



Department
for Environment
Food & Rural Affairs

Framework Document

Environment Agency

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Any enquiries regarding this publication should be sent to:
Accountability and Governance Team, Defra, 2 Marsham Street, London SW1P 4DF

www.gov.uk/defra

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Introduction and background

1. Purpose of document

1.1 This Framework Document (the “Framework Document”) has been agreed between the Department for Environment Food and Rural Affairs (Defra) and Environment Agency in accordance with HM Treasury's handbook Managing Public Money (“MPM”) (as updated from time to time) and has been approved by HM Treasury.

1.2 The Framework Document sets out the broad governance framework within which the Environment Agency and Defra operate. It sets out the Environment Agency's core responsibilities; describes the governance and accountability framework that applies between the roles of Defra and the Environment Agency; and sets out how the day-to-day relationship works in practice, including in relation to delivery, performance reporting, governance and financial matters. The Environment Agency and Defra, as the sponsoring department, will ensure that they understand each other's strategic priorities and those of other relevant parties, agree plans that reflect these appropriately, and keep each other informed, in good time, of risks and issues with the potential to affect delivery or performance.

1.3 The document does not convey any legal powers or responsibilities but both parties agree to operate within its terms.

1.4 References to the Environment Agency include all its subsidiaries and joint ventures that are classified to the public sector and central government for national accounts purposes. If the Environment Agency establishes a new subsidiary or joint venture, there shall be a document setting out the arrangements between it and the Environment Agency agreed with Defra. The requirement to agree the arrangements with Defra does not apply to independent decisions made by the Environment Agency board in relation to Environment Agency pension funds.

1.5 Copies of the document and any subsequent amendments have been placed in the Libraries of both Houses of Parliament and made available to members of the public on GOV.UK.

1.6 This Framework Document should be reviewed and updated at least every 3 years unless there are exceptional reasons that render this inappropriate that have been agreed with HM Treasury and the Principal Accounting Officer of the sponsor department. The latest date for review and updating of this document is April 2028.

2. Objectives – working as Defra group

2.1 The Defra group Outcomes Framework shows how the diverse range of outcomes and activities across the group contribute to Defra's outcomes and strategic enablers. All of Defra's public bodies, regardless of their role and positioning, act together on a shared agenda in contributing to the single vision of improving and protecting our environment by making our air purer, our water cleaner, our land greener and our food more sustainable.

2.2 The Environment Agency is a Non-Departmental Public Body (NDPB) and carries out its statutory and regulatory functions with technical expertise, impartiality and transparency, principally across England and at arm's length from its sponsor, Defra. In addition, the Environment Agency also works with, and delivers duties on behalf of, a range of other UK government departments.

2.3 Defra and the Environment Agency share a common objective of delivering Defra's outcomes. These are set out in the Department's Outcomes Framework, as agreed by HM Treasury. Both partners will also work on other cross-cutting policy agendas as closely as possible, including on net zero, climate resilience, natural capital and biodiversity. The Department's annual delivery priorities for the Environment Agency are set out on an annual basis in a letter to the Chair and should be considered by the Environment Agency alongside its broader responsibilities. To achieve these, the Environment Agency and Defra will work together in recognition of each other's roles and areas of expertise, providing an effective context for the Environment Agency to achieve the outcomes through the promotion of partnership and trust and ensuring that the Environment Agency also supports the strategic aims and objectives of Defra and the wider government as a whole. Both partners will also commit to keeping each other informed of any significant issues and concerns, resolving any disputes through the process set out in section 11. The terms of engagement are included in this document including a description of the meetings that will take place.

2.4 Partnership working arrangements are in place between the Environment Agency and Defra group Corporate Services to ensure that the appropriate information is shared on business requirements. This will enable delivery to be appropriately planned and prioritised, thereby continuing to enable and support the delivery of wider business objectives and ensuring that organisations are able to meet their statutory and other obligations to external regulatory bodies and remain compliant.

Group Corporate Services

2.5 The Defra group operating model includes group-wide provision of Finance, HR, Digital, Data and Technology Services, Communications, Property and Commercial Services. Additionally, the Environment Agency provides corporate services for the Defra Group in respect of the management of its Fleet (vehicles).

2.6 All corporate services provided by either organisation to the other will be managed, with group Heads of Function responsible, for the delivery of an

effective quality of service that enables the full delivery of the commitments in this Framework Document, of the Environment Agency's Corporate Plan, of its wider statutory duties and, in the case of Fleet, of Defra's Outcomes Framework and duties.

2.7 The Environment Agency and Defra will ensure that a clear Partnership Agreement is in place to capture:

- the detailed scope of the services to be provided by each of the Corporate Services functions (for example through service catalogues, performance measures and funding arrangements)
- the role of the Environment Agency and Defra in supporting the efficient delivery of these services
- the respective accountabilities of the Environment Agency and Defra in the operational and strategic decision-making impacting on the delivery of these services
- the way in which costs of these services will be agreed, managed and transparently reported
- mechanisms for the resolution of Corporate Services specific disputes

3. Classification

3.1 The Environment Agency has been classified as a central government organisation by the Office for National Statistics (ONS)/HM Treasury Classifications team.

3.2 It has been administratively classified by the Cabinet Office (CO) as a Non-Departmental Public Body.

Purposes aims and duties

4. Purposes

4.1. The Environment Agency was established under the Environment Act 1995 (“the 1995 Act”). Its principal aim and objectives are set out in section 4 of that Act.

4.2. Ministers may from time to time delegate or seek powers in legislation to assign new functions to the Environment Agency, or direct how it delivers existing functions. It is best practice that this is done after dialogue to understand the impacts and implications of assigning the functions.

4.3 The Secretary of State has a power under section 40 of the 1995 Act to give the Environment Agency general or specific directions as to the exercise of its functions. Such directions should be published as soon as is reasonably practicable after the giving of the direction. The Environment Agency complies with directions given under section 40. A direction may be varied or revoked at any time. Ministers must consult the Environment Agency first, except in an emergency.

4.4 If Ministers consider it appropriate for the Environment Agency to carry out new functions on behalf of Ministers or other bodies, they will consult the Environment Agency board first and will only proceed with their consent and where powers exist in law to delegate such functions to the Environment Agency.

5. Powers and duties

5.1 The Environment Agency operates within a legal framework containing numerous pieces of national and local environmental legislation which together assign to it a broad range of statutory duties and functions. This framework provides the Environment Agency with a wide range of environmental powers (for example, to place permit conditions in environmental permits to protect the environment) and duties (for example, to determine applications for permits made to it for permits under Environmental Permitting Regulations). The main areas covered by this framework concern flood and coastal erosion risk management and environmental protection. The framework covers a diverse range of environmental laws including but not limited to:

- Environmental Permitting (England and Wales) Regulations - the main environment permitting regime which controls potentially polluting activities (waste, industry, water quality, groundwater, radioactive substances and waste, mining waste, and flood risk activities) through a system of permits and exemptions
- water resources - controls on the abstraction and impoundment of water including in relation to drought orders under the Water Resources Act 1991
- water quality including bathing waters
- reservoirs regulation under the Reservoirs Act 1975

- carbon mitigation under the UK Emissions Trading Scheme and a range of domestic carbon mitigation and adaption measures
- trans-frontier shipment of waste and radioactive waste
- hazardous waste, waste carriers and brokers, duty of care
- navigation (for example, for the non-tidal Thames and the Medway navigations under local legislation)
- producer responsibility schemes (from Packaging Waste to End of Life Vehicles)
- fisheries legislation (for example, under the Salmon and Freshwater Fisheries Act 1975)
- responsibility for flood risk management on main rivers and coasts under primary, secondary and local legislation including a general supervisory duty for all flood and coastal erosion risk management and a power to issue flood warnings
- responsibility for the operation of key flood risk assets empowered by local legislation (for example, the Thames Barrier and Flood Prevention Act 1972)
- F-Gas and Ozone Depleting Substances
- contaminated land and Environmental Liability
- control of Major Accident Hazards (COMAH)
- chemicals (REACH, PCB's, Mercury)
- monitoring the environment and dissemination of environmental information

5.2 The functions accorded to the Environment Agency, on and since April 1996, mean that it has distinct roles as a regulator, operator and advisor. The 1995 Act requires the Environment Agency to have regard to a principal aim described in guidance from the Secretary of State (SoS) (section 4); to provide the SoS with such advice and assistance as requested (section 37(2)); to act in accordance with directions given by the SoS (section 40) and financial duties determined by the SoS (section 44) and to provide information requested by the SoS (section 51). Sections 45 to 49 and 52 also contain SoS controls in relation to accounts, audit, grants, borrowing, loans and the annual report.

