



MARINE FISHERIES AGENCY
ANNUAL REPORT AND ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2006

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The Marine Fisheries Agency is an Executive Agency of Defra

MARINE FISHERIES AGENCY
ANNUAL REPORT AND ACCOUNTS
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Annual Report and Accounts presented to Parliament pursuant to section 7 of the Government Resources and Accounts Act 2000, and in accordance with HM Treasury Accounts Direction issued under DAO 01/06.

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CHIEF EXECUTIVE’S OVERVIEW

Introduction

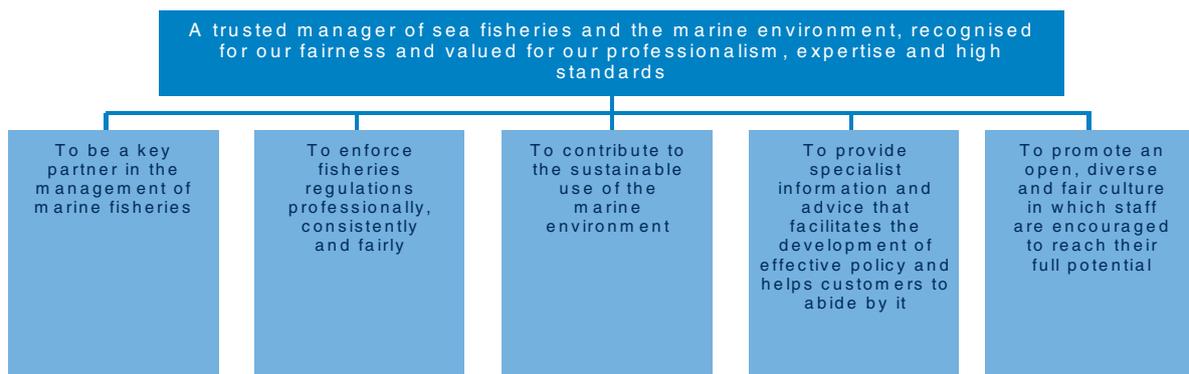
This is the first Annual Report of the Marine Fisheries Agency (MFA) since its creation on 1 October 2005. The report covers the full financial year from 1 April 2005 to 31 March 2006 and therefore the activities leading up to the Agency’s launch.

The Agency was established as an Executive Agency of Defra (Department for Environment, Food and Rural Affairs) to bring together the service delivery, inspection and enforcement activities provided by the Government to the fishing industry and other marine stakeholders in England and Wales. It marked an important step in the Government’s drive for public sector reform, particularly in the area of marine and fisheries management.



The Agency’s vision and key objectives are set out below.

Vision and objectives



The Agency works in close partnership with Defra and other United Kingdom (UK) fisheries administrations in the development and formulation of policies. The experience and qualifications of our people means that the Agency has a deep understanding of the issues facing the fishing industry and marine sector. The Agency is therefore well placed to provide expert input – both in terms of advising colleagues on the development of policy and also in advising and working with the fishing industry and other customers. The Agency also works closely with other UK fisheries administrations and enforcement bodies to ensure consistency of approach and to monitor effectiveness.

The Agency published its first Corporate Plan for the period 2005-06 to 2007-08 at the time of its launch. It covers the first three years of operation and sets out the aims and objectives for that period. The plan is supported by annual Business Plans providing more detail in terms of current activities, priorities and costings for each operating year. The first Business Plan has just been issued for 2006-07.

The priority tasks for 2005-06 were to:

- establish the Agency;
- establish effective management and governance structures; and

- ensure effective delivery of services throughout the period of change and restructuring of fisheries and marine management within Defra.

Establishing the Agency

The 2005-06 financial year brought a number of challenges. Clearly, the largest of these was the creation of the Agency itself. We faced a demanding timetable to establish the Agency by 1 October and, thanks to the tremendous support and commitment shown by Agency and Fisheries Directorate staff, we were able to launch on target. This was a real achievement given the short space of time since the project began.

People who would be working in the new Agency were closely involved in many of the preparations, including the development of the vision, objectives and logo as well as the launch itself.

Management and Governance

During the year, the financial and management structures were redesigned to support the new Agency's operations and to provide the necessary governance and reporting processes.

Governance

A number of mechanisms were put in place to ensure that the work of the Agency was appropriately prioritised, managed and monitored. The diagram in the Statement on Internal Control (page 31) illustrates the Agency's governance structures, its lines of accountability and describes the roles and responsibilities of the component parts of this structure.

In the first six months of the Agency's operations there were two meetings of the Steering Board; one meeting of the Audit and Risk Committee; one meeting of the Policy Customer Group; and monthly meetings of the Management Committee (comprising the Agency's senior management team).

Communications

The Agency's website (www.mfa.gov.uk) was launched with the creation of the Agency. This provided a credible platform to communicate to stakeholders and customers. An intranet site was also created which, once fully established, will become the primary communications medium within the Agency. Both the internet and intranet sites continue to develop and enhancements will be made over the coming year.

The Agency worked hard to strengthen relations with the fishing industry and other stakeholders. A key feature of this was the introduction of inshore liaison meetings, which provided a valuable means of exchanging information on current and developing issues. Joint workshops were developed and implemented with the Royal Navy and the National Federation of Fishermen's Organisations to enable improved understanding from all sides on inspections and enforcement at sea. As a result of these the Agency set up a net tagging trial to see how the inspection burden at sea could be reduced and published a new Code of Conduct for Inspections at Sea by Marine Fisheries Agency and Royal Navy officers.

Risk management

Risk management was central to much of the Agency's work enabling resources to be prioritised to achieve positive outcomes to the overall objectives.

As part of the drive to improve the effectiveness of enforcement activities using risk-based approaches, the Agency carried out a project to develop a risk-based planning tool, the Systematic Enforcement Prioritisation & Intelligence Assessment (SEPIA). This project was completed by January 2006, and following testing will be implemented during 2006-07. SEPIA will help assessment and planning in the deployment of enforcement resources to achieve the best possible outcome within available resources. New risk-based approaches to marketing work were also developed and will operate for the first full year from 1 April 2006.

Risk management training and development will be rolled out throughout the Agency to develop further our skills in this area.

Delivering the Agency's Business

Formal service level agreements (SLAs) were established with core-Defra and most others for whom the Agency delivers its services and are being finalised for the remainder. The SLAs set out the responsibilities of each party, the activities to be undertaken, the targets that those activities will seek to achieve and the way in which those targets will be measured. The main operational SLA with Defra was made available to everyone within the Agency via the intranet site.

The delivery functions covered by the Agency are:

- Administration of Fishing industry grants and UK state aids;
- Enforcement of sea fisheries legislation and implementation of EU marketing regime;
- Biological sampling;
- Marine environment and fisheries interference;
- Fishing vessel licensing and monitoring of economic links;
- Management of UK fishing fleet capacity;
- Management of UK fisheries quotas; and
- Management, recording and provision of data on fishing activities and catches, including UK management of the Data Collection Regulation (EC) 1543/2000.

Our performance in delivering these services is described in the Annual Report: Management Commentary, and summarised on the table at Appendix 2.

It is a credit to everyone in the Agency that we managed to achieve high standards of performance and delivery of services over a year of considerable change.

Nigel Gooding
Chief Executive
Marine Fisheries Agency
18 July 2006

ANNUAL REPORT: MANAGEMENT COMMENTARY ON THE FINANCIAL YEAR

The following information is required by Chapter 7 of the Treasury Financial Reporting Manual (FRoM), and reflects the annual operational report of the Agency.

Although the Agency was formally created on 1 October 2005, it incorporates a number of continuing functions previously undertaken by the Sea Fisheries Inspectorate and separate divisions within Defra's Fisheries Directorate. To reflect the continuing nature of the work of the Agency this annual report and financial statements reflect the whole of the 2005-06 financial year.

Principal Activities of the Agency

The principal activities of the Agency are described on page 8.

Geographical coverage and place of business

The Marine Fisheries Agency is an Executive Agency established by the Department for Environment, Food and Rural Affairs (Defra) and provides fisheries and marine environment services to Defra in England, to the National Assembly for Wales in Wales under the MAFF:WAG¹ Concordat, and occasionally to other territories by agreement with the relevant governments. The Agency was launched on 1 October 2005. It is fully accountable to Parliament through Ministers including the Rt.Hon. David Miliband MP, the Secretary of State for Environment Food and Rural Affairs².

The Agency's operational activities during the period were carried out at our London HQ site (3 Whitehall Place, London SW1A 2HH), at 21³ locations around the coast of England and Wales, at fish markets and premises of fish processors and traders, and at sea. Contact details for the Agency's offices are at Appendix 3.

Operational Review

The text below reports our performance against the targets established for each business area of the Agency during 2005-06.

These results are summarised in the table attached as Appendix 2.

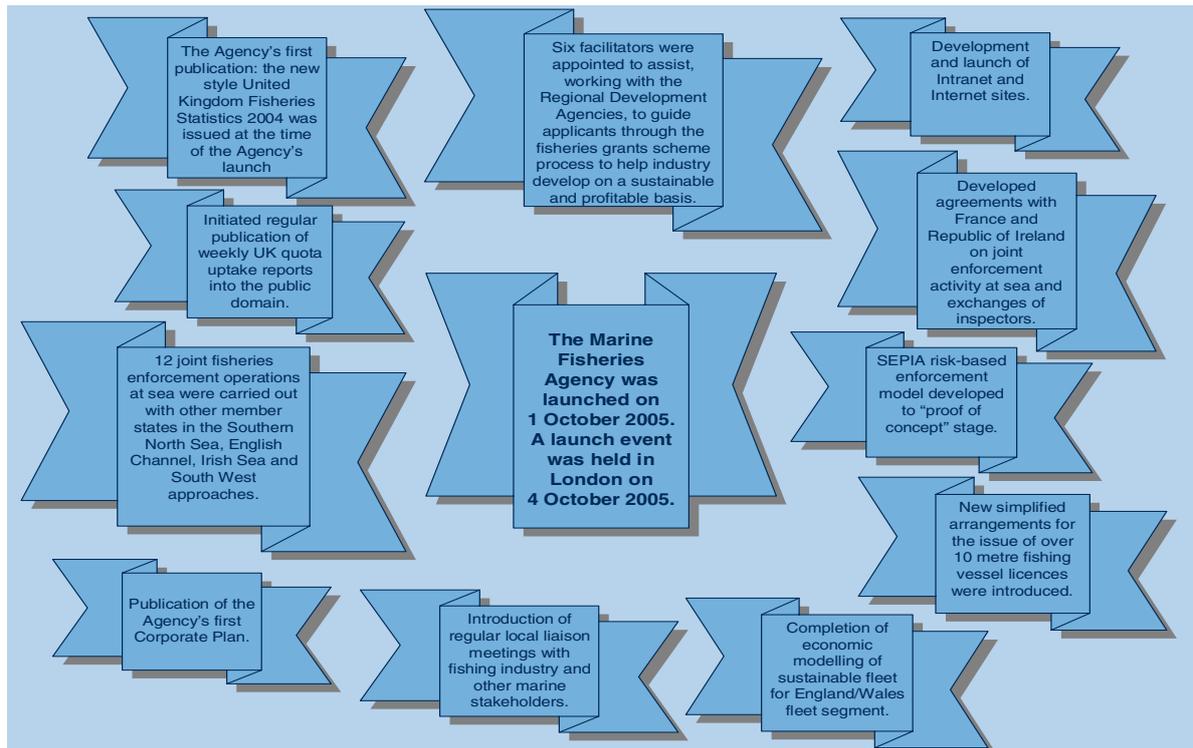
Defra Internal Audit Division provides an annual assurance to the departmental Accounting Officer on the Agency's performance against our operational targets.

¹ Ministry of Agriculture, Fisheries and Food (from which Defra was created in 2001) : Welsh Assembly Government

² During the 2005-06 Financial Year, the Secretary of State was the Rt Hon Margaret Beckett MP.

³ In addition to those sites listed at Appendix 3, MFA also operated from Whitby during 2005-06.

Highlights of 2005-06



Grants and State Aids

Grants

In 2005-06 the grants team dealt with 197 applications (127 in 2004-05) under the Financial Instrument for Fisheries Guidance (FIFG) resulting in £5.55m grant aid being paid to the industry.

The scheme had been re-launched by the Fisheries Minister in March 2005, which involved widening the scope of the scheme to include aquaculture, making some grant rates more attractive, improving the scheme literature to become more customer focused. Also, six facilitators based in Regional Development Agencies were recruited to attract more applications and ease applicants through the process. Projects funded included: port improvements, feasibility studies, product promotions, safety training and vessel modernisation.

At the end of the year new arrangements were put in place to cope with the increased volume of applications from projects in England (outside Cornwall, which has separate provisions as an Objective 1 area). These involved a scoring system to rank applications against the objectives set out in Defra's publication *Charting a New Course*, which in turn is aimed at securing a thriving fishing industry sustained alongside a healthy and flourishing marine environment.

Business activity	Target	Performance
Fishing industry grants and UK state aids	Provide initial response on grant applications within 15 working days and final response within 6 weeks of receipt of final application.	Achieved in 80% of cases. The shortfall was due to a change in the procedures for considering grant applications through a tranche panel chaired by Defra. 94% of claims were processed within 8 weeks.

State Aids

The Agency is responsible for reporting to the European Commission on State Aids support to the fishing industry in the UK. The annual inventory was submitted to the European Commission and work undertaken on responding to Commission queries on 3 Scottish schemes that were previously notified. Two Block exemption schemes were successfully submitted and 1 full notification on fallen fish (i.e. mortalities on fish farms). There are 3 applications currently in process and dialogue with the Commission on a proposed local quota company scheme for Cornwall was brought to a successful conclusion.

Operations and enforcement

Aerial and maritime surveillance continued throughout the year. Sightings of fishing vessels provided a valuable source of data and enabled crosschecks of logbook and VMS (Satellite Vessel Monitoring System) data. The surveillance aircraft undertook some 1014 hours of 'on task' flying, sighting over 9000 targets. Royal Navy (RN) vessels undertook some 855 patrol days covering English, Welsh and some International ⁴ Waters.

Of the 1370 inspections undertaken at sea some 22 vessels were detained, 35 reported for further investigation, 71 issued with written warnings and 175 issued with a verbal rebrief for very minor infringements. A total of 55 prosecution cases were taken in respect of 1201 offences with a total of £270,789 in fines (excluding costs).

Vessels are detained to port usually because the vessel is foreign owned and/or the skipper has a foreign domicile. Detaining the vessel allows the Agency to conclude its investigation and commence proceedings in the courts if appropriate. On occasion a British vessel may be detained, particularly if further and in depth investigation is required at the time of the inspection.

Enforcement activity in 2005-06 is summarised in the tables below and on the next page:

Enforcement Activity by ICES Area			
	Aircraft Sighting	RN Sighting	RN Inspection
104A			2
104B	966	590	242
104C	566	251	116
106A	0	2	0
107A	1877	203	113
107D	1207	891	197
107E	2101	2166	306
107F	524	264	90
107G	1119	255	118
107H	446	179	85
107J	240	165	74
107K	0	2	2
108D	13	49	19
108E	0	8	6
	9059	5025	1370

⁴ In the Western Approaches to the United Kingdom

Summary of operations (continued)

Enforcement Activity by Vessel Type				
Stern Trawler	5288	2035	546	
Beam Trawler	2063	868	348	
Freezer Trawler	0	13	3	
Industrial trawler	0	26	13	
Pair Trawler	131	128	50	
Long Liner	204	120	62	
'Pleasure' Fisher	0	143	2	
Gill Netter	161	295	49	
Scallop Dredger	165	590	103	
Potter	999	728	63	
Others	48	79	131	
	9059	5025	1370	
Enforcement Activity by Nationality				
Belgian	739	317	149	
German	15	7	5	
Danish	102	58	31	
Spanish	247	146	69	
Faroese	0	2	0	
French	1910	810	373	
British	5017	3403	602	
Irish	638	131	54	
Dutch	377	138	85	
Norwegian	8	4	1	
Portuguese	1	0	0	
Russian	1	1	0	
Swedish	4	3	1	
Unknown	0	5	0	
	9059	5025	1370	
Sightings/Inspections by Month				
Apr	859	371	136	
May	768	320	155	
Jun	838	622	194	
Jul	803	366	122	
Aug	875	529	185	
Sep	662	540	144	
Oct	672	286	76	
Nov	805	330	54	
Dec	759	345	67	
Jan	831	386	65	
Feb	547	551	98	
Mar	640	379	74	
	9059	5025	1370	

Collaboration with other Member States on enforcement has been one of a number of priorities in the past year. A number of joint surveillance and enforcement operations with the Dutch, Belgian (Operation Shark-5 Ops), French (Operation St Pierre, 3-Operations) and Irish (Operation Wasp, 4-Operations) have been useful and successful. Operations with the Dutch and Belgians are more advanced than with the others as the agreement with them has been in place for a number of years. Joint understanding of respective capabilities and *modus operandi* has enabled a very good working relationship to be developed. Over the past year, the Agency developed these operations to the extent that surveillance units are now much more flexible and efficient in their approach to the task. Good progress was made with French and Irish colleagues on joint operations at sea and on exchange of inspectors.

The Operations, Data, Communications and Enforcement team continued to work on developments to the Satellite Vessel Monitoring Systems (VMS) and the UK Monitoring, Control and Surveillance System (MCSS). Both of these systems are now UK wide, the MCSS being rolled out to Scottish Fisheries Protection Agency (SFPA) and Department for Agriculture and Rural Development Northern Ireland (DARDNI) during the latter part of 2005. Further development of the MCSS is needed in order to handle the introduction of Administrative Penalties as well as to ensure that information on infringement and enforcement actions taken by the departments is accessible. Another stream of work carried out during the year involved the joining up of data between MCSS and FAD (Fishing Activity Database systems) so that automatic crosschecking can take place on the data held. Work on this is almost completed and is due to be rolled out in summer 2006. In addition, ongoing collaboration with the Sea Fishery Committees is looking at ensuring that the Agency and the SFCs are exchanging data and trials of the MCSS with a SFC is underway.

This increase in gathering information from other sources, along with development of SEPIA risk-based tool and the introduction of more formal intelligence gathering assisted in driving forward the risk-based approach to enforcement. Operations Officers use the intelligence and SEPIA model to consider the medium to long range tasking asset requirements. Other intelligence gathered along with VMS and air/sea sightings data is then considered on a weekly basis so that ships and aircraft are tasked into areas of higher risk or priority. The SEPIA model is an in-house developed model and currently its concept is being proven. If a success, further development of this tool along with other intelligence gathering will be formalised and included in future development work within MCSS.

Business activity	Target	Performance
Enforcement of sea fisheries legislation	Deploy fisheries, enforcement resources and activities on land as follows: - 60% high risk - 30% medium risk - 10% low risk	Close and regular informal monitoring by managers shows compliance with the target. However no formal system existed by which to fully demonstrate observance of the target during 2005-06. Therefore viewed as part met. A system of monitoring is being developed by which to demonstrate performance against this target in 2006-07
	Deploy fisheries, enforcement resources and activities at sea: - 850 patrol days P.A. (+/- 20 days)	Achieved.
	Deploy fisheries, enforcement resources and activities in the air: 1000 hours P.A. (within +100 and -20 hours)	Achieved.

Coastal review

Coastal staff in the Northern and Southern Regions were actively engaged with stakeholders throughout the year, setting up local inshore meetings with members of the fishing industry across the Regions to identify and discuss better ways of improving the management of inshore fisheries. These also involved colleagues from local Sea Fisheries Committees (SFCs) and from Defra's Marine and Fisheries Directorate. They created real opportunities for local fishermen, policy makers and regulators to exchange information and views on key issues.

In response to recommendations in *Net Benefits*, the Agency appointed a Regional Fisheries Manager for the South West on a pilot basis for 12 months. The overall aims, broad functions, scope, responsibilities and duties of the post, which started on 27 February, are to:

- provide a single management focal point for the region working with the fishing industry, wider stakeholders and core Defra to provide a strategic and coordinated overview of the science, economics commercial, social, fisheries and related issues;
- monitor activities and developments in the region and develop management and commercial strategies and approaches taking into account the above;
- bring together all the different views to provide a coherent view/position of fisheries for the region, e.g. through a stakeholder advisory group;
- provide support/input (as appropriate) into the work of the Regional Advisory Council and in particular the demersal and Celtic Sea sub groups;
- facilitate and work with the industry and other stakeholders in cooperating with EU member states with an interest in the region as related fisheries; and
- manage a science budget allocation for the South West and work with industry, stakeholders and core Defra in the follow-up to Invest in Fish project.

Closer links were developed between the Agency, SFCs and Environment Agency (EA) with the aim of producing a more coordinated approach to fisheries monitoring, control and enforcement. This is already proving to be a fruitful relationship, producing an increase in joint operations, increased use, through chartering by the Agency, of SFC and EA patrol vessels, and other benefits including training and health and safety standards.

Agency staff implemented the Registration of Buyers and Sellers (RBS) scheme for trade in first sale fish and this came into effect during the summer. They also oversaw the introduction of the Shellfish Licensing permit scheme, which took effect at the start of 2006. In extending key aspects of the EU Control Regulation to include the buyers and sellers of first sale fish, RBS has brought about a significant change in the requirements placed on the industry as a whole. Coastal staff were heavily involved in preparing the industry for the introduction of both of these new measures and in processing the considerable, additional information which the industry is now obliged to submit to the port offices. In all of this, our coastal staff worked together with buyers and sellers, and with shellfishermen, to assist them in achieving compliance with the new regulations.

In all districts, the Agency continued to deliver a wide range of services for the Agency's customers, and achieved high standards in spite of some persistent staff shortages during the year in some areas. The adoption of risk-based approaches to many aspects of the Agency's work enabled coastal staff to prioritise by identifying the most important tasks and thus make better use of resources to achieve improved outcomes in line with the principal work objectives. Coastal staff adopted local risk-based enforcement plans that enabled them to prioritise the allocation of resources to carry out inspections of fishing vessels and fishing industry premises where they identified greatest risks, including risk of non-compliance with the regulations. There were 105,511 landings of fishing vessels into England and Wales. The Agency carried out 9,444 inspections on land (including inspection in port and landed catches). In addition, 228 checks were undertaken on vehicles transporting fish. In respect of enforcement on land, the Agency issued 307 verbal rebriefs, 19 written warnings and secured 84 successful prosecutions with a total of £212,006 in fines (excluding costs).

Marketing

A risk-based approach to monitoring compliance with EU marketing regulations for the first sale of fishery products was also adopted. This enables priority to be given to those ports where EU market intervention aid is sought if fishery products fail to meet an agreed minimum price for sale for human consumption. There were a total of 346 marketing inspections, 10 withdrawals certified and 10 withdrawals inspected.

Business activity	Target	Performance
Marketing	Certify 100% and inspect at least 80% of withdrawal.	Targets achieved. A risk-based Service Level Agreement with Rural Payments Agency was drawn up in 2005-06, with revised instructions to inspectors. This identifies high-, medium-, low- and no-risk ports, based on the likelihood of fish withdrawals taking place and the presence of first sale auction centres. The instructions, with targets for market visits, grading and withdrawal inspections, were rolled out from 1 March.

Helping to manage the marine environment

Coastal officers undertook their obligations regarding marine environmental protection and enforcement of the Food and Environment Protection Act as it relates to deposits in the sea. This included conducting inspections of accessible construction and disposal activities in the marine environment, such as coastal protection projects and harbour maintenance dredging operations. Coastal officers continue to act as Defra's fisheries representatives on Standing Environment Groups established around the coast for dealing with marine oil and chemical pollution incidents.

Business activity	Target	Performance
Marine environment and fisheries interference	Inspect 100% of FEPA licensed construction activities at least once during licence period.	Not met. Port offices undertake inspections of FEPA licensed construction sites, ensuring that accessible sites are inspected during the licence periods. It should be noted that licensing periods do not correspond with the period covered by the Annual Report making it difficult to measure activities against this target within a business year. A more risk-based approach is to be developed and adopted to these inspection targets that takes into account the environmental sensitivity of the FEPA licensed activity. Appropriate monitoring systems will be put in place. During the past year FEPA disposal operations were also examined and other marine environmental protection and fisheries interference work was undertaken as required.

We propose to revise inspection targets in 2006-07 to reflect a more risk-based approach taking account of the environmental sensitivity of the FEPA licensed activity: appropriate monitoring systems will be put in place. In 2005-06 FEPA disposal operations were also examined and other marine environmental protection and fisheries interference work was undertaken as required.

Biological Sampling

The Agency undertakes a programme of biological sampling of fish for the Centre for Environment, Fisheries and Aquaculture Science (CEFAS). This includes the removal of ear stones (otoliths) and measuring fish and shellfish. Meeting the programme has been a particularly difficult objective for most districts. This was due in the main to reductions in landings from many stocks as a consequence of changes in fleet structure and marketing practices, with much of the fish being consigned direct to overseas markets.

Business activity	Target	Performance
Biological sampling activities	Subject to availability of samples, 90% achievement of target sampling as agreed with the Centre for Environment, Fisheries and Aquaculture Science (CEFAS).	70% achieved. Shortfall primarily due to non-availability of species, caused largely by reduced fishing activity. During the course of the current business year we will agree a new service level agreement with CEFAS to provide for a risk-based approach to this target.

Training

High priority was given to ensuring effective training and development into which considerable resources were devoted. A Learning and Development strategy was developed and was published in January 2006.

In addition to British Sea Fishery Officer training, learning and development was undertaken in the following key areas:

- Investigative law;
- Forensic accounting;
- Financial investigations; and
- In depth investigation skills.

The latter two courses were pilot studies. Further consideration will be given to the development of these courses and to the further development of the programme of BSFO training.

This formal learning and development was supplemented by less formal approaches including exchanges and visits between offices and work areas to help people gain a wider understanding and appreciation of the work of the Agency. Four inspectors took part in visits to other Member States as part of the programme of exchanges to develop understanding and foster relationships with other Member States. The Agency hosted visits from five inspectors from other Member States.

Licensing and monitoring of economic links

Business activity	Target	Performance
UK Vessel licensing and monitoring of economic links	Process 100% of over 10 metre licences by 23 December and 100% of under-10 metre licences biennially by 30 June.	Over 10 metre licence target achieved. On target to achieve issue of under-10 metre licences by 30 June.

Licensing

Fishing licences were issued to all vessels of over 10 metres in length by 23 December in time for the new year. Licences were, for the first time, issued with a validity period of 15

months with a view to issuing biennially from April 2007. This will reduce the administrative burden for both the fishing industry and the Agency.

Economic links

British registered fishing vessels are required to maintain a real economic link with the population of the UK dependent on fisheries and related industries. The aim is to ensure those fishing communities benefit from fishing activity. The economic link requirement can be met in a number of ways:

- landing at least 50% of the vessel's catch of quota stocks by weight into the UK;
- employing a crew of whom at least 50% are normally resident in a UK coastal area;
- incurring operating expenditure in the UK for goods and services provided in UK coastal areas; and
- demonstrating an economic link by other means (including combinations of the above) providing sufficient benefits to populations dependent on fisheries and related industries.

The Agency is required to report annually to Ministers on the industry compliance with the economic links requirements.

The last report into economic links covering 2004 found that there was full compliance with the economic link condition. Some 93% of the UK fleet complied by landing more than 50% of their quota catches into the UK. The remainder did so in a variety of ways including employment of UK resident crew and incurring a significant proportion of their operating expenditure in the UK. Additional quota was obtained for the UK inshore fishing fleet during the course of 2005 under the economic links arrangements.

Quota management

Business activity	Target	Performance
Management of UK fisheries quotas	Issue all provisional quota allocations by 31 March.	Assessment of uptake of UK quotas by 1 March achieved. Issue of provisional allocations achieved.

In 2005, the UK was responsible for managing more than 130 different quotas of which four were over-fished according to catch reports issued by the Commission. These were the result of illegal fishing that came to light following investigations into the pelagic processing sector in Scotland.

During the course of 2005, the Agency undertook over 100 international quota swaps in order to make available the best possible fishing opportunities for the UK fleet. In addition, approximately 1500 domestic quota swaps were organised on behalf of the industry.

Provisional quota allocations for 2006 were issued by the end of March in line with agreed targets.

Management of fleet capacity

During 2005-06 we did not have robust arrangements to monitor our 15-day target for issuing letters of entitlement for transfers between vessels of days at sea under the EU recovery schemes, though the available evidence indicates that the target was met. We will develop a more robust system to measure this activity in 2006-07.

In addition, the Agency set in place systems to monitor and report on fishing vessel activity under the regimes during 2005, adapting systems established during 2004 and developing new systems as required to allow the issue of allocations of days at sea to English and Welsh fishing vessels as well as making up the UK monitoring system.

The Agency submitted the UK's annual report on compliance with the EU fleet entry and exit regime in June 2006. This was submitted after the due date of 1st May due to the need to include an assessment of UK fishing effort, particularly focused on the achievements seen in reducing fishing effort in the areas covered by the Cod Recovery regime in 2004. This was needed as part of the requirement for the report to comment on the balance of the capacity of the UK fleet against the available fishing opportunities.

The UK fishing fleet remained within the fleet capacity ceilings established under the regime, and the UK made significant reductions in the fishing effort.

Business activity	Target	Performance
Management of UK fleet capacity	Issue all letters of entitlement within 15 days of receipt of completed application for transfer of days at sea under EU recovery scheme.	Part met Informal monitoring supports the assessment that this target was met. A system of monitoring is being developed by which to demonstrate performance against this target in 2006-07.

The Agency worked with the Sea Fish Industry Authority and fisheries administrations in the UK to develop an economic model (the Sustainable Fleet Economic Model) as a tool to help identify the sustainable size of the English and Welsh fishing fleet by comparing the current fleet size seen for various sectors with the likely level of catches available in the future for that fleet, and the associated costs involved in catching the fish. This was developed from the relatively simple model produced as part of the work carried out by the Prime Minister's Strategy Unit when preparing the "Net Benefits" report in 2004.

The results are informing decisions on plans for managing the capacity of the English and Welsh fleet. Representatives from parts of the fishing industry were involved in development of the model, with wider consultation on the model and its results to be carried out during 2006.

Management, recording and provision of data on fishing activities and catches

The Agency's Fisheries Statistics Unit produced nearly 400 individual data reports covering a wide range of fisheries activity due either monthly, quarterly or annually.

The majority of these were produced as part of EU legislative requirements – for these the vast majority of statutory reports (i.e. over 95%) were submitted by or before the due dates. Of the others, most were submitted within 5 working days of the due date. Delays are sometimes caused by the fact that data has to be collated from sources other than those under the control of the Agency (e.g. from other fisheries administrations in the UK) as well as the need to ensure the quality of the data before submission. Longer delays are often caused by problems with the European Commission in determining the correct format to be used and method to be followed for reporting data.

Business activity	Target	Performance
Management, recording and provision of data on fishing activities and catches	To enter all information from fish markets, merchants, fishing log books, landing declarations and sales notes onto fisheries database within 5 working days of receipt.	In excess of 40,000 sets of statutory catch returns were received. Target relates to processing returns for which no follow-up or investigative action is required to resolve errors or anomalies. Systems are not yet in place to record these cases separately 94% of all returns including where follow-up action was required were entered within 5 days.

Two key achievements made during the period were the successful re-branding of the annual Sea Fisheries Statistics publication as the first Agency branded publication, and the commencement of the regular publication via the Agency's Internet site of the weekly spreadsheets monitoring uptake of UK quotas. The latter represented the start of a process of increased use of the internet site for the release of statistics.

In addition the Agency provided a major contribution to work to develop UK-wide systems to record data on the activity of UK fishing vessels while at sea and their landings of fish to help improve the efficiency of enforcement work and also to simplify the production of these data reports. In November 2005, the UK Fisheries Monitoring Control and Surveillance System went live in the UK. This provided UK fisheries administrations and enforcement staff with access to satellite positioning data on UK and foreign vessels as well as access to other surveillance and inspection data on a UK-wide basis. Further work is ongoing to establish full data repositories for UK-wide vessel activity and landings data to complement the data held in the MCSS, and also a system of automated cross checks between the two systems is being developed to help improve the targeting and use of resources in enforcement activities.

The Agency has an operational target of entering catch, landing and sales information onto databases within 5 working days of receipt. This target relates to documents where there are no errors or queries: normally some 5-10% of documents require further investigation. Overall 94% of all documents were entered within 5 days of receipt (including those cases where follow-up action was required). The recording systems do not currently enable separate reports to be produced to identify the performance in relation to documentation where there were no errors etc. Changes are being made to the system which will facilitate such monitoring and reporting for future years.

Data Collection

The Agency is required to collect a range of scientific and other data required as inputs into decision making related to implementing the EU Common Fisheries Policy.

The data are used by the international scientific groups that produce the annual assessments of fish stocks, which in turn help to determine the level of quotas set each year. The UK receives partial financial funding for the work, and the Agency acts as the national coordinator for the submission of programme and technical reports, and for the submission of financial reports and subsequent distribution of funds.

Due to increased involvement in scientific groups and a high level of workload from other areas, delays were seen in the compilation and submission of reports to the Commission during 2005. Three reports were due during the 2005-06 period:

- Financial report on UK activities in 2004: due 1st May 2005, submitted 1st November 2005;
- Technical report on UK activities in 2005: due 31st May 2005, submitted 10th June 2005; and
- UK programme of work for 2006: due 31st May 2005, submitted 29th July 2005

The delays did not result in any detrimental impact for the UK. Measures have been taken to ensure that the reporting deadlines during 2006-07 are met.

Future challenges

The new Agency is faced with a number of challenges from 2006-07 onwards, if it is to perform efficiently and effectively in meeting the needs of the fishing industry, the marine environment, and Ministers. During 2006-07 we will focus on:

- implementing enhanced IT systems for cross-checking key management data;
- introducing web-based systems to provide industry access to information on fishing quota up-take;
- implementing a customer satisfaction survey;

- fully embedding new, enhanced risk-based approaches to fisheries and marketing inspections;
- addressing the budgetary changes created by Treasury's revisions to accounting procedures for structural funds;
- introducing a new European Fisheries Fund to replace FIG; and
- subject to Ministerial approval, introducing a new scheme for decommissioning of fishing fleet capacity.

All these challenges must be met in a climate of pressure to reduce costs and numbers of civil servants, while maintaining or improving quality.

Further challenges to the Agency will develop as it responds to two wide-ranging initiatives:

- The Marine Bill; and
- The Comprehensive Spending Review.

A consultation on proposals for a Marine Bill was issued in March 2006. As part of the consultation, consideration is being given to whether a Marine Management Organisation (MMO) should be created to support improvements to marine management processes. No decisions have yet been made on whether there should be an MMO, its status, functions or whether it should incorporate the Marine Fisheries Agency. At the present time it is not possible to comment with any certainty on the variations to the scope and objectives of the Agency, nor of its status beyond the end of the 2007-08 financial year.

In 2005, the Treasury ruled that it would not be carrying out a 2006 round of the biennial Spending Review. Instead, significant parts of Defra's activities would be subjected to a zero-based review, culminating in a Comprehensive Spending Review in 2007. In view of the pressures on the Department's budgets, which constitute Marine Fisheries Agency's main source of funding, this may have an effect on the Agency which cannot yet be estimated. The Agency's funding remains a part of the Defra budget: except for a contribution from the Welsh Assembly Government towards the cost of aerial surveillance activities, the Agency does not charge for its services. The Agency will continue to make representations on its own behalf, and in support of Defra's Marine and Fisheries Director, to ensure proper consideration is given to the impact different funding scenarios might have on the Agency's ability to deliver its objectives.

We will continue to develop our business to meet these challenges, and to serve the needs of our stakeholders.

Financial Review

Delegated Budgets

In 2005-06 the Agency had an operating cost budget of £20,947,000 funded by budgetary allocations to the Agency from within the Defra Departmental Expenditure Limit (DEL).

The table below outlines the budgets available to the different activities of the Agency in 2005-06. A detailed explanation of how these funds were used is at Note 4 to the accounts.

Budgeted Expenditure

Area	£M
Running costs	5.8
Surface Surveillance	5.9
Aerial Surveillance	2.4
Satellite Monitoring	0.2
IT Project and system management	0.8
EU and National Grant Schemes (FIG)	5.8
Soft Charges and Notional Costs	1.4

Budgeted Income

Area	£M
FIFG contributions (surrenderable to the Consolidated Fund)	5.0
National Assembly for Wales contribution to Aerial Surveillance	0.1

Running costs represent the internal costs of salaries and other current expenditure incurred by the Agency's staff during 2005-06.

Surface surveillance represents the cost to the Agency of Royal Navy vessels and crews deployed for fisheries protection duties. Aerial surveillance is the cost to the Agency of aircraft and aircrew for flights by DirectFlight Ltd in support of Royal Navy patrols, shore-based inspections and satellite monitoring. The satellite costs and IT costs represent expenditure on CEFAS, AST and Bluefinger to maintain satellite tracking of the GPS transponders on vessels longer than 10m, and to co-ordinate this information with the vessel licensing data and other computerised records.

The majority of grants paid by the Agency into regeneration areas holding Objective 1 status (Cornwall, Merseyside), and Outside Objective 1 (elsewhere in England) are funded by grants from the European Commission under the Financial Instruments for Fisheries Guidance regulations. An agreed proportion of FIFG grants is payable from national budgets, though this varies between projects and programme categories. Additionally, any grants which the EC later determines are ineligible for FIFG, any grant costs which subsequent investigation proves to have been paid in error and any incidental currency costs incurred in translating Euros into Sterling are funded from National budgets. Under the budgetary rules prevailing in 2005-06, all FIFG expenditure is covered by Departmental DEL budgets; all FIFG income is outside Defra's DEL and must be surrendered to the Consolidated Fund.

Non-cash items in the accounts represent either notional costs or charges from Defra where the DEL budgets and related payments for these services remain with the core Department.

Financial Performance

As reported in the Accounts, the Operating Cost out-turn was £18.319m. This figure includes the effects of FIFG income of £3.118m to be surrendered to the Consolidated Fund, a provision of £0.707m written back, £1.262m of non-cash costs paid from budgets not delegated to the Agency, and £0.129m offset by income appropriated-in-aid. Excluding these effects, the out-turn compared with budgets delegated to the Agency (£20.947m) was £21.011m. This represents an overspend of £64,000 – primarily as a result of increased FIFG expenditure beyond the levels of additional funding (£800,000) provided in-year by Sustainable Food Farming & Fisheries Directorate-General, and belated recognition of a charge to Operating Costs for which the Agency had not budgeted in respect of probable exchange rate losses on the value of FIFG liabilities repayable to the European Commission.

We began the financial year located in three different Defra divisions, and did not reach agreement on the 2005-06 Agency's budget until early December 2005. We were therefore unable to establish full delegated budgets for operational areas during the year. In light of these effects we consider the small overspend to represent a relative success. We will, in any case, continue to improve our financial monitoring systems and reinforce the HQ Finance team during 2006-07 to ensure that the Agency's resources are fully utilised, but contained within budget limits, given the demanding financial environment in which all of Defra and the Defra family operate.

Relations with suppliers

Standard contractual terms of payment require that valid invoices are paid within 30 days of satisfactory receipt of goods and services or an agreed invoice, if that is later; where determined by specific terms of supplier contract or grant scheme the specific terms will take precedence.

Though the Agency did not pay all invoices by their due date in 2005-06, no interest was payable during the year under the Late Payment of Commercial Debts (Interest) Act 1998 (2004-05 – where the Agency bills were paid within Defra - £Nil).

Other performance measures

The Agency must continue to meet its customers' expectations and to continually improve the value it delivers for taxpayers' money.

Business activity	Measure	Performance scoring
Customer Satisfaction	To develop a measure of customer satisfaction and establish baseline levels by March 2006	Measures of customer satisfaction not established in 2005-06. Consultants now in place to establish baseline levels and complete the survey by September 2006.
Organisational efficiency	Establish a plan by which the agency will deliver efficiency gains to the level required by Defra's efficiency programme, contributing at least 2.5% against 2005/6 baselines annually.	Savings of £1.475m offered to central Defra Finance for 2006-07. (Additional funding has been provided for new activities.) Proposals for headcount savings have been submitted to Defra, and will be implemented by mid-2008.

The Agency has now established a Policy Customer Group, has joined the Departmental Customer Focus group, and will shortly commence a survey of its government and industry customers.

In the 2005 business planning round, preparing for the 2006-07 financial year, the Agency was directed by Defra to prepare proposals for reductions in expenditure (5% of 2005-06 budgets in 2006-07, 4% in 2007-08) and headcount (10% of 2004 staff-in-post by 31 March 2008). The Agency has submitted these proposals to the Department. We have made clear to Defra that full implementation of these "savings" would be feasible, but would also risk adverse impact on delivery and cost:

- Reduced funding for grants could limit the options for a scheme to reduce fleet capacity, and could lead to decommitment (surrender) of funding if we are unable to deliver the FIGG programmes we have agreed with the European Commission;
- Reduced capacity to deliver inspection and enforcement activities could expose us to infraction proceedings for failing to adequately enforce EU fisheries regulations.

Defra Management Board had accepted some, but not all, of the proposed financial savings – and both Defra Finance and Defra SFFF Directorate-General provided additional support to allow progress to be made on a possible decommissioning scheme. However, since the Balance Sheet date, further pressures on Defra resulted in a 5% reduction in the Agency's budget. We are reviewing with our main customers in Marine and Fisheries Directorate how best to accommodate this cut and its consequences.

Following the restructuring in Defra Directorates-General, the proposals on headcount reductions are being considered by the new DG for Living Land and Seas. At the date of these accounts, no decision had yet been made on the extent to which the Agency should implement the proposed reductions.

Audit

The Agency's Accounts and parts of the Annual Report are subject to statutory external audit by the Comptroller and Auditor General (C&AG), who reports to Parliament. Officers of the National Audit Office undertake this work on behalf of the C&AG, at a notional cost of £50,000 in relation to the 2005-06 accounts.

No remuneration has been paid by MFA to the auditors, and they have performed no non-audit work for the Agency.

I have notified the auditors that I am not fully aware of all information relating to transactions and balances in the financial year 2004-05 which might relate to the financial condition of the predecessor bodies to the Agency in that period, and am therefore unable to report this information fully to the standard required for audit of the accounts. I have notified the auditors that I am aware of limitations on the quality of information relating to fixed assets, VMS satellite terminal installations, and expenditure on IT services supplied by CEFAS. I have also notified the auditors that the information systems for the Agency are still being developed, and this has been a contributing factor in the limitations outlined above.

These limitations in scope will be reflected in the Comptroller and Auditor General's report on the accounts.

Otherwise, and to the best of my knowledge, I have taken all reasonable steps to make myself aware of the information required for audit of the Agency's accounts, and there is no relevant accounting or other information which has not been disclosed to the auditors.

The Comptroller and Auditor General's Certificate on the Accounts is at page 39 of this annual report.

I am committed to improving the condition of internal control and management information systems during 2006-07.

Nigel Gooding
Chief Executive
Marine Fisheries Agency
18 July 2006

REMUNERATION REPORT

The staff of the Marine Fisheries Agency

The Agency was launched formally with effect from Saturday 1st October 2005 to succeed a number of Divisions formerly located within Defra's Fisheries Directorate⁵. These functions, which were located within the core Department during the period covered by Defra's 2004-05 Consolidated Resource Accounts, were:

- All of the former Sea Fisheries Inspectorate;
- The Grants team from the former Fisheries Division I, excluding their sponsorship role for the Sea-Fish Industry Authority;
- The Fisheries Statistics team from the former Fisheries Division I;
- Licensing and Quota Management teams from Fisheries Division IV; and
- Functions relating to IT systems & EC Aid, from Fisheries Division IV.

The Agency employs some 160 staff.

Roughly half our staff are qualified British Sea Fishery Officers (BSFO). BSFO is a technical and professional qualification, recognising that Agency staff are competent to enforce UK and EU fisheries legislation. Several officers of the Royal Navy Fisheries Protection Squadron and a number of local authority Sea Fisheries Committee inspectors have also trained as BSFOs.

Sixty-five posts are based at the Agency headquarters – currently in Whitehall Place, London; the remainder are located at 20 offices⁶ around the coast of England and Wales. The Agency also has the services of a further five support staff in Wales, employed by the Welsh Assembly Government.

Under terms agreed when the Agency was established, our staff and those of Defra may apply for posts in both the Agency and Defra for which they can demonstrate the required competences.

Diversity and Equality

The Agency encourages staff involvement in the day-to-day running of its activities through normal line management contacts. Both the intranet and regular Office Notices are used to disseminate information.

The Agency encourages personal development and follows an equal opportunities policy for fair and open recruitment of permanent staff regardless of age, disability, sex or ethnic origin. Staff have access to welfare facilities, Trade Union membership and representation. In addition, there are several staff networks that help develop policy and inform staff of the Department's diversity and equality policies, which the Agency follows.

It is both Agency and Departmental policy that there shall be no discrimination against staff on grounds of colour, race, ethnic origin, religion, sex, sexual orientation, marital status, age, disability or (subject to Civil Service rules) national origins. Employment and promotion is solely on merit. Precisely the same standards apply in the assessment of women and men regardless of marital status, domestic responsibilities, ethnic or national origin.

Staff who work reduced hours are assessed on exactly the same basis as those working full-time and without regard to part-time status, subsequent availability or availability of posts. An Agency Equal Opportunity Officer has been appointed as part of a network of Equal Opportunity Officers set-up throughout Defra.

⁵ Since 1 April 2006, the Directorate has taken on new responsibilities for the Marine Bill and management of the Marine Environment, and has been renamed "Marine and Fisheries Directorate".

⁶ 21 in 2005-06, before closure of the Whitby office.

Employment of disabled persons

The Agency follows the Civil Service Code of Practice on the Employment of Disabled People which aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement with the Agency is based solely on ability, qualifications and suitability for the work.

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

Employee involvement

The Agency recognises the very large part that its staff have to play in the development of the organisation.

Supported by effective leadership, staff actively seek better ways to deliver the Agency's outputs and develop, focus and exploit their skills to make maximum impact on the achievement of our priorities.

Achievements and initiatives carried forward during the period include:

- A Full Staff Survey took place in July 2005;
- The Agency has been accredited as meeting the requirements for Investors in People (though it has not yet received separate recognition from Defra);
- Management and staff representatives have met regularly in a number of fora, including an Agency "Whitley" Agreement;
- All managers have been trained in Personal Development Planning, supported by a framework of key competencies developed for Defra.

Contracts of employment

Senior managers at Senior Civil Service rank are appointed by the Secretary of State with the advice of the Cabinet Office. The Chief Executive, Nigel Gooding is a member of the Senior Civil Service (SCS), and is on a permanent contract with Defra.

The other senior managers are not in the SCS, but are on permanent contracts with no specified end date other than the normal retirement date. Officers below SCS grades are appointed by the Chief Executive.

The majority of the Agency's staff, and all members of the senior management committee, are permanent civil servants and employees of the Secretary of State for Environment Food and Rural Affairs. These staff hold permanent contracts, with no specified end-date prior to the 60th birthday⁷ of each individual. Staff on permanent contracts who leave the Agency, other than voluntarily or for disciplinary reasons, will normally receive compensation for loss of employment.

Notice periods

The contract for the Chief Executive conforms to standard Senior Civil Service contracts as determined by the Cabinet Office. The Chief Executive would have to give three months notice of resignation; on dismissal by the Department the Chief Executive would be entitled to a notice period varying with length of service up to a maximum of 13 weeks if for reasons of inefficiency, or 6 months if made compulsorily redundant.

The majority of staff below Senior Civil Service level working for the Agency are on permanent contracts that include standard Civil Service terms. Under their terms and conditions, if their

⁷ Some staff hold reserved rights to remain in service until their 65th birthday.

employment is terminated for reasons other than gross misconduct before the end of four weeks' service, they will be given a period of notice appropriate to the circumstances. This will not exceed five weeks and will not be less than two weeks. Permanent staff with at least four weeks continuous service but less than four years' service will receive five weeks notice. Staff with four or more years continuous service will receive a minimum notice period not less than one week for each year of continuous employment plus one week up to a maximum of 13 weeks.

Other than in misconduct cases, if the minimum period of notice cannot be given staff will receive pay instead of the outstanding period.

The Civil Service compensation scheme would apply in the case of redundancy/early departure/severance for all Agency staff. The Agency has no present liabilities in respect of compensation to senior managers or staff.

Early departure costs

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

One member of staff retired early in 2005-06, resulting in additional costs (paid by Defra) of £44,000.

Senior Management Committee

The FReM requires public bodies to report on the remuneration and rewards paid to the officers holding positions equivalent to executive directors during the financial year. The functions of executive directors for the Agency are delivered by the Agency's Management Committee, which comprises the Agency's senior management team. During 2005-06, the members of the Agency's Management Committee were:

Chief Executive & Chief Inspector of Fisheries	Nigel Gooding* ⁸
Director of Fisheries Statistics	Kevin Williamson
Deputy Chief Inspectors of Fisheries	
– Southern Region (4 districts):	Bill Lewis*
– Northern Region (3 districts):	Neil Wellum*
– HQ Operations (Surface, Aerial and Satellite surveillance):	Gary Owen*
Head of Grants team	Ray Hedley
Head of Fisheries Management & Control Team	Gary Taylor (from 19 September 2005) ⁹
Finance & Business Support ¹⁰	David Williams (from 1 August 2005) ¹¹

⁸ * hold official warrants as British Sea Fisheries Officers

⁹ The Licensing and Quotas roles were performed as part of other teams' roles in Fisheries Directorate prior to Gary Taylor's appointment. No previous incumbent.

¹⁰ Philip Edmunds, who leads the Business Support Unit, also attends the Senior Management Committee as the Agency's senior officer with competencies in Human Resources and Establishments matters.

¹¹ This was a new post for a qualified accountant created for the launch of the Agency. No previous incumbent, though certain duties of the post had been shared between Philip Edmunds and Bill Lewis.

Senior Managers' Remuneration

The Agency continues to participate in Defra collective bargaining on pay and conditions of service. This includes annual reviews of salary negotiated with Defra branches of civil service unions, with an effective date of 1 July.

The Agency has no separate arrangements for review of senior management salaries, nor the salary of the Chief Executive.

Remuneration in the table below includes basic pay, bonuses, overtime and other allowances. Benefits in kind consist of low interest or interest-free loans for additional housing costs or purchase of season tickets: the amounts shown reflect the cost (at 3.5%) to the Exchequer of providing these loans.

During 2005-06, the salaries and other emoluments paid to the Agency's senior managers were:

Officer	Role	Remuneration £'000 (£5k bands)	Benefits in kind £ (£100)
Nigel Gooding	Chief Executive	60 – 65	
Kevin Williamson	Statistics	55 – 60	
Bill Lewis	Southern Region	55 – 60	0 – 100
Neil Wellum	Northern Region	45 – 50	
Gary Owen	HQ Operations	45 – 50	
Ray Hedley	Grants	45 – 50	0 – 100
Gary Taylor	Management & Control	20 – 25 ¹²	
David Williams	Finance / Business Support	30 – 35 ¹³	0 – 100

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year.

Although the schemes are defined benefit schemes, liability for payment of future benefits is a charge to the PCSPS. Agencies and other bodies covered by the PCSPS meet the cost of the pension cover provided for the staff they employ by payment of charges calculated on an accruing basis.

The Agency does not hold detailed information on Retirement Benefits. The Scheme trustees report separately for the PCSPS as a whole, and the Scheme is audited separately. In respect of defined contribution schemes, the Agency recognises the employer contributions payable for the year as part of Staff Costs.

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service, but there is no automatic lump sum on retirement. Classic Plus is essentially a variation of Premium, but with benefits in respect of service prior to 1 October 2002 calculated broadly as per Classic.

¹² Gary Taylor is employed on terms which provide an annual remuneration between £45k-50k. The values reported above are for remuneration actually received since his arrival on 19 September 2005.

¹³ Salary since joining Marine Fisheries Agency on 1 August 2005. Total remuneration 2005-06 paid to David Williams by Defra, including the Agency, was between £45k-£50k.

The partnership pension account is a stakeholder pension arrangement where the employer pays a basic contribution of between 16.2% and 24.6% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions these will be matched by the Employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit (death in service and ill health retirement).

On death, widow(er)'s pensions are payable to a surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension, varying with length of service and not exceeding ten years.

Medical retirement may be considered by the Agency in the event of an officer suffering serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er)'s pensions.

New employees may choose between membership of Premium or a partnership pension account.

During 2005-06 the Agency paid employer's pension contributions totalling £731,000 in respect of its employees.

Further information about Civil Service Pensions can be found on the internet at www.civilservice-pensions.gov.uk

Senior Managers' Pensions

The senior management team are members of the Principal Civil Service Pension Scheme. The Pension Benefits accruing to the Senior Management Committee members during 2005-06, and value of accrued Pension at 31 March 2006 were:

Officer	Increase in pension	Increase in lump sum	Pension at 31 March	Lump sum at 31 March	Cash-Equivalent Transfer Value £ ' 000		
					1 April 05 (£5k)	31 Mar 06 (£5k)	Real Increase Funded by Defra / Marine Fisheries Agency
1	2	3	4	5	6	7	8
Pension benefits accrued (Bands)	£ (£2.5k)	£ (£2.5k)	£'000 (£5k)	£'000 (£5k)	1 April 05 (£5k)	31 Mar 06 (£5k)	Real Increase Funded by Defra / Marine Fisheries Agency
Nigel Gooding	2500 - 5000	7500 - 10000	20 - 25	70 - 75	305 - 310	440 - 445	45
Kevin Williamson	0 - 2500	2500 - 5000	15 - 20	50 - 55	200 - 205	270 - 275	20
Bill Lewis	0 - 2500	2500 - 5000	20 - 25	65 - 70	350 - 355	525 - 530	31
Neil Wellum	0 - 2500	2500 - 5000	10 - 15	30 - 35	130 - 135	180 - 185	15
Gary Owen	0 - 2500	5000 - 7500	10 - 15	30 - 35	110 - 115	175 - 180	29
Ray Hedley	0 - 2500	2500 - 5000	10 - 15	40 - 45	180 - 185	255 - 260	18
Gary Taylor	0 - 2500	5000 - 7500	5 - 10	25 - 30	90 - 100	170 - 175	38
David Williams	0 - 2500	7500 - 10000	15 - 20	50 - 55	205 - 210	305 - 310	44

Columns 6 and 7 show the member's Cash Equivalent Transfer Value (CETV) accrued at the end of the reporting period and twelve months prior to this date. Column 8 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of period.

CETV represents the actuarially assessed capitalised value of the pension scheme accrued by a member at a particular point in time, incorporating the value of the members' accrued benefits and any contingent spouses pension payable from the scheme. CETV would be the

amount paid by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves the scheme and chooses to transfer the benefits accrued. 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 the capacity as senior managers to which disclosure rules apply. The CETV figures and other pension details also include the value of any pension benefit in another scheme or arrangement which the individual has transferred into the Civil Service schemes. They also include any additional benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost.

The values for CETV in the table reflect a substantial increase in 2005-06 as a result of a review by PCSPS of the actuarial assumptions underpinning estimates of public sector pension benefits, following guidelines issued by the Institute and Faculty of Actuaries.

Further details of Staff Costs may be found in Note 3 to the Accounts.

Nigel Gooding
Chief Executive
Marine Fisheries Agency
18 July 2006

RESPONSIBILITIES OF THE CHIEF EXECUTIVE AS ACCOUNTING OFFICER

Under the Government Resources and Accounts Act 2000, the Marine Fisheries Agency is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Marine Fisheries Agency during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Marine Fisheries Agency, the income and expenditure, the recognised gains and losses, and cash-flows for the financial year.

HM Treasury has appointed the Chief Executive of the Marine Fisheries Agency as Accounting Officer of the Agency, with responsibility for preparing the Agency's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the Financial Reporting Manual prepared by HM Treasury and, in particular, to:

- Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgments and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on a going-concern basis.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Marine Fisheries Agency'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 Government Accounting.

The policies, aims and objectives of the Agency are set by Ministers and officials of the Department for Environment, Food and Rural Affairs.

I am accountable for the operations of the Agency to the Secretary of State for Environment Food and Rural Affairs, and to the Department's Permanent Secretary (as principal Accounting Officer) for the resources and assets delegated to the Agency. I report to the department through the Marine Fisheries Agency Steering Group, which acts as the "ownership board" of the Agency.

Though the Agency is a separate business from its parent department, Defra, it continues to use many systems operated by Defra for financial transaction processing, purchasing, payroll, estate management, legal services, information technology, and accounting. To the extent that these services are used by officers of the Agency, I am responsible for the effect these services have on the system of internal control used by the Agency but rely on the departmental Accounting Officer for my assurance that those services are themselves properly controlled.

In meeting this responsibility, I am assisted by the other members of the Agency's Management Committee, informed by the work of Internal Audit, and advised by the Agency's Audit and Risk Committee.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been developing in the Marine Fisheries Agency since the launch of the Agency at 1 October 2005, and up to the date of approval of the annual report and accounts, to accord with HM Treasury guidance.

Marine Fisheries Agency's Capacity to Handle Risk

The purpose of the system of internal control is to manage the risks to the Agency's business. In doing so, the system of internal control provides the means for the Marine Fisheries Agency to:

- secure the agency's assets and information so that they are available for the agency's use;
- make best use of the agency's resources in delivering the objectives set for the Agency by legislation, customers and departmental objectives; and
- account properly for the use made of assets, information and resources.

The internal control system in the Marine Fisheries Agency, like the Agency itself, is still developing. The Agency is only six months old. The usefulness of the budgetary control

reports during that period was limited by delays in finalising the Agency's budget, and in clarifying responsibility between Defra and the Agency for transactions which occurred in the first six months of the financial year. The Steering Board, Audit and Risk Committee, Policy Customer Group have only been instituted in the last three months of the financial year.

Processes for regular review of the Agency's risk profile by its management team and the Steering Board are only now becoming established. These will be supported by regular training for the Management Committee. The Agency also has a continuing programme of job-related training (as part of its performance management and development processes), holds process workshops on specific subjects (including the introduction of the SEPIA enforcement tool) and gathers groups of staff (District Inspectors, Fisheries Officers, Administrative Staff) to regular conferences to ensure that understanding of best practice and business issues is shared at all levels.

The framework of internal control

The system of internal control is designed to be based on an ongoing process of risk management, continuity planning, and systems design and implementation. Together, these are designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

Risk management

The members of the Agency's Management Committee, representing the Agency's business areas, have identified the material high-level risks we face. These risks have been reviewed in compiling the Agency's Business Plan for 2006-07, and agreed with the Steering Board. Responsibilities of individual managers for mitigating action and controls have been agreed internally with the Chief Executive.

From May 2006 onwards monthly meetings of the Senior Management Committee will:

- Consider the Risk Register;
- Review changes to the Register (recognising new risks, removing risks where the residual exposure is no longer material), including whether the risk falls on the Marine Fisheries Agency or on other authorities;
- Consider whether risks should be accepted, controlled or avoided;
- Discuss the effectiveness of mitigating action; and
- Agree the revised Register.

This process includes a highlight report of significant activity by the business in the previous month, and outlines of key events in the coming month.

A quarterly summary of the monthly report, together with the updated Risk Register, will be submitted to each meeting of the Audit and Risk Committee and Agency Steering Board.

Lower-level risks are managed within the Agency's business areas, and through routine management. This includes tailored risk management approaches such as the new SEPIA tool for identifying and recording the relative risks of different fisheries activities, and co-ordinating enforcement operations to match the risk.

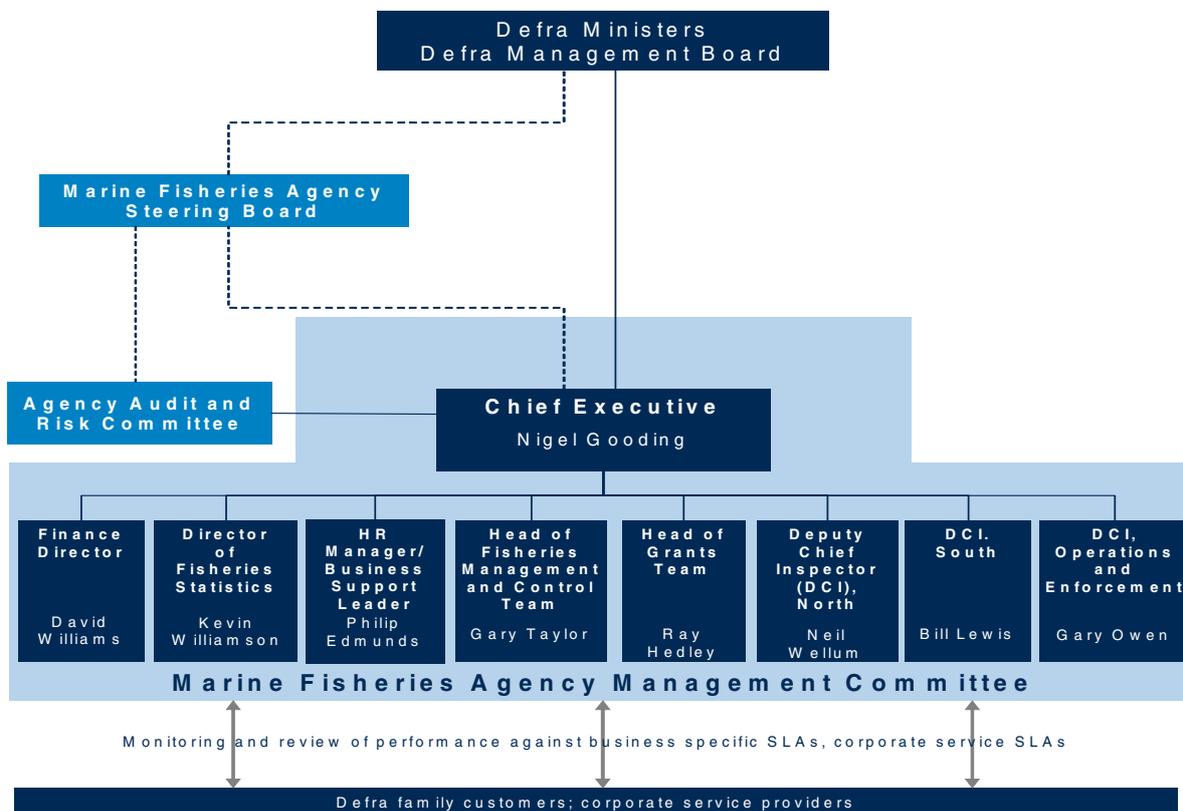
The formal structures of the Agency (see below) provide the framework within which the Agency plans, monitors and responds to relevant issues. These are supported by regular operational meetings such as Health & Safety and Whitley fora, which provide further opportunities for issues to be highlighted as early as possible to management, and dealt with.

All staff are made aware at induction stage of the Agency's risk policy, and this is reinforced at new manager training sessions. Specific training is provided in operational areas such as those affected by health and safety standards – particularly British Sea Fisheries Officers.

Risk and quality awareness continues to be developed in response to internal standards and assessments, and external advice from Defra and the Maritime & Coastguard Agency.

Governance Structure

The roles and responsibilities of each component of the Agency’s governance structure are described below.



Chief Executive

As Chief Executive, I am directly responsible to - and have a right of direct access to - Defra Ministers regarding the Agency’s performance against key targets, and to the Principal Accounting Officer on matters relating to the management, regularity and propriety of the Agency and its financial performance. I meet the Minister and the Principal Accounting Officer at least once a year.

A comprehensive statement of my responsibilities as Accounting Officer for the Agency is reported separately at page 30 above.

Marine Fisheries Agency Steering Board

This group comprises the Departmental sponsor of the Agency (the Head of Defra’s Fishing Industry Management Division), the Agency’s Chief Executive and a number of other senior stakeholders from the Department, as well as non-executive members. It is chaired by Defra’s Marine & Fisheries Director. This forum exists to monitor the performance of the Agency against its plans and key targets on behalf of the Minister and the Welsh Assembly Government and to:

Advise Ministers on:

- Matters relating to the Agency’s plans, priorities, risks, resources and objectives;

- The strategic direction of the Agency, in the context of wider departmental and cross-governmental objectives;
- The performance of the Agency against its strategic objectives;
- Whether the Agency is acting within the overall aims, objectives, and operating framework of the Department; and
- Any significant unresolved disagreement between the Agency and the Department (or any Devolved Administration) and on any significant unresolved problems concerning the relationship between the Agency and its external stakeholders.

Support the Chief Executive by:

- Providing advice, support and assistance as and when required;
- Providing a forum for communication between the Department and the Agency on issues that affect the latter's strategic direction and performance; and
- Providing appropriate delegations and authorities necessary for effective delivery and continuous improvement.

Review and approve the following key Agency documents:

- The framework document;
- The three year corporate plan; and
- The annual business plan.

Audit and Risk Committee

The Audit and Risk Committee provides advice to the Chief Executive and the Steering Board, reports to the Board on the Agency's risk management, financial management, internal control systems and accounts. The Audit and Risk Committee comprises the two non-executive directors from the Steering Board – assisted by representation from internal audit (Defra Internal Audit Division) and the Agency's external auditors (National Audit Office). The Agency Chief Executive and Finance Director also attend.

The Audit and Risk Committee

- Reviews and approves the Agency's Annual Report and Accounts;
- Advises the Chief Executive on matters of internal control;
- Reviews the Agency's Risk Register and advises the Chief Executive;
- Advises the Chief Executive on internal and external audit strategies; and
- Reports to the Steering Board on the Agency's implementation of recommendations arising from audit reports.

Marine Fisheries Agency Management Committee

This group comprises the senior management team of the Agency. It meets monthly to:

- Share information and develop understanding amongst the senior team of the full range of the Agency's work;
- Monitor performance against key targets, agreeing and taking forward actions to address issues where required; and
- Manage and respond to key risks in accordance with the Agency's risk management strategy.

The Chair of the Audit & Risk Committee will attend as appropriate, but at least twice a year.

Policy Customer Group

This forum, which meets quarterly, brings together the Agency Chief Executive and the Agency Management Team with the Defra Heads of Divisions for which the Agency provides a service. Its remit is to:

- Monitor progress against operational targets set out in Service-Level Agreements (SLAs) with policy customers;
- Review policy SLAs and agree changes to agreements and targets when necessary;

- Review resources and priorities required for the delivery of policy SLA targets;
- Identify areas of emerging concern and shared interest between policy and delivery, and address accordingly; and
- Escalate any issues which cannot be resolved to the Agency Steering Board.

This formal meeting supplements regular and informal contact between the Agency and policy teams on service delivery and policy development matters.

Our service level agreement with core-Defra sets out the responsibilities of each party, the activities that will be undertaken, the targets that those activities will seek to achieve and the way in which those targets will be measured. The SLAs with policy divisions are contained within a single document, which is available to everyone in the Agency.

Operational and Financial Controls

This structure is underpinned by the routine operational and financial controls operated in the Agency. The Agency still uses the departmental service suppliers for accounting, personnel, purchasing, payment, invoicing, internal audit, accommodation and estate management, travel services, legal advice, and the majority of its information systems and corporate communications. Accordingly, it has adopted the policies, procedures, and processes of its parent Department.

Project and Programme Management

A number of managers have received formal training in PRINCE 2 and in conducting Gateway reviews following Office of Government Commerce standards.

PPM techniques were used in 2005-06 to manage the development of the operational protocols and software tools for the SEPIA (Systematic Enforcement Prioritisation & Intelligence Assessment) system. Major IT developments for the Agency (by CEFAS and others) are managed under suitable PPM methodologies (usually PRINCE 2). The proposed approach to management and control of third party projects is a factor in considering which FIG applications to fund.

Not all the Agency's work is suited to PPM methods, given the responsive nature of most activities in coastal offices. However, the regional Deputy Chief Inspectors are reviewing with their District Inspectors how best to rationalise and improve the processes carried out in coastal offices – which may allow better local use of PPM methods in delivering the Agency's objectives.

Review of the Effectiveness of Internal Control

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

I have reviewed the condition of internal controls in the Agency, taking into consideration the information provided through regular reviews with my Senior Management Committee, the annual report by Internal Audit and Management Letters provided by external auditors.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Agency's Steering Board and the Audit and Risk Committee. A plan to address the weaknesses described below, and ensure continuous improvement of the system, is in place.

Condition of the internal control framework in 2005-06

The formal governance structures of the Agency were established towards the end of the 2005-06 financial year. At the Agency's launch it had no Steering Board, Audit Committee, nor Customer Policy Group – and undertook minimal recording of its internal Management Committee proceedings. No "Marine Fisheries Agency Project Board" had existed prior to launch to form the nucleus of the Steering Board. All these structures, and the reporting mechanisms to support them, had to be newly established.

The Agency has a very small corporate centre – the core Finance team has only two staff. Therefore the Agency has had little capacity for developing the supporting mechanisms for its governance structure. In turn, this has meant that the effectiveness of the structure is not yet assured.

Therefore, with the advice of the individual committees during 2006-07, I will review and reinforce the supporting mechanisms for each, particularly:

- Contract accountants hired for producing the 2005-06 accounts will assist in developing performance reports for use by the Management Committee and Steering Board;
- The Finance & Business Support team will revise the mechanisms for managing the Risk Register and the Business Continuity Plan to focus more clearly on the current state of the Agency's business – which will also benefit the Audit & Risk Committee; and
- We will carry out a customer survey (to be repeated at least annually) to inform and guide the work of the Customer Policy Group.

Internal procedures

A vital part of internal control is the collection of policies, procedures and systems through which the Agency delivers its normal business.

The change to Agency status has had an impact on how I – as Chief Executive – view the state of internal control. As part of Defra, the component parts of the Marine Fisheries Agency were not viewed as high risk or even material in nature to a Department of more than 9,000 staff and turnover of £5,000m: yet as an Agency in our own right, transactions of less than £50,000 can have a material impact on the business – and now demand a closer scrutiny from managers and auditors than was previously applied. This has revealed considerable work to be done to reinforce internal controls that were previously believed to be good enough.

The policies of the Agency are determined primarily by its Management Committee. For our first year of operation, we have largely retained the policies of Defra – principally the Staff Handbook and Finance Manual. We have not yet established a proper mechanism for reviewing the suitability of these policies for our business, and need to make further progress on presenting the existing policies to the Agency's staff through our intranet site.

The internal procedures of the Agency are largely unchanged from those of the former Sea Fisheries Inspectorate and Fisheries Divisions. In general, these were found to be sufficient for the needs of Defra and remain appropriate for the Agency. However, one effect of the higher risk profile of the Agency has been a significant increase in audit coverage of our systems. This has identified a number of areas where aspects of the existing procedures give rise to risks of fraud and financial loss which could significantly affect the Agency. We will act during the early part of 2006-07 to revise our procedures to mitigate these risks.

Control over fixed assets, and particularly IT purchases, remains weak. I will establish an IT Steering Sub-Committee within the Agency to improve strategic control of Information Systems.

The Agency relies on management direction and oversight to ensure that the activities of the Agency's staff remain focused on delivering our objectives. The Agency is a small business, and relies on a few individuals to maintain effective local controls where central systems are

not yet established. Interim audit work identified that the process of management review was not sufficiently critical, and was not adequately supported by central controls, to ensure that it remained objective and effective. We will recruit additional resources to our central Finance team, and will re-focus our transaction processing towards the centre of the Agency – thereby reducing the risk created by inadequate segregation of financial responsibilities in our coastal offices and releasing capacity for improved operational delivery.

The accounting systems available to the Agency remain those of Defra. Our payroll processing is carried out by CMG Logica PLC on behalf of Defra Human Resources Services Division; our procurement is handled by Defra Procurement and Contracts Division; and our accounting records are maintained by Defra Accounting Services Division (ASD). The information held in Defra's accounting system does not fully meet the needs of the Agency. Nor is it presented in a form that is readily useable by the Agency's managers, or stored consistently in a manner that allows easy review by management or auditors. We are therefore reviewing the structure of the Chart of Accounts used by the Agency, and the management accounting reports produced by ASD, to establish a financial information system better suited to enabling Marine Fisheries Agency managers to control the business.

Audit and other Review Bodies

My appreciation of the present state of internal control in our internal systems has been substantially informed by the work of the agency's internal auditors (who report to me), and by the work of other independent external auditors and reviewers with specific interests in the financial or operational activities of the Agency.

The work of the National Audit Office is not directly intended to provide an assurance on internal controls. However, their audit of the Agency's accounts has highlighted the existence of a number of weaknesses, and drawn attention to their potential impact on the Agency, which will assist me in developing the systems of internal control.

The Agency's internal audit service is provided by Defra Internal Audit Division (IAD). Internal Audit operates independently of the Agency's managers, and reports to me on the assurance it can provide on the state of internal controls in the Agency, or on its recommendations to improve controls where the risks of business areas are not yet being adequately controlled. The Audit & Risk Committee agreed the Internal Audit Strategy for 2006-07 at its meeting in May, and will review the 2006-07 Audit Plan shortly.

Inspectors and auditors employed by the European Commission also review that part of the UK marine and fisheries regime delivered by the Agency to report to the Commission whether the outcome of Agency enforcement activities comply with European legislation and regulations, and whether claims under the FIGG grant schemes are adequately supported by evidence and control processes. Together with my executive managers, I can draw on the information in reports by these EC authorities to identify risks which require improvements in operational areas of the internal control system, and derive a measure of assurance that other risks are being adequately addressed. In 2004-05 the EC inspectors identified a number of areas where the UK authorities (including the Agency) had not complied fully with the relevant fisheries regulations. The UK was served with a "Reasoned Opinion" criticising management of fisheries across the UK, to which the Department has responded. We await further consideration from the Commission, which might – if they are not satisfied with the UK response – result in referral to the European Court of Justice (ECJ). The ECJ has powers to impose heavy financial penalties if it finds that member states are not meeting their obligations under the Common Fisheries Policy. (The French government has been penalised €20m initially to be followed by €57m every six months if the controls needed to comply with the regulations are not established.) We do not anticipate similar penalties accruing to the UK, and have taken no accounting measures yet, but are acting on the criticism of the EC inspectors to ensure the Agency complies with the regulations.

Conclusion - Significant Control Issues

Internal control systems in the Marine Fisheries Agency remain in a state of development and are not yet fully geared to meeting the needs of the Agency as a separate business.

Control weaknesses in our accounting processes prior to the Agency launch in October 2005 have prevented us delivering robust and reliable information for the prior year period (2004-05). This includes fixed asset balances, IT service expenditure, and expenditure on installations of VMS terminals which will, until the issues are resolved, have a continuing effect on the reliability of the accounts.

I am committed to improving the Agency's internal control system during the course of 2006-07.

Nigel Gooding
Chief Executive
Marine Fisheries Agency
18 July 2006

Marine Fisheries Agency

THE CERTIFICATE & REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Marine Fisheries Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related Notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the Annual 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 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 31 to 38 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Agency'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 only the Chief Executive's Overview, the Annual Report (Management Commentary) and the unaudited part of the Remuneration Report. I consider the implications for my report 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 opinion

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 judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned 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.

However, the evidence available to confirm the tangible fixed assets held by the Agency and their values (and the values of related depreciation and revaluation) was not sufficient to support an independent audit opinion. The evidence available to me to confirm whether 2005-06 expenditure is accurately stated was limited in that it was not possible to obtain sufficient supporting evidence for expenditure relating to satellite surveillance and information technology for fisheries enforcement. The evidence available in relation to the prior year income and expenditure figures included in the financial statements was limited in that it was not possible to obtain reliable evidence that the figures had been properly derived to reflect a complete and accurate position for the Agency. There were no other satisfactory audit procedures I could adopt to confirm that these figures were accurate.

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.

Qualified opinion arising from a limitation in audit scope

In my opinion:

- except for any adjustments which might have been found to be necessary had I been able to obtain sufficient evidence concerning :
 - the existence and value of tangible fixed assets (and the values of related depreciation and revaluation);
 - 2005-06 expenditure on satellite surveillance and information technology for fisheries enforcement; and
 - the Agency's prior year income and expenditure figures,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 Agency's affairs as at 31 March 2006, and of the net operating cost, 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
- 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 respect of the limitation on my work relating to the existence and value of fixed assets (and the values of related depreciation and revaluation), 2005-06 expenditure on satellite surveillance and information technology for fisheries enforcement expenditure and the Agency's prior year income and expenditure figures :

- I have not obtained all the information and explanations that I considered necessary for the purposes of my audit; and
- I was unable to conclude that proper accounting records had been maintained.

My report on pages 42 to 45 provides further details.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
20 July 2006

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Introduction

1. The Marine Fisheries Agency (MFA) was established on 1 October 2005 as an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra) to bring together the service delivery, inspection and enforcement activities provided by the Government to the fishing industry.
2. The MFA is required, under S 7(2) of the Government Resources and Accounts Act 2000, to produce accounts which meet the financial reporting requirements specified in HM Treasury's Government Financial Reporting Manual (FReM). The FReM designates the movement of responsibilities from one reportable entity to another within government as a Machinery of Government change. Such changes are accounted for as 'mergers' or 'de-mergers' and therefore should follow the requirements of Financial Reporting Standard 6, "Acquisitions and Mergers" (FRS 6). To ensure comparability between accounting periods, the Standard requires prior year comparative figures to be produced for the income, expenditure, assets and liabilities of the merged or de-merged organisations.
3. Under Section 7(3) of the Government Resources and Accounts Act 2000, I provide an audit opinion as to whether the financial statements of the MFA provide a true and fair view of the state of affairs of the entity. I have limited the scope of my audit opinion on these financial statements because:
 - the evidence available to confirm the existence and value of tangible fixed assets held by the Agency (stated at £1.068 million) and related depreciation (stated at £375,000) and revaluation (stated at £42,000 net) was not sufficient to support an independent audit opinion;
 - the MFA was unable to provide me with sufficient, appropriate evidence to demonstrate the completeness and accuracy of 2005-06 expenditure transactions for satellite surveillance (stated at £348,000) and information technology for fisheries enforcement (stated at £874,000); and

- the MFA was unable to provide me with sufficient, appropriate evidence to support the prior year income (stated at £4.038 million) and expenditure (stated at £22.171 million) presented in these accounts.
4. Because of limitations in the evidence available to me, I have been unable to audit the figures noted above. There were no other audit procedures I could adopt to satisfy myself that the value of tangible fixed assets (and related depreciation and revaluation); 2005-06 expenditure on satellite surveillance and information technology for fisheries enforcement; and the prior year income and expenditure figures were not materially misstated. This Report sets out my findings in more detail.

Determination of 2005-06 and 2004-05 income, expenditure, assets and liabilities for the MFA

5. The Agency was formed by de-merging several delivery teams from the Fisheries Directorate within Defra. As this was only a partial de-merger, with other Fisheries Directorate teams remaining within Defra, the process of establishing a true and fair view of the MFA's activities, including prior year comparative figures, was a complicated exercise.
6. The activities of what is now the MFA were previously accounted for within Defra's annual resource accounts and have never before been separately identified and reported. In the course of my audit of these first accounts of the MFA, my staff have encountered a number of instances where the Agency could not present full supporting evidence or explanations for transactions or balances, or could do so only after extensive review of historical information. My staff will report separately to Defra on the lessons that can be learned for the future about transferring responsibilities to newly-created bodies and confirming the reliability of financial transactions and balances that are to be split out from the Department's accounting records.
7. Following my initial audit findings, the Agency undertook detailed work to substantiate the opening balance sheet figures for 2005-06 and the income and expenditure figures for 2005-06. This work produced evidence that has enabled me to be satisfied about the completeness and accuracy of most of the figures

- presented for 2005-06. I have also been able to satisfy myself that, in all material respects, the expenditure and income transactions in 2005-06 have been applied to the purposes intended by Parliament.
8. I am unable, however, to conclude my audit of tangible fixed assets because the Agency can not confirm that the figures presented in the accounts for expenditure on the development of information technology systems provide a defensible valuation for the assets that it holds. The evidence available does not adequately support the value of £709,000 ascribed to IT systems, nor the £353,000 ascribed to 'construction in progress'.
 9. I am unable to conclude my audit of expenditure for satellite surveillance and information technology for fisheries enforcement because the Agency could not provide all of the supporting evidence that I required to reconcile the figures presented in the accounts with records of underlying activity. The total amount of expenditure on these activities, as stated in the accounts, is £1.222 million out of the total reported expenditure of £21.566 million. I have insufficient evidence to be satisfied that the transactions have been treated correctly as capital expenditure or revenue expenditure, which also creates uncertainty over the accuracy and completeness of the values for tangible fixed assets presented in the Agency's accounts.
 10. In spite of the extensive work that we have carried out to audit and correct the 2005-06 accounting data, the Agency accepts that there is reasonable doubt as to the accuracy and completeness of the figures provided for 2004-05. The Agency is unable to substantiate the income and expenditure figures for 2004-05 without incurring disproportionate costs.
 11. The Agency is still working towards implementing systems and controls throughout the organisation. My staff have recommended that the Agency establishes robust financial management controls as soon as possible during 2006-07. It is vital that the Agency carries out this work now if it is to have a strong system of internal control and effective controls over the preparation of future financial statements.

Future effects of the limitation in scope

12. The Agency is confident that the major financial accounting issues it has faced during the period have arisen from the de-merger from Defra and the associated requirement to identify and report separately for activities that were previously not separately identified in Defra's resource accounts. The Agency should now undertake work to establish reliable fixed asset records and to establish robust values for individual assets. The Agency should also establish a systematic approach to recognising expenditure that creates new assets or adds value to assets that are under construction.

John Bourn

**Comptroller and Auditor General
20 July 2006**

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

OPERATING COST STATEMENT FOR THE PERIOD ENDED 31 MARCH 2006

Operating Costs and Income

		2005-06			2004-05
		£000			£000
	Note	Staff Costs	Other Costs	Income	Total
Programme Costs					
Staff Costs	3	5,126			5,126
Programme Costs	4		16,440		16,440
Income	6			(3,247)	(3,247)
					.
Totals		5,126	16,440	(3,247)	18,319
NET OPERATING COST					18,319

Operating costs are shown net of recoverable VAT, where applicable.

All operations are expected to continue in 2006-07.

The Agency had no other recognised gains or losses in 2005-06.

The Notes on Pages 49-66 also form part of the these financial statements.

BALANCE SHEET AT 31 MARCH 2006

	Note	31 March 2006		31 March 2005	
		£000	£000	£000	£000
Fixed Assets					
Tangible Assets	7	1,068		1,322	
Intangible Assets	8	61		71	
			1,129		1,393
Current Assets					
Debtors	9	706		216	
Cash at Bank and in Hand	10	12,470		11,194	
		13,176		11,410	
Creditors falling due within one year	11	(18,965)		(3,301)	
Net Current Assets (Liabilities)			(5,789)		8,109
Total Assets less Current Liabilities			(4,660)		9,502
Creditors falling due after more than one year	11		(3,853)		(19,205)
Provisions for Liabilities and Charges	12		(3,304)		(1,440)
Net Assets (Liabilities)			(11,817)		(11,143)
General Fund	15		(11,817)		(11,143)

The Notes on Pages 49-66 also form part of the these financial statements.

Nigel Gooding
Chief Executive
Marine Fisheries Agency
18 July 2006

CASH FLOW STATEMENT FOR PERIOD ENDED 31 MARCH 2006

	Note	2005-06 £000	2004-05 £000
Net cash outflow from operating activities	16a	(15,371)	(9,548)
Capital expenditure and financial investment	16b	(79)	(247)
Financing	16c	16,726	14,231
Increase (decrease) in Cash in the period		<u>1,276</u>	<u>4,436</u>

The Notes on Pages 49-66 also form part of the these financial statements.

NOTES TO THE ACCOUNTS

Note 1 Accounting policies

Requirement to prepare accounts

These accounts have been prepared in accordance with the direction given by HM Treasury in pursuance of Section 7 of the Government Resources and Accounts Act 2000.

The accounts have been prepared in accordance with generally accepted accounting principles for the UK public sector, as specified in HM Treasury's Financial Reporting Manual (FReM).¹⁴ Any exceptions to UK GAAP or the FReM are reported in these Notes.

These accounts will also be consolidated into the Departmental Consolidated Resource Accounts for the Department for Environment, Food and Rural Affairs (Defra).

Accounting Records

The information contained in these accounts has been prepared from accounting records maintained by the Marine Fisheries Agency, using accounting systems provided by Defra Accounting Services Division (ASD). The information presented here has been compiled using reports from the accounting system, or revised by the Agency's Head of Finance and Business Support to take account of effects not recorded in the accounting records at the Balance Sheet date.

Regardless of the responsibilities of ASD under their service level agreement with the Agency, the Chief Executive of the Marine Fisheries Agency is responsible for ensuring that these accounts present a true and fair view of the assets and liabilities of the Agency at the Balance Sheet date, of the financial effects of operations during 2005-06 reported in the Operating Cost statement, and of the specific financial transactions and balances reported in the Notes to these Accounts.

Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of tangible fixed assets and stocks where material, at their value to the Agency by reference to their current costs.

Grants and subsidies

Payments of grants to end recipients are recorded as expenditure on an annual basis.

For grants under FIGG, expenditure is recognised on receipt of a valid claim from the project authorities. We also disclose as financial commitments amounts for which an offer letter has been issued to the project authority. As this commitment is dependent on the projects being delivered and evidenced in valid claims, we do not recognise these amounts as liabilities.

Under FIGG, we also receive funding from the European Commission (EC) to meet an agreed proportion of project expenditure. We recognise this as income in the Operating Cost Statement.

Other UK Paying Agencies make payments to claimants for certain schemes (principally EC Aid and EC Data Collection) and account for them. We co-ordinate this expenditure, and submit programme plans and claims to the EC. The Agency does not report within its own accounts on the claims and disbursements, income and expenditure, relating to third party

¹⁴ The FReM can be found at www.financial-reporting.gov.uk

paying agencies – unless temporarily holding funds received from the EC which have not yet been disbursed.

The Agency accrues for liabilities which are to be included in EC clearance decisions when the EC have made formal proposals for disallowance under Article 8-1.

Tangible fixed assets (Note 7)

The Agency has no freehold nor long leasehold property.

Other tangible assets have been stated at modified historical cost using suitable indices provided by the Office of National Statistics where the difference in value created by indexation is material.

The minimum level of capitalisation is £2,000. Tangible fixed assets are capitalised if the purchase cost equals or exceeds this threshold and where there is an expected useful economic life of more than one year. Where assets are acquired in their completed form, the cost of the asset is recognised as the purchase price together with any related installation costs.

Internally developed fixed assets are recognised as construction in progress (CIP) and treated as capital expenditure, but not depreciated until the project is brought into service. CIP is not revalued. Internally-developed computer software normally includes capitalisation of internal IT staff costs on projects costing in excess of £50,000. Such projects are capitalised on the basis of the aggregated cost of staff input, by grade, at standard salary rates (calculated annually), together with related materials or software costs where these were essential to the creation of the individual asset.

Depreciation (Note 4, 7)

Depreciation is provided at rates calculated to write-off the valuation of 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, or on assets in the course of construction. Fixed asset lives are estimated on the basis of the period during which they are expected to provide positive benefits to the business, usually as defined by contract with the supplier or estimated on the basis of our own intentions to replace or upgrade obsolete assets. Such lives will generally be within ranges:

- Scientific Equipment 5 to 15 years
- Information Technology 3 to 10 years
- Office Equipment 5 to 10 years
- Intangible Assets 2 to 20 years

Intangible fixed assets (Note 8)

The Agency holds various software licences which were capitalised at purchase cost. Such assets are not revalued. They are amortised, and reviewed annually for any impairment to ensure they are not carried in the balance sheet above their recoverable amounts.

Stocks and work in progress

The Agency has no trading stocks nor work-in-progress. A small stock of stationery and other consumable items is retained in each office, but the volume and value is not material.

Programme expenditure and income (Notes 4 and 6)

Operating income is income which relates directly to the operating activities of the Agency.

The Agency's main source of income is the European Commission, from whom the Agency receives funding under FIFG towards the cost of fishing industry grants and – where it undertakes eligible activities - EC Aid support for fisheries enforcement. This income was not Appropriated-in-Aid to the Agency during 2005-06, but was surrendered to the Consolidated Fund.

The Agency receives a contribution of 6% from the Welsh Assembly Government towards the cost of aerial surveillance of fishing activity in English and Welsh waters.

As a front-line service, all of the Agency's costs are treated as Programme Expenditure.

Proceeds of Court Cases

Awards for costs levied by the courts in cases brought by the Agency are payable to Defra, and are applied by Defra Legal Divisions to offset relevant expenditure. Receipts in respect of penalty fines are surrendered to the Consolidated Fund.

Cost of capital charge

A charge reflecting the cost of capital utilised by the Agency is normally included in operating cost. The charge is calculated at the real rate set by HM Treasury currently 3.5% on all assets less liabilities, except for donated assets and cash balances with the Office of HM Paymaster General.

Where reporting entities have Net *Liabilities*, however, no notional "capital credit" gain is payable by Treasury to the entity. The Agency has net liabilities and therefore reports no cost of capital charge.

Foreign exchange risk

The Agency holds no financial instruments. The Agency does undertake transactions in foreign currencies, mainly Euros, but does not hold hedges or derivative investments to offset gains or losses.

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. Gains or losses on translation are dealt with in the Operating Cost Statement in accordance with the FReM.

Value Added Tax (VAT)

The activities of the Agency are outside the scope of VAT and in general output tax does not apply and input tax on most purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

Losses and Special Payments (Note 5)

In accordance with Government Accounting, and Departmental Policies, the Agency is obliged to notify the Department of all Losses or Special Payments, and to notify HM Treasury and Parliament where the value of any individual losses or special payments, or aggregate thereof, is material in value or nature according to limits described in Government Accounting.

Provisions (Note 12)

Where events prior to the Balance Sheet date give rise to future liabilities whose timing or valuation is uncertain, the Agency establishes a Provision by charging the Operating Cost Statement with an estimate of the future liabilities which will arise.

Contingent liabilities (Note 13)

In addition to contingent liabilities disclosed in accordance with FRS 12, the Agency discloses, for Parliamentary reporting and accountability purposes, certain contingent liabilities where the likelihood of a transfer of economic benefit is remote – unless disclosure of those remote liabilities is itself believed likely to increase the possibility of the liability being accrued, or the value of these remote liabilities is not material. All such liabilities are reported internally to the Department.

Note 2 Transfer of Functions

The Marine Fisheries Agency was established on 1 October 2005, to incorporate the functions of:

- The Sea Fisheries Inspectorate;
- Grants team and Fisheries Statistics Unit from within Fisheries Division 1;
- Staff working on Licensing of Fishing Vessels and management of Quotas from within Fisheries Division 4; and
- Certain procurement functions, including those for IT, from Fisheries Division 4.

The activities of the Agency were previously reported in Defra's annual Resource Accounts up to the financial year 2004-05. Compared with the position at 31 March 2005, as reported by Defra, the Department transferred to the Marine Fisheries Agency:

- 156 staff, occupying 150.8 full-time equivalent posts;
- A balance sheet of Net Liabilities of £20.412million; and
- Activities attracting an Operating Cost in excess of £18m a year.

The values reported in these accounts as relating to the opening position for the financial year as at 1 April 2005 were entirely within the core of the Department for Environment Food and Rural Affairs.

The balances separated from Defra are at the values shown in these financial statements and match those identified by the core Department as relating to the Agency, except for the following differences identified in the course of preparing this annual report and accounts.

	Unadjusted balance as at 31 March 2005 £'000	Adjustments £'000	Adjusted balance at 31 March 2005 as per accounts £'000
Assets	1,393	-	1,393
Debtors	4,037	(3,821)	216
Cash	-	11,194	11,194
Creditors	(20,491)	(2,015)	(22,506)
Provisions	(5,351)	3,911	(1,440)
	(20,412)	9,269	(11,143)
General Fund Balance			(11,143)

Note 3 Staff Numbers And Costs

	2005-06			2004-05
	Permanently employed staff	Others	Total	Total
Within Programme Costs	£ 000	£ 000	£ 000	£ 000
Wages and salaries	3,962	117	4,079	3,614
Social Security Costs	312	4	316	296
Other Pension Costs	731	-	731	501
Total Net Costs	5,005	121	5,126	4,411

By Programme Objective	2005-06		
	Permanently employed staff	Others	Total
Protect and improve environment	1	-	1
Enhance opportunity and sustainable rural areas	-	-	-
Sustainable food supply	11	1	12
Sustainable and adaptable modern farming	-	-	-
Sustainable management and prudent use of resources	133	8	141
Protecting public health	-	-	-
TOTAL	145	9	154

Note 4 Analysis of Programme Costs

	2005-06	2004-05
	£ 000	£ 000
Frontline Services - Programme costs:		
Surface Surveillance	5,894	5,928
Aerial Surveillance	2,056	2,546
IT for Fisheries Enforcement	874	0
Travel, Subsistence and Hospitality	435	294
Satellite Surveillance	348	0
Estate Management	247	312
Other Expenditure	243	897
SFPA Designated Port Scheme	68	0
Foreign Currency Exchange rate loss	56	0
Telecommunications	48	0
Vehicles	34	0
Equipment and Equipment Hire	32	0
Sub Total FLS -Programme Costs	10,335	9,977
EU grants:		
Capital - FIFG - EU Commission	3,118	6,657
Capital - FIFG - National Contributions	2,432	0
Sub Total - EU Grants	5,550	6,657
Non cash items:		
Notional charges for Defra shared services	726	714
Provision Write Back	(707)	0
Depreciation	375	412
Downward revaluation	57	0
Auditor's remuneration and expenses	50	0
Amortisation	10	0
Early Retirement	44	0
Sub Total - Non Cash Items	555	1,126
Total programme expenditure	16,440	17,760
Analysis of EU Grants by recipient		
Private Sector	1,527	
Public Sector	4,023	
Total	5,550	

Note 5 Losses and Special Payments

Programme Costs (Note 4) include Losses and Special Payments.

Expenditure on Aerial Surveillance includes sums totalling £190,961.88 paid in Value Added Tax. This should have been reclaimed to the Agency's budgets from HM Revenue and Customs, but the nature of the error that gave rise to the cost was not discovered and corrected in time. Therefore this amount should be recognised as a cash loss caused by nugatory expenditure. The system error that gave rise to this loss was corrected when the Agency was established.

The value of other losses and special payments (£8,839.57) comprises one financial loss caused by an overpayment of salary arising on the death in service of a member of staff, and two special payments in respect of losses incurred by third parties to which errors by the Marine Fisheries Agency and its agents may have contributed.

Details of each case have been reported to the Department, but under Government Accounting do not need to be separately notified to Parliament.

Note 6 Analysis of Income

	2005-06 £000	2004-05 £000
Programme Income		
Front Line services	0	2
EU Funding - FIG	3,118	3,916
Aerial Surveillance	112	0
Other	17	120
TOTAL	3,247	4,038

Note 7 Tangible Fixed Assets

	Scientific Equipment	IT	Office Equipment £000	CIP	Total
Cost or valuation					
Cost or valuation at 31 March 2005	0	1,452	14	279	1,745
Additions	5	0	0	74	79
Transfers	0	0	0	0	0
Disposals	0	0	0	0	0
Reclassifications	0	0	0	0	0
Revaluations	0	(57)	(0)	0	(57)
At 31 March 2006	5	1,395	14	353	1,767
Depreciation					
Depreciation 31 March 2005	0	(411)	(12)	0	(423)
Charged in year	(0)	(374)	(1)	0	(375)
Transfers	0	0	0	0	0
Disposals	0	0	0	0	0
Revaluations	0	99	0	0	99
At 31 March 2006	(0)	(686)	(13)	0	(699)
Net Book Value at 31 March 2006	5	709	1	353	1,068
Net Book Value at 31 March 2005	0	1,041	2	279	1,322
Assets financing					
Owned	5	709	1	353	1,068
Finance leased	0	0	0	0	0
Net Book Value at 31 March 2006	5	709	1	353	1,068

Note 8 Intangible Fixed Assets

	2005-06 £ 000
Cost or valuation	
At 1 April 2005	75
Additions	-
Disposals	-
Transfer	-
Reclassification	-
Revaluation	-
At 31 March 2006	<u>75</u>
Amortisation	
At 1 April 2005	(4)
Charged In Year	(10)
Disposals	-
Transfer	-
Reclassification	-
Revaluation	-
At 31 March 2006	<u>(14)</u>
Net Book Value at 31 March 2006	<u>61</u>
Net Book Value at 31 March 2005	<u>71</u>

Intangible assets consist of software licences for two software programmes which support the satellite surveillance system. The cost of this software is amortised over the life of the support contract agreed with the supplier.

Note 9 Debtors

	2005-06	2004-05
	£000	£000
Amounts falling due within one year		
EC FIG Debtor	556	155
VAT	77	0
Payroll Advances	33	37
Other Debtors	22	7
Accrued income	12	13
Travel Imprests	6	4
Total due within one year	706	216
Total debtors	706	216
9(b) Intra-Government Balances		
Balances with other central government bodies	111	13
Subtotal:intra-government balances	111	13
Balances with bodies external to government	595	203
Total Debtors at 31 March	706	216

Note 10 Cash at bank and in hand

	2005-06	2004-05
	£000	£000
Balance at 1 April	11,194	6,758
Net change in cash balances	1,276	4,436
Balance at 31 March	12,470	11,194

Note 11 Creditors

	2005-06	2004-05
	£000	£000
11(a) Amounts falling due within one year		
Payable to SEERAD for FIFG Funds Recd	12,822	0
Surface Surveillance	4,193	1,487
FIFG Creditors	734	193
Defra Recharges & Accruals	703	0
Aerial Surveillance	204	347
Harbour Grants	130	1,032
Other	90	127
Trade Creditors	69	115
Designated Ports Scheme	20	0
Total due within one year	18,965	3,301
Amounts falling due after more than one year		
EU Commission - FIFG	3,853	6,383
Payable to SEERAD for FIFG Funds Received	0	12,822
Total due after more than one year	3,853	19,205
Total creditors	22,818	22,506
11(b) Intra-Government Balances		
Balances with other central government bodies	18,976	14,371
Balances with local authorities	133	1,032
Subtotal: intra-government balances	19,109	15,403
Balances with bodies external to government	3,709	7,103
Total Creditors at 31 March	22,818	22,506

Note 12 Provisions for liabilities and charges

Programme provisions - FIFG	
£000	
Balance at 1 April 2005	(1,440)
Reclassification from Creditors	(2,571)
Provisions not required written back	707
Balance at 31 March 2006	(3,304)

The Agency has provided for liabilities arising in respect of surplus advances made by the European Commission for the FIFG Programmes (Objective 5a and PESCA) for 1994-99, and for financial corrections identified in the Programme Closure Report.

Note 13 Contingent Liabilities

2005-06	
£000	
European Commission	
2000-2006 FIFG Programme 7% advance recoverable from SEERAD and WAG	3,126
1994-1999 FIFG Objective 5a receipts recoverable from SEERAD	1,759
1994-1999 FIFG Objective 5a claims under consideration	266
Total	<u>5,151</u>

The Agency acts as the Member State Managing Authority for the UK under FIFG. As such, it is responsible for accounting to the European Commission on closure of the FIFG schemes for any surplus advances or financial corrections made in respect of claims by the Welsh Assembly Government and Scottish Executive. The amounts shown would be repayable initially by the Agency, but would subsequently be recovered from the other authorities.

Note 14 Expenditure Commitments

The Agency is obliged under its existing contracts to undertake expenditure in 2006-07 estimated as follows:

	£'000
Surface Surveillance	5,600
Aerial Surveillance	1,720
IT Support Services	288

Subject to receiving appropriate evidence in support of claims, the Agency also expects to incur further grant expenditure over the period 2006-07 to 2008-09 in respect of obligations and undertakings to projects under FIG, estimated at:

	£'000
FIG – Objective 1	1,581
FIG – Outside Objective 1	3,981

Of these amounts, up to £5.113m would be eligible to be funded by the European Commission, reducing the net cost to the Department to an estimated £0.449m.

The timing of this expenditure cannot be determined with certainty at this stage, as the EU regulations allow project claimants a number of years to complete their claims.

Note 15 General Fund

	Note	2005-06 £000	2004-05 £000
Balance at 1 April		11,143	7,241
Net Parliamentary Funding:			
Drawn Down	16	(16,726)	(14,231)
Net Transfer from Operating Activities:			
Net Operating Cost		18,319	18,133
Non Cash Charges:			
Early Departure	4	(44)	0
Auditor's remuneration	4	(50)	0
Other Non Cash	4	(726)	0
Backlog Depreciation	7	(99)	0
Balance at 31 March		11,817	11,143

Note 16 Notes to the Cash Flow Statement

		2005-06 £000	2004-05 £000
16(a) Reconciliation of operating cost to operating cash flows	Note		
Net operating cost		(18,319)	(18,133)
Adjust for non-cash transactions:	4	555	1,126
(Increase)/Decrease in Debtors	9	(490)	(3,110)
Increase/(Decrease) in Creditors	11	312	10,569
		(17,942)	(9,548)
Reclassification from Creditor to Provision	12	2,571	0
Net cash outflow from operating activities		(15,371)	(9,548)
16(b) Analysis of capital expenditure and financial investment			
Tangible fixed asset additions	7	(79)	(247)
Net cash outflow from investment activities		(79)	(247)
16(c) Analysis of financing			
From Consolidated Fund (Supply): current year		16,726	14,231
Net financing		16,726	14,231

Note 17 Events Occurring After the Balance Sheet Date

We are not aware of any events subsequent to the Balance Sheet date which might materially affect the valuations and balances presented in these accounts.

Note 18 Prior Year Adjustments

Where the values of balances and transactions of the Agency differ materially from those ascribed by Defra in previous periods to the business areas which were combined to create the Agency, these have been recognised in Note 2, Transfer of Functions.

Note 19 Going Concern

The Agency's Balance Sheet shows a negative General Fund balance of £11,817,000. This reflects the inclusion of liabilities and commitments falling due in future years, principally relating to the advance funding provided by the European Commission under the terms of the Financial Instruments for Fisheries Guidance (FIFG) grants where the cash advances have been surrendered on receipt to the Consolidated Fund. The residual liabilities and commitments will be met, in due course, from annual grants of Supply to Defra and budget delegations to the Agency.

There being no reason to believe that such funding will not be forthcoming, we have prepared the Agency's accounts on the basis that it remains a going concern.

Note 20 Transactions with Related Parties

The Agency is a part of the Department for Environment, Food and Rural Affairs (Defra) and has a number of transactions with the Department and its other Agencies, principally the Centre for Environment, Fisheries and Aquaculture Science (CEFAS).

The Agency also has dealings in the course of its normal business with other Central Government Departments, principally the Ministry of Defence, and with regional Government bodies within the United Kingdom.

The Agency's Steering Board members include representatives from Defra Marine and Fisheries Directorate, and the Welsh Assembly Government – the principal customers of the Agency. Therefore the Agency had a number of transactions with members of its Steering Board in their official capacities, though none with the members as individuals.

None of the Senior Management Committee nor other related parties have undertaken any material transactions with the Agency during the year.

APPENDIX 1 GLOSSARY OF TERMS

ASD	Defra Accounting Services Division
BSFO	British Sea Fisheries Officer
CEFAS	Centre for Environment, Fisheries and Aquaculture Science
CETV	Cash-Equivalent Transfer Value of accumulated pension benefits
DAO	“Dear Accounting Officer” – HM Treasury letters setting accounting policy for central government
DARDNI	Department of Agriculture and Rural Development, Northern Ireland
Defra	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limit – budgets delegated to the Secretary of State by HM Treasury following Spending Reviews
DEMERSAL	fish type which falls into 2 categories: Round, which swim just above the sea bed e.g. Cod, Haddock; Flat, which live on the sea bed e.g. Plaice/Sole
EC	European Commission
EA	Environment Agency
EU	European Union
FAD	Fishing Activity Database
FEPA	Food and Environment Protection Act
FIFG	Fisheries Instrument for Financial Guidance
FISHING EFFORT	any measure of the activity of fishing vessels e.g. hours trawling
FReM	HM Treasury Financial Reporting Manual
MAFF	Ministry of Agriculture Fisheries and Food, which merged with much of the former Department for the Environment to become Defra in 2001
MFA	Marine Fisheries Agency
MCA	Maritime and Coastguard Agency
MCSS	Monitoring, Control & Surveillance System
NFFO	National Federation of Fishermen’s Organisations
PCSPS	Principal Civil Service Pension Scheme
PELAGIC	fish type such as Herring or Mackerel, live in large groups or shoals, and frequent middle and surface layers of the sea
RBS	Registration of Buyers & Sellers
RN	Royal Navy
RPA	Rural Payments Agency
SCS	Senior Civil Service
SEAFISH	The Sea Fish Industry Authority
SEERAD	Scottish Executive Environment & Rural Affairs Department
SEPIA	Systematic Enforcement Prioritisation and Intelligence Assessment system
SFC	Sea Fisheries Committee
SFPA	Scottish Fisheries Protection Agency
SIX MILE LIMIT	waters around the UK reserved exclusively for UK fisheries
SLA	Service-Level Agreement
TWELVE MILE LIMIT	waters around the UK where certain member states have limited access to fish for certain species
VMS	Vessel Monitoring System
WAG	Welsh Assembly Government

APPENDIX 2 SUMMARY OF PERFORMANCE AGAINST TARGETS

Business activity	Target	Performance
Fishing industry grants and UK state aids	Provide initial response on grant applications within 15 working days and final response within 6 weeks of receipt of final application.	Achieved in 80% of cases. The shortfall was due to a change in the procedures for considering grant applications through a tranche panel chaired by Defra. 94% of claims were processed within 8 weeks.
Enforcement of sea fisheries legislation	Deploy fisheries, enforcement resources and activities on land as follows: - 60% high risk - 30% medium risk - 10% low risk	Close and regular informal monitoring by managers shows compliance with the target. However no formal system existed by which to fully demonstrate observance of the target during 2005-06. Therefore viewed as part met. A system of monitoring is being developed by which to demonstrate performance against this target in 2006-07
	Deploy fisheries, enforcement resources and activities at sea: - 850 patrol days P.A. (+/- 20 days)	Achieved.
	Deploy fisheries, enforcement resources and activities in the air: 1000 hours P.A. (within +100 and -20 hours)	Achieved.
Marketing	Certify 100% and inspect at least 80% of withdrawal.	Targets achieved. A risk-based Service Level Agreement with Rural Payments Agency was drawn up in 2005-06, with revised instructions to inspectors. This identifies high-, medium-, low- and no-risk ports, based on the likelihood of fish withdrawals taking place and the presence of first sale auction centres. The instructions, with targets for market visits, grading and withdrawal inspections, were rolled out from 1 March.
Biological sampling activities	Subject to availability of samples, 90% achievement of target sampling as agreed with the Centre for Environment, Fisheries and Aquaculture Science (CEFAS).	70% achieved. Shortfall primarily due to non-availability of species, caused largely by reduced fishing activity. During the course of the current business year we will agree a new service level agreement with CEFAS to provide for a risk-based approach to this target.

Business activity	Target	Performance
Marine environment and fisheries interference	Inspect 100% of FEPA licensed construction activities at least once during licence period.	<p>Not met.</p> <p>Port offices undertake inspections of FEPA licensed construction sites, ensuring that accessible sites are inspected during the licence periods.</p> <p>It should be noted that licensing periods do not correspond with the period covered by the Annual Report making it difficult to measure activities against this target within a business year.</p> <p>A more risk-based approach is to be developed and adopted to these inspection targets that takes into account the environmental sensitivity of the FEPA licensed activity.</p> <p>Appropriate monitoring systems will be put in place.</p> <p>During the past year FEPA disposal operations were also examined and other marine environmental protection and fisheries interference work was undertaken as required.</p>
UK Vessel licensing and monitoring of economic links	Process 100% of over 10 metre licences by 23 December and 100% of under-10 metre licences biennially by 30 June.	<p><i>Over 10 metre licence target achieved.</i></p> <p><i>On target to achieve issue of under-10 metre licences by 30 June.</i></p>
Management of UK fisheries quotas	Issue all provisional quota allocations by 31 March.	<p>Assessment of uptake of UK quotas by 1 March achieved.</p> <p>Issue of provisional allocations achieved.</p>
Management of UK fleet capacity	Issue all letters of entitlement within 15 days of receipt of completed application for transfer of days at sea under EU recovery scheme.	<p>Part met</p> <p>Informal monitoring supports the assessment that this target was met. A system of monitoring is being developed by which to demonstrate performance against this target in 2006-07.</p>
Management, recording and provision of data on fishing activities and catches	To enter all information from fish markets, merchants, fishing log books, landing declarations and sales notes onto fisheries database within 5 working days of receipt.	<p>In excess of 40,000 sets of statutory catch returns were received. Target relates to processing returns for which no follow-up or investigative action is required to resolve errors or anomalies. Systems are not yet in place to record these cases separately 94% of all returns including where follow-up action was required were entered within 5 days.</p>

Business activity	Target	Performance
Customer Satisfaction	To develop a measure of customer satisfaction and establish baseline levels by March 2006	Measures of customer satisfaction not established in 2005-06. Consultants now in place to establish baseline levels and complete the survey by September 2006.
Organisational efficiency	Establish a plan by which the agency will deliver efficiency gains to the level required by Defra's efficiency programme, contributing at least 2.5% against 2005/6 baselines annually.	Savings of £1.475m offered to central Defra Finance for 2006-07. (Additional funding has been provided for new activities.) Proposals for headcount savings have been submitted to Defra, and will be implemented by mid-2008.

APPENDIX 3 MARINE FISHERIES AGENCY OFFICES AND CONTACT DETAILS



www.mfa.gov.uk

info@mfa.gsi.gov.uk

Marine Fisheries Agency Headquarters and Coastal Fisheries Offices:

Headquarters

General enquiries	020 7270 8328	info@mfa.gsi.gov.uk
Operations & Enforcement	020 7270 8316	ops@mfa.gsi.gov.uk
Satellite Monitoring	020 7270 8614	sat.ops@mfa.gsi.gov.uk
Coastal Management	020 7270 8175	coastal.management@mfa.gsi.gov.uk
Fisheries Statistics Unit	020 7270 8093	fsu@mfa.gsi.gov.uk
Quota Management	020 7270 8110	

Domestic Quota Swaps:

dqs@mfa.gsi.gov.uk

International Quota Swaps:

iqs@mfa.gsi.gov.uk

General Quota Enquiries:

fmc@mfa.gsi.gov.uk

fmc@mfa.gsi.gov.uk

England (outside Merseyside and Cornwall):

grants1@mfa.gsi.gov.uk

England (inside Merseyside)

grants2@mfa.gsi.gov.uk

England (inside Cornwall)

info@swpesca.co.uk

Licensing	020 7270 8117
Grants	020 7270 8060

Central District

Grimsby	01472 355112/3	grimsby@mfa.gsi.gov.uk
Fleetwood	01253 873515	fleetwood@mfa.gsi.gov.uk
King's Lynn	01553 763486	kingslynn@mfa.gsi.gov.uk
Scarborough	01723 580040	scarborough@mfa.gsi.gov.uk

Eastern District

Lowestoft	01502 573149/572769	lowestoft@mfa.gsi.gov.uk
Harwich	01255 508973	harwich@defra.gsi.gov.uk

North Eastern District

North Shields	0191 257 4520/0159	northshields@mfa.gsi.gov.uk
Amble	01665 712807	amble@mfa.gsi.gov.uk
Hartlepool	01429 860221	hartlepool@mfa.gsi.gov.uk
Whitehaven	01946 591287	whitehaven@mfa.gsi.gov.uk

South Eastern District

Hastings	01424 424109/438125	hastings@mfa.gsi.gov.uk
Poole	01202 677539	poole@mfa.gsi.gov.uk
Shoreham	01273 424849/419122	shoreham@mfa.gsi.gov.uk
Portsmouth	02392 291856	portsmouth@mfa.gsi.gov.uk

South Western District

Plymouth	01752 228001	plymouth@mfa.gsi.gov.uk
Brixham	01803 853383	brixham@mfa.gsi.gov.uk

Wales

Milford Haven	01646 693412/693466	milfordhaven@mfa.gsi.gov.uk
Holyhead	01407 765757	holyhead@mfa.gsi.gov.uk

Western District

Newlyn	01736 362805/365014	newlyn@mfa.gsi.gov.uk
Penryn	01326 375394	penryn@mfa.gsi.gov.uk

APPENDIX 4 ACCOUNTS DIRECTION

Given by the Treasury in Accordance with Section 5(2) of the Government Resources and Accounts Act 2000

1. This direction applies to those government departments and pension schemes listed in the appendix to this letter (*DAO Letter 01/06 – not reproduced here*).
2. These departments and pension schemes shall prepare resource accounts for the year ended 31 March 2006 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury (“the FReM”) which is in force for 2005-06.
3. The accounts for government departments shall be prepared so as to:
 - (a) give a true and fair view of the state of affairs at 31 March 2006 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. The accounts for pension schemes shall be prepared so as to:
 - (a) give a true and fair view of the state of affairs at 31 March 2006 and of the net resource outturn and cash flows for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

DAVID A CRUDEN FCA

Head of Central Accountancy Team

Her Majesty's Treasury

13 January 2006

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