rural payments agency

Rural Payments Agency
Annual Report and Accounts
2010-2011

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Foreword by the Chief Executive

This has been another year of change for the Rural Payments Agency (the Agency). When I joined the Agency as Chief Executive in January 2011, I realised I had to urgently set up a new executive management structure as the lack of permanent and experienced people at the most senior level in the Agency was one of the key failings identified in the 2013 Defra Review of RPA. I have been recruiting a new team over the last four months, and now have all but two of the eight executive director positions permanently filled.

Two of the appointments, External Relations Director and Finance Director have moved from Defra, which will help with continuity and ensure we maintain a joined up approach with Defra on key issues such as Common Agricultural Policy (CAP) reform and stakeholder engagement. The other directors have been recruited from across the Civil Service, from other large agencies or departments, where they have a proven track record of improving customer service and delivery effectiveness in demanding circumstances. Importantly I have appointed a Customer Director to my Executive Team to champion the requirements of our broad range of clients and stakeholders. Our Management Board is now chaired by an experienced non-executive director, Defra has strengthened the external oversight of the Agency and the Minister of Agriculture chairs our Oversight Board.

With a strengthened Executive Team and a full complement of non-executive directors in place, my next step is to develop a five year strategic improvement plan. This will encompass how the Agency will manage the changes required for CAP 2013. We will also be reviewing the delivery of services (including opportunities for using shared services and further outsourcing).

Despite the need for change and improvement, the Agency met or met in part six of its seven Ministerial targets. We missed a Ministerial target to pay 95% by value of valid Single Payment Scheme (SPS) claims by 31 March 2011, as we focused on making accurate payments. We implemented a net claim value checking model for manual payments to ensure we met the European Union regulatory target to pay 95.238% of the 2010 Single Payment Scheme fund value by the end of June 2011. Key performance indicators for the future will include accuracy as well as timeliness measures.

Our SPS Online application process and other electronic channels continue to be a success story for the Agency. More than 31,000 of Single Payment Scheme 2011 applicants used our online services to submit their applications. This was almost double the take up of last year. In addition, our Customer Service Centre was assessed as excellent by the Customer Contact Association.

I am pleased to report that the Agency's running costs in 2010–11, at £173m, were £50m lower than in 2009–10, reflecting the steps taken in year to improve efficiency. The average number of people employed in the Agency has fallen from 3,407 to 2,679. A further 100 people will be leaving the Agency on 6 August 2011 as part of our Voluntary Exit Scheme. I have restricted the scope of the scheme while we focus on delivering the Agency's strategic improvement plan.

Although this has been a very uncertain time for the Agency I have been struck by the resilience and commitment of our people and I would like to thank them for the contribution they have made this year.

Mark Grimshaw
Chief Executive
8 July 2011

Management commentary

The Rural Payments Agency is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra or the Department) and was formed in October 2001. As an accredited paying agency under European Commission regulations, the Agency makes support payments to farmers in England and to traders throughout the United Kingdom. We manage reimbursement submissions to the European Commission on behalf of Natural England and the Forestry Commission.

The Agency is a major delivery body for Defra, providing a range of services in support of Defra's objectives of encouraging a thriving farming and food sector and strong rural communities. We manage a wide range of Common Agricultural Policy schemes including the Single Payment Scheme, internal market schemes covering dairy products, crops, fruits and vegetables, external trade measures (export refunds, import and export licences), and milk quotas. We carry out a wide range of inspections on farms and in abattoirs, factories, ports, airports and markets to ensure Common Agricultural Policy scheme rules are met and that claims for payment are valid. We also deliver Livestock Tracing services for livestock keepers in Great Britain (GB).

In 2010–11 the Agency paid in the region of £1.7 billion to farmers and traders under Common Agricultural Policy related schemes and distributed a further £1.2 billion to other paying agencies in the UK. There are some 40 active schemes, varying greatly in size. For example, the Single Payment Scheme receives applications from approximately 107,000 farmers. The 2010 Single Payment Scheme fund value is estimated at £1.72 billion, while some small scale trader schemes may receive a total of 10 applications valued at less than £10,000 in a year. The Agency manages these schemes directly but we are also the paying agency and therefore responsible for expenditure, for a further 30 additional schemes delivered by others.

Each European Commission scheme we operate is governed by a complex set of European Community-wide regulations. If we do not comply with the regulations the European Commission can impose a financial correction (resulting in the disallowance of funds from the UK reimbursement).

We have formal processes to control, manage and deliver each of the schemes to comply with the regulations. We have registers that record key data for over two million land parcels, farm entitlements (both historic and land based) and customers' details.

The Agency's key resources which assist in the pursuit of its objectives are predominantly its people. The Agency has many people with considerable expertise in the working, the processes and the legal requirements of the Agency's activities. The Agency will continue to focus on building and retaining the right balance of experience and expertise to ensure we continue to improve our relationship with our customers.

Agency objectives and performance

Three strategic priorities drove our actions in 2010–11:

- delivering efficiencies and enhancing value for money;
- effective delivery, ensuring that for Common Agricultural Policy scheme applications, accurate and timely payments were made, and for livestock identification, that transactions were accurately processed in a timely manner; and
- putting Customer Focus at the heart of Agency delivery.

Our four objectives provided the framework through which our strategic priorities were implemented. These were:

- administer schemes and pay subsidy efficiently, accurately and in a timely way;
- improve our customer service through enhanced capability, performance and communication;
- work constructively with key stakeholders to achieve collective outcomes; and
- provide better value for money while minimising financial and other risks.

The Agency's business critical activities for 2010–11 were: 2010 Single Payment Scheme Delivery; Debt and Data; Data Quality; Corporate Services Efficiency and Effectiveness; Financial Controls and Information and Communications Technology Continuity. These projects were developed to address the recommendations of the 2013 Defra Review of RPA, National Audit Office (NAO) and Public Accounts Committee findings, and the wider requirements of the Comprehensive Spending Review.

Objective 1

Administer schemes and pay subsidy efficiently, accurately and in a timely way.

2010–11 Performance:

The Single Payment Scheme's 2009 fund was paid within regulatory deadlines. For the Single Payment Scheme's 2010 fund, we met our first target of paying 85% of our customers by the end of December 2010. This was achieved despite the requirement to clear the land amendments identified following a major update of the maps underpinning the scheme.

We obtained Ministerial approval to not achieve the March 2011 target to pay 95% of claims by value in order to address the legacy of system and data problems that had hampered the making of accurate payments. We met the European Union regulatory target to pay 95.238% of the 2010 Single Payment Scheme fund value, by the end of June. This was achieved ahead of the closing of the payment window.

Work on the Debt and Data project has helped us to understand the root causes underpinning the overpayments and underpayments created by inaccurate data and identify solutions to address specific recommendations from Public Accounts Committee and NAO reports relating to Single Payment Scheme debt and data. The project findings have directed the scale and way in which underlying errors have been addressed through validation of scheme year 2010 claims. It will still take time for those new data to flow into the accounts to seek to address the underlying qualifications. Effort is being targeted over the next year to address the majority of the issues found.

The Agency supports the Rural Development Programme for England 2007–13 mainly through the mapping of land, registration of customers, compliance inspections, making payments and management of delegated authority arrangements. The Agency has begun making the first Uplands Transitional Payments to hill farmers, paying 70% of eligible claimants in the first week. This is the first year of the scheme, which has been aimed at farmers unable to enter the new strand of Environmental Stewardship due to continuing commitments in Environmentally Sensitive Area or Countryside Stewardship Scheme agreements. As at 31 March 2011, 87.9% of claims were authorised for payment, of which 80.1% of claims had been paid.

We have met Ministerial and regulatory targets for processing export refund claims and import and export licences.

With the increasing popularity of the Cattle Tracing Scheme (CTS) Online and the opportunity to apply for cattle passports and report movements by telephone, Ministers have agreed to move to a simplified cattle passport from August 2011.

Objective 2

Improve our customer service through enhanced capability, performance and communication.

2010–11 Performance:

Although customer satisfaction with the Agency's services has been stable during the year, customers continue to experience frustration at payment and process delays, leading to an increase in complaints. We have continued to monitor customer satisfaction and worked to convert this insight into an improvement action plan. Satisfaction scores rose from 7.3 out of 10 in 2009–10 to 7.5 out of 10 in 2010–11. Examples of how we have used this insight include: comprehensive revisions to the Single Payment Scheme Handbook, Guide to Cross Compliance, and the Single Payment Scheme application form, and raising our people's knowledge of agriculture through farm visits, inspector talks and library materials. We recognise there is more to do to provide a better service for all our customers.

Our customer service centre has been recognised as 'excellent' following an assessment for the Customer Contact Association's (CCA)[1] Global standard accreditation. A number of improvements, including: streamlining processes, introducing a robust training programme and skills matrix and improved communication across the Agency, have led to a reduction in waiting times and increased first time resolution of issues.

In 2010, 15% of our Single Payment Scheme customers submitted their application online. Feedback was overwhelmingly positive, with 96% saying they would recommend the service to others and 98% confirming they would use the service again. An outbound calling campaign to promote the use of e-channel and offer practical assistance for Single Payment Scheme took place and e-channel training days were also delivered to a number of large land agent companies. We have generated media coverage nationally and sent out material to encourage and help more farmers get online in the run up to the 2011 scheme. We have successfully migrated the e-channel to the farming section of the Business Link website in line with Government policy on streamlining websites. Due to constraints on marketing we were unable to fully meet our target of receiving 85% of CTS transactions via an electronic channel by the end of 2010–11.

Our Farmer Panel provides access to the views and opinions to help inform delivery improvements, as well as offering a service to the wider Defra network by helping to inform policy decisions. We also use an Inspector Panel to gather information on our customers experiences and how our customer-facing inspectors think we can improve. We have used panels to improve external communication through language and more helpful content.

[1] CCA is the global professional body for contact centres and is recognised by both the private sector and Government.

Objective 3

Work constructively with key stakeholders to achieve collective outcomes.

2010–11 Performance:

The Agency has supported the negotiations and provided Defra with regular assessments of the potential impact of the European Union proposals on Defra policies as well as providing regulators with simplification options for current regulations and the emerging regulatory proposals.

Our key stakeholders include those organisations which represent sectors of our customer base, such as, the National Farmers' Union, the Tenant Farmers' Association and the Country Land and Business Association. We also engaged with agents represented through organisations such as the Central Association of Agricultural Valuers, the British Association of Agricultural Consultants and the British Institute of Agricultural Secretaries. We recognise these organisations can represent multiple clients and are considering how to tailor our services to better meet their needs. We have worked with our stakeholders to achieve common objectives including sharing information and insights to enable them to provide timely and accurate guidance to their own members.

The Agency has actively collaborated with Defra and its other delivery bodies to contribute to the development of a shared services delivery model, business case and implementation plan, with a view to migrating Finance, Human Resources, Procurement and Payroll transactional functions from 2011–12.

In 2010 the Government announced its decision to abolish the Regional Development Agencies (RDAs). At present they deliver part of the Rural Development Programme for England on behalf of Defra. This work transferred to core-Defra from 1 July 2011. A transition project is managing the transfer to Defra. As part of this change the Agency is considering undertaking RDA's inspection activities.

Objective 4

Provide better value for money while minimising financial and other risks.

2010–11 Performance:

Potential disallowance risks across all CAP and other European schemes have been monitored and reported to the Agency's disallowance and Accreditation Committee. When we receive negative audit findings we work collaboratively within the Agency to present auditors with additional evidence to support our arguments which we believe mitigates and manages the findings. A joint Agency and Defra Bilateral Advisory Committee has been formed with responsibility for agreeing the strategy and information the Agency will provide in its formal meetings with the European Commission. The Single Payment Scheme Disallowance Defence project has helped us to present a strong written case making best use of evidence and analysis to argue that European Union funds have not been put at risk and restrict the level of disallowance to 2% of the fund for any particular year.