5.3 The 1995 Act also gives the Environment Agency wide powers to make charging schemes in relation to its functions, subject to SoS approval (sections 41 and 42) and to charge for services and facilities (section 43).

5.4 This Framework Document is consistent with the legal requirements placed on the Environment Agency and the SoS under sections 44 to 52 of the 1995 Act (financial provisions and information). It also constitutes, in relation to that Act:

- the determination by the SoS of the Environment Agency's financial duties under section 44
- the requirements of the SoS relating to the annual statement of the Environment Agency under section 45
- the principles under which the SoS will lend or make grants to the Environment Agency, guarantee loans or agree to borrowing under sections 47 to 50
- the requirements of the SoS in relation to the provision of information and annual reports, under section 51 to 52

6. Aims

6.1 The Environment Agency's principal aim in discharging its functions is to protect or enhance the environment, taken as a whole, so contributing towards the objective of achieving sustainable development through its role as:

- an environmental regulator
- an environmental operator
- a monitor of and advisor on the state of the environment
- a landowner and manager
- a technical advisor on the development of environmental policy
- a promoter of scientific research in support of these roles
- a category one responder dealing with incidents and emergencies

6.2 The Environment Agency will deliver its strategic aims in the context of guidance issued by SoS under section 4 of the 1995 Act, the Defra group Outcomes Framework and the annual delivery priorities set out in the Chair's Letter.

Stakeholders

6.3 The Environment Agency has wide-ranging functions, and many people have a direct or indirect interest in its work. The Environment Agency should operate in an open and transparent way with all customers and partners from across the private, public and not-for-profit sectors.

International relationships

6.4 The Environment Agency has power to provide advice and assistance to any person, whether in or outside the UK, as respects any matter in which it has skill or experience, subject to the agreement of the Secretary of State where the person for whom advice is provided is outside the UK. By way of this Framework Document, the Secretary of State agrees to the exercise of this power by the Environment Agency, including the right to travel internationally where appropriate to do so. Whilst the Environment Agency's remit extends predominantly to England, it does retain some UK-wide duties, including the management of the Emissions Trading Scheme.

6.5 The Environment Agency does not speak on behalf of the UK government or Defra but will liaise closely with Defra and a wide range of other government Departments (OGD) and their agencies, including those of the Devolved Administrations on proposals for international agreement.

Governance and accountability

7. Governance and accountability

7.1 The Environment Agency shall operate corporate governance arrangements that, so far as practicable and in the light of the other provisions of this Framework Document or as otherwise may be mutually agreed, accord with good corporate governance practice and applicable regulatory requirements and expectations.

7.2 In particular (but without limitation), the Environment Agency should:

- comply with the principles and provisions of the Corporate Governance in Central government Departments Code of Good Practice (as amended and updated from time to time) to the extent appropriate and in line with their statutory duties or specify and explain any non-compliance in its annual report
- comply with Managing Public Money
- in line with Managing Public Money have regard to the relevant [Functional Standards](#) as appropriate and in particular those concerning Finance, Commercial and Counter Fraud; and
- take into account, the codes of good practice and guidance set out in Appendix A of this Framework Document, as they apply to arm's-length bodies (ALBs)

7.3 In line with Managing Public Money Annex 3.1 the Environment Agency shall provide an account of corporate governance in its annual Governance Statement including the board's assessment of its compliance with the Code with explanations of any material departures. To the extent that the Environment Agency does intend to materially depart from the Code, the Sponsor should be notified in advance and their agreement sought to this approach.

Role of the department

8. The Responsible Minister

8.1 The Environment Agency is accountable to Parliament via the Secretary of State. The organisation has specific responsibilities to submit evidence and to appear, when requested, to the Environment, Food and Rural Affairs Committee to support the Committee in its role to examine the expenditure, administration and policy of the Department and its associated public bodies. More broadly, the Environment Agency may be invited to submit evidence to government consultations, other Parliamentary Committees or to engage in other ways with Parliamentary Committees or constituency MPs. As an NDPB, the Environment Agency will liaise with the Department, and ensure its responses to Parliamentary Committees and consultations are based principally on fact, evidence and technical expertise and judgement.

8.2 The Ministers' statutory powers in respect of the Environment Agency are set out in the 1995 Act and other legislation and informed by best practice on NDPB governance.

8.3 These are:

- to agree the Environment Agency's overall priorities and objectives
- to allocate resources to the Environment Agency for its activities and with Treasury Ministers, to approve the Environment Agency's charging schemes or amendments to such schemes
- to monitor the performance and accountability of the Defra group Corporate Services functions to ensure adequate service provision is available for the Environment Agency to fulfil its statutory duties under the Environment Act and other legislation
- to monitor the performance of the Environment Agency through regular Ministerial meetings and Ministerial Performance Reviews with the Chair of the Environment Agency and through reports to Defra's Executive Committee and the Defra Board
- to keep Parliament informed about the Environment Agency's performance and answer Parliamentary Questions after consultation with the Environment Agency where appropriate
- to appoint a Chair and members of the Environment Agency board
- to confirm the appointment of the Environment Agency's Chief Executive
- to issue any general guidance or specific directions
- to lay copies of the Environment Agency's annual report and accounts before Parliament each year

8.4 Through the exercise of these powers the Minister:

- is responsible for setting the policy framework within which the Environment Agency operates
- provides guidance and direction to ensure the strategic aims and objectives of the Environment Agency are consistent with those of the department and government
- appoints the Environment Agency Chair and board members in line with the Governance Code on Public Appointments

- the Secretary of State shall designate one of the board members as Deputy Chair
- sets the Chair's objectives, monitors delivery by the EA and reviews the performance of the Chair on a regular basis
- has a power of approval in relation to the appointment of the Environment Agency's Chief Executive

Appointments to the Board

8.5 The Chief Executive of the Environment Agency is appointed by the board under section 4 of the 1995 Act with the approval of the Secretary of State.

8.6 The Chief Executive is recruited through open competition. The appointment is made by the board and is subject to approval by the Secretary of State. On appointment the Chief Executive may become an executive member of the board alongside non-executive members, subject to approval by the Secretary of State. The board should set performance objectives for the Chief Executive which reflect both the Accounting Officer (AO) responsibilities and the Chief Executive's role in ensuring the Environment Agency delivers its stated priorities and statutory responsibilities.

9. The Principal Accounting Officer

9.1 The Principal Accounting Officer (PAO) is the Permanent Secretary of the Department for Environment, Food and Rural Affairs.

Sponsor department's accounting officer's specific accountabilities and responsibilities as Principal Accounting Officer

9.2 The PAO of Defra designates the Chief Executive as the Environment Agency's accounting officer and ensures that they are fully aware of his or her responsibilities. The PAO issues a letter appointing the accounting officer, setting out his or her responsibilities and delegated authorities.

9.3 The respective responsibilities of the PAO and accounting officers for ALBs are set out in Chapter 3 of Managing Public Money.

