rural payments agency

# Rural Payments Agency Annual Report and Accounts 2011–2012

# Rural Payments Agency
# Annual Report and Accounts
# 2011–2012

Presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Act 2000
Ordered by the House of Commons to be printed 10 July 2012

HC230 London: The Stationery Office £29.75

Any enquiries regarding this publication should be sent to us at customerrelations@rpa.gsi.gov.uk.

This publication is available for download at www.official-documents.gov.uk.

This document is also available from our website at rpa.defra.gov.uk.

ISBN: 9780102976281

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office.

ID 2483451 07/12

Printed on paper containing 75% recycled fibre content minimum.

# Contents

# Foreword by the Chief Executive Officer

I am pleased to report that there is a growing sense, both inside the Rural Payments Agency (RPA) and amongst our partners in the farming industry, that 2011–12 was the year the agency finally turned a corner on the way to becoming a trusted, efficient and effective organisation.

We accept the problems and uncertainties that we face remain significant and this continues to be a very demanding time for the agency. However, as signalled in our recently released 2012/13 Business Plan, there is to be no let up in our drive to improve performance for our customers and the taxpayer in the coming year.

Throughout the past year we showed steady improvement in performance and real progress on turning RPA into a customer focused agency. This included the publication of a new charter setting out clearly the standards of service our customers may expect and what to do if things go wrong.

Running costs were reduced by £9.5m compared with the previous year, while customer satisfaction scores increased to a 'highest-ever' level. Good progress was made in tackling some of the Single Payment Scheme (SPS) legacy issues, including a continued focus on accuracy as well as payment speed.

We also turned in the best performance ever on SPS 2011 payments, meeting the first of our performance indicators two weeks early, in mid-December. By the first week of March we had paid 95.4% of the fund to 96% of claimants, three weeks ahead of target. This meant we had also met the European Union (EU) payment benchmark, nearly four months early, preventing fines.

We continued to support the Government's digital by default agenda as reflected in a dramatic increase in the numbers of SPS 2011 applications made via SPS Online. At 31,376, this was almost double the number of applications submitted electronically in 2010.

We also demonstrated our ability to rise to new and unforeseen challenges. When UK growers of fresh fruit and vegetables were affected by the disruption resulting from the E.Coli outbreak in Germany early last summer, we introduced and managed an Exceptional Aid Scheme. By August 2011, two months ahead of the deadline, we had processed payments totalling £566k to 22 separate claimants for withdrawn or non-harvested lettuce, tomatoes and cucumbers.

The last financial year was also about putting in place a new executive management structure (a team of permanent, committed civil servants), introducing robust business disciplines and agreeing functions and responsibilities. These corporate changes were reflected in a new Framework Document published earlier this year, outlining how we would continue to work with Defra, our parent department.

We also undertook a detailed review of every area of our operation to find out how we could make the agency more efficient. Key to this was finding out what the farming industry and our customers thought, to ensure any changes were relevant to their business needs.

One result of this collaboration was the introduction last year of a new single-page cattle passport which is set to produce savings of £1m a year for the taxpayer and has been welcomed by the industry as a 'greener' and cheaper system for registering animal movements.

While dealing with 'business as usual', we have also been planning how to put an end to short-term fixes and workarounds. This resulted in our Five Year Plan, designed to stabilise the agency during the remaining Common Agricultural Policy (CAP) period, while developing our specifications and procuring replacement systems to meet the challenges of CAP 2013. We are determined to work with the department to ensure that this is achieved at best value for the taxpayer and without customer service issues or unexpected costs.

Our current Business Plan is effectively year one of the Five Year Plan, and sets out in detail specific measurable improvements including a headline SPS pledge to pay 91% of claimants and 84% of value by the end of December 2012.

Thanks to the efforts of our people and the support of our industry partners and Defra, RPA is at last beginning to offer a fast, responsive and easy to access service. We remain committed to working even harder in the coming year to fulfil our key role in supporting farmers and food producers.

Mark Grimshaw
Chief Executive Officer
29 June 2012

# Management commentary

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 we operate in accordance with the current accreditation requirements set out in Council Regulation (EC) No 1290/2005 and Commission Regulation (EC) No 885/2006. We also act as the UK Funding Body under this European Commission regulation.

As the only accredited paying agency in England, we have responsibility for delivering direct aid and rural development payments to farmers in England. We are also the paying agency for market support measures across the UK under the authority of the Secretary of State for Environment, Food and Rural Affairs and, as appropriate, in agreement with Scottish Ministers, the Welsh Government and the Department for Agriculture and Rural Development, Northern Ireland.

In addition, as a funding body, we have responsibility for receiving and administering money from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development.

We also have responsibility for livestock identification and traceability services within Great Britain.

Our headquarters are located in Reading. We also have major offices in Carlisle, Exeter, Newcastle, Northallerton and Workington. As at April 2012, we employed approximately 2,400 people across the agency.

## Our vision

Our vision is to become an effective, successful and trusted organisation. To do this, we must meet the immediate challenge of stabilising the agency, ensuring we have appropriate control of our risks and processes. We must address the legacy of issues we still face, and deal efficiently with change, while continuing to deliver improvements to our customers.

Our future vision, shared by our people, is to be the 'delivery organisation of choice'.

We operate within a framework of a strategic plan and an annual Business Plan. The strategic plan sets our duties and priorities as set by Ministers. The Business Plan sets annual performance indicators as set by the RPA Oversight Board. Progress against these objectives is recorded in the annual report, supported by the optimal level of scrutiny from the department and others, such as the National Audit Office, Environment Select Committee and the Public Accounts Committee.

In February 2012, we launched our strategic Five Year Plan setting out our goals and priorities for the next five years, further detail of which is given on page 15.

# Corporate governance

The agency is headed by the Chief Executive Officer and a team of executive directors which spans eight directorates. This Arc structure, (shown at Annex A), is a recognised method of sharing executive responsibility for the overall organisation. It ensures that each directorate is responsible for the part it plays in supporting the Arc while acknowledging its impact on other directorates.

The Chief Executive Officer along with the executive directors form the Executive Team.

The Governance statement on page 42 includes details of our main boards and we have shown our governance structure at Annex B.

# Relationship between RPA and Defra

The relationship between RPA and Defra is set out in the agreed framework document, published in April 2012. Defra's Secretary of State is ultimately accountable for the policies, decisions and actions of the department and its arm's length bodies. Responsibility for the agency has been devolved to the Minister of State for Agriculture and Food.

Defra's Permanent Secretary, as the Principal Accounting Officer, is the principal adviser to the Secretary of State on matters affecting Defra as a whole. The Permanent Secretary appoints the Chief Executive Officer of the agency.

The Chief Executive Officer is designated as the agency's Accounting Officer by the Principal Accounting Officer, and must be satisfied that the agency has adequate risk management, financial systems and procedures in place to promote the efficient and economical conduct of its business, safeguard financial propriety and regularity, safeguard its reputation and ensure business continuity.

# Agency Management Board

Members of the Agency Management Board for the reporting period

| | |
|---|---|
| Trevor Spires, CBE | Non-executive (Chair) |
| Jo Broomfield | Design & Change Director, from July 2011 |
| John Carter | Planning & Performance Director, from January 2012 |
| Sharon Ellis | External Relations Director, from May 2011 |
| Mark Grimshaw | Chief Executive Officer |
| Anne Marie Millar | Finance, Assurance & Commercial Director, from July 2011 |
| Sarah Hendry | Rural Development, Sustainable Communities & Crops Director, Defra (Corporate Customer) |
| Janet Baker | Non-executive |
| Peter Conway | Non-executive (Chair of Audit and Risk Committee) |
| Jim Godfrey, OBE | Non-executive |
| Paul Caldwell | Operations Director, until December 2011 |
| Ian Hewett | Interim Chief Information Officer, until June 2011 |
| David Clausen Thue | Interim Finance Director, until July 2011 |

# Audit and Risk Committee

Members of the Audit and Risk Committee for the reporting period

| | |
|---|---|
| Peter Conway | Non-executive (Chair) |
| Janet Baker | Non-executive |
| Jim Godfrey, OBE | Non-executive |
| Alison White | Non-executive, from July 2011 |

# Executive Team

Members of the Executive Team for the reporting period

| | |
|---|---|
| Mark Grimshaw | Chief Executive Officer (Chair) |
| Nicola Bettesworth | Human Resources Director, from July 2011 |
| Jo Broomfield | Design & Change Director, from July 2011 |
| Paul Caldwell | Operations Director |
| John Carter | Planning & Performance Director, from June 2011 |
| Justin Chamberlain | Customer Director, from July 2011 |
| Sharon Ellis | External Relations Director, from May 2011 |
| Anne Marie Millar | Finance, Assurance & Commercial Director, from July 2011 |
| Ed Schofield | Information & Technology Director from February 2012 |
| Chris Bowman | Information & Technology Director until February 2012 |
| David Clausen Thue | Interim Finance Director, until July 2011 |
| Jacqui Marshall | Human Resources Director, until July 2011 |

# RPA Oversight Board

Members of the Oversight Board for the reporting period

| | |
|---|---|
| James Paice MP | Minister of State for Agriculture and Food (Chair) |
| Katrina Williams | Director General, Food and Farming Group, Defra (Corporate Owner) |
| Tom Taylor | Defra Finance Director, from July 2011 |
| Anne Marie Millar | Defra Finance Director, until July 2011 |
| Sarah Hendry | Rural Development, Sustainable Communities & Crops Director, Defra (Corporate Customer) |
| Mark Grimshaw | Chief Executive Officer |
| Anne Marie Millar | RPA Finance, Assurance & Commercial Director, from July 2011 |
| David Clausen Thue | Interim RPA Finance Director, until July 2011 |
| Trevor Spires, CBE | Non-executive (Chair of the Agency Management Board) |
| Peter Conway | Non-executive (Chair of the Audit and Risk Committee) |
| Phil Nunnerley | Non-executive, Defra |
| Nick Lock | Non-executive, Defra |
| John Roberts | Defra Head of RPA Sponsorship Team |
| Sharon Ellis | Defra Head of RPA Sponsorship Team, until May 2011 |

# Risk management

We have focused on ensuring that there is an appropriate view of our key risks. This has been developed with input from the Executive Team, Agency Management Board and the Audit and Risk Committee. The results have been shared with the Oversight Board and they continue to periodically have an overview of the agency's key risks.

To support the ongoing consideration of our key risks, the Executive Team and the Agency Management Board hold an in depth risk discussion each quarter. It is also a standing agenda item at each Audit and Risk Committee meeting. These discussions form part of the overall tiered risk management governance which allows risks to escalate from directorates up to the Executive Team and Agency Management Board.

We have recently undertaken additional work to ensure that the right risks are captured and communicated in the correct way so that the issues are easily understood. To do this, we have engaged with Deloitte to review our approach to risk management, focusing on a number of key areas including people, systems, processes, integration with business activities and managing risk across organisational boundaries.

The review has assessed the maturity of our current risk management practices and has determined the appropriate state of risk management within the agency. These options will be considered by both the Executive Team and the Audit and Risk Committee.

# External audit activity of schemes

We continue to work with those external audit bodies charged with auditing our activities. We have improved our internal structures to create a Compliance Team designed to optimise our management of EU audit activity and the accounting and accreditation requirements that underpin our role as an EU Paying Agency. The Compliance Team has been established under the management of our EU Reporting & Compliance Director who has responsibility for discussions and negotiations with the European Commission on any compliance weaknesses found through audit activity and for presenting the evidence required to mitigate any potential financial correction (disallowance).

The Single Payment Scheme (SPS) was subject to a European Commission Area Aids Audit in July 2011. We were able to demonstrate evidence of control improvements raised through previous audits and enhancements to the quality of data contained within our key land and entitlements databases. The European Commission is still to make its financial correction proposals for the scheme years from 2007 onwards, but we have continued constructive discussions relating to the potential risk to EU funds and the level at which any correction should be set.

The European Commission returned in October 2011 to examine the improvements we have made in conjunction with Natural England, to align their claim and payment cycle with that of SPS. The European Commission has indicated that the changes made move in the direction that was recommended following their previous audit in 2008. We are continuing to work to address further enhancements. Discussions with the European Commission, following a positive European Union Conciliation Body report, have resulted in a significant reduction in the financial correction to be applied for previous years.

We have delivered a number of control improvements for the Fruit and Vegetables Producer Organisation Scheme which was subject to a further European Commission audit in 2011. The completion of a re-recognition review of these organisations has been a major part of the action we have taken to address the European Commission auditor's concerns regarding the eligibility of organisations that benefit from the scheme.

The Annual Certification Audit, undertaken by the National Audit Office in their role as Certifying Body, resulted in a clear audit opinion on the agency's EU accounts, prepared for the 12 months ended 15 October 2011, in accordance with EU regulations.

# Business Plan 2011–12 update

## Overview

RPA's 2011–12 Business Plan, published on 14 July 2011, provided an accurate and transparent view of our high level performance. It took into account ministerial guidance to move from setting ministerial targets to a new approach of agreeing performance indicators that drive delivery.

Our Business Plan identified three outcomes and four objectives which were monitored through associated performance indicators.

Three outcomes:

- Delivering operational excellence with a view to enhancing value for money.
- Effective delivery; ensuring for Common Agricultural Policy (CAP) scheme applications received within agreed deadlines, that accurate timely payments are made, and for livestock identification, that transactions are processed timely and accurately.
- Putting customer focus at the heart of RPA delivery.

Four objectives:

- Administer schemes and pay subsidy efficiently, accurately and in a timely way.
- Work constructively with key stakeholders to achieve collective outcomes.
- Provide better value for money while minimising financial and other risks.
- Improve our customer service through enhanced insight, capability, performance and communication.

## Defra structural plan

Defra launched its Structural Reform Plan on 16 July 2010. It sets out Defra's priority agenda and is a key tool of the Coalition Government for making departments accountable for the implementation of the Coalition Government's reforms.

The plan sets out the department's three priorities:

- To support and develop British farming and encourage sustainable food production.
- Help to enhance the environment and biodiversity to improve quality of life.
- Support a strong and sustainable green economy, which is resilient to climate change.

As an Executive Agency of Defra, we support the department in delivering these priorities, particularly in the key area of supporting British farming and encouraging sustainable food production.

## Delivering three outcomes

### Delivering operational excellence with a view to enhancing value for money.

We published our Five Year Plan on 9 February 2012. This plan sets out what needs to be done over the next five years to achieve our business priorities of delivering accurate and timely payments, putting customers at the heart of what we do and delivering operational excellence.

We now have a permanent leadership team in place. The design of the team and individual appointments reflect the challenges faced by the agency, as set out in the 2013 RPA Review and other reports. All are permanent appointments, including two from Defra which help to strengthen links with the core department. Five new non-executives have also been appointed to provide additional challenge and scrutiny.

We have revised our governance to provide additional assurance and scrutiny with the Agency Management Board now chaired by a non-executive as well as the Oversight Board chaired by the Minister.

We have ensured continuity of key information technology services through contract renewals, driving down contract costs by an average of 28%.

We have worked with the farming industry in England, Wales and Scotland to design a new robust, single-page cattle passport which will save taxpayers around £1m each financial year. This was launched on 1 August 2011 and cattle farmers supported the move to a more environmentally-friendly and cheaper to produce passport.

We understand the importance of a professional and motivated workforce to improve productivity, efficiency and effectiveness and have introduced new professional working standards. The design of the organisation has also changed and we have made good progress in ensuring all of our people are in the right roles to maximise their contribution to the agency.

New performance management arrangements are now in place to provide greater differentiation between people according to level of performance, demonstrate greater accountability, provide clear success criteria and manage poor performers.

## Effective delivery; ensuring for CAP scheme applications received within agreed deadlines, that accurate timely payments are made, and for livestock identification, that transactions are processed timely and accurately.

We have reported our best ever performance in exceeding our indicators for SPS 2011. On 5 March 2012, we had made SPS 2011 payments totalling £1.651 billion (95.4% of the scheme fund value) to 100,605 eligible claimants (96% of eligible claimants). This means that we met our second government performance indicator for SPS 2011 three weeks ahead of schedule. We also met the EU benchmark (95.238% of the scheme fund value by the end of June 2012) nearly four months ahead of time.

For 2012–13 we have agreed even more demanding indicators, particularly for SPS performance, in order to show some of the return on the additional investment from Defra. For example, we are committed to making payments to 91% of eligible claimants (a 5% increase on the previous year) and 84% of the scheme fund value (a 6% increase on the previous year) by the end of December 2012.

We exceeded our target to increase the number of electronic SPS applications. Uptake of online applications increased from 16,224 in 2010 to 31,376 in 2011, which equates to an increase of around 93%.

The focus on accuracy has continued this year, with known data errors being corrected before payment and any significant debts arising from previous years deducted from those payments.

Within days of its announcement in Europe in June 2011, we put in place a live application scheme to deliver aid to those UK growers affected by the E.coli outbreak in Germany. We made payments totalling over £566k to 22 eligible applicants, two months before the deadline.

We have made significant efforts to bring down disallowance levels and these will continue. However, it is unlikely that we will be able to move away from a minimal level of disallowance completely as this would require elimination of all errors. We have a programme of planned activity to increase confidence in the existence and valuation of a large proportion of debts and credits existing within our accounts.

We have met the overall targets for both trader schemes and the British Cattle Movement Service (BCMS).

## Putting customer focus at the heart of RPA delivery.

We launched our Customer Charter which sets the baseline for the agency's performance in responding to contact (by telephone, letter and e-mails), how we will respond to customer complaints and the timeframes for turning around key information requests (such as cattle passports and new land maps). On publication of the Customer Charter, Peter Kendall, National Farmers Union (NFU) President, said it was "a move in the right direction; building a professional relationship with the farming industry is greatly welcomed".

We worked with the cattle sector to develop and deliver services that are available 24 hours a day, 7 days a week for keepers to report their cattle movement information, births and deaths. This includes an automated telephone reporting channel for those customers who do not have access to a computer.

Enhancements to SPS Online (based on customer feedback) have been made. These include clearer messages guiding customers as they complete their applications online. It also ensures applications submitted electronically are visible immediately through the Track Claims facility. This confirms to customers that initial checks have been carried out.

We have assessed, identified and trained our senior processors to deal with the more complex SPS cases from beginning to end. Our plan to give detailed and consistent attention to these claims has resulted in them being assessed quicker and more accurately, with customers kept up to date with the progress of their claim.

We have also segmented our customers to help identify those farmers suffering hardship and financial need to allow us to pay those farmers more quickly.

Our new monthly performance report brings together data showing how our performance measures against our targets and forecasts. The new style of report ensures that the same management information is available to us, the Agency Management Board and the Oversight Board, providing greater clarity and consistency in our messages to stakeholders and customers.

For 2011–12 we had a target to achieve a customer satisfaction score of 8 out of 10 in quarter 4 of 2011–12. We received a score of 8.1 out of 10 (quarter 4 of 2010–11: 7.4). For quarter 3 we received a score of 8.2 (quarter 3 of 2010–11: 7.7). This is the highest customer satisfaction score we have ever achieved.

| Primary indicators | | Achievement* |
|---|---|---|
| Demonstrate a strong commitment to focus on customers by delivering a clear set of customer service standards for the end of August 2011. | | Met |
| The SPS fund being paid, in an accurate and timely manner such that by the end of December 2011 to have paid a minimum of 86% of eligible claimants and 78% of the total estimated value. By the end of March 2012 to have paid a minimum of 95% of both the eligible claimants and the total estimated value. | | Met |
| To process and pay valid claims for Trader Schemes and Rural Development Schemes. | 90% within ministerial guidelines (28 days). | Met |
| | 99% within set EU deadlines or in their absence, 60 days of receipt of the claim. | Met |
| Minimise the risk of disallowance, with current indicative levels, and make payments accurate to within materiality for all subsidy schemes under RPA's direct management. | | Met |

| Secondary indicators | Achievement* |
|---|---|
| Customer satisfaction of 8/10 average of all Q4 results. | Met |
| Increase in electronic applications for SPS 2011 to 24,000 claims. | Met |
| Farmers to receive first time, accurate payments. | Met |
| Reduce the average SPS cost per claim to £760. | Met |
| Reduce volume of data discrepancy cases (Debt & Data) identified to less than 5%. | Unable to assess** |
| 99% SPS related inspections completed on-farm within the calendar year they are selected. | Met |
| 98% notifications of births, deaths and movements of cattle recorded on the Cattle Tracing System within 14 days of their receipt. | Met |
| Make 98%, by volume, of Rural Development Programme for England (RDPE) payments in accordance with Collaborative Partnership Agreement targets. | Met |
| 98% accuracy of payments based on materiality checking regimes. | Met |
| Standardised assessment of Disallowance Advisory Committee risks within tolerances. | Met |
| 99% regulatory inspectorate regimes to be completed in accordance with prescribed timescales, including SPS within calendar year. | Met |

* Performance indicator achievement has been reviewed by Defra Internal Audit.

** The review indicated that as no baseline had been agreed on which to measure this indicator, it was difficult to assess whether the reduction to under 5% has been achieved.

# Five Year Plan

We published our Five Year Plan in February 2012. This was the culmination of the work done to analyse the agency's problems and to plan how we deliver a better service to our customers, pay them the right amount of money on time, make the agency more effective and efficient, and better support the rural economy.

Our three core objectives for the next five years:

- To stabilise the RPA. This will enable us to deliver all our schemes in the remaining CAP period; in line with value for money principles; to achieve acceptable payment accuracy; and to draw a line under legacy issues in order to remove the accounts qualifications.
- To develop the specifications and procure the replacement systems that meet the CAP 2013 obligations and avoid the errors which stemmed from the introduction of CAP 2005.
- To implement these new systems at best value for money for the taxpayer, without customer service issues or unexpected costs.

The Five Year Plan will be delivered in two phases, largely because of the changes to our business that CAP reform will require. Phase 1 is the Strategic Improvement Plan and phase 2 the implementation of the Future Options Programme.

## Strategic Improvement Plan

The Strategic Improvement Plan contains 45 prioritised projects of varying size and complexity, but all focused on delivering the necessary improvements. Defra has agreed to invest an additional £21.8m in financial year 2012–13, with up to an additional £19.0m, subject to review, in the following two financial years to deliver these projects. The Strategic Improvement Plan will deliver:

- Cleansed data.
- Improved processes and controls.
- Maintained or improved technology.
- Fit for purpose structure and corporate services.
- Better customer service tools.
- Improved people capacity and capability.

## Future Options Programme

The Future Options Programme's primary role is to procure a replacement system to run schemes after the 2013 CAP reform, a replacement for the finance system and to have these implemented for the 2015–16 scheme year.

The programme has two primary objectives, to provide a much better service to our customers and deliver much better value for money for the taxpayer.

# Corporate information

## Human Resources policies

We have regularly reviewed our policies, and updated them to ensure that our people and managers are equipped with the right information. This year, Civil Service Employee Policy produced the Additional Paternity Leave Policy and the Agency Workers Directive which we have embedded into the appropriate business processes and communicated to our people in August 2011.

As part of our ongoing review and maintenance of existing RPA policies we have also made amendments to the following policies during the year:

- Adoption.
- Flexible working.
- Maternity.
- Career break.
- Discipline.
- Paternity.
- Conduct.
- Sickness attendance.
- Special leave.
- Whistleblowing.

In addition, the Executive Team introduced new Professional Working Standards in October 2011. These standards set a clear expectation for our professional appearance and working environment including:

- a clear desk policy ensuring document and information security;
- a corporate approach to communications including language, style, standardised meeting protocols, and clear identification of responsibilities and accountabilities;
- a professional dress code; and
- a framework for the responsible use of resources.

Since the introduction of our new standards there has been a significant improvement in our professional approach and appearance across the agency. This reflects our developing maturity and shows that we are focused on delivering an improved, professional service to our customers.

## Task force

As a result of our review of core HR policies, a small task force of experienced HR caseworkers was set up in January 2012. The task force has worked directly with business areas to proactively and correctly apply HR policies, supporting our people and managers in tackling attendance and performance issues.

The team concentrated particularly on long term absence, seeking ways to better support our people and managers in what can be especially challenging and sensitive circumstances. We have increased referrals to our occupational health provider, ensuring that we are making reasonable adjustments to allow people to return to work as soon as possible. We have also encouraged our people to make more use of our employee assistance programme and welfare support.

## Absence management

The work of the HR Task Force supported a renewed focus on sickness absence management. Historically sickness absence has been high and above the Cabinet Office targets for 'average working days lost'. In February 2012 the Executive Team commissioned a formal project to review RPA's Attendance Management Policy and Procedures. The primary objective of the project was to improve our level of attendance and embed an attendance culture. This is being achieved by ensuring our people and managers understand the policy and process to be used and that action is taken earlier; ensuring both a swift return to work and that our people with health issues are supported appropriately.

The Cabinet Office recently reduced the average working days lost target to 7.7 days. We remain above that target (8.6 days as at 31 March 2012) but have achieved a reduction from 10.5 to 8.6 over the financial year.