We have put on hold a number of IT system enhancement, restricted non essential projects that have avoided many millions of cost, and made procurement savings of £6.55m as a result of renegotiating contracts, re-letting tenders to improve value for money, rate reductions, rebates and discounts. A voluntary exit scheme will take place in August 2011. Our current work to streamline internal processes and systems through 'lean working' will continue to bring benefits in 2011–12.

We have reorganised and streamlined our corporate services and significantly reduced the level of contractors and agency staff from an average of 318 FTE to 45 FTE. This has included growing capability and ensuring knowledge transfer to our permanent workforce.

Performance against targets

	Target	Achievement*
1	To administer Common Agricultural Policy and other schemes to meet the following requirements: • To have paid 85% of customers by 31 December 2010; and • 95% by value of valid Single Payment Scheme 2010 scheme claims by 31 March 2011. • To record 98% of notifications of births, deaths and movements of cattle on the Cattle Tracing System within 14 days of their receipt. • To make 98% of Rural Development Programme for England payments for Natural England and regional development agencies in accordance with agreed service level agreements.	Met in part**
2	To demonstrate a continued commitment to customers by achieving a minimum annual average customer satisfaction score of 7.5 out of 10.0, as measured through surveys of external customers.	Met***
3	To increase electronic uptake of RPA services by receiving: • 10,000 electronic applications for Single Payment Scheme 2010. • 85% of CTS transactions via an electronic channel by the end of 2010–11.	Met in part#
4	To demonstrate clear progress towards achieving the Treasury disallowance target of 2% or less of fund value, for all CAP schemes administered by the RPA.	Unable to assess
5	Achieve a 9.8% efficiency saving in revenue budget by the end of the 2010–11 financial year by managing service delivery within indicative budget levels.	Met
6	For the Single Payment Scheme, achieve a cost per claim reduction of 15% for processing costs.	Met
7	To demonstrate improved capacity and capability to meet targets and implement change with particular focus on leadership, (core to RPA) data quality, financial performance and contributions in response to the Defra Review and the Public Accounts Committee.	Met in part##

* Delivery of the Agency's targets is assessed by Defra Internal Audit.

** Of the requirements to support the achievement of Target 1, two were met in full, but the requirement to meet Single Payment Scheme payment targets was met in part. The target to pay 95% by value of valid Single Payment Scheme 2010 claims by 31 March 2011 was not met.

*** The average customer satisfaction score was 7.5 when rounded to one decimal place, the basis on which the Agency measured its performance. Defra Internal Audit have indicated that the figure calculated to three decimal places would be 7.475 and the target would not be met. As the Agency had calculated the target to one decimal place over the year Defra have maintained the headline result of 'met', whilst understanding the issue raised by Defra Internal Audit. For future years we will ensure that there is clarity around the measurement criteria.

\# The target for electronic applications for Single Payment Scheme 2010 was exceeded. However we have been hampered in our ability to meet the target for online CTS transactions due to delays in regulatory change which were required before the system could be launched.

\## While there have been achievements in some areas, the leadership element was not met.

Financial review

Preparation of the Annual Report and Accounts

The Agency's Annual Accounts reports the results for the year 1 April 2010 to 31 March 2011. It is prepared in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, the Accounts Direction issued by HM Treasury and the Financial Reporting Manual (FReM), published by HM Treasury.

Auditor

The Agency's Annual Accounts has 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 (2009–10: £490k). The Comptroller and Auditor General is also the auditor of the Statement of Accounts for the European Agricultural Guarantee Fund and for the Annual Accounts for the European Agricultural Fund for Rural Development which have financial years ending on 15 October. The cash cost incurred for the audits of these funds for the year ending 15 October 2010, which cover all UK paying agencies, was £1,210k (2009–10: £1,198k). The auditors have 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 auditors are aware of that information. So far as he knows there is no relevant audit information of which the Agency's auditors have no knowledge.

Financial results

2010–11 is the second year in which the Agency's financial statements have been prepared on the basis of International Financial Reporting Standards, as interpreted by the Financial Reporting Manual. There have been two accounting developments in the year which have required changes in accounting policy. Firstly, there is a new requirement for income due to the Consolidated Fund, such as levy income, to be excluded from the financial statements. The amounts excluded are explained in Note 34. Secondly, following recent Treasury guidance, notional cost of capital charges are excluded from financial statements. The 2009–10 comparative figures have been restated to reflect these changes. The impact of these restatements is described further in Note 2 to the financial statements.

The Agency's net running costs in 2010–11, at £173m, were £50m lower than in 2009–10, reflecting the steps taken in the year to improve efficiency. Approximately £45m of this relates to reduced spend on IT, project and people costs with the average number of people employed falling from 3,407 to 2,679.

The Agency paid £357m (see Note 5) less in scheme expenditure in England in 2010–11 than in 2009–10. Payments under the Single Payment Scheme fell by £200m (see Note 5). This partly reflects changes in the sterling value of the European Fund for the Single Payment Scheme. The fund is determined in euros and hence the sterling value fluctuates in line with currency movements. Payment speed also reduced as the Agency focused on improvements to the accuracy of payments. Much of this fall in volume has been paid to customers in the period from April to June 2011. There has also been a significant fall of £159m (see Note 5) in trader scheme activity, reflecting changes in the types and values of schemes made available to customers by the European Union.

Foreign exchange losses of £13.6m (see Note 5) increased the overall costs on scheme activity in 2010–11, whereas £36m of foreign exchange gains reduced the total expenditure in 2009–10. Scheme income of £1,717m (see Note 12) in 2010–11 was £371m below that in 2009–10. Of this reduction, £215m related to the Single Payment Scheme and £167m to trader schemes.

The net 2010–11 position for schemes in England was a loss of £33m, compared to a gain in 2009–10 of £40m.

The Agency provided funding to Scotland, Wales, Northern Ireland and the Forestry Commission in the year of £1,155m, compared to £1,220m in 2009–10. The foreign exchange costs which the Agency incurs for managing payments on behalf of these other paying agencies, are included with those for England, as they are incurred as part of the same foreign exchange transactions. Scheme income relating to the other paying agencies fell from £1,218m to £1,155m, resulting in a net gain for the year of £0.8m (2009–10: £2.2m loss).

As explained above, the Agency paid out less under the Single Payment Scheme in 2010–11 than 2009–10. This gap was largely closed by greater payments in the subsequent period from April to June 2011. At 31 March 2011, the Agency held £220m of cash and cash equivalents compared to £40m at 31 March 2010. This was held to fund these payments post year-end. Another consequence of the lower payment amounts was a reduction in income received from the European Commission during the second half of 2010–11. This reduced the liability due to be paid back to the UK Exchequer (Amounts due to the Consolidated Fund) outstanding at year end from £314m to £180m. In addition to these items, non-current assets fell by £15m, inventories reduced by £9m and derivative assets reduced by £21m, while trade payables and other current liabilities (excluding the Consolidated Fund liability above) increased by £15m. These were the principal movements underlying the increase in total assets less liabilities from £41m to £302m at 31 March 2011.

Financial commentary

The Agency's running costs are funded by Defra. Payments under the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development are initially funded by the UK Exchequer. Following payments being made to claimants, reimbursement is sought from the European Commission after which, when received is repaid to the UK Exchequer.

The Agency is 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/sterling exchange rate can change between the date sterling is converted to euros for the reimbursement claim (the rate applicable to Single Payment Scheme expenditure is the euro/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/sterling exchange rate, the Agency adopted hedge accounting and entered into hedging contracts during the year for the Single Payment Scheme and for the Rural Development Programme for England. Details of these arrangements are given in Note 24 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 the Agency must manage is that the European Commission may not reimburse the Agency 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 the Single Payment Scheme in particular, the risk to the Agency that the European Commission will disallow payments is high.

The Agency manages this risk through its Disallowance and Accreditation Committee, which is a subcommittee of the Agency Executive Team. The Committee meets monthly to actively manage and monitor disallowance risk through the Disallowance Risk Control Framework, which sets out the requirements of scheme control plans and their reporting requirements and ensures that these are fully taken into account in business decisions. The Agency has continued to seek to mitigate this risk through its 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 keeps this risk and the response to it under review.

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

Following the Agency's 2008–09 accounts being qualified by the Comptroller and Auditor General, Defra commissioned a wide-ranging external review of the Agency (2013 Defra Review of RPA) and significant effort has been expended delivering the accepted recommendations. The Agency's finance team activities have been overseen by an experienced finance professional, seconded into the role of interim Finance Director, and supported by additional resources, provided by Deloitte LLP.

New policies and processes have been developed and implemented covering amongst other items: foreign exchange; scheme payments; non-current assets; budgetary management and management reporting. While good progress has been made, more remains to be done, and weaknesses relating to the capability and capacity of the Agency's finance function to manage the demands and requirements facing the Agency remain. These are described in the Statement on Internal Control.

Public interest

Policy on payment of suppliers

The Agency seeks to 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 10 working days providing invoices were correctly rendered and were not subject to dispute. In the March 2010 budget, a further stretch target was announced for departments to pay 80% of undisputed invoices within 5 days of receipt from May 2010. For the year ending 31 March 2011, 97.9% of payments for such invoices were made within this target (2009–10: 96%) and at 31 March 2011 trade payables to suppliers represented 5.5 days of expenditure (2009–10: 11 days). For 2010–11, the Agency implemented a 'No Purchase Order, No Payment' policy with suppliers which has helped the Agency to meet our invoice payment processing targets.

Stakeholder and customer engagement

Our stakeholders

We have been working with our farming stakeholder organisations to improve the service we provide. We held monthly meetings with farmer and agent representative groups, such as the National Farmers' Union, Country Land and Business Association, British Institute of Agricultural Consultants, Central Association of Agricultural Valuers, Tenant Farmers' Association and the Institute of Agricultural Secretaries and Administrators. We have held training sessions on key issues for stakeholder organisations, produced articles for their membership journals, spoken at industry conferences and events and worked to build relationships across the industry. We have also held regional stakeholder meetings to widen the communication process, and regular meetings with stakeholder groups which represent our trader customers. We have worked with Defra stakeholders on a wide range of customer issues, to help achieve the Agency's objectives. We are a key operational partner within the Defra Network and have worked with Defra, Natural England, Animal Health[2], the Forestry Commission, local authorities, government offices and Regional Development Agencies.

Our customers

We have a broad range of customers, and our aim is to make their experience of dealing with the Agency as effective and efficient as possible.

Our customer satisfaction survey is conducted quarterly. The Agency has worked to make improvements in order to achieve greater customer satisfaction. This was 7.5 out of 10 in 2010–11. However customer complaints also increased. The Agency continues to work with Defra and the Defra Network to identify areas where customer service can be improved.

Building on the 2008–09 pilot to enable electronic channel Single Payment Scheme applications, we received more than 16,000 applications for the 2010 scheme year, this has been built on in the 2011 scheme year with more than 30,000 claims being received electronically. We intend to introduce more electronic channel services in the future.

Customer complaints

We monitor the number of formal complaints we receive from customers, their agents and Members of Parliament. We use feedback

[2] Animal Health became part of the Animal Health and Veterinary Laboratories Agency (AHVLA) on 1 April 2011.

from complaints to help identify areas for improvement but recognise there is more to do. The majority of the increase in complaints received were in connection with the Single Payment Scheme. Customers have continued to experience frustration at payment and process delays which the Agency is continuing to address.