9.4 The PAO is accountable to Parliament for the issue of any grant-in-aid to the Environment Agency.

9.5 The PAO is responsible, via the Sponsorship team, for advising the Responsible Minister on:

- an appropriate framework of objectives and targets for Environment Agency in the light of the department's wider strategic aims and priorities
- an appropriate budget for the Environment Agency in the light of the sponsor department's overall public expenditure priorities
- how well the Environment Agency is achieving its strategic delivery priorities and whether it is delivering value for money
- the exercise of the Ministers' statutory responsibilities concerning the Environment Agency as outlined above

9.6 The PAO via the Sponsorship team is also responsible for ensuring arrangements are in place in order to:

- monitor the Environment Agency's activities and performance, and understand assurance mechanisms
- address significant problems in the Environment Agency, making such interventions as are judged necessary
- periodically and at such frequency as is proportionate to the level of risk carry out an assessment of the risks both to the department and the Environment Agency's objectives and activities in line with the wider departmental risk assessment and management process
- inform the Environment Agency of relevant government policy in a timely manner
- bring ministerial or departmental concerns about the activities of the Environment Agency to the full Environment Agency board, and, as appropriate to the departmental board requiring explanations and assurances that appropriate action has been taken.

10. The role of the Sponsorship team

10.1 The EA Sponsorship team in the department is the central contact for the Environment Agency. The responsible Senior Civil Servant for this relationship is the Director General for Strategy and Water. They are the main source of advice to the Responsible Minister on the discharge of his or her responsibilities in respect of the Environment Agency. They also support the PAO with their responsibilities towards the Environment Agency.

10.2 Officials of the EA Sponsorship team in the sponsor department will liaise regularly with Environment Agency officials to review performance against plans and achievement against targets. The team will facilitate regular Ministerial meetings and performance reviews with senior officials from the department and EA, which should take place in between bi-annual Ministerial Performance Reviews. It will support the forums where the Environment Agency's expenditure against its Delegated Expenditure Limit and Annually Managed Expenditure allocations are reviewed. The EA Sponsorship team will also take the opportunity to share wider policy developments that might have an impact on the Environment Agency.

10.3 The EA Sponsorship team will advise the PAO when necessary on matters related to section 9.5. Defra applies the best practice standards in the CO Sponsorship Code¹. In doing so, the department operates a proportionate, risk-based approach whereby accountability and oversight is managed between the Environment Agency, finance, risk and policy teams and the EA Sponsorship team collaboratively. This function can be separate or integral to the policy team depending on a number of factors, including the size of the Environment Agency. Sponsorship teams draw on the central Defra Public Bodies Partnership team and nominated functional experts for support in carrying out their role. The EA Sponsorship team and the Environment Agency have agreed a terms of

¹ <https://www.gov.uk/government/publications/arms-length-body-sponsorship-code-of-good-practice>

reference in which both parties will cooperate in order to maintain and support a positive way of working.

10.4 The EA Sponsorship team should work to promote a 'no surprises' culture that develops partnership and trust between the Environment Agency and Defra and looks to find consensus between the parties when issues arise. The EA Sponsorship team should work closely with the Environment Agency in an amicable and timely manner to avoid disputes and activation of the Section 11 process wherever possible.

11. Resolution of disputes between the Environment Agency and Department

11.1 The Environment Agency and Defra will promote partnership and trust and endeavour to avoid the need to resort to the use of formal dispute resolution mechanisms. All Parties shall acknowledge that as far as possible, and subject to any statutory powers and duties they may have, any disputes should be resolved within the Defra group, in an amicable and timely manner. Careful consideration should be given to how disputes are communicated internally and externally.

11.2 On this basis, disputes between Defra and the Environment Agency should in the first instance be discussed between the EA Sponsorship team (on behalf of the PAO) and relevant parties at the Environment Agency to reach a resolution, with the Framework Document used as a reference point.

11.3 If discussions between the EA Sponsorship team and relevant Environment Agency officials fail, either party may refer the dispute to the relevant Environment Agency and Defra Directors who shall each use reasonable endeavours to resolve the dispute. A resolution should be agreed upon in a timely manner and to minimise, as far as possible, disruption to ongoing projects or operations.

11.4 If a timely resolution cannot be found by relevant Environment Agency and Defra Directors, then it may be escalated to the Chief Executive of the Environment Agency and the Director General or Permanent Secretary in Defra. If necessary, either party may refer the dispute to the Chair and the Responsible Minister, whereby they shall each use reasonable endeavours to resolve the dispute.

12. Communications

12.1 The Environment Agency and Defra will work together to plan communications when the EA fulfils its role as advisor on State of the Environment and technical advisor on environmental policy and when Defra make announcements linked to the EA's statutory responsibilities.

12.2 When the EA fulfils its role as an environment regulator, operator and category one responder it will take account of Defra priorities and guidance issued to the EA by the Secretary of State, including the annual Chair's Letter, when planning its communications.

12.3 The EA will not provide commentary on government policy unless and only to the extent that this is necessary to fulfil its statutory functions. In fulfilling its statutory functions, including as a regulator, operator and category one responder, there will be occasions when the EA will need to adopt an independent voice in its communication. There may also be occasions where it is not appropriate for EA communications to align with government policy and in such instances, unless not reasonably possible, this will be flagged to Defra policy and communication teams in advance, in line with no surprises and in good time for the core department to consider how to respond.

13. Freedom of Information requests

13.1 Where a request for information is received by either party under the [Freedom of Information Act 2000](#), the [Environmental Information Regulations 2004](#), the [UK GDPR \(General Data Protection Regulation\)](#) or the [Data Protection Act 2018](#), the party receiving the request will consult with the other party prior to any disclosure of information that may affect the other party's responsibilities.

14. Reporting on legal risk and litigation

14.1 The Environment Agency shall provide a regular update, with the format and content to be agreed between the Environment Agency and Defra, to the Sponsorship's legal team on the existence of any active litigation and any threatened or reasonably anticipated litigation. The parties acknowledge the importance of ensuring that legal risks are communicated appropriately to the Sponsor department in a timely manner.

14.2 In respect of each substantial piece of litigation involving the Environment Agency, the parties will agree where relevant a litigation protocol which will include specific provisions to ensure appropriate and timely reporting on the status of the litigation and the protection of legally privileged information transmitted to the Sponsor department to facilitate this. Until such time as a protocol is agreed, where relevant the parties will ensure that:

- material developments in the litigation are communicated to the Sponsor department in an appropriate and timely manner
- legally privileged documents and information are clearly marked as such
- individual employees handling the legally privileged documents are familiar with principles to which they must adhere to protect legal privilege
- circulation of privileged information within government occurs only as necessary.

The Environment Agency governance and structure

15. The Chief Executive

Responsibilities of the Environment Agency's Chief Executive as Accounting Officer

15.1 The Chief Executive as Accounting Officer is personally responsible for safeguarding the public funds for which they have charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of the Environment Agency. In addition, they should ensure that the Environment Agency as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management, that are set out in Box 3.1 of Managing Public Money. These responsibilities include the below and those that are set out in the Accounting Officer appointment letter issued by the Principal Accounting Officer of the sponsor department.

Responsibilities for accounting to Parliament and the public

15.2 Responsibilities to Parliament and the public include:

- signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State
- preparing and signing a Governance Statement covering corporate governance, risk management and oversight of any local responsibilities, for inclusion in the annual report and accounts
- ensuring that effective procedures for handling complaints about the Environment Agency in accordance with Parliamentary and Health Service Ombudsman's Principles of Good Complaint Handling are established and made widely known within the Environment Agency and published on GOV.UK
- acting in accordance with the terms of Managing Public Money and other instructions and guidance issued from time to time by the Department, the Treasury and the Cabinet Office
- ensuring that as part of the above compliance they are familiar with and act in accordance with:
 - any governing legislation
 - this Framework Document
 - any delegation letter issued to the Environment Agency as set out in Section 19
 - any elements of any settlement letter issued to the sponsor department that is relevant to the operation of the Environment Agency; and
 - any separate settlement letter that is issued to the Environment Agency from the sponsor department.
- ensuring they have appropriate internal mechanisms for the monitoring, governance and external reporting regarding compliance and conditions arising from the above documents
- giving evidence, normally with the PAO, when summoned before the Public Accounts Committee on the Environment Agency's stewardship of public funds
- calling on the support that they require from Defra group Corporate Services to meet these accountabilities

Responsibilities to Defra

15.3 Responsibilities to Defra include:

- establishing the Environment Agency's contributions to the Defra group Strategy and Outcomes Framework, in consultation with the department and consistent with the department's wider strategic aims and agreed delivery priorities set out in the annual Chair's Letter
- informing the department of progress in helping to achieve the department's policy objectives and in demonstrating how resources are being used to achieve those delivery priorities; and
- ensuring that timely forecasts and monitoring information on performance, risks and finance are provided to the department; that the department is notified promptly if over or under spends are likely and that corrective action is taken; and that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the department in a timely fashion
- meeting with the Environment Agency senior sponsor regularly.