## Employment tribunal cases

We have invested significant effort in ensuring our people based decisions are legally sound, justified and well documented, mitigating the risks associated with employment tribunals.

During the year to 31 March 2012 there have been three employment tribunals of which one has been upheld and two rejected. There are currently three open employment tribunal cases waiting for hearing dates.

## Employee relations

The Cabinet Office has entered into national negotiations with the Unions about Trade Union facility time. We have reviewed local arrangements but are waiting for the results of the negotiations to introduce changes proposed by the Cabinet Office.

## Occupational health

We have, in partnership with Defra and its agencies, procured a central framework contract for the provision of high quality occupational health and employee assistance programme services. The services include a professional occupational health service that offers a confidential health assessment and advice on any necessary adjustments that could be made in the workplace.

Our people can also now access an employee support service including 24 hours, 7 days a week telephone counselling for work related and domestic issues and a library of online advice, fact sheets and information (including achieving a healthy work-life balance).

## Honours

Following a review of the honours nomination process, in May 2011 we introduced and published updated policy and procedures. The new process now includes the nominations being considered by an agency Honours Committee before being submitted to Defra. In this way members of our Executive Team can fully support nominations, learn more about our people and celebrate individual success and contributions both in the workplace and outside.

## Diversity

We are committed to providing services and a working environment which embraces diversity, promotes equality of opportunity, and also embeds the principles of equality and diversity into the workplace. We have:

- developed and delivered a plan to implement the specific requirements of the new Public Sector Equality Duty;
- published equality information about our workforce and our customers;
- developed specific equality objectives, aligned to our Business Plan, to take us through to 2016;
- increased the quality and quantity of the diversity data we hold on our workforce; and
- included the review of equality into our project management process.

We also continue to:

- publish a commitment to equality of opportunity in all of our recruitment exercises and follow the Civil Service Code of Practice on the Employment of Disabled People;
- retain the 'Two Ticks – Positive about Disabled People' symbol after annual review by Job Centre Plus in July 2011. The Two Ticks symbol guarantees interviews to internal and external job applicants with disabilities who meet the minimum requirement for that job;
- strengthen our partnership with Defra to support a departmental approach to implementing the Public Sector Equality Duty; and
- be represented on the Defra Diversity Champions and be actively involved in the Departmental Equal Opportunities Committee to drive the embedding of equality into everything we do.

## Employee engagement

In the 2011 People Survey our 'overall engagement index' was 36%. This was a fall of 4% from the previous year and reflects the considerable amount of change underway in the agency. The stability in our Executive Team and their vision, have increased our people's perception of how we manage and lead change, an improvement of 10% from the previous year (and 8% above the Civil Service average).

We have invested significant effort in people engagement including:

- improved communications and engagement through directors' roadshows and leader and team briefings;
- an Adopt a Site initiative, which provides an opportunity for face to face engagement with directors;
- engaging our people in ideas for improvement through a suggestion scheme 'Diamond Hunt' which generated over 300 ideas;
- re-launching the agency's Special Recognition Scheme, encouraging our people and leaders to celebrate success;
- greater customer focus through the introduction of the Customer Charter; and
- fairer, more consistent, and more proactive performance management across the agency, including the introduction of validation of markings and their guided distribution across the agency.

## Developing our workforce

We have focused on developing our people in professional aspects of finance, information and technology and project and programme management to support our work on the Strategic Improvement Plan. We have launched Civil Service Learning in the agency, offering online courses and information in professional and personal development.

In February 2012 we launched a programme to assess the leadership capabilities of our senior leaders through formal online assessments and 360 degree feedback. In addition, we introduced a new operating model for SPS incorporating complex caseworking enabling our people to be matched to complex caseworker or team leader roles based on their skills and abilities. This approach directly contributed to improved payment performance during December 2011.

In September 2011, the Executive Team approved a revised approach to Talent Management in the agency that will be launched from May 2012. This will allow us to develop our people at three levels (emerging talent, developing talent and senior talent). Going forward there will be a strong focus on developing and providing opportunities for our people to become a skilled, professional workforce. Creating a culture which supports the agency being a good place to work, through engagement and alignment around a renewed set of values.

# Organisational Design

After establishing the Executive Team and the Arc structure, our organisational design was reviewed to re-align functions under the new Arc. This included the introduction of implementation teams and area managers to support business delivery at all of our sites to ensure that a consistent corporate approach is maintained.

# Health and Safety

Our key objective for 2011–12 was to focus on promoting and encouraging greater corporate and individual responsibility for occupational health and safety. We have continued to improve our health and safety management capabilities with our main themes being to:

- encourage a positive health and safety culture;
- maintain and further develop coherent policies and procedures focusing on priority risk areas; and
- ensure we are continually achieving improvement in health and safety standards and practices.

Our Executive Team leads on improving health and safety and monitors progress regularly. Our health and safety performance was benchmarked against the Health and Safety Executive's Corporate Health and Safety Performance Indicator (CHaSPI). We achieved a score of 8 in 2011–12; this was an improvement on 7.9 in 2010–11 and represented continuous improvement. It also exceeded our target of 7.6.

## Health and safety incidents reported

All work related incidents, including ill health, near misses, violent and verbal abuse are reported centrally to the Health and Safety Unit. There were no fatalities this year and there was a significant fall in the number of incidents as defined under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1996 (RIDDOR) from 8 in 2010–11 to 4 in 2011–12. We did not receive any health and safety enforcement notices and were not convicted of any breach of health and safety law. We have shown a breakdown of reported incidents in the following table.

| **RIDDOR** | **2011–12** | 2010–11 |
|---|---|---|
| Fatal injuries | **0** | 0 |
| Major injuries | **1** | 1 |
| Dangerous occurrences | **0** | 0 |
| Over three day injuries | **3** | 6 |
| Occupational disease | **0** | 1 |
| **Total** | **4** | 8 |
| **Incident by type** | | |
| Animal related | **2** | 17 |
| Ill health (inc. musculo-skeletal & stress) | **55** | 47 |
| Minor/other | **41** | 50 |
| Near misses | **21** | 31 |
| Road traffic accidents | **15** | 10 |
| Slip, trip, fall | **40** | 42 |
| Violence/aggression/verbal abuse | **7** | 13 |
| **Total** | **181** | 210 |

## Security

We have a Senior Information Risk Owner who reports to the Agency Management Board. They advise the agency on the direction and priority of information security and assurance and work with the Agency Security Unit in managing security and information risk. The Senior Information Risk Owner is also responsible and accountable for security risk decisions as well as the direction taken by the Agency Security Unit.

We recognise that customers rely on us to keep secure all information they supply to us, especially information of a personal nature. This is reinforced by the need to meet mandatory legal, contractual, duty of care and best practice security requirements. We are subject to many audit regimes throughout the year including annual audits by our own internal audit, security teams and various external audits which specifically target information assurance and security and the management of security risk. We ensure the continued improvement of information security and assurance as well as demonstrate our annual compliance against the Cabinet Office's Security Policy Framework, and Data Handling Review. As a delivery partner of Defra we also contribute to the parent department's Information Assurance Maturity Model return to the Cabinet Office.

The alignment to Information Security ISO 27001:2005 is audited annually by the Certifying Body. This is a requirement under Commission Regulation (EC) No 885/2006. The Agency Security Unit also conducts compliance reviews of the agency, suppliers and delegated bodies to ensure assurance. We have a fully operational Information Security Management System (ISMS) in place. We have received an adequate 2011 Certifying Body report for information technology security.

During 2011–12 we successfully implemented a revised model for the Information Asset Owner process. This aligned the process to the new organisational structure to be more efficient and effective.

## Information handling

There were seven incidents involving personal data however none of these fell within the criteria for reporting to the Information Commissioner's Office. These are set out in the following table.

The four Category II incidents:

- A package containing two inspection dossiers went missing in transit. The data was not considered sensitive. A procedural reminder was issued.
- A file containing forty-four documents

| Category | Nature of incident | 2011–12 | 2010–11 |
|---|---|---|---|
| **I** | Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises | **0** | 0 |
| **II** | Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises | **4** | 1 |
| **III** | Insecure disposal or inadequately protected electronic equipment, devices or paper documents | **0** | 0 |
| **IV** | Unauthorised disclosure | **3** | 5 |
| **V** | Other | **0** | 2 |

relating to a business customer went missing in transit. Internal post procedures were updated and published.

- Twenty-nine SPS application forms (SP5) went missing in transit. The customers were contacted and apology letters were sent to them.
- Five SPS application forms (SP5) went missing in transit. The customers were contacted and asked to provide copies of their application forms to be scanned.

The three Category IV incidents:

- A Claim Statement was sent to the primary contact for the business, but to an incorrect address. Processes were reviewed and a procedural reminder issued.
- A non-compliance letter was issued to an incorrect trader. Internal procedures were reviewed and updated.
- Following a request from an ex-employee for a copy of their personnel file, information relating to eight employees was mistakenly supplied. Processes were reviewed and people received training.

## Payment of suppliers policy

We comply with the Government's prompt payment targets and the Confederation of British Industry's Prompt Payment Code. In November 2008 the Government introduced a target to pay suppliers within ten working days providing invoices were correct and were not subject to dispute. In the March 2010 budget a further stretch of the target was announced for departments to pay 80% of undisputed invoices within five days of receipt from May 2010.

For the year to 31 March 2012, 99.36% of payments for these invoices were made within this target (2010–11: 97.9%) and at 31 March 2012 trade payables to suppliers represented two days of expenditure (2010–11: 5.5 days).

## Transparency of data

We are fully committed to supporting greater transparency across government to enable our customers to assess the efficiency and productivity of our service. We fully contribute to Defra's Business Plan 2011–2015 and we are committed to supporting Defra in its efforts to identify and make data available. Specifically, from July 2011 we published the average cost of processing an SPS claim (based on the Defra and RPA methodology) and the number of farm inspections we carry out. We are equally committed to supporting greater transparency with regard to our third party administrative spend. Each month we report all government procurement card (GPC) spend over £500 per transaction and our expenditure with all suppliers over £25,000. In addition, we record all of our procurement activity (including tenders and contract awards) on Contract Finder. We are committed to continue supporting Defra in its efforts to provide even more transparency. For agency data available free of charge visit the website data.gov.uk.

## Relationship with Parliament

The Secretary of State for Agriculture is accountable to Parliament for everything relating to RPA. And where we act on behalf of the devolved administrations, the relevant Minister is accountable to their respective Parliament or Assembly.

Our Chief Executive Officer provides the Secretary of State or relevant Minister with any information needed to deal with Parliamentary or Assembly Questions or other business for which RPA is responsible.

The Minister usually asks the Chief Executive Officer to write to Members of Parliament or Assembly in response to written Parliamentary or Assembly Questions. These written responses are published in the Official Report. If a Member of Parliament or Assembly wants to raise a matter relating to RPA's operations they should write to the Chief Executive Officer.

# Stakeholder and customer engagement

## Our customers

Our customer satisfaction survey has continued to be conducted quarterly for farmers, and annually for our trader customers. Each quarter, results are analysed and areas for improvement identified in order to achieve greater customer satisfaction. For 2011–12 we saw continued improvements in quarterly scores compared to the similar quarters in the previous year.

Improvement initiatives such as sending letters to give more informative SPS 2011 claim status updates, introducing an SPS Supplement for 2012 and continued language reviews of forms, guidance and letters have contributed to an increase in our customer satisfaction with written communications. In quarter 4 of 2011–12 we achieved our highest ever written communications score of 7.9 out of 10. An improvement on our quarter 3 score of 7.7.

Further insight from customers through the RPA Farmer Panel, which consists of 1,000 volunteer farmers who provide feedback on many subjects, allows us to understand what our customers want or need and to support this in developing initiatives going forward. For example, we used the Farmer Panel recently to gain their views on the SPS 2012 Supplement. Customers were given the opportunity to provide feedback on the booklet, its content and ease of understanding.

In 2011, over 31,000 of our SPS customers submitted their application online. This figure represents nearly double the number of customers who had submitted electronic applications in the previous year. Feedback from users of the online service continues to be overwhelmingly positive with 98% of customers who responded saying that they would recommend the service to others and 99% telling us that they intend to use the service again. Customer feedback on the service includes comments such as; "Easy to navigate, with all the information pre-populated" and "Quick and easy. Reduces the need for more paperwork and relying on the post".

We have worked with the industry to promote the benefits of using the online service. We have attended land agent events, Rural Hub and NFU training days, to increase the awareness in the agricultural industry of using SPS Online and to enable our customers to seek help and guidance from a number of different sources. We have also sent out information to help more farmers use our online services in the run up to the 2012 scheme year.

## Customer complaints

We monitor the number of formal complaints which our Customer Directorate receives from customers, their agents and MPs. We use feedback from complaints to help identify areas for improvement.

| | **2011–12** | 2010–11 |
|---|---|---|
| Number of complaints | **1,123** | 1,378 |

## Appeals

The formal appeals process enables customers to challenge decisions under any of the schemes we manage. This is a two stage process. Stage 1 is an internal review of the case by our Customer Directorate. If a customer is not satisfied with the outcome they can take the case to Stage 2 where an independent panel of three members reviews the case and makes a recommendation to Ministers. Ministers take the formal decision to uphold or reject the appeal.

During 2011–12, the agency received 298 Stage 1 Appeals (a reduction from 306 in 2010–11), and 83 Stage 2 Appeals (a reduction from 120 in 2010–11) which we show in the following table. The majority of the appeals received were in connection with SPS.

## Parliamentary Ombudsman

We handle comments, complaints and appeals in accordance with our published complaints and appeals procedures. The appeals process provides customers with an independent route to challenge an RPA decision which ultimately can be brought before the Secretary of State. Customers can complain about the service they have received through their MP. MPs have the right to refer these complaints to the Parliamentary Commissioner for Administration (the Ombudsman) where an individual claims to have suffered injustice through maladministration.

When we act on behalf of the devolved administrations, similar arrangements apply through the respective Parliamentary or Assembly Ombudsman.

## Access to Information requests

In the year to 31 March 2012 we received 959 requests for information. We responded to 100% of these, of which 94% were within the agreed deadlines. These cases involved requests for information under the Data Protection Act, the Freedom of Information Act or the Environmental Information Regulations.

| **Stage 1 Appeals** | Number of appeals | Unresolved (in progress) | Resolved | Successful | Partially Successful | Unsuccessful | Withdrawn |
|---|---|---|---|---|---|---|---|
| SPS | 293 | 62 | 231 | 36 | 9 | 163 | 23 |
| Other schemes | 5 | 3 | 2 | 0 | 0 | 2 | 0 |

| **Stage 2 Appeals** | Number of appeals | Unresolved (in progress) | Resolved | Successful | Partially Successful | Unsuccessful | Withdrawn |
|---|---|---|---|---|---|---|---|
| SPS | 80 | 63 | 17 | 4 | 0 | 12 | 1 |
| Other schemes | 3 | 2 | 1 | 0 | 0 | 0 | 1 |

## Big Society and Localism

We collaborate with a wide range of national and regional organisations to deliver efficient and customer focused payment of farm support in England. We have also established the RPA Farmer Panel. The agency is a national employer with a strong regional presence.

## Better regulation

We are absolutely committed to implementing EU schemes as simply as possible. Many of these schemes are highly prescriptive for paying agencies, with serious financial consequences for not following the prescribed processes. However, we recognise the importance of striking the right balance between control and flexibility to make sure that we give our customers the best opportunity to thrive.

Most of our work is laid down by European legislation. Therefore, rather than look for alternatives to legislation, the most achievable way for us to deliver better regulation is to make sure that we implement legislation as appropriately as possible. However, we are always aware of the need to try different approaches, for example, in exploring how 'earned recognition', suggested by the Farming Regulation Task Force, would work.

## Farming Regulation Task Force

We have enthusiastically embraced the recommendations of the Farming Regulation Task Force Report accepted by Defra and where relevant, the recommendations of the Forestry Regulation Task Force Report. For example, we have made a commitment that before developing and launching any new forms or guidance, we will consult closely with our stakeholders, including individual farmers. This will help to make sure that the language, content and format of our advice, guidance and other information is helpful, easily understood and correctly applied on farm. Similarly, if policy and data principles are agreed with Defra, we have committed to implementing 'earned recognition' in 2013. As part of our cross compliance inspections, for example, farmers who have a record of high compliance will be inspected less. With Defra, we will then consider further implementation of earned recognition as part of CAP reform.

We are also working closely with Defra on a range of measures (including County Parish Holding number allocation and livestock movement reporting) which aim to simplify the current livestock identification regime, while offering livestock keepers increased flexibility to manage their holding in the best way for their individual needs.

## Improved guidance

When the European Commission introduces regulatory changes which relate to our schemes and services, we must keep farmers and agents informed at the right time. This is critical in ensuring that farmers are operating within up-to-date guidelines and that we meet our paying agency obligations to the European Commission. We are working to keep any new guidance actively helpful, and to minimise the time needed for farmers to read, understand and apply any regulatory updates. We must balance the wish to make guidance shorter and simpler with the need to retain what our customers consider is full and essential information. In 2012–13 we will be developing guidance packages based on specific farming types.

We have recently produced equality information about our customers as required by the Government's equality and transparency agendas. We will update and monitor this data to identify the best formats in which to provide our guidance so that customers are not unfairly disadvantaged as a result of any special requirements they may have. For further information on RPA's equality objectives visit our website.

## Red Tape Challenge

We are actively contributing to the Government's Red Tape Challenge, largely through our response to the Farm Regulation Task Force, but also through our work on improving the quality of our data and the customer experience.

## CAP reform

We are working very closely with Defra as the UK takes part in negotiations about CAP schemes for 2014 onwards. We will aim to influence the negotiations to develop schemes that are both effective and simple for our customers. If successful, this will mean real improvements for our customers in the next CAP schemes.

# Annual sustainability report

Defra champions sustainable development across government and in February 2011 published greening government commitments to reduce the environmental impact of government activities. We are an office based Executive Agency with a team of supporting field inspectors. Our key sustainability aim is to reduce the impact of our business on the environment, and build on the progress we have achieved over the past few years. For example, we have reduced our occupational footprint from 63 offices and stores in 2007 to just 37 in 2012. The majority of our carbon output is driven by the size of our office estate. Our aspiration is to keep this estate to a minimum, and seek to exceed greening government targets.

## Summary of performance

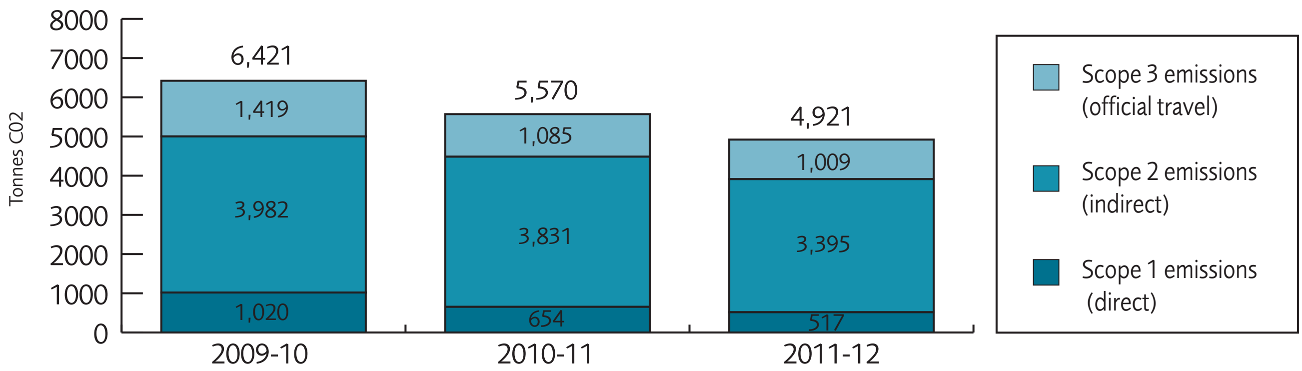
This section presents our environmental data and associated financial costs. We have provided this data in a format that is consistent with the requirements of the HM Treasury's Sustainability Working Group guidance.

| **Greenhouse gas emissions** | | 2008–09 | 2009–10 | 2010–11 | **2011–12 *** |
|---|---|---|---|---|---|
| Non-Financial indicators (tonnes CO2) | Scope 1 emissions (direct) | 934.5 | 1,020.2 | 653.5 | **517.2** |
| | Scope 2 emissions (indirect) | 4,019.3 | 3,981.9 | 3,831.1 | **3,394.6** |
| | Scope 3 emissions (official travel) | n/a | 1,419.3 | 1,085.1 | **1,008.9** |
| | Total emissions | | 6,421.4 | 5,569.7 | **4,920.7** |
| Related Energy Consumption (kWh) | Electricity non-renewable | 7,661,646 | 7,590,268 | 7,302,832 | **589,664** |
| | Electricity renewable | | | | **5,815,909** |
| | Gas | 5,089,741 | 5,556,447 | 3,559,128 | **2,810,295** |
| Financial indicators (£) | Expenditure in energy | 1,223,293 | 1,174,738 | 905,467 | **683,941** |
| | Carbon Reduction Commitment (CRC) Licence expenditure | | | | **55,953** |
| | Expenditure on official business travel | | 2,268,130 | 1,757,184 | **1,714,273** |

Performance commentary — * anticipated

We have made a significant reduction in the emissions from our buildings and have reduced both the amount and the way we travel. For example, our air travel has reduced in cost from £165k in 2009–10 to around £24k in 2011–12 and the number of miles we travel by rail has halved, as we make better use of conferencing facilities. Reduced heating, lighting and travel have resulted in a lower carbon footprint for the agency. Our greatest achievement is that our gas consumption has nearly halved since 2008–09 even though we still have the same number of major offices. This achievement is due to tighter heating controls in winter (the agency adopted the 19 degree set point from Defra) and the installation of new energy efficient boilers in some offices. We also exceeded the 10% reduction target last year set by the Prime Minister for all government departments. But we are not stopping there. The roll out of 'multi functional devices' in late 2011 replacing large numbers of printers and copiers will lead to further reductions in emissions as well as less use of resource.

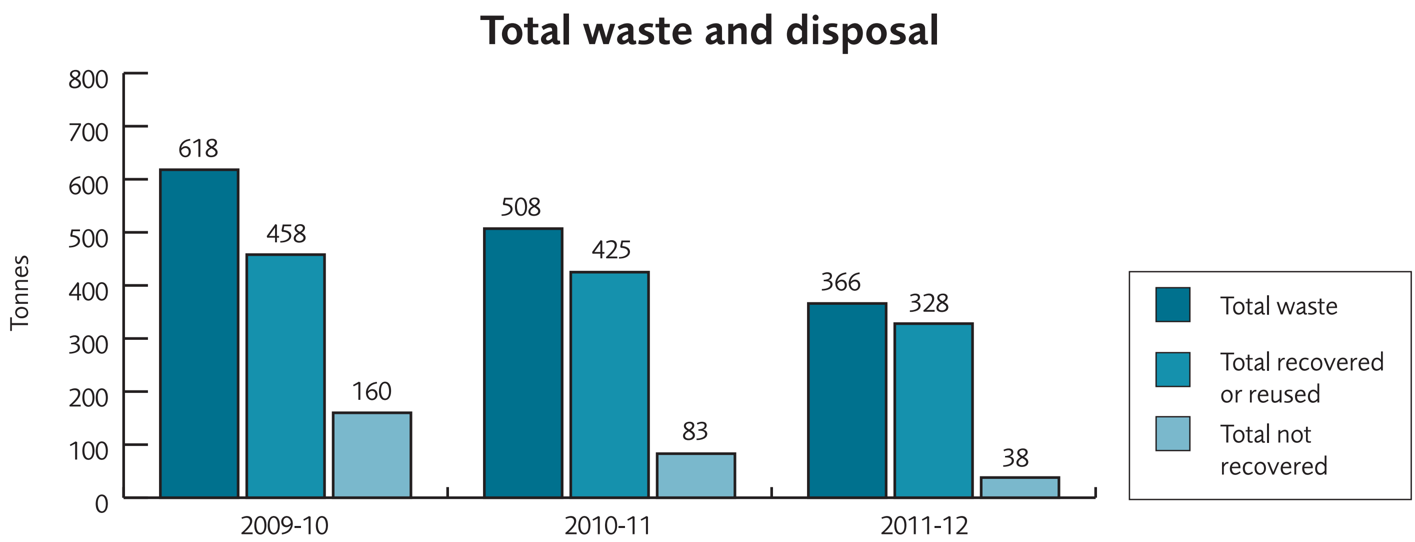
**Total emissions**




# Waste management

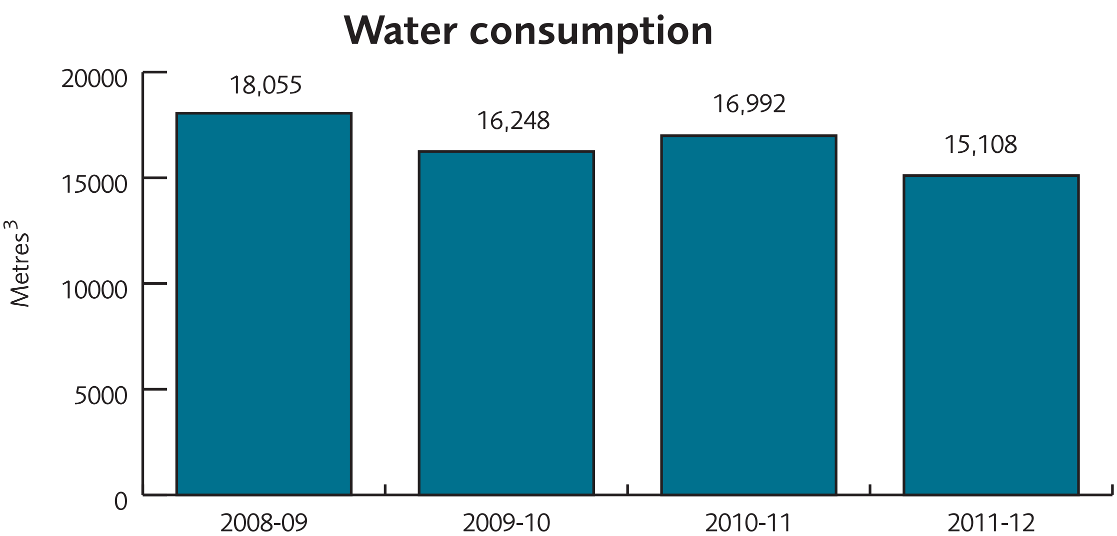
We have a positive attitude to waste management with many people taking a keen interest in recycling. The Interserve contract brought all waste under one contractor and they have now engaged Severnside as their preferred disposal route with a clear direction to reduce the amount of waste going to landfill sites. This has declined dramatically over the past two years.

| **Waste management** | | 2008–09 | 2009–10 | 2010–11 | **2011–12** |
|---|---|---|---|---|---|
| Non-Financial indicators (tonnes) | Landfill | Data not available | 159.82 | 82.58 | **37.40** |
| | Reused or recycled | | 428.10 | 387.11 | **306.80** |
| | Composted | | 1.98 | 1.80 | **1.70** |
| | Incinerated with energy recovery | | 28.26 | 35.97 | **19.20** |
| | Incinerated without energy recovery | | 0.04 | 0.03 | **0.50** |
| | Total waste | | 618.20 | 507.49 | **365.60** |
| **Breakdown of total waste** | | | | | |
| Total recovered or reused | | Data not available | 458.34 | 424.89 | **327.70** |
| Total not recovered | | | 159.86 | 82.60 | **37.90** |
| Total waste | | | 618.20 | 507.49 | **365.60** |
| | | | | | |
| % Total waste recovered or reused/ Total waste | | Data not available | 74.14 | 83.72 | **89.60** |
| Financial indicators (£) | | | | | |
| Total disposal cost | | Under the current Facilities Management contract with Interserve, Defra is currently unable to break down waste costs on a site by site basis. Total cost of departmental disposal of non hazardous waste in 2009–11 was £606,000. | | | |
| CRC Licence expenditure | | | | | |
| Performance commentary | | | | | |
| We have already had a very positive waste management ethos with our people keen to reuse, recycle and recover. In the past few years there has been a reduction in the amount of waste arising as we try to ensure that we reduce our consumption. We do this by making better use of electronic media and by using for instance, ultra thin client technology that has a longer working life per machine than an individual PC. Our consumption is less (our paper use dropped from 59.2 tonnes to 37.2 tonnes between 2010 and 2011) and we are dealing with our waste better than ever before with some of our main sites achieving a 95% recycling return. Overall the agency is exceeding its government greening commitment targets. | | | | | |
| Note: Waste data for the whole of the agency was not available prior to start of the Interserve contract in 2009. | | | | | |




# Finite resource consumption

| **Finite resource consumption** | | 2008–09 | 2009–10 | 2010–11 | **2011–12** |
|---|---|---|---|---|---|
| Non-financial indicators (m3) | Water consumption | 18,055 | 16,248 | 16,992 | **15,108** |
| Financial indicators (£) | Water supply costs | | | 75,552 | **60,003** |
| Performance commentary | | | | | |
| We have made a small reduction in water consumption over the past year. There are a range of initiatives that we are planning over the next 12 months, aimed at changing behaviours and changing systems to reduce water use in areas of high consumption. | | | | | |



## Future strategy

We are undergoing a period of considerable change as we develop and deliver the outcomes from our Strategic Improvement Plan. Our Five Year Plan sets out our transformation plan and it is this plan that supports the Government's overall objective to support and develop British farming and encourage sustainable food production. Our future approach will be based on the steer provided by Defra and our wish to reduce the size of the agency's estate.

We will ensure that sustainability and the review of the additional environmental impact is built into the decision-making process of the agency.

We have made significant steps in the past few years and intend to build upon these to reflect our position as a delivery agency of Defra.

## Biodiversity action planning

As the agency is essentially an office based built environment estate, we do not have sufficient land associated with our buildings to influence biodiversity.

## Sustainable procurement

We follow the Government Buying Standards framework to procure goods and services. The framework was designed to make it easier for buyers to buy goods and services sustainably. For example, we only lease cars with carbon emissions of 130g/km or less, and our car hire contract default is for small cars (Class B).

# Financial review

## Preparation of the Annual Report and Accounts

Our Statement of Accounts reports the financial results for the year 1 April 2011 to 31 March 2012. 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

Our 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 £460k was incurred for the audit of the agency's accounts (2010–11: £460k). The Comptroller and Auditor General is also the auditor of the Statement of Accounts for the European Agriculture Guarantee Fund and for the European Agriculture Fund for Rural Development which has financial years ending on 15 October. The cash cost incurred for the audits of these funds for the year ending 15 October 2011, which cover all UK paying agencies, was £1,260k (2009–10: £1,210k). The auditor has not conducted any non-audit work for the agency (either this year or last year).

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. So far as he knows there is no relevant audit information of which the agency's auditor has no knowledge.

## Financial results

Our net running costs in 2011–12, at £164m, were £9.5m lower than in 2010–11, reflecting steps taken to improve efficiency. The majority of this reduction related to reduced spend on information technology, project and people costs with the average number of people employed falling from 2,679 to 2,461.

The new management team has worked hard to minimise spend while addressing our immediate priorities to stabilise performance delivery and build plans for the future. We have now reduced running costs by £60m since 2009–10. These are planned to increase in 2012–13 as we invest in the Five Year Plan.

We paid £324m, see Note 4, more in direct scheme expenditure in 2011–12 than in 2010–11. This partly reflects changes in the sterling value of the European Fund for SPS. The fund is determined in euros and hence the sterling value fluctuates in line with currency movements.

Payment performance under SPS improved significantly, with approximately 95% of the 2011 scheme paid out by 5 March 2012, compared to 88% of the 2010 scheme at 31 March 2011. Payments under SPS were £306m higher in 2011–12 than 2010–11, see Note 5.1.

Foreign exchange gains of £5.6m, see Note 4, reduced the overall costs on scheme activity in 2011–12, whereas losses of £13.5m increased the total expenditure in 2010–11. This reflects a combination of improved HM Treasury management and the profile of foreign exchange movements during the periods.

Scheme income of £2,035m, see Note 11, in 2011–12 was £317m above that in 2010–11, reflecting the increased direct scheme expenditure, with a £320m increase relating to SPS.

The net 2011–12 position for schemes in England was a loss of £5m, compared to a loss in 2010–11 of £29m.

We provided funding to Scotland, Wales, Northern Ireland and the Forestry Commission in 2011–12 of £1,237m, compared to £1,155m in 2010–11. We manage reimbursements from the European Commission on behalf of these agencies and incur the resulting foreign exchange costs. From 2011–12 hedging costs have been shared with the other paying agencies. The costs of these transactions are included with those for England, net of agreed recharges to the other paying agencies, as they are incurred as part of the same foreign exchange transactions. Scheme income relating to the other paying agencies rose from £1,155m to £1,236m, resulting in a net loss for 2011–12 of £0.8m (2010–11 £0.8m gain).

As explained in Note 19, the mechanism for repaying surplus funds to HM Treasury changed with effect from 1 April 2011. This increased our, and the department's, flexibility with regard to how and when repayments are made. As a result, we are no longer required to accrue income not yet repaid to Treasury (amounts due to the Consolidated Fund – see Note 19) as a liability. This has reduced current liabilities. A Consolidated Fund creditor of £180m was recorded for this at 31 March 2011. However, we continue to repay surplus receipts in excess of future short-term funding requirements to HM Treasury through Defra.

In addition, inventories fell by £26m, receivables increased by £19m, derivative values increased by £32m, cash reduced by £48m and payables due to Defra fell by £109m.

These were the principal movements underlying the increase in total assets less liabilities from £302m to £555m.

# Financial commentary

Our running costs are funded by Defra. Payments under the European Agriculture Guarantee Fund and the European Agriculture Fund for Rural Development are initially funded by the UK Exchequer. Following payments being made to claimants, reimbursement is sought from the European Commission, which when received is repaid to the UK Exchequer, net of short-term funding requirements.

We are exposed to two significant financial risks in administering scheme payments. The first is a foreign exchange risk as payments are predominantly made in sterling (although claimants can request to be paid in euros) while reimbursement from the European Commission is made in euros. The risk arises as the euro to sterling exchange rate can change between the date sterling is converted to euros for the reimbursement claim (the rate applicable to SPS expenditure is the euro to sterling exchange rate fixed by the European Commission) and the date the reimbursed euros are converted back into sterling using the rate when received.

To mitigate the risk arising from the volatility of the euro to sterling exchange rate, the agency adopted 'hedge accounting' and entered into hedging contracts during the year for SPS and for the Rural Development Programme for England. Details of these arrangements are given in Note 22 of the Accounts. No hedging arrangement was entered into for Trader scheme payments however due to the lesser amounts paid when compared to the costs of hedging.

The second significant financial risk we must manage is that the European Commission may not reimburse us for payments made on its behalf should there have been any infringements in scheme regulations. Such financial corrections are applied retrospectively. Given the extent and complexity of scheme regulations and ongoing issues related to the implementation of SPS in particular, there is a high risk to the agency that the European Commission will disallow payments.

We manage this risk through our Disallowance and Accreditation Committee, which is a subcommittee of the agency's Executive Team. This committee meets monthly to actively manage and monitor disallowance risk through the Disallowance Risk Control Framework, which sets out requirements of scheme control plans and their reporting requirements and ensures that these are fully taken into account in business decisions. We have continued to seek to mitigate this risk through our scheme delivery and through liaising with the European Commission. Should disallowance arise, it is provided for in Defra's accounts and a Departmental Disallowance Working Group, a Defra committee, keeps this risk and the response to it under review.

Scheme processing and payment systems are cumbersome and costly to maintain and operate. Regulatory changes in recent years have required substantial capital and revenue expenditure to enable them to be improved. The expected 2013 CAP reform may require further major system and process changes, and until the future is clear, we aim to avoid further costs, unless essential.

Following our 2008–09 accounts being qualified by the Comptroller and Auditor General, Defra commissioned a wide-ranging external review of the agency (2013 RPA Review) and significant effort has gone into delivering the accepted recommendations. This was supported by an experienced finance professional, seconded into the role of Interim Finance Director during 2010 and 2011 and further external support. A permanent Finance Director was appointed in July 2011 who has continued to build the capacity and capability of the finance function, reducing the level of external support required in 2011–12.

Good progress has been made in developing and implementing improvements in the financial policies and processes. This will continue to be a focus for improvement in 2012–13.

# Remuneration report

## Remuneration policy

Although costs for the Chief Executive Officer and members of the Agency Management Board are included in the agency's Annual Accounts, they are formally employed by Defra. The framework for remunerating the Chief Executive Officer and members of the Agency Management Board, as for all senior civil servants, is set by the Prime Minister following independent advice from the Senior Salaries Review Body. Further details about this body can be found at ome.uk.com/Senior_Salaries_Review_Body.aspx. 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 Senior Civil Service Pay Strategy within this Cabinet Office framework and contains individual awards within the set range, ensuring that the overall pay award is within the cost ceiling allowed. Senior civil servants entered into a 3 year pay freeze on 1 April 2010.

Consolidated pay and non-pensionable non-consolidated variable pay (NCVP) awards for the civil servant members of the Agency Management Board are based on their performance assessed relative to all others in their peer group within Defra.

Consolidated awards differ depending on the level of performance and the relative position of each person in their pay range. NCVP is performance related and is paid in arrears in the financial year after that in which it was earned. For 2011–12, NCVP was paid from an allocation of 2% of Defra's Senior Civil Service salary bill. NCVP earned in 2010–11 and paid in 2011–12 was capped at a maximum of £10,000 for Senior Civil Service pay bands 1 and 1A, £12,500 for pay band 2 and £15,000 for pay band 3. The table of salary and non-cash benefits shown on page 34 and 35 includes NCVP paid to the members of the Agency Management Board, the Audit and Risk Committee and the Executive Team.

## Agency Management Board

The Agency Management Board is accountable for the overall performance of the agency and its strategic direction in line with Defra's Departmental Strategic Objectives. During the reporting year the membership of the board has changed.

## Service contracts

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

The Chief Executive Officer and executive directors, including those on the Agency Management Board, are permanent civil servants. David Halsey and Jacqui Marshall were appointed on fixed term contracts. David Halsey left the agency on 29 April 2011 and Jacqui Marshall on 11 July 2011. Chris Bowman and David Clausen Thue were both employed on an interim basis and ceased being directors on 6 February 2012 and 25 July 2011 respectively.

Our non-executives were also appointed on fixed term contracts with a notice period of one month. Jim Godfrey is on a fixed three year contract; Peter Conway, Janet Baker, Trevor Spires and Alison White are each on fixed two year contracts. Alison White joined on 13 July 2011.

The employment of the Chief Executive Officer and of the other Agency Management Board members may be terminated in accordance with normal civil service procedures. Early termination, other than for misconduct, could result in compensation being payable as set out in the Civil Service Compensation Scheme.

Under arrangements made by Defra, loans may be made to staff to cover season ticket advances and relocation. As at 31 March 2012 other than Anne Marie Millar, who had an outstanding loan of £5,000, there were no outstanding loans to executive directors of the Agency Management Board.

Emoluments include gross salary, NCVP and other allowances to the extent they are subject to UK taxation.

No compensation amounts were paid to executive directors of the Agency Management Board during the year. Compensation for unpaid leave is also included with the emoluments figures in the table below. During the year David Halsey and Jacqui Marshall received £2,769 and £1,442 respectively for untaken leave when they left the agency.

| **Name and title** | **2011–12** | | | 2010–11 | | |
|---|---|---|---|---|---|---|
| | **Salary** | **Bonus payments** | **Benefits in kind** | Salary | Bonus payments | Benefits in kind |
| | **£000** | **£000** | **(£ to the nearest £100)** | £000 | £000 | (£ to the nearest £100) |
| **Directors in post at 31 March 2012** | | | | | | |
| Nicola Bettesworth – Human Resources Director (from 4 July 2011) | **55-60 (70-75)** | – | – | – | – | – |
| Jo Broomfield – Design & Change Director (from 11 July 2011) | **80-85 (120-125)** | – | – | – | – | – |
| Paul Caldwell * – Operations Director (from 1 November 2010) | **55-60** | **0-5** | – | 20-25 (50-55) | – | – |
| John Carter – Planning & Performance Director (from 13 June 2011) | **50-55 (65-70)** | **0-5** | **300** | – | – | – |
| Justin Chamberlain – Customer Director (from 15 July 2011) | **60-65 (85-90)** | – | – | – | – | – |
| Sharon Ellis – External Relations Director (from 1 May 2011) | **60-65 (70-75)** | – | – | – | – | – |
| Mark Grimshaw – Chief Executive Officer (from 17 January 2011) | **155-160** | – | – | 25-30 (155-160) | – | – |
| Anne Marie Millar – Finance, Assurance & Commercial Director (from 25 July 2011) | **85-90 (130-135)** | – | – | – | – | – |
| Ed Schofield – Information & Technology Director (from 6 February 2012) | **15-20 (95-100)** | – | – | – | – | – |
| Janet Baker – non-executive (from 1 March 2011) | **10-15** | – | – | 0-5 (5-10) | – | – |
| Peter Conway – non-executive (from 1 March 2011) | **20-25** | – | – | 0-5 (15-20) | – | – |
| Jim Godfrey – non-executive | **10-15** | – | – | 5-10 | – | – |
| Trevor Spires – non-executive (from 1 March 2011) | **20-25** | – | – | 0-5 (15-20) | – | – |
| Alison White – non-executive of Audit & Risk Committee (from 13 July 2011) | **0-5 (0-5)** | – | – | – | – | – |

| Name and title | 2011–12 | | | 2010–11 | | |
|---|---|---|---|---|---|---|
| | **Salary** | **Bonus payments** | **Benefits in kind** | Salary | Bonus payments | Benefits in kind |
| | **£000** | **£000** | **(£ to the nearest £100)** | £000 | £000 | (£ to the nearest £100) |
| **Other Civil Service appointments previously serving as directors** | | | | | | |
| David Halsey – Chief Information Officer and Senior Information Risk Officer (until 29 April 2011) | **10-15 (120-125)** | **5-10** | **–** | 120-125 | – | – |
| Ian Hewett –Information & Technology Director (from 18 April 2011 until 2 October 2011) | **35-40 (75-80)** | **–** | **1,000** | – | – | – |
| Jacqui Marshall – Human Resources Director (until 11 July 2011) | **25-30 (85-90)** | **–** | **–** | 75-80 | 5-10 | 2,700 |
| Tony Cooper ** – Chief Executive Officer (until 31 July 2010) | **–** | **–** | **–** | 120-125 (140-145) | 10-15 | 1,500 |
| Richard Judge – Interim Chief Executive Officer (from 1 August 2010 until 16 January 2011) | **–** | **–** | **–** | 70-75 (160-165) | – | – |
| Robin Moulson *** – Finance Director (until 4 May 2010) | **–** | **–** | **–** | 65-70 (95-100) | – | – |
| Nicola Bastin – non-executive (until 21 October 2010) | **–** | **–** | **–** | 5-10 (10-15) | – | – |
| Chris Swinson – non-executive (until 30 November 2010) | **–** | **–** | **–** | 10-15 (15-20) | – | – |
| **External interim appointments previously serving as directors** | | | | | | |
| Chris Bowman **** – Interim Information & Technology Director (from 3 October 2011 until 6 February 2012) | **80-85 (220-225)** | **–** | **–** | – | – | – |
| David Clausen Thue **** – Interim Finance Director (from 13 October 2010 until 25 July 2011) | **165-170 (430-435)** | **–** | **–** | 230-235 (425-430) | – | – |
| Jonathan Dodworth **** – Interim Finance Director (from 5 May 2010 until 12 October 2010) | **–** | **–** | **–** | 150-155 (425-430) | – | – |
| Steve Pearce ***** – Interim Chief Operating Officer (until 31 October 2010) | **–** | **–** | **–** | 195-200 (265-270) | – | – |

* Paul Caldwell was Interim Operations Director from 1 November 2010 until 18 September 2011, on which date he became a permanent director.

** Tony Cooper's salary includes compensation for untaken annual leave worth £12,886 and payments in lieu of notice worth £67,007.

*** Robin Moulson was Finance Director until 4 May 2010, but remained an employee of the agency until 31 July 2010. His salary in his capacity as Finance Director is reported above. It also includes compensation for untaken annual leave worth £12,271 and payments in lieu of notice worth £48,340.

**** The amounts shown for Chris Bowman, David Clausen Thue and Jonathan Dodworth represent the total cost to the agency of £80,768, £169,159 and £nil respectively (2010–11 £nil, £236,183 and £160,516 respectively), including VAT, in respect of their services. These payments were made to third parties.

***** Steve Pearce was employed on an interim basis. In the year ended 31 March 2011 payments totalling £199,445, including VAT of £29,705 were made to third parties in respect of his service.

## Remuneration multiples

The following table provides a comparison between the highest paid director in the year and median remuneration across the whole agency:

| | **2011–12** | 2010–11 |
|---|---|---|
| Annualised band of highest paid director remuneration (£000)* | **155-160** | 155-160 |
| Median total remuneration (£) | **22,337** | 22,337 |
| Ratio | **7.1** | 7.1 |

* The highest paid remuneration excludes external interim appointments. Including external interim appointments the ratio of the annualised highest paid director to the median total remuneration was 19.4 for 2011–12 (2010–11: 19.1). The remuneration of the highest paid director includes bonus payments and benefits in kind.

No permanently employed member of the agency was paid more than the highest paid director.

## Salary

Salary includes gross salary; non-pensionable non-consolidated variable pay (NCVP); overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; compensation in lieu of notice; 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 therefore recorded in these accounts.

## Benefits in kind

The monetary value of 'benefits in kind' covers any benefits provided by Defra and treated by HM Revenue and Customs as a taxable emolument. John Carter and Chris Bowman 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 2011–12 relate to performance in 2010–11 and the comparative bonuses reported for 2010–11 relate to the performance in 2009–10. Reward for senior civil servants in RPA is included within Defra pay arrangements for senior civil servants.

# Pension benefits (audited) information

| Name and title | Accrued pension at pension age as at 31 March 2012 and related lump sum | Real increase in pension and related lump sum at pension age | Cash Equivalent Transfer Value (CETV) at 31 March 2012 | CETV at 31 March 2011* | Real increase in CETV | Employer contribution to partnership pension account |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | (£ to nearest £100) |
| **Directors in post at 31 March 2012** | | | | | | |
| Nicola Bettesworth – Human Resources Director (from 4 July 2011) | 20-25 plus lump sum of 70-75 | 0-2.5 plus lump sum of 2.5-5 | 353 | 313 | 17 | – |
| Jo Broomfield – Design & Change Director (from 11 July 2011) | 30-35 plus lump sum of 95-100 | 2.5-5 plus lump sum of 7.5-10 | 579 | 500 | 45 | – |
| Paul Caldwell – Operations Director (from 1 November 2010) | 20-25 plus lump sum of 60-65 | 0-2.5 plus lump sum of 2.5-5 | 317 | 271 | 23 | – |
| John Carter – Planning & Performance Director (from 13 June 2011) | 15-20 plus lump sum of 55-60 | 0-2.5 plus lump sum of 2.5-5 | 248 | 218 | 14 | – |
| Justin Chamberlain – Customer Director (from 15 July 2011) | – | – | – | – | – | 5,800 |
| Sharon Ellis – External Relations Director (from 1 May 2011) | 10-15 plus lump sum of nil | 0-2.5 plus lump sum of nil | 134 | 121 | 3 | – |
| Mark Grimshaw – Chief Executive Officer (from 17 January 2011) | 15-20 plus lump sum of 45-50 | 0-2.5 plus lump sum of 2.5-5 | 285 | 237 | 26 | – |
| Anne Marie Millar – Finance, Assurance & Commercial Director (from 25 July 2011) | 40-45 plus lump sum of nil | 0-2.5 plus lump sum of nil | 725 | 680 | – | – |
| Ed Schofield – Information & Technology Director (from 6 February 2012) | 0-5 plus lump sum of nil | 0-2.5 plus lump sum of nil | 3 | – | 3 | – |
| Janet Baker – non-executive (from 1 March 2011) | – | – | – | – | – | – |
| Peter Conway – non-executive (from 1 March 2011) | – | – | – | – | – | – |
| Jim Godfrey – non-executive | – | – | – | – | – | – |
| Trevor Spires – non-executive (from 1 March 2011) | – | – | – | – | – | – |
| Alison White – non-executive (from 13 July 2011) | – | – | – | – | – | – |

# Pension benefits (audited) information (continued)

| Name and title | Accrued pension at pension age as at 31 March 2012 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31 March 2012 | CETV at 31 March 2011* | Real increase in CETV | Employer contribution to partnership pension account |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | (£ to nearest £100) |
| **Other Civil Service appointments previously serving as directors** | | | | | | |
| David Halsey – Chief Information Officer and Senior Information Risk Officer (until 29 April 2011) | 5-10 plus lump sum of nil | 0-2.5 plus lump sum of nil | 183 | 177 | 5 | – |
| Ian Hewett – Information & Technology Director (from 18 April 2011 until 2 October 2011) | 25-30 plus lump sum of 75-80 | nil plus lump sum of nil | 450 | 431 | (4)** | – |
| Jacqui Marshall – Human Resources Director (until 11 July 2011) | 25-30 plus lump sum of 50-55 | 0-2.5 plus lump sum of 0-2.5 | 464 | 432 | 12 | – |
| Tony Cooper – Chief Executive Officer (until 31 July 2010) | – | – | – | – | – | – |
| Richard Judge – Interim Chief Executive Officer (from 1 August 2010 until 16 January 2011) | – | – | – | – | – | – |
| Robin Moulson – Finance Director (until 4 May 2010) | – | – | – | – | – | – |
| Nicola Bastin – non-executive (until 21 October 2010) | – | – | – | – | – | – |
| Chris Swinson – non-executive (until 30 November 2010) | – | – | – | – | – | – |
| **External interim appointments previously serving as directors** | | | | | | |
| Chris Bowman ** – Information & Technology Director (from 3 October 2011 until 6 February 2012) | – | – | – | – | – | – |
| David Clausen Thue ** – Interim Finance Director (until 25 July 2011) | – | – | – | – | – | – |
| Jonathan Dodworth – Interim Finance Director (from 5 May 2010 until 12 October 2010) | – | – | – | – | – | – |
| Steve Pearce – Interim Chief Operating Officer (until 31 October 2010) | – | – | – | – | – | – |

* The actuarial factors used to calculate Cash Equivalent Transfer Values (CETV) were changed in 2011–12. The CETVs at 31 March 2012 and 31 March 2011 have both been calculated using the new factors, for consistency. The CETV at 31 March 2011 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

** Taking account of inflation, the CETV funded by the employer has decreased in real terms.

## Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (Classic, Premium or Classic Plus); or a whole career scheme (Nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with Pensions Increase legislation. New entrants to the Principal Civil Service Pension Schemes (PCSPS) are only eligible to join the Nuvos scheme.

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Increases to employee contributions will apply from 1 April 2012. 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. 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 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic Plus and 65 for members of Nuvos.

For more information about the civil service pension arrangements visit the website civilservice.gov.uk/pensions.

# Cash Equivalent Transfer Values (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the 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.

Mark Grimshaw
Chief Executive Officer
29 June 2012

# Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed us to prepare, for each financial year, agency accounts detailing the resources acquired, held or disposed of during the year and the use of resources by us during the year. Our accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the agency, the net operating costs, changes in Taxpayers' Equity and cash flows for the financial year. HM Treasury has approved our Chief Executive Officer as Accounting Officer with responsibility for preparing our accounts which are required to comply with the requirements of the Government Financial Reporting Manual and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts we are required to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the financial statements on the going concern basis.

The responsibilities of the Accounting Officer include responsibility for the propriety and regularity of the public finances for which he is answerable, keeping proper records and for safeguarding our assets. These are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in Managing Public Money.

# Governance statement

## Introduction

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the agency's policies, aims and objectives, while safeguarding the public funds and departmental assets I am personally responsible for, in accordance with the responsibilities assigned to me in Managing Public Money. For more information visit hm-treasury.gov.uk.

This Governance statement outlines how I have carried out my responsibility to manage and control our resources during the course of the year.

The agency's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of not achieving its policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achieving departmental policies, aims and objectives. Also to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Agency Management Board and the Audit and Risk Committee have reviewed and contributed to the Governance statement. My directors have provided me with annual assurance statements which give me their assessment of how effectively our controls are being applied within the organisation. Internal Audit has reviewed and challenged these assurance statements along with the associated evidence based on information gathered from its rolling programme of work, knowledge of auditable units, and the agency's key risks. For the interim Governance statement, they led an Executive Team challenge session. This final Governance statement has also been reviewed by Internal Audit.

## Governance arrangements

### Governance framework

Details of our governance structure can be found at Annex B of this Annual Report and Accounts. Each governance board or committee has agreed terms of reference and a dedicated secretariat. I anticipate changes in the new financial year in line with the improving maturity of our management practices.

The Agency Management Board is responsible for setting our strategic direction and making strategic choices. It takes responsibility for our performance and agrees the issues that should be escalated to Defra and the Oversight Board.

The Audit and Risk Committee supports the Agency Management Board and Accounting Officer to ensure that effective assurance is in place covering our internal controls, risk management and governance activities.

The Executive Team has overall authority to run the agency on a day to day basis. It makes key decisions and sets our policy and direction, and takes responsibility for delivering our Five Year Plan and annual Business Plan.

Our governance structure in relation to Defra is now better defined. A new RPA Framework Document setting out our governance and responsibilities was approved by the Oversight Board on 19 December 2011 and has been approved by the Minister of State for Agriculture and Food. The framework was published in April 2012.

We have produced a Five Year Plan, published in February 2012, endorsed by the Oversight Board which is the culmination of work undertaken to understand and address the significant issues faced by the agency. The Five Year Plan sets out the actions required to stabilise the agency and build a platform for the implementation of the new Common Agricultural Policy.

### Account of corporate governance

An informal review carried out against the Code of Corporate Governance using the 'Corporate governance in central government departments: Code of good practice 2011 Compliance Checklist' has indicated that as an Executive Agency, rather than a central government department, RPA operates within the code's principles in a way that is appropriate with our size, status and legal framework.

## Effectiveness of the Agency Management Board's performance

### Performance of the board

The Agency Management Board normally meets ten times a year and in the year to 31 March 2012 it had met eleven times. It has reviewed and agreed its terms of reference twice this year and has a formal schedule of matters that can or cannot be delegated. For those matters which are delegated, it ensures that it receives regular and adequate feedback on the work of its committees, so that it is able to consider their decisions formally. For example, engagement and challenge from the Audit and Risk Committee on the agency's risk register has driven improvements in the content of the register.

On appointment, members of the Agency Management Board and Audit and Risk Committee are required to provide a list, in writing, of all interests which might be thought to give rise to a conflict of interest. Annually all non-executives are required to update their entries on the RPA register of interests. Conflicts of interest are registered at the start of each meeting and the chair takes action to manage discussions appropriately.

The Agency Management Board also devotes time at each meeting to challenge and add value to our key work programmes; the Strategic Improvement Plan and its implementation, CAP 2013 and the Future Options Programme, which together make up the Five Year Plan.

I have regular meetings with the Agency Management Board Chair to keep him informed of what is happening across the agency and to discuss effectiveness of the Agency Management Board.

Our non-executives play an important independent role in scrutinising the performance of my Executive Team in meeting its agreed objectives. During the previous reporting period we saw the departure of five non-executives. Delays in recruiting replacements meant that the appropriate external oversight and challenge of executive decisions was compromised. This has been addressed with a full complement of non-executives now in place.

In my role as Accounting Officer, and being subject to the associated parliamentary scrutiny, I expect the Agency Management Board to support me in an advisory capacity and fulfil the function of 'critical friend'. I will document any instances where I have not taken their advice.

The Agency Management Board carried out an annual effectiveness assessment in

March 2012 based on current guidance. However the Cabinet Office has produced some further guidance and as a result the Agency Management Board will look to review their effectiveness against the new standards by the end of quarter 2 for 2012–13.

We have shown attendance records for the Agency Management Board in the following table.

| Board attendance during reporting year* | |
|---|---|
| Trevor Spires | 10 of 11 |
| Jo Broomfield | 8 of 8 |
| John Carter | 3 of 3 |
| Sharon Ellis | 9 of 10 |
| Mark Grimshaw | 11 of 11 |
| Anne Marie Millar | 5 of 8 |
| Sarah Hendry | 8 of 11 |
| Janet Baker | 9 of 11 |
| Peter Conway | 10 of 11 |
| Jim Godfrey | 10 of 11 |
| Paul Caldwell | 5 of 6 |
| Ian Hewett | 3 of 3 |
| David Clausen Thue | 4 of 4 |

* Membership of the board has changed in the reporting year.

We have shown attendance records for the Audit and Risk Committee in the following table.

| Committee attendance during reporting year* | |
|---|---|
| Peter Conway | 8 of 8 |
| Jim Godfrey | 6 of 8 |
| Janet Baker | 7 of 7 |
| Alison White | 2 of 4 |

* Membership of the committee has changed in the reporting year.

Substantial items covered in 2011–12 included the Annual Report and Accounts (and accounts qualification); Internal Audit resource, particularly Internal Audit input into assurance on the SPS Net Claim Value Check (NCVC); and concerns about agency risk management arrangements. The latter is being considered by both the Agency Management Board and Executive Team following Audit and Risk Committee concerns, and a project has been initiated to consider the scope and application of risk management within the agency. The Audit and Risk Committee Chair provides a regular report to the Agency Management Board and the Oversight Board. The Agency Management Board has acknowledged that the quality of management information they see has improved over the year.

The Agency Management Board has played an important role in helping define the Five Year Plan published in February 2012, in particular around the elements of the Strategic Improvement Plan. It has also endorsed a number of interventions that have resulted in significant improvements in the delivery of SPS 2011. I continue to work with the Agency Management Board Chair to ensure that the Agency Management Board is fulfilling its important support and challenge role.

I recognise that there has been some repetition of issues presented to the Oversight Board and the Agency Management Board. Although valuable, the Agency Management Board will need to be in a position to contribute more productively rather than be presented with a fait accompli. Both boards recognise that there is further work to do on this. As an initial step we have begun to organise the sequencing of the meetings to allow time for the Agency Management Board to make a greater impact.

# Risk profile

## Risk assessment and overview

The agency exists in a highly regulated business environment and delivers more than £2 billion of CAP payments each year through over 40 schemes to the businesses and organisations which supply our food, maintain our rural economy, cultural heritage and environmental landscapes. There is considerable scrutiny of our delivery by a wide range of organisations.

Difficulties experienced in implementing SPS in England, our largest scheme, have led to poor customer service, significant reputational damage, and hostile media coverage. These risks have been compounded by a lack of stable management and leadership. Large financial penalties (disallowance) have been borne by the UK Exchequer for failure to comply with the relevant European Commission regulations.

My new Executive Team has been proactive in increasing its grip of these issues and shown that the legacy of issues can be effectively tackled. But I recognise that while we improve our understanding of the root causes, additional challenges will come to light. In taking action to stabilise and improve our performance we are also preparing for significant CAP reform, including the provision of a major information technology system.

Our key risks:

- Inability to secure the right capacity and capability to build on the current workforce to deliver both business as usual activity and specifically activity required to deliver the Strategic Improvement Plan and Future Options Programme.
- We do not address known problems and legacy issues around operations, processes and data.
- CAP 2013 is not delivered successfully.
- We do not contain our disallowance risks within 2% for SPS and within expectations for other schemes.
- The Future Options Programme fails to deliver successfully and within the timescales required.
- Data quality is not improved.
- The funding control total is insufficient to deliver schemes and priorities.

The current agency risk register reflects a risk review conducted by the Executive Team. The Executive Team takes the lead in the majority of direct risk management activities relating to the control of individual agency level risks and conducts an in depth risk review on a quarterly basis. The most significant of these risks are escalated for the attention of the Agency Management Board which also conducts a quarterly risk session. The Agency Management Board provides strategic advice and guidance towards the management of these risks and looks for assurance from the Audit and Risk Committee and the Executive Team that they are being managed effectively.

Agency-wide risk management is led from within the External Relations Directorate. They co-ordinate risk management reviews at a directorate level; lead discussion; and help with the development of an agreed risk register using information gathered from the business.

The Audit and Risk Committee provides assurance that risk management is effective within the agency, an element of this is achieved through evaluation of the outcomes of risk management, through our risk register. The register is reviewed at every Audit and Risk Committee meeting and a regular detailed review, a 'deep dive', is carried out on the top risks. I acknowledge there is further work to do around embedding risk management across the agency.

# Internal control framework

## Addressing previous areas of concern from the Statement on Internal Control (SIC) (2010–11)

There were areas of concern from the 2010–11 Statement of Internal Control which aligned with concerns and recommendations from other internal and external sources. Broadly, these concerns were around capability, governance, risk and control framework, financial controls, financial correction (disallowance), data quality, and out of support systems. Addressing these issues formed the basis of our work in 2011–12.

## Capability

At the beginning of 2011 the senior team was severely depleted. I have recruited an experienced and diverse team of directors capable of leading the agency through this challenging time of change. The strength of this team lies within the Arc structure, shown at Annex A, and how it shares executive responsibility for the overall organisation.

As well as a depleted senior team, there was little external oversight and challenge. We now have a full complement of five non-executives.

Our succession plans, with a focus on senior leaders and business critical posts, will be refreshed in quarter 2 of 2012–13, aligned to the Organisational Design project. Discussions were initiated with the wider Defra network to ensure that we optimise the use of available talent. For each post in the Executive Team we have identified a deputy who could step into the role as a short-term measure. Across Defra we will be further developing the cross network talent management strategy.

While the role of Head of Internal Audit has been filled by an interim for the last twelve months, we have recently appointed a permanent civil servant who is due to start in July 2012.

However there remain capability and capacity challenges that are considered later in this Governance statement.

## Governance

A significant improvement in 2011–12 has been the implementation of a revised governance framework to ensure we have the right decision-making and advisory bodies in place to deliver effective control and oversight of our work. Beneath the Agency Management Board and Executive Team, control has been tightened with a set of forums and committees with clear lines of accountability. We are working with Defra to firm up arrangements around the Hedging Sub Committee.

There is a continuing need to ensure that any overlaps between the Executive Team, Agency Management Board, various major projects that are running and the Oversight Board are understood and worked through.

I understand that our governance requires significant time investment from my Executive Team but our progress, so far, shows that the current arrangements are fit for purpose. Our governance will continue to develop as our programmes develop and new projects come on stream. There is further work to do in this area.

## Risk and control framework

We, through the Agency Management Board, Audit and Risk Committee and the Executive Team regularly undertake reviews of key risks as described earlier.

In terms of change management, there are now single change control points in the areas of External Relations and Design & Change, including controlled gateways for programmes and projects. For example, an operational readiness review ensures that implementation is managed correctly before a change is deployed.

The level of planning, monitoring and control now in place for SPS, our biggest area of risk, has ensured the best-ever payment performance was achieved in both December 2011 and March 2012. We have been able to accurately profile our processing which has significantly improved the confidence that our stakeholders have in our ability to deliver our payment profiles. Plans are now developing that will see further improvement in SPS 2012 claim payment processing against more stretching targets.

On work we undertake on behalf of other delegated bodies we have reviewed the partnership agreements and strengthened service level agreements.

## Financial controls and corrections

We received a large number of recommendations in previous years on our financial controls from the National Audit Office and the 2013 RPA Review. Considerable effort has been made to implement these recommendations, in particular those identified as critical. We have introduced new arrangements that have helped improve the control environment, such as the reduction in the number of government procurement cards and additional checks on expenditure for those remaining.

I have regular conversations with my executive directors on the implementation of recommendations that fall within their directorate when they have been slower than anticipated. The agency needs to focus on this as a matter of priority in the new financial year, along with other competing priorities.

A number of interventions were approved by the Executive Team which looked to tighten up the processing of manually calculated payments and interceptions. This coupled with an increased focus on and development on our analytical capability has resulted in a better management of scheme debts.

Some claims have undergone or continue to undergo correctional activity. As a result it is necessary to place manual holds on claimant accounts to prevent release of payments while these queries are investigated. A significant amount of judgment and manual manipulation of data is sometimes required to generate lists of these holds. Work has been undertaken to increase the visibility and understanding of this process. However, there continues to be some risk due to the manual nature of these processes. These payment processes are being reviewed during quarter 1 of 2012–13 and I will seek to implement some of the emerging recommendations in the coming months.

We receive over €3 billion from the European Commission on an annual basis. This creates considerable foreign exchange risk for the agency. The majority of this risk is managed through hedging contracts for SPS and rural development schemes. A formal governance structure was introduced during 2009–10 to address this risk. The Hedging Steering Committee, chaired by Defra, consists of senior finance managers from RPA and Defra, supported by external technical specialists where required. A Value for Money review by the National Audit Office recommended that other departments should engage with us to learn from our experience and expertise. This committee has met regularly throughout the period, providing strong governance over management of exchange rate risk, and reviews the overall hedging strategy on an annual basis. The action we have taken successfully mitigated a significant foreign exchange risk during 2011–12.

Historic disallowance penalties have been significant. However, we have begun to strengthen our engagement with key stakeholders in EU audit bodies to help reduce the impact should the risk of disallowance be realised. We recently presented a robust defensive argument against a proposed financial correction relating to agri-environment schemes. Our challenge was co-ordinated through my Compliance Team and culminated in receiving a positive response following a hearing with the EU Conciliation Body. The European Commission accepted that their proposed flat rate correction was set too high and revised their position leading to a reduction from 5% to 2% for the years affected.

## Data quality

In 2010–11, RPA's accounts, as well as Defra's, were again qualified as a result of issues with the accuracy of debts and credits already shown in the accounts. This was compounded by the large backlog of corrections required to base data which we know will affect the accounts position. We also suspected that there were other cases requiring corrections to the base data which we had not identified.

As a result of work to date, we have a significantly better idea of what needs to be corrected, have undertaken much of the corrective work using streamlined processes, and taken write-off action, for example, where debts could legally no longer be pursued or where it was not cost effective to collect. Work remains to complete the correction of known errors in the base data. We are seeking permission for further write-off action and are reviewing the cases that are predicted to have debt (because they share many of the characteristics of known debt cases).

Data quality is an on-going issue for the agency. As part of our Five Year Plan, we have developed proposals to improve our entitlements, customer and land registers as well as a project to improve end-to-end processes.

## Out of support systems

In partnership with Defra, we are working with HM Treasury and Cabinet Office on options for delivering the successor to SPS that is expected to be agreed under the CAP 2013 reforms. Given the scale of the potential investment and the risk profile, the Cabinet Office Major Projects Authority has designated our Future Options Programme a major project with the additional assurance and approvals process that this brings. It has already been subject to a Starting Gate Review, the main observations of which were the resource constraints within the agency and department to deliver a programme of this scale; the unusual governance structure; and the critical need to engage formally with policy colleagues to ensure an alignment to CAP reform. The report also recognised the need to revisit the longevity of existing information technology contracts, which we intend to do. A follow up Health Check was held in April 2012 and noted an increased confidence in delivery and as such changed the rating to reflect the positive movement.

The first major milestone for the Future Options Programme was met at the end of

October with the delivery to HM Treasury of a Strategic Outline Case setting out the strategic context for the programme.

A detailed replanning exercise was undertaken following the appointment of an Interim Programme Director in January 2012. Following the most recent Cabinet Office advice, the programme launched a process of early market engagement and market sounding in May 2012. The proposed procurement process is designed to allow maximum flexibility in recognising that final details of the CAP 2013 reforms are unlikely to be known for some time, given the expected long process of negotiations in Brussels.

Capacity to deliver the programme, combined with business as usual activities, is dependent on the acquisition of additional resources dedicated to this activity. Progress has been made with the appointment of an interim director and the following contractors; PricewaterhouseCoopers, to lead on the production of the business case, target operating model, commercial workstream and the information technology landscape review; Deloitte to lead the finance workstream; and Pinsent Masons as legal advisers. RPA resource has also been appointed to the team to ensure consistency of knowledge. Our resource will still need to expand and this may remain a challenge given the civil service-wide constraints on external recruitment.

In the meantime, information technology contracts with our three main suppliers have been signed, with support for our existing systems until 31 March 2014 at a significantly reduced price in each case.

## Information security

We have recently appointed a permanent Information & Technology Director who has taken up the role of Senior Information Risk Owner. He is supported in this role by the Agency Security Unit and the newly restructured Information Asset Owner and the Deputy Information Asset Owner Group and the Knowledge and Information Management Unit which leads on data protection related activity and issues.

Information assurance and governance is being improved. A more comprehensive and consistent agency information asset register, supported by risk assessments and logs of data sharing agreements is being produced. There are appropriate processes in place to assess all requests for data sharing and all Access to Information requests. Awareness training has been provided to the Deputy Information Asset Owners and all our people have been made aware of their obligations relating to information management and security, in part through everyone completing the online Protecting Information course which is an annual exercise.

Up to the end of March 2012, there had only been seven low risk incidents involving personal data. All were fully investigated and none of these were found to be systemic. Remedial action has been taken in all cases.

## Information Assessment Maturity Model

We, as a delivery partner of Defra, have completed our part of the Information Assurance Maturity Model. Our overall score as a delivery partner is level two. This is in line with the Information Assurance Maturity Model overall score for the department.

## Fraud risk management

In line with our new governance arrangements, the Fraud Risk Steering Group acts as an advisory committee to the Executive Team and me in my role as Accounting Officer. In September 2011, the Executive Team agreed to revise the composition of the Fraud Risk Steering Group in order to reflect the new Arc structure and to secure senior management engagement and support. This group met in early February 2012 and will meet quarterly.

The steering group is supported by the Fraud Risk Action Group, comprising of the relevant heads of service and other key representatives, which meets monthly and is chaired by the EU Reporting & Compliance Director. A Fraud Risk Management Team within the Finance, Assurance & Commercial Directorate maintains our approach and provides the secretariat to the relevant governance groups.

Status reports have been provided to the agency's Audit and Risk Committee, including suggested areas for improvement.

## Audit findings

The Certifying Body audit carried out for 2011 provided assurance of our compliance with the ISO 27001 standard. This is the second year that we have received a favourable report for ISO 27001 implementation, a requirement of Commission Regulation (EC) No 885/2006 for all paying agencies.

Internal Audit undertakes an annual programme of work, agreed with the Audit and Risk Committee. They have in their annual report confirmed that while there is an improvement in the results of their engagements review, across all parts of the agency, there is still work to do. The report acknowledges the increased scrutiny and analytical rigour applied by the new Executive Team that has identified numerous improvement opportunities. Many of these improvements are now being addressed by the Strategic Improvement Plan phase of the Five Year Plan. The report recognises that continued progress on the Strategic Improvement Plan and Future Options Programme, along with continued progress on closing down outstanding recommendations and remediating known control weaknesses, should see a significantly improved picture of the control environment in the year ahead.

The following summarises the key areas for improvement identified by Internal Audit:

- Embedding of monitoring systems to alert management to the effectiveness of business as usual controls.
- Proportionate, targeted checking of manually calculated and automated SPS payments.
- Determining a level of governance that enables the organisation to be run smoothly, effectively and with timely response to change and business activities.
- Establishing with certainty that the workforce is the right size and of the right calibre to deliver the challenges of the Five Year Plan.
- Oversight of delegated agents involved in EU scheme processing, an understanding of the accuracy with which the activities are carried out and of the associated disallowance risk.
- Sub-optimal levels of data accuracy in relation to the Rural Land Register, entitlements and customer databases.
- Improved risk (and fraud risk) management needed.
- Management's response to internal and external audit recommendations within agreed timelines requires improvement, and the degree to which the Strategic Improvement Plan and Future Options Programme will respond to internal and external audit recommendations needs to be understood.

They have confirmed that they are content that the Governance statement reflects Internal Audit's findings during their delivery of work in the year.

# Significant issues

## Capacity and capability

There is a vast amount of activity to be undertaken over the next 12 months and beyond, particularly in relation to CAP reform, the Strategic Improvement Plan and the Future Options Programme and managing our business as usual. Current detailed workforce planning is helping us to understand the resourcing requirements for these programmes, which will be aligned with the agency's workforce plan. But it is expected that gaps in specialist areas will exist, for example, business architects and designers. The solution is the development of a blended resource model to include engagement of fixed term appointments, agency workers and contractors together with permanent resource drawn from across our business. Workforce planning continues to be an area of focus. A Workforce Planning Strategy has been drafted, proposing what workforce planning means for us and setting out at a high level, how this will be fully embedded.

Our finance function was subject to criticism in the 2013 RPA Review, and the Finance Development Programme was set up to develop and implement a finance operating model to address the capacity and capability issues the review identified. We moved to the new structure on 1 October 2011, however, the wider civil service recruitment controls have noticeably impacted our ability to recruit and progress is therefore considerably slower than hoped. During the period, the agency reduced its dependency on consultants and contractors, but our dependency remains while the new model becomes fully effective.

As mentioned earlier, our governance arrangements require time investment and as such there is an Executive Team capacity risk. We are reviewing our governance arrangements in line with improvements in the maturity of our management practices.

## Debt and data

This will be the fourth year that the agency's accounts will be qualified by the National Audit Office as a result of insufficient evidence to support SPS receivables and payables. We now have a way forward that will remove the requirement to revisit claims paid during the 2005 to 2008 scheme years, unless a customer is found to have intentionally over claimed, and will significantly reduce changes being made to scheme years 2008 to 2011. We will have tackled the potential underpayments to customers by the end of the 2012 claim payment window. There is still work to be done and we will put a plan in place to help to address the issues that should lead, in due course, to the lifting of the existing qualifications of the accounts.

## Future Options Programme

CAP reform presents significant challenges and risks. One of these risks is people and skills capacity across the agency. In particular balancing the need for our subject matter experts to focus on current 'business as usual' activity along with reviewing the need for the future requirements.

## Fruit and Vegetable scheme

There have been significant issues this year with the administration of the Fruit and Vegetable scheme. Issues with this scheme have been ongoing since 2008 following successive European Commission audits that found the UK's interpretation of the recognition status of producer organisations to be non-compliant with the regulation. This has led to potential financial corrections estimated to be in the region of £57m over the last four years. I have put in place resources and plans to oversee a review of recognition following the suspension of non-compliant producer organisations from the scheme.

Mark Grimshaw
Chief Executive Officer
29 June 2012

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

I certify that I have audited the financial statements of the Rural Payments Agency for the year ended 31 March 2012 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. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Chief Executive Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive Officer as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the Rural Payments Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Rural Payments Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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.

## Opinion on regularity

In my opinion, in all material respects 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.

## Basis for qualified opinion on financial statements

The audit evidence available to me was limited because the Rural Payments Agency was unable to provide me with sufficient evidence to support the Single Payment Scheme trade receivables balance of £7.50 million (being receivables of £14.86 million less a provision for doubtful debt of £7.36 million) and the Single Payment Scheme trade payables of £56.85 million recorded in the financial statements.

## Opinion on financial statements

In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph:

- the financial statements give a true and fair view of the state of the Rural Payments Agency's affairs as at 31 March 2012 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.

My report on pages 55 to 58 provides further details of my qualified opinion on the financial statements.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the sections entitled 'Management commentary', 'Corporate governance', 'Business Plan 2011-12 update', 'Five Year Plan', 'Corporate information', and 'Financial review' within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

In respect solely of the limitation on my work relating to the Single Payments Scheme trade receivables and Single Payment Scheme trade payables balances described above:

- I have not obtained all the information and explanations that I consider necessary for the purpose of my audit; and
- I was unable to determine whether proper accounting records had been maintained.

I have nothing further 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 part of the Remuneration Report to be audited are not in agreement with the accounting records or 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.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP
4 July 2012

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

## Introduction

The Rural Payments Agency (the agency) is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra) and was established in October 2001. The agency manages a wide range of Common Agricultural Policy schemes, the most significant of which is the Single Payment Scheme (the Scheme).

The Scheme was introduced by the European Union as part of the 2003 Common Agricultural Policy reforms which replaced 11 separate crop and livestock based production subsidies with a single payment based on land area.

The agency experienced considerable problems in capturing and processing the data required to process payments for the first two years of the Scheme. It continues to experience difficulties in quantifying the value of under and over payments made to farmers as a result of these problems, which are included in the Statement of Financial Position as large Scheme trade receivable (overpayments) and payable (underpayments) balances. In addition, since the introduction of the Scheme, Defra as UK Authority for the Scheme has accounted for £0.53 billion of financial penalties ('disallowance') from the European Commission due to failure to correctly apply Scheme regulations.

## Purpose of Report

The financial statements on the following pages represent the results of the agency for the period from 1 April 2011 to 31 March 2012. This report explains the nature of my qualified opinion in 2011–12, and progress made by the agency in correcting the problems experienced in the past.

I have limited the scope of my audit opinion as I was again unable to obtain sufficient audit assurance to support the balances relating to Scheme trade receivables and Scheme trade payables. I qualified my opinion in this respect in 2010–11.

I have qualified my regularity opinion on Defra's 2011–12 accounts in relation to the value of financial penalties accounted in year. Further details are set out in my report on that account (HC68).

## Limitation of scope in respect of Scheme trade receivables and Scheme trade payables

This is the fourth year in which the agency has been unable to provide sufficient audit evidence to support the trade receivables balance arising from Scheme overpayments. It is the third year in which the agency has been unable to provide sufficient audit evidence to support the trade payables balance arising from Single Payment Scheme underpayments.

Note 16 to the 2011–12 financial statements reports Scheme trade receivables of £14.86 million (2010–11: £24.54 million). The agency has provided for doubtful debts against this balance of £7.36 million (2010–11: £13.05 million). I have been unable to obtain assurance that this balance in the financial statements is recorded at the appropriate amount and reflects the total value of amounts due to the agency. I therefore have limited the scope of my audit opinion in respect of the valuation, existence and completeness of this balance.

The 2011–12 financial statements record Scheme trade payables of £56.85 million (2010–11: £54.54 million) in respect of amounts owing to farmers. I have been unable to obtain assurance that this balance is recorded at the appropriate amount and represents the total value of Scheme trade payables which will ultimately result in a liability. I have therefore limited the scope of my audit opinion in respect of the valuation, existence and completeness of this balance.

## Progress since my report on the 2010–11 financial statements

During 2011–12, the agency has continued to work to quantify the value of Scheme trade receivables and Scheme trade payables by resolving the underlying issues in the quality of data and make accurate payments to farmers. In particular, the agency has developed an understanding of the underlying profile of trade receivable overpayments in its books. This has, in turn, assisted the agency to either:

- recover historic overpayments from farmers who have made a claim against the Scheme 2011 through adjustment to their payment this year; or
- agree a debt recovery plan with farmers who have made a claim against the Scheme 2011 where it is inappropriate to reclaim the whole amount through adjustment to their payment this year.

The agency has taken the decision to write off unproven, uninvoiced overpayments below £1,000 on the grounds of value for money – to pursue repayment would cost more than could be recovered – writing off some £0.86 million during 2011–12 (Note 30 to the financial statements). In the past the agency has only written off overpayments of less than £250 on value for money grounds.

In 2010–11, I reported that the agency had written off £3.33 million of Scheme trade receivables relating to 2005 and 2006, in line with the agency's interpretation of Scheme regulation 'Article 73'. This regulation establishes that overpayments to farmers should only be recovered within 4 years, where the farmer has not been notified of the overpayment and did not deliberately seek overpayment. During 2011–12, the agency applied for HM Treasury approval to write off up to £3.60 million of overpayments older than 4 years (Note 30 to the financial statements), and provided as doubtful debt for a further £5.96 million relating to Scheme years 2005 to 2007. The amount written off in 2011–12 of £3.05 million equates to 21 per cent of the gross Scheme trade receivables balance reflected in the accounts; the provision reflects a further 40 per cent of the 2011–12 gross Scheme trade receivables.

I recognise the importance of writing off overpayments to help the agency move forward from the problems of the initial implementation of the Common Agricultural Policy (CAP) 2005, and begin to resolve its large Scheme trade receivables balance. The focus of the agency during 2011–12 has been in relation to recovering outstanding overpayments since this is money that is owed to the UK. As a result, the agency has yet to complete any detailed work in relation to clearing trade payables, i.e. money the agency owes to farmers.

Although progress has been made in 2011–12 the agency is still not able to identify all Scheme trade receivables and trade payables and confirm their value. For this reason, the value, existence and completeness of underlying data in relation to Scheme trade receivables and trade payables has not been demonstrated sufficiently. In order to remove my qualification, the agency will need to satisfy me that all outstanding over and under payments included in the underlying data exist, are correctly valued and are reported.

## Other matters

During 2011–12, the agency has made ex-gratia payments of £5.00 million in respect of the European Commission funded Fruit and Vegetable Scheme to UK producer organisations, included in Note 30 to the accounts. The payments were made to producer organisations which the agency suspended from the scheme following a difference of interpretation between the United Kingdom and the European Commission regarding what constitutes a producer organisation.

In my opinion this expenditure is not an example of a cost to the Exchequer due to maladministration as the problem stemmed from a difference of interpretation of European Commission Regulations rather than poor management by the agency. I have therefore not qualified my opinion in this respect. However, this is significant expenditure which has required approval from HM Treasury and as such the expenditure requires explanation in this report.

## Looking ahead

During 2011–12 the new senior leadership team at the agency, known as the Executive Team, has shown positive signs that it is addressing the underlying operational issues and rectifying the causes which led to my qualifications.

In particular I note that the agency published, in February 2012, a Five Year Plan to consider the key priorities for the agency. The Five Year Plan details how the agency will deliver a better service to its customers, pay them the right amount of money on time, make the agency more effective and efficient, and better support the rural economy. It will be delivered in two phases, being the Strategic Improvement Plan and the Future Options Programme.

## Strategic Improvement Plan

The Strategic Improvement Plan is designed to tackle the issues arising from the maladministration of the Scheme in the past. Defra has agreed to provide £21.80 million in the 2012–13 financial year to implement the Strategic Improvement Plan with additional funding of up to £19.00 million available in the following two financial years, subject to agreement with Defra. The Strategic Improvement Plan is committed to delivering: cleansed data; improved processes and controls; maintained or improved technology; fit for purpose structure and corporate services; better customer service tools; and improved people capacity and capability.

## Future Options Programme

The Future Options Programme is looking at alternative models for delivering some or all of the agency's business following CAP reform after 2013. The objective of the Future Options Programme is to provide a much better service to the agency's customers and much better value for money for the taxpayer.

## Quarterly Reporting to the Public Accounts Committee

In its report on the session to examine the National Audit Office's third report on the problems of the Scheme, the Public Accounts Committee requested in October 2009 that Defra provide quarterly updates on the agency's progress in remedying the problems. Following the publication of the Five Year Plan earlier this year, the Committee has removed the requirement for Defra to report quarterly on the progress in implementing earlier recommendations.

However, following the publication of the Five Year Plan, the Committee has asked Defra to report in summer 2013 on what the agency has learnt from past mistakes as well as provide more detail on the approach the agency plans to adopt and what progress is expected in the next 12 months. The Committee has also requested confirmation that the agency's target relating to payment accuracy and other performance targets are being linked directly to senior management objectives and pay, which has not previously been the case.

## Further actions taken or proposed to be taken by the agency

This is the fourth year that I have qualified my opinion. Much remains for the agency to do before it is in a position to present the Scheme trade receivables and the Scheme trade payables as true and fair in the accounts. In particular, the agency needs to maintain focus on gaining assurance that the Scheme overpayments population is complete and pay the right amount of money on time to farmers to prevent the overpayment population increasing. The agency must also continue to resolve the operational issues which prevent it from being able to accurately assess these balances and ensure that the losses borne by the UK Exchequer are minimised.

After the problems experienced by the agency in introducing the CAP in 2005, the agency is aware of the challenges posed by the reform of CAP from 2013. However, I am hopeful that the progress made by the agency during the last financial year, including the publication of the Strategic Improvement Plan, will continue to improve the situation and place it in a stronger position for the introduction of the next CAP. I will report on progress following completion of the 2012–13 financial statements audit.

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

4 July 2012

# Statement of Accounts

## Statement of Comprehensive Net Expenditure for the Year to 31 March 2012

| | Note | Year to 31 March 2012 | | Year to 31 March 2011 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Administration costs** | | | | | |
| Staff | 2 | **31,847** | | 35,983 | |
| Others | 3 | **53,096** | | 56,804 | |
| | | **84,943** | | 92,787 | |
| **Programme expenditure** | | | | | |
| Staff | 2 | **51,039** | | 52,127 | |
| Other | 3 | **28,666** | | 29,403 | |
| | | **79,705** | | 81,530 | |
| Programme income | 11 | **(707)** | | (849) | |
| **Net running costs** | | | **163,941** | | 173,468 |

| | | | | | |
|---|---|---|---|---|---|
| **Scheme costs** | | | | | |
| RPA | | | | | |
| Costs | 4 | **2,041,049** | | 1,750,261 | |
| Income | 11 | **(2,034,509)** | | (1,717,371) | |
| | | **6,540** | | 32,890 | |
| Other paying agencies | | | | | |
| Costs | 10 | **1,236,553** | | 1,154,512 | |
| Income | 10 | **(1,235,717)** | | (1,155,343) | |
| | | **836** | | (831) | |
| Other income | 11 | **(2,773)** | | (3,235) | |
| **Net scheme costs - Programme** | | | **4,603** | | 28,824 |
| **Net operating cost** | | | **168,544** | | 202,292 |

The agency's expenditure and income is split between Administration or Programme as defined by HM Treasury, see Note 1.26.

The Notes on pages 65 to 118 form part of these accounts.

# Other Comprehensive Expenditure

| | Note | **Year to 31 March 2012** | Year to 31 March 2011 |
|---|---|---|---|
| | | **£000** | £000 |
| Net operating cost | | **168,544** | 202,292 |
| Net gain on revaluation of property, plant and equipment | 23 | **(131)** | (47) |
| Loss/(gain) on revaluation of intangible assets | 23 | **876** | (3,461) |
| Movements in cash flow hedge reserve | | **(9,541)** | 3,429 |
| **Total comprehensive expenditure for the period** | | **159,748** | **202,213** |

The Notes on pages 65 to 118 form part of these accounts.

# Statement of Financial Position as at 31 March 2012

| | Note | 31 March 2012 | | 31 March 2011 | |
|---|---|---|---|---|---|
| | | **£000** | **£000** | £000 | £000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | **5,526** | | 6,797 | |
| Intangible assets | 13 | **38,788** | | 56,603 | |
| Derivative assets | 22 | **52** | | 0 | |
| **Total non-current assets** | | | **44,366** | | 63,400 |
| **Current assets** | | | | | |
| Inventories | 14 | **2,132** | | 27,755 | |
| Trade receivables and other current assets | 15 | **527,996** | | 509,269 | |
| Derivative asset | 22 | **17,596** | | 635 | |
| Cash and cash equivalents | 18 | **172,508** | | 220,481 | |
| Total current assets | | | **720,232** | | 758,140 |
| **Total assets** | | | **764,598** | | **821,540** |
| **Current liabilities** | | | | | |
| Trade payables and other current liabilities | 19 | **(88,062)** | | (381,986) | |
| Derivative liability | 22 | **(130)** | | (14,937) | |
| Provisions for liabilities and charges | 21 | **(5,918)** | | (1,455) | |
| Total current liabilities | | | **(94,110)** | | (398,378) |
| **Non-current assets plus net current assets** | | | **670,488** | | 423,162 |
| **Non-current liabilities** | | | | | |
| Trade payables and other liabilities | 19 | **(112,699)** | | (118,624) | |
| Derivative liability | 22 | **(52)** | | 0 | |
| Provisions for liabilities and charges | 21 | **(2,780)** | | (2,697) | |
| Total non-current liabilities | | | **(115,531)** | | (121,321) |
| **Assets less liabilities** | | | **554,957** | | 301,841 |
| **Taxpayers' Equity** | | | | | |
| General Fund | | | **546,705** | | 301,429 |
| Cash flow hedge reserve | | | **6,179** | | (3,362) |
| Revaluation reserve | 23 | | **2,073** | | 3,774 |
| **Total Taxpayers' Equity** | | | **554,957** | | 301,841 |

The Notes on pages 65 to 118 form part of these accounts.

Mark Grimshaw
Chief Executive Officer
29 June 2012

# Statement of Cash Flows for the Year to 31 March 2012

| | Note | **Year to 31 March 2012** | Year to 31 March 2011 |
|---|---|---|---|
| | | **£000** | £000 |
| **Cash flows from operating activities** | | | |
| **Net cash outflow from operating activities** | 29 | **(278,223)** | (128,689) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(1,311)** | (1,417) |
| Purchase of intangible assets | | **(1,684)** | (6,395) |
| Proceeds of disposal of non-current assets | | **48** | 1,161 |
| **Net cash outflow from investing activities** | | **(2,947)** | (6,651) |
| **Cash flows from financing activities** | | | |
| Financing by Defra* | | **2,725,000** | 3,316,000 |
| Financing to Defra* | | **(2,200,000)** | (600,000) |
| Payments for Rural Development Programme for England on behalf of Defra | | **(486,652)** | (522,132) |
| Payment for Structural Funds on behalf of Defra | | **(9)** | (189) |
| Receipts for Rural Development Programme for England on behalf of Defra | | **390,492** | 0 |
| Late Payment Penalty 2005 reversed | | **9,043** | 0 |
| Disallowance transfer to Defra | | **(23,577)** | (147,033) |
| Transfer of modulation balances to Defra | | **1,369** | 0 |
| Capital element of payments in respect of finance leases | | **(337)** | (520) |
| **Net cash inflow from financing activities** | | **415,329** | 2,046,126 |
| **Increase in cash and cash equivalents in the period before payments to the Consolidated Fund** | | **134,159** | 1,910,786 |
| Payments of amounts due to Defra/Consolidated Fund* | | **(182,132)** | (1,730,268) |
| **(Decrease)/increase in cash and cash equivalent in the period after payments** | | **(47,973)** | 180,518 |
| **Cash and cash equivalents at 1 April** | 18 | **220,481** | 39,963 |
| **Cash and cash equivalents at 31 March** | 18 | **172,508** | 220,481 |

* In the year to 31 March 2012 repayments of surplus income were made to HM Treasury via Defra. In the previous year to 31 March 2011 payments were made directly to HM Treasury. For further explanation, see Note 19.

The Notes on pages 65 to 118 form part of these accounts.

# Statement of Changes in Taxpayers' Equity for the Year to 31 March 2012

| | Note | General Fund | Cash flow hedge reserve | Revaluation reserve | Total reserves |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| Balance at 1 April 2010 | | 38,656 | 67 | 2,344 | 41,067 |
| Net operating cost | | (202,292) | 0 | 0 | (202,292) |
| Transfer from revaluation reserve to General Fund: | | | | | |
| Property, plant and equipment | | 273 | 0 | (273) | 0 |
| Intangible assets | | 1,434 | 0 | (1,434) | 0 |
| Assets held for sale | | 371 | 0 | (371) | 0 |
| Arising on revaluation during the year (net) | | 0 | 0 | 3,508 | 3,508 |
| Notional charges | 29 | 12,724 | 0 | 0 | 12,724 |
| Losses on cash flow hedges | | 0 | (3) | 0 | (3) |
| Transfer to Statement of Comprehensive Net Expenditure on cash flow hedges | | 0 | (3,426) | 0 | (3,426) |
| Total recognised expense for period to 31 March 2011 | | (187,490) | (3,429) | 1,430 | (189,489) |
| Financing by Defra | | 3,316,000 | 0 | 0 | 3,316,000 |
| Financing to Defra | | (600,000) | 0 | 0 | (600,000) |
| Payments for Rural Development Programme for England on behalf of Defra | | (522,132) | 0 | 0 | (522,132) |
| Payment for Structural Funds on behalf of Defra | | (189) | 0 | 0 | (189) |
| Disallowance transfer to Defra | | (147,033) | 0 | 0 | (147,033) |
| Consolidated Fund extra receipts payable to Consolidated Fund | | (1,595,502) | 0 | 0 | (1,595,502) |
| Transfer of intangible assets from Defra | | 240 | 0 | 0 | 240 |
| Transfer of leasehold improvements to Defra | | (1,121) | 0 | 0 | (1,121) |
| Balance at 31 March 2011 | | **301,429** | **(3,362)** | **3,774** | **301,841** |

The Notes on pages 65 to 118 form part of these accounts.

# Statement of Changes in Taxpayers' Equity for the Year to 31 March 2012 (continued)

| | Note | General Fund | Cash flow hedge reserve | Revaluation reserve | Total reserves |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| Balance at 1 April 2011 | | 301,429 | (3,362) | 3,774 | 301,841 |
| Net operating cost | | **(168,544)** | **0** | **0** | **(168,544)** |
| Transfer from revaluation reserve to General Fund: | | | | | |
| Property, plant and equipment | 23 | **113** | **0** | **(113)** | **0** |
| Intangible assets | 23 | **843** | **0** | **(843)** | **0** |
| Arising on revaluation during the year (net) | | **0** | **0** | **(745)** | **(745)** |
| Notional charges | 29 | **(192)** | **0** | **0** | **(192)** |
| Gains on cash flow hedges | | **0** | **104,263** | **0** | **104,263** |
| Transfer to Statement of Comprehensive Net Expenditure on cash flow hedges | | **0** | **(94,722)** | **0** | **(94,722)** |
| **Total recognised expense for period to 31 March 2012** | | **(167,780)** | **9,541** | **(1,701)** | **(159,940)** |
| Financing by Defra | | **2,725,000** | **0** | **0** | **2,725,000** |
| Financing to Defra | | **(2,200,000)** | **0** | **0** | **(2,200,000)** |
| Payments for Rural Development Programme for England on behalf of Defra | | **(486,652)** | **0** | **0** | **(486,652)** |
| Payment for Structural Funds on behalf of Defra | | **(9)** | **0** | **0** | **(9)** |
| Receipts for Rural Development Programme for England on behalf of Defra | | **390,492** | **0** | **0** | **390,492** |
| Late payment penalty 2005 reversed | | **9,043** | **0** | **0** | **9,043** |
| Disallowance transfer to Defra | | **(23,577)** | **0** | **0** | **(23,577)** |
| Transfer of modulation balances to Defra | | **1,369** | **0** | **0** | **1,369** |
| Consolidated Fund extra receipts payable to Consolidated Fund | | **(2,610)** | **0** | **0** | **(2,610)** |
| **Balance at 31 March 2012** | | **546,705** | **6,179** | **2,073** | **554,957** |

The Notes on pages 65 to 118 form part of these accounts.

# Notes to the Accounts

## 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2011–12 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 permits 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 dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

These accounts have been prepared on the  historical cost basis, except for the revaluation of certain non-current assets and financial instruments. The principle accounting policies of the agency are set out below.

### 1.2 Inventory valuation

Inventory comprises agricultural commodities purchased under terms specified by the European Agricultural Guarantee Fund, see Note 1.9, and valued in accordance with its direction. The effect of these directions is to secure inventories at the stated values as any shortfall in sales revenues is made good by the European Commission. The basis of valuation departs from International Accounting Standard 2 (IAS 2), as specifically approved in the FReM (paragraph 10.2.8).

### 1.3 Property, plant and equipment

Property, plant and equipment is recognised at fair value, with depreciated historic cost as modified by annual revaluations, at year end, using appropriate price indices issued by UK National Statistics, used as a proxy for fair value for all assets. The unrealised element is credited/debited to the Revaluation Reserve as analysed in the Statement of Changes in Taxpayers' Equity. All assets are assessed 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. These assets are not subject to annual revaluations.

### 1.4 Intangible assets

Intangible assets are recognised on the same basis as property, plant and equipment in Note 1.3. Intangible assets comprise internally developed applications and bespoke information technology 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.

## 1.5 Depreciation and amortisation

Depreciation and amortisation is provided on a straight line basis, on all non-current assets over each individual asset's estimated useful life, taking into account residual value (if applicable). Assets are depreciated/amortised from the month after they are available for use.

| **Depreciation:** | |
|---|---|
| Leasehold improvements | 5 years* |
| Plant and machinery | 10–25 years |
| Furniture and fittings | 5 years |
| Transport equipment | 4 years |
| Office machinery | 5 years |
| Right of use assets | 8 years |

| **Amortisation:** | |
|---|---|
| IT software** | up to 5 years |
| IT licences | up to 7 years |

| IT hardware: | |
|---|---|
| Laptops, printers and similar equipment | 3 years |
| Communications | 5 years |
| Servers | up to 7 years |

* Or the life of the lease if shorter.

** All information technology assets capitalised in respect of internally developed software to process SPS claims are amortised over the period to 31 March 2014, see Note 13.

## 1.6 Right of use assets

The agency benefits from participation in Defra's contract with IBM for the supply of information technology services. The contract is 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 information technology 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 information technology infrastructure assets. Depreciation has been applied on a straight line basis consistent with Defra's depreciation policy. These information technology infrastructure assets, which consist of laptops, servers, and hardware, are classified as right of use assets under property, plant and equipment in Note 12.

## 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

The full cost of occupation of buildings that are either owned or leased by Defra is reflected within the Statement of Comprehensive Net Expenditure. 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.

## 1.9 Intervention buying and selling

Intervention buying is a method of supporting market prices for certain agricultural commodities, including butter, milk powder and barley. The agency is required to buy, at prices determined by the European Commission, produce of defined quality offered in accordance with detailed regulations. Purchases are recognised when the agency enters into a contractual agreement to purchase commodities. Sales are made at prices and on terms prescribed by the European Commission. Operating costs include transport, handling, storage, testing and freezing and are shown net of funding from the European Commission. Costs of depreciation and any losses on sales are borne by the European Commission, and any profits on sales are surrendered to the European Commission, see Note 1.2.

When intervention occurs, the agency receives a contribution towards its financing and technical costs, at the standard rates of reimbursement, from the European Commission based on the average monthly value of inventory held.

Revenue from the sale of intervention inventories are recognised when the commodities are discharged from the agency's rented warehouses.

## 1.10 Agency scheme income and expenditure

SPS expenditure for England is recognised by the agency when it has a present obligation to make payments to the claimants as a result of the completion of all substantive processes to validate each claim, and the amount payable to each claimant is considered reliably measured and probable.

SPS 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.

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 through Defra. Prior to April 2011 receipts from the European Commission were paid direct to HM Treasury under the Consolidated Fund mechanism, see Note 19.

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. Production charges were formerly recognised as income with the associated liability to HM Treasury, and these funds were remitted to the European Commission via HM Treasury. With effect from 1 April 2010, these charges are excluded from income. Sugar restructuring receipts are remitted directly to the European Commission through the monthly reimbursement process and are not reported in these accounts.

## 1.11 Other 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.

However, 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. With effect from the year to 31 March 2012, costs of the agency's hedging contracts are shared with the other UK paying agencies. The agency's foreign exchange figures are presented net of these recharges.

## 1.12 Modulation

Modulation is a vehicle for redirecting into rural development a proportion of support payments to farmers and other claimants. This process is supported by the European Commission and national legislation. Under these arrangements there are two types of modulation - national (or voluntary) modulation and European Commission (or compulsory) modulation.

### National modulation

National modulation is managed on behalf of Defra with the cash retained in the agency's bank accounts. The funds are accounted for as deferred income to fund future rural development expenditure in Defra's account.

From SPS 2007 onwards scheme payments are reclaimed from the European Commission net of all modulation. National modulation funds for the UK are reclaimed from the European Commission when the rural development expenditure is incurred.

### European Commission modulation

European Commission modulation reduces the net amounts paid to traders and farmers, with the funds retained in the first instance by the European Commission. However, the European Commission has committed at least 80% of these funds to be available to cover rural development expenditure in the UK. European Commission modulation is reclaimed from the European Commission when the rural development expenditure is incurred.

Within these accounts, SPS expenditure is reported net of national modulation and European Commission modulation for SPS 2007 and subsequent years.

## 1.13 European Commission funding of schemes administered by the agency

Rural development expenditure under the Rural Development Programme for England is managed by the agency on behalf of Defra. Accordingly, scheme income and expenditure are reported in in Defra's resource account with transfers reported as movements through the General Fund. Prior to 2011–12, income transfers were paid through intra-government reimbursement, rather than General Fund transfers.

However, 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.

## 1.14 Value Added Tax (VAT)

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable the underlying transactions are brought to account net of VAT.

## 1.15 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 SPS, the Rural Development Programme and trader schemes in accordance with the respective scheme rules and regulations.

Furthermore, the agency makes a portion of payments under the SPS 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 1.10, 1.11 and 1.13. 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 1.16 and Note 1.17.

## 1.16 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 22.

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.

## 1.17 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 SPS and the Rural Development Programme for England. 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.

See Note 22 for disclosure of the agency's financial instruments.

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.

## 1.18 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 historical collections data with respect to customers who have left the scheme.

See Note 15 for further details on trade receivables and other current assets and Note 16 for the SPS trade receivables and trade payables.

## 1.19 Pensions

Present and past employees of the agency are covered by the provisions of five separate Principal Civil Service Pension Schemes, 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.

## 1.20 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.

## 1.21 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.

## 1.22 Contingent assets and 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 wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because; it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability. A contingent asset is a potential asset for which realisation is dependent on the outcome of future events but for which receipt is not considered probable or for which the amount cannot be measured reliably.

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 and Government Accounting Northern Ireland. 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.

## 1.23 Operating segments

IFRS 8, as interpreted for the public sector in the FReM (paragraph 5.4.27), 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 2011–12, Defra uses key areas of spend as reported monthly to the Defra Management Committee. The agency constitutes entirely 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.

## 1.24 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 that 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 information technology 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 cost 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 intangibles 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 the agency's trade receivables and recognises an allowance for doubtful debt for those receivables for which partial or full recovery is not probable. In its 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 farmer and the ability to agree a payment plan with the farmer involved. The agency has a legacy of older receivables resulting from data integrity issues on the introduction of the SPS in 2005 for which the ageing and bad debt allowance details are provided in Note 15 and Note 16 of these accounts.

## 1.25 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; and
- IAS 19 Employee Benefits: new presentation requirements.

These standards have not been adopted by the agency ahead of their implementation date.

IFRS 9 is effective for accounting periods beginning on or after 1 January 2015, but earlier adoption is permitted. The agency plans to adopt the standard in line with the effective date and any possible impact that its future application will have on the agency's financial statements is not known or cannot be reasonably estimated.

IAS 19 is effective for accounting periods beginning on or after 1 January 2013 and earlier adoption is permitted. The agency plans to adopt the standard in line with the effective date. The agency does not anticipate material adjustments to its financial statements.

## 1.26 Administration and Programme income and expenditure

From 1 April 2011 the Statement of Comprehensive Net Expenditure is analysed between Administration and Programme costs. The classification of expenditure and income as Administration or Programme follows the definition set by HM Treasury Consolidated Guidance 2011–12. The prior year comparatives have also been updated.

Administration costs reflect the costs of running the agency, as defined under the Administration cost control regime, together with associated operating costs. Income is analysed in the Notes between that which is allowed to be offset against gross administrative costs and that operating income which is not.

Programme costs reflect Administration costs of frontline services and all other non-subsidies and other disbursements by the agency, as well as certain staff costs where they relate directly to service delivery. The agency's scheme expenditure and income are classified as Programme and are shown in Notes 4 to 11.

## 1.27 Accounting for sugar levies

The agency has adopted the requirements of Chapter 13 'Accounting for Consolidated Fund Revenue' of the 2011–12 Financial Reporting Manual. This requires revenue collected from taxes, duties and fines payable to public sector entities, in accordance with laws and regulations established to provide revenue to the Government, to be excluded from the financial statements of that entity. This includes the exclusion of all related assets and liabilities. If these amounts excluded are material to the entity concerned, the entity is required to prepare a trust statement detailing these transactions.

In accordance with this requirement, the agency has excluded revenue collected as sugar levies from the financial statements. 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 32 of these financial statements.

## 1.28 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.

# 2. Staff numbers and related costs

## 2.1 Staff costs comprise:

| | Administration permanently employed staff | Administration short term/ fixed term appointments | Administration total | Programme permanently employed staff | Programme short term/ fixed term appointments | Programme total | Year to 31 March 2012 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Wages and salaries | 22,067 | 69 | 22,136 | 38,166 | 0 | 38,166 | 60,302 |
| Social security costs | 1,746 | 7 | 1,753 | 2,504 | 0 | 2,504 | 4,257 |
| Other pension costs | 4,094 | 12 | 4,106 | 6,582 | 0 | 6,582 | 10,688 |
| Early retirement and early severance costs: | | | | | | | |
| Provided in the year | 0 | 0 | 0 | 3,801 | 0 | 3,801 | 3,801 |
| Released | 0 | 0 | 0 | (43) | 0 | (43) | (43) |
| Unwinding of discount | 0 | 0 | 0 | 49 | 0 | 49 | 49 |
| | 27,907 | 88 | 27,995 | 51,059 | 0 | 51,059 | 79,054 |
| Less recoveries in respect of secondments | | | (160) | | | (21) | (181) |
| Agency staff | | | 701 | | | 1 | 702 |
| Contractors | | | 3,311 | | | 0 | 3,311 |
| **Total staff costs** | | | 31,847 | | | 51,039 | 82,886 |

Details of directors salaries are set out in the Remuneration report on Pages 34 and 35.

No staff costs have been capitalised (2010–11: £nil).

## 2. Staff numbers and related costs (continued)

| | Administration permanently employed staff | Administration short term/ fixed term appointments | Administration total | Programme permanently employed staff | Programme short term/ fixed term appointments | Programme total | Year to 31 March 2011 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Wages and salaries | 24,487 | 228 | 24,715 | 40,325 | 1,048 | 41,373 | 66,088 |
| Social security costs | 1,856 | 20 | 1,876 | 2,778 | 74 | 2,852 | 4,728 |
| Other pension costs | 4,453 | 27 | 4,480 | 6,981 | 106 | 7,087 | 11,567 |
| Early retirement and early severance costs: | | | | | | | |
| Provided in the year | 0 | 0 | 0 | 634 | 91 | 725 | 725 |
| Released | 0 | 0 | 0 | (128) | 0 | (128) | (128) |
| Unwinding of discount | 0 | 0 | 0 | 69 | 0 | 69 | 69 |
| | 30,796 | 275 | 31,071 | 50,659 | 1,319 | 51,978 | 83,049 |
| Less recoveries in respect of secondments | | | (223) | | | 0 | (223) |
| Agency staff | | | 329 | | | 0 | 329 |
| Contractors | | | 4,806 | | | 149 | 4,955 |
| Total staff costs | | | 35,983 | | | 52,127 | 88,110 |

### Average number of persons employed

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

| | **Administration** | **Programme** | **Year to 31 March 2012** | Administration | Programme | Year to 31 March 2011 |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Permanently employed staff | **732** | **1,680** | **2,412** | 802 | 1,768 | 2,570 |
| Short term/fixed term appointments | **0** | **0** | **0** | 9 | 55 | 64 |
| Agency | **28** | **0** | **28** | 11 | 8 | 19 |
| Contractors | **21** | **0** | **21** | 24 | 2 | 26 |
| | **781** | **1,680** | **2,461** | 846 | 1,833 | 2,679 |

The cost of contractors engaged in normal business as usual roles within the agency are reflected in Note 2.1. Those contractors engaged on specific tasks or a unique piece of work (that is, projects) are reflected in Note 3.

## 2.2 Pension schemes

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

The contribution rates are set to meet the cost of benefits during 2011–12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

For 2011–12 employer's contributions of £10.7m (2010–11: £11.4m) were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. A full actuarial valuation was carried out at 31 March 2007.

Employees joining after 1 October 2002 can also opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2011–12 employer's contributions of £138k (2010–11: £136k) were paid to one or more of a panel of three appointed stakeholder providers. Employer's contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition employer's contributions of £10.1k, 0.8% (2010–11: £10.5k, 0.8%) 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 £11.4k (2010–11: £11.6k). 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
civilservice-pension.gov.uk/my-civil-service/pensions/index.aspx.

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

## 2.3 Reporting of civil service and other compensation schemes - exit packages

| | **Year to 31 March 2012** | Year to 31 March 2011 | **Year to 31 March 2012** | Year to 31 March 2011 |
|---|---|---|---|---|
| **Exit package cost band** | **Number of other departures agreed** | | **Total value of other departure packages by cost band (total cost)** | |
| | | | **£000** | £000 |
| Up to £10,000 | **13** | 101 | **81** | 128 |
| £10,000 - £25,000 | **53** | 1 | **857** | 15 |
| £25,000 - £50,000 | **41** | 2 | **1,437** | 88 |
| £50,000 - £100,000 | **12** | 0 | **836** | 0 |
| £100,000 - £150,000 | **3** | 0 | **324** | 0 |
| £150,000 - £200,000 | **1** | 0 | **176** | 0 |
| £300,000 - £350,000 | **0** | 1 | **0** | 311 |
| **Total number of exit packages and costs** | **123** | 105 | **3,711** | 542 |

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the agency has agreed early retirements, the additional costs are met by the agency and not by the Civil Service Pension Schemes. Ill-health retirement costs are met by the pension scheme and are not included in the table.

During the period to 31 March 2012 there were no compulsory redundancies (2010–11: nil).

## 3. Other running costs

| | Note | Administration | Programme | Year to 31 March 2012 | Administration | Programme | Year to 31 March 2011 |
|---|---|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 | £000 | £000 |
| **Rentals under operating leases** | | | | | | | |
| Rent on buildings | | **4,446** | **0** | **4,446** | 0 | 0 | 0 |
| **Non-cash items (including notional charges)** | | | | | | | |
| Auditors remuneration and expenses (notional) | 29 | **460** | **0** | **460** | 460 | 0 | 460 |
| Defra capital charges – buildings (notional)* | 29 | **0** | **0** | **0** | 13,044 | 0 | 13,044 |
| (Gain)/loss on disposal of non-current assets | 29 | **(6)** | **0** | **(6)** | 113 | 0 | 113 |
| Depreciation | 12 | **2,402** | **199** | **2,601** | 2,225 | 309 | 2,534 |
| Amortisation | 13 | **1,964** | **15,427** | **17,391** | 2,927 | 15,826 | 18,753 |
| Impairments | 13 | **0** | **0** | **0** | 716 | 0 | 716 |
| | | **4,820** | **15,626** | **20,446** | 19,485 | 16,135 | 35,620 |
| **Other expenditure** | | | | | | | |
| Accommodation | | **7,600** | **2,004** | **9,604** | 453 | 176 | 629 |
| IT and other project costs | | **28,063** | **6,699** | **34,762** | 24,910 | 7,617 | 32,527 |
| Administration losses write-offs | | **101** | **0** | **101** | 15 | 0 | 15 |
| Administration special payment write-offs | | **9** | **63** | **72** | 35 | 0 | 35 |
| Other running costs | | **1,962** | **(927)** | **1,035** | 2,091 | (979) | 1,112 |
| Non payroll staff costs | | **871** | **1,817** | **2,688** | 990 | 1,973 | 2,963 |
| Contractor staff costs | | **0** | **223** | **223** | 2,433 | 255 | 2,688 |
| Communications costs | | **4,578** | **622** | **5,200** | 5,715 | 970 | 6,685 |
| Agents fees | | **0** | **1,109** | **1,109** | (14) | 2,018 | 2,004 |
| Finance lease interest | | **393** | **0** | **393** | 326 | 0 | 326 |
| Scheme administrative costs | | **253** | **170** | **423** | 365 | 28 | 393 |
| Certifying Body audit fee | | **0** | **1,260** | **1,260** | 0 | 1,210 | 1,210 |
| | | **43,830** | **13,040** | **56,870** | 37,319 | 13,268 | 50,587 |
| | | **53,096** | **28,666** | **81,762** | 56,804 | 29,403 | 86,207 |

* For the year to 31 March 2012, the agency has been invoiced directly for Defra occupied premises costs. Therefore there are no notional Defra capital charges.

## 3. Other running costs (continued)

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

| | Administration | Programme | Year to 31 March 2012 | Administration | Programme | Year to 31 March 2011 |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Payroll costs | 0 | 438 | 438 | 0 | 457 | 457 |
| Other costs | 0 | 24 | 24 | 0 | 28 | 28 |
| Certifying Body audit fee | 0 | 1,260 | 1,260 | 0 | 1,210 | 1,210 |
| | 0 | 1,722 | 1,722 | 0 | 1,695 | 1,695 |

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. Schemes administered by the agency

| | Note | Year to 31 March 2012 | Year to 31 March 2011 |
|---|---|---|---|
| | | £000 | £000 |
| SPS in England | 5.1 | 1,989,371 | 1,683,152 |
| Bovine Spongiform Encephalopathy related | 5.2 | 4,004 | 259 |
| Trader based - Internal Market | 6 | 18,541 | 22,993 |
| Trader based - External Trade | 7 | 359 | 1,877 |
| Intervention buying and selling | 8 | 27,147 | 18,541 |
| School Milk Local Authority | | 3,130 | 4,118 |
| Scheme related losses | | 14,983 | 7,082 |
| Retention of irregularities* | 5.1 | (811) | (872) |
| Other scheme costs | | 0 | (4,481) |
| | | 2,056,724 | 1,732,669 |
| Release from bad debt provision | 15 | (11,931) | (461) |
| Cost of hedging contracts | | 1,763 | 4,409 |
| Realised exchange loss | | 2,627 | 18,325 |
| Unrealised exchange gain | | (8,206) | (4,857) |
| Derivative ineffectiveness | 22 | 72 | 176 |
| **Total scheme expenditure** | | 2,041,049 | 1,750,261 |

* Under current European Commission guidance the agency is permitted to retain a proportion of penalties charged for non-compliance with regulations by claimants.

# 5. Farm based schemes

## 5.1 SPS in England

The SPS, introduced by Council Regulation (EC) No 1782/2003, replaced most existing crop and livestock payments from 1 January 2005.

The Dairy Premium Scheme is a one off scheme to support dairy farmers within the UK due to deflating market prices.

| | **Year to 31 March 2012** | | | Year to 31 March 2011 | | |
|---|---|---|---|---|---|---|
| | **Expenditure** | **Income** | **Net** | Expenditure | Income | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| SPS* | **1,989,357** | **(1,990,571)** | **(1,214)** | 1,681,348 | (1,668,370) | 12,978 |
| Pre SPS grants and subsidies | **14** | **265** | **279** | 1,814 | (2,253) | (439) |
| Dairy Premium Scheme | **0** | **0** | **0** | (10) | 112 | 102 |
| | **1,989,371** | **(1,990,306)** | **(935)** | 1,683,152 | (1,670,511) | 12,641 |
| Retention of irregularities | **(811)** | **44** | **(767)** | (872) | (1) | (873) |
| **Total scheme expenditure/ (income)** | **1,988,560** | **(1,990,262)** | **(1,702)** | 1,682,280 | (1,670,512) | 11,768 |

* Included within the SPS income is £18,607k resulting from foreign exchange hedging transactions, see Note 22.

## 5.2 Bovine Spongiform Encephalopathy related

The announcement of the possible link between Bovine Spongiform Encephalopathy and Creutzfeldt-Jakob Disease triggered a number of measures aimed at ensuring public health and at giving aid to the beef industry.

The agency has administered schemes designed to remove older animals from the food-chain.

| | **Year to 31 March 2012** | | | Year to 31 March 2011 | | |
|---|---|---|---|---|---|---|
| | **Expenditure** | **Income** | **Net** | Expenditure | Income | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Older Cattle Disposal Scheme (OCDS) | **3,678** | **54** | **3,732** | 197 | (4,771) | (4,574) |
| Over Thirty Month Slaughter (OTMS) | **320** | **0** | **320** | 59 | (10) | 49 |
| TSE Agents services | **6** | **0** | **6** | 3 | 0 | 3 |
| **Total scheme expenditure/ (income)** | **4,004** | **54** | **4,058** | 259 | (4,781) | (4,522) |

European Commission funding is claimed in full for cattle that are directly incinerated. In respect of cattle that are rendered (the majority), European Commission funding is in two elements, 80% on the rendering of the carcass and 20% on destruction of the Meat and Bone Meal and Tallow produced from the rendering process.

# 6. Trader based – Internal Market

| | **Year to 31 March 2012** | | | Year to 31 March 2011 | | |
|---|---|---|---|---|---|---|
| | **Expenditure** | **Income** | **Net** | Expenditure | Income | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Horticulture | **13,559** | **(9,623)** | **3,936** | 18,890 | (15,952) | 2,938 |
| Milk and milk products | **89** | **(93)** | **(4)** | 184 | (170) | 14 |
| Protein and textile plants | **1,212** | **(1,203)** | **9** | 1,068 | (1,044) | 24 |
| School milk | **374** | **(427)** | **(53)** | 706 | (719) | (13) |
| Sugar and isoglucose | **0** | **0** | **0** | (9) | 9 | 0 |
| Other | **3,307** | **(3,297)** | **10** | 2,154 | (2,056) | 98 |
| **Total scheme expenditure/ (income)** | **18,541** | **(14,643)** | **3,898** | 22,993 | (19,932) | 3,061 |

## 7. Trader based – External Trade

The agency is responsible for paying export refunds in respect of trade with non-European Union member countries.

| | **Year to 31 March 2012** | | | Year to 31 March 2011 | | |
|---|---|---|---|---|---|---|
| | **Expenditure** | **Income** | **Net** | Expenditure | Income | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Milk and milk products | **9** | **8** | **17** | 1,399 | (1,310) | 89 |
| Processed goods | **(53)** | **70** | **17** | (235) | 239 | 4 |
| Sugar and isoglucose | **(35)** | **(299)** | **(334)** | (11) | (291) | (302) |
| Other | **438** | **(1,741)** | **(1,303)** | 724 | (718) | 6 |
| **Total scheme expenditure/ (income)** | **359** | **(1,962)** | **(1,603)** | 1,877 | (2,080) | (203) |

## 8. Intervention buying and selling

Intervention buying is a method of supporting market prices for certain agricultural commodities by purchasing surplus product into public intervention storage. Commodities are sold out of intervention for specified end uses when prices are high or there is a shortage on the open market. Schemes may be seasonal or in response to exceptional market conditions.

| | **Intervention** | | | **Year to 31 March 2012** | Year to 31 March 2011 |
|---|---|---|---|---|---|
| | **Butter** | **Milk powder** | **Barley** | | |
| | **£000** | **£000** | **£000** | **£000** | £000 |
| Sales | **0** | **(3)** | **(14,679)** | **(14,682)** | (27,216) |
| Other income | **49** | **11** | **(203)** | **(143)** | (486) |
| Surrender of excess receipts | **0** | **(16,636)** | **7,150** | **(9,486)** | 11,482 |
| | **49** | **(16,628)** | **(7,732)** | **(24,311)** | (16,220) |
| Cost of sales | **0** | **17,432** | **8,191** | **25,623** | 16,717 |
| Operating costs | **0** | **769** | **1,388** | **2,157** | 4,421 |
| Technical costs recovered | **0** | **(337)** | **(296)** | **(633)** | (2,597) |
| | **0** | **17,864** | **9,283** | **27,147** | 18,541 |
| **Total net expenditure** | **49** | **1,236** | **1,551** | **2,836** | 2,321 |

## 9. Modulation

Modulation is applied as a deduction from the budget available for farm based schemes under the European Agricultural Guarantee Fund which is then added to the budget for rural development schemes under the European Agricultural Fund for Rural Development.

It is applied on two bases, European Commission (compulsory) modulation and national (voluntary) modulation.

### European Commission modulation

Historically European Commission modulation was governed by Council Regulation (EC) No 1782/2003. The rate increased progressively from 3% of direct payments in 2005 to 5% from 2007 onwards. The same rate applied throughout the whole of the UK. Up to €5,000 of each claim was effectively exempt from such modulation and an additional payment was made to farmers refunding this element of the modulation. The UK made a claim on the European Agricultural Fund for Rural Development in respect of European Commission modulation deductions and received a minimum of 80% of the funds guaranteed for redistribution.

European Commission modulation rates up to 2012 are set in the legislation as follows:

| **Scheme year** | 2005 | 2006 | 2007–2012 |
|---|---|---|---|
| Modulation deduction percentage | 3% | 4% | 5% |

All direct aid payments are modulated (that is, SPS, Nuts Scheme, Energy Crop Aid, Protein Premium). A small part of the modulation deduction was repaid to farmers via an 'additional payment' provided for by the European Commission Council Regulation. The operation of this additional payment system was subject to an overall UK ceiling of €17.7m for SPS 2005, €23.6m for SPS 2006 and €29.5m for SPS 2007 to 2012.

Council Regulation (EC) No 73/2009 amended European Commission modulation and is applied for direct aid payments. European Commission modulation is split into three bands with increasing percentages within the bands.

European Commission modulation rates from 2009 to 2012 are set in the legislation as follows:

| **Scheme year** | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| **Banding/modulation deduction percentages** | | | | |
| Up to €5,000 | 0% | 0% | 0% | 0% |
| €5,000 to €300,000 | 7% | 8% | 9% | 10% |
| Greater than €300,000 | 11% | 12% | 13% | 14% |

The 'additional payment' provided for by Council Regulation (EC) No 1782/2003 has been repealed by Council Regulation (EC) No 73/2009. From SPS 2009 onwards the 'additional payment' paid to farmers has ceased.

# 9. Modulation (continued)

## National modulation

National modulation for SPS 2005–2008 was governed by Council Regulations (EC) No 1782/2003,1655/2004 and 378/2007. This modulation was applied at different rates by England, Scotland, Wales and Northern Ireland. For national modulation the €5,000 dispensation did not apply, and the UK retained 100% of the funds it generates.

For England, the following national modulation rates applied:

| **Scheme Year** | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Modulation deduction percentage | 2% | 6% | 12% | 13% |

The value of claims paid to farmers plus the national modulation deductions for SPS 2005 and SPS 2006 were claimed from the European Agricultural Guarantee Fund. For SPS 2007 onwards payments are reclaimed net of all modulation and a separate claim is made to the European Agricultural Guarantee Fund when the rural development expenditure is incurred.

National modulation for SPS 2009 onwards is set by national legislation (Statutory instrument: 2010 No 540). For England, the following national modulation rates have been announced:

| **Scheme year** | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| **Banding/modulation deduction percentages** | | | | |
| Up to €5,000 | 14% | 14% | 14% | 14% |
| €5,000 to €300,000 | 12% | 11% | 10% | 9% |
| Greater than €300,000 | 8% | 7% | 6% | 5% |

## 10. Other paying agencies and delegated authorities

| | **Year to 31 March 2012** | | | Year to 31 March 2011 | | |
|---|---|---|---|---|---|---|
| | **Expenditure** | **Income** | **Net** | Expenditure | Income | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| **Other paying agencies*** | | | | | | |
| SGRPID | **616,106** | **(615,965)** | **141** | 565,742 | (566,769) | (1,027) |
| WG | **311,224** | **(311,218)** | **6** | 299,871 | (299,472) | 399 |
| DARDNI | **307,870** | **(307,002)** | **868** | 287,524 | (287,669) | (145) |
| | **1,235,200** | **(1,234,185)** | **1,015** | 1,153,137 | (1,153,910) | (773) |
| **Delegated authorities** | | | | | | |
| FC | **1,353** | **(1,532)** | **(179)** | 1,375 | (1,433) | (58) |
| | **1,353** | **(1,532)** | **(179)** | 1,375 | (1,433) | (58) |
| **Total scheme expenditure/ (income)** | **1,236,553** | **(1,235,717)** | **836** | 1,154,512 | (1,155,343) | (831) |

* Included with the other paying agencies income is £13,919k resulting from foreign exchange hedging transactions, see Note 22.

SGRPID – Scottish Government Rural Payments and Investigation Directorate
WG – Welsh Government
DARDNI – Department of Agriculture and Rural Development, Northern Ireland
FC – Forestry Commission

The Forestry Commission is funded directly by Defra for payments made within England. The agency funds the Forestry Commission for payments made in Scotland and Wales.

## 11. Income

Operating income analysed by classification and activity is as follows:

| | Note | **Year to 31 March 2012** | Year to 31 March 2011 |
|---|---|---|---|
| | | **£000** | £000 |
| Running costs income* | | **707** | 849 |
| **Scheme income** | | | |
| SPS in England | 5.1 | **1,990,262** | 1,670,512 |
| Bovine Spongiform Encephalopathy related | 5.2 | **(54)** | 4,781 |
| Trader based – Internal Market | 6 | **14,643** | 19,932 |
| Trader based – External Trade | 7 | **1,962** | 2,080 |
| Intervention buying and selling | 8 | **24,311** | 16,220 |
| School Milk Local Authority | | **3,385** | 3,846 |
| | | **2,034,509** | 1,717,371 |
| **Other paying agencies** | | | |
| European Commission contributions | 10 | **1,235,717** | 1,155,343 |
| **Other income** | | | |
| Other | | **2,773** | 3,235 |
| | | **2,773** | 3,235 |
| **Total scheme income** | | **3,272,999** | 2,875,949 |
| **Total income** | | **3,273,706** | 2,876,798 |

* Running costs income includes £0.7m (2010–11: £0.8m) notional income relating to services provided across Defra by the Defra Investigation Services, which is part of the agency.

## 12. Property, plant and equipment

| | Leasehold improvements | Information technology hardware | Right of use assets | Transport equipment, plant and machinery | Furniture and fittings | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Valuation** | | | | | | |
| At 1 April 2011 | 0 | 24,166 | 455 | 45 | 22 | 24,688 |
| Additions | 0 | 372 | 869 | 0 | 0 | 1,241 |
| Disposals | 0 | (2,120) | 0 | (40) | 0 | (2,160) |
| Reclassification | 0 | (80) | 0 | 0 | 0 | (80) |
| Revaluation | 0 | 395 | 0 | 0 | 0 | 395 |
| **At 31 March 2012** | 0 | 22,733 | 1,324 | 5 | 22 | 24,084 |
| **Depreciation** | | | | | | |
| At 1 April 2011 | 0 | 17,616 | 215 | 38 | 22 | 17,891 |
| Charged in year | 0 | 2,342 | 259 | 0 | 0 | 2,601 |
| Disposals | 0 | (2,085) | 0 | (33) | 0 | (2,118) |
| Reclassification | 0 | (80) | 0 | 0 | 0 | (80) |
| Revaluation | 0 | 264 | 0 | 0 | 0 | 264 |
| **At 31 March 2012** | 0 | 18,057 | 474 | 5 | 22 | 18,558 |
| **Net Book Value** | | | | | | |
| At 1 April 2011 | 0 | 6,550 | 240 | 7 | 0 | 6,797 |
| **At 31 March 2012** | 0 | 4,676 | 850 | 0 | 0 | 5,526 |
| **Assets Financing** | | | | | | |
| Owned | 0 | 4,125 | 0 | 0 | 0 | 4,125 |
| Finance leased | 0 | 551 | 850 | 0 | 0 | 1,401 |
| **Net Book Value at 31 March 2012** | 0 | 4,676 | 850 | 0 | 0 | 5,526 |

Included in property, plant and equipment are assets with historical cost of £12.0m (2010–11: £12.8m) which have been fully depreciated. These assets are still in use by the agency.

## 12. Property, plant and equipment (continued)

| | Leasehold improvements | Information technology hardware | Right of use assets | Transport equipment, plant and machinery | Furniture and fittings | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Valuation | | | | | | |
| At 1 April 2010 | 4,759 | 23,470 | 671 | 100 | 22 | 29,022 |
| Additions | 0 | 1,307 | 0 | 0 | 0 | 1,307 |
| Disposals | (4,129) | (1,024) | (216) | (55) | 0 | (5,424) |
| Revaluation | (630) | 413 | 0 | 0 | 0 | (217) |
| At 31 March 2011 | 0 | 24,166 | 455 | 45 | 22 | 24,688 |
| | | | | | | |
| Depreciation | | | | | | |
| At 1 April 2010 | 3,448 | 15,940 | 137 | 83 | 22 | 19,630 |
| Charged in year | 0 | 2,456 | 78 | 0 | 0 | 2,534 |
| Disposals | (2,974) | (990) | 0 | (45) | 0 | (4,009) |
| Revaluation | (474) | 210 | 0 | 0 | 0 | (264) |
| At 31 March 2011 | 0 | 17,616 | 215 | 38 | 22 | 17,891 |
| | | | | | | |
| Net Book Value | | | | | | |
| At 1 April 2010 | 1,311 | 7,530 | 534 | 17 | 0 | 9,392 |
| At 31 March 2011 | 0 | 6,550 | 240 | 7 | 0 | 6,797 |
| | | | | | | |
| Assets Financing | | | | | | |
| Owned | 0 | 5,723 | 0 | 7 | 0 | 5,730 |
| Finance leased | 0 | 827 | 240 | 0 | 0 | 1,067 |
| Net Book Value at 31 March 2011 | 0 | 6,550 | 240 | 7 | 0 | 6,797 |

## 13. Intangible assets

| | Information technology | Software licences | Development expenditure | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Valuation** | | | | |
| At 1 April 2011 | 155,298 | 7,012 | 4,686 | 166,996 |
| Additions | 0 | 358 | 94 | 452 |
| Disposals | 0 | (502) | 0 | (502) |
| Reclassification | 4,780 | 80 | (4,780) | 80 |
| Revaluations | (2,001) | 78 | 0 | (1,923) |
| **At 31 March 2012** | 158,077 | 7,026 | 0 | 165,103 |
| | | | | |
| **Amortisation** | | | | |
| At 1 April 2011 | 105,572 | 4,821 | 0 | 110,393 |
| Charged in year | 16,671 | 720 | 0 | 17,391 |
| Disposals | 0 | (502) | 0 | (502) |
| Reclassification | 0 | 80 | 0 | 80 |
| Revaluations | (1,071) | 24 | 0 | (1,047) |
| **At 31 March 2012** | 121,172 | 5,143 | 0 | 126,315 |
| | | | | |
| **Net Book Value** | | | | |
| At 1 April 2011 | 49,726 | 2,191 | 4,686 | 56,603 |
| **At 31 March 2012** | 36,905 | 1,883 | 0 | 38,788 |
| | | | | |
| **Assets Financing** | | | | |
| Owned | 36,689 | 1,883 | 0 | 38,572 |
| Finance Leased | 216 | 0 | 0 | 216 |
| **Net Book Value at 31 March 2012** | 36,905 | 1,883 | 0 | 38,788 |

During the year to 31 March 2012 there were no impairment losses (2010–11: £716k).

## 13. Intangible assets (continued)

Included in intangible assets are assets with historical cost of £48.3m (2010–11: £45.9m) which have been fully depreciated. These assets are still in use by the agency.

| | Information technology | Software licences | Development expenditure | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Valuation | | | | |
| At 1 April 2010 | 144,735 | 6,962 | 7,313 | 159,010 |
| Additions | 251 | 199 | 3,474 | 3,924 |
| Disposals | (542) | (300) | 0 | (842) |
| Impairment* | 0 | 0 | (716) | (716) |
| Reclassification | 5,385 | 0 | (5,385) | 0 |
| Revaluations | 5,469 | 151 | 0 | 5,620 |
| At 31 March 2011 | 155,298 | 7,012 | 4,686 | 166,996 |
| | | | | |
| Amortisation | | | | |
| At 1 April 2010 | 86,147 | 4,153 | 0 | 90,300 |
| Charged in year | 17,878 | 875 | 0 | 18,753 |
| Disposals | (542) | (277) | 0 | (819) |
| Revaluations | 2,089 | 70 | 0 | 2,159 |
| At 31 March 2011 | 105,572 | 4,821 | 0 | 110,393 |
| | | | | |
| Net Book Value | | | | |
| At 1 April 2010 | 58,588 | 2,809 | 7,313 | 68,710 |
| At 31 March 2011 | 49,726 | 2,191 | 4,686 | 56,603 |
| | | | | |
| Assets Financing | | | | |
| Owned | 49,402 | 2,191 | 4,686 | 56,279 |
| Finance Leased | 324 | 0 | 0 | 324 |
| Net Book Value at 31 March 2011 | 49,726 | 2,191 | 4,686 | 56,603 |

* During the year to 31 March 2011 an impairment loss of £716k relating to development expenditure was incurred. This was charged directly to the Statement of Comprehensive Net Expenditure, see Note 3.

Information technology includes the carrying value of internally developed software for the system used to process SPS claims. During 2009–10, due to anticipated changes in CAP payment regulations and processes, capitalised expenditure on this system was re-lifed to 31 March 2014. All subsequent capitalised expenditure will be fully amortised by 31 March 2014. The Net Book Value at 31 March 2012 was £25.0m (31 March 2011: £38.0m).

## 14. Inventories

Intervention inventories:

| | Intervention | | | Total |
|---|---|---|---|---|
| | Butter | Milk powder | Barley | |
| | £000 | £000 | £000 | £000 |
| Inventory at 1 April 2010 | 8,724 | 21,757 | 6,262 | 36,743 |
| Movement | (8,724) | (2,671) | 2,407 | (8,988) |
| **Inventory at 1 April 2011** | **0** | **19,086** | **8,669** | **27,755** |
| Movement | 0 | (17,432) | (8,191) | (25,623) |
| **At 31 March 2012** | **0** | **1,654** | **478** | **2,132** |

## 15. Trade receivables and other current assets

### Amounts falling due within one year

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Amounts falling due within one year | | |
| Trade receivables* | **19,805** | 36,556 |
| Less allowance for doubtful debts* | **(8,313)** | (20,244) |
| | **11,492** | 16,312 |
| Due from European Agricultural Guarantee Fund/European Agricultural Fund for Rural Development | **501,576** | 455,543 |
| Due from Defra and its Agencies | **1,510** | 1,415 |
| Due from other government departments (including OPAs) | **11,329** | 32,971 |
| Prepayments and accrued income | **666** | 1,001 |
| VAT recoverable | **1,315** | 1,900 |
| Other receivables | **108** | 127 |
| **Total receivables** | **527,996** | 509,269 |

* Included within these balances are £14.9m in relation to SPS receivables, and £7.4m of SPS allowance for doubtful debts (2010–11: £24.5m and £13.0m respectively), see Note 16.

Trade receivables disclosed above represent receivables from customers under the various schemes administered by the agency and from other government agencies.

Trade receivables are classified as loans and receivables and are therefore measured at amortised cost.

Total trade receivables (net of allowances) held by the agency at 31 March 2012 amounted to £11.5m (2010–11: £16.3m). Generally the average credit period is 30 days for SPS receivables and 30 days for non SPS receivables.

Trade receivables, disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the agency has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The agency does not hold any collateral or other credit enhancements over these balances. The average age of these receivables at 31 March 2012 is 228 days (2010–11: 502 days).

## 15. Trade receivables and other current assets (continued)

Ageing of past due but not impaired receivables:

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| | £000 | £000 |
| 30 days – 6 months | **439** | 490 |
| 6 months – 1 year | **393** | 210 |
| 1 year – 18 months | **58** | 863 |
| Over 18 months | **412** | 1,123 |
| **Total** | **1,302** | 2,686 |

Movement in the allowance for doubtful debts:

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| | £000 | £000 |
| Opening balance | **(20,244)** | (20,705) |
| Reversal of impairment losses/(impairment losses recognised) | **5,844** | (2,406) |
| Amounts written off during the year as uncollectable | **6,087** | 2,867 |
| **Closing balance** | **(8,313)** | (20,244) |

In determining the recoverability of a trade receivable, the agency considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Ageing of impaired trade receivables:

| | 31 March 2012 | 31 March 2011 |
|---|---|---|
| | £000 | £000 |
| 30 days – 6 months | **1,399** | 2,235 |
| 6 months – 1 year | **906** | 1,564 |
| 1 year – 18 months | **766** | 1,606 |
| Over 18 months | **2,680** | 5,867 |
| **Total** | **5,751** | 11,272 |

The agency considers that the carrying amount of trade and other receivables is approximately equal to their fair value.

## 16. SPS trade receivables and trade payables

| | Amounts falling due within one year | | | |
|---|---|---|---|---|
| | SPS | | SPS | |
| | Trade receivables | | Trade payables | |
| | **31 March 2012** | 31 March 2011 | **31 March 2012** | 31 March 2011 |
| | **£000** | £000 | **£000** | £000 |
| SPS trade receivables and trade payables | **14,860** | 24,540 | **56,846** | 54,541 |
| Less allowance for doubtful debts | **(7,362)** | (13,045) | **0** | 0 |
| **Net SPS trade receivables and trade payables** | **7,498** | 11,495 | **56,846** | 54,541 |

SPS trade receivables represent adjustments to amounts previously paid to customers arising as a consequence of errors made by customers, process errors or system errors. The credit period for SPS trade receivables, once invoiced is generally 30 days 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. While the agency has an ability to charge interest on overdue balances, it is currently not the agency's policy to do so.

SPS trade payables represent adjustments to amounts previously paid to customers arising as a consequence of errors made by customers, processing errors or system errors and full claims that have been validated but remain unpaid at the reporting date. Interest on SPS trade payables accrues to the customer at LIBOR plus 1% on all adjustments and full claims that are settled after 30 June of the scheme year to which they relate.

In accordance with IAS 32 Financial Instruments: Presentation (IAS 32), SPS claims and claim adjustments outstanding at the Statement of Financial Position date are netted across all scheme years by customer, as the agency has both an intention and a legal right to offset.

# 16. SPS trade receivables and trade payables (continued)

## Allowance for doubtful debts and ageing

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Opening balance | **13,045** | 9,775 |
| (Reversal of impairment losses)/ impairment losses recognised | **(3,634)** | 4,647 |
| Amounts written off during the year as uncollectable | **(874)** | (618) |
| Impairment losses recovered | **(1,175)** | (759) |
| **Closing balance** | **7,362** | 13,045 |

An allowance for doubtful debts is recognised against SPS trade receivables for those trade receivables where the carrying amount exceeds the present value of estimated cash flows. In determining the present value of estimated cash flows, the agency considers, amongst other things:

- the impact of agreed payment plans with the customers;
- how much can be recovered through interception (the process of offsetting a customer's receivable against a future payment);
- historical collections data with respect to customers who have left the scheme; and
- expected timing for invoicing of customers and the consequential remaining period of interception.

When a trade receivable is considered uncollectable, it is written off against the allowance for doubtful debts. Changes in the allowance for doubtful debts are recognised in the Statement of Comprehensive Net Expenditure.

An ageing analysis of past due but not impaired trade receivables is as follows:

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| 30 days – 6 months* | **206** | 297 |
| 6 months – 1 year | **185** | 179 |
| 1 year – 18 months | **11** | 820 |
| Over 18 months | **7** | 661 |
| **Total** | **409** | 1,957 |

* In addition to invoices that are less than 30 days old, past due balances also exclude invoices where an agreement has been reached between the agency and the customer to allow for recovery through interception of future payments.

## 16. SPS trade receivables and trade payables (continued)

An ageing analysis of impaired invoiced trade receivables is as follows:

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| 30 days – 6 months | **621** | 533 |
| 6 months – 1 year | **471** | 221 |
| 1 year – 18 months | **545** | 1,390 |
| Over 18 months | **2,144** | 1,051 |
| **Total** | **3,781** | 3,195 |

## 17. Intra-government receivables

Trade receivables and other current assets shown in Note 15 can be analysed as follows:

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Balances with other central government bodies | **13,245** | 35,694 |
| Balances with local authorities | **909** | 592 |
| **Total intra-government balances** | **14,154** | 36,286 |
| Balances with bodies external to Government | **513,842** | 472,983 |
| **Total receivables** | **527,996** | 509,269 |

## 18. Cash and cash equivalents

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Balances held at 1 April | **220,481** | 39,963 |
| Net cash (outflow)/inflow | **(47,973)** | 180,518 |
| **Total balance** | **172,508** | 220,481 |
| The following balances were held at 31 March | | |
| Government Banking Services | **169,733** | 219,998 |
| Commercial banks and cash in hand* | **2,775** | 483 |
| **Total balance** | **172,508** | 220,481 |

* The closing balance of third party money held as cash securities at 31 March 2012 was £2.1m (2010–11: £2.0m). Of this, £1.6m (2010–11: £0.6m) was held in a public bank account.

At 31 March 2012 the cash equivalent balance was £nil (2010–11: £nil).

## 19. Trade payables and other current liabilities

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| **Amounts falling due within one year** | | |
| Trade payables* | **60,426** | 58,756 |
| Due to Defra and its agencies** | **8,019** | 116,611 |
| Due to other government departments (including OPAs) | **2,436** | 906 |
| Amounts due to the Consolidated Fund *** | **0** | 179,521 |
| Cash securities**** | **2,127** | 2,039 |
| Scheme accruals | **4,110** | 2,930 |
| SPS interest | **127** | 122 |
| Accruals and deferred income | **5,274** | 15,309 |
| Employee leave accrual | **2,475** | 2,572 |
| Other taxation and social security | **1,369** | 1,514 |
| Finance leases | **619** | 473 |
| Other payables | **1,080** | 1,233 |
| **Total payables** | **88,062** | 381,986 |
| **Amounts falling due after more than one year** | | |
| Advances on Rural Development Programmes | **111,467** | 117,777 |
| Finance Leases | **1,232** | 847 |
| | **112,699** | 118,624 |
| **Total trade payables and other liabilities** | **200,761** | 500,610 |

* Includes £56.8m of SPS payables (2010–11: £54.5m), see Note 16.

** Amounts due to Defra and its agencies include £nil (2010–11: £108.1m) in respect of the transfer of rural development and Structural Fund scheme income.

*** With effect from 1 April 2011, there have been changes to the HM Treasury rules regarding repayment of income received by the agency to HM Treasury. Prior to this date income received by the agency had been reimbursed directly to HM Treasury. Amounts due to the Consolidated Fund at 31 March 2011 represented these amounts payable to HM Treasury. With effect from 1 April 2011, Defra and the agency have more flexibility in determining the net cash requirements from HM Treasury and the timings of repayments. There remains the principle that the excess cash will be returned to HM Treasury, but there is no committed liability to repay, therefore the agency has not recognised an equivalent liability at 31 March 2012.

**** 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. This amount represents cash deposited with the agency. The corresponding liability with the trader is included in trade payables and other current liabilities.

## 19. Trade payables and other current liabilities (continued)

Trade payables principally comprise amounts outstanding for claims to be paid to customers.

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

As at 31 March 2012, the agency considers that the fair value of the advances received on Rural Development Programmes for Defra and OPAs to be £111.5m (2010–11: £117.8m).

The agency consider the fair value of finance lease liabilities at 31 March 2012 to be £1.9m (2010–11: £1.3m).

## 20. Intra-government payables

Trade payables and other current liabilities shown in Note 19 can be analysed as follows:

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Balances with other central government bodies | **11,520** | 298,480 |
| Balances with local authorities | **303** | 72 |
| **Total intra-government balances** | **11,823** | 298,552 |
| Balances with bodies external to Government | **76,239** | 83,434 |
| **Total payables less than one year** | **88,062** | 381,986 |
| Balances with bodies external to Government due after more than one year | **112,699** | 118,624 |
| **Total payables** | **200,761** | 500,610 |

## 21. Provisions for liabilities and charges

| | Pensions and related costs | Dilapidations provision | OCDS and OTMS schemes | Other scheme provisions | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Balance at 1 April 2011** | **4,084** | **0** | **68** | **0** | **4,152** |
| Provided in the year | 3,801 | 2,000 | 2,635 | 2,662 | **11,098** |
| Released | (43) | 0 | (62) | 0 | **(105)** |
| Utilised | (4,956) | 0 | (1,540) | 0 | **(6,496)** |
| Unwinding of discount | 49 | 0 | 0 | 0 | **49** |
| **Balance at 31 March 2012** | **2,935** | **2,000** | **1,101** | **2,662** | **8,698** |
| Analysed as: | | | | | |
| Current | 1,155 | 1,000 | 1,101 | 2,662 | **5,918** |
| Non-current | 1,780 | 1,000 | 0 | 0 | **2,780** |
| **Balance at 31 March 2012** | **2,935** | **2,000** | **1,101** | **2,662** | **8,698** |
| Analysis of expected timing of discounted flows: | | | | | |
| Not later than one year | 1,155 | 1,000 | 1,101 | 2,662 | **5,918** |
| Later than one year and not later than five years | 1,626 | 1,000 | 0 | 0 | **2,626** |
| Later than five years | 154 | 0 | 0 | 0 | **154** |
| **Balance at 31 March 2012** | **2,935** | **2,000** | **1,101** | **2,662** | **8,698** |

## 21. Provisions for liabilities and charges (continued)

| | Pensions and related costs | Dilapidations provision | OCDS and OTMS schemes | Other scheme provisions | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2010 | 5,565 | 0 | 671 | 0 | 6,236 |
| Provided in the year | 725 | 0 | 750 | 0 | 1,475 |
| Released | (128) | 0 | (623) | 0 | (751) |
| Utilised | (2,147) | 0 | (730) | 0 | (2,877) |
| Unwinding of discount | 69 | 0 | 0 | 0 | 69 |
| Balance at 31 March 2011 | 4,084 | 0 | 68 | 0 | 4,152 |
| Analysed as: | | | | | |
| Current | 1,387 | 0 | 68 | 0 | 1,455 |
| Non-current | 2,697 | 0 | 0 | 0 | 2,697 |
| Balance at 31 March 2011 | 4,084 | 0 | 68 | 0 | 4,152 |
| Analysis of expected timing of discounted flows: | | | | | |
| Not later than one year | 1,387 | 0 | 68 | 0 | 1,455 |
| Later than one year and not later than five years | 2,466 | 0 | 0 | 0 | 2,466 |
| Later than five years | 231 | 0 | 0 | 0 | 231 |
| Balance at 31 March 2011 | 4,084 | 0 | 68 | 0 | 4,152 |

### 21.1 Pensions and related costs

The agency reimburses the Agriculture and Horticulture Development Board in respect of certain agreed redundancy costs following the demise of the Sheep Variable Premium Scheme in January 1992. Payments made in year have been offset against the provision made in previous years. These payments are due until June 2013 when the last recipient reaches pensionable age. The provision at 31 March 2012 is £0.01m (2010–11: £0.02m).

The agency has a liability for early retirement and severance costs of its former employees. Those employees that were in receipt of a formal notification by 31 March 2012 have been provided for in these accounts. The provision allows for the pension payments that are payable up to April 2020 when the last recipient reaches pensionable age. The provision at 31 March 2012 is £2.93m (2010–11: £4.06m).

### 21.2 Dilapidations provision

In 2011–12, the agency provided for dilapidation costs associated with the future exit of a number of leased premises. These are expected to be incurred by 31 March 2014.

## 21. Provisions for liabilities and charges (continued)

### 21.3 Older Cattle Disposal and Over Thirty Month Slaughter schemes

Meat and Bone Meal and Tallow were produced as by-products arising from the Older Cattle Disposal Scheme and Over Thirty Month Slaughter. Provision has been made for the estimated cost of disposal of Meat and Bone Meal and Tallow produced up to 31 March 2012. This includes final costs of vacating and making good premises hired during the crisis.

### 21.4 Other scheme provisions

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 provision made where the agency considers payment to be probable and can be measured reliably. These are expected to be paid by 31 March 2013.

# 22. Financial instruments

## 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 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| **Loans and receivables** | | |
| Trade receivables and other current assets* | **527,330** | 508,268 |
| **Financial assets** | | |
| Cash and cash equivalents | **172,508** | 220,481 |
| Derivative instruments classified as held for trading | **52** | 635 |
| Derivative instruments in designated hedge accounting relationships | **17,596** | 0 |
| Sub-total of derivatives assets | **17,648** | 635 |
| **Financial liabilities** | | |
| Derivative instruments classified as held for trading | **145** | 124 |
| Derivative instruments in designated hedge accounting relationships | **37** | 14,813 |
| Sub-total of derivatives liabilities | **182** | 14,937 |
| **Other** | | |
| Trade payables and other liabilities** | **198,286** | 498,038 |
| **Financial guarantee contracts** | | |
| Cash securities | **2,127** | 2,039 |
| Non-cash guarantees | **473,771** | 767,733 |

* Trade receivables and other current assets disclosure excludes prepayments and accrued income, see Note 15. The figures for the year to 31 March 2011 have been amended to include VAT recoverable of £1,900k and other receivables of £127k.

** Trade payables and other liabilities disclosure excludes employee leave accrual, see Note 19. The figures for the year to 31 March 2011 have been amended to include cash securities of £2,039k, deferred income of £1,499k, other taxation and social securities of £1,514k, and other payables of £1,233k.

Cash and cash securities at 31 March 2012 consists of monies lodged with Government Banking Services and Commercial Banks.

The accounts held within Government Banking Services are not subject to an interest rate charge.

Cash securities are provided by certain traders, see Note 19. 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 £292.3m and euro guarantees totalling

## 22. Financial instruments (continued)

€217.7m (£181.5m) were held at 31 March 2012 (£638.1m and €147.1m (£129.6m) at 31 March 2011). The interest rate applicable to these guarantees is nil.

### 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.

### 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 SPS 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.

### 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:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **31 March 2012** | 31 March 2011 | **31 March 2012** | 31 March 2011 |
| | **£000** | £000 | **£000** | £000 |
| **Euro** | **588,753** | 483,586 | **111,467** | 117,777 |

## 22. Financial instruments (continued)

### 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 2012** | 31 March 2011 | **31 March 2012** | 31 March 2011 |
| | **£000** | £000 | **£000** | £000 |
| (Increase)/decrease in Net operating cost* | **(47,386)** | (38,543) | **47,386** | 38,543 |
| Derivative instruments: | | | | |
| (Increase)/decrease in Net operating cost** | **(2,320)** | 317 | **2,320** | (317) |
| Increase/(decrease) in Taxpayers' Equity*** | **62,378** | 61,485 | **(62,378)** | (61,485) |

* This is attributable to the exposure outstanding on euro receivables and payables in the agency at the Statement of Financial Position date.

** This is the result of the changes in fair value of derivative instruments held for trading.

*** 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 | Foreign currency | Notional value | Fair value |
|---|---|---|---|---|
| | **31 March 2012** | **31 March 2012** | **31 March 2012** | **31 March 2012** |
| | **Euro: Sterling** | **€000** | **£000** | **£000** |
| Current derivative assets | **0.85689** | **775,870** | **664,835** | **17,596** |
| Non-current derivative assets | **0.85275** | **19,296** | **16,455** | **52** |
| Current derivative liabilities | **0.83696** | **(55,672)** | **(46,595)** | **(130)** |
| Non-current derivative liabilities | **0.85275** | **(19,296)** | **(16,455)** | **(52)** |

In September 2011 the agency entered into forward exchange contracts to hedge the monthly euro denominated receipts in relation to the SPS. As at 31 March 2012, the aggregate amount of gains under forward foreign exchange contracts deferred in the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £4.63m.

## 22. Financial instruments (continued)

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 2012, the aggregate amount of gains under such contracts deferred in the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £1.55m.

In December 2011 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.

For the period ended 31 March 2012 a loss of £0.07m (2010–11: £0.18m) has been recognised in the Statement of Comprehensive Net Expenditure arising from hedges, see Note 4.

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).

### 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 Barclays or Hong Kong and Shanghai Banking Corporation which are currently two of the top international banks. 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 2012 |
|---|---|
| | £000 |
| Agency – scheme income | **18,607** |
| Other paying agencies – scheme income | **13,919** |
| Gains – scheme expenditure | **62,196** |
| **Total transferred to Statement of Comprehensive Net Expenditure** | **94,722** |

### 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.

## 22. Financial instruments (continued)

### 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 effected 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.

### 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.

| | 0 – 3 months | 3 months to 1 year | 1 – 5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **31 March 2012** | | | | | |
| Non-interest bearing | **80,391** | **0** | **111,467** | **0** | **191,858** |
| Finance lease liability | **183** | **550** | **1,471** | **261** | **2,465** |
| 31 March 2011 | | | | | |
| Non-interest bearing | 372,656 | 0 | 117,777 | 0 | 490,433 |
| Finance lease liability | 143 | 429 | 1,249 | 96 | 1,917 |

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.

| | 0 – 3 months | 3 months to 1 year | 1 – 5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **31 March 2012** | | | | | |
| Non-interest bearing | **525,907** | **0** | **0** | **0** | **525,907** |
| 31 March 2011 | | | | | |
| Non-interest bearing | 487,885 | 18,356 | 0 | 0 | 506,241 |

## 22. Financial instruments (continued)

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

| | Less than or equal to 3 months | More than 3 months but less than or equal to 6 months | More than 6 months but less than or equal to 1 year | Greater than 1 year | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Derivative Liabilities** | | | | | |
| **31 March 2012** | | | | | |
| Gross settled | | | | | |
| Foreign exchange forward contracts | **53** | **118** | **0** | **364** | **535** |
| 31 March 2011 | | | | | |
| Gross settled | | | | | |
| Foreign exchange forward contracts | 14,485 | 573 | 0 | 0 | 15,058 |
| **Derivative Assets** | | | | | |
| **31 March 2012** | | | | | |
| Gross settled | | | | | |
| Foreign exchange forward contracts | **14,401** | **3,436** | **0** | **364** | **18,201** |
| 31 March 2011 | | | | | |
| Gross settled | | | | | |
| Foreign exchange forward contracts | 0 | 0 | 0 | 0 | 0 |

## 23. Revaluation reserve

The revaluation reserve relates to revaluation of property, plant and equipment (Note 12), and intangible assets (Note 13) analysed as follows:

| | Property, plant and equipment | Intangible assets | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Balance at 31 March 2011 | 245 | 3,529 | 3,774 |
| Revaluation during the year | 131 | (876) | (745) |
| Transfer to General Fund* | (113) | (843) | (956) |
| **Balance at 31 March 2012** | **263** | **1,810** | **2,073** |

* 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.

## 24. Capital commitments

Contracted capital commitments at 31 March 2012 not otherwise included in these accounts:

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Property, plant and equipment | **0** | 157 |
| Intangible assets | **0** | 557 |
| **Total** | **0** | 714 |

## 25. Commitments under leases

### 25.1 Operating leases

Total future minimum lease payments at 31 March 2012 under operating leases are given in the table below for each of the following periods:

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Vehicles | | |
| Not later than one year | **375** | 316 |
| Later than one year and not later than five years | **259** | 248 |
| **Total** | **634** | 564 |

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 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Land | | |
| Not later than one year | **0** | 1 |
| Later than one year and not later than five years | **0** | 5 |
| Later than five years | **2** | 70 |
| **Total** | **2** | 76 |
| Buildings | | |
| Not later than one year | **3,264** | 4,365 |
| Later than one year and not later than five years | **6,719** | 8,935 |
| Later than five years | **2,399** | 3,690 |
| **Total** | **12,382** | 16,990 |

Land and building operating leases specified above have been accounted to the lease break date, as opposed to the lease end date as per the Management Board Estates strategy brought about in 2011. The figures for 2010–11 have been updated to reflect this.

# 25. Commitments under leases (continued)

## 25.2 Finance leases

Total future minimum lease payments under non-cancellable finance leases at 31 March 2012 are given in the table below for each of the following periods:

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Not later than one year | **733** | 572 |
| Later than one year and not later than five years | **1,471** | 1,249 |
| Later than five years | **261** | 96 |
| | **2,465** | 1,917 |
| Less interest element | **(614)** | (597) |
| **Present value of obligations** | **1,851** | 1,320 |

The present value of total future minimum lease payments under non-cancellable finance leases at 31 March 2012 are given in the table below for each of the following periods:

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Not later than one year | **620** | 473 |
| Later than one year and not later than five years | **1,067** | 785 |
| Later than five years | **164** | 62 |
| **Present value of obligations** | **1,851** | 1,320 |

## 26. 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 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Not later than one year | **17,786** | 16,125 |
| Later than one year and not later than five years | **31,882** | 28,847 |
| Later than five years | **6,280** | 11,445 |
| **Total** | **55,948** | 56,417 |

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 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Not later than one year | **3,875** | 3,928 |
| Later than one year and not later than five years | **15,022** | 15,396 |
| Later than five years | **26,288** | 30,792 |
| **Total** | **45,185** | 50,116 |

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.

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Not later than one year | **3,056** | 3,424 |
| Later than one year and not later than five years | **11,529** | 12,230 |
| Later than five years | **2,271** | 5,456 |
| **Total** | **16,856** | 21,110 |

### Private Finance Initiative (PFI)

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 0.39% of the building and recharges other occupiers for their share of the costs. The amount charged to the Statement of Comprehensive Net Expenditure for the use of the accommodation in 2011–12 is £4k (2010–11: £15k) and the agency's total commitment at 31 March 2012 is £nil (31 March 2011: £472k).

## 26. Other financial commitments (continued)

### Defra freehold properties

The estimated value of non-specialised freehold property owned by Defra but occupied by the agency at 31 March 2012 is £5.1m (31 March 2011: £4.9m). There are no rental costs on Defra freehold properties.

## 27. Contingent assets and contingent liabilities disclosed under IAS 37

### Contingent assets

The agency has no contingent assets.

### Contingent liabilities

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.

In addition to the provision described in Note 21.4 the agency is currently in receipt of appeals from scheme claimants against the non payment of claims covering the SPS 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.

## 28. Related party transactions

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

- Food and Environment Research Agency; and
- Animal Health and Veterinary Laboratories Agency.

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

- Natural England; and
- Agriculture and Horticulture Development Board.

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

- Scottish Government Rural Payments & Inspections Directorate;
- Welsh Government;
- Department of Agriculture and Rural Development, Northern Ireland; and
- Forestry Commission (as delegated paying agent).

Payments for Agents Services as disclosed in Note 3 include material transactions with the following:

- Department of Agriculture and Rural Development, Northern Ireland;
- Agriculture and Horticulture Development Board; and
- Food Standards Agency (Meat Hygiene Service merged with Food Standards Agency on 1 April 2010).

### Disclosure of employment

James Paice MP, Minister of State for Agriculture and Food is Chair of the Oversight Board. He is also a partner in the partnership J.E.& A.B Paice which for the year to 31 March 2012 received £2k (2010–11: £2k) in scheme payments.

Jim Godfrey, a member of the Agency's Audit and Risk Committee and Agency Management Board, is a director of RJ & AE Godfrey and Fen Peas Ltd which for the year to 31 March 2012 received £1,045k (2010–11: £651k) and £58k (2010–11: £nil) respectively from the agency in scheme payments. RJ & AE Godfrey is also a member of Fen Peas Ltd and in addition is a member of The Green Pea Company Ltd, which for the year to 31 March 2012 received £571k (2010–11: £396k) from the agency in scheme payments.

These transactions were undertaken in the normal course of business and all transactions were at arms' length.

## 29. Cash flows from operating activities

| | Note | Year to 31 March 2012 | | Year to 31 March 2011 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Net operating cost** | | | **(168,544)** | | (202,292) |
| **Adjustment for** | | | | | |
| Audit fee | 3 | **460** | | 460 | |
| Capital charges – buildings | 3 | **0** | | 13,044 | |
| DIS Income | 11 | **(652)** | | (780) | |
| Notional charges | | | **(192)** | | 12,724 |
| Depreciation | | | **2,601** | | 2,534 |
| Amortisation | 3 | | **17,391** | | 18,753 |
| Impairments | 3 | | **0** | | 716 |
| (Gain)/loss on disposal of assets | 3 | | **(6)** | | 113 |
| Movement in provisions | 3 | | **4,546** | | (2,084) |
| Adjustment for derivative financial instruments | 21 | | **(22,227)** | | 17,223 |
| **Net operating cash flows before movements in working capital** | | | **(166,431)** | | (152,313) |
| Decrease in inventories | 14 | | **25,623** | | 8,988 |
| Increase in trade receivables and other current assets | 15 | | **(18,727)** | | (2,467) |
| (Decrease)/increase in trade payables and other current liabilities | | | **(118,688)** | | 17,103 |
| **Net cash outflow from operating activities** | | | **(278,223)** | | (128,689) |

## 30. Losses and special payments

| | | Year to 31 March 2012 | | Year to 31 March 2011 | |
|---|---|---|---|---|---|
| | | No. of cases | £000 | No. of cases | £000 |
| Cash losses | | 86 | 4,593 | 1,165 | 7,539 |
| Claims waived or abandoned | | 17,379 | 5,090 | 11,920 | 854 |
| Administration losses write off | | 6 | 101 | 5 | 15 |
| Special payments | Scheme | 713 | 8,023 | 1,226 | 617 |
| | Administration | 6 | 72 | 2 | 35 |
| Realised exchange losses | | 1 | 2,627 | 1 | 18,325 |
| **Total** | | **18,191** | **20,506** | 14,319 | 27,385 |

| Losses exceeding £0.25m | £000 | |
|---|---|---|
| G's Growers Limited | 1,348 | The company received payments under the 'Fresh Fruit and Vegetable Aid Scheme' 2004–2008. Due to a misinterpretation of an EU regulation the company was paid the full purchase cost of 'certified seeds' rather than a proportion of cost. The agency advised the company that the payments would be honoured and after legal advice the resulting overpayments for 2004–2008 have been written off. |
| G's Growers Limited | 812 | The company received payments under the 'Fresh Fruit and Vegetable Aid Scheme' from 2000 onwards. In 2006 the agency commenced recovery action for ineligible funding. On appeal and further to legal advice the agency agreed the debt, relating to 2003 and 2004 should be written off. |
| Camel Valley Poultry Ltd | 1,611 | The company received grant aid under the EU Structural Fund in 2002 and 2003. In 2004 the company went into administration and the agency investigated recovery of the grant from sale of assets. This proved impossible as grant payments are not secure, therefore after other creditors were paid the proceeds of sale left nothing for the agency to recover. |
| KA & SBM Feakins | 582 | This debt relates to claims made under the Sheepmeat Clawback Scheme arising from live sheep exports carried out between 1989 and 1992. The scheme was operated by the then Intervention Board and has been subject to multiple judicial proceedings over a prolonged period of time. Due to an agreement to settle the debt being reached the agency is writing off the remaining debt. |
| Realised exchange losses | 2,627 | Losses due to fluctuations in exchange rates. See Notes 1.11, 1.13, and 1.15. |
| **Total** | **6,980** | |

## 30. Losses and special payments (continued)

<table>
<tr><th>Special payments exceeding £0.25m</th><th>£000</th><th></th></tr>
<tr><td>Integrow</td><td>868</td><td rowspan="6">During a Producer Organisation review of the Fruit and Vegetable Aid Scheme all payments for aid accrued during the 2010 scheme year were held pending the outcome.<br>Based on legal advice Ministers took a decision to make payments to all Producer Organisations involved, including those interpreted as non-compliant by the European Commission.<br>HM Treasury granted approval that these payments could be made ex-gratia due to being subject to disallowance if paid from the EU fund.</td></tr>
<tr><td>G's Growers Limited</td><td>1,144</td></tr>
<tr><td>Northway Mushrooms Ltd</td><td>441</td></tr>
<tr><td>Farm Fresh (PO) Ltd</td><td>430</td></tr>
<tr><td>Northern Mushrooms Ltd</td><td>334</td></tr>
<tr><td>The Asplins Producer Organisation Ltd</td><td>254</td></tr>
<tr><td>Nu-Star</td><td>2,600</td><td>This figure has been paid/accrued for in relation to a claim from Nu-Star. The claim relates to damage to a rented premises used during the BSE crisis.</td></tr>
<tr><td>Total</td><td>6,071</td><td></td></tr>
</table>

## 31. Events after the reporting period

These accounts have been authorised for issue by the Accounting Officer on 4 July 2012.

## 32. Sugar production levies

Sugar production levies collected on behalf of the European Commission, including related assets and liabilities are excluded from the financial statements.

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

| | **Year to 31 March 2012** | Year to 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Sugar production levies collected or accrued in the financial year | **11,786** | 10,902 |

All amounts collected or accrued above are subsequently surrendered to the European Commission via HM Treasury. Details of the movement in this liability to HM Treasury, which is excluded from the financial statements, are detailed below:

| | **Year to 31 March 2012** | Year to 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Amount payable to the HM Treasury | | |
| **Balance held on trust at the start of the year** | **0** | 11,560 |
| Amount collected or accrued in the financial year | **11,786** | 10,902 |
| Payments to HM Treasury | **(11,786)** | (22,462) |
| **Balance held on trust at the end of the year** | **0** | 0 |

These balances are excluded from the financial statements.

### Contingent liabilities

The European Commission has acknowledged that sugar levy rates advised by regulation were incorrect leading to overcharged levies during the period 2002 to 2006. The European Commission has issued new regulations which are being challenged by sugar producers within the European Union.

### Contingent asset

Once correct rates are confirmed by regulation the repayment of overcharged sugar levy will be reimbursed by the European Commission. The above contingent liability is matched by an equal contingent asset.

# RPA headquarters and offices

Correspondence address:
Rural Payments Agency
PO Box 300
Sheffield
S95 1AA

**READING (Headquarters)**
North Gate House
21–23 Valpy Street
Reading
RG1 1AF
E-mail: enquiries.reading@rpa.gsi.gov.uk

**EXETER**
Clyst House
Winslade Park
Clyst St Mary
Exeter
EX5 1DY
E-mail: enquiries.exeter@rpa.gsi.gov.uk

**CARLISLE**
Eden Bridge House
Lowther Street
Carlisle
Cumbria
CA3 8DX
E-mail: carlisle.enquiries@rpa.gsi.gov.uk

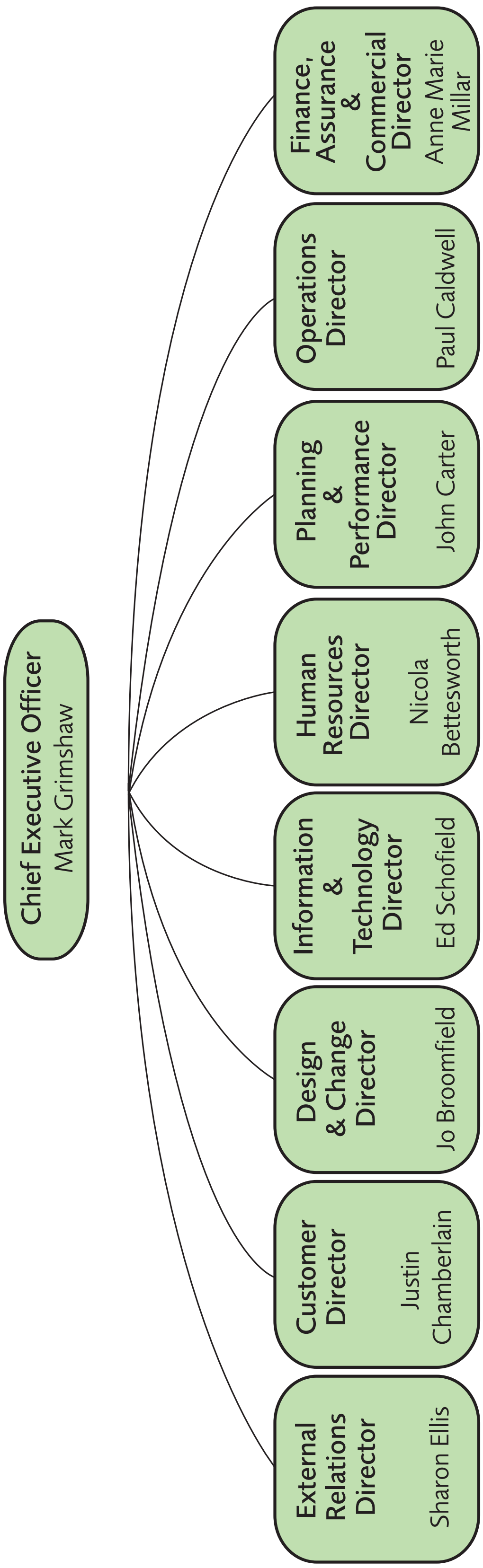
**NEWCASTLE**
Lancaster House
Hampshire Court
Newcastle Business Park
Newcastle upon Tyne
NE4 7YH
E-mail: enquiries.newcastle@rpa.gsi.gov.uk

**NORTHALLERTON**
Alverton Court
Crosby Road
Northallerton
North Yorkshire
DL6 1AD
E-mail: enquiries.northallerton@rpa.gsi.gov.uk

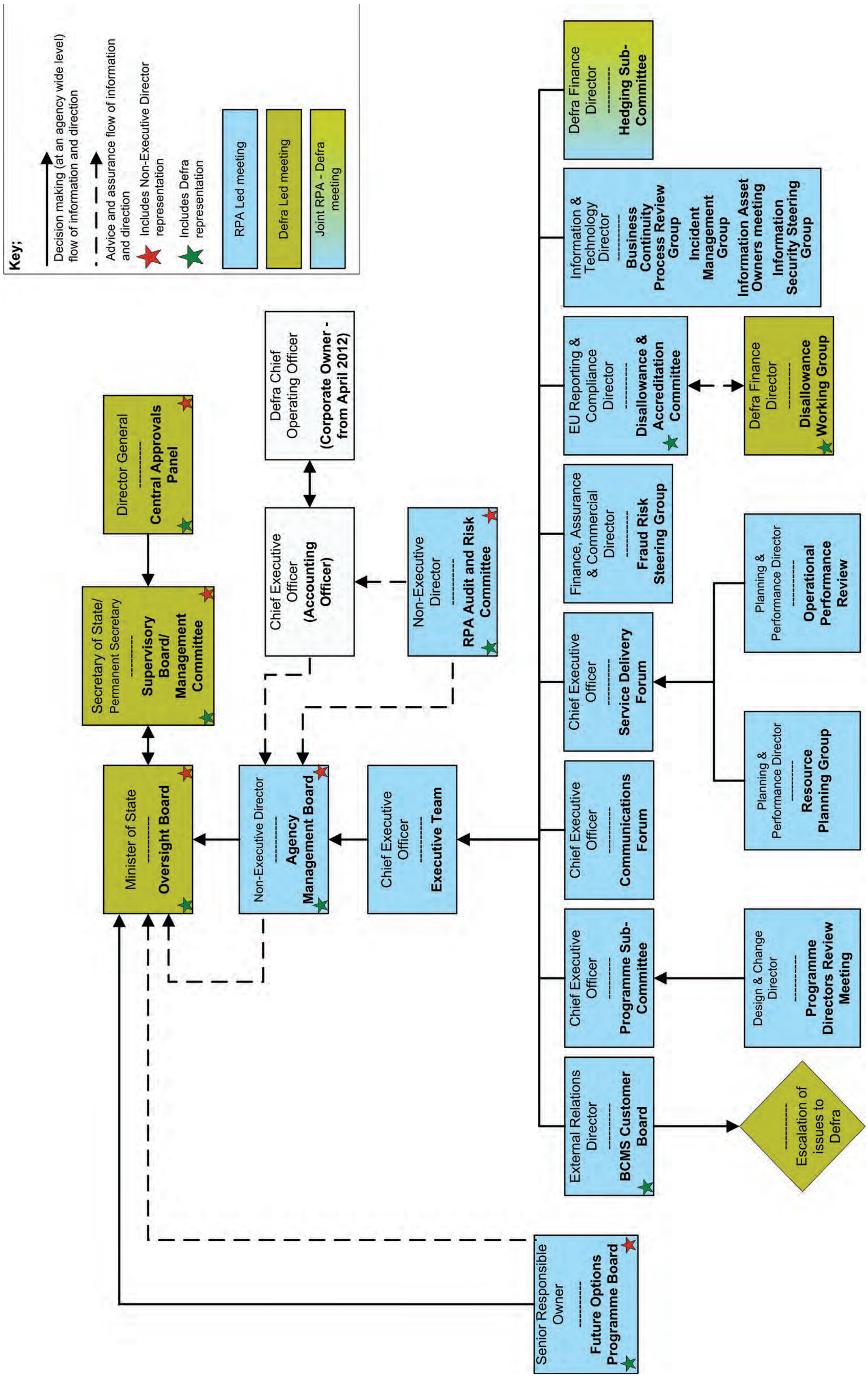
**WORKINGTON**
Curwen Road
Workington
Cumbria
CA14 2DD
E-mail: enquiries-bcms@defra.gsi.gov.uk

| | |
|---|---|
| **Customer Service Centre** | 0845 603 7777 |
| Single Payment Scheme | |
| Customer Registration | |
| Land and Mapping | |
| | |
| Cattle Tracing (BCMS) | 0845 050 1234 (General) |
| | 0845 050 3456 (Welsh speaking) |

# Annex A - Agency Arc structure



# Annex B - Agency governance structure



rural payments agency

information & publishing solutions
Published by TSO (The Stationery Office) and available from:

**Online**
**www.tsoshop.co.uk**

**Mail, Telephone Fax & E-Mail**
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

**The Parliamentary Bookshop**
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/ General enquiries: 020 7219 3890
Fax orders: 020 7219 3866
E-mail: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

**TSO@Blackwell and other Accredited Agents**

Corporate member of Plain English Campaign. 217
Committed to clearer communication.

The Rural Payments Agency is an Executive Agency of the Department for Environment, Food and Rural Affairs

ISBN 978-0-10-297628-1
9 780102 976281
770404