	2010–11	2009–10
Number of complaints	**1,378**	1,116

Appeals

The 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 Relations Team. 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 2010–2011, the Agency received 306 Stage 1 Appeals (which is a reduction from 422 in 2009–10), and 120 Stage 2 Appeals. The majority of the appeals received were in connection with the Single Payment Scheme.

Freedom of Information

In the year to 31 March 2011 we responded to 605 requests for information, the majority of which were dealt with under the terms of the Environmental Information Regulations.

Social and community issues

The Common Agricultural Policy schemes administered by the Agency, support the farming and agri-food industries and rural communities. The Agency aims to deliver this support through positive engagement and continually improving customer services. The Agency is committed to exploring and developing better ways of providing assistance to farmers, traders and agents. We also have a wide range of environmental and conservation organisations as customers and stakeholders that are themselves active in civil society and local communities. We target our interaction with these organisations to be responsive to their particular structures and needs and to support delivery of their own objectives wherever possible. We recognise that the rural development programme channels significant funds into rural communities to ensure they are competitive and that our landscapes are preserved.

Stage 1 Appeals	Number of Appeals (withdrawn)	Unresolved (Appeal in progress)	Resolved (Appeal completed)	Successful (Appeal upheld)	Partially Successful (Appeal partially upheld)	Unsuccessful (Appeal rejected)
Single Payment Scheme	291 (2)	69	220	53	8	159
Other schemes	15 (0)	6	9	0	1	8

Stage 2 Appeals	Number of Appeals (withdrawn)	Unresolved (Appeal in progress)	Resolved (Appeal completed)	Successful (Appeal upheld)	Partially Successful (Appeal partially upheld)	Unsuccessful (Appeal rejected)
Single Payment Scheme	110 (3)	66	41	22	0	19
Other schemes	10 (0)	8	2	0	0	2

The Agency is a national employer with sites in Carlisle, Exeter, Newcastle, Northallerton, Reading and Workington. Many of our people have strong personal connections with farming communities. Our Inspectorate is based in offices across England, where we share accommodation with other members of the Defra Network. In 2010 we opened drop in centres in towns and cities such as Bristol, Carlisle, Crewe, Exeter, Newcastle, Newmarket, Northallerton, Nottingham, Reading, Worcester and Workington between March and June for farmers and agents to deliver Single Payment Scheme applications. In spring 2011 farmers were able to receive further help from the Agency at drop in centres if they wanted to apply electronically for the Single Payment Scheme.

Risk management

The Agency is exposed to a number of risks which have the potential to damage or threaten the achievement of the Agency's strategic objectives. Throughout the year assessment of strategic, operational, customer, financial, disallowance (financial correction), political, reputational and legal risks has been an integral part of the strategic, corporate and business planning process. The Agency has a recognised risk process and strategy but recognise there is more to do.

Assessment of risk facing the Agency has been undertaken across all Directorates. Directors and Heads of Business Units are responsible for ensuring a suitable structure exists which supports the identification and management of risks which affect the achievement of objectives.

The Agency continues to seek ways of improving how we integrate risk management into standard business practices. High level risks to the Agency have included: Executive Director and Board level succession planning, employee engagement, delivery of our Single Payment Scheme targets, ICT support and continuity; and the qualification of our Annual Report and Accounts.

External audit activity of schemes

We continue to work with those external bodies charged with auditing our activities. We have worked hard to demonstrate to the European Commission and European Court of Auditors that the incremental programme of improvements to the Single Payment Scheme has been delivered to time and quality. This has culminated in constructive bilateral discussions with the European Commission to present our case that they should take these improvements into account in proposing levels of financial correction for scheme years from 2007 onwards. There remain specific issues around data quality and improvements to the accuracy of processing that we are addressing within the annual European audit cycle.

Following on from audit activity in 2009, we have responded to the European Commission's requirement for changes to the operation of agri-environment schemes that will result in closer alignment of the claim and payment cycle to that of the Single Payment Scheme. Together with Defra policy colleagues and Natural England, we have developed a programme of change that will be introduced in 2011.

The operation of the Fruit and Vegetable Producer Organisation scheme has remained under close scrutiny. We have taken our concerns about the level of financial correction to Conciliation and as a result continue to discuss with the European Commission how this may be reduced for past and future years. An additional mitigating action initiated this year is to undertake a further recognition review of all currently registered Producer Organisations. This is joint work with Defra and the industry.

The annual audit of the Agency's European Union accounts undertaken by the National Audit Office in their role as Certifying Body confirmed the material accuracy of the accounts and compliance with accreditation criteria. However, in order to enable the Certifying Body to reach that conclusion the Agency acknowledged the need to address those issues that had resulted in Single Payment Scheme payment errors or questions concerning compliance. In addition, in response to the Certifying Body's audit findings, the Agency has agreed to a number of actions necessary to improve its overall compliance with accreditation criteria.

We have also supported the European Court of Auditors value for money audit looking at the operation of the School Milk scheme in England.

Sustainable development

The Agency follows the Defra Environmental Policy and we continue to meet the requirements of the Environmental Management System International Organisation for Standardisation (ISO) ISO 14001:2004 at all of our main sites. On the 14 May 2010 the Prime Minister announced that the Central Government Office estate would reduce its carbon emissions by 10% in one year. To deliver this commitment, each Agency has been allocated a bespoke target, to be achieved by 13 May 2011. The target was to achieve a further 10% reduction based upon 2009–10 Sustainable Operations on the Government Estate performance. The Agency has so far achieved a reduction of 8% through lowering office temperatures in the winter, removing personal fans and heaters and delaying the use of chillers.

A major project that commenced in 2010–11 is the consolidation of our Reading offices into a single building by January 2012. This is expected to reduce our emissions by 15–20%. Based on previous years this should save over 1,900 tonnes of CO_2 per annum or more than 4,000 MWh and 2,500 m^3 of water. In addition the remaining Reading office will demonstrate best practice in terms of occupancy with the aim of housing our people at a ratio of 1 person per 8 m^2.

We work closely with Interserve our workplace support providers to reduce our environmental impact. Interserve has sourced a new waste management company that now collects all waste. Our performance has exceeded previous Sustainable Operations on the Government Estate (SOGE) and Sustainable Development in Government (SDiG) targets. The initial target was to recycle 40% of waste by 2010 and 60% by 2016–17. We recycled 69.6% of our waste in 2009–10 and expect to exceed 80% in 2010–11.

We are also on course to meet the 'waste arisings' (total waste produced by Defra and its Executive Agencies) target. We have been set a target of a 25% reduction relative to 2004–05 levels, and at the moment we are on course to meet that figure.

Equal opportunities and diversity

The Agency is committed to embedding the principles of equality and diversity into the workplace. We have:

- issued a revised statement of our Diversity principles;
- developed and delivered a Diversity Action Plan to prepare us for the new Public Sector Equality Duty;
- established an Agency wide Diversity Forum to embed diversity into the business planning process;
- delivered on-line diversity training to 99.98% of our workforce;
- increased the diversity make-up of people in the Leadership Potential Group to develop talent within the Agency;

- trained our Harassment Contact Officers to deliver interactive awareness sessions; and
- launched a campaign to increase the quality and quantity of the diversity data we hold on our workforce.

We continue to:

- publish a commitment to equality of opportunity in all of our recruitment and follow the Civil Service Code of Practice on the Employment of Disabled People. The percentage of disabled people employed by the Agency at 31 March 2011 was 14%;
- retain the 'Two Ticks – Positive about Disabled People' symbol after annual review by Job Centre Plus in July 2010. The Two Ticks symbol guarantees interviews to internal and external job applicants with disabilities who meet the minimum requirement for that job;
- strengthen our relationship with Defra to support the Race, Gender and Disability Equality Schemes which are coming to a close and to work on a Departmental response to the new single equality duty; and
- be represented on the Defra Diversity Champions Group and actively involved in the Departmental Equal Opportunities Committee to prepare for the single equality duty.

Information Handling

The Agency has a Senior Information Risk Owner (SIRO) at Agency Management Board level, who advises the Agency on the direction and priority of information security and assurance and works with the Agency Security Unit on the management of security and information risk. The SIRO 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 (especially personal information) they supply to us. 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 and security teams and various external audits which specifically target information assurance and security and the management of security risk.

The Agency must ensure the continued improvement of information security and assurance as well as demonstrate their annual compliance against the Cabinet Office's Security Policy Framework, and Data Handling Review mandatory requirements and Information Assurance Maturity Model where level 1 was achieved. The alignment to ISO 27001:2005 is audited annually by the Certifying Body. The Agency Security Unit also conduct compliance reviews of the Agency, third party suppliers and delegated bodies to ensure assurance.

An ISO 27001:2005 security review of IBM was carried out in 2009–10 as part of the Agency Security Unit programme of work. This identified that several data tapes were unaccounted for. Following an investigation a number of recommendations were made to ensure that all tapes were accounted for in the future. Our control procedures were reviewed by the Information Commissioner's Office at the end of April 2010. Their overall report was favourable and recognised that appropriate controls were in place.

Actions arising from Agency's Information Assurance Implementation Plan have resulted in an adequate 2010 Certifying Body audit report for IT security.

Wider security

In 2010 we undertook a programme of work to improve security within the requirements laid down in the Security Policy Framework, Data Handling Review and ISO 27001:2005. The objective of the programme was to improve Baseline Security and work towards externally approved system accreditation. The improvement programme was very successful and the Agency has a fully operational Information Security Management System, (ISMS) as well as two externally accredited environments. The European Union requires us to comply with ISO 27001:2005 and as we move through 2011–12 we will make further improvements as security, information assurance and the protection of citizen data remain a priority across government.

Summary of personal data related incidents in 2010–11

Incidents deemed not to fall within the criteria for reporting to the Information Commissioner's Office, but recorded centrally within the Agency are set out in the table below:

The category II incident refers to an internal post item containing an inspection dossier accidentally sent externally. This data was not considered sensitive. Two category IV incidents involved sending information to the wrong person by e-mail. This will be addressed in the Agency Security Unit's 2011–12 security culture change programme of work. Three category IV incidents involved sending information to the wrong customer due to minor processing issues during printing. These processing issues now been corrected.

One category V incident involved four SP5 forms being unaccounted for during processing. Improvements have taken place in the management of information during processing. The other category V incident concerned a weakness in the disposal method. The disposal procedure weakness has been strengthened.

Health and Safety

This year the Agency has focused on achieving and maintaining a positive health and safety culture; encouraging our people to be responsible at an individual level and improving leadership and competence around health and safety. We have continued to ensure that effective arrangements are in place to protect our people and customers. The Agency Executive Team leads on improving health and safety and monitors progress regularly.

The health and safety management system was audited using the Health and Safety Executive's Corporate Health and Safety Performance Indicator (CHaSPI). We achieved a score of 7.9 for 2010–11; this was an improvement on 7.4 for 2009–10 and exceeded our target of 7.6. The CHaSPI audit tool will continue to be used to set future targets for continuous improvement.

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

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	1
III	Insecure disposal or inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	5
V	Other	2

Unit. There were no fatalities as defined under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1996 (RIDDOR). The Agency did not receive any health and safety enforcement notices and was not convicted of any breach of health and safety law. A breakdown of reported incidents is set out below:

RIDDOR	
Fatal injuries	0
Major injuries	1
Dangerous occurences	0
Over 3 day injuries	6
Occupational disease	1
Total	**8**
Incident by type	
Animal related	17
Ill health (inc. musculo-skeletal & stress)	47
Minor/other	50
Near misses	31
Road traffic accidents	10
Slip, trip, fall	42
Violence/aggression/verbal abuse	13
Total	**210**

Human Resources policies

The Agency has revised and reissued policies on capability; discipline; grievance; sickness absence and the Working Time Directive.

The recruitment process was revised as a result of Internal Audit recommendations and resulted in a satisfactory outcome in the follow up audit.