Responsibilities to the board

15.4 The Chief Executive is responsible for:

- advising the board on the discharge of the Environment Agency board's responsibilities as set out in this document, in the founding legislation and in any other relevant instructions and guidance that may be issued from time to time
- advising the board on the Environment Agency's performance compared with its aims, and delivery priorities
- ensuring that financial considerations are taken fully into account by the board at all stages in reaching and executing its decisions, and that financial appraisal techniques are followed
- taking action if the board or its Chair is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration, efficiency or effectiveness, is of questionable value, or is unethical
- ensuring that all public funds made available to the Environment Agency including any approved income or other receipts are used for the purpose intended by Parliament, and that such monies, together with Environment Agency assets, equipment and staff, are used economically, efficiently and effectively ensuring that the Environment Agency acts in accordance with its statutory remit and that all associated legal risks are effectively managed
- ensuring that a system of risk management is maintained to inform decisions on financial and operational planning and to assist in maintaining and improving performance
- ensuring that adequate internal management and financial controls are maintained by the Environment Agency, including effective measures against fraud and theft

- maintaining a comprehensive system of internal delegated authorities which are notified to all staff, together with a system for regularly reviewing compliance with these delegations
- ensuring that effective personnel management policies are maintained
- recruiting, leading and motivating the senior management team and staff including the development of an organisational culture that promotes high performance and commitment
- promoting and maintaining effective customer, stakeholder and partner engagement and collaboration at strategic and operational levels to ensure good understanding and responsive management of customer and stakeholder needs and concerns.

15.5 The Chief Executive should follow the advice and direction of the board, except in very exceptional circumstances with a clear cut and transparent rationale for not doing so.

15.6 If the board, or its Chair, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration, efficiency or effectiveness, is of questionable feasibility, or is unethical the Chief Executive in their role as Accounting Officer should reject that course of action and ensure that the board have a full opportunity to discuss the rationale for that rejection.

15.7 Such conflicts should be brought to the attention of the Principal Accounting Officer and the Responsible Minister as soon as possible.

15.8 Furthermore and if agreed with the Responsible Minister, the Accounting Officer must write a letter of justification to the Chair of the board setting out the rationale for not following the advice and recommendation of the board and copy that letter to the Treasury Officer of Accounts.

15.9 If the Responsible Minister agrees with the proposed course of action of the board it may be appropriate for the Minister to direct the Accounting Officer in the manner as set out in Managing Public Money paragraph 3.6.6 onwards.

16. The Board

Composition of the Board

16.1 The Environment Agency will have a board in line with good standards of Corporate Governance and as set out in its establishing statute and in guidance as set out in Annex A. The role of the board shall be to run the Environment Agency, and to deliver the objectives, in accordance with the purposes as set out above, their statutory, regulatory, common-law duties and their responsibilities under this Framework Document. Detailed responsibilities of the board shall be set out in the board terms of reference. Remuneration of the board will be disclosed in line with the guidance in the government Financial Reporting manual (FReM).

16.2 The board consists of a Chair and no less than eight or more than fifteen non-executive members that have a balance of skills and experience appropriate

to directing the Environment Agency's business. For the Environment Agency there should be members who have experience of its business, operational delivery, finance, and any other specialisms as agreed between Defra and the Chair/Chief Executive. This will include a member appropriately qualified in finance. A suitably qualified Finance Director will attend board meetings. The board should include a majority of independent non-executive members to ensure that the executive are supported and constructively challenged in their role.

Board Committees

16.3 The board may set up such committees as necessary for it to fulfil its functions. As is detailed below at a minimum this should include an Audit and Risk Committee chaired by an independent and appropriately qualified non-executive member of the board.

16.4 While the board may make use of committees to assist its consideration of appointments, succession, audit, risk and remuneration it retains responsibility for, and oversight of decisions it has delegated to committees. The Chair should ensure that sufficient time is allowed at the board for committees to report on the nature and content of discussion, on recommendations, and on actions to be taken.

16.5 Where there is disagreement between the relevant committee and the board, adequate time should be made available for discussion of the issue with a view to resolving the disagreement. Where any such disagreement cannot be resolved, the committee concerned should have the right to report the issue to the EA Sponsorship team, Principal Accounting Officer and Responsible Minister. They may also seek to ensure the disagreement or concern is reflected as part of the report on its activities in the annual report.

16.6 The Chair should ensure board committees are properly structured with appropriate terms of reference. The terms of each committee should set out its responsibilities and the authority delegated to it by the board. The Chair should ensure that committee membership is periodically refreshed and that individual independent non-executive directors are not over-burdened when deciding the chairs and membership of committees.

Duties of the Board

16.7 The board is specifically responsible for:

- establishing and taking forward the strategic aims and objectives of the Environment Agency consistent with its overall strategic direction and within the policy and resources framework determined by the Secretary of State and in line with the relevant legislation
- providing effective leadership of the Environment Agency within a framework of prudent and effective controls which enables risk to be assessed and managed
- ensuring the financial and human resources are in place for the Environment Agency to meet its objectives in conjunction with Corporate Services

- ensuring that the board receives and reviews regular financial, performance and management information concerning the management of the Environment Agency
- ensuring that it is kept informed of any changes which are likely to impact on the strategic direction of the Environment Agency board or on the attainability of its targets, and determining the steps needed to deal with such changes and where appropriate bringing such matters to the attention of the Responsible Minister and Principal Accounting Officer via the executive team, sponsorship team or directly
- ensuring that any statutory or administrative requirements for the use of public funds are complied with; that the board operates within the limits of its statutory authority and any delegated authority agreed with the sponsor department, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the board takes into account guidance issued by the sponsor department
- ensuring that as part of the above compliance they are familiar with:
 - this Framework Document
 - the annual Chair's Letter
 - any delegation letter issued to EA as set out in Section 19
 - any elements of any settlement letter issued to the sponsor department that is relevant to the operation of the Environment Agency; and
 - any separate settlement letter that is issued to the Environment Agency from the sponsor department; and
 - that they have appropriate internal mechanisms for the monitoring, governance and external reporting regarding any conditions arising from the above documents and ensure that the Chief Executive and the Environment Agency as a whole act in accordance with their obligations under the above documents.
- demonstrating high standards of corporate governance at all times, including by using the independent audit committee to help the board to address key financial and other risks
- appointing with the Responsible Minister's approval a Chief Executive and, in consultation with the department, set performance objectives and remuneration terms linked to these objectives for the Chief Executive which give due weight to the proper management and use and utilisation of public resources
- putting in place mechanisms for independent appraisal and annual evaluation of the performance of the Chair by the independent non-executives, taking into account the views of relevant stakeholders. The outcome of that evaluation should be made available to the responsible Minister
- determining all such other things which the board considers ancillary or conducive to the attainment or fulfilment by the Environment Agency of its objectives
- supporting the delivery of Defra group objectives whilst respecting the independent statutory powers and duties of the Environment Agency
- approvals (e.g. of new charging schemes and high-value business cases) including approval prior to any further approvals required by Defra, HM Treasury or other departments.

16.8 The board should ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control.

16.9 The board should make a strategic choice about the style, shape and quality of risk management and should lead the assessment and management of opportunity and risk. The board should ensure that effective arrangements are in place to provide assurance over the design and operation of risk management, governance and internal control in line with the Management of Risk – Principles and Concepts (The Orange Book). The board must set up an Audit and Risk Assurance Committee chaired by an independent and appropriately qualified non-executive member to provide independent advice and ensure that the department's Audit and Risk Assurance Committee are provided with routine assurances with escalation of any significant limitations or concerns. The board is expected to assure itself of the adequacy and effectiveness of the risk management framework and the operation of internal control.

