Rural Payments
Agency

Rural Payments Agency Annual Report and Accounts 2017-2018

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Rural Payments Agency
Annual Report and Accounts 2017-2018

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Performance Report

Chief Executive Officer's Statement

Our performance throughout 2017-18 has continued to demonstrate our people's commitment to supporting a thriving rural economy. A significant achievement in 2017 is the breadth of activity the agency has undertaken and in particular our commitment to reducing risks to the UK taxpayer through disallowance defence.

Our people have worked tirelessly across all the schemes that we administer with some notable successes. We paid 90.6% of eligible farmers their Basic Payment Scheme (BPS) claim by the end of December 2017; we issued bridging payments, in April 2018, to those farmers who did not receive a system payment by the end of March 2018 to provide some financial relief while we finalised the processing on their claims; we met or exceeded all of our performance indicators on the Trader Schemes we run; all eligible claims under the Socio Economic Schemes of the Rural Development Programme for England (RDPE) were paid within five working days; we have maintained our regulatory targets on inspections whilst introducing innovation to improve the experience for customers. We also maintained our strong performance on livestock identification and traceability continuing to benefit from online capability.

We continue to help the department's preparations for leaving the EU by sharing some of the capability and experience we have built within the organisation since its creation and are embedded in preparations for transition.

We have made improvements on our customer service across 2017-18 which has seen improved performance and reduction in the number of complaints received, though there is much more to do. And I have committed the agency to further improvements in 2018-19.

We have also undergone a number of internal changes across 2017-18 as part of the approach to make the RPA a great place to work and to develop the quality of leadership and closer working with Defra group. We have improved our corporate governance to improve the balance of our agency performance including the introduction of the groups that oversee improvement for our people and customers, our finances and compliance; we have introduced a formal programme of continuous improvement. This is underpinned by changes underway to our organisational structure with the Organisational Design programme of work which will prepare us for the future opportunities and challenges.

Our people are our most significant investment. They have continued to work hard throughout the year and I would like to thank them for their dedication.

Paul Caldwell
Chief Executive and Accounting Officer
02 July 2018

Purpose and Objectives

The Rural Payments Agency (RPA or the agency) is an executive agency of the Department for Environment, Food and Rural Affairs (Defra or the department). Established in October 2001 as an accredited European Union (EU) Paying Agency, the agency operates according to the accreditation requirements set out in Commission Regulation (EU) No 907/2014 and Council Regulation (EU) No 1306/2013. The RPA also acts as the UK Funding Body under the European Commission regulation. As the only accredited paying agency in England, the RPA has responsibility for making direct aid and rural development payments to farmers in England.

The RPA is also the paying agency for market support measures across the United Kingdom under the authority of the Secretary of State for Environment, Food and Rural Affairs and as appropriate in agreement with the Scottish Government, Welsh Government and Department of Agriculture, Environment and Rural Affairs Northern Ireland. The RPA has responsibility for receiving and administering money from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The agency also has responsibility for livestock identification and traceability services within Great Britain.

Defra strategy

The Defra Strategy sets out a shared vision and a set of strategic objectives for the Defra group for the period up to 2020. It is intended to provide staff across the Defra group (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear vision, direction and shared framework. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan. The strategy provides a clear unifying framework for how we will design and deliver our goals, track delivery and measure success across the whole of Defra. At the heart of the strategy is our shared vision for the Defra group: creating a great place for living.

The goals are focused on four impact objectives, which explain our ambitious, long term aims, and the positive differences we will make to the UK by 2020. Defra has one delivery objective, which describes the high levels of service and value for money for the taxpayer which the department will strive for. The strategy sets out two organisational objectives outlining how we organise ourselves to deliver, and what Defra will be like: a Defra that will act together, be simpler, avoid duplication, maximise impact, and embrace digital and data.

Defra organisational reform

RPA is responsible for a number of functions critical to the successful development and implementation of Defra's Target Operating Model and continues to work collaboratively with all Defra partners to ensure good progress. This has included adopting outcome system ways of working as part of the Food, Farming and Biosecurity system. RPA's own sub-programme of organisation reform continues and is designed to ensure its structure and ways of working are aligned with Defra's transformation programme. As well as being flexible to accommodate future change and in particular that the full customer experience is integral to its service and priorities.

Key issues and risks to delivery of objectives

Delivery of the Basic Payment Scheme (BPS) has continued to be an area of risk for the agency where attention is focussed on ensuring BPS payments are made in a timely fashion whilst ensuring the associated payment accuracy and European Commission financial correction risks are simultaneously managed. This is set against the backdrop of ongoing needs for efficiency. The delivery of BPS payments is regularly considered across the RPA's governance framework.

The agency continually reviews the required resources and the associated deployment plans to support the delivery of targets and continuation of other scheme administrative activities. A flexible approach to meet these needs is adopted.

Set alongside ongoing delivery priorities, the agency has undertaken an organisational reform. Whilst this has seen significant structural changes we have continued to manage and monitor any impacts to ensure delivering priorities continue to be achieved.

European Union exit

The exit from the EU will have a significant effect on the agency, the agency continues to engage with the wider department to develop a detailed understanding of the impact. On the day we leave the EU, food producers and retailers must still be able to trade and we will continue our high standards of animal welfare and environmental protection, together with a guarantee of on-going support for our farmers. The department and the agencies EU exit work will support the strategic aim of the 25 Year Environment Plan of achieving a Green Brexit.

The key future risks for the agency will be building capacity and capability sufficient to meet demands of EU exit, as well as effective prioritisation, so that the timing and sequencing of work provides the best support to ministers and the department.

Going concern statement

The financial statements are prepared on a going concern basis. The agency is the only Common Agricultural Policy (CAP) accredited paying agency in England, as such the agency plays an important role in delivering significant EU funds to the rural economy and enhancing environmental outcomes. The current CAP programme is expected to remain in place while negotiations for the UK to leave the EU take place. Furthermore, the UK government have committed to maintaining funding to the agricultural sector to match what it would have received under Pillar 1 of the CAP until the end of the Multiannual Financial Framework in 2020, as well as confirming that all multi-year projects agreed by government before November 2016 will be fully funded even when these projects continue beyond the UK’s departure from the EU.

The agency expects to continue to deliver agricultural support payments in line with Defra strategy and Government commitments; hence the agency considers the going concern basis to be appropriate.

Performance summary

The RPA achieved the first payment target for the 2017 Basic Payment Scheme by paying 90.6% of customers by the end of December 2017. All Trader Scheme targets were met. Cattle births, deaths and movements were recorded within target. The RPA continued delivery of the European Agricultural Fund for Rural Development (EAFRD) Socio-Economic schemes as part of the 2014-20 Rural Development Programme.

Performance Analysis

Key business performance indicator	What RPA did
Timely processing and payment of the Basic Payment Scheme • To issue as many payments as promptly as possible from 1 December 2017 • To issue bridging payments to those customers who have not received a full payment by end of March 2018	• 90.6% of claims were paid by 31 December 2017 • In April 2018 the agency paid bridging payments to the value of £117m
Timely processing and payment of Trader Schemes • 100% of Fruit & Vegetable claims paid by 15 October the following year • 98% of valid School Milk claims paid within 90 calendar days • 98% of intervention claims paid within 65 calendar days of receipt • 98% of valid Private Storage Aid claims paid within 120 calendar days of receipt • 95% of import and export licences issued within 5 working days	• 100% of Fruit & Vegetable claims were paid by 15 October • 100% of valid School Milk claims were paid within 90 calendar days • 100% of intervention claims were paid within 65 calendar days of receipt • 100% of valid Private Storage Aid claims were paid within 120 calendar days of receipt • 100% of import and export licences issued within 5 working days
Timely processing and payment of Rural Development Programme schemes • 98% of Rural Development claims paid within 5 working days of receipt	• 100% of Rural Development claims paid within 5 working days of receipt
Maintain accurate records of cattle in Great Britain • 96% of notified cattle births, deaths and movements recorded within 5 working days of receipt	• Over 99% of notified cattle births, deaths and movements have been recorded within 5 working days of receipt

Key business performance indicators are regularly reviewed and updated from previous years.

Detailed analysis of agency BPS payments performance

The agency paid 37,130 (43%) BPS claims worth £465m on the 1 December 2017, by 31 December 2017 this stood at 76,911 (91%) worth £1.45bn. By 31 March 2018, the totals had increased to 81,100 (96%) claims worth £1.60bn. 3,266 bridging payments of £117m were issued in early April.

Percentage of BPS Payments by Scheme Year	2017	2016
End of December	**91%**	91%
End of March	**96%**	98%

For those customers who didn't receive a payment early in the window, a financial support payment route has been reintroduced. Requests were received from 343 customers and payments were made to 174 claimants prior to the receipt of their full BPS claim being paid.

Trader Schemes

The RPA paid 100% of the Fruit & Vegetable claims by 15 October of the following year the claim was received, of which 98.9% were completed within 100 calendar days. 100% of School Milk claims were paid within 90 calendar days. Private Storage Aid claims were paid within 120 calendar days of receipt. 100% of import and export licences issued within five working days exceeding the commitments set for the year.

The agency issued 52,578 import licences and 841 export licences within five working days of receipt. A total of 39,793 individual Certificates of Free Sale were issued.

The Small Dairy Farmers Scheme was introduced in 2017 to support this industry. We paid 2,866 claims worth £12.5m in England and 2,146 claims worth £1.6m in Northern Ireland.

Obligations continue to be met on Meat Technical Schemes (MTS), with the agency carrying out 323 beef labelling initial inspections this year. During 2017 we carried out 403 beef carcase classification inspections, 70 MTS video imaging analysis inspections, 35 small scale operator inspections, 281 pig carcase grading inspections and 105 deadweight price reporting inspections.

During 2017 we have visited 61 retailers and bottling plants to carry out olive oil sampling. Since January 2018 we have carried out a further 16 visits.

The Horticulture and Marketing inspectors delivered 19,168 inspections across the country by 31 March 2018.

Rural Development Programme
The number of RDPE socio-economic schemes open for applications has increased significantly during 2017-18, offering more opportunity and a wider range of support for businesses in the rural economy. By 31 March 2018 over £54m in grant funding has been paid to businesses, and over £147m in grant funding agreements were in place. Projects are contracted to create 4,069 jobs, with 640 already in place against a programme target of 6,750.

Countryside Productivity now includes five new sub-schemes as well as continuing to deliver the original small and large grants and the European Innovation Partnerships projects. 265 of the 269 small grants, and 13 of the 22 large grants projects are now completed, benefitting farmers and foresters by improving business efficiency and effectiveness with new equipment and cost saving measures.

The new schemes launched in 2017-18 include large grants to support and improve productivity in the Forestry sector (£6m fund); Water Resource Management providing funding for large scale water infrastructure projects including building reservoirs (£14m); Farm Productivity (£20m) providing grants for significant improvements such as robotic milking equipment and Adding Value (£20m) providing grant funding opportunities for processors of primary agricultural and horticultural products. Although Forestry, Water and Farm Productivity applications have had a slow start, Adding Value applications have come in quickly, with over 110 Expressions of Interest (EOI) currently received, requesting over £56.8m in grant funding. A skills and knowledge transfer project, providing advice to livestock farmers whose animals are at risk of contracting Bovine TB has also commenced activity early in 2018.

A new small grants scheme was launched on 7 February 2018 targeted at supporting investment for specific pieces of agricultural equipment. It is the first time an online portal is being used to submit applications and the process significantly more automated than any of previous socio-economic schemes. Early indications are that it has been well received by the industry. The round closed on 14 March 2018 and it was hugely successful, with 4,786 applications received, requesting grant of £31.2m. Grants worth £23.2m were awarded to 3,559 successful applicants.

The Growth Programme offer with the Local Enterprise Partnerships has increased to over £165m across the three themes of food processing, tourism and business development, providing increased opportunity for rural businesses to be awarded funding through to the end of March 2019. The initial rounds saw 92 projects being awarded over £10m in grant funding, with a third of these projects now completed and delivering benefits to business. The 2017-18 round has seen an increasing rate of applications being received. By 31 March 2018, 1,440 EOIs have been received requesting £235.8m in grant funding, 202 projects have been contracted, and awarded over £40.4m in grant funding. The rate of receipt of both full applications and EOIs is expected to continue through to closing dates. A £30m scheme to support the rollout of superfast Broadband to the final 5% hard to reach rural areas has also been launched. Local authorities are the only eligible applicants, working with Broadband Delivery UK. Over £35m in funding application has been received from the first six applications. The first project is contracted, having been awarded over £10m in grant funding to help rural businesses and homes access the superfast broadband infrastructure.

LEADER has continued to deliver benefits to rural businesses and organisations, with the 79 groups contracting over 1,606 projects, awarded over £51.1m in grant funding. LEADER has contracted the majority of the jobs in the Programme so far, with over 2,500 contracted and more than 450 of those already delivered.

After the severe flooding in the North of England during the winter of 2015-16, a Farming Recovery Fund (FRF) was set up to help farmers and land owners return land back to productive use. FRF projects have nearly all been completed, with 957 farm businesses benefiting from £8.5m worth of support payments. In addition the Cumbria Countryside Access Funds was also set up to restore and build resilience in access to tourism in the Cumbria area. This fund continues to deliver projects and repair crucial tourism infrastructure within Cumbria.

Cattle Records

The British Cattle Movement Service (BCMS) achieved all key performance indicators with over 99% of cattle births; deaths and movements transactions completed within agreed deadlines. The agency has processed 2.7m passports; 2.5m of these online.

Farming Regulation Task Force (MacDonald Review project) is now completed with the exception of 24 links left to Commons. On behalf of Animal and Plant Health Agency (APHA) BCMS have requested County Parish Holdings from the Customer Case Management Team (CCMT) for the non-contiguous cases and this will enable the licences to be updated and keepers to report movements. Work has now commenced on the 7,000 County Parish Holdings review and started outbound calls to these customers on 12 February 2018. As of 31 March 2018, 693 cases have been resolved.

There are 19 Cattle Tracing System links remaining for holdings in Wales, we are working closely with the Welsh Government to remove these. 'Quarantine units' have been set up and agreed for Welsh customers.

Compliance

The RPA completed 100% of inspections for all schemes within regulatory deadlines including Land Eligibility and Cross Compliance.

In order to meet a shortfall of inspector resource, 1,340 sheep and goat inspections were undertaken by an external supplier. In addition, as a delegated agent of RPA, APHA colleagues completed 500 combined sheep and goat inspections as part of the Defra Farm Visits Programme. The level of sheep and goat inspections remained broadly in line with last year.

Delivering Services

There were 212,899 land digitisation jobs created of which 209,776 were completed (98.5%) representing 306,727 published parcels. The completion of these tasks supported the BPS and Countryside Stewardship payment targets. Proactive land change detection activity continues to support the land parcel identification system plan.

The Customer Contact Centre has received 343,348 calls, answering 304,843 calls (88.8%) across the year. 63% of customers had their call answered within two minutes.

Anti-corruption and anti-bribery matters

The agency will not accept any level of fraud or corruption. All RPA staff must follow the relevant RPA Conduct and Propriety policy, the civil service code and all other relevant procedures and policies.

All cases of suspected fraud, bribery and corruption will be thoroughly investigated and dealt with appropriately. RPA is committed to protecting public resources, revenue, property, information and other assets from any attempt, either by members of the public, contractors, sub-contractors or its own employees, to gain, by deceit, any financial or other benefits.

The Defra Group Counter Fraud Strategy and anti-bribery and corruption policy applies to all RPA staff whether permanent, part-time, fixed term or contingent workers.

Transparency of data and access to information

The RPA responded to 431 requests for information this year, of which 98.2% were within the agreed deadlines (2016-17: 646 and 87.3%). These cases involved requests for information under the Data Protection Act 1998, the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

The RPA also responded to 15 internal reviews and 12 ICO complaints this year. An additional 166 routine business requests were managed by the Information Rights Team.

All government procurement card spend, expenditure with all suppliers greater than £25,000 per transaction and a complete procurement spend analysis is reported on the central government website.

Supplier payment statistics	**2017-18**	2016-17
Payment within 5 days	**90.6%**	92.2%
Payment within 10 days	**97.2%**	97.4%

Complaints and appeals

The RPA saw a significant decrease in the volume of complaints recorded. Complaints were predominately related to the Basic Payment Scheme. The number of new complaints received has reduced by 54% compared to last year and the number of outstanding complaints has reduced by 40%.

Complaints handled by RPA	**2017-18**	2016-17
Prior year complaints unresolved	**2,088**	351
New complaints received	**1,356**	2,930
Complaints resolved, withdrawn or cancelled	**2,192**	1,193
Complaints unresolved at 31 March	**1,252**	2,088

Only 30 appeals against decisions by the RPA were received in 2017-18. Of the 21 appeals resolved (excluding withdrawn), 52% were upheld in the RPA favour. Appeals are considered by the Independent Agricultural Appeals Panel and then referred with their recommendations to the Minister of State for Agriculture, Fisheries and Food to make a final decision.

Independent Agricultural Appeals Panel appeals handled	2017-18	2016-17
Prior year appeals unresolved	**26**	21
Appeals received	**30**	25
of which:		
• customer complaint upheld	**5**	5
• customer complaint partially upheld	**5**	5
• RPA decision upheld	**11**	6
• appeals withdrawn	**7**	4
Appeals resolved	**28**	20
Appeals unresolved at 31 March	**28**	26

Just one case involving the agency saw an investigation completed by the Ombudsman's Office during 2017-18; the complaint was not upheld.

Human Rights Disclosure

The agency has an obligation to ensure that all their actions respect the human rights of those who work for them and for whom they provide services. There has not been any litigation against RPA alleging a breach of the Human Rights Act 1998 during 2017-18.

Financial Review

Preparation of the Annual Report and Accounts

The Statement of Accounts reports the financial results for the year from 1 April 2017 to 31 March 2018. It is prepared in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, the Accounts Direction issued by HM Treasury and the Financial Reporting Manual (FReM) published by HM Treasury.

Auditor

The annual accounts have been audited by the Comptroller and Auditor General who was appointed under the Government Resources and Accounts Act 2000. A notional cost of £245,000 (2016-17: £245,000) was incurred for the audit of the agency's accounts and is now included within Corporate overhead recharge (notional) costs. In the previous year this was shown separately within Note 3.

The Comptroller and Auditor General is also the auditor of the Statement of Accounts for the European Agriculture Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) which have a financial year ending 15 October. The cash cost for the audit of these funds, for transactions for England, was £2.4m (2016-17: £2.5m).

Financial performance

The RPA normally considers its financial performance in two categories; running costs representing monies needed to provide the service required of the agency by Defra and scheme costs related to the funds administered.

The agency's running costs are funded by Defra. Payments under the EAGF and EAFRD schemes are initially funded by the UK Exchequer, with subsequent reimbursement sought from the European Commission. When the reimbursement is received by the agency, it is repaid to the UK Exchequer, net of short-term funding requirements. Gross running costs this year of £142.1m are down compared to the previous year (2016-17: £149.7m). There has been a large increase in depreciation and amortisation this year of £9.4m (156.3%) due to the acquisition of £82.5m of assets from Defra in December 2016 now having a full year of amortisation charges.

From the 1 April 2017 a number of agency functions transferred to Defra, including HR services, IT services, Reporting, Finance, and Legal services. Consequently the Corporate overhead recharge (notional) has risen by £31.0m (170.1%) in 2017-18. The agency has however seen a sharp reduction in payroll salary costs of £18.5m (25.4%), in part reflecting the 203 full time equivalents (FTE's) that transferred to Defra on the 1 April 2018, and partly due to the decline of an additional 163 FTE's during the year (43 of which left on a 2016-17 voluntary exit scheme). The agency has also seen a reduction in contractor costs in the year of £6.4m (83.6%) having benefitted from the Change Academy initiative which focussed on replacing expensive contractors with permanent civil servants.

Net running costs, allowing for income were £130.0m (2016-17: £142.1m). The decrease is mainly due to receipts from the Rural Development Programme for England Technical Assistance (RDPE TA) of £8.2m being considerably higher than in the previous year (2016-17: £3.2m). This is partly due to the fact that socio economic schemes within rural development teams being eligible to claim technical assistance funding.

Payments made, and reimbursements claimed, under the schemes administered by the agency have decreased to £1.8bn (2016-17: £1.9bn). BPS schemes were introduced in 2015-16, and there was an initial reduction in payments made in that year. The higher payments made in 2016-17 include a catch-up for BPS 2015 payments not made in the earlier year. Funds provided to Scotland, Wales, Northern Ireland and the Forestry Commission for Scotland and Wales of £1.0bn, are in line with last year (2016-17: £1.0bn), although there has been a delay this year in paying BPS 2017 payments by Scotland.

Overall net scheme expenditure for the year is a gain of £11.6m; this is compared to a net gain in 2016-17 of £10.1m. The positive movement here is due in part to strengthening of the euro during 2017-18 resulting in an unrealised foreign exchange gain of £4.2m compared to a gain of only £0.7m in 2016-17, and a reduced loss of £2.8m in realised foreign exchange losses compared to a realised loss of £8.5m in 2016-17. The agency's hedging approach for BPS is to take out a forward contract for the majority of planned expenditure, with a further option contract for the remaining 2%. Given the strengthening of the euro during 2017, the option became out of the money and so was not exercised allowing the agency to take gains on reimbursement of the expenditure. BPS net income for 2017-18 of £2.0m was therefore down on the £9.3m net income reported in 2016-17 as a result.

In addition the OPAs also contributed a reduced net income of £0.6m (2016-17: £3.8m) in the year, again due to the strengthening of the euro during 2017-18.

Financial position

Non-current assets of the agency have decreased in the year by £9.8m primarily due to the acquisition of £82.5m of assets from Defra in December 2016 having a full year's amortisation in 2017-18. During the year the agency acquired £3.4m of assets from Defra (2016-17: £82.5m), a non cash transfer through general reserves.

Trade receivables have fallen by £149.7m (34.2%) compared to 31 March 2017. This is due to a reduction in monies due back from the European Commission for BPS expenditure incurred. The agency paid BPS 2017 payments quicker than BPS 2016 so consequently there were less monies owed from the European Commission at 31 March 2018.

Trade payables including those due after more than one year, have decreased overall by £23.4m (10.4%) mainly due to an £7.0m (11.4%) reduction in scheme accruals and a £9.0m reduction (57.0%) in intra-government balances.

The overall impact of these movements was to increase the cash balance of the agency to £462.4m at 31 March 2018, compared to an £393.9m cash balance at 31 March 2017.

At 31 March 2018 the agency had bridging payment capital commitments of £117.0m (31 March 2017: £45.1m), see Note 15. These payments were made in April 2018 to those farmers who had not received their full payment by the end of March 2018. The agency will recover these payments from farmers when their claims are fully validated and paid, and in line with the treatment of other scheme payments the agency will recover this expenditure from the European Commission in 2018-19. Consequently these payments are not included in the Statement of Comprehensive Net Expenditure for 2017-18.

Financial risk
The agency is exposed to two significant financial risks inherent in the process of administering scheme payments.

The first is a foreign exchange risk since scheme payments are predominantly made in sterling while reimbursements from the European Commission are received in euros. Consequently, any differential between the prevailing exchange rate when reimbursement is received and the scheme exchange rates fixed by the European Commission will result in an exchange gain or loss for the agency.

To mitigate this risk, the agency enters into forward foreign exchange contracts for the Basic Payment Scheme and for the UK Rural Development Programmes. Trader schemes are assessed on an individual basis with derivative contracts established where it is cost effective to do so. As at 31 March 2018, these derivative contracts represent a net asset of approximately £12.9m to the agency. This valuation is consistent with foreign exchange movements in 2017-18 and off-set the corresponding potential losses in the value of the euros receivable from the European Commission.

The second significant risk relates to the potential that the European Commission may retrospectively choose not to reimburse the agency for payments the agency makes should there have deemed to be any infringements in scheme regulations. Such disallowances represent a high risk to the agency due to the complexity and extent of scheme regulations. Management of this risk is described in the Governance Statement with any costs incurred accounted for in the core department's accounts.

Sustainability Report

The RPA is committed to continuous improvement against sustainability targets. The total greenhouse gas emissions have reduced to a new low of 1,665 tonnes of carbon dioxide, a reduction of 74% from the baseline data in 2009-10.

Greenhouse Gas Emissions		**2017-18**	2016-17	2015-16	2014-15	2009-10 Baseline
Non-financial indicators (tonnes CO^2)	Scope 1 emissions (direct)	**718.6**	822.5	822.4	412.6	1,020.2
	Scope 2 emissions (indirect)	**776.5**	1,047.5	1,192.8	1,331.8	3,981.9
	Scope 3 emissions (direct travel)	**169.9**	116.0	208.4	950.8	1,419.3
	Total emissions	**1,665.0**	1,986.0	2,223.6	2,695.2	6,421.4
Related energy consumption (KWh)	Electricity non-renewable	**-**	-	1,012	11,979	7,590,268
	Electricity renewable	**2,065,482**	2,264,957	2,382,964	2,466,375	
	Gas	**1,255,188**	1,186,034	1,222,420	1,259,333	5,556,447
Financial indicators (£)	Expenditure in energy	**240,052**	421,566	442,398	416,738	1,174,738
	Carbon Reduction Commitment (CRC) licence expenditure	**39,389**	39,389	31,822	31,822	Nil [1]
	Expenditure on official business travel	**2,121,107**	2,282,886	2,630,055	2,016,398	2,268,130

1. *There was no CRC licence fee in the baseline year of 2009-10.*

Waste Management		2017-18	2016-17	2015-16	2014-15	2009-10 Baseline
Recovered or recycled (tonnes)	Reused or recycled	**157.95**	88.10	111.50	95.36	428.10
	Composted	**6.08**	15.58	6.53	3.30	1.98
	Incinerated with energy recovery	**49.72**	46.34	51.94	29.45	28.26
	Total recovered or reused	**213.75**	150.02	169.97	128.11	458.34
Not recovered or recycled (tonnes)	Incinerated without energy recovery	**0.24**	3.77	-	0.02	0.04
	Landfill	**7.83**	13.04	21.47	26.24	159.82
Total waste (tonnes)		**221.82**	166.83	191.44	154.37	618.20
% recovered or reused		**96.36%**	89.92%	88.79%	82.99%	74.14%

Finite Resource Consumption	2017-18	2016-17	2015-16	2014-15	2009-10 Baseline
Water consumption (m^3)	**11,420**	10,831	11,823	13,929	16,248
Water supply costs (£)	**47,408**	41,867	79,405	27,081	77,490

Paul Caldwell
Chief Executive and Accounting Officer
02 July 2018

Accountability Report

Corporate Governance

Purpose

This section describes the governance, risk management and internal control arrangements for the department and how our processes have evolved in response to a changing business environment and set of risks over 2017-18.

Director's report

Governance framework

Defra's Secretary of State has overall responsibility for RPA and is accountable to Parliament for all matters concerning the agency. Ministerial responsibility for the agency has been assigned to the Minister of State for Agriculture, Fisheries and Food.

Clare Moriarty, Defra's Permanent Secretary, is the Principal Accounting Officer and principal adviser to the Secretary of State on matters affecting Defra as a whole, including resource allocations across the department and is responsible for ensuring a high standard of financial management. The CEO, Paul Caldwell, is designated the agency's Accounting Officer by the Principal Accounting Officer. He must be satisfied that the agency has adequate risk management, financial systems and procedures in place to support the efficient and economical conduct of its business, safeguards financial propriety, regularity and reputation and ensures business continuity. The CEO is line managed by the Director General for Food, Farming and Biosecurity.

The Executive Team

The RPA is headed by the CEO and a team of executive directors, these individuals form the Executive Team (ET) that sets the direction for the agency and has the overall authority to run the agency on a day-to-day basis. ET membership throughout the year is listed below:

The Executive Team		ET Membership	
Name	**Title**	**Start date (if not in post at 1 Apr 2017)**	**End**
Paul Caldwell (ET Chair)	Interim Chief Executive Officer	-	16 Jul 2017
	Chief Executive Officer	17 Jul 2017	Present
Alison Webster	Rural Development Director	-	15 Oct 2017
	Strategy and Policy Director	16 Oct 2017	Present
Emma Appleby	Design Director & Senior Information Risk Owner	-	15 Oct 2017
	Change and Service Design Director & Senior Information Risk Owner	16 Oct 2017	Present
Sarah Milum	EU Reporting and Compliance Director	-	Present
Alison Johnson[1]	Interim Operations Director	-	15 Oct 2017
	Interim BPS Operational Delivery Director	16 Oct 2017	28 Feb 2018
Peter Bainbridge[2]	Interim Operations Delivery Director	16 Oct 2017	28 Feb 2018
	Interim Operational Delivery Director	1 Mar 2018	29 Apr 2018
John Carter[3]	Planning and Performance Director	-	15 Oct 2017
Mark Ashenden[3]	Interim External Relations Director	-	15 Oct 2017
Julie Donnelly	Interim Change Director	4 Apr 2017	15 Oct 2017
Nicola Bettesworth[4]	Human Resources Director	-	Present
Anne Marie Millar[4]	Finance Director	-	Present
Ed Schofield[4]	Digital, Data and Technology Services Director	-	8 Nov 2017
Paul Egginton[4]	Digital, Data and Technology Services Director	9 Nov 2017	Present

1. *Alison Johnson went on secondment to Natural England on 1 March 2018.*
2. *Peter Bainbridge consolidated the BPS Director role from Alison Johnson from 1 March 2018 until replaced by Andy King 30 April 2018.*
3. *John Carter and Mark Ashenden ceased to be members of ET on 15 October 2017.*
4. *Nicola Bettesworth, Anne Marie Millar, Ed Schofield and Paul Egginton are employees of Defra group corporate services.*

The Agency Management Board

Chaired by a non-executive director, the Agency Management Board (AMB) is responsible for strategic oversight of the agency's performance, advising and challenging the CEO, and escalating issues to Defra and ministers as appropriate. It provides leadership in the delivery of statutory corporate and business responsibilities, ensures that risks are effectively identified and managed, encourages improvements in performance across the agency and ensures effective governance and control is in place for the agency.

Key business at AMB meetings in 2017-18 included:

- organisation Reform
- customer service & communications
- operational deep-dives
- people issues, including wellbeing

The Audit and Risk Assurance Committee

Chaired by a non-executive director, who is also a member of AMB, the Audit and Risk Assurance Committee (ARAC) is responsible for advising both the AMB and CEO (as Accounting Officer) on whether the agency's accounts, internal control systems including internal and external audits have been fully discharged. RPA's ARAC chair is also a member of the Defra Audit and Risk Committee.

Key business at ARAC meetings in 2017-18 included:

- review and approval of accounting policies and the Annual Report and Accounts for 2016-17, as audited by the external auditors, in which the RPA received an unqualified opinion
- approval of the 2017 EU Accounts, as audited by the external auditors
- regular reviews of the agency's approach to risk and fraud risk management
- consideration of continuing improvements relating to the assurance and governance framework
- review of all Internal Audit reports and the annual Internal Audit plan

Membership and Attendance		ARAC		AMB	
Name	**Title**	**Attendee**	**Meetings attended**	**Attendee**	**Meetings attended**
Emma Appleby[1]	Change and Service Design Director & Senior Information Risk Owner	-	-	Member	5 of 6
Mark Ashenden[2]	Interim External Relations Director	-	-	Member	1 of 4
Paul Caldwell	Interim Chief Executive Officer/Chief Executive Officer	-	-	Member	9 of 10
John Carter[3]	Planning and Performance Director	-	-	Member	4 of 4
Sarah Church	Defra Director, Food and Farming	-	-	Member	8 of 10
Peter Conway[4]	Non-Executive Director	Chair	4 of 4	Member	9 of 10
David Cotton	Non-Executive Director	Member	3 of 4	Member	9 of 10
Angela Gillibrand[5]	Non-Executive Director	Member	2 of 2	Member	1 of 2
Anne Marie Millar	Finance Director	-	-	Member	9 of 10
Trevor Spires[6]	Non-Executive Director	-	-	Chair	9 of 10
Radbourne Thomas[7]	Non-Executive Director	-	-	Member	2 of 2
Alison Webster[8]	Strategy & Policy Director	-	-	Member	6 of 6

1. *Emma Appleby became a member of AMB on 16 October 2017.*
2. *Mark Ashenden ceased being a member of AMB on 15 October 2017.*
3. *John Carter ceased being a member of AMB on 15 October 2017.*
4. *Peter Conway's contract ends on 31 July 2018.*
5. *Angela Gillibrand's contract ended on 30 June 2017.*
6. *Trevor Spires' contract ends on 31 July 2018.*
7. *Radbourne Thomas' contract ended on 30 June 2017.*
8. *Alison Webster became a member of AMB on 16 October 2017.*

Relationship with Defra
Defra's Executive Committee (ExCo), is responsible for overseeing the strategic direction and performance of the Defra group. Responsibilities for decisions which affect more than one organisation, or set a precedent for the future, ultimately lie with ExCo. ExCo is supported by a number of key subcommittees and subcommittee members which include CEOs of relevant delivery bodies and Defra directors. In addition an extended ExCo meets regularly as a wider group which includes the RPA CEO.

At Defra group level, activity is managed through outcome focussed systems. These bring together all the delivery bodies involved in service delivery in their respective systems. They focus on ensuring delivery of outcomes, joining up policy development and operations and planning and prioritisation to ensure that we provide the best possible service to our customers and value to the taxpayer. The RPA is a delivery body within the Food, Farming & Biosecurity system and the Environment, Rural & Marine system and is represented on both systems boards.

Security, information risk and fraud
Compliance to Information security ISO/IEC 27001:2013 is audited annually by the British Standards Institution (BSI). This is a requirement under Commission Regulation 885/2006. The Security Unit conducts compliance reviews of the RPA, suppliers and delegated bodies to ensure assurance of alignment to ISO/IEC 27002:2013. Under Commission Regulation 907/2014 there was a requirement to be certified to ISO/IEC 27001:2013 from 16 October 2016. The Security Unit achieved ISO/IEC 27001:2013 Certification for the agency in August 2015 and has successfully supported continuous assessment visits completed in subsequent years.

Information handling
The agency has an established governance structure to ensure that information assets are handled appropriately by the Senior Information Risk Owner (SIRO). To support the SIRO, the Agency Security Officer and Information Asset Coordinator provide a focal point for Information Asset Owners to seek guidance on effective approaches to managing risk within the defined risk tolerance.

Information data handling courses are embedded in induction processes. Each year all RPA people are required to complete the General User Responsible for Information training course. Information Asset Owners and those directly involved in information governance are also required to complete specialist training provided by Civil Service Learning.

In 2017-18 a total of 21 potential incidents were reported, following investigation one of these incidents related to personal data.

Category	Nature of incident	2017-18	2016-17
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	**-**	-
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	**1**	1
III	Insecure disposal or inadequately protected electronic equipment, devices or paper documents	**-**	-
IV	Unauthorised disclosure	**-**	-
V	Other	**-**	1

Category II incident

- An inspection dossier was reported as not being received in the post. The dossier was posted by an inspector to a support office in Carlisle, but did not arrive. Royal Mail were unable to locate the package. The dossier contained inspection results, including name and address of customer.

Personal data incidents
There were no personal data incidents that fell within the criteria for reporting to the Information Commissioner's Office.

External fraud
External fraud referrals are assessed by the RPA Fraud Referral Team to consider whether a potential fraud has occurred. The apparent reduction in detected fraud is primarily a timing issue with cases currently in the process of recovery that will more closely align year-on-year comparisons. We are pleased that improved processes and closer working relationships have helped prevent significantly more fraud this year. The agency takes appropriate recovery action on cases where the recommendation is made to recover funds.

RPA external fraud	2017-18	2016-17
Number of new external fraud referrals in year	**102**	119
Number of external fraud referrals closed	**109**	138
Value of:		
• detected fraud value	**£105,004**	£469,787 & €210,053
• detected fraud number of cases	**4**	16
• prevented fraud value	**£501,052**	£65,569
• prevented fraud number of cases	**12**	5
Number of external fraud cases outstanding	**56**	63

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the RPA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the RPA and of its net resource outturn, application of resources, changes in Taxpayers' Equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by RPA, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed
- prepare the financial statements on a going concern basis

The Permanent Secretary, Clare Moriarty appointed Paul Caldwell, the agency Chief Executive Officer, as Accounting Officer of the RPA from 1 March 2017. The responsibilities of an Accounting Officer include 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 RPA's assets, are set out in Managing Public Money published by HM Treasury.

The Accounting Officer has taken all the steps necessary to familiarise himself with any relevant audit information and to establish that the agency's auditor is aware of that information. As far as he is aware, there is no relevant audit information of which the agency's auditor has no knowledge.

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance Statement

As Accounting Officer, I am responsible for maintaining a robust system of internal control that supports the achievement of the agency's policies, aims and objectives, while safeguarding public funds and agency assets. This is in accordance with the responsibilities assigned in the HM Treasury publication; Managing Public Money.

Governance Framework

Defra's Executive Committee is chaired by the Permanent Secretary and comprises the Defra Directors General, along with the Group Directors for Strategy, HR and Communications and the Chief Executive Officer of the Environment Agency. The committee provides a strategic steer, makes decisions where appropriate on cross-network issues, reviews plans and progress on improving Defra's capacity and capability for the future, and oversees cross departmental initiatives to inform strategic decisions by ministers on their priorities and spending plans.

RPA's Agency Management Board (AMB) is responsible for ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control. As part of this the AMB is required to set up an Audit, Risk and Assurance Committee (ARAC) chaired by an independent non-executive member to provide independent advice and ensure that this committee provides assurance on risk. AMB is expected to assure itself of the effectiveness of the internal control and risk management systems.

The Audit and Risk Assurance Committee (ARAC) is responsible for advising both the AMB and CEO as Accounting Officer on all matters relating to strategic processes for risk and control, the governance statement, accounting policies, the annual report and accounts, assurance of internal and external audits (including work conducted on behalf of the Certification Body) and anti-fraud policies. The ARAC Chair is also a member of Defra's Audit and Risk Assurance Committee.

The RPA is headed by the CEO and a team of executive directors who collectively form the Executive Team that sets the direction for the agency and has the overall authority to run the agency on a day-to-day basis.

Internal Controls

Risk overview

The RPA operates in a highly regulated environment which requires appropriate controls and governance across all of the forty schemes that we administer.

Significant risks during the year have been associated with the achievement of Basic Payment Scheme payment targets for 2017, managing potential EU financial corrections, budget impacts and the demands on people capacity and capability, all of which have been set against the organisational restructure within the agency. These risks are considered and managed through a robust agency governance framework.

Fraud risk management

The Fraud Risk Management Steering Group, chaired by the Finance Director for the agency has acted in an advisory committee capacity to Executive Team and the CEO in his role as Accounting Officer. The steering group has representatives from directorates across the agency and met six times within the reporting year to consider detection and awareness of fraud in the RPA. Assurance reports on a range of fraud related topics have been provided to ARAC during the course of the year. Assurance has also been taken from positive results of the Cabinet Office Counter Fraud Functional Standards Assessment.

Disallowance risk management

Disallowance risks are regularly reviewed with updated forecasts, advice and progress reports provided to the department's Disallowance Strategy governance groups. Adherence with the Strategy is monitored through the agency's Compliance Board. Quarterly reports on the risk of disallowance are also presented to the Audit and Risk Assurance Committee and Agency Management Board. The Executive Team considers any significant disallowance risk and any proposals for business changes are considered from a disallowance risk point of view as part of formal governance before implementation can be agreed.

We work closely with the UK Co-ordinating Body, devolved administrations and delivery partners (e.g. Natural England, Forestry Commission) to identify and mitigate potential causes of disallowance. We also engage proactively and constructively with the external auditors, European Commission and European Court of Auditors to ensure that any adverse audit findings are understood with a view to minimizing any associated disallowance.

RPA supports the Defra Disallowance Strategy by undertaking actions in line with its operational, tactical and strategic components. We manage all aspects of the European Commission's Clearance of Accounts audits and have been successful in reducing amounts of disallowance proposed.

Payments were made in December for some claims which were validated against data held in the system but where it was known that outstanding Proactive Land Change Detection mapping could potentially impact on the claim value. In order to protect the European Fund and minimise and any risk of disallowance an adjustment to the reimbursement claim to the EU was made. All outstanding mapping was completed for the affected claims which were reworked by 31 March which enabled the adjustment to be reversed. Payments were not made on any claims where mapping was outstanding as a result of an inspection.

Effectiveness of risk management
The Executive Team holds responsibility for the identifying and managing of the most significant risks through Executive Team and directorate level meetings. There is an overarching risk management process for escalation of risks. Operational risks have been managed on a tactical level in order to meet delivery objectives. We have revised our approach to the considering strategic risks at the Executive Team level and have undertaken a series of in-depth reviews of specific risks, this has provided a more detailed understanding of key risks across the Executive Team and led to the identification of additional management responses.

The Audit and Risk Assurance Committee received reports in order to consider the effectiveness of risk management. Risk discussions are held regularly, including at each Audit and Risk Assurance Committee meeting who in turn report on risk effectiveness to the Agency Management Board. The agency's Risk Management team is collaborating with Defra colleagues to ensure the approach to risk management is more aligned across the network in support of Defra's revised governance framework.

Quality assurance of analytical models
The agency's business critical analytical models are subject to regular review and challenge.

Information governance
The Change and Service Design Director (formerly the Design Director) was the RPA's Senior Information Risk Owner (SIRO) throughout 2017-18. As an executive director the SIRO provided board-level accountability and assurance that information risks were addressed. There have been no significant breaches this year.

Effectiveness of internal controls
Through the RPA's existing governance framework coupled with documented discussions with executive directors the agency has assessed the effectiveness of its controls as well as highlighting significant issues for the agency. The Internal Audit Team reviewed and provided assurance on this process. The Agency Management Board and the Audit and Risk Assurance Committee have reviewed and contributed to this governance statement. We have also taken into consideration recommendations from the external auditors.

The system of internal control is designed to manage risk to an acceptable level rather than to eliminate all risk in relation to achieving its policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

Effectiveness of whistleblowing arrangements

The department encourages employees to use the whistleblowing procedures to raise concerns about past, present or imminent conduct within the Defra group or conflicts with the Civil Service Code. The department implemented the Civil Service Employee Policy in January 2013 across Defra and its executive agencies (including RPA) and updated the policy in December 2016.

RPA participated in the Defra Group's 'Speak Out' awareness campaign aimed at building confidence in the Defra group workforce around the raising and handling of concerns. We have also undertaken our own internal annual publication of the Whistleblowing policy and process.

Although no reports were raised in RPA during 2017-18, RPA staff have raised concerns directly with Defra and as such, we take assurance that our process is effective. We also expect that further embedding of our culture change will have positive impacts on people recognising whistleblowing cases and effectively progressing them in a more empowering and open culture.

Internal Audit opinion

The Head of Internal Audit has provided me with her annual report, which incorporates her opinion on RPA's system of governance, risk management and internal control based on internal audit's work completed during the year, in line with the plan agreed by management and the ARAC. Her overall opinion is that moderate assurance can be given that there is a sound system of internal control, designed to meet RPA's objectives, and that controls are being applied consistently. Moderate assurance also means that some improvements are required to enhance the effectiveness of risk management, control and governance.

Internal audit issued limited ratings in four reviews (out of a total of 52), relating to rural development inspection result processing (environmental and countryside stewardship schemes), BPS inspections, management of the Cyient contract, and delegated bodies fraud risk management. In all cases, my team has continued to act upon the agreed actions arising from internal audit's work.

Compliance with governance codes

An informal review carried out against the NAO 'Corporate Governance in Central Government Departments: Code of Good Practice 2011 Compliance Checklist' indicated that RPA complies with the principles for an agency of our size, status and legal framework.

Compliance with the General Data Protection Regulation (GDPR)

We have been preparing for major changes to UK data protection law by revising policies, processes and systems for the handling of personal data. A central programme was responsible for overseeing readiness across the Defra group, tracking progress and working to ensure consistency. The group has a robust governance model in place, including Data Protection Officers now appointed. The Permanent Secretary and the Board have visibility of readiness and risk across the group.

As at 25 May 2018, RPA was compliant with the majority of the new GDPR requirements. RPA and the Defra group Corporate Services (which supports RPA's delivery and compliance) have a good understanding of the GDPR and Data Protection Act 2018 compliance requirements. Both parties have identified the risks and have in place effective and credible plans to address residual risk gaps over the next six months. The ICO, the Data Protection regulator has indicated that this approach should be adequate in the early days of the new regime.

Effectiveness of governance arrangements
Governance arrangements are effective and proportionate given the level of activity currently being undertaken by the agency.

Defra's Executive Committee (ExCo) is now being supported by a number of sub-committees (with RPA being part of the Food, Farming & Biosecurity and the Natural Environment and Rural systems) whose focus is on ensuring delivery of outcomes, joining up policy development and operations to ensure the department is providing the best possible service to customers. RPA has representatives at both systems committees.

RPA is currently undertaking a selection process to recruit new non-executive chairs of its Agency Management Board and Audit and Risk Assurance Committee.

In addition a new governance structure was implemented in the autumn of 2017 which saw the introduction of a set of sub-committees and groups to support the Executive Team meetings. The agency is reviewing the maturity of these new arrangements and the outcome of the review will be presented to the Executive Team for consideration.

Framework document
RPA's framework document, setting out the broad framework within which the agency operates, was updated and published on the Gov.uk website on 3 November 2017.

www.gov.uk/government/publications/rural-payments-agency-framework-document

Effectiveness of Board performance
Regular meetings with the chair of the Agency Management Board have occurred to keep him informed of what is happening across the agency and to discuss the effectiveness of the board. Both the Agency Management Board and the Audit and Risk Assurance Committee have carried out reviews and the results indicate that both the board and committee were operating effectively.

Significant Issues 2017-18
Basic Payment Scheme
Our focus has remained on promptly issuing BPS payments from the opening of the payment window. For BPS 2017 we once again paid over 90% of eligible farmers by the end of December 2017 and payments were made to the broadest range of customers than in previous years. Just under 96% of eligible farmer's received their system payment by the end of March 2018, with a majority of the remainder being issued bridging payments in early April 2018. In parallel we are making significant progress to stabilise the customer query position ahead of the opening of the BPS 2018 payment window and continue to work through a planned programme to fully investigate all current payment queries along with any new queries we receive.

While we recognise there is much more work to do on customer service, we introduced a range of improvements designed specifically to improve the quality of our communications and ultimately, the level of customer service we provide to farmers. As part of this, the number of complaints received by the agency has reduced by 54% during the year to 31 March 2018, and we have significantly reduced the average time taken to clear these.

Disallowance
A member state may incur disallowance, in the form of a financial penalty, if the European Commission considers that actions taken to control and administer CAP payments have not been compliant with EU regulations.

Disallowance is accounted for and reported by Defra, all details of disallowance incurred can be found in the Defra Annual Report & Accounts available on Gov.uk.

Transition of Countryside Stewardship (CS) and Environmental Stewardship (ES) to RPA.
The implementation of CS has been challenging. All members of the Defra Group are working hard to simplify CS as far as possible within the current EU framework. However, administration of CAP schemes in one organisation will provide opportunities for a more joined-up service for staff and customers. As such, it has been agreed to transfer the delivery of the CS and ES schemes from Natural England to the RPA.

The CEO has been appointed Senior Responsible Owner of a new programme board whose main responsibilities are to identify improvements in order to deliver efficiencies and a better customer service and also to oversee the smooth transition of CS and ES to the agency in the autumn of 2018.

European Union exit
The agency is responsible for administering the CAP in England. The agency will play an important role in helping designing and delivering a new UK based scheme. The agency will support the department in ensuring arrangements are in place on the first day after exit, so there is no gap in the regulatory and delivery frameworks and build new delivery systems to enable a smooth and orderly exit, and new approaches that are tailored to the needs of this country, enabling us to leave the environment in a better state than we found it. The agency will need to ensure our staff are regularly informed about progress and provide sufficient opportunity to be able to contribute their experience and capability to facilitate a smooth transition from the existing to the new schemes.

Remuneration and Staff

Purpose

The staff and remuneration report provides information on people in the agency and sets out the entity's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors. It also provides details on remuneration and staff that Parliament and others see as important to accountability, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981 and amended by HM Treasury's Financial Reporting Manual.

Remuneration report

Although costs for the CEO and the members of ET are included in the RPA's annual accounts, they are formally employed by Defra. The framework for remunerating the CEO and ET, as for all Senior Civil Servants (SCS), is set by the Prime Minister following independent advice from the Senior Salaries Review Body. Further details about this body can be found at www.ome.uk.com. The Cabinet Office advises Defra in March or April each year of the Government's response to the Senior Salaries Review Body's recommendations and produces guidance for departments to follow. Defra develops its SCS pay strategy within this Cabinet Office framework, ensuring that the overall pay awards are within the cost ceiling allowed.

Consolidated pay and non-pensionable, performance related pay awards for members of ET are based on their performance assessed relative to all others in their peer group within Defra.

Consolidated awards generally differ depending on the level of performance and the relative position of each person in their pay range. Members of the SCS are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP). NCVP is performance related and is paid in arrears in the financial year after that in which it was earned. During 2017-18, NCVP for 2016-17 performance was paid to approximately 25% of the SCS and was capped at £11,000, £13,000 and £15,000 per individual depending on grade. NCVP values, informed by each individual's appraisal grade were paid within Cabinet Office guidelines. The table of salary and non-cash benefits shown in this report includes NCVP paid to the CEO, ET and non-executive directors. Departments also have discretion to make in-year non-consolidated award payments to recognise outstanding contribution for up to 10% of SCS staff. These are limited under Cabinet Office guidance to a maximum of £5,000.

Service contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. Further information about the Civil Service Commission can be found at www.civilservicecommission.org.uk.

The CEO and ET are permanent civil servants. The executive directors are required to give three months' notice under the terms of their contracts. Our non-executive directors are appointed on fixed term contracts with a notice period of one month.

The employment of the CEO and members of ET may be terminated in accordance with normal civil service procedures. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Compensation for loss of office

No compensation amounts were paid to executive directors during the year. Compensation for leave not taken, where appropriate, is included within the salary figures in the remuneration table.

Salary
'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the agency and thus recorded in these accounts.

Benefits in kind
The monetary value of benefits in kind covers any benefits provided by the agency and treated by HM Revenue and Customs as a taxable emolument. In 2017-18 John Carter (2016-17 John Carter and Ian Hewett) had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Bonuses
Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2017-18 relate to performance in 2016-17 and the comparative bonuses reported for 2016-17 relate to the performance in 2015-16.

Pay multiples (audited)
Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

Total remuneration includes salary, non-consolidated performance related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

	2017-18	2016-17
Annualised band of highest paid director remuneration (£'000)[1]	**130-135**	160-165
Median total remuneration (£)	**24,784**	26,033
Ratio	**5.3**	6.2

1. *The remuneration of the highest paid director includes bonus payments and benefits in kind, but excludes severance payments, employer pension contributions, and the cash equivalent transfer value of pensions.*

In 2017-18, nil (2016-17: four) employees received remuneration in excess of the highest-paid director. The banded remuneration for employees in the agency ranged from £15,000-£20,000 to £130,000-£135,000 (2016-17: £10,000-£15,000 to £180,000-£185,000). These figures exclude the non-executive directors.

There has been a change to the highest paid director of RPA in 2017-18 following the exit from the agency of the former Chief Executive.

Corporate services staff transferred to Defra on the 1st April 2017 affecting the overall grade mix in the agency. An increase in agency staff and reduction in contractors employed at RPA as at 31 March 2018 has also impacted on the median.

Remuneration (including salary) and pension entitlements (audited)

The remuneration and the pension interests of the Non-Executive Directors and the Directors of the agency are detailed in the following tables:

Name and title	2017-18					2016-17				
	Salary	**Bonus payments**	**Benefits in kind**	**Pension benefits**	**Total**	Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	**£000**	**£000 (To nearest £100)**	**£000**	**£000**	£000	£000	£000 (To nearest £100)	£000	£000
Peter Conway *Non-Executive Director*	**20-25**	**-**	**-**	**-**	**20-25**	20-25	-	-	-	20-25
David Cotton *Non-Executive Director*	**5-10**	**-**	**-**	**-**	**5-10**	10-15	-	-	-	10-15
Angela Gillibrand[1] *Non-Executive Director (to 30 June 2017)*	**0-5**	**-**	**-**	**-**	**0-5**	10-15	-	-	-	10-15
Arthur Reeves *Independent Member of ARAC* (to 30 June 2016)	**-**	**-**	**-**	**-**	**-**	0-5	-	-	-	0-5
Trevor Spires *Non-Executive Director*	**20-25**	**-**	**-**	**-**	**20-25**	20-25	-	-	-	20-25
Radbourne Thomas[2] *Non-Executive Director (to 30 June 2017)*	**0-5**	**-**	**-**	**-**	**0-5**	5-10	-	-	-	5-10

1. *Angela Gillibrand's whole year equivalent salary for 2017-18 would be in the range £5,000-£10,000.*
2. *Radbourne Thomas' whole year equivalent salary for 2017-18 would be in the range £0-£5,000.*

Remuneration (including salary) and pension entitlements (audited) continued

Name and title	2017-18				
	Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	£000 (To nearest £100)	£000	£000
Emma Appleby *Change & Service Design Director*	100-105	-	-	36	135-140
Mark Ashenden[1] *Interim External Relations Director* *(to 15 October 2017)*	35-40	0-5	-	8	45-50
Peter Bainbridge[2] *Interim Operational Delivery Director* *(from 16 October 2017 to 31 March 2018)*	25-30	-	-	32	60-65
Nicola Bettesworth[3] *Human Resources Director*	75-80	10-15	-	16	100-105
Paul Caldwell *Chief Executive Officer*	85-90	10-15	-	146	240-245
John Carter[4] *Planning and Performance Director* *(to 15 October 2017)*	35-40	-	1.8	10	45-50
Julie Donnelly[5] *Interim Change Director* *(from 4 April 2017 to 15 October 2017)*	30-35	-	-	28	60-65
Paul Egginton[6] Digital, Data and Technology Services *Director* *(from 9 November 2017)*	35-40	-	-	-1	35-40
Alison Johnson[7] *Interim BPS Operational Delivery Director* *(to 28 February 2018)*	55-60	0-5	-	49	105-110
Anne Marie Millar[3] *Finance Director*	130-135	-	-	-	130-135
Sarah Milum *EU Reporting & Compliance Director*	70-75	0-5	-	6	80-85
Ed Schofield[8] Digital, Data and Technology Services *Director* *(to 8 November 2017)*	60-65	-	-	24	80-85
Alison Webster *Strategy and Policy Director*	100-105	-	-	(6)	95-100

1. *Mark Ashenden is an employee of Defra who was seconded to the agency until 15 October 2017. The amounts in the remuneration table represent the salary amounts reimbursed to Defra. His whole year equivalent salary would be in the range £65,000-£70,000.*
2. *Peter Bainbridge was appointed Interim Operational Delivery Director from 16 October 2017 to 31 March 2018. His whole year equivalent salary was in the range £60,000-£65,000.*
3. *Nicola Bettesworth and Anne Marie Millar are employees of Defra but RPA directors.*
4. *John Carter ceased to be a member of ET on 15 October 2017. His whole year equivalent salary was in the range £65,000-£70,000.*
5. *Julie Donnelly was appointed Interim Change Director from 4 April 2017 to 15 October 2017. Her whole year equivalent salary was in the range £65,000-£70,000.*
6. *Paul Egginton is an employee of Defra who was appointed Digital, Data and Technology Services Director from 9 November 2017. His whole year equivalent salary was in the range £90,000-£95,000.*
7. *Alison Johnson went on secondment to Natural England on 1 March 2018. Her whole year equivalent salary was in the range £60,000-£65,000*
8. *Ed Schofield is an employee of Defra and was an RPA director until 8 November 2017. His whole year equivalent salary was in the range £100,000-£105,000.*

Remuneration (including salary) and pension entitlements (audited) continued

Name and title	2016-17 Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	£000 (To nearest £100)	£000	£000
Emma Appleby *Design Director*	100-105	10-15	-	36	150-155
Mark Ashenden[1] *Interim External Relations Director from January 2017*	15-20	-	-	5	20-25
Nicola Bettesworth *Human Resources Director*	75-80	10-15	-	28	115-120
Jo Broomfield *CAP Delivery Director*	115-120	-	-	18	130-135
Paul Caldwell[2] *Interim Chief Executive Officer from March 2017*	75-80	-	-	107	180-185
John Carter *Planning and Performance Director*	65-70	-	2.9	28	95-100
Justin Chamberlain[3] *Customer Director until December 2016*	60-65	-	-	-	60-65
Arik Dondi[4] *External Relations Director until December 2016*	45-50	-	-	20	65-70
Mark Grimshaw[5] *Chief Executive Officer until February 2017*	190-195	-	-	-	190-195
Ian Hewett *Change Director*	85-90	-	3.8	13	100-105
Alison Johnson[6] *Interim Operations Director from November 2016*	25-30	-	-	24	50-55
Anne Marie Millar *Finance, Assurance and Commercial Director*	130-135	-	-	24	155-160
Sarah Milum[7] *EU Reporting & Compliance Director from July 2016*	50-55	-	-	10	60-65
Ed Schofield *Information and Technology Director*	100-105	10-15	-	39	150-155
Alison Webster *Rural Development Director*	100-105	-	-	14	115-120

1. *Mark Ashenden is an employee of Defra who is seconded to the agency with effect from 1 January 2017. The amounts in the remuneration table represent the salary amounts reimbursed to Defra. His whole year equivalent salary would be in the range £60,000-£65,000.*
2. *Paul Caldwell held the post of Operations Director from 1 April 2016 to 31 October 2016, and BPS Operational Delivery Director from 1 November 2016 to 28 February 2017. He was appointed Interim Chief Executive Officer with effect from 1 March 2017. His whole year equivalent salary is in the range £85,000-£90,000.*
3. *Justin Chamberlain left the agency on 31 December 2016. His whole year equivalent salary was in the range £80,000-£85,000.*
4. *Arik Dondi left the agency on 31 December 2016. His whole year equivalent salary was in the range £60,000-£65,000.*
5. *Mark Grimshaw left the agency on 28 February 2017. The amounts in the remuneration table include payments in lieu of notice in the range £40,000-£45,000 His whole year equivalent salary was in the range £160,000-£165,000.*
6. *Alison Johnson was appointed Interim Operations Director from 1 November 2016. Her whole year equivalent salary was in the range £60,000-£65,000.*
7. *Sarah Milum was appointed EU Reporting & Compliance Director from 1 July 2016. Her whole year equivalent salary was in the range £70,000-£75,000.*

Pension benefits (audited) information

Non-executive directors are not entitled to a pension so are not included within the following table.

Name and title	Accrued pension at pension age as at 31 March 2018 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	£000 (To nearest £100)
Emma Appleby *Change & Service Design Director*	10-15 plus lump sum of nil	0-2.5 plus lump sum of nil	114	92	12	-
Mark Ashenden *Interim External Relations Director (to 15 October 2017)*	25-30 plus lump sum of 20-25	0-2.5 plus lump sum of nil	387	366	2	-
Peter Bainbridge *Interim Operational Delivery Director (from 16 October 2017 to 31 March 2018)*	20-25 plus lump sum of 55-60	0-2.5 plus lump sum of 2.5-5	317	294	18	-
Nicola Bettesworth *Human Resources Director*	30-35 plus lump sum of 80-85	0-2.5 plus lump sum of nil	583	544	3	-
Paul Caldwell *Chief Executive Officer*	35-40 plus lump sum of 100-105	5-7.5 plus lump sum of 12.5-15	719	566	113	-
John Carter *Planning and Performance Director (to 15 October 2017)*	25-30 plus lump sum of 65-70	0-2.5 plus lump sum of nil	416	394	3	-
Julie Donnelly *Interim Change Director (from 4 April 2017 to 15 October 2017)*	30-35 plus lump sum of 95-100	0-2.5 plus lump sum of 2.5-5	708	650	27	-
Paul Egginton Digital, Data and Technology Services *Director (from 9 November 2017)*	45-50 plus lump sum of 135-140	0-2.5 plus lump sum of 0-2.5	1048	1048	-1	-
Alison Johnson *Interim BPS Operational Delivery Director (to 28 February 2018)*	25-30 plus lump sum of 70-75	2.5-5 plus lump sum of 2.5-5	499	439	32	-
Anne Marie Millar[1] *Finance Director*	-	-	-	913	-	-
Sarah Milum *EU Reporting & Compliance Director*	30-35 plus lump sum of 90-95	0-2.5 plus lump sum of nil	621	581	0	-
Ed Schofield Digital, Data and Technology Services *Director (to 8 November 2017)*	10-15 plus lump sum of nil	0-2.5 plus lump sum of nil	154	135	10	-
Alison Webster *Rural Development Director*	35-40 plus lump sum of 115-120	0-2.5 plus lump sum of 0-2.5	890	837	(6)	-

1. *Anne Marie Miller opted out of the pension scheme in 2017-18.*

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced; the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service, joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections; three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60, and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS remained in the PCSPS after 1 April 2015 if they were within 10 years of their normal pension age on 1 April 2012. Those who on 1 April 2012 were between 10 years and 13 years and 5 months from their normal pension will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.60% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8.00% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.

Further details about the civil service pension scheme arrangements can be found on the Civil Service website www.civilservicepensionscheme.org.uk.

Cash Equivalent Transfer Values
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV
This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Staff report

Staff costs and numbers are disclosed in Note 2.

Senior staff by pay-band
The table below provides the number of Senior Civil Servants or equivalent within the agency by pay-band:

Senior Civil Servants by pay-band	As at 31 March 2018	As at 31 March 2017
Pay-band 3	**-**	-
Pay-band 2	**1**	2
Pay-band 1	**5**	11

This table doesn't include the Directors that are Defra employees.

Staff composition
RPA has seen a reduction in headcount as Corporate Service areas including HR, Finance, IT and Commercial colleagues transferred to core Defra as part of the Corporate Services Transformation programme. Further reductions were made by transferring Internal Audit colleagues to Government Internal Audit Agency (GIAA).

RPA has continued its blended approach to resourcing and continues to use temporary agency workers to manage the peaks in workload. The reliance on contractors has reduced as a result of the Change Academy approach launched in 2016-17 and the transfer of some business areas to Defra.

We have continued to meet the social mobility agenda by offering apprenticeships at a variety of levels and will for the first time have 20 external apprentices start work in our Operational Delivery team.

Work on EU exit activity has begun and a slow ramp up from early 2018 has seen a blended approach to ensuring we offer our own people opportunities whilst recognising the necessary short term nature of the work initially on offer.

Workforce profile	As at 31 March 2018	As at 31 March 2017
Permanently employed staff	**1,598**	1,759
Agency	**261**	92
Contractors	**23**	49
Total	**1,882**	1,900

Gender diversity as at 31 March 2018	Male	Female
Executive Team[1]	**2**	**3**
Permanently employed staff (excluding Executive Team)	**705**	**888**
Non-Executive Directors	**3**	**0**

1. These figures do not include Defra employees appointed as ET members.

Developing the workforce

The Talent Management Scheme continues to provide opportunities to develop talent within the agency, with a focus on developing future senior leaders, 80 people have now completed the programme. The insight and learning from these cohorts will be used to refresh and relaunch the next programme in 2018, expanding the scheme to cover Defra group organisations to share learn and talent. In addition following the launch of the Leadership and Management development programme in 2017 the agency are developing fundamental first line manager skills and building leadership capability.

Celebrating our success

The award scheme has been used throughout the year to recognise and reward in-year achievements of RPA people who have gone above and beyond their normal duties to support successful delivery of business objectives.

Attendance management

The RPA's annual working days lost figure for the 2017-18 year was 7.6 (2016-17: 6.1).

Year to 31 March	2018	2017	2016	2015	2014	2013
Annual working days lost	**7.6**	6.1	6.9	6.7	7.0	9.2

Employee engagement

The RPA's engagement index increased by 2% in 2018 to 44%.

Engagement index	2018	2017
RPA engagement index	**44%**	42%
Defra engagement index	**55%**	56%
Civil Service benchmark engagement index	**61%**	59%

A number of initiatives have been implemented to drive people engagement and cultural change to ensure staff feel valued and empowered. This has included the refresh of the agency's ways of working and the introduction of the RPA People Group whereby representatives from across the business are engaged in the decision making process for people related changes and activities.

Employee relations and tribunals

There were no employment tribunals between 1 April 2017 and 31 March 2018. The trade union engagement framework which was introduced in April 2014, is now firmly embedded within the agency. Facility time used by the trade union representatives has been within the maximum introduced by the Cabinet Office in 2013.

Employment issues and recruitment practice

RPA's resourcing team provide an expert service managing vacancies throughout their life cycle from inception to realisation and provide full administrative functions for resourcing. This has ensured RPA remains compliant with Civil Service Commissioning Recruitment Principles at all times.

Pay policy
The RPA 2017 pay award principles were developed in response to feedback from people across the agency but within the constraints of the Treasury pay guidance. In preparation for joining the Defra Pay Bargaining unit in 2018 measures were taken to better align RPA's pay bands with Defra's. Additionally RPA did not differentiate between different levels of performance so everyone received the same percentage basic pay award. Funds available in the Celebrating Our Success pot were reduced to maximise the monies available for the basic pay award to benefit all colleagues. RPA maintained our high performance culture by offering an incentive for our top performers in the form of a one-off non-consolidated performance bonus payment.

Exit packages
In 2017 the RPA was part of a Defra wide voluntary exit scheme. The aim of this scheme was to retain those people with the skills and capabilities that the business would need going forward, and those who are essential to business delivery. The agency was able to offer voluntary exit to 50 people in 2016-17, and seven people left before 31 March 2017. The remaining 43 had their costs accrued in 2016-17, and left by 30 June 2017. A further three people have also left during 2017-18 under compulsory exit terms. Exit packages are reported in staff costs in Note 2.3 of these accounts.

Diversity issues
RPA is part of the Defra group equality, diversity and inclusion strategy 2017-20 to ensure positive action is taken on four key themes where people feel respected, valued, supported and engaged. The annual 'This is me' campaign took place during February 2018 to drive an increase in the number of people willing to declare their diversity information which will also provide statistical insight to enable wider analysis and pay gap reporting on gender, race, disability, sexual orientation and religion & belief.

Equal treatment in employment and occupation
RPA, as part of Defra, achieved Disability Confident Level 3: the highest level on the benchmarking scale. The agency is committed to meeting the highest levels of the benchmarking scale.

As part of the Defra submission for Disability Confident Leader status, which was awarded in February 2018 and included RPA, the agency provided evidence of our recruitment policies and reasonable adjustments made for people who declare a disability or a health condition that requires additional support to help them achieve their potential. The agency use the Civil Service Guaranteed Interview Scheme for those people informing us of a disability or health condition. The agency also follows the 'blind' application process to ensure that diversity information is not disclosed to vacancy holders/interviewers at any time during the application process and therefore avoid unconscious bias entering into the recruitment process. Interview panels are trained in aspects of 'Unconscious Bias' and its impact on decision making.

Working closely with the Disability Network Group, the agency considers their advice and expertise on complex cases in addition to using the 'Review Route' provided by the Civil Service Workplace Adjustment Team. The agency have a dedicated Disability Champion who supports and promotes the work of Disability Network Group and the wider Equality, Diversity and Inclusion (EDI) agenda. Financial support over the last three years has been provided by the RPA to fund 'Removing the Barriers' workshops across our business sites and across wider Defra business areas to inform and advise everyone on how to deal effectively with barriers in the working environment that may make it difficult for people with disabilities or health conditions. The agency encourage the use of workplace adjustments passports to assist people who have adjustments in place to easily move on to other business areas or roles.

EDI, including disability issues, is included in all our induction packs and is embedded into our Leadership and Management Development (LMD) training. The agency encourage people with health conditions, particularly if it is linked to a period of absence, to consider having an occupational health referral carried out so that we can support them in their role with appropriate adjustments if necessary. Our people are required to carry out regular display screen equipment training where on occasions workplace adjustments are identified. Appropriate action is taken to support people with the required adjustments.

Development opportunities are available to everyone through their performance discussions with their line management. The LMD training is open to everyone and provides information around health issues and disabilities as well as addressing how individuals with disabilities are supported at these sessions. We have taken part again this year, and been successful, in having four RPA people enrolled on the Positive Action Pathway programme which is a cross-government scheme for staff in under-represented groups, including those with disabilities. Our talent and apprenticeship schemes are open to people with disabilities and health conditions and individual consideration of how best we can support candidates and successful applicants is discussed with the individual themselves and their line managers.

Trade union relationships
Working relationships with the trade union have remained positive and constructive, giving valuable input and support into initiatives throughout the year.

Facility time publication requirements
In accordance with the requirements of the Trade Union (Facility Time Publication Requirements) Regulations 2017, the following tables summarise trade union officials of employees and facility time usage during the year 2017-18.

Trade union representative	2017-18
Number of employees who were relevant union officials	**27**
Full time equivalent employee number	**25.25**

Number of employees by percentage of time spent on facility time	2017-18
0%	**11**
1-50%	**16**
51%-99%	**-**
100%	**-**

Percentage of pay bill spent on facility time	2017-18
Total pay bill spent on facility time (total cost of facility time ÷ total pay bill) x 100	**0.01%**
	£000
Total cost of facility time during the year to 31 March 2018	**7**
Total pay bill cost during the year to 31 March 2018	**53,945**

Paid trade union activities	2017-18
Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by trade union representatives during the year to 31 March 2018 ÷ total paid facility time hours) x 100	**22.74%**

Off-payroll appointments
In line with the recommendations of a review of Tax Arrangements of Public Sector Appointees published by HM Treasury in May 2012 the RPA put in place controls to ensure its non-payroll people earning greater than £245 per day are contractually obliged to assure the agency that they are meeting their tax obligations. Monitoring continues to take place with regular reports being supplied to Defra.

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than six months:

Number of new engagements	**2017-18**
Which include contractual clauses giving the department the right to request assurance in relation to income tax and national insurance obligations	**14**
For whom assurance has been requested	**14**
of which:	
• No. assessed as caught by IR35	**14**
• No. assessed as not caught by IR35	**-**
of which:	
No. engaged directly (via PSC contracted to department) and are on departmental payroll	**-**
No. engagements reassessed for consistency/assurance purposes during the year	**5**
No. of engagements that saw a change to IR35 status following the consistency review	**-**

For all off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months:

Number of existing engagements	**2017-18**
Existing engagements as at 31 March 2018	**13**
of which:	
• existed for less than one year at time of reporting	**12**
• existed between one and two years at time of reporting	**1**
• existed between two and three years at time of reporting	**-**
• existed between three and four years at time of reporting	**-**
• existed for four or more years at time of reporting	**-**

Expenditure costs on out sourced agency staff in 2017-18 was £4.9m (2016-17: £2.3m) as reported in staff costs in Note 2.1 of these accounts. These staff were typically lower grade individuals used on a short term temporary basis to process BPS payments and provide cover for some business as usual tasks.

Expenditure costs on consultancy in 2017-18 was £0.5m (2016-17: £2.2m). These costs have been incurred directly by the agency, and are categorised by their nature within IT costs and Non-IT professional services in Note 3 of these accounts. Since 1 April 2017, the majority of consultancy costs incurred by the agency, have been paid by Defra and recharged to the agency in the Corporate overheads recharge (notional) in Note 3 of these accounts. For 2016-17 the agency previously reported £1.9m as consultancy costs but this has been adjusted to £2.2m to reflect £0.3m of costs not previously categorised as consultancy.

Parliamentary Accountability and Audit

Purpose

This section describes how the agency meets key accountability requirements to Parliament.

Regularity of expenditure (audited)

The agency reports losses and special payments:

	31 March 2018		31 March 2017	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses - Scheme	**2,937**	**915**	253	336
Cash losses - Administration	**3**	**21**	-	-
Claims waived or abandoned	**4**	**13**	129	170
Special payments - Scheme	**61**	**1,442**	129	18,913
Special payments - Administration	**4**	**39**	4	23
Realised exchange loss	**1**	**2,814**	1	8,469
Total	**3,010**	**5,244**	516	27,911

There were no individual losses or special payments over £0.3m which need separate individual disclosure.

Fees and charges (audited)

The agency has no material income fees and charges.

Remote contingent liabilities - European Union exit (audited)

In 2016, the UK Government announced that the Government would guarantee the current level of agricultural funding under CAP Pillar 1 until 2020. The financial settlement has now been signed-off by both UK and EU Commission negotiators in a draft Withdrawal Agreement and welcomed by the EU-27 at March European Council. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified. As a result, and due to the EU funding the agency provides, an unquantifiable remote contingent liability is disclosed.

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed.

During this two year period, which includes a significant part of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

Long term expenditure trends

A detailed commentary on current and prior year performance is included within the Performance Analysis section.

Paul Caldwell
Chief Executive and Accounting Officer
02 July 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of the Rural Payments Agency for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in those reports as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Rural Payments Agency's affairs as at 31 March 2018 and of the net operating cost for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Rural Payments Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rural Payments Agency's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Rural Payment Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report and accounts, other than the parts of the Accountability report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;

- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and

- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the parts of the Accountability report to be audited are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office,
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

05 July 2018

Financial Statements

Account Statements

Statement of Comprehensive Net Expenditure for the Year to 31 March 2018

		Year to 31 March 2018		Year to 31 March 2017	
	Note	**£000**	**£000**	£000	£000
Running costs					
Staff	**2**	**59,923**		81,752	
Others	**3**	**82,139**		67,910	
		142,062		149,662	
Running costs income	**4**	**(12,044)**		(7,529)	
Net running costs			**130,018**		142,133
Scheme costs					
Rural Payments Agency					
Costs	**5**	**1,783,395**		1,869,681	
Income	**5**	**(1,794,418)**		(1,876,019)	
		(11,023)		(6,338)	
Other paying agencies					
Costs	**6**	**1,006,657**		1,044,160	
Income	**6**	**(1,007,230)**		(1,047,951)	
		(573)		(3,791)	
Net scheme income			**(11,596)**		(10,129)
Net operating cost			**118,422**		132,004

Other Comprehensive Expenditure

		Year to 31 March 2018	Year to 31 March 2017
	Note	**£000**	£000
Net operating cost		**118,422**	132,004
Net gain on revaluation of property, plant and equipment	**14**	**(26)**	(82)
Net gain on revaluation of intangible assets	**14**	**(2,187)**	(1,605)
Movement in cash flow hedge reserve		**(11,302)**	(36,352)
Total comprehensive expenditure for the period		**104,907**	93,965

The Notes on pages 49 to 76 form part of these accounts.

Statement of Financial Position as at 31 March 2018

		Year to 31 March 2018		Year to 31 March 2017	
	Note	**£000**	**£000**	£000	£000
Non-current assets					
Property, plant and equipment	**7**	**1,076**		1,381	
Intangible assets	**8**	**74,894**		84,371	
Total non-current assets			**75,970**		85,752
Current assets					
Inventories		**10,311**		8,055	
Trade receivables and other current assets	**9**	**287,910**		437,659	
Derivative asset	**13**	**13,516**		2,086	
Cash and cash equivalents	**10**	**462,360**		393,902	
Total current assets			**774,097**		841,702
Total assets			**850,067**		927,454
Current liabilities					
Trade payables and other current liabilities	**11**	**(73,731)**		(99,957)	
Derivative liabilities	**13**	**(656)**		(5,713)	
Provisions for liabilities and charges	**12**	**(343)**		(2,275)	
Total current liabilities			**(74,730)**		(107,945)
Non-current assets plus net current assets			**775,337**		819,509
Non-current liabilities					
Trade payables and other liabilities	**11**	**(128,587)**		(125,740)	
Provisions for liabilities and charges	**12**	**(140)**		(256)	
Total non-current liabilities			**(128,727)**		(125,996)
Assets less liabilities			**646,610**		693,513
Taxpayers' equity					
General fund			**634,906**		694,646
Cash flow hedge reserve			**8,617**		(2,685)
Revaluation reserve	**14**		**3,087**		1,552
Total taxpayers' equity			**646,610**		693,513

The Notes on pages 49 to 76 form part of these accounts.

Paul Caldwell
Chief Executive and Accounting Officer
02 July 2018

Statement of Cash Flows for the Year to 31 March 2018

	Note	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Cash flows from operating activities			
Net operating cost		**(118,422)**	(132,004)
Adjustment for non-cash items included in other running costs	**3**	**64,690**	24,508
Adjustment for non-cash items included in other running costs income	**4**	**-**	(228)
Adjustment for non-cash hedging costs transfer to Defra		**(167)**	(170)
Movement in provisions		**(2,048)**	(50,795)
Adjustment for derivative financial instruments		**(5,185)**	(56,161)
Increase in inventories		**(2,256)**	(4,232)
Decrease in trade receivables and other current assets		**149,749**	460,401
(Decrease)/increase in trade payables and other current liabilities		**(22,410)**	47,780
Net cash inflow from operating activities		**63,951**	289,099
Cash flows from investing activities			
Purchase of property plant and equipment		**(248)**	(279)
Purchase of intangible assets		**(789)**	(2,671)
Net cash outflow from investing activities		**(1,037)**	(2,950)
Cash flows from financing activities			
Financing by Defra		**2,265,000**	1,850,000
Financing to Defra		**(2,170,000)**	(2,125,000)
Payments for Rural Development Programme for England on behalf of Defra		**(323,115)**	(327,637)
Receipts for Rural Development Programme for England on behalf of Defra		**268,899**	268,691
Disallowance transfer to Defra		**(35,240)**	(112,390)
Capital element of payments in respect of finance leases		**-**	(487)
Net cash inflow/(outflow) from financing activities		**5,544**	(446,823)
Increase/(decrease) in cash and cash equivalents in the period		**68,458**	(160,674)
Cash and cash equivalents at 1 April	**10**	**393,902**	554,576
Cash and cash equivalents at 31 March	**10**	**462,360**	393,902

The Notes on pages 49 to 76 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2018

	Note	General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers' equity
	Note	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2017		**694,646**	**(2,685)**	**1,552**	**693,513**
Net operating cost		**(118,422)**	**-**	**-**	**(118,422)**
Transfer from revaluation reserve to General fund:					
- property, plant and equipment	**14**	**44**	**-**	**(44)**	**-**
- intangible assets	**14**	**634**	**-**	**(634)**	**-**
Arising on revaluation during the year (net)		**-**	**-**	**2,213**	**2,213**
Notional charges		**49,247**	**-**	**-**	**49,247**
Gains on Cash flow hedges		**-**	**30,977**	**-**	**30,977**
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	**13**	**-**	**(19,675)**	**-**	**(19,675)**
Total recognised expense for period ended 31 March 2018		**(68,497)**	**11,302**	**1,535**	**(55,660)**
Financing by Defra		**2,265,000**	**-**	**-**	**2,265,000**
Financing to Defra		**(2,170,000)**	**-**	**-**	**(2,170,000)**
Payments for Rural Development Programme for England on behalf of Defra		**(323,115)**	**-**	**-**	**(323,115)**
Receipts for Rural Development Programme for England on behalf of Defra		**268,899**	**-**	**-**	**268,899**
Hedging costs transfer to Defra		**(167)**	**-**	**-**	**(167)**
Disallowance transfer to Defra		**(35,240)**	**-**	**-**	**(35,240)**
Intangible assets transfer from Defra		**3,380**	**-**	**-**	**3,380**
Balance at 31 March 2018		**634,906**	**8,617**	**3,087**	**646,610**

The Notes on pages 49 to 76 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2017

	Note	General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers' equity
		£000	£000	£000	£000
Balance at 1 April 2016		1,172,218	(39,037)	53	1,133,234
Net operating cost		(132,004)	-	-	(132,004)
Transfer from revaluation reserve to General fund:					
- property, plant and equipment	14	31	-	(31)	-
- intangible assets	14	157	-	(157)	-
Arising on revaluation during the year (net)		-	-	1,687	1,687
Notional charges		18,253	-	-	18,253
Loss on Cash flow hedges		-	(44,423)	-	(44,423)
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	13	-	80,775	-	80,775
Total recognised expense for period ended 31 March 2017		(113,563)	36,352	1,499	(75,712)
Financing by Defra		1,850,000	-	-	1,850,000
Financing to Defra		(2,125,000)	-	-	(2,125,000)
Payments for Rural Development Programme for England on behalf of Defra		(327,637)	-	-	(327,637)
Receipts for Rural Development Programme for England on behalf of Defra		268,691	-	-	268,691
Hedging costs transfer to Defra		(170)	-	-	(170)
Intangible assets transfer from Defra		82,497	-	-	82,497
Disallowance transfer to Defra		(112,390)	-	-	(112,390)
Balance at 31 March 2017		694,646	(2,685)	1,552	693,513

The Notes on pages 49 to 76 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2017-18 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS's) as adapted for the public sector. Where the FReM allows a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the agency for the purpose of giving a true and fair view has been selected. They have been applied consistently in the current and preceding year in dealing with items considered material in relation to the accounts.

The financial statements are prepared on a going concern basis.

1.1 Accounting convention

These accounts have been prepared under the historic cost convention, modified to account for the revaluation of property, plant and equipment, intangibles assets, inventories, and certain financial assets and liabilities, where material.

1.2 Property, plant and equipment

Property, plant and equipment is recognised at fair value, with depreciated historic cost as modified by annual revaluations using appropriate price indices issued by UK Office of National Statistics, used as a proxy for fair value for all assets. The unrealised element is credited/debited to the Revaluation Reserve as shown in the Statement of Change in Taxpayers' Equity. Property, plant and equipment assets are reviewed annually for impairment. The agency has set a capitalisation threshold of £2,000. Below this threshold costs are charged directly to the Statement of Comprehensive Net Expenditure. The recognition of "right of use assets" is described in Note 1.6.

1.3 Intangible assets

Intangible assets are recognised on the same basis as property, plant and equipment, see Note 1.2. Intangible assets comprise internally developed application and bespoke IT software projects, licences and packages developed by third parties. Software projects being developed are capitalised as development expenditure and treated as capital expenditure (but not amortised or revalued until the software is fully developed and brought into use). The agency has set a capitalisation threshold for software projects of £100,000.

1.4 Depreciation and amortisation

Depreciation and amortisation are provided at rates estimated to write off the valuation of property, plant and equipment, and intangibles on a straight line basis, over the estimated useful life of the asset, taking into account residual value (if it applies). Assets are depreciated/amortised from the month after they are available for use.

Estimated useful lives at initial recognition are normally in the following ranges:

Depreciation		Amortisation	
IT hardware			
• laptops, printers and similar equipment	3 years	IT software	5 to 7 years
• Communications	5 years	IT licences	up to 7 years
• Servers	up to 7 years		
Office machinery	5 years		
Others	5 - 25 years		

The estimated useful lives of tangibles and intangibles will be reassessed as and when the full impact of the United Kingdom’s decision to leave the EU is known.

1.5 Impairment
Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount.

In line with an adaption in the FReM, any permanent diminution in the value of an asset due to clear consumption of economic benefit or service potential should be recognised in full as an impairment loss in the Statement of Comprehensive Net Expenditure. However, to align the balance in the Revaluation Reserve with that which would have resulted through strict application of IAS 36, an amount up to the value of the impairment is transferred to the General Fund for the individual asset concerned.

Downward revaluations, resulting from changes in market value, only result in impairment where the asset is revalued below its historic cost carrying amount. In these cases the accounting treatment is as for any other impairment, with amounts being first set against any accumulated balance in the revaluation reserve, and any amount in addition to this being recognised and recorded in the Statement of Comprehensive Net Expenditure.

1.6 Right of use assets
The agency has benefited from participation in Defra's contract with IBM for the supply of IT services. The contract was originally for a term of eight years from February 2010. The contract falls within the scope of IFRIC 12 as interpreted by the FReM and is disclosed within the accounts as a service concession arrangement. Defra has apportioned a share of this arrangement to the agency based on the agency's usage of the facility.

A lease liability has been included to reflect the agency's share of the capital value of payments to IBM to lease IT infrastructure assets throughout the duration of the eight year contract. A matching asset has been raised to reflect the benefit that the agency will derive from having access to IBM's IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with Defra's depreciation policy. These IT infrastructure assets, which consist of laptops, servers, and hardware, are classified as right of use assets under property, plant and equipment in Note 7.

In 2016-17 Defra bought back the assets from IBM used in providing the IT services. Consequently the agency reports no lease liabilities, or right of use assets at 31 March 2018.

1.7 Leased assets
All leases are assessed using the criteria in IAS 17. The determination of a lease is based upon the substance of that arrangement, whether the arrangement is dependent upon the use of a specific asset and conveys the right to use that asset. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the agency. All other leases are classified as operating leases.

Assets funded through finance leases are capitalised as non-current assets and depreciated/amortised over their estimated useful lives or lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the assets or the present value of the minimum lease payments at the inception of the lease. The resulting lease obligations are included in liabilities net of finance costs. Finance costs are charged directly to the Statement of Comprehensive Net Expenditure.

Rental costs arising under operating leases are charged to the Statement of Comprehensive Net Expenditure in the year in which they are incurred.

1.8 Defra properties occupied by the agency
For 2017-18, the full cost of occupation of buildings that are either owned or leased by Defra is reflected within the Statement of Comprehensive Net Expenditure as part of ‘Corporate overhead recharge (notional)', see Note 3. The costs are determined by Defra based on proportionate occupation of the properties and include rates, utilities,

management overheads, and associated capital charges. For Defra leasehold properties this also includes rental costs. These costs in previous years were not notional but were paid to Defra in cash and recorded under Accommodation including recharges in Note 3.

The Defra Management Committee estates strategy states that the default position is that lease breaks are exercised. Defra undertakes a detailed annual review on the material lease exits to confirm this judgement holds true. This has the implication of recognising the lease commitment (and any depreciation) to the lease break date. If however, the evidence suggests that it is unlikely individual lease breaks will be exercised, the commitment is assumed to be until the end of the lease.

1.9 Agency scheme income and expenditure

Defra core accounts recognise the income and expenditure for schemes over which it acts as Managing Authority, thereby demonstrating control of policy and prioritisation of spend. Payments made by the agency on such schemes (e.g. rural development expenditure under the Rural Development Programme for England) are reported in the agency accounts as movements through the General Fund.

Income and expenditure relating to all other schemes are recognised in the accounts of the agency. All of the agency's scheme expenditure is pre-funded by the UK Exchequer. Following receipt of reclaims from the European Commission, surplus funds are repaid to HM Treasury.

The Basic Payment Scheme and the Single Payment Scheme expenditure for England is recognised by the agency when it has a present obligation to make payments to the claimants as a result of completion of substantive processes to validate each claim against European Commission rules for the schemes, and the amount payable to each claimant is considered reliably measurable and probable.

The Basic Payment Scheme and the Single Payment Scheme income for England is recognised by the agency when it is probable that it will receive a reimbursement from the European Commission for scheme expenditure incurred and the amount to be received from the European Commission is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised, that is, upon the completion of all substantive processes to validate and reliably measure each claim.

For all other European Agricultural Guarantee Fund schemes administered by the agency an accrual point has been established according to the applicable scheme rules and regulations. Where a present obligation for payment is identified to fall on or before the Statement of Financial Position date, it is shown as a payable in the current year's financial statements with a corresponding European Commission receivable. Similarly, any element paid in advance of these accrual points is treated as a prepayment.

The impacts of any foreign exchange movements between the claim date and the date of actual reimbursement by the European Commission are borne by the agency and accordingly recognised within the Statement of Comprehensive Net Expenditure.

1.10 Accounting for sugar levies

In accordance with European Commission regulations, the agency collects and surrenders both Sugar and Isoglucose production charges and other charges to fund the restructuring of the sugar regime. Sugar restructuring receipts are remitted directly to the European Commission through the monthly reimbursement process.

In accordance with Chapter 10 'Whole of Government Accounts' of the 2017-18 FReM, the agency has excluded revenue collected from sugar production charges from the financial statements. All related expenditure, assets and liabilities have also been excluded. The agency does not consider these amounts to be material to the entity for either the current or prior year accounting period and separate trust statements have not been prepared. The amounts excluded are disclosed in Note 21 of these financial statements.

1.11 Other UK paying agencies income and costs
Other UK paying agencies make payments to claimants under both the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The payments made by the other UK paying agencies are funded by the agency and subsequently recovered by the agency from the European Commission.

Scheme expenditure in relation to funding provided by the agency is recognised when the agency has a present obligation to make payment to the other UK paying agencies and the amount payable is considered reliably measurable and probable. These conditions are deemed to be met upon the receipt of a funding request from the other UK paying agencies, adjusted for amounts unspent by the paying agencies at period end.

Scheme income in relation to funding provided to the other UK paying agencies is recognised by the agency when it is probable that it will receive reimbursement from the European Commission for scheme expenditure incurred and the amount to be received from the European Commission is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised.

The impacts of any foreign exchange movements between the claim date and the date of actual reimbursement by the European Commission are borne by the agency and accordingly recognised within the Statement of Comprehensive Net Expenditure.

1.12 European Commission funding of schemes administered by the agency
Rural development expenditure under the RDPE is managed by the agency on behalf of Defra. Accordingly, scheme income and expenditure are reported in Defra's resource accounts with transfers reported as movements through the General Fund.

The impacts of any foreign exchange movements between the claim date and the date of actual reimbursement by the European Commission are borne by the agency and accordingly recognised within the Statement of Comprehensive Net Expenditure.

1.13 Value Added Tax (VAT)
Defra and its executive agencies share a single VAT registration. Most activities relating to the group are outside the scope of VAT.

As a result, input tax cannot generally be recovered. However, under a HM Treasury concession applying to government departments, limited input VAT recovery may be possible on certain specified contracted out services attributable to those activities. For those limited activities where output VAT is charged, directly attributable input VAT can be recovered under the normal rules.

In all instances, where output tax is charged, and input tax is recoverable, amounts are stated net of VAT. Where input tax cannot be recovered, amounts are stated inclusive of VAT.

1.14 Foreign currency transactions
The functional and presentation currency of the agency is sterling.

The agency receives reimbursements from the European Commission in euros for funds administered by the agency and other UK paying agencies in relation to the Basic Payment Scheme and the Single Payment Scheme, the Rural Development Programme and Trader Schemes in accordance with respective scheme rules and regulations.

Furthermore, the agency makes a portion of payments under the Basic Payment Scheme and the Single Payment Scheme in euros to farmers, and funds other UK paying agencies in sterling and euros.

These foreign currency transactions are recognised as scheme income and scheme expenditure at the rates of exchange prevailing on the dates of recognition of those transactions as described in Notes 1.9, 1.11 and 1.12. At each Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in the Statement of Comprehensive Net Expenditure in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks, see Note 1.15 and Note 1.16.

1.15 Derivative financial instruments
The agency enters into a variety of foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in Note 13.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting period date. The resulting gain or loss is recognised in the Statement of Comprehensive Net Expenditure immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Statement of Comprehensive Net Expenditure depends on the nature of the hedge relationship. The agency designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset or current liability if the remaining maturity of the instrument is less than 12 months, or is greater than 12 months but is expected to be realised or settled within 12 months. The agency does not enter into derivative arrangements for speculative purposes.

1.16 Hedge accounting
In accordance with IAS 39, the agency elected to designate certain foreign currency derivatives as cash flow hedges of the euro denominated receipts from the European Commission in relation to the Basic Payment Scheme and the Single Payment Scheme. At the inception of the hedge relationship the agency documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the agency documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged items as required by the standard.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within Taxpayers' Equity. The gain or loss relating to the ineffective portion is recognised immediately in income or cost, and is included in the Statement of Comprehensive Net Expenditure.

Amounts previously recognised in the cash flow hedge reserve and accumulated in Taxpayers' Equity are reclassified to the Statement of Comprehensive Net Expenditure in the periods when the hedged item is recognised in the Statement of Comprehensive Net Expenditure, in the same line of the Statement of Comprehensive Net Expenditure as the recognised hedged item.

Hedge accounting is discontinued when the agency revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in the cash flow hedge reserve at that time is accumulated in Taxpayers' Equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Net Expenditure. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in Taxpayers' Equity is recognised immediately in the Statement of Comprehensive Net Expenditure.

1.17 Trade receivables
Trade and other receivables primarily represent amounts expected to be received from the European Commission, other government agencies and customers under the various schemes administered by the agency. Trade and other receivables are classified as 'loans and receivables' and are measured at amortised costs using the effective interest method, less any impairment. Impairment on trade and other receivables are recognised in the Statement of Comprehensive Net Expenditure and measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The estimated future cash flows are determined after considering, amongst other things, the impact of agreed payment plans with customers, amounts expected to be recovered through interception (the process of offsetting a customer's receivable against a future payment) and historic collections data for customers who have left the scheme.

1.18 Pensions
Present and past employees of the agency are covered by the provisions of five separate Principal Civil Service Pension Schemes (PCSPS), which are described in Note 2.2. Four of these schemes are defined benefit schemes and one (partnership) is a stakeholder pension with employee contributions. The agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for future benefits is a charge on the PCSPS on an accruing basis. In respect of the defined contribution schemes, the agency recognises the contributions payable for the year. The agency does not make contributions to any other pension scheme.

1.19 Provisions
Provisions are recognised when the agency has a legal or constructive present obligation as a result of a past event, it is probable that the agency will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the reimbursement can be measured reliably.

1.20 Early departure costs
The agency is required to meet the additional costs of benefits before normal retirement age in respect of employees who retire under early severance and early retirement schemes. The agency provides for this when a formal letter has been issued to the employee giving a leaving date and severance terms.

1.21 Contingent liabilities
In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the entity; or a present obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

In addition to contingent liabilities disclosed in accordance with IAS 37, the agency discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money. Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to

Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.22 Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the agency that are regularly reviewed by the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. The agency has identified the Chief Executive Officer as the Chief Operating Decision Maker.

For segmental reporting during 2017-18, Defra uses major areas of spend as reported monthly to the Defra Management Committee. The agency represents one of these discrete areas of spend. As in previous years, the Chief Executive Officer continued to review and monitor the agency's operational and financial performance at this aggregated level as presented in Defra's financial statements.

1.23 Critical accounting judgements and key sources of estimation uncertainty

The Chief Executive Officer, in his capacity as Accounting Officer, uses judgement in making estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, which the Chief Executive Officer, in his capacity as Accounting Officer, has made in the process of applying the agency's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

a) Recoverability and useful lives of intangible assets:

In capitalising internally developed application and bespoke IT software projects and licences and packages developed by third parties, the Chief Executive Officer, in his capacity as Accounting Officer, makes judgements and estimates when assessing whether the costs incurred meet the criteria for capitalisation in the accounting standards, whether the capitalised software will continue to provide sufficient benefit to the agency to support its carrying amount, and whether the useful life of the existing capitalised, internally generated intangible assets remains appropriate.

Key factors driving useful life and impairment assessments include estimates of the expected future life span of the current schemes administered by the agency and the expected succession scheme replacement which will incorporate some or in some cases all of the current functionalities of the current capitalised intangibles assets.

b) Allowances for doubtful debt:

The Chief Executive Officer, in his capacity as Accounting Officer, periodically assesses the recoverability of trade receivables and recognises an allowance for doubtful debt for those receivables for which partial or full recovery is not probable. In this assessment the factors considered include the credit quality and ageing of the receivables, historical trends on recoverability, the opportunity to recover through interception of future payments, the ability to net settle with the customer and the ability to agree a payment plan with the customer involved.

c) **Additional (post payment) claim amounts:**

In preparing the accounts an assessment is made of the extent to which adjustments are likely to be needed in relation to claims already paid where potential issues have been identified post payment. This may result in additional payments or recoveries being required, and therefore management estimates are needed to assess additional amounts which might need to be recognised. In assessing the value of these future payments the RPA considers queries raised by the recipients of claim payments; the underlying accuracy of data supporting the claim; the input and processing of claims, their compliance with scheme rules and the application of any penalties or adjustments. Management also identifies the claim populations displaying similar characteristics to those individual claims found to be affected by system or data issues, so as to assess any additional liabilities.

An accrual of £27m (2016-17: £21m) has been recognised, which represents management's view of the most likely amounts due to individual claimants. Since these payments will be funded through the European Commission, a receivable for the accrued amount has been recognised in accordance with RPA's accounting policies. Management continue to review and model the accrual estimate and believe the maximum potential additional liability would be £8m (2016-17 £17m). Management do not consider this to have a material impact on the liabilities recognised.

A contingent liability for £13m (2016-17 £nil) has also been disclosed, representing additional amounts where there is more uncertainty of the potential for, and the valuation of these additional payments.

1.24 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Bank overdraft amounts are included within trade and other payables in the Statement of Financial Position.

1.25 General Fund

The General Fund represents the total assets less liabilities of the agency, to the extent that the total is not represented by other reserves. Financing by Defra is credited to the General Fund. When the agency makes repayments of financing to Defra these are debited to the General Fund.

1.26 Financial penalties

The agency receives income through reimbursement of scheme expenditure from the European Commission. This includes reimbursements of payments made by other UK paying agencies, see Note 1.11.

The European Commission may apply financial penalties to any of the paying agencies if they consider there to be infringement of scheme regulations. These penalties, referred to as "financial corrections" or "disallowance", are typically deducted retrospectively from reimbursements.

Financial penalties attributable to schemes administered by the agency are recognised as a loss in the Statement of Comprehensive Net Expenditure of the department, not within the agency's accounts. The shortfall in reimbursement is shown as a funding transfer through the agency's Statement of Changes in Taxpayers' Equity when the reimbursement takes place.

Financial penalties attributable to the RDPE are also recognised as a loss by the department, not the agency. These are accounted for in the same way as penalties relating to schemes administered by the agency.

Financial penalties attributable to schemes administered by other UK paying agencies are charged on those agencies at the point the European Commission deduct it from their reimbursement. These have no impact on the income or expense reported by the agency.

1.27 Intervention buying and selling

Intervention buying is a method of supporting market prices for agricultural commodities. The agency is required to buy, at prices determined by the European Commission, produce of defined quality offered in accordance with detailed regulation. This produce is then sold out of intervention for specific end uses, on terms prescribed by the European Commission, when prices are high or there is a shortage on the open market.

The agency inventories comprise solely of milk powder purchases held in store.

1.28 Corporate overhead recharges (notional)

Defra corporate overhead services costs, comprising charges for legal HR, IT, estates, procurement and shared services including payroll and financials, are recognised by the agency as notional charges, with the core department recording the associated credit. The agency still benefits from the use of these corporate services but the full budgets are retained by Defra in order to procure and manage the services more efficiently and effectively. The annual non-cash charges for these services are instead issued to the agency for inclusion in the agency statutory accounts to ensure a true and fair view of costs is represented. A corresponding credit in the Defra accounts ensure on consolidation that there is no duplication.

1.29 Adoption of new and revised standards

At the date of authorisation of these financial statements, the following standards and interpretations, relevant to the agency, were issued but not yet effective:

IFRS 9 Financial Instruments - Classification and Measurement
IFRS 15 Revenue from Contracts with customers
IFRS 16 Leases

These become effective for accounting periods starting after 1 January 2018 for IFRS 9 and IFRS 15, and for IFRS 16 after 1 January 2019. The agency plans to adopt these standards once required to do so by the FReM.

The agency's existing hedging relationships will continue to qualify as effective hedges under IFRS 9. RPA plans to elect the cost of hedging option for cross currency basis and forward points, thus leaving the designated element of hedging instruments unchanged to that previously designated under IAS 39. The agency also has minimal revenue from scheme traders, and since 1 April 2017 the majority of agency leases have been transferred to Defra. As a result the agency does not anticipate material adjustments to the financial statements following the introduction of these standards.

2. Staff numbers and related costs

2.1 Staff costs comprise:

	Permanently employed staff	Short term/ fixed term appointment	Year to 31 March 2018 Total	Permanently employed staff	Short term/ fixed term appointment	Year to 31 March 2017 Total
	£000	**£000**	£000	**£000**	**£000**	£000
Wages and salaries	**41,335**	**17**	**41,352**	54,196	244	54,440
Social security costs	**4,356**	**2**	**4,358**	5,341	23	5,364
Other pension costs	**8,231**	**3**	**8,234**	10,592	46	10,638
Early retirement and early severance costs						
Expensed in the year	**283**	**-**	**283**	2,291	-	2,291
	54,205	**22**	**54,227**	72,420	313	72,733
Less recoveries in respect of secondments			**(409)**			(885)
Agency staff			**4,852**			2,258
Contractors			**1,253**			7,646
Total staff costs			**59,923**			81,752

No staff costs have been capitalised (2016-17: £nil).

Permanently employed staff costs have fallen significantly in 2017-18, due in part to 203 full time equivalent employees moving to Defra on 1 April 2017. Their salary costs are now included with the Corporate overhead recharge from Defra reported in Note 3.

Average number of persons employed

The average number of full time equivalent persons employed (including senior management and agency staff) during the year was as follows:

	Year to 31 March 2018	Year to 31 March 2017
Permanently employed staff	**1,464**	1,830
Agency	**182**	113
Contractors	**10**	68
Total	**1,656**	2,011

Individual contractors engaged to fill temporary or permanent vacancies, or provide additional resource are included within staff costs in Note 2.1. Where firms have been engaged to provide services, they are not considered to be employees and are excluded from staff costs in Note 2.1, and are reflected within Non-IT professional services in Note 3.

2.2 Pensions schemes

PCSPS provides four pension benefit schemes. These are unfunded multi-employer defined schemes. The agency is unable to identify its share of the underlying assets and liabilities for these defined benefit schemes and they are therefore accounted for as defined contribution schemes.

For 2017-18 employer's contributions of £8.2m (2016-17: £10.5m) were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 can also opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2017-18, employer's contributions of £100k were paid to one or more of a panel of three appointed stakeholder providers. Employer's contributions are age-related and range from 8.0% to 14.75% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition employer's contributions of £3.6k, 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits or death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the Statement of Financial Position date were £8.7k (2016-17: £9.8k). There were no prepaid contributions at that date.

Further details about civil service pension arrangements can be found in the Remuneration Report and on the Civil Service website www.civilservicepensionscheme.org.uk.

No contributions are made in respect of any other pension scheme.

2.3 Reporting of Civil Service and other compensation schemes - exit package

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. Where the agency has agreed early retirements, the additional costs are met by the agency and not by the civil service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

The Government lost a judicial review on the CSCS on 18 July 2017. As a result, the 2010 CSCS terms are now restored and lawfully in place. During the year to 31 March 2018, the agency paid a further £257k to 30 employees that left as part of the 2016-17 voluntary exit scheme to reflect the more favourable terms of the 2010 CSCS.

During the year to 31 March 2018 there were three compulsory redundancies (2016-17: none).

	Year to 31 March 2018	Year to 31 March 2017	**Year to 31 March 2018**	Year to 31 March 2017	**Year to 31 March 2018**	Year to 31 March 2017	**Year to 31 March 2018**	Year to 31 March 2017
Exit packages cost band	**Number of compulsory departures**		**Value of compulsory departures**		**Number of other departures**		**Value of other departures[1]**	
			£000	£000			**£000**	£000
Up to £10,000	**3**	-	**10**	-	**-**	1	**-**	5
£10,001 - £25,000	**-**	-	**-**	-	**-**	15	**-**	240
£25,001 - £50,000	**-**	-	**-**	-	**-**	19	**-**	676
£50,001 - £100,000	**-**	-	**-**	-	**-**	15	**-**	1,112
Total No. of exit packages and costs	**3**	-	**10**	-	**-**	50	**-**	2,033

1. *The total value of other departure packages 2016-17 has been restated to include £257k of additional payments paid in 2017-18 to 30 leavers on the 2016-17 voluntary exit scheme.*

3. Other running costs

	Note	Year to 31 March 2018	Year to 31 March 2017
	Note	**£000**	£000
Non-cash items (including notional charges)			
Auditors remuneration and expenses (notional)		**-**	245
Corporate overhead recharge (notional)[1]		**49,247**	18,236
Depreciation	**7**	**626**	562
Amortisation	**8**	**14,817**	5,465
		64,690	24,508
Other expenditure			
Accommodation including recharges		**(22)**	(756)
IT costs		**133**	23,018
IT costs relating to projects		**-**	559
Non-payroll staff costs		**2,788**	3,426
Communications costs		**1,981**	3,462
Non-IT professional services		**10,405**	10,701
Finance lease interest		**-**	22
Certification Body (NAO) grant certification fee		**2,439**	2,534
Other running costs		**(275)**	436
		17,449	43,402
Total		**82,139**	67,910

1. *Services and facilities provided by Defra.*

The agency does not directly meet the costs of certain services that are provided centrally by Defra. These services are agreed and managed through service level agreements between the agency and Defra. The agency reports these notional recharges to accurately reflect the true costs of operations, with a matching credit recorded in general funds.

The Corporate overhead recharge (notional) comprises:

	Year to 31 March 2018	Year to 31 March 2017
	£000	£000
Estate Management costs	**7,149**	8,164
Information Technology	**34,061**	8,228
Human Resources services	**2,834**	588
Legal services	**1,220**	1,220
Communications	**270**	36
Shared services including payroll and financial	**3,468**	-
Auditors remuneration and expenses	**245**	-
Total	**49,247**	18,236

In 2016-17 auditor remuneration and expense notional costs of £245k were paid directly by the agency as shown above.

During the year to 31 March 2018, the agency received no non-audit services from the NAO (2016-17: £nil).

Included in Notes 2 and 3 are the costs associated with the Co-ordinating Body which are summarised in the following table:

	Year to 31 March 2018	Year to 31 March 2017
	£000	£000
Payroll costs	**474**	509
Other costs	**106**	136
Certification Body (NAO) grant certification fee	**2,439**	2,534
Total	**3,019**	3,179

The Co-ordinating Body is an independent body, whose function is to ensure that all paying agencies maintain their accreditation status and effectively administer CAP.

4. Running costs income

	Year to 31 March 2018	Year to 31 March 2017
	£000	£000
DIS notional	**-**	(228)
Other running costs income	**(12,044)**	(7,301)
Total	**(12,044)**	(7,529)

Running costs Defra Investigation Services (DIS) income (2017-18: £0.1m), previously reported as agency income (2016-17: £0.2m), is now included within the Defra Corporate overheads recharge (notional) charge. From 1 August 2017 this service transferred to Defra and the agency stopped receiving notional income from this date.

A further £8.2m (2016-17: £3.2m) relates to the agency's ability to claim from the 2007-13 RDPE TA fund. This helps to fund activities designed to ensure the transition from the 2007-13 RDPE programming period to the 2014-20 RDPE programming period.

The agency also received income for work on the BCMS on behalf of Defra of £3.7m (2016-17: £4.0m).

5. Schemes administered by the agency

	Year to 31 March 2018			Year to 31 March 2017		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Basic Payment Scheme[1]	**1,731,315**	**(1,733,647)**	**(2,332)**	1,818,264	(1,827,600)	(9,336)
Single Payment Scheme	**154**	**162**	**316**	145	2,341	2,486
Internal Trade - Horticulture	**31,853**	**(34,350)**	**(2,497)**	30,312	(33,617)	(3,305)
Internal Trade - other	**4,064**	**(4,115)**	**(51)**	5,019	(5,207)	(188)
Dairy Fund	**18,122**	**(19,216)**	**(1,094)**	9,354	(9,349)	5
Other schemes	**2,143**	**(1,895)**	**248**	2,125	(2,369)	(244)
	1,787,651	**(1,793,061)**	**(5,410)**	**1,865,219**	**(1,875,801)**	(10,582)
Other scheme related costs[2]	**787**	**-**	**787**	43	-	43
Cost of hedging contracts	**(3,702)**	**-**	**(3,702)**	(3,394)	-	(3,394)
Realised exchange loss	**2,814**	**-**	**2,814**	8,469	-	8,469
Unrealised exchange gain	**(4,155)**	**-**	**(4,155)**	(656)	-	(656)
Other scheme related income	**-**	**(1,357)**	**(1,357)**	-	(218)	(218)
Total scheme expenditure/(income)	**1,783,395**	**(1,794,418)**	**(11,023)**	1,869,681	**(1,876,019)**	(6,338)

1. *BPS income includes an increase of £2.0m (2016-17: reduction of £11.1m) resulting from foreign exchange hedging transactions, see Note 13.*
2. *Other scheme related costs include losses, special payment, legal fees and movements in the allowance for doubtful debts and provisions.*

6. Other paying agencies and delegated authorities

	Year to 31 March 2018			Year to 31 March 2017		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Other paying agencies[1]						
Scottish Government Rural Payments and Inspections Division	**380,192**	**(380,367)**	**(175)**	428,824	(431,447)	(2,623)
Welsh Assembly Government	**320,993**	**(321,112)**	**(119)**	313,676	(314,353)	(677)
Department of Agriculture, Environment and Rural Affairs, Northern Ireland	**305,305**	**(305,584)**	**(279)**	301,135	(301,619)	(484)
	1,006,490	**(1,007,063)**	**(573)**	**1,043,635**	**(1,047,419)**	**(3,784)**
Delegated authorities						
Forestry Commission	**167**	**(167)**	**-**	525	(532)	(7)
Total scheme expenditure/(income)	**1,006,657**	**(1,007,230)**	**(573)**	1,044,160	(1,047,951)	(3,791)

1. *OPAs income includes an increase of £1.7m (2016-17: reduction of £28.3m) resulting from foreign exchange hedging transactions, see Note 13.*

The agency funds the Forestry Commission for payments made in Scotland and Wales. This expenditure and associated income is included above.

7. Property, plant and equipment

	Information technology hardware and office machinery	Right of use assets	Total
	£000	£000	£000
Valuation			
At 1 April 2017	**8,383**	**-**	**8,383**
Additions	**258**	**-**	**258**
Disposals	**(4,613)**	**-**	**(4,613)**
Reclassification	**37**	**-**	**37**
Revaluations	**(33)**	**-**	**(33)**
At 31 March 2018	**4,032**	**-**	**4,032**
Depreciation			
At 1 April 2017	**7,002**	**-**	**7,002**
Charged in year	**626**	**-**	**626**
Disposals	**(4,613)**	**-**	**(4,613)**
Revaluations	**(59)**	**-**	**(59)**
At 31 March 2018	**2,956**	-	2,956
Net Book Value			
At 1 April 2017	**1,381**	**-**	**1,381**
At 31 March 2018	**1,076**	-	**1,076**
Assets Financing			
Owned	**1,076**	**-**	**1.076**
Net Book Value at 31 March 2018	**1,076**	-	**1,076**

Included in property, plant and equipment are assets with a historic cost of £2.2m (31 March 2017: £6.2m) which have been fully depreciated. These assets are still in use by the agency.

	Information technology hardware and office machinery	Right of use assets	Total
	£000	£000	£000
Valuation			
At 1 April 2016	9,559	1,066	10,625
Additions	581	(54)	527
Disposals	(1,919)	(1,012)	(2,931)
Revaluations	162	-	162
At 31 March 2017	8,383	-	8,383
Depreciation			
At 1 April 2016	8,344	947	9,291
Charged in year	497	65	562
Disposals	(1,919)	(1,012)	(2,931)
Revaluations	80	-	80
At 31 March 2017	7,002	-	7,002
Net Book Value			
At 1 April 2016	1,215	119	1,334
At 31 March 2017	1,381	-	1,381
Assets Financing			
Owned	1,381	-	1,381
Net Book Value at 31 March 2017	1,381	-	1,381

8. Intangible assets

	Information technology	Software licences	Development expenditure	Total
	£000	**£000**	**£000**	**£000**
Valuation				
At 1 April 2017	**226,709**	**4,374**	**3,370**	234,453
Additions	**2,656**	**-**	**534**	3,190
Disposals	**(81,516)**	**(1,258)**	**-**	(82,774)
Reclassifications	**3,397**	**-**	**(3,434)**	(37)
Revaluations	**(7,746)**	**1**	**-**	(7,745)
At 31 March 2018	**143,500**	**3,117**	**470**	**147,087**
Amortisation				
At 1 April 2017	**146,066**	**4,016**	**-**	150,082
Charged in year	**14,540**	**277**	**-**	14,817
Disposals	**(81,516)**	**(1,258)**	**-**	(82,774)
Revaluations	**(9,925)**	**(7)**	**-**	(9,932)
At 31 March 2018	**69,165**	**3,028**	**-**	**72,193**
Net Book Value				
At 1 April 2017	**80,643**	**358**	**3,370**	84,371
At 31 March 2018	**74,335**	**89**	**470**	**74,894**
Assets Financing				
Owned	**74,335**	**89**	**470**	74,894
Net Book Value at 31 March 2018	**74,335**	**89**	**470**	**74,894**

During the year to 31 March 2018 there were £nil impairment losses (2016-17: £nil).

Included in intangible assets are assets with a historic cost of £45.0m (31 March 2017: £126.4m) which have been fully amortised. These assets are still in use by the agency.

Included in intangibles are software assets acquired from Defra to deliver CAP scheme payments. These intangible assets had a historic costs of £88.7m and at 31 March 2018 a net book value of £70.7m, with 5 years remaining amortised life at 31 March 2018.

8. Intangible assets (continued)

	Information technology	Software licences	Development expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2016	143,146	4,248	423	147,817
Additions[1]	82,497	15	3,359	85,871
Disposals	(979)	(52)	-	(1,031)
Reclassifications	395	17	(412)	-
Revaluations	1,650	146	-	1,796
At 31 March 2017	226,709	4,374	3,370	234,453
Amortisation				
At 1 April 2016	141,946	3,511	-	145,457
Charged in year	5,003	462	-	5,465
Disposals	(979)	(52)	-	(1,031)
Revaluations	96	95	-	191
At 31 March 2017	146,066	4,016	-	150,082
Net Book Value				
At 1 April 2016	1,200	737	423	2,360
At 31 March 2017	80,643	358	3,370	84,371
Assets Financing				
Owned	80,643	358	3,370	84,371
Net Book Value at 31 March 2017	80,643	358	3,370	84,371

1. *Additions within Information technology of £82.5m reflect the transfer of assets from Defra to the agency as of 1 December 2016. These assets have a remaining amortised life of six years from 1 April 2017.*

9. Trade receivables

Amounts falling due within one year:

	31 March 2018	31 March 2017
	£000	£000
Due from Defra and its agencies	**6,377**	1,706
Due from other government departments (including OPAs)	**11,680**	8,751
VAT recoverable	**1,418**	2,340
Total Intra-government balances	**19,475**	12,797
Trade receivables	**5,926**	3,997
Less allowance for doubtful debts	**(1,662)**	(2,056)
	4,264	1,941
Due from European Agricultural Guarantee Fund/European Agricultural Fund for Rural Development	**259,532**	418,685
Prepayments and other receivables	**4,639**	4,236
Total other receivables	**268,435**	424,862
Total receivables	**287,910**	437,659

The credit period for trade receivables invoices is nil except in those instances where an agreement is reached between the agency and the customer to allow for recovery through the interception of future payments or extended repayment terms are agreed. The agency has an ability to charge interest on overdue scheme balances.

10. Cash and cash equivalents

	31 March 2018	31 March 2017
	£000	£000
Balances held at 1 April	**393,902**	554,576
Net cash inflow/(outflow)	**68,458**	(160,674)
Total balance	**462,360**	393,902

The following balances are held at 31 March:

	31 March 2018	31 March 2017
	£000	£000
Government Banking Services	**462,360**	393,894
Commercial banks and cash in hand	**-**	8
Total balance	**462,360**	393,902

The closing balance of third party money held as cash securities at 31 March 2018 was £2.0m (31 March 2017: £2.5m). Of this, £2.0m (31 March 2017: £2.5m) was held in a public bank account.

At 31 March 2018 the cash equivalent balance was £nil (31 March 2017: £nil).

11. Trade payables and other current liabilities

Amounts falling due within one year:

	31 March 2018	31 March 2017
	£000	£000
Due to Defra and its agencies	**434**	410
Due to other government departments (including OPAs)	**5,372**	14,077
Other taxation and social security	**980**	1,285
Total Intra-government balances	**6,786**	15,772
Trade payables[1]	**5,241**	6,307
Cash securities[2]	**2,018**	2,477
Scheme accruals	**54,280**	61,282
Running cost accruals	**4,544**	9,513
Other payables	**862**	1,088
Advances on Rural Development Programmes	**-**	3,518
Total other payables	**66,945**	84,185
Total payables	**73,731**	99,957

1. *Trade payables principally comprise amounts outstanding for claims to be paid to customers.*
2. *Traders wishing to undertake certain transactions under European Commission regulations are required to guarantee completion of the transaction by lodging a security with the agency. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. The security received is included within cash; see Note 10, with the corresponding liability with the trader shown above.*

Amounts falling due after more than one year:

	31 March 2018	31 March 2017
	£000	£000
Advances on Rural Development Programmes	128,587	125,740
Total	128,587	125,740
Total trade payables and other liabilities	202,318	225,697

The agency considers that the carrying amount of trade and other payables approximates to their fair value.

As at 31 March 2018, the agency considers that the fair value of the advances received on Rural Development Programmes for Defra and OPAs is £128.6m (31 March 2017: £129.3m).

12. Provisions

	Running cost provisions	Scheme related provisions	Total
	£000	£000	£000
Balance at 1 April 2017	843	1,688	2,531
Provided in the year	2	-	2
Released	(348)	(1,461)	(1,809)
Utilised	(241)	-	(241)
Balance at 31 March 2018	256	227	483
Analysed as			
Current	116	227	343
Non-current	140	-	140
Balance at 31 March 2018	256	227	483
Analysis of expected timing of discounted flows			
No later than one year	116	227	343
Later than one year and not later than five years	140	-	140
Balance at 31 March 2018	256	227	483

12.1 Running cost provision

Running cost provisions include the early retirement and severance costs of former employees and other provisions to be fully paid by April 2020.

12.2 Scheme related provision

The agency has a number of cases where customers have challenged its decisions regarding their claim eligibility for scheme payments. This has been reviewed on a case by case basis, with provisions made where the agency considers payment to be probable and can be measured reliably.

13. Financial instruments

13.1 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 1.

Categories of financial instruments:

	31 March 2018	31 March 2017
	£000	£000
Financial Assets		
Trade receivables and other current assets	**283,472**	433,732
Cash and cash equivalents	**462,360**	393,902
Derivative instruments classified as held for trading	**2,352**	959
Derivative instruments in designated hedge accounting relationships	**11,164**	1,127
Sub-total of derivatives assets	**13,516**	2,086
Financial Liabilities		
Trade payables and other liabilities	**200,315**	223,085
Derivative instruments classified as held for trading	**656**	1,796
Derivative instruments in designated hedge accounting relationships	**-**	3,917
Sub-total of derivatives liabilities	**656**	5,713
Other		
Financial Guarantee Contracts		
Cash securities	**2,018**	2,477
Non-cash guarantees	**2,088,000**	1,922,000

Cash on deposit at 31 March 2018 consists of money lodged with Government Banking Services and Commercial Banks.

The sterling denominated accounts held within Government Banking Services are not subject to an interest rate charge while the euro denominated accounts held are subject to an interest rate charge of 0.55%.

Cash securities are provided by certain traders see Note 11. No interest is paid to traders on cash balances lodged with the agency as security.

Securities may also be in the form of a non-cash guarantee by a bank or an insurance company acceptable to the agency. Sterling guarantees totalling £684m and euro guarantees totalling €1,604m (£1,404m) were held at 31 March 2018 (£547m and €1,607m (£1,375m) at 31 March 2017).

13.2 Financial risk management policies

The agency's treasury operations are managed in accordance with the framework document agreed with Defra. The framework document sets out the governance arrangements in respect of the agency's hedge strategy, the review and selection of hedge service providers, the execution of contracts, hedge accounting, the valuation of derivatives, the process for settlement of derivatives and external reporting.

13.3 Market risks

The agency's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The agency enters into forward foreign exchange contracts to manage its exposure to foreign currency risk relating to euro denominated receipts from the European Commission for the Basic Payment Scheme and Rural Development Programme scheme expenditure (including Scotland, Wales and Northern Ireland).

From January 2003, in accordance with Commission Regulation (EC) No.1997/2002 (as amended), non-eurozone member states, such as the UK, are reimbursed by the European Commission in euros. However, the majority of distributions by the agency are transacted in sterling, which creates an exposure to gains or losses from fluctuations in foreign exchange rates between the euro and sterling. The agency has managed its exposure to this risk through the purchase of forward foreign currency contracts.

13.4 Foreign currency denominated monetary assets and monetary liabilities

The carrying amounts of the agency's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	31 March 2018		31 March 2017	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Euro	**403,352**	**128,587**	560,365	129,258

13.5 Sensitivity analysis

The following table details the agency's sensitivity to a 10% increase and decrease in sterling against the euro. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for 10% change in foreign currency rates. For net operating costs a positive number indicates a decrease in net operating costs whereas a negative number indicates an increase in net operating cost. For Taxpayers' Equity a positive number indicates an increase in Taxpayers' Equity whereas a negative number indicates a decrease in Taxpayers' Equity.

	Impact of movement in Euro/Sterling rate Sterling appreciates by 10%		**Impact of movement in Euro/Sterling rate Sterling depreciates by 10%**	
	31 March 2018	31 March 2017	**31 March 2018**	31 March 2017
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost[1]	**(27,476)**	(43,111)	**27,476**	43,111
Derivative instruments				
(Increase)/decrease in Net operating cost[2]	**19,163**	22,900	**(15,755)**	(18,466)
Increase/(decrease) in Taxpayers' Equity[3]	**55,965**	56,219	**(52,557)**	(51,785)

1. *This is attributable to the exposure outstanding on euro receivables and payables in the agency at the Statement of Financial Position date*
2. *This is the result of the changes in fair value of derivatives instrument held for trading*
3. *This is the result of the changes in fair value of derivative instruments designated as cash flow hedges*

Outstanding foreign currency contracts:

	Average exchange rate 31 March 2018	Foreign currency 31 March 2018	Notional value 31 March 2018	Fair value 31 March 2018
	Euro: Sterling	**€000**	**£000**	**£000**
Current derivative assets to sell euros	**0.89252**	**836,846**	**746,899**	**13,008**
Current derivative assets to buy euros	**0.86175**	**(31,746)**	**(27,357)**	**508**
Current derivative liabilities to sell euros	**0.86739**	**51,942**	**45,055**	**(656)**
Current derivative liabilities to buy euros	**-**	**-**	**-**	**-**

During the year the agency entered into forward exchange contracts to hedge the monthly euro denominated receipts in relation to the Basic Payment Scheme. As at 31 March 2018, the aggregate amount of losses under forward foreign exchange contracts deferred to the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £8.9m. It is anticipated that the funds will be received during 2018-19, at which time the amount deferred in equity will be reclassified to the Statement of Comprehensive Net Expenditure.

The agency also entered into forward exchange contracts to hedge the quarterly euro denominated receipts in relation to the Rural Development Programmes. As at 31 March 2018, there are no gains or losses deferred to the cash flow hedge reserve in respect of Rural Development Programme contracts.

The agency entered into forward exchange contracts to hedge the exposure on the repayment of the European Fisheries Fund advance held by Defra. As the underlying liability is with Defra an internal hedge has been established to transfer the risk exposure on the contracts. There is no deferral of gains or losses under these contracts to the cash flow hedge reserve.

The fair value of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. They represent Level 2 fair value measurements which are those derived from inputs, other than quoted prices, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

13.6 Own credit risk and counterparty credit risk

As the agency is a UK Government entity, the own credit risk for the agency is not significant. All derivative contracts are with a stable international bank, therefore the fair value of the counterparty credit risk is also limited.

Net gains on cash flow hedges transferred from Taxpayers' Equity to the Statement of Comprehensive Net Expenditure are as follows:

	Year to 31 March 2018
	£000
Agency - scheme income	**2,031**
Other paying agencies - scheme income	**1,658**
Gain - scheme expenditure	**15,986**
Total transferred to Statement of Comprehensive Net Expenditure	**19,675**

13.6 Credit risks

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the agency. As part of its procedures the agency periodically reviews the counterparty credit risk.

Trade receivables consist of a large number of unrelated customers with differing credit qualities, which serves to diversify the agency's credit risk. An ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies.

13.7 Liquidity risks

The agency is funded by HM Treasury through Defra. The agency has maintained liquidity, wherever possible, through timely submission of funding claims to the European Commission.

The agency does not undertake the borrowing of funds other than from HM Treasury. Such borrowing, arising from short term in-year fluctuations in expenditure, if required, would be affected by the agency drawing monies from HM Treasury's Contingencies Fund. This facility is the subject of a formal standing arrangement agreed by HM Treasury. Drawings are normally repayable within the year.

13.8 Liquidity tables

The following tables detail the agency's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the agency can be required to pay. The table includes both interest and principal cash flows.

	31 March 2018		31 March 2017	
	Non-interest bearing	**Finance lease liability**	Non-interest bearing	Finance lease liability
	£000	**£000**	£000	£000
Zero - three months	**71,727**	**-**	93,826	-
Three - twelve months	**-**	**-**	3,518	-
One - five years	**128,587**	**-**	125,740	-
Greater than five years	**-**	**-**	-	-
Total	**200,314**	**-**	223,084	-

The following table details the agency's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the agency's liquidity risk management as the liquidity is managed on a net asset and liability basis.

Non-interest bearing as follows:

	31 March 2018	31 March 2017
	£000	£000
Zero - three months	**254,854**	394,769
Three - twelve months	**28,618**	38,963
Total	**283,472**	433,732

13.9 Gross settled foreign exchange forward contracts

The following table details the agency's liquidity for its undiscounted derivative financial instruments. All derivatives used for hedging purposes are shown by maturity based on their contractual undiscounted gross cash flows.

	31 March 2018		31 March 2017	
	Derivative liabilities	**Derivative assets**	Derivative liabilities	Derivative assets
	£000	**£000**	£000	£000
Zero - three months	**460**	**12,017**	5,149	803
Three - six months	**18**	**1,774**	(127)	-
Total	**478**	**13,791**	5,022	803

14. Revaluation reserve

The revaluation reserve relates to revaluation of Property, plant and equipment (Note 7), and Intangible assets (Note 8) analysed as follows:

	Property, plant and equipment	Intangible assets	Total
	£000	**£000**	**£000**
Balance at 31 March 2017	**55**	**1,497**	1,552
Revaluation during the year	**26**	**2,187**	2,213
Transfer to General Fund[1]	**(44)**	**(634)**	(678)
Balance at 31 March 2018	**37**	**3,050**	**3,087**

1. *The transfer to the General Fund reflects the difference between the depreciation or amortisation charge based on the revalued carrying amount of the asset and the depreciation or amortisation charge based on the original cost.*

15. Capital commitments

At 31 March 2018 the agency had bridging payments capital commitments of £117.0m (31 March 2017: £45.1m). These payments were made in April 2018 to those farmers who had not received their full BPS 2017 payment at 31 March 2018, to provide them with financial relief while the agency finalises the processing on their claims.

16. Lease commitments

16.1 Operating leases

Total future minimum lease payments at 31 March 2018 under operating leases are given in the table below for each of the following periods:

	31 March 2018	31 March 2017
	£000	£000
Vehicles		
Not later than one year	**184**	397
Later than one year and not later than five years	**48**	266
Total	**232**	663

The following commitments relate to the proportion of the occupation of Defra leasehold properties. These arrangements between the agency and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation.

	31 March 2018	31 March 2017
	£000	£000
Land		
Later than five years	**2**	3
Total	**2**	3
	£000	£000
Buildings		
Not later than one year	**2,099**	2,544
Later than one year and not later than five years	**2,452**	4,699
Later than five years	**2,183**	2,790
Total	**6,734**	10,033

16.2 Finance leases

At 31 March 2018, the agency had no future minimum lease payments under non-cancellable finance leases (31 March 2017: none).

17. Other financial commitments

The agency has entered into non-cancellable contracts (which are not leases or Private Finance Initiative contracts). These mainly relate to information technology support and accommodation commitments spanning a number of years. The payments to which the agency is committed are as follows:

	31 March 2018	31 March 2017
	£000	£000
Not later than one year	**707**	13,742
Later than one year and not later than five years	**15**	11,932
Total	**722**	25,674

The following commitments relate to facilities management costs associated with the proportion of occupation of buildings that are either owned or leased by Defra.

	31 March 2018	31 March 2017
	£000	£000
Not later than one year	**2,020**	2,430
Later than one year and not later than five years	**8,080**	9,719
Later than five years	**2,031**	4,873
Total	**12,131**	17,022

The following projected commitments relate to the service element associated with the proportion of usage by the agency of Defra's IBM contract in accordance with IFRIC 12, see Note 1.6. In 2016-17 Defra acquired these assets from IBM.

	31 March 2018	31 March 2017
	£000	£000
Not later than one year	**-**	4,590
Later than one year and not later than five years	**-**	4,432
Total	**-**	9,022

Private Finance Initiative (PFI) commitments
An off-Statement of Financial Position PFI contract was signed by Defra in February 2001. The scheme involved the grant of a 129 year ground lease to a PFI partner who constructed an office building for Defra, occupied in 2003, subject to a 30 year lease to 31 March 2033. The building is not an asset of Defra and will not revert to Defra at the end of the lease term. The freehold land subject to the ground lease is a Defra asset. Defra occupies 0% of the building and recharges other occupiers for their share of the costs, the agency's share for occupancy is 1.3% (2016-17: 1.3%).

The agency's total commitment at 31 March 2018 is £0.4m.

Defra freehold properties
The estimated value of non-specialised freehold property owned by Defra but occupied by the agency at 31 March 2018 is £2.9m (31 March 2017: £3.5m). There are no rental costs on Defra freehold properties.

18. Contingent assets and contingent liabilities disclosed under IAS 37

18.1 Contingent assets
The agency has no contingent assets.

18.2 Contingent liabilities
The agency has the following material contingent liabilities where the possibility of an outflow in settlement is not considered to be remote:

The European Commission can apply financial corrections if Defra (through the agency) does not comply with European Commission regulations for payments funded by the European Agricultural Guarantee Fund. Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent clarification negotiations with the European Commission in accordance with the European Commission's clearance of accounts procedure. There is an ongoing potential liability in respect of financial corrections which is unquantifiable.

All financial corrections are funded by Defra, and the contingent liabilities for these are reported in Defra accounts and not those of the agency.

The agency is currently in receipt of appeals from scheme claimants against the non-payment of claims covering BPS, Single Payments Scheme and trader related schemes. If the appeals are successful they could either result in a liability for EU or Exchequer funded payments. The amount of any such potential liability is unquantifiable.

In addition to the accrual for additional (post payment) claim amounts, there remains a potential liability for further amounts payable on some of the claims in the assessed populations of up to £13m. There is more uncertainty of the potential for, and the valuation of these additional payments and they are therefore disclosed as a contingent liability. In accordance with RPA's accounting policies the EC funding for these claims will be recognised as income as these additional payments are recognised.

19. Related party transactions

The agency, as an executive agency of Defra, has transactions with both core Defra and the following agencies:

- Animal and Plant Health Agency
- Food Standards Agency
- Environment Agency

The agency also had transactions with the following Non Departmental Public Bodies which are also linked to Defra:

- Natural England
- Agriculture and Horticulture Development Board

A significant proportion of CAP expenditure made by other paying agencies through the operation of market support schemes is funded by the agency. These funding transactions have been with:

- Scottish Government Rural Payments and Inspections Division
- Welsh Assembly Government
- Department of Agriculture, Environment and Rural Affairs, Northern Ireland
- Forestry Commission (as delegated paying agent)

Disclosure of employment

David Cotton is a non-executive director of the agency. He is a partner of HE Cotton & Son which received scheme payments of £47k during the year to 31 March 2018. He is also a director of Kingshill Farming Company Ltd which received scheme payments of £64k and €1k during the year to 31 March 2018.

Angela Gillibrand was a non-executive director of the agency until 30 June 2017. She is also a partner of Lotmead Farm Partnership which received scheme payments of £30k during the year to 31 March 2018.

Radbourne Thomas was a non-executive director of the agency until 30 June 2017. He is the owner of JB Thomas and Son which received scheme payments of £30k during the year to 31 March 2018.

These transactions were undertaken in the normal course of business and all transactions were at arms' length. These non-executive directors also receive salaries as shown on the Remuneration Report.

20. Events after the reporting period

These accounts have been authorised for issue by the Accounting Officer on the date the Comptroller and Auditor General's audit certificate and report was signed.

21. Sugar production charges

In accordance with section 8.2 of the 2017-18 FReM, sugar production charges collected on behalf of the European Commission, including related income, expenditure, penalties, assets and liabilities are excluded from the financial statements of the agency apart from appropriations of net revenue which the agency is entitled to record as revenue in the Statement of Comprehensive Net Expenditure.

Set out below are details of the amounts collected or accrued to be collected in respect of sugar production charges.

	Year to 31 March 2018	Year to 31 March 2017
	£000	£000
Sugar production charges collected in the financial year	**36**	10,917
Sugar production charges accrued in the financial year	**5**	35
Total	**41**	10,952

All amounts collected or accrued above are subsequently surrendered to HM Treasury by the agency. At 31 March 2018, the agency held no assets and liabilities in relation to sugar production charges, within the financial statements of the agency:

	Year to 31 March 2018	Year to 31 March 2017
	£000	£000
Balance held at the start of the year	**-**	-
Amount collected or accrued in the financial year	**41**	10,952
Payments to HM Treasury in the financial year	**(36)**	(10,917)
Liability to pay HM Treasury	**(5)**	(35)
Balance held on trust at the end of the year	**-**	-

In addition to the above transactions which have nil impact, the following losses, which have been excluded from the financial statements of the agency, were incurred in the financial year.

	Year to 31 March 2018	Year to 31 March 2017
	£000	£000
Liability for losses from claims for over-charges in previous years[1]	**6,552**	-
Liability for settlement of claims for over-charges in previous years[2]	**(5,872)**	-
Total losses incurred in year	**680**	-

1. *The European Commission has acknowledged that sugar levy rates advised by regulations (EC) No 2267/2000 and (EC) No 1993/2001 are invalid, leading to incorrect levies applied and charged to producers for periods 1999/2000 and 2000/2001. The agency envisages paying £6.6m in settlement of over-charges as a result of the new sugar levy rates introduced in regulation (EU) 2018/264.*
2. *The agency envisages collecting £5.9m from the European Commission to offset the losses for over-charges incurred in 1999/2000 and 2000/2001.*

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