The Bullying and Harassment Policy, disability leave guidance and recruitment processes were updated in line with the Equality Act 2010.

There are currently 30 Employment Tribunal cases pending as a result of organisational changes impacting on individuals. These hold wide policy ramifications for the Agency in the event that we are unsuccessful in defending our position and this is reflected in our risk management of people issues.

The Agency continues to work towards more delegation of decision making in relation to the implementation of Human Resources policies and to that end is providing the business with support to enable line managers to be confident to take on this part of their role.

Employee Engagement

The Agency has a strong Whitley Committee structure through which employees' representatives, in the form of recognised Trade Unions, are informed and consulted with on all matters likely to affect Agency employees. Under this Whitley Committee structure Agency management meet with the unions on a regular basis at national and local level including an annual Whitley Committee which is attended by the Chief Executive and Directors. In September 2009, the Whitley agreement was further underpinned by the signing of a formal consultation agreement between the Agency and the unions.

There are three recognised Trade Unions and facility time is provided to allow employee representatives to take part in industrial relations duties.

Sickness absences

At 31 March 2011, the average working days lost to sickness was 10.5 days per employee (12 month rolling period). This compares to 10.2 days per employee at March 2010. We have introduced measures for recording sickness absence as a key performance indicator for monthly review by Agency Directors and targeted, where possible, long term sickness absence and the reasons for this. The civil service benchmark is 8 working days per employee in a rolling 12 month period.

Management structure

Agency Management Board

Members of the Agency's Management Board for the reporting period were:

Trevor Spires, CBE*	Non-executive Chair, from 1 March 2011
Tony Cooper	Chief Executive, until 31 July 2010
Richard Judge	Interim Chief Executive, from 1 August 2010 until 16 January 2011
Mark Grimshaw	Chief Executive, from 17 January 2011
David Halsey	Chief Information Officer and Senior Information Risk Officer, until 30 April 2011
Robin Moulson	Finance Director, until 4 May 2010
Jonathan Dodworth	Interim Finance Director, from 5 May 2010 until 12 October 2010
David Clausen-Thue	Interim Finance Director, from 13 October 2010
Jacqui Marshall	Human Resources Director, until 30 June 2011
Steve Pearce	Interim Chief Operating Officer, until 31 October 2010
Paul Caldwell	Interim Operations Director, from 1 November 2010
Jim Godfrey	Non-executive
Nicola Bastin	Non-executive, until 31 October 2010
Chris Swinson, OBE**	Non-executive, until 30 November 2010
Janet Baker	Non-executive, from 1 March 2011
Peter Conway*	Non-executive, from 1 March 2011

Audit and Risk Committee

Members of the Audit and Risk Committee for the reporting period were:

Chris Swinson, OBE**	Non-executive Chair, until 30 November 2010
Peter Conway*	Non-executive Chair, from 1 March 2011
Jim Godfrey	Non-executive
Will Lifford	Non-executive, until 31 December 2010
David Prince, CBE	Non-executive, until 31 December 2010
Janet Baker	Non-executive, from 1 March 2011

* Trevor Spires and Peter Conway are both members of the Defra Oversight Board.

** Chris Swinson was also a non-executive Director on the Agency Management Board and sat on the Defra led Strategic Advisory Board.

Director interests - All related parties and Directors' interests can be found in Note 30 Related party transactions.

Rural Payments Agency Strategic Advisory Board*

Members of the Strategic Advisory Board for the reporting period were:

Katrina Williams	Director General, Food and Farming Group, Defra (Chair and Corporate Owner)
Tony Cooper	RPA Chief Executive, until 31 July 2010
Anne Marie Millar	Defra Finance Director
Chris Swinson, OBE	Non–executive and Chair of Rural Payments Agency Audit and Risk Committee, until 30 November 2010
Philip Nunnerley	Non–executive, Defra
Nick Lock	Non–executive, Defra
Sarah Hendry	Director, Food and Farming Group, representing Defra customer interests
Vic Platten	Head, Agency Relationship Team

Rural Payments Agency Oversight Board**

Members of the Oversight Board for the reporting period were:

Jim Paice MP	Minister of State for Agriculture and Food (Chair)
Katrina Williams	Director General, Food and Farming Group, Defra (Corporate Owner)
Anne Marie Millar	Defra Finance Director
Richard Judge	Interim RPA Chief Executive, from 1 August 2010 until 16 January 2011
Mark Grimshaw	RPA Chief Executive, from 17 January 2011
Jonathan Dodworth	Interim RPA Finance Director, from 5 May 2010 until 12 October 2010
David Clausen-Thue	Interim RPA Finance Director, from 13 October 2010
Phil Nunnerley	Non-executive, Defra
Nick Lock	Non-executive, Defra
Sarah Hendry	Director, Food and Farming Group, (Corporate Customer)
Trevor Spires, CBE	Non-executive Chair of the Agency Management Board, from 1 March 2011
Peter Conway	Non-executive Chair of the Agency Audit and Risk Committe, from 1 March 2011
Sharon Ellis	Defra Head of the RPA Sponsorship Team

* For the first four months of this reporting period, the RPA Strategic Advisory Board provided advice to the Defra's Director General Food and Farming Group in their capacity as Corporate Owner.

** In August 2010, the Strategic Advisory Board was restructured as the RPA Oversight Board. The board's remit is Agency performance and delivery, including appropriate oversight. It may also give advice on the operational implications and effectiveness of strategic policy proposals.

Remuneration report

Remuneration policy

Although the costs for the Chief Executive 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 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. 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 awards are within the cost ceiling allowed.

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 the pay range. NCVP is performance related and is paid in arrears in the financial year after that in which it was earned. For 2009–10, NCVP was paid from an allocation of 8.6% of Defra's Senior Civil Service salary bill. NCVP earned in 2008–09 and paid in 2009–10 was capped at a maximum of £10,000 for Senior Civil Service Paybands 1 & 1A, £12,500 for Payband 2 and £15,000 for Payband 3. The table of salary and non-cash benefits shown (on page 26) includes NCVP paid to the Agency's Management Board and Chief Executive.

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 (see Management Structure, page 22).

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.

Agency Management Board members were appointed on fixed term contracts: Tony Cooper, David Halsey and Robin Moulson were appointed on contracts with three month notice periods. David Halsey left the Agency on 30 April 2011. Tony Cooper and Robin Moulson left the Agency on 31 July 2010. Steve Pearce was employed on an interim basis with a one month notice period and left the Agency on 31 October 2010. The Agency's Non-Executive Directors were also appointed on fixed term contracts with a notice period of one month: Nicola Bastin's contract ended on 31 October 2010 and Chris Swinson resigned on 30 November 2010. New Non-Executive Directors have been appointed as follows: Jim Godfrey joined on 11 January 2010 and Peter Conway, Janet Baker and Trevor Spires CBE joined on 1 March 2011. Jim Godfrey is on a fixed three year contract, Peter Conway, Janet Baker and Trevor Spires are each on fixed two year contracts.

The employment of the Chief Executive 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 2011, there were no outstanding loans to Executive Directors of the Agency Management Board.

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

The following amounts have been paid during the year in respect of compensation or awards to former senior managers. Tony Cooper received £67,007 and Robin Moulson received £48,340 in respect of compensation in lieu of notice. These figures, together with salaries and compensation for unpaid leave are included in the table below.

Tony Cooper also received early retirement benefits of £243,803, and these together with his compensation in lieu of notice are included in Note 3.3.

Salary and non-cash benefits - audited information

Name and Title	Year to 31 March 2011			Year to 31 March 2010		
	2010–11 Salary and Allowances paid #	Bonus Payments	Benefits in Kind Received	2009–10 Salary and Allowances paid #	Bonus Payments	Benefits in Kind Received
	£000	£000	(£ to the nearest £100)	£000	£000	(£ to the nearest £100)
Mark Grimshaw – Chief Executive (from 17 January 2011)	25–30 (155–160)	–	–	–	–	–
Richard Judge – Interim Chief Executive (from 1 August 2010 until 16 January 2011)	70–75 (160–165)	–	–	–	–	–
Tony Cooper* – Chief Executive (until 31 July 2010)	120–125 (140–145)	10–15	1,500	130–135	10–15	12,000
Steve Pearce** – Interim Chief Operating Officer (until 31 October 2010)	195–200 (265–270)	–	–	250–255	–	–
David Clausen-Thue*** – Interim Finance Director (from 13 October 2010)	230–235 (425–430)	–	–	–	–	–
Jonathan Dodworth*** – Interim Finance Director (from 5 May 2010 until 12 October 2010)	150–155 (425–430)	–	–	–	–	–
Robin Moulson**** – Finance Director (until 4 May 2010)	65–70 (95–100)	–	–	95–100	5–10	–
David Halsey***** – Chief Information Officer and Senior Information Risk Officer	120–125	–	–	115–120	10–15	–
Jacqui Marshall****** – Human Resources Director	75–80	5–10	2,700	75–80	5–10	–
Paul Caldwell – Interim Operations Director (from 1 November 2010)	20–25 (50–55)	–	–	–	–	–
Steve Betteridge – non-executive Director (until 31 March 2010)	–	–	–	10–15	–	–
Nicola Bastin – non-executive Director (until 21 October 2010)	5–10 (10–15)	–	–	10–15	–	–
Chris Swinson – non-executive Director (until 30 November 2010)	10–15 (15–20)	–	–	15–20	–	–
Trevor Spires – non-executive Director (from 1 March 2011)	0–5 (20–25)	–	–	–	–	–
Janet Baker – non-executive Director (from 1 March 2011)	0–5 (5–10)	–	–	–	–	–
Peter Conway – non-executive Director (from 1 March 2011)	0–5 (20–25)	–	–	–	–	–
Jim Godfrey – non-executive Director (from 11 January 2010)	5–10	–	–	0–5 (5–10)	–	–

#	Salary includes gross pay, non-pensionable, non-consolidated variable pay (NCVP), overtime, reserved rights, recruitment and retention allowances, compensation in lieu of notice and any other allowances subject to UK taxation. Figures in brackets show full year to 31 March 2011 equivalents for directors who started or left during the year.
*	Tony Cooper's salary includes compensation for untaken annual leave worth £12,886 and payments in lieu of notice worth £67,007.
**	Steve Pearce was employed on an interim basis. In the year ending 31 March 2011 payments totalling £199,445, including VAT of £29,705 were made to the third parties in respect of his services.
***	The amounts shown for David Clausen-Thue and Jonathan Dodworth, represent the total cost to the Agency of £236,183 and £160,516 respectively, including VAT, in respect of their services. These payments were made to a third party.
****	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.
*****	David Halsey left the Agency on the 30 April 2011.
******	Jacqui Marshall is on loan until 30 June 2011 from the Ministry of Defence. No payments are due to the Ministry of Defence under the loan agreement.

Pension benefits audited information

The table on page 28 shows pension benefits for all directors who served during the accounting period.

The Cash Equivalent Transfer Value (CETV) shown is the actuarially assessed capitalised value of pension benefits accrued by scheme members. This is calculated by Defra in accordance with the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The pension information for each member of the Agency Management Board shows the benefits each member has accrued as a consequence of their total membership in the Principal Civil Service Pension Schemes (PCSPS). This includes the value of benefits from other PCSPS employments, benefits transferred into the PCSPS from other pension schemes and additional pension benefit purchased by members at their own expense, as well as the benefit accrued from service in the Agency. All funding to finance the deferred remuneration the accrued pension benefits represent is paid to the Consolidated Fund.

Pension benefits audited information

Name and Title	Real increase during the reporting year in pension and related lump sum at age 60	Total value of accrued pension at age 60 at 31 March 2011 and related lump sum	Cash Equivalent Transfer Value at 31 March 2010#	Cash Equivalent Transfer Value at 31 March 2011	Real increase in Cash Equivalent Transfer Value at 31 March 2011
	Bands of £2,500	Bands of £5,000	£000	£000	£000
Mark Grimshaw – Chief Executive (from 17 January 2011)	0–2.5 plus 5–7.5 lump sum	15–20 plus 45–50 lump sum	223	254	31
Richard Judge* – Interim Chief Executive (from 1 August 2010 until 16 January 2011)	–	–	–	–	–
Tony Cooper – Chief Executive (until 31 July 2010)	0 Nil lump sum	60–65 plus 185–190 lump sum	1,273	1,295	(3)
Steve Pearce – Interim Chief Operating Officer (until 31 October 2010)	–	–	–	–	–
David Clausen-Thue – Interim Finance Director (from 13 October 2010)	–	–	–	–	–
Jonathan Dodworth – Interim Finance Director (from 5 May 2010 until 12 October 2010)	–	–	–	–	–
Robin Moulson – Finance Director (until 4 May 2010)	0–2.5 plus Nil lump sum	0–5 plus Nil lump sum	61	74	11
David Halsey – Chief Information Officer and Senior Information Risk Officer	0–2.5 plus Nil lump sum	5–10 plus Nil lump sum	131	184	32
Jacqui Marshall – Human Resources Director	0–2.5 plus Nil lump sum	25–30 plus 50–55 lump sum	370	428	2
Paul Caldwell – Interim Operations Director (from 1 November 2010)	0–2.5 plus 0–2.5 lump sum	15–20 plus 50–55 lump sum	236	247	0
Steve Betteridge – non-executive Director (until 31 March 2010)	–	–	–	–	–
Nicola Bastin – non-executive Director (until 21 October 2010)	–	–	–	–	–
Chris Swinson – non-executive Director (until 30 November 2010)	–	–	–	–	–
Trevor Spires – non-executive Director (from 1 March 2011)	–	–	–	–	–
Janet Baker – non-executive Director (from 1 March 2011)	–	–	–	–	–
Peter Conway – non-executive Director (from 1 March 2011)	–	–	–	–	–
Jim Godfrey – non-executive Director (from 11 January 2010)	–	–	–	–	–

* Richard Judge's pension benefits are recorded in the 2010–11 Annual Accounts of Centre for Environment Fisheries and Aquaculture Science .

\# These figures may be different from the closing figures in last year's accounts. This is due to the CETV factors being updated to comply with the occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (Classic, Premium or Classic Plus); or a whole career scheme (Nuvos).These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with changes in the Pension increase legislation. Members who joined after October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for Premium, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 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 or her 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 Pension 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.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/my-civil-service/pensions/index.aspx.

Mark Grimshaw
Chief Executive
8 July 2011

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 appointed the Chief Executive of the Rural Payments Agency 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, including responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding our assets, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in *Managing Public Money*.

Statement on Internal Control

Scope of responsibilities

As Accounting Officer, I am responsible for maintaining a system of internal control that supports the achievement of the Agency's policies, aims and objectives, set out by Defra's Ministers, while safeguarding the public funds and the Agency's assets, for which I am personally responsible. This is in accordance with the responsibilities assigned to me in the HM Treasury publication, *Managing Public Money*.

I am responsible for the day to day management of the Agency, including the production of the Agency's accounts and accounting returns to the Secretary of State for Environment, Food and Rural Affairs for the Agency's performance and operation.

I ensure that we engage with our operational partners across the Defra Network including Animal Health (our livestock tracing provides public health safeguards) and Natural England (on the Rural Development Programme for England) and organisations such as Regional Development Agencies to ensure effective scheme management and collaboration.

I work with industry groups which represent our farmers and traders, and examine the results of our customer surveys to focus business improvements. I have been in the capacity of Chief Executive since 17 January 2011.

I am in regular contact with the Department's Food and Farming Ministers and Permanent Secretary and engage with the Secretary of State on risks to the Agency.

The Agency is overseen by the Department-led Oversight Board. The Board focuses on strategic issues with Departmental policy matters coordinated by the Defra Supervisory Board.

The Agency Management Board provides our strategic direction. It maintains an overview of operational performance and delivery against business plans. Non-Executive members add skills and experience to the Board which leads to more effective oversight. The Board was chaired by the Chief Executive until 28 February 2011. It has been chaired by a non- executive director since 1 March 2011. The Agency Executive Group, and subsequently the Executive Team make tactical decisions on business delivery.

The Agency is the single paying agency for the European Agricultural Guarantee Fund and for the European Agricultural Fund for Rural Development. We have formal arrangements with our delegated agents; Natural England, Regional Development Agencies and Forestry Commission to help ensure that paying agency control requirements under European Commission legislation are met.

In my capacity as Paying Agency Director, I furnish a Statement of Assurance to the European Commission in respect of the European Agricultural Guarantee Fund and for the European Agricultural Fund for Rural Development. This responsibility covers Natural England, Regional Development Agencies and the Forestry Commission. The Statement of Assurance identifies the high level documentation that provides me with the assurance required to give confidence in the levels of internal control within the Agency for both European Funds and Exchequer accounts.

Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

The Agency's internal control framework is reviewed annually. A summary of high level controls operating throughout the Agency was refreshed in 2010. A number of gaps in the summary documentation relating to operational controls have been identified and are being addressed. The internal control framework informs the effectiveness review process and production of my Statement on Internal Control.

The Agency Management Board has contributed to the maintenance of the system of internal control. Executive Directors and their direct line reports complete interim and annual effectiveness questionnaires aligned to the internal control framework. A number of changes to the governance of the Agency have been made following on from the 2013 Defra Review of RPA. The Strategic Advisory Board has been replaced by an Oversight Board[3] that is chaired by the Minister of State for Agriculture. In addition the Agency Management Board is chaired by a non-executive director.

Capacity to handle risk

During the course of the year, the Agency Management Board considered a number of high level risks and issues to the delivery of the organisation's business objectives. This has included significant items such as Executive Director and Board level continuity and succession planning, employee engagement, delivery of our Single Payment Scheme targets, Information and Communication Technology (ICT) support and continuity and the qualification of our Annual Report and Accounts.

Executive Directors have been assigned responsibility for leading the mitigation of key Agency risks at both the Agency Management Board and Agency Executive Group (replaced by the Executive Team). The owner of each risk considered at these meetings has responsibility for defining a forward looking mitigation plan and target risk rating.

In addition, the Board held three risk challenge sessions which looked at the key risks in more depth to consider whether the risks were being managed sufficiently and whether the pace of mitigation was acceptable. However, risk management is not fully embedded within the Agency and a plan for improvement is under development. A key aspect of this is to reconsider the understanding and implementation of risk appetite at Board level and across the Agency.

The Audit and Risk Committee has overseen the strategic processes for risk, control and governance and has also provided feedback to indicate that further work is required to fully embed risk management within the Agency. Key risks are reported to Defra via the Oversight Board. Work is on-going in this area.

[3] The RPA Strategic Advisory Board was replaced by the Oversight Board in August 2010.

The Agency has business continuity plans and these are being reviewed and updated to ensure they are current. The Agency has reviewed and updated its Fraud Policy, Response Plan and procedures for reporting potential internal and external fraud. A Fraud Risk Management Steering Group has been established to provide improved strategic oversight. It is recognised that further work remains.

The risk and control framework

The Agency procedures for managing risks and issues are set out in accordance with the Agency risk and issue management strategy and associated process guide. These are underpinned by the Office of Government Commerce Management of Risk Guidance and the Treasury Orange Book.

The Agency has a widely available range of guidance and awareness products related to risk. The process and procedures for managing risk and issues within the Agency are comprehensive, but further understanding and embedding of risk management in all areas of the Agency is required. These improvements are being considered as part of a wider risk management improvement plan.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have sought input from Richard Judge when preparing this Statement on Internal Control.

I have been advised on the implications of the result of my review by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

An independent review of the Agency was commissioned in late 2009 to assess preparedness for the 2013 Common Agricultural Policy Review, and to understand the issues behind the NAO's qualification of the accounts. In July 2010 the review reported on Finance, Operations, and IT, together with a challenging commentary on the Agency's current performance and criticism of Defra's governance of the Agency. The review's emerging recommendations were acted on via a Defra led programme with Agency involvement. The Agency took over accountability for delivering against the recommendations in September 2010. An analysis of the various drivers for change and action highlighted the need to prioritise activities so that business critical projects could be driven through with pace. As well as addressing recommendations of the 2013 Review the drivers for change include: the need for farmers to receive timely, accurate payments for the Single Payment Scheme 2010; the imperative of addressing NAO and Public Accounts Commitee findings; and the wider requirements of efficiencies to support Spending Review objectives.

The difficulties, in the main have arisen from the legacy of the original implementation of the Single Payment Scheme. The issues are caused by a combination of poorly generated data in 2005 which was drawn from historic information, processor errors, gaps in the IT solution, over-engineered procedures and complicated policy. Six business critical activities were identified to expedite the resolution of these issues.

These activities are:

- 2010 Single Payment Scheme delivery;
- Debt and data;
- ICT continuity;

- Financial controls;
- Disallowance defence; and
- Corporate services efficiency and effectiveness.

Progress against these business critical activities has been detailed elsewhere in the Annual Report.

During 2010–11 the Agency faced a number of further capability issues. In response it focused on delivering these six short-term but critical activities, until a permanent Chief Executive was appointed. Since taking up my post on 17 January 2011, I have set about building a cohesive strategy. The first step has been an extension and strengthening of the senior management team. The new Executive Team will develop a cohesive strategy to deliver the improvements in the effectiveness and efficiency of the business that will both provide a good and accurate service to farmers and deliver improved value for money. I am determined that the plan will be developed in partnership with our stakeholders, and be based on realistic and achievable outputs.

The Agency will need to undergo considerable change over the next three to five years in response to both the requirements of the new CAP schemes, and the transformation needed to deliver the improvements in efficiency and reductions in cost required as part of the comprehensive spending review. The European Union produced a White Paper for the future of the CAP post-2013 in November 2010 and draft legislation is expected before the end of 2011. I have established a small project team to analyse the impact of the proposals, identify opportunities for simplification, support Defra in its negotiations and ensure that the programme determining the future options of IT and business processes takes the emerging requirements into account. The size and approach of the team will be modified as the legislative proposals emerge.

Change has not been managed well in the past. This continues to be reflected in both our employee engagement survey and senior management effectiveness questionnaires. I am putting in place robust governance structures, including a Design and Change Director to deliver well designed and integrated change that is fit for purpose.

My Internal Audit team has provided me with their assessment on the adequacy and effectiveness of the Agency's risk management, control and governance processes. They have given an overall assessment of 'needs improvement'. They have highlighted the following key areas for improvement:

- Control Culture;
- Monitoring;
- Strategy and continuity; and
- Data quality accuracy.

Significant Internal Control Problems

Governance

During this reporting period the Agency has seen the departure of five non-executive directors, and delays in recruiting replacements has meant that the appropriate external oversight and challenge of executive decisions was compromised. During 2010–11 the Agency's Audit and Risk Committee was not operational for a three month period after the resignation of the Chair. A new Committee Chair has now been appointed and he took up post in March 2011. This was in part compensated for by the Oversight Board's very close scrutiny and involvement in the Agency's activities. Three non-executive directors, including an independent Chair of the Agency Management Board were appointed on 1 March 2011 to ensure appropriate governance and challenge to business areas.

The lack of a permanent Chief Executive inevitably led to a weakness in leadership, and this was exacerbated elsewhere. A number of executive director posts have been either vacant or filled temporarily during the year and the reorganisation of Operations following the departure of the Chief Operating Officer was confused. This has been addressed in the new Organisation Structure. I have broadened the senior management team to strengthen representation of all areas of the business in executive decisions.There is now an independent Chair of the Agency Management Board to ensure appropriate governance.