17. The Chair's role and responsibilities

17.1 The Chair is responsible for leading the board in the delivery of its responsibilities in line with the EA's strategies, plans, and delivery priorities agreed with Defra and relevant OGDs. Such responsibility should be exercised in the light of their duties and responsibilities as set out in the Chair's contract of employment, any appointment letter, the statutory authority governing the Environment Agency, this document and the documents and guidance referred to within this document.

17.2 Communications between the Environment Agency board and the Responsible Minister should normally be through the Chair.

17.3 The Chair is bound by the Code of Conduct for Board Members of Public Bodies², which covers conduct in the role and includes the Nolan Principles of Public Life³.

17.4 In addition, the Chair is responsible for ensuring:

- that, including by monitoring and engaging with appropriate governance arrangements, the Environment Agency's affairs are conducted with probity
- that policies and actions support the Responsible Minister's, and where relevant other Ministers', wider strategic policies and where appropriate, these policies and actions should be clearly communicated and disseminated throughout the Environment Agency

17.5 The Chair has the following leadership responsibilities:

- formulating the board's strategy
- ensuring that the board, in reaching decisions, takes proper account of guidance provided by the Responsible Minister or the department
- promoting the efficient and effective use of staff and other resources

² <https://www.gov.uk/government/publications/code-of-conduct-for-board-members-of-public-bodies>

³ <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

- demonstrate leadership and support a culture of ambition and inclusion
- delivering high standards of regularity and propriety
- representing the views of the board to the general public

17.6 The Chair also has an obligation to ensure that:

- the work of the board and its members is reviewed and that the board is working effectively, including ongoing assessment of the performance of individual board members with a formal annual evaluation and more in-depth assessments of the performance of individual board members when being considered for re-appointment
- in conducting assessments, the view of relevant stakeholders including employees and the EA Sponsorship team are sought and considered
- the board has a balance of skills appropriate to directing the Environment Agency's business, and that all directors including the Chair and Chief Executive continually update their skills, knowledge and familiarity with the Environment Agency to fulfil their role both on the board and committees. This will include but not be limited to skills and training in relation to financial management and reporting requirements, risk management and the requirements of board membership within the public sector
- board members are fully briefed on terms of appointment, duties, rights and responsibilities
- they, together with the other board members, receive appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice
- the Responsible Minister is advised of the Environment Agency needs when board vacancies arise
- there is a Board Operating Framework in place setting out the role and responsibilities of the board consistent with the government Code of Good Practice for Corporate Governance
- there is a code of practice for board members in place, consistent with the Cabinet Office Code of Conduct for Board Members of Public Bodies

18. Individual board members' responsibilities

18.1 Individual board members should:

- comply at all times with the Code of Conduct for Board Members of Public Bodies, which covers conduct in the role and includes the Nolan Principles of Public Life as well as rules relating to the use of public funds and to conflicts of interest
- demonstrate adherence to the 12 Principles of Governance for all Public Body Non-Executive Directors⁴ as appropriate
- not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations
- comply with the board's rules on the acceptance of gifts and hospitality, and of business appointments
- act in good faith and in the best interests of the Environment Agency

⁴ <https://www.gov.uk/government/publications/public-bodies-non-executive-director-principles/12-principles-of-governance-for-all-public-body-neds>

- ensure they are familiar with any applicable guidance on the role of Public Sector non-executive directors and boards that may be issued from time to time by the Cabinet Office, HM Treasury or wider government
- promote partnership and trust between the Environment Agency and Defra

Management and financial responsibilities and controls

19. Delegated authorities

19.1 The Environment Agency's delegated authorities are set out in the delegation letter. This delegation letter may be updated and superseded by later versions which may be issued by the sponsor department in agreement with HM Treasury.

19.2 In line with Managing Public Money Annex 2.2 these delegations will be reviewed on an annual basis.

19.3 The Environment Agency shall obtain the department's and where appropriate HM Treasury's prior written approval before:

- entering into any undertaking to incur any expenditure that falls outside the delegations or which is not provided for in the Environment Agency's annual budget as approved by the department
- incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications
- making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the department
- making any change of policy or practice which has wider financial implications that might prove repercussive or which might significantly affect the future level of resources required; or
- carrying out policies that go against the principles, rules, guidance and advice in Managing Public Money

20. Spending authority

20.1 Once the budget has been approved by the sponsor department and subject to any restrictions imposed by statute, the Responsible Minister's instructions, HM Treasury settlement or delegation letters, the Environment Agency shall have authority to incur expenditure approved in the budget without further reference to the sponsor department, on the following conditions:

- the Environment Agency shall comply with the delegations set out in the delegation letter. These delegations shall not be altered without the prior agreement of the sponsor department and as agreed by HM Treasury and Cabinet Office as appropriate
- the Environment Agency shall comply with Managing Public Money regarding novel, contentious or repercussive proposals
- inclusion of any planned and approved expenditure in the budget shall not remove the need to seek formal departmental approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed
- the Environment Agency shall provide the sponsor department with such information about its operations, performance, individual projects or other expenditure as the sponsor department may reasonably require

21. Banking and managing cash

21.1 The Environment Agency must maximise the use of publicly procured banking services (accounts with central government commercial banks managed centrally by government Banking).

21.2 The Environment Agency should only hold money outside government Banking Service accounts where a good business case can be made for doing so and HM Treasury consent is required for each account to be established. Only commercial banks which are members of relevant UK clearing bodies may be considered for this purpose.

21.3 Commercial Accounts where approved should be operated in line with the principles as set out in Managing Public Money.

21.4 The Accounting Officer is responsible for ensuring the Environment Agency has a Banking Policy as set out in Managing Public Money and ensuring that policy is complied with.

22. Procurement

22.1 The Environment Agency shall ensure that its procurement policies are aligned with and comply with any relevant UK or other international procurement rules and in particular the Public Contracts Regulations 2015.

22.2 The Environment Agency shall establish its procurement policies and document these in a Procurement Policy and Procedures Manual.

22.3 In procurement cases where the Environment Agency is likely to exceed its delegated authority limit, procurement strategy approval for the specific planned purchase must be sought from the Department's Sponsorship team.

22.4 Goods, services, and works should be acquired by competition. Proposals to let single-tender or restricted contracts shall be limited and exceptional, and an annual report explaining those exceptions should be sent to the Department.

22.5 Procurement by the Environment Agency of works, equipment, goods, and services shall, in a manner proportionate to size of spend, be based on, a full option appraisal and Value for Money (VfM), i.e. the optimum combination and whole life costs and quality (fitness for purpose).

22.6 The Environment Agency shall, with the support of the Defra delivered Commercial function:

- engage fully with Department and government wide procurement initiatives that seek to achieve VfM from collaborative projects
- comply with all relevant Procurement Policy Notes issued by Cabinet Office
- co-operate fully with initiatives to improve the availability of procurement data to facilitate the achievement of VfM.

22.7 The Environment Agency shall comply with the Commercial⁵ and Grants⁶ Standards. These standards apply to the planning, delivery, and management of government commercial activity, including management of grants in all departments and ALBs, regardless of commercial approach used and form part of a suite of functional standards that set expectations for management within government.

⁵ <https://www.gov.uk/government/publications/commercial-operating-standards-for-government>

⁶ <https://www.gov.uk/government/publications/grants-standards>

23. Risk and issue management

23.1 The Environment Agency shall ensure that the risks it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance and develop a risk management strategy consistent with the Defra group risk strategy, and in accordance with the Treasury guidance Management of Risk: Principles and Concepts⁷.

23.2 The Environment Agency Chief Executive is responsible for managing the Environment Agency's risks and issues with oversight from the Environment Agency's board and within its governance structure. The Chief Executive can call upon the support that they require from Defra group Corporate Services to discharge these duties. On a quarterly basis, the Environment Agency must share its strategic risk register with the EA Sponsorship team. The Environment Agency must inform the [EA](#) Sponsorship team at an early stage of any risk or issue that may require engagement, or have impact, beyond their own organisation. These risks and issues must be escalated within Defra group to the relevant Director General or to the Defra Environment Committee in the first instance (escalation beyond Environment Committee would be Executive Committee). When a risk or issue is escalated, ownership of that risk or issue will usually be retained by the Environment Agency. Changing or emerging risks and issues must form part of the regular discussions between sponsorship teams and ALBs, as part of a shared 'no surprises' culture.

23.3 The Environment Agency's board has a responsibility to ensure that proper internal audit arrangements are established and maintained, and for that purpose must establish an Audit and Risk Committee (ARAC). The committee must be chaired by a non-executive member of the Environment Agency and provide regular reports to the Chief Executive and the board on its programme, recommendations, and their implementation.

24. Counter fraud and theft

24.1 The Environment Agency should adopt and implement policies and practices to safeguard itself against fraud, bribery, corruption, and theft.

24.2 The Environment Agency should operate in line with the procedures and considerations set out in Managing Public Money Annex 4.9 and the Counter Fraud Functional Standard⁸. The Environment Agency's board should champion a fraud aware culture which encourages staff to raise concerns and provide appropriate routes to do so. It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter a contract or to provide grant or grant-in-aid.

24.3 The Environment Agency should record and report all instances of fraud, bribery and theft annually to Defra and notify the sponsor department of any unusual or major incidents as soon as possible, in line with Defra guidance. The

⁷ http://www.hm-treasury.gov.uk/orange_book.htm

⁸ <https://www.gov.uk/government/publications/government-functional-standard-govs-013-counter-fraud>

Environment Agency should also report detected loss from fraud, bribery, corruption and error, alongside associated recoveries and prevented losses, to the Counter Fraud Hub in Defra in line with the agreed government definitions as set out in Counter Fraud Functional Standard.

25. Staff

Broad responsibilities for staff

25.1 Within the arrangements approved by the Responsible Minister and the Treasury the Environment Agency will have responsibility for the recruitment, retention and motivation of its staff. The broad responsibilities toward its staff are to ensure that:

- the rules for recruitment and management of staff create an inclusive culture in which diversity is fully valued; appointment and advancement are based on merit: there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age
- the level and structure of its staffing, including grading and staff numbers, are appropriate to its functions and the requirements of economy, efficiency and effectiveness
- the performance of its staff at all levels is satisfactorily appraised and the Environment Agency performance measurement systems are reviewed from time to time
- its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the Environment Agency's objectives
- proper consultation with staff takes place on key issues affecting them
- adequate grievance and disciplinary procedures are in place
- whistle-blowing procedures consistent with the Public Interest Disclosure Act are in place
- a code of conduct for staff is in place based on the Cabinet Office's Model Code for Staff of Executive Non-departmental Public Bodies⁹

Staff costs

25.2 Subject to its delegated authorities, the Environment Agency shall ensure that the creation of any additional posts does not incur forward commitments that will exceed its ability to pay for them.

Pay and conditions of service

25.3 The Environment Agency's staff are subject to levels of remuneration and terms and conditions of service (including pensions) within the general pay structure approved by the sponsor department and the Treasury. The Environment Agency has no delegated power to amend these terms and conditions.

⁹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690948/Public_Bodies_-_a_guide_for_departments_-_chapter_5.pdf

25.4 Staff terms and conditions should be set out in an Employee Handbook, which should be provided to the department together with subsequent amendments.

25.5 The Environment Agency shall follow the approach set out by the Government's chosen pay policy and abide by public sector pay controls, including the relevant approvals process dependent on the organisations classification as detailed in the ¹⁰Senior Pay Guidance and the ¹¹public sector pay and terms guidance.

25.6 The Environment Agency shall operate a performance-related pay scheme that shall form part of the annual aggregate pay budget approved by the department and the Treasury, where relevant, with due regard to the senior pay guidance.

25.7 The travel expenses of board members shall be tied to the rates allowed to senior staff of the Environment Agency. Reasonable actual costs shall be reimbursed. The time commitments for individual board members shall be agreed between the Chair and the Secretary of State. Any review or revisions to these shall be agreed with Defra.

Pensions, redundancy and compensation

25.8 The Environment Agency is an administering and employing authority for the Local Government Pension Scheme and contractually enrolls all eligible staff. The Environment Agency may not make alternative arrangements for providing occupational pension benefits without the prior approval of the Department and the Ministry of Housing, Communities and Local Government (MHCLG).

25.9 The Environment Agency is an employing authority as defined in Schedule 2 to the Local Government Pension Scheme (1997). The Environment Agency must therefore ensure that their compensation schemes operate in accordance with the relevant Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations.

25.10 The Environment Agency operates compulsory redundancy and voluntary early release schemes that have been approved by Defra and will seek approval from Defra for any scheme changes that represent a degree of betterment. Proposals on redundancy and severance payments must comply with Managing Public Money, Annex 4.13. Any member of staff treated outside this arrangement could be viewed as a novel or contentious payment and approval from HM Treasury is required.

Environment Agency pension arrangements

Background

25.11 The Environment Agency is responsible for the EA Active Pension Fund and the EA Closed Pension Fund. These are statutory public service

¹⁰ <https://www.gov.uk/government/publications/senior-civil-service-pay-and-reward>

¹¹ [public sector pay and terms guidancehttps://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note](https://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note)

occupational pension schemes, providing retirement benefits to current and past employees, and their dependants.

25.12 The Active Fund is open to all eligible Environment Agency employees as well as employees of certain other employers with close connections to the Environment Agency. The Closed Fund has no employed members. It exists to provide benefits to deferred and pensioner members who were employed by the former water authorities. The Closed Fund's liabilities are met under grant-in-aid paid to the EA by Defra, the detailed terms of which are set out in a Memorandum of Understanding signed on 17 May 2005.

Statutory and regulatory background

25.13 The Active and Closed Funds are part of the Local Government Pension Scheme (LGPS). The principal regulations are the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Reflecting the statutory framework for all public service pension schemes prescribed in the Public Service Pensions Act 2013, they set out the provisions relating to membership, benefits, contributions, funding and investment matters. Other regulations relate to such matters as taxation, discretionary benefits and certain transitional arrangements.

25.14 MHCLG issues statutory guidance relating to the governance and administration of the LGPS. The Pensions Regulator is responsible for the oversight of such matters, in accordance with the relevant regulatory requirements. Other bodies such as the government Actuary's Department and the Pensions Ombudsman, have regulatory responsibilities which also impact on the LGPS.

Environment Agency as administering authority

25.15 The Environment Agency is the administering authority for both Funds. In that capacity, it owes fiduciary obligations to the beneficiaries under general public principles, and is required to ensure the prudent management of the Funds' assets. Those assets are held and managed separately from the Environment Agency's other assets.

25.16 In its role as the administering authority, the Environment Agency commissions triennial valuations. These valuations assess the financial health of each Fund relative to their liabilities, and provide the basis of forward-looking funding agreements with all the employers participating in the Funds, and feed into the Funds' ongoing investment strategies. In addition, an annual report and audited financial statements relating to each Fund are prepared and externally audited.

Pensions Committee

25.17 The Environment Agency Board has delegated its administering authority responsibilities to a Pensions Committee. The basis of such delegation is set out in formal Terms of Reference and a Scheme of Delegation. The Pensions Committee therefore acts as the administering authority for both Funds, in accordance with powers and duties delegated to it by the board.

Environment Agency as scheme employer

25.18 As a scheme employer in the LGPS, the Environment Agency is required to deduct and pay member and employer contributions into the Active Fund. The level at which employer contributions are payable is set at the time of each triennial valuation. Any other employers participating in the Active Fund have similar obligations.

25.19 The Environment Agency can exercise certain scheme employer discretions under the LGPS Regulations, and these are set out in a written discretions policy.

25.20 The Environment Agency is responsible for paying out of revenue certain other pension liabilities relating to legacy pension arrangements. The funding cost for these liabilities is projected by the pension fund actuaries and funded through a separate ringfenced portion of grant-in-aid paid by Defra.

25.21 The Environment Agency's scheme employer responsibilities are not delegated to the Pensions Committee.

Business plans financial reporting and management information

26. Corporate and business plans

26.1 The Outcomes Framework, which also serves as the Defra group business plan, sets out the priorities, success measures and resource allocations to deliver the strategic objectives. It includes more detailed sections for priority outcomes where delivery bodies and director areas must include their priorities, indicators, risks and outcomes. DGs, Directors and CEOs report on delivery of their plans through the performance reporting framework, and report on maintaining forecasted financial positions within budget limits. The plans should be developed as appropriate through joint working between sponsorship teams, policy and delivery teams to ensure coherence. They should reflect allocations and priorities which have been agreed by ExCo, the board and approved by Ministers.

26.2 The Environment Agency's internal plans, corporate strategy and associated reporting mechanisms should clearly link to the Outcomes Framework. Plans should reflect the Environment Agency's statutory and other duties and, within those duties, the priorities set from time to time by the Responsible Minister (including decisions taken on policy and resources in the light of wider public expenditure decisions).

26.3 The Environment Agency will provide Defra with timely information on all areas of its business, taking into account the priorities set out in the annual Delegation and Chair's letters from Defra. This includes working collaboratively with the Sponsorship team to prepare for regular performance meetings, ensuring that information requests from Defra and the EA are timely, proportionate and reasonable, and that events are scheduled in advance. Any briefing materials should be used only for the purpose for which they are produced unless agreed by both parties.

27. Budgeting procedures

27.1 Each year, in the light of decisions by the department on the Outcomes Framework and the information provided by the Environment Agency; the department will send to the Environment Agency by 1 March:

- a formal statement of the annual budgetary provision allocated by the department in the light of competing priorities across the department and of any forecast income approved by the department; and
- a statement of any planned change in policies affecting the Environment Agency.

27.2 The approved annual business plan will take account both of approved funding provision where this applies and any forecast receipts and will include a budget of estimated payments and receipts together with a profile of expected expenditure and of draw-down of any departmental funding and/or other income over the year. These elements form part of the approved business plan for the year in question.

27.3 During the financial year the Environment Agency will provide financial reporting data to the department in accordance with agreed processes. This will include monthly out-turn data, contributions to periodic reviews on budget risks and opportunities, and other commissions as appropriate.

28. Grant-in-aid and any ring-fenced grants

28.1 Any grant-in-aid provided by the department for the year in question will be voted in Defra's Supply Estimate and be subject to parliamentary control.

28.2 The grant-in-aid will normally be paid in monthly instalments on the basis of written applications showing evidence of need. The Environment Agency will comply with the general principle, that there is no payment in advance of need. Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds shall be kept to a minimum level consistent with the efficient operation of the Environment Agency. Grant-in-aid not drawn down by the end of the financial year shall lapse. Subject to approval by Parliament of the relevant Estimates provision, where grant-in-aid is delayed to avoid excess cash balances at the year-end, Defra will make available in the next financial year any such grant-in-aid that is required to meet any liabilities at the year end, such as creditors.

28.3 In the event that Defra provides the Environment Agency separate grants for specific (ring-fenced) purposes, it would issue the grant as and when the Environment Agency needed it on the basis of a written request. The Environment Agency would provide evidence that the grant was used for the purposes authorised by the department. The Environment Agency shall not have uncommitted grant funds in hand, nor carry grant funds over to another financial year.

29. Annual report and accounts

29.1 The Environment Agency board must publish an annual report of its activities together with its audited accounts after the end of each financial year. The Environment Agency shall endeavour, where reasonably practicable, to provide the department its finalised (audited) annual report and accounts by 30 June each year in order for the accounts to be consolidated within Defra's. A draft of the report should be submitted to the department three weeks before the proposed publication date. The accounts should be prepared in accordance with the relevant statutes and specific accounts direction issued by the department as well as the Treasury's Financial Reporting Manual (FReM).

29.2 The annual report must:

- cover any corporate, subsidiary or joint ventures under its control

- comply with the FReM and in particular have regard to the illustrative statements for an NDPB¹²
- outline main activities and performance during the previous financial year and set out in summary form forward plans

29.3 Information on performance against key financial targets is included within the annual report and subject to the auditor's consistency opinion. The report and accounts shall be laid in Parliament and made available on the Environment Agency's website, in accordance with the guidance in the FReM.

30. Reporting performance to the department

30.1 The Environment Agency shall, with the assistance of the Defra delivered Finance service, operate management, information and accounting systems that enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in the corporate and business plans.

30.2 The Environment Agency shall inform the sponsor department of any changes that make achievement of objectives more or less difficult. It shall report financial and non-financial performance, including performance in helping to deliver Ministers' policies, and the achievement of key objectives regularly, predominantly, DPO 1 – Environment and DPO 3 – Flooding and coastal erosion, as set out in the Department's Outcomes Framework and annual Chair's Letter.

30.3 While responsibility for management of performance lies with the relevant delivery organisation and the Sponsorship team, the Environment Agency's performance shall be formally reviewed by the department periodically, at a frequency dependent on the extent of the Environment Agency scope of responsibilities and its contributions to the Defra Outcomes Framework. ALBs will be expected to share their reporting on delivery and corporate performance with the department on a regular basis, to be agreed with Sponsorship teams.

30.4 The Responsible Minister will meet the Chair and Chief Executive regularly for formal Ministerial delivery meetings and bi-annually as part of the Ministerial Performance Review cycle. The Responsible Minister will also meet with the Chair at least once a year as part of the Chair's appraisal process. The schedule of meetings will be agreed on an annual basis between the Environment Agency and the EA Sponsorship team.

30.5 The Principal Accounting officer will meet the Chief Executive at least once a year.

¹² <https://www.gov.uk/government/publications/government-financial-reporting-manual-2024-25>

31. Information sharing

31.1 The department has the right of access to all Environment Agency records and personnel for any lawful purpose including, for example, agreed sponsorship audits and operational investigations.

31.2 The Environment Agency shall provide the sponsor department with such information about its operations, performance, individual projects or other expenditure as the sponsor department may reasonably require.

31.3 The Department and HM Treasury may request the sharing of data held by the Environment Agency in such a manner as set out in central guidance except insofar as it is prohibited by law. This may include requiring the appointment of a senior official to be responsible for the data sharing relationship.

31.4 As a minimum, the Environment Agency shall provide the department with information monthly that will enable the department to satisfactorily monitor:

- the Environment Agency's cash management
- its draw-down of grant-in-aid
- forecast outturn by resource headings
- other data required for the Online System for Central Accounting and Reporting (OSCAR)
- data as required in respect of its compliance with any Cabinet Office Controls pipelines or required in order to meet any condition as set out in any settlement letter.

Audit

32. Internal audit

32.1 The Environment Agency shall:

- establish and maintain arrangements for the internal audit team to have complete access to all relevant records
- ensure that any arrangements for internal audit are in accordance with the Public Sector Internal Audit Standards (PSIAS) as adopted by HM Treasury
- appoint a Head of Internal Audit with satisfactory competence/ qualifications in accordance with the requirements of the PSIAS
- set up an audit committee of its board in accordance with the Code of Good Practice for Corporate Governance and the Audit and Risk Assurance Committee Handbook
- forward the audit strategy, periodic audit plans and annual audit report, including the Environment Agency Head of Internal Audit opinion on risk management, control and governance as soon as possible to the sponsor department.

33. External audit

33.1 The Comptroller & Auditor General (C&AG) audits the Environment Agency's annual accounts. The C&AG passes the audited accounts to the Secretary of State who will lay the accounts together with the C&AG's report before parliament.

33.2 The C&AG:

- will consult Defra and the Environment Agency on whom – the National Audit Office or a commercial auditor – shall undertake the audit(s) on his or her behalf, though the final decision rests with the C&AG
- has a statutory right of access to relevant documents, including by virtue of section 25(8) of the government Resources and Accounts Act 2000, held by another party in receipt of payments or grants from the Environment Agency
- will share with the sponsor department information identified during the audit process and the audit report (together with any other outputs) at the end of the audit, in particular on issues impacting on the Department's responsibilities in relation to financial systems within the Environment Agency
- will consider requests from departments and other relevant bodies to provide Regulatory Compliance Reports and other similar reports at the commencement of the audit. Consistent with the C&AG's independent status, the provision of such reports is entirely at the C&AG's discretion

33.3 The C&AG may carry out examinations into the economy, efficiency and effectiveness with which the Environment Agency has used its resources in discharging its functions. For the purpose of these examinations the C&AG has statutory access to documents as provided for under section 8 of the National

Audit Act 1983. In addition, the Environment Agency shall provide, in conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and shall use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies.

Reviews and winding up arrangements

34. Review of the Environment Agency's status

34.1 The Environment Agency will be reviewed in line with Defra, HM Treasury and Cabinet Office requirements. This will normally be every three years.

35. Arrangements in the event that the Environment Agency is wound up

35.1 The sponsor department shall put in place arrangements to ensure the orderly winding up of the Environment Agency. In particular it should ensure that the assets and liabilities of the Environment Agency are passed to any successor organisation and accounted for properly. (In the event that there is no successor organisation, the assets and liabilities should revert to the sponsor department.)

To this end, the department shall:

- have regard to Cabinet Office guidance on winding up of ALBs¹³.
- ensure that procedures are in place in the Environment Agency to gain independent assurance on key transactions, financial commitments, cash flows and other information needed to handle the wind-up effectively and to maintain the momentum of work inherited by any residuary body; specify the basis for the valuation and accounting treatment of the Environment Agency's assets and liabilities
- ensure that arrangements are in place to prepare closing accounts and pass to the C&AG for external audit, and that, for non-Crown bodies funds are in place to pay for such audits. It shall be for the C&AG to lay the final accounts in Parliament, together with his or her report on the accounts
- arrange for the most appropriate person to sign the closing accounts. In the event that another ALB takes on the role, responsibilities, assets and liabilities, the succeeding ALB AO should sign the closing accounts. In the event that the department inherits the role, responsibilities, assets and liabilities, the sponsor department's AO should sign
- ensure the statutory obligations in relation to the Environment Agency Active and Closed Pension Funds are passed to a successor body in line with LGPS Regulations and overriding pension legislation
- ensure that the Environment Agency Chief Executive has the support that they require from Defra group Corporate Services in order to discharge their duties in this event

35.2 The Environment Agency shall provide the department with full details of all agreements where the Environment Agency or its successors have a right to share in the financial gains of developers. It should also pass to the department details of any other forms of claw-back due to the Environment Agency.

¹³ <https://www.gov.uk/guidance/public-bodies-reform>

Signatures

| | |
|--|---|
| <p>Signed:</p> <p>David Hill Director General Strategy and Water</p> <p>Date:</p> <p>(On behalf of Defra)</p> | <p>Signed:</p> <p>Philip Duffy Chief Executive</p> <p>Date:</p> <p>(On behalf of the Environment Agency)</p> |
|--|---|

Annex A: Guidance

The Environment Agency shall comply with the following guidance, documents and instructions:

Corporate governance

- This framework document
- Corporate Governance Code for Central Government Departments (relevant to ALBs) and supporting guidance:
<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>
- Code of conduct for Board members of Public Bodies:
<https://www.gov.uk/government/publications/code-of-conduct-for-board-members-of-public-bodies>
- Code of practice for partnerships between Departments and ALBs:
<https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice#:~:text=This%20code%20of%20good%20practice,partnership%20a pproach%20to%20shaping%20relationships.>

Financial management and reporting

- Managing Public Money (MPM):
<https://www.gov.uk/government/publications/managing-public-money>
- Government Financial Reporting Manual (FReM):
www.gov.uk/government/collections/government-financial-reporting-manual-frem
- Relevant Dear Accounting Officer (DAO) letters:
www.gov.uk/government/collections/dao-letters
- Relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts:
<https://www.gov.uk/government/collections/whole-of-government-accounts>
- The most recent letter setting out the delegated authorities, issued by the parent department.

Management of risk

- Management of Risk: www.gov.uk/government/publications/orange-book and <https://www.gov.uk/government/publications/management-of-risk-in-government-framework>

- Public Sector Internal Audit Standards:
www.gov.uk/government/publications/public-sector-internal-audit-standards
- HM Treasury approval processes for Major Projects above delegated limits:
<https://www.gov.uk/government/publications/treasury-approvals-process-for-programmes-and-projects>
- The Government cyber-security strategy and cyber security guidance:
<https://www.gov.uk/government/publications/national-cyber-strategy-2022/national-cyber-security-strategy-2022> and
<https://www.gov.uk/government/collections/cyber-security-guidance-for-business>

Commercial management

- Procurement Policy Notes:
<https://www.gov.uk/government/collections/procurement-policy-notes>
- Cabinet Office spending controls:
<https://www.gov.uk/government/collections/cabinet-office-controls>
- Transparency in supply chains - a practical guide:
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040283/Transparency in Supply Chains A Practical Guide 2017 final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040283/Transparency_in_Supply_Chains_A_Practical_Guide_2017_final.pdf)

Public appointments

The following are relevant where public bodies participate in public appointments processes.

- Guidance from the Commissioner for Public Appointments:
<https://publicappointmentscommissioner.independent.gov.uk/>
- Governance Code on Public Appointments:
www.gov.uk/government/publications/governance-code-for-public-appointments
- Procurement Policy Note 08/15 – Tax Arrangements of Public Appointees:
<https://www.gov.uk/government/publications/procurement-policy-note-0815-tax-arrangements-of-appointees>

Staff and remuneration

- HM Treasury guidance on senior pay and reward:
www.gov.uk/government/publications/senior-civil-service-pay-and-reward
- Civil Service pay guidance (updated annually):
www.gov.uk/government/collections/civil-service-pay-guidance

- Public sector pay and terms:
<https://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note>
- Whistleblowing Guidance and Code of Practice:
<https://www.gov.uk/government/publications/whistleblowing-guidance-and-code-of-practice-for-employers>
- The Equalities Act 2010: www.gov.uk/guidance/equality-act-2010-guidance

General

- Freedom of Information Act guidance and instructions:
www.legislation.gov.uk/ukpga/2000/36/contents and <https://ico.org.uk/for-organisations/guide-to-freedom-of-information/>
- The Parliamentary and Health Service Ombudsman's Principles of Good Administration: <https://www.ombudsman.org.uk/about-us/our-principles>
- Other relevant instructions and guidance issued by the central Departments (Cabinet Office and HM Treasury)
- Recommendations made by the Public Accounts Committee, or by other Parliamentary authority, that have been accepted by the Government and are relevant to [the ALB].
- Guidance from the Public Bodies team in Cabinet Office:
www.gov.uk/government/publications/public-bodies-information-and-guidance
- The Civil Service diversity and inclusion strategy (outlines the ambition, to which ALBs can contribute):
<https://www.gov.uk/government/publications/civil-service-diversity-and-inclusion-strategy-2022-to-2025>
- Guidance produced by the Infrastructure and Projects Authority (IPA) on management of major projects:
www.gov.uk/government/organisations/infrastructure-and-projects-authority
- The Government Digital Service:
www.gov.uk/government/organisations/government-digital-service
- The Government Fraud, Error, Debt and Grant Efficiency function;
www.gov.uk/government/collections/fraud-error-debt-and-grants-function and www.gov.uk/government/publications/grants-standards
- Code of Practice for Official Statistics:
<https://code.statisticsauthority.gov.uk/#:~:text=The%20Code%20of%20Practice%20for%20Statistics%20sets%20the,produced%20by%20people%20and%20organisations%20that%20are%20trustworthy.>

- Accounting Officer System Statements (AOSS are produced by departments with input from ALBs): www.gov.uk/government/publications/accounting-officer-system-statements