008	**97,081**	**9,442**	**-**	**54,574**	**196,662**	**34,748**	**9,403**	**6,622**	**-**	**408,532**
Net book value 31 March 2008	**501,594**	**45,941**	**3,150**	**19,163**	**200,062**	**47,285**	**28,315**	**2,800**	**122,139**	**970,449**
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
Assets financing										
Owned	501,594	15,884	3,150	19,163	200,062	47,285	28,315	2,800	122,139	**940,392**
Finance leased	-	30,057	-	-	-	-	-	-	-	**30,057**
Net book value 31 March 2008	**501,594**	**45,941**	**3,150**	**19,163**	**200,062**	**47,285**	**28,315**	**2,800**	**122,139**	**970,449**

Vehicles, plant and machinery include vessels owned by CEFAS valued at £26,196,000 (2006–07 £25,203,000).

Additions include a non–cash element represented by creditors and transfers. Cash additions amount to £111,783,000 (2006–07 £119,620,000), as per note 24.2.

Depreciation charged against assets held under finance leases amounted to £2,876,000 (2006–07 £2,622,000).

The net book value of leasehold land and buildings at 31 March 2008 comprises £15,884,000 for short leasehold and £30,057,000 for long leasehold.

The figure of £20,926,000 within CIP revaluation relates to impairments.

Core–Department

	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										
At 1 April 2007	120,606	31,167	2,663	16,797	136,893	80,858	4,088	924	137,920	**531,916**
Additions	6,203	-	-	884	18,452	1,441	97	3	17,452	**44,532**
Transfers	(3,575)	-	-	(44)	(23)	(8,537)	(1,482)	(65)	(5,817)	**(19,543)**
Disposals	(4,638)	(198)	(4,327)	-	(3,196)	(1,981)	(778)	(90)	(1,644)	**(16,852)**
Reclassifications	(236)	-	706	-	62,260	2,153	-	(40)	(64,843)	**-**
Revaluations	10,920	1,606	4,108	249	2,476	2,240	(10)	76	(17,886)	**3,779**
At 31 March 2008	**129,280**	**32,575**	**3,150**	**17,886**	**216,862**	**76,174**	**1,915**	**808**	**65,182**	**543,832**
Depreciation										
At 1 April 2007	5,380	1,433	-	13,542	44,579	22,659	1,471	606	-	**89,670**
Charges in year	3,238	1,087	-	1,168	29,913	8,550	449	103	-	**44,508**
Transfers	-	-	-	-	-	-	(162)	(45)	-	**(207)**
Disposals	(1,857)	(2)	-	-	(2,261)	(1,981)	(651)	(89)	-	**(6,841)**
Revaluations	-	-	-	121	883	950	3	30	-	**1,987**
At 31 March 2008	**6,761**	**2,518**	**-**	**14,831**	**73,114**	**30,178**	**1,110**	**605**	**-**	**129,117**
Net book value 31 March 2008	**122,519**	**30,057**	**3,150**	**3,055**	**143,748**	**45,996**	**805**	**203**	**65,182**	**414,715**
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
Assets financing										
Owned	122,519	-	3,150	3,055	143,748	45,996	805	203	65,182	**384,658**
Finance leased	-	30,057	-	-	-	-	-	-	-	**30,057**
Net book value 31 March 2008	**122,519**	**30,057**	**3,150**	**3,055**	**143,748**	**45,996**	**805**	**203**	**65,182**	**414,715**

Land and buildings (including dwellings) include properties with a value of £49,988,333, which are surplus to requirements. 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 2008–09.

Depreciation charged against assets held under finance leases amounted to £1,087,000 (2006–07 £887,000).

The net book value of long leasehold land and buildings at 31 March 2008 is £30,057,000 (2006–07 £29,734,000).

The figure of £17,886,000 within CIP revaluation relates to impairments.

15 Intangible Fixed Assets

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

	Core-Department	Consolidated
	£000	£000
Cost or valuation		
At 1 April 2007	14,101	26,643
Additions	-	93
Disposals	(62)	(922)
Reclassifications	-	309
At 31 March 2008	**14,039**	**26,123**
Amortisation		
At 1 April 2007	2,793	11,106
Charged in year	1,468	3,147
Transfers	-	(1)
Disposals	(13)	(631)
Reclassifications	-	309
At 31 March 2008	**4,248**	**13,930**
Net Book Value at 31 March 2008	**9,791**	**12,193**
Net Book Value at 31 March 2007	11,308	15,537

Cash additions shown in note 24.2 amount to £447,000. This includes a reduction in RPA capital creditors (intangible) of £363,000.

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 2007	778	7,864	26	87	150	**8,905**
Revaluations	(3)	-	5	(25)	-	**(23)**
Loan repayable within 12 months transferred to debtors	-	(1,024)	-	-	-	**(1,024)**
Balance at 31 March 2008	**775**	**6,840**	**31**	**62**	**150**	**7,858**
Of which:						
Core-Department	**775**	**6,840**	**31**	**62**	**-**	**7,708**

Receipts from disposal of investments total £Nil (2006–07 £236,500).

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 2008	876
Turnover	660
Surplus/profit for the year (before financing)	66

17 Stocks and Work in Progress

	2007-08		2006-07	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Stocks	4,836	6,629	-	1,648
Work in progress	-	1,822	-	2,031
	4,836	**8,451**	-	3,679

18 Debtors

18.1 Analysis by Type

	2007-08		2006-07	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors and provision for bad and doubtful debts	43,343	75,804	30,775	48,569
Deposits and advances	393	439	490	564
VAT	14,256	19,393	16,082	21,373
Other debtors	99,853	119,802	12,415	38,661
Current part of NLF loan	1,024	1,024	2,048	2,048
Prepayments/accrued income	146,101	1,124,508	161,709	2,122,738
Total due within one year	**304,970**	**1,340,970**	223,519	2,233,953
Amounts falling due after more than one year				
Trade debtors	127	127	161	161
Deposits and advances	127	155	150	186
Other debtors	8,247	8,247	700	700
Prepayments/accrued income	-	16	-	7
Total due after more than one year	**8,501**	**8,545**	1,011	1,054
Total debtors	**313,471**	**1,349,515**	224,530	2,235,007

Included within debtors is £656,211,000 (2006–07 £1,606,120,000) that will be due to the Consolidated Fund once the debts are collected.

18.2 Intra–Government Balances

Consolidated

	2007-08	2006-07	2007-08	2006-07
	Amounts due within one year		Amounts due after one year	
	£000	£000	£000	£000
Balances with other central government bodies	160,652	46,538	-	-
Balances with local authorities	1,599	202	-	-
Balances with NHS trusts	143	123	-	-
Balances with public corporations and trading funds	8,001	2,098	-	-
Subtotal: intra-government balances	**170,395**	48,961	**-**	-
Balances with bodies external to government	1,170,575	2,184,992	8,545	1,054
Debtors at 31 March	**1,340,970**	2,233,953	**8,545**	1,054

19 Cash at Bank and in Hand

	2007-08		2006-07	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	11,510	180,726	26,023	1,762,189
Net change in cash balance	87,406	632,555	(14,513)	(1,581,463)
Balance at 31 March	**98,916**	**813,281**	11,510	180,726
The following balances at 31 March are held at:				
Office of HM Paymaster General	97,235	808,795	10,989	175,946
Commercial bank accounts and cash in hand	1,681	4,486	521	4,780
Balance at 31 March	**98,916**	**813,281**	11,510	180,726

20 Creditors

20.1 Analysis by Type

	2007-08		2006-07	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Amounts falling due within one year				
Trade creditors	64,155	70,741	124,536	150,892
Other creditors	6,960	34,588	6,150	39,075
Accruals and deferred income	198,672	1,026,742	338,328	1,323,097
Other taxation and social security	3,246	9,628	5,148	10,227
Current part of NLF loan	1,024	1,024	2,048	2,048
Amounts issued from the Consolidated Fund for supply but not spent at year end	276,589	276,589	14,214	14,214
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
Received	80,945	534,455	6,152	165,026
Receivable	140,291	656,211	2,787	1,606,120
Total due within one year	**771,882**	**2,609,978**	499,363	3,310,699
Amounts falling due after more than one year				
NLF loan	6,840	6,840	7,864	7,864
Others	7,147	43,399	7,285	11,033
Total due after more than one year	**13,987**	**50,239**	15,149	18,897
Total creditors	**785,869**	**2,660,217**	514,512	3,329,596

20.2 Intra–Government Balances

Consolidated

	2007-08	2006-07	**2007-08**	2006-07
	Amounts due within one year		**Amounts due after one year**	
	£000	£000	**£000**	£000
Balances with other central government bodies	1,466,926	1,802,049	43,092	7,864
Balances with local authorities	12,735	20,564	-	-
Balances with NHS trusts	-	10	-	-
Balances with public corporations and trading funds	3,183	854	-	-
Subtotal: intra-government balances	**1,482,844**	1,823,477	**43,092**	7,864
Balances with bodies external to government	1,127,134	1,487,222	7,147	11,033
Creditors at 31 March	**2,609,978**	3,310,699	**50,239**	18,897

21 Provisions

21.1 Provisions for Liabilities and Charges

21.1.1 Provisions for Liabilities and Charges (excluding Pension Liabilities)

	Early departure costs	Foot and Mouth	CAP Disallowance: EAGF	Programme provisions	Admin provisions	Total
	£000	£000	£000	£000	£000	£000
Consolidated						
Balance at 1 April 2007 (restated)	32,811	26,408	348,034	68,392	10,734	486,379
Provided in the year	26,598	2,768	29	33,991	4,171	67,557
Provisions not required written back	(8,356)	(1,113)	(27,400)	(15,335)	(7,416)	(59,620)
Provisions utilised in year	(14,815)	(6,080)	(584)	(19,096)	(2,341)	(42,916)
Unwinding of discount	64	-	-	-	-	64
Balance at 31 March 2008	**36,302**	**21,983**	**320,079**	**67,952**	**5,148**	**451,464**
Core-Department						
Balance at 1 April 2007 (restated)	20,653	26,408	348,034	44,969	10,142	450,206
Provided in the year	22,739	2,768	29	24,573	3,445	53,554
Provisions not required written back	(7,687)	(1,113)	(27,400)	(7,837)	(7,366)	(51,403)
Provisions utilised in year	(10,230)	(6,080)	(584)	(9,184)	(2,216)	(28,294)
Balance at 31 March 2008	**25,475**	**21,983**	**320,079**	**52,521**	**4,005**	**424,063**

The Core–Department figure for provisions provided in year differs from those shown in notes 10 and 11 as it includes a transfer of Financial Instrument for Fisheries Guidance (FIFG) provisions from MFA to the Core–Department through the General Fund.

21.1.2 Provisions for Pension Liabilities

From 2007–08 the provisions for pension liabilities have been removed from the above table and are disclosed separately below:

	Environment Agency	Nature Conservancy Council	Former Countryside Agency RCC	Former Countryside Agency Ex-chairman	Horticultural Research International	Total
	£000	£000	£000	£000	£000	£000
At 1 April 2007	1,010,700	18,111	2,645	263	15,360	1,047,079
Charge to operating cost	46,600	803	98	(4)	702	48,199
Other provision movements	79,185	1,198	(3)	(53)	(1,101)	79,226
Provisions utilised in year	(89,785)	(1,306)	(50)	0	(430)	(91,571)
Balance at 31 March 2008	**1,046,700**	**18,806**	**2,690**	**206**	**14,531**	**1,082,933**

21.1.3 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.

21.1.4 Other Provisions

FMD Provisions

The reduction in the FMD provision relates mainly to the removal or settlement of disputes/outstanding invoices with suppliers following the 2001 FMD outbreak. Matched expenditure relates to professional costs in managing the disputes. The remaining balance relates to the costs of bringing back into use the land that was contaminated and dilapidation costs attributable to the 2001 outbreak.

CAP Disallowance provision: EAGF

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

In response to the difficulties in implementing the SPS, the Department reviewed its recognition point for financial corrections in 2005–06. There was a change in 2006–07 in the Estimate categorisation for disallowance expenditure. Prior to that year, this expenditure was classified as AME but since 2006–07 it has been categorised as part of the 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 allowance 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 SPS are recognised as a contingent liability in these accounts (see note 31).

The Programme Provisions include:

- the Modernising Rural Delivery (MRD) provision of £5.8m which relates to the redundancy and relocation elements associated with the set–up of NE and Commission for Rural Communities (CRC);

- the Classical Swine Fever (CSF) provision of £5.9m includes the costs payable to suppliers over disputed invoicing for CSF in 1999 and 2000. It is expected to be utilised during 2008–09;

- the Flood and Coastal Defence provision of £8.3m relates to a 5% retention of grant outstanding to Local Authorities (LAs) for grant eligible work. 95% of the grant has already been paid. The 5% retention will be paid 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 £5.7m 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 2008–09;

- the Masters Sand Pit provision of £5.6m and the Hatfield Moor provision of £2.3m 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;

- the Arne Claypit provision of £3.5m was set up to provide compensation to Local Authorities incurring costs on a statutory basis resulting from regulation 50 of the Conservation (Natural Habitats) Regulations 1994. Due to the nature of the provision, the timings of payments to be offset against this item are uncertain, and none have fallen due during the period covered;

- the Bolton Fell Moss provision of £10m was set up in response to the UK being subject to the Commission infraction proceedings with regard to sufficiency of designated sites.

The Administration Provisions include:

- the building dilapidation provision of £3.1m. The provision relates to dilapidations of the leased buildings.

21.2 Provision for Environment Agency pension liability

21.2.1 The Environment Agency closed fund (the Fund) is vested in 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 were:

	Long term rate of return expected at 31 March 2008	**Value at 31 March 2008**	Long term rate of return expected at 31 March 2007	Value at 31 March 07	Long term rate of return expected at 31 March 2006	Value at 31 March 06
		£000		£000		£000
Bonds	4.6%	110,700	4.9%	97,800	4.1%	78,200
Cash	4.8%	4,900	4.9%	2,500	4.6%	13,200
Market value of assets		115,600		100,300		91,400
Present value of scheme liabilities		(1,162,300)		(1,111,000)		(1,040,100)
Net pension liabilities (as per Acturial Report)		(1,046,700)		(1,010,700)		(948,700)
Pension increase (pre 1974) / Discount		-		-		(30,000)
Pension liability		**(1,046,700)**		(1,010,700)		(978,700)

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 2008	At 31 March 2007	At 31 March 2006
Rate of increase on salaries	4.3%	4.8%	5.1%
Rate of increase in pensions in payment and deferred pensions	2.8%	2.8%	3.1%
Inflation assumption	2.8%	2.8%	3.1%
Discount rate	5.3%	4.6%	6.0%

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

	2007-08	2006-07
	£000	£000
Scheme liability at 1 April	(1,010,700)	(978,700)
Sponsor contributions	89,785	90,939
Contributions in respect of unfunded benefits	11,400	11,900
Other expenses	(1,000)	(3,800)
Net return on assets (Note 21.2.3.)	(45,600)	(55,700)
Actuarial gain/(loss) (Note 21.2.4.)	(90,585)	(75,339)
Scheme liability at 31 March	**(1,046,700)**	(1,010,700)

21.2.3 Analysis of the Amount Charged to Operating Costs

	2007-08	2006-07
	£000	£000
Expected return on pension scheme assets	5,100	3,800
Interest on pension scheme liabilities	(50,700)	(59,500)
Net return on assets	(45,600)	(55,700)
Other expenses	(1,000)	(3,800)
Charged to operating cost	**(46,600)**	(59,500)

21.2.4 Analysis of Amount Recognised in the Statement of Recognised Gains and Losses (SRGL)

	2007-08	2006-07
	£000	£000
Actual return less expected return on pension scheme assets	10,400	3,900
Experience (losses) arising on the scheme liabilities	(139,385)	(33,339)
Changes in financial assumptions underlying the present value of the scheme liabilities	38,400	(75,900)
Amount previously recognised	-	30,000
Actuarial gain/(loss) recognised in the statement of recognised gains and losses	**(90,585)**	(75,339)

21.2.5 History of Experience Gains and Losses

	2007-08	2006-07	2005-06	2004-05	2003-04
Difference between the expected and actual return on scheme assets:					
Amount (£000)	10,400	3,900	4,800	9,300	16,900
Percentage of assets	8.9%	3.9%	5.3%	5.4%	7.1%
Experience gains/(losses) on liabilities:					
Amount (£000)	(139,385)	(33,339)	(100)	(2,700)	(153,500)
Percentage of assets	(12.0%)	(3.0%)	0.0%	(0.3%)	(14.4%)
Total amount recognised in statement of total recognised gains and losses:					
Amount (£000)	(90,585)	(105,339)	(44,200)	6,600	(136,600)
Percentage of assets	(7.8%)	(9.5%)	(4.2%)	0.6%	(12.8%)

21.3 Pension provisions (excluding Environment Agency pension liability)

Nature Conservancy Council pension provision

The Nature Conservancy Council (NCC) pensions provision provides for former NCC members of staff who were not transferred when the NCC was disbanded.

Former Countryside Agency pension schemes (RCC & Ex–chairman schemes)

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).

Horticultural Research International pension scheme

The Horticulture Research International (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.

21.3.1 An actuarial valuation was carried out on these schemes as at 31 March 2008 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	31 March 2008	31 March 2007	31 March 2006
Rate of increase in salaries	4.3%	4.3%	4.0%
Increase in pensions in payment	2.8%	2.8%	2.5%
Discount rate	5.3%	4.6%	5.4%
Inflation assumption	2.8%	2.8%	2.5%

21.3.2 Analysis of Movement in Scheme Liability

			2007-08			2006-07
	NCC	**HRI**	**Former CA RCC**	**Former CA Ex-Chair**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Scheme liability at 1 April	18,111	15,360	2,645	263	**36,379**	31,385
Current service cost	-	-	57	-	**57**	28
Employee contributions	-	-	-	-	**-**	2
Interest on scheme liability	803	702	120	12	**1,637**	1,578
Benefits payable	(1,306)	(384)	(129)	(16)	**(1,835)**	(1,855)
Pension payments to and on account of leavers	-	(46)	-	-	**(46)**	(27)
Actuarial (gain)/loss	1,198	(1,101)	(3)	(53)	**41**	5,268
Scheme liability at 31 March	**18,806**	**14,531**	**2,690**	**206**	**36,233**	36,379

21.3.3 Analysis of Benefits Paid

			2007-08			2006-07
	NCC	**HRI**	**Former CA RCC**	**Former CA Ex-Chair**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Pensions of annuities to retired employees and dependents	1,287	377	69	10	**1,743**	1,628
Commutations and lump sum benefits on retirement	19	2	60	6	**87**	227
Per cash flow statement	**1,306**	**379**	**129**	**16**	**1,830**	1,855

21.3.4 Analysis of Payments to and on Account of Leavers

	2007-08					2006-07
	NCC	HRI	Former CA RCC	Former CA Ex-Chair	Total	Total
	£000	£000	£000	£000	£000	£000
Individual transfers to other schemes	-	46	-	-	**46**	27
Per cash flow statement	**-**	**46**	**-**	**-**	**46**	27

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

	2007-08					2006-07
	NCC	HRI	Former CA RCC	Former CA Ex-Chair	Total	Total
	£000	£000	£000	£000	£000	£000
Experience gains and losses arising on the scheme liabilities	(534)	(179)	(121)	55	**(779)**	(519)
Changes in assumptions underlying the present value of scheme liabilities	(664)	1,280	124	(2)	**738**	(4,749)
Total actuarial (losses)/gains	**(1,198)**	**1,101**	**3**	**53**	**(41)**	(5,268)

21.3.6 History of Experience Gains and Losses

Nature Conservancy Council pension provision

	2007-08	2006-07	2005-06
Experience (gains)/losses on liabilities			
Amount (£'000s)	534	262	55
Percentage of the present value of scheme liabilities	2.8%	1.4%	0.3%
Total amount recognised in the SRGL			
Amount (£'000s)	1,198	2,258	77
Percentage of the present value of scheme liabilities	6.4%	12.5%	0.5%

Former Countryside Agency (CA) pension schemes: RCC Directors

	2007-08	2006-07
Experience (gains)/losses on liabilities		
Amount (£'000s)	121	68
Percentage of the present value of scheme liabilities	4.5%	2.6%
Total amount recognised in the SRGL		
Amount (£'000s)	(3)	435
Percentage of the present value of scheme liabilities	(0.1%)	16.4%

Former CA pension schemes: Ex–Chairman

	2007-08	2006-07
Experience (gains)/losses on liabilities		
Amount (£'000s)	(55)	(1)
Percentage of the present value of scheme liabilities	(26.7%)	(0.2%)
Total amount recognised in the SRGL		
Amount (£'000s)	(53)	27
Percentage of the present value of scheme liabilities	(25.7%)	10.4%

Horticultural Research International pension scheme

	2007-08	2006-07
Experience (gains)/losses on liabilities		
Amount (£'000s)	179	190
Percentage of the present value of scheme liabilities	1.2%	1.2%
Total amount recognised in the SRGL		
Amount (£'000s)	(1,101)	2,548
Percentage of the present value of scheme liabilities	(7.6%)	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.

	2007-08		2006-07	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Balance at 1 April	(1,413,757)	(1,691,454)	(2,486,124)	(2,316,600)
Net operating cost for the year	(2,865,431)	(3,278,047)	(3,147,617)	(3,606,678)
Income not A-in-A payable to the Consolidated Fund	(217,814)	(1,872,193)	(167,956)	(1,998,083)
less non-reimbursement by EC of late payments	-	67,780	-	-
Net Parliamentary Funding				
Drawn down	5,816,714	5,816,714	4,971,743	4,971,743
Deemed	14,214	14,214	1,308,288	1,308,288
Net financing from the Contingencies Fund	-	-	(340)	(340)
Transfer from revaluation reserve	734	8,200	1,659	7,052
Transfer to general fund - net asset transfer	(3,057)	3,451	(1,543)	(716)
Non-operating A-in-A	1,055	1,055	11,712	11,712
Non-cash charges				
Early departure	-	29	-	-
Cost of capital	(41,449)	(11,016)	(20,907)	11,354
Auditors remuneration	350	1,105	330	1,091
Other	(16,546)	2,670	(15,886)	1,156
Pension actuarial gain/(loss)	(90,626)	(90,626)	(80,607)	(80,607)
Contributions in respect of unfunded benefits	11,400	11,400	11,900	11,900
Funding to Agencies	(2,479,764)	-	(1,784,195)	-
Funding from OGDs	-	753	-	1,488
Year end adjustment				
Supply creditor - current year	(276,589)	(276,589)	(14,214)	(14,214)
General fund at 31 March	**(1,560,566)**	**(1,292,554)**	(1,413,757)	(1,691,454)

23 Revaluation Reserve

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

	2007-08		2006-07	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Balance at 1 April	100,306	229,565	88,133	210,536
Arising on revaluation during the year (net)	17,566	38,322	13,832	26,081
Transferred from general fund in respect of realised element of revaluation reserve	(734)	(8,200)	(1,659)	(7,052)
Balance at 31 March	**117,138**	**259,687**	100,306	229,565

24 Notes to the consolidated Cash Flow Statement

24.1 Reconciliation of Operating Cost to Operating Cash Flows

	Note	2007-08 £000	2006-07 £000
Net operating cost	13	3,278,047	3,606,678
Adjustments for non-cash transactions		(182,941)	(456,196)
Increase/(decrease) in stock		4,772	(1,662)
Increase/(decrease) in debtors		(885,492)	(369,987)
less movements in debtors relating to items not passing through the OCS		3,753	3,600
(Increase)/decrease in creditors		669,379	2,749,895
less movements in creditors relating to items not passing through the OCS		(321,545)	(1,928,038)
Use of provisions	21	134,487	217,693
Net cash outflow from operating activities		**2,700,460**	3,821,983

24.2 Analysis of Capital Expenditure and Financial Investment

	Note	2007-08 £000	2006-07 £000
Intangible fixed asset additions	15	447	1,683
Tangible fixed asset additions	14	111,783	119,620
Proceeds from disposals of fixed assets and investments		(12,726)	(24,163)
Net cash outflow from investing activities		**99,504**	97,140

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	112,230	(12,726)	99,504
Net movement in debtors/creditors	(2,416)	2,784	368
Total 2007-08	**109,814**	**(9,942)**	**99,872**
Total 2006-07	123,078	(19,155)	103,923

24.4 Analysis of Financing

	Note	2007-08 £000	2006-07 £000
From Consolidated Fund (Supply): current year	22	5,816,714	4,971,743
Advances from the Contingencies Fund		-	(340)
Agency funding - received from OGDs (GF)		753	1,488
Net financing		**5,817,467**	4,972,891

24.5 Reconciliation of Net Cash Requirement to Increase in Cash

		2007-08	2006-07
		£000	£000
Net cash requirement	4	5,554,341	6,265,477
From Consolidated Fund (Supply): net financing	24.4	(5,817,467)	(4,972,891)
Amounts due to the Consolidated Fund received in prior year and paid over		165,026	453,903
Amounts due to the Consolidated Fund received and not paid over		(534,455)	(165,026)
NLF loan - interest received from other bodies		(889)	(1,056)
NLF loan - interest paid to the NLF		889	1,056
(Increase)/decrease in cash		**(632,555)**	1,581,463

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:

	2007-08	2006-07
	£000	£000
Objective 1	2,106,267	2,322,474
Objective 2	425,588	469,275
Objective 3	291,016	320,888
Objective 4	895,762	987,711
Objective 5	794,541	876,101
Objective 6	1,120,917	1,235,979
	5,634,091	6,212,428

For a description of the Objectives see page 47.

26 Capital Commitments

	2007-08		2006-07	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	**9,470**	**40,920**	27,837	50,616

27 Commitments under Leases

27.1 Operating Leases

Commitments under leases to pay rentals during 2008–09 are given in the table below, analysed according to the period in which the lease expires.

	2007-08		2006-07	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Obligations under operating leases comprise				
Land and buildings				
Expiry within 1 year	495	894	683	857
Expiry within 2 to 5 years	2,342	4,445	2,821	4,367
Expiry thereafter	22,238	28,213	18,336	23,573
Amount payable in the following year	**25,075**	**33,552**	21,840	28,797
Other				
Expiry within 1 year	-	125	-	54
Expiry within 2 to 5 years	-	420	1	523
Expiry thereafter	-	12	-	12
Amount payable in the following year	**-**	**557**	1	589

27.2 Finance Leases

Obligations under finance leases are as follows:

	2007-08		2006-07	
	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	29	29
Rentals due thereafter	381	381	389	389
Amount payable	**417**	**417**	425	425

28 Commitments under Private Finance Initiative (PFI) contracts

The total amount charged in the Operating Cost Statement in respect of off–balance sheet PFI transactions was £14,803 (2006–07 £1,031,422). The payments to which the Department is committed during 2008–09 analysed by the period during which the commitment expires, are as follows:

	2007-08		2006-07	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Expiry within 21 to 25 years	13	13	-	-
	13	**13**	-	-

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 2008–09 analysed according to the period during which the commitment expires, are as follows:

	2007-08		2006-07	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Expiry within 1 year	40,798	49,865	62,422	86,820
Expiry within 2 to 5 years	118,104	169,942	135,765	190,103
Expiry thereafter	6,208	14,846	19,998	20,059
	165,110	**234,653**	218,185	296,982

Defra also entered into multi–annual agreements with beneficiaries under a number of schemes within the ERDP and its successor the RDPE. 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

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 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 2007–08 this has generated an exchange loss of £9.4m, bringing the total net gain to date to £31.1m (2006–07 generated an exchange loss of £1.2m).

30.4 Funding Risk

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. A similar Contract for Differences was established with the Royal Bank of Scotland to cover the Single Payment Scheme 2007 fund of €3.4bn on 28 September 2007.

30.5 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 £529.2m (2006–07 £358.3m) and cash totalling £3.2m (2006–07 £2.4m) were held at 31 March 2008 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 2008, the main items under this heading were:

- a potential disallowance liability in respect of late payments attributed to the SPS, estimated at £4m;
- 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;
- infringements of the Urban Waste Water Treatment Directive could lead to substantial fines from the EU (unquantifiable);
- 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 £0.5m, due in stages to 2011;
- FMD Farm Burial Ground claims. Potential liability estimated at a maximum of £4m;
- indemnity against all actions, costs and expenses made against the National Institute of Agricultural Botany (NIAB) arising from their contract with Defra. We cannot quantify the value of any such possible future actions but, to minimise liability, the contract requires NIAB to take out a £5m professional insurance;
- possible costs relating to the closure of Food from Britain, which are estimated at £5m to £10m;
- potential liabilities arising from small claims against Defra. The potential liability is estimated at no more than £3.6m;
- RPA is in dispute with the owners of certain storage facilities which it has used for the storage of tallow (under the Over Thirty Month Scheme (OTMS)). The disputes relate to alleged tank damage and/or contamination and tank rentals payable. RPA has made provision for the amount for which it believes it is liable, and is continuing to pursue investigations to reach agreed settlement. The owners of the facilities have claimed further amounts of approximately £13m in total, which RPA disputes;
- potential payments of up to £4m to local authorities with respect to Habitats Legislation;
- 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;
- as a result of the revocation of a licence, one of the Department's Executive NDPBs, the Gangmasters Licensing Authority anticipates the receipt of a formal notice of a claim for damages due to loss of earnings and other business costs (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);
- possible recoveries resulting from future surpluses from the NIAB redundancy fund;
- possible recoveries totalling £0.33m under the Proceeds of Crime Act 2002 in respect of the Kilkeel & Nicholson prosecutions.

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.

	01 April 2007	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2008
	£000s	£000s	£000s	£000s	£000s
Guarantees					
Guarantee of British Waterways borrowing	3,000	-	-	-	3,000
Guarantee for Carbon Trust Directors - prevent Director liabilities	9,230	11,762	-	-	20,992
Guarantee for Energy Trust Directors - prevent Director liabilities	3,036	4,568	-	-	7,604
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;
- a liability of £40,000 relating to a compensation claim by Animal Handling Facilities (AHF) for the cancellation of the first National Fallen Stock Scheme (NFSS);
- Plant Health illegal charging claims (possibly in the order of £142,000) by organisations and individuals who had paid for services not covered by a legal base between September 1993 and September 1999. Given the time lapse and the lack of response to several letters and notices it seems unlikely these organisations will make a claim;

- a claim amounting to £0.4m relating to cattle slaughtered because of failures to provide proper cattle ID and on animal welfare grounds;

- CEFAS has agreed to reimburse costs of £1.4m 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';

- Defra also indemnifies 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;

- in the event that the potential future redundancy costs relating to the former Defra staff who transferred to IBM exceed £1m then 50% of these costs will be met by the Department;

- legal costs relating to the distribution of compensation between the National Farmers' Union's (NFU) members and the members of the National Association of Agricultural Contractors under the Sugar Restructuring Scheme;

- surety to the Joint Nature Conservation Committee (JNCC) Support Company (a wholly owned subsidiary of JNCC) to cover the audit requirement in order to pass the Going Concerns Test in their accounts;

- swill feeder claims connected with the FMD outbreak (unquantifiable);

- an open infraction case from the EC due to a past failure to implement ozone legislation;

- Pre–Article 226 letter received in October 2007 concerning exceedences of EU air quality limit values for PM10 in 2005.

33 Losses and Special Payments

33.1 Losses Statement

	2007-08		2006-07	
	No. of cases	Value	No. of cases	Value
		£000		£000
Cash losses	172	693	148	492
Stores losses	10	30	25	67
Fruitless payments	11	16,540	8	4,590
Claims abandoned	1,022	12,117	1,474	292
Total	**1,215**	**29,380**	1,655	5,441

Details of Cases over £250,000

- 16 cases totalling £7,523,537 relating to the Elm Farm Dairies case, case values range from £300,000 to £1,300,000;
- £9,920,663 relating to the Customer Information Programme, which due to the scope of the programme being diminished and lack of funding was formally shut down;
- £2,385,764 relating to the Information Architecture Project (IA), which as the work is largely redundant is being written off due to insufficient certainty of future activity;
- £433,094 relating to the Customer Land Database is now being written off due to difficulty in identifying the work undertaken;
- £380,383 to IBM relating to the Disaster Recovery Project, which was abandoned due to affordability and absence of value for money;
- £3,245,609 relating to assets transferring to GRETA International recognising that contractual liabilities should offset the asset value of some software.

33.2 Special Payments

	2007-08		2006-07	
	No. of cases	Value	No. of cases	Value
		£000		£000
Special payments	6,535	2,293	4,904	3,172
	6,535	**2,293**	**4,904**	**3,172**

Details of Cases over £250,000

There were no special payments over £250,000.

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 since 30 June 2007 has resulted in a net reduction of £1.8m in the charge for late payment penalties being made in these accounts. This is a result of an adjustment to previous returns made to the Commission.

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. Department of Business, Enterprise and Regulatory Reform (former Department for Trade and Industry), Food Standards Agency, the Devolved Administrations, Department of Communities and Local Government, and other central Government bodies).

Other than those disclosed below, 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 RPA Audit Committee, is a Director of Farmcare (part of the Co–operative Group (CWS) Ltd). In 2007–08, Farmcare received £1.769m (2006–07 £4.174m) in scheme payments from RPA. These external interests were known before appointment and were carefully considered by Defra.

Katie Davis, a member of the RPA Strategic Advisory Board, holds shares and share options in Accenture. She is 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.

As part of her Chief Veterinary Officer (CVO) responsibilities and until her departure in November 2007, Debby Reynolds was 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 received no financial payments for her membership.

The IAH held contracts with the Veterinary Science Core Teams (VSCT) in 2007–08 for the Laboratory Facilities for Exotic Diseases, receiving £1,698,889. The IAH was also contracted on research and development covering Transmissible Spongiform Encephalopathy, Bovine TB, and Salmonella to a cost of £4,630,392.

In partnership with Department for Innovation, Universities and Skills the VSCT authorises and submits on behalf of Defra a Capital grant–in–aid contributory payment towards IAH Laboratories Pirbright rebuilding Programme. The value of payments processed in 2007–08 was £6,537,000 (2006–07 £6,300,000).

Robert Bolton, Commercial Director of CSL is also on the board of Forsite Diagnostics Ltd as a CSL representative but receives no financial recompense for this position.

Anne Sharp is Director of the Domestic Climate Change and Energy Directorate of Core–Defra and is also a NED of the Carbon Trust. She gets no remuneration and charges all expenses to Defra. Defra paid the Carbon Trust £88m in 2007–08.

Neil Thornton is Director of the Sustainable Consumption and Production & Waste Directorate of Core–Defra and is also on the Board of WRAP, which received a £55m grant from Defra in 2007–08. He received no remuneration for this position.

Poul Adrian Christensen is a non–executive member of the Defra Management Board. He is also a partner in a farm business which receives a single farm scheme payment.

Professor Robert Watson is Defra's Chief Scientific Adviser. He is also Chair of Environmental Science and Science Director of the Tyndall Centre at the University of East Anglia. The university was paid £145,216.72 in the year 2007–08.

Mike Blackburn, the Interim Head of Financial Control Division, is a Director of Acadent. Acadent is a private company which supplies consultants and interim managers. During 2007–08 Defra used Acadent to provide the services of interim staff, the total cost to the Department for these services was £1,062,367.

No other Defra Management Board member, including non–executive members, or other key managerial staff hold directorships or other significant interests in any other organisations.

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. The authorised date for issue is 16 July 2008.

As of 1 April 2008 PSD transferred to the HSE and will no longer therefore fall within Defra's consolidation boundary.

Until 1 April 2008 the Forestry Commission, which is a Non–Ministerial Government Department in its own right, had a Separate Supply Estimate for its activities in England and those functions which it carries out on a Great Britain–wide basis, including the Forest Research Agency. From financial year 2008–09 onwards these activities are funded via Defra's Supply Estimate, as a separate Request for Resources.

As of 1 April 2008 the levy bodies have been restructured creating the Agriculture & Horticulture Development Board (AHDB). This involves the Home Grown Cereals Authority, the Meat and Livestock Commission, the Milk Development Council, the Horticultural Development Council, and the British Potato Council.

Since the Balance Sheet date, a number of Avian Influenza cases have been identified near Banbury in Oxfordshire. 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. More information about the outbreak can be found on our website([15]).

On 9 July 2008 the EC confirmed a penalty of £55m relating to the CAP Arable Area Payments Scheme, which existed before the current CAP Single Payment Scheme (SPS). This scheme was the largest CAP scheme in England with payments of £1.1bn each year to some 47,000 farmers. Farmers claimed area–based payments for growing certain arable crops (cereals, oil seeds, linseed and protein crops) on eligible land. The Commission determined that the Agency had not accurately determined the area eligible for payments and had undertaken required field visits at inappropriate times. The penalty, which had been fully provided for in previous years, will be deducted from future payments of claims submitted by the RPA for the SPS in England. The Department is currently considering its legal position on this matter, as it considers that the penalty is disproportionate.

36 Prior Year Adjustments

There have been no prior year adjustments. Where the format of schedules has been revised, they have been marked as 'restated' to highlight this.

[15] http://www.defra.gov.uk/animalh/diseases/notifiable/disease/ai/latest-situation/index.htm

37 Third Party Assets

The Department holds money relating to Twinning, Carbon Offset and 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:

	2007-08	2006-07
	£000	£000
Monetary assets	2,593	771
	2,593	771

38 Entities within the Departmental Boundary

The entities within the departmental boundary during 2007–08 comprise the Core–Department, its Executive Agencies and NDPBs as follows:

Executive Agencies

Animal Health (AH)
Centre for Environment, Fisheries and Aquaculture Science (CEFAS)
Central Science Laboratory (CSL)
Government Decontamination Service (GDS)
Marine and Fisheries Agency (MFA)
Pesticides Safety Directorate (PSD) (until 1 April 2008)
Rural Payments Agency (RPA)
Veterinary Laboratories Agency (VLA)
Veterinary Medicines Directorate (VMD)

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 Radioactive Waste Management
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 Advisory Council
Pesticide Residues Committee
Royal Commission on Environmental Pollution
Science Advisory Council
Sustainable Development Commission
TB Advisory Group
Veterinary Products Committee
Veterinary Residues Committee
Zoos Forum

Advisory NDPBs

Spongiform Encephalopathy Advisory Committee (jointly funded with Department of Health and Food Standards Agency)
Fuel Poverty Advisory Group (jointly funded with BERR)

Tribunal NDPBs (Defra Funded)

Agricultural Land Tribunal (England)
Commons Commissioners
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
Commission for Rural Communities
Consumer Council for Water
Environment Agency
Food from Britain
Gangmasters Licensing Authority
Home Grown Cereals Authority
Horticultural Development Council
Joint Nature Conservation Committee (funded from NE grant–in–aid)
Meat and Livestock Commission
Milk Development Council
National Forest Company
Natural England
Royal Botanic Gardens, Kew
Sea Fish Industry Authority

Public Corporations

British Waterways Board
Covent Garden Market Authority

Other Bodies

British Wool Marketing Board
The Broads Authority
National Parks Authorities

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