Capability

The 2013 Defra Review of RPA discussed the need to improve capability and strengthen the leadership of the Agency. The Agency continues to have areas where specific professional and technical skills are in short supply. This has been exacerbated by the departure of a number of key people during the reporting period including the Chief Executive, an Interim Chief Executive, the Finance Director, an Interim Finance Director, the Interim Chief Operating Officer, the Chief Information Officer, Human Resources Director, the Interim Head of Internal Audit and the Deputy Head of Internal Audit. Interim arrangements were put in place to mitigate continuity issues linked to the turnover in senior management while the new Executive Team were recruited.

Stabilising the Board is the first priority for the Agency and I have recruited permanent Directors to the enhanced Board structure. This includes the recent appointment of a permanent Finance Director. Succession management is in place for business critical senior posts but this will be reviewed with the incoming Directors. Business areas will mitigate the risks for posts below these by building succession management into their workforce plans. Business areas are continuing to build professional and technical capability in-house which will provide further assurance that key skills are being retained and developed within the Agency.

I have restricted the recent Voluntary Exit Scheme to people who do not have Single Payment Scheme processing skills to ensure that this expertise is retained. None the less, there is a risk that important skills and experience will be lost during this period of change, and my Executive Team will take mitigating action to ensure that this risk is minimised.

The Audit and Risk Committee and the NAO have both noted concerns over the Agency's internal audit funding and allocation of resources and work. This lack of internal audit capacity, together with the departure of both the interim Head of Internal Audit and their deputy creates a risk in terms of the strength and operation of the Agency's internal control environment, and there have been some indications that the messages from internal audit reviews have not been effectively communicated. A new Head of Internal Audit was appointed on 1 December 2010. Although he has reviewed how the team operates to identify more effective ways of working, I recognise that the considerable effort the internal audit team has put into assuring the net claim value checking tool could impact on the team's ability to meet my assurance requirements. It is a situation which the Head of Internal Audit and I are monitoring closely and I took the decision that having an assured tool to enable us to deliver more accurate payments within the payment window was a priority.

The Agency's reliance on contractors and agency staff is being addressed. The number of contractors and agency staff working at the Agency in normal business as usual roles has fallen during the year from an average FTE of 318 during 2009–10 to an average of 45 during 2010–11.

Financial controls

In the light of comments from the NAO last summer and findings of the 2013 Defra Review, a Financial Controls Programme was commissioned by the Agency and Defra. The projects and activities within the Programme have been designed to improve the capacity and capability of the Finance Directorate. While this Programme is actively implementing stronger financial controls, the ability to embed the improved financial control environment within the Agency is reliant on improving the capability and capacity of the permanent civil servants. A permanent Finance Director, a Deputy Finance Director and an European Union Reporting and Compliance Director, have been appointed since the year-end. A plan is in place to recruit to other key roles.

Key areas of focus in the year have included:

- In 2009–10, the NAO qualified the accounts in respect of the completeness, existence and valuation of the Single Payment Scheme Trade Receivables and Payables. In order to attempt to address this, the Agency initiated the Debt and Data project, to identify the underlying data quality issues that were causing the qualification. This work is ongoing but has identified the majority of the root causes of data problems that have led to inaccurate payments. It has quantified the work that is needed to address these issues and that work is on-going throughout the 2010 scheme year. To date, a number of cases have been reworked to try to resolve the underlying debt and data issues. The mechanisms to correct the data are part of the Agency's business as usual claim processing and resources have been targeted to address the most significant errors but it will be the 2011 scheme year where we believe we will see most of the corrective action completed to show progress against the Agency's accounts.
- An error was identified during the year leading to a significant overpayment to a customer. Our assessment is that it was caused by a non-systematic human processing error resulting in the inadvertent release of a payment hold on a case that was subject to further review on the entitlement values. Notwithstanding the assessment, controls around payment holds are being reviewed to prevent re-occurrence.
- A significant number of the control weaknesses identified by the 2013 Defra Review of RPA have been acted on along with the majority of the NAO observations. Regular reporting continues on the status of recommendations relevant to Finance.
- The Agency has significant exposure to exchange rate risk as it pays out European Union scheme funds mostly in sterling and receives the cash reimbursement in euros. The Agency has entered into forward contracts to hedge the exchange rate exposure and has worked to ensure the most effective approach has been adopted to mitigate the risk. A formal governance structure for monitoring the Single Payment Scheme and Rural Development Programme for England hedges has been implemented. Key decisions are taken by the Hedging Steering Committee which consists of senior finance managers from the Agency and Defra, supported by external specialist advice where required.
- A Fraud Risk Management Steering Group and Working Group has been implemented which has highlighted risk areas for prioritisation for review. Opportunities to report suspected fraud have been put in place and publicised with the option to do this on an anonymous basis. A Central Fraud risk register has been implemented with a programme of risk reviews. As an ongoing enhancement of the register, it is being incorporated

into the overall risk identification of the Agency and the risks are being reviewed.

- During the year the Agency started using the Government Banking Service. This transition, together with the departure of key people, resulted in a weakening of the controls over bank reconciliations in the first half of the year, with reconciliations not being completed in a timely manner. This has now been resolved with reconciliations being prepared on a timely basis to an appropriate standard.
- The Agency has been embedding its new finance budget monitoring system (Hyperion). This provides more effective support to budget holders and the finance budgeting and forecast team. The system should enhance reporting capability and enable the finance team to focus on key budgetary pressures. However, more work needs to be done to take full advantage of the opportunities the Hyperion system presents.
- The framework for delegated authorities has been reviewed during the year and an action plan has been agreed with the Executive Team to implement a tighter level of control over expenditure.

Financial correction (disallowance)

The Disallowance and Accreditation Committee advises the Agency's Management Board on matters relating to disallowance and compliance with the requirements of a European Union paying agency. The European Commission has confirmed the financial correction for weaknesses in the operation of the administration and control system for the Single Payment Scheme for scheme years 2005 and 2006. A flat rate correction of 5% and 2% of scheme expenditure was applied for each year respectively. In addition a flat rate financial correction of 10% of expenditure has been applied to National Reserve and New Entrant populations for 2005–2007. The Agency and Defra have discussed further the improvements made to the control environment with the European Commission with a view to minimising the expected proposed financial corrections for scheme years 2007 to 2009 and beyond.

The Agency has obtained some reductions to the 2005–2008 financial correction against the Fruit and Vegetable Producer Organisation scheme through bilateral discussion with the European Commission and through conciliation. The operation of this scheme in the UK continues to present compliance challenges and further exposure to disallowance. The Agency is supporting Defra Policy colleagues and representatives of the industry to agree a range of actions to mitigate the future risk of financial correction.

The European Commission has proposed a financial correction on expenditure made under Agri-environment schemes that the Agency delivers in conjunction with Natural England. Defra and the Agency have presented evidence that the scheme controls are robust and that there is no risk to the European Union Fund and are pursuing this matter through the conciliation process. The European Commission requires closer alignment with the payment cycle for Pillar 1 expenditure and has been presented with a change proposal that will be introduced in 2011 aimed at significantly reducing the level of exposure to future financial correction.

Data quality

The Agency gathers and maintains a significant amount of base data. This is required for the processing of the Single Payment Scheme and a number of other schemes within the Agency and Defra. Key databases include the Entitlements Register, the Customer Register and the Rural Land Register. The Agency's accounts were qualified in 2008–09 and 2009–10 by the NAO. Errors due to Single Payment Scheme processing inaccuracies and the integrity of the associated base data, made it impossible for the NAO to confirm the Agency's Single Payment Scheme trade receivables and payables position. The business critical debt and data project was instigated to draw out the underlying issues with the Single Payment Scheme data. The Agency was fully supported by Defra when it made the decision to maintain its emphasis on making accurate payments. As a consequence we failed to meet our Ministerial payment target to pay 95% of the Single Payment Scheme fund value by March. To ensure payments are made to farmers within the regulatory target, we have introduced a controlled process of manual payments, supported by a system to calculate all scheme year entitlement positions. My internal auditors have assured the approach through to payment stages to reduce the risks to the accuracy of payments from the fund. Operational plans to address legacy issues by correcting the data leading to recorded debt will also reduce the risk of entitlement data being incorrect.

In 2010 we updated the Agency's mapping data to provide more accurate land information on which claims are based. To keep this information updated in future and minimise the risk of disallowance I have commissioned a project to determine how best to maintain an up to date register.

Significant work has been undertaken to assure the data quality on the Cattle Tracing system and a Food and Veterinary Office missions audited the system in April 2011. The FVO team provided some initial recommendations in June.

The Customer Register has been improved in 2010–11 with the large-scale collection of customer and contact details, including e-mail addresses via SPS Online and an exercise to link land County Parish Holdings together that were notified to us through the Single Payment Scheme application form. Work has been carried out to identify dual claimants for Pillar 1 and Pillar 2 schemes and further work is expected in 2011. Improving data quality is a priority for the Agency.

Audits have highlighted a risk in relation to the accuracy of final Single Payment Scheme payments and the ability to substantiate the calculation of the payment. Steps have been taken to provide more rigorous governance and a revised quality framework with independent quality checking.

Out of support systems and expiry of key ICT contracts

The Agency's out of support systems are a key risk to accreditation and sustainability of critical business systems. An extensive programme of strategic and tactical projects aims to mitigate the risks prior to 2013. Recent Cabinet Office approval of the Agency Desktop and RLR Strategic System Upgrade projects reduces the risk of out of support solutions.

Three of the Agency's four business critical contracts expire by the end of 2011. The continuity choices available to the Agency are limited, and impacted by the future procurement options for the Agency's business processes or new IT to deliver the Common Agricultural Policy schemes after the 2013 reforms. The Agency's continuity approach comprises a proposed rationalisation of existing suppliers and contract extensions, whilst leveraging existing Defra contracts. This approach has been endorsed by the Office of Government Commerce and accepted by the Cabinet Office, subject to certain conditions around the achievement of value for money in the existing contracts and agreed progress in determining the most appropriate future sourcing options.

Mark Grimshaw
Chief Executive
8 July 2011

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 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of 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 and auditor

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

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

Opinion on Regularity

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

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 £11.5 million (being receivables of £24.5 million less an allowance for doubtful debt of £13 million) and the Single Payment Scheme trade payables of £54.5 million recorded in the financial statements

Qualified 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 2011, and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on 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', 'Financial Review', 'Public Interest', and'Management Structure' 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 Payment Scheme trade receivables and Single Payment Scheme trade payables balances described above:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit; and
- I was unable to determine whether proper accounting records have 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
- 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 Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

My report on pages 41 to 45 provides further detail of my qualified opinion on the financial statements.

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

15 July 2011

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

Introduction

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

The European Commission sets detailed regulations which must be complied with in administering the scheme. Where the European Commission takes the view that the regulations have not been applied correctly in processing European Union (EU) scheme transactions there is a risk of financial penalties (referred to as disallowance). In anticipation of these penalties the Department for Environment, Food and Rural Affairs retains a provision in its financial statements for disallowance arising from the Single Payment Scheme, a number of smaller on-going schemes and for predecessor schemes.

At 31 March 2011 the Department held a provision for penalties of £84 million, but this provision is not accounted for in the Agency financial statements as these are considered to be a liability of the parent Department. During 2010–2011 Defra accepted disallowance penalties of £175 million. This included £145 million in respect of the Single Payment Scheme 2007, 2008 and 2009 where flat rate disallowance remains at 2 per cent. Total disallowance penalties paid and payable by the Department for Environment, Food and Rural Affairs are now in excess of £0.5 billion.

In my opinion the requirement to pay material disallowance penalties to the European Commission is not in accordance with Parliament's intention and this expenditure is therefore irregular. I have therefore qualified my opinion on the Department for Environment, Food and Rural Affairs 2010–2011 accounts on the grounds of regularity due to material financial penalties being confirmed. Further details are provided later in this Report and I have reported separately in respect of the Department's 2010–2011 accounts (HC 1003).

Purpose of Report

The financial statements on the following pages represent the results of the Rural Payments Agency for the period from 1 April 2010 to 31 March 2011. 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 Single Payment Scheme trade receivables and Single Payment Scheme trade payables.

The purpose of this Report is to explain the background to the qualification of my audit opinion and provide an overview of the progress made since the qualification of my audit opinion on the Rural Payments Agency's financial statements for 2009–2010 and 2008–2009.

My obligations as Auditor

Under the Government Resources and Accounts Act 2000, I am required to examine, certify and report on the financial statements that I receive. I am required, under International Standards on Auditing (UK and Ireland), to obtain evidence to give reasonable assurance that the Agency's financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

Audit opinion

Qualified opinion owing to a limitation of scope in respect of Single Payment Scheme trade receivables and Single Payment Scheme trade payables

This is the third year in which the Rural Payments Agency has been unable to provide sufficient audit evidence to support the trade receivables balance arising from Single Payment Scheme overpayments. It is the second year in which the Rural Payments Agency has been unable to provide sufficient audit evidence to support the trade payables balance arising from Single Payment Scheme underpayments. I therefore have again limited the scope of my audit opinion in this respect.

The 2010–2011 financial statements record Single Payment Scheme trade receivables of £24.5 million. The Agency has provided for doubtful debts against this balance of £13 million. I have been unable to obtain assurance that these balances in the financial statements are recorded at the appropriate amount and reflect the total value of amounts due to the Agency. I therefore have limited the scope of my audit opinion in this respect.

The 2010–2011 financial statements record Single Payment Scheme trade payables of £54.5 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 Single Payment 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.

The value of under and over payments in respect of Single Payment Scheme payments made during 2010–2011 is not material and therefore I have not qualified my audit opinion in respect of Single Payment Scheme payments in 2010–2011.

Progress since my report on the 2009–2010 financial statements

During 2010–2011 the Agency invested considerable resources attempting to resolve the underlying issues in the quality of data for the Single Payment Scheme and make accurate payments. It also worked to quantify the value of Single Payment Scheme trade receivables and Single Payment Scheme trade payables.

In my report accompanying the 2009–2010 accounts[1] I highlighted that the Agency planned to identify the key causes of overpayments by the end of July 2010. This piece of work was led by Agency staff with the support of external consultants. The costs paid to external consultants totalled £1.5million.

[1] *Report of the Comptroller and Auditor General on the Rural Payments Agency Accounts 2009–2010 HC 141 Session 2009–2010*

This work created a model which identified five key factors which could give rise to overpayments. The Agency reviewed all payments to farmers and highlighted a further 6,797 payments with characteristics featuring at least one of the five key factors. These payments are therefore considered at risk of having been overpaid, but currently have no debt recorded and are therefore not reflected in these financial statements. The Agency has not reviewed the 6,797 payments potentially at risk as yet and therefore there is a significant risk that the Single Payment Scheme trade receivables balance is understated. The Agency also developed a model to assess the staff costs required to accurately recalculate a debt in order to prioritise case work and determine whether it was value for money to proceed in individual cases. The validity of this model is dependent on the Agency being able to accurately value a debt and assess the full staff costs attributable in processing and recovering the debt.

The Agency sought to reduce the level of uncertainty in respect of the Single Payment Scheme trade payables and Single Payment Scheme trade receivables balances recorded in its 2010–2011 financial statements. The Agency planned to review the 150 largest recorded underpayments and the 150 largest recorded overpayments as at 31 December 2010. This exercise required case workers to recalculate a payment from first principles. The Agency used a spreadsheet developed internally to calculate these values.

During the period January to April the Agency was able to recalculate the value of 179 under and over payments. This identified 56 overpayments with a value of £2.2 million and 101 underpayments with a value of £8.1 million. These amounts are reflected in Note 18 as validated balances. In addition, 22 cases reviewed identified that there was neither an under or an over payment and therefore these balances were removed.

The examination of the 179 cases was very time consuming. The Agency has estimated that these cases took on average 3 to 4 days for a caseworker to complete. In addition, the review process of this work takes approximately 1 day per case. This work equates to around 800 working days or 4 full time equivalent staff working for a year. The Agency estimates that a review of a less complex case could be completed in less than two days.

The European Commission Regulations[2] include provisions regarding the recoverability of debts identified more than four years after payment. The Agency's interpretation of this Article has led it to write off £3.3 million of debts from 2005 and 2006 where these have not been verified to the level necessary to generate an invoice. This equates to 12 per cent of the 2009–2010 gross Single Payments Scheme trade receivables balance reflected in the accounts. The Agency obtained HM Treasury approval for these write-offs. The Agency has informed us that they will apply this Regulation in subsequent years. These amounts are a direct loss to the UK Exchequer and I therefore consider these amounts to be irregular expenditure.

This is the third year in which I have limited the scope of my audit opinion in this respect. The Agency needs to urgently address the operational issues which prevent them being able to accurately assess these balances and ensure that the losses borne by the UK Exchequer are minimised.

[2] *Article 73 ((EC) No. 796/2004)*

Other actions taken by the Rural Payments Agency

The difficulties experienced by the Rural Payments Agency have led to three value for money reports[3] by the National Audit Office. My last report in October 2009[4] highlighted that IT systems were expensive and cumbersome; the high administrative cost per claim, unquantified under and overpayments of claims, and management and governance weaknesses. The report noted that progress to resolve these issues had been slow and costly.

The Department for Environment, Food and Rural Affairs commissioned an external review of the Agency in response to these reports, and my qualification of the financial statements, which was published in July 2010[5]. The Agency subsequently identified six priority projects which would address the recommendations I made, the Public Accounts Committee findings and the recommendations of the external review. These projects were:

- 2010 Single Payment Scheme Delivery;
- Debt and data;
- Disallowance defence;
- Financial controls;
- Corporate services efficiency and effectiveness; and
- ICT Continuity.

The Public Accounts Committee considered my Report and requested that the Department provide quarterly updates on progress in implementing recommendations. The Department has provided six quarterly updates to the Public Accounts Committee. These provide an update against the six priority projects and the latest Report highlights that the focus should be on allowing the new senior leadership team to establish an overarching plan.

During 2010–2011 there have been a large number of changes within the Rural Payments Agency. The Chair of the Audit and Risk Committee resigned with effect from 30 November 2010. This was due to his concerns regarding the capacity of the Agency and the Department to address the significant issues in the Agency. A new Chair of the Audit and Risk Committee was appointed with effect from 1 March. However, the Audit and Risk Committee was not operational between November 2010 and March 2011.

During 2010–2011 there have been three Chief Executives in post. A permanent Chief Executive was appointed in January 2011, the Senior Leadership Team has been replaced and the number of senior roles in the executive team increased from five to nine (including the Chief Executive). Since the 1 April 2011 the Chief Executive has appointed six individuals to these roles. The appointment of permanent members of staff for two of these roles (Operations director and IT director) is still on-going. Furthermore, the Chief Executive and the Senior Leadership Team are developing a five-year Strategic Improvement Plan, which will consider the key priorities for the Agency. It aims to publish the plan in the autumn.

[3] *The delays in Administering the 2005 Single Payment Scheme in England, HC 1631 Session 2005–06, 18 October 2006.*

Progress update in resolving the difficulties in administering the Single Payment Scheme in England, HC 10 Session 2007–08, 12 December 2007. A second progress update on the Administration of the Single Payment Scheme by the Rural Payments Agency, HC880 Session 2008–2009, 15 October 2009

[4] *A second progress update on the Administration of the Single Payment Scheme by the Rural Payments Agency, HC880 Session 2008–2009, 15 October 2009*

[5] *2013 Review of the Rural Payments Agency available at http://archive.defra.gov.uk/foodfarm/farmmanage/singlepay/index.htm.*

I have previously reported on weaknesses in core financial controls within the Agency. The Agency addressed this area as one of the six priority projects and I am pleased to note improvements in this area. For example, bank reconciliations are now completed and reviewed in a timely fashion and the annual accounts preparation has improved. However, the Agency and the Department for Environment, Food and Rural Affairs continue to acknowledge that the Agency does not have sufficient permanent capacity and capability within their finance function. It continued to use external consultants in a number of areas during 2010–2011. During 2010–2011 the Agency incurred additional costs of £2.9 million paid to external consultants to support the finance function (£1.1 million in 2009–2010). This represents 45% of the Agency's total finance costs. The current Finance Director of the Department for Environment, Food and Rural Affairs will take up the role as the Agency's permanent Finance Director in July 2011. I welcome the appointment of a permanent member of staff to this role.

I have also previously reported that key IT systems which support the Single Payment Scheme would no longer be supported after December 2011. The Agency addressed this issue as one of the six priority projects. In April 2011, the Cabinet Office provided approval for the Agency to procure continuity of support and maintenance for these business critical systems.

Further actions taken or proposed to be taken by the Rural Payments Agency

The appointment of a new senior leadership team in the Rural Payments Agency provides an opportunity for it to urgently address the underlying operational issues and rectify the causes which lead to my qualifications. It is important that the five-year Strategic Improvement Plan addresses the significant issues relating to finance, operation and governance, allows the Agency to resolve its current difficulties and places it in the best place to implement the new Common Agricultural Policy for 2014 onwards. The proposed approach must obtain value for money for the taxpayer and reflect the budgetary constraints within which the Department and the wider public sector must operate.

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

15 July 2011

Statement of Accounts

Statement of Comprehensive Net Expenditure for the Year to 31 March 2011

	Note	**Year to 31 March 2011**		Year to 31 March 2010 *Restated	
		£000	**£000**	£000	£000
Programme Costs					
Running Costs					
Staff costs	3	**88,110**		106,245	
Other running costs	4	**86,207**		117,989	
Gross Running Costs		**174,317**		224,234	
Income	12	**(849)**		(848)	
Net Running Costs			**173,468**		223,386
Scheme Costs					
Rural Payments Agency					
Costs	5	**1,750,261**		2,048,580	
Income	12	**(1,717,371)**		(2,088,139)	
		32,890		(39,559)	
Other paying agencies					
Costs	11	**1,154,512**		1,220,417	
Income	11	**(1,155,343)**		(1,218,230)	
		(831)		2,187	
Other income	12	**(3,235)**		(2,829)	
Net Scheme Costs/(Income)			**28,824**		(40,201)
Net Operating Cost			**202,292**		183,185

* See Note 2.

The Notes on pages 53 to 107 form part of these accounts.

Other Comprehensive Expenditure

	Note	Year to 31 March 2011	Year to 31 March 2010 *Restated
		£000	£000
Net operating cost		**202,292**	183,185
Net gain on revaluation of property, plant and equipment	25	**(47)**	(175)
Net loss on revaluation of assets held for sale	25	**0**	2
Gain on revaluation of intangible assets	25	**(3,461)**	(1,646)
Movements in cash flow hedge reserve		**3,429**	(67)
Total Comprehensive Expenditure for the Period		**202,213**	181,299

* See Note 2.

The Notes on pages 53 to 107 form part of these accounts.

Statement of Financial Position as at 31 March 2011

	Note	**31 March 2011**		31 March 2010 *Restated		31 March 2009 *Restated	
		£000	**£000**	£000	£000	£000	£000
Non-current assets							
Property, plant and equipment	13	**6,797**		9,392		11,502	
Intangible assets	14	**56,603**		68,710		60,914	
Total non-current assets			**63,400**		78,102		72,416
Current assets							
Assets classified as held for sale	15	**0**		959		962	
Inventories	16	**27,755**		36,743		13,118	
Trade receivables and other current assets	17	**509,269**		506,802		415,596	
Derivative asset	24	**635**		7,062		0	
Cash and cash equivalents	20	**220,481**		39,963		355,636	
Total current assets			**758,140**		591,529		785,312
Total assets			**821,540**		669,631		857,728
Current liabilities							
Trade payables and other current liabilities	21	**(381,986)**		(501,350)		(878,969)	
Derivative liability	24	**(14,937)**		(712)		(83,207)	
Provisions for liabilities and charges	23	**(1,455)**		(2,392)		(9,634)	
Total current liabilities			**(398,378)**		(504,454)		(971,810)
Non-current assets plus/(less) net current assets/(liabilities)			**423,162**		165,177		(114,082)
Non-current liabilities							
Trade payables and other liabilities	21	**(118,624)**		(120,266)		(125,745)	
Provisions for liabilities and charges	23	**(2,697)**		(3,844)		(5,032)	
Total non-current liabilities			**(121,321)**		(124,110)		(130,777)
Assets less liabilities			**301,841**		41,067		(244,859)
Taxpayers' equity							
General fund			**301,429**		38,656		(246,312)
Cash flow hedge reserve			**(3,362)**		67		0
Revaluation reserve	25		**3,774**		2,344		1,453
Total taxpayers' equity/(deficit)			**301,841**		41,067		(244,859)

* See Note 2.

The Notes on pages 53 to 107 form part of these accounts.

Mark Grimshaw
Chief Executive
8 July 2011

Statement of Cash Flows for the Year to 31 March 2011

	Note	**Year to 31 March 2011**	Year to 31 March 2010 *Restated
		£000	£000
Cash flows from operating activities			
Net operating cost		**(202,292)**	(183,185)
Adjustments for non-cash items	31	**35,172**	25,472
Decrease/(increase) in inventories	16	**8,988**	(23,625)
Increase in trade receivables and other current assets		**(2,006)**	(90,707)
Decrease/(increase) in financial derivative asset		**6,427**	(7,062)
Decrease in trade payables and other current liabilities		**(119,537)**	(377,652)
Increase/(decrease) in financial derivative liability		**14,225**	(82,495)
(Less)/add movement in financial derivative assets and liabilities not passing through the Statement of Comprehensive Net Expenditure		**(3,429)**	67
Adjustment for movement in Consolidated Fund liabilities		**134,768**	227,073
Decrease in non-current trade payables and other liabilities due after more than one year	21	**(949)**	(5,601)
Movement in non-current asset addition accruals		**2,821**	2,948
Utilised provisions for liabilities and charges (excluding Non-cash items)	23	**(2,877)**	(8,433)
Net cash outflow from operating activities		**(128,689)**	(523,200)
Cash flows from investing activities			
Purchase of property plant and equipment	13	**(1,417)**	(2,795)
Purchase of intangible assets	14	**(6,395)**	(24,240)
Proceeds of disposal of non-current assets		**1,161**	58
Net cash outflow from investing activities		**(6,651)**	(26,977)

* See Note 2.

The Notes on pages 53 to 107 form part of these accounts.

Statement of Cash Flows for the Year to 31 March 2011 (continued)

	Note	Year to 31 March 2011	Year to 31 March 2010 *Restated
		£000	£000
Cash flows from financing activities			
Financing by Defra		**2,716,000**	2,890,000
Payments for Rural Development Programme for England on behalf of Defra		**(522,132)**	(427,825)
Payment for Structural Funds on behalf of Defra		**(189)**	(373)
Ad hoc disallowance transfer to Defra		**0**	(15,786)
Disallowance transfer to Defra		**(147,033)**	0
Capital element of payments in respect of finance leases		**(520)**	155
Net cash inflow from financing activities		**2,046,126**	2,446,171
Increase in cash and cash equivalents in the period before payments to the Consolidated Fund		**1,910,786**	1,895,994
Payments of amounts due to the Consolidated Fund		**(1,730,268)**	(2,211,667)
Increase/(decrease) in cash and cash equivalents in the period after payments to the Consolidated Fund		**180,518**	(315,673)
Cash and cash equivalents at 1 April	20	**39,963**	355,636
Cash and cash equivalents at 31 March	20	**220,481**	39,963

* See Note 2.

The Notes on pages 53 to 107 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2011

	Note	General Fund *Restated	Cash flow Hedge Reserve	Revaluation Reserve	Total Reserves
		£000	£000	£000	£000
Balance at 1 April 2009		(246,312)	0	1,453	(244,859)
Net operating cost		(183,185)	0	0	(183,185)
Transfer from Revaluation Reserve to General Fund:					
Property plant and equipment		176	0	(176)	0
Intangible assets		752	0	(752)	0
Arising on revaluation during the year (net)		0	0	1,819	1,819
Notional charges	31	14,847	0	0	14,847
Gains on Cash flow hedges		0	87,805	0	87,805
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges		0	(87,738)	0	(87,738)
Total recognised (expense)/ income for period ended 31 March 2010		(167,410)	67	891	(166,452)
Financing by Defra		2,890,000	0	0	2,890,000
Payments for Rural Development Programme for England on behalf of Defra		(427,825)	0	0	(427,825)
Payment for Structural Funds on behalf of Defra		(373)	0	0	(373)
Ad hoc disallowance transfer to Defra		(15,786)	0	0	(15,786)
Late Payment Penalty 2005		(9,043)	0	0	(9,043)
Consolidated Fund Extra Receipts payable to Consolidated Fund		(1,984,595)	0	0	(1,984,595)
Balance at 31 March 2010		**38,656**	**67**	**2,344**	**41,067**

* See Note 2.

The Notes on pages 53 to 107 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2011 (continued)

	Note	General Fund *Restated	Cash flow Hedge Reserve	Revaluation Reserve	Total Reserves
		£000	£000	£000	£000
Balance at 31 March 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	31	**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)/ income for period ended 31 March 2011		**(187,490)**	**(3,429)**	**1,430**	**(189,489)**
Financing by Defra		**2,716,000**	**0**	**0**	**2,716,000**
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**

* See Note 2.

The Notes on pages 53 to 107 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2010–11 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) 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 principal accounting policies of the Agency are set out below.

1.2 Inventory valuation

Intervention inventory

Inventory comprises agricultural commodities purchased into intervention 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).

Tallow inventory

Tallow inventory arose as a by-product of the cattle rendering process associated with the Bovine Spongiform Encephalopathy (BSE) schemes and is valued at the lower of cost or net realised value.

1.3 Property, plant and equipment

Property, plant and equipment is recognised at fair value, with depreciated historic cost as modified by annual revaluations using appropriate price indices issued by UK 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 Change 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 per Note 1.3. Intangible assets comprise internally developed application and bespoke IT software projects, licences, and packages developed by third parties. Software projects being developed are capitalised as Development Expenditure and treated as capital expenditure (but not amortised or revalued until the software is fully developed and brought into use). The Agency has set a capitalisation threshold for software projects of £100,000.

1.5 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

IT hardware:	
Laptops, printers and similar equipment	3 years
Servers	5 years
Communications	5 years

Amortisation:	
IT software**	up to 5 years
IT licences	up to 5 years

* Or the life of the lease if shorter.

** All IT assets capitalised in respect of internally developed software to process Single Payment Scheme claims are amortised over the period ending 31 March 2014. See Note 14.

1.6 Right of use assets

The Agency benefits from participation in Defra's contract with IBM for the supply of IT services. The contract is for a term of eight years from February 2010. The contract falls within the scope of IFRIC 12 as interpeted by the FReM, and is disclosed within the accounts as a service concession arrangement. Defra has apportioned a share of this arrangement to the Agency based on the Agency's usage of the facility. A lease liability has been included to reflect the Agency's share of the capital value of payments to IBM to lease IT infrastructure assets throughout the duration of the eight year contract. A matching asset has been raised to reflect the benefit that the Agency will derive from having access to IBM's IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with Defra's depreciation policy. These IT infrastructure assets, which consist of laptops, servers, and hardware, are classified as Right of Use assets under Property, plant and equipment in Note 13.

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 the majority of 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. 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 also 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

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

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

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

All of the Agency's scheme expenditure is pre-funded by the UK Exchequer. Subsequent receipts reclaimed from the European Commission are surrendered to HM Treasury as 'Consolidated Fund Extra Receipts' (CFER) following receipt from the European Commission.

In accordance with European Commission regulations, the Agency collects and surrenders both Sugar and Isoglucose production charges and charges to fund the restructuring of the sugar regime. Production charges were formerly recognised as income with the associated CFER liability and these funds are remitted to the European Commission via HM Treasury. With effect from 1 April 2010, these charges are excluded from income. As described in Note 2, income for the year ended 31 March 2010 has been restated to exclude this 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 payments 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.

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, that is, on receipt of a funding request.

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.

1.12 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 Single Payment Scheme 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 Single Payment Scheme expenditure is reported net of National Modulation and European Commission Modulation for Single Payment Scheme 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 is reported in Defra's resource account with transfers reported as intra-government transfer, and as movements through the General Fund respectively.

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 Single Payment Scheme, 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 Single Payment Scheme in euros to farmers, and funds other UK paying agencies in 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 24.

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.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through the Statement of Comprehensive Net Expenditure.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or liabilities.

1.17 Hedge accounting

In accordance with IAS 39, the Agency has elected to designate certain foreign currency derivatives as cash flow hedges of the euro denominated receipts from the European Commission in relation to the Single Payment Scheme 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 24 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 17 for further details on trade receivables and other current assets and Note 18 for the Single Payment Scheme 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 (PCSPS), which are described in Note 3.2. 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 (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Agency discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money 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 (paras 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 as the Chief Operating Decision Maker.

For segmental reporting during 2010–11, 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 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, 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, apart from those involving estimations (which are dealt with separately below), that the Chief Executive, in his capacity as Accounting Officer, has made in the process of applying the Agency's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

a) Recoverability and useful lives of intangible assets:

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

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

b) Allowances for doubtful debt:

The Chief Executive, in his capacity as Accounting Officer, periodically assesses the recoverability of trade receivables and recognises an allowance for doubtful debt for those receivables for which partial or full recovery is not probable. In this assessment the factors considered include the credit quality and ageing of the receivables, historical trends on recoverability, the opportunity to recover through interception of future payments, the ability to net settle with the 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 Single Payment Scheme in 2005 for which the ageing and bad debt allowance details are provided in Note 17 and Note 18 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 24 Related party disclosures - Revised definition of related parties.

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 2013, but earlier adoption is permitted. The Agency plans to adopt the standard in line with the effective date.

IAS 24 is effective for accounting periods beginning on or after 1 January 2011. The Agency plans to adopt the standard in line with the effective date. The possible impact that the future application of IAS 24 will have on the Agency's financial statements is not known or reasonably estimable.

The only change in the FReM 2011–12 that will impact the Agency's 2011–12 accounts is the requirement to disclose additional financial information for staff.

2. Prior year restatements

Changes in accounting policy

During the 2010–11 financial year, there have been a number of amendments to the Financial Reporting Manual (FReM). This has required the Agency to adopt two changes in accounting policy. These are described below.

2.1 Accounting for sugar levies

During 2010–11, the Agency has adopted the requirements of Chapter 13 'Accounting for Consolidated Fund Revenue' of the 2010–11 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 2009–10 comparative figures have been restated to exclude these amounts previously included within income. The Agency does not consider these amounts to be material to the entity for either accounting period. Hence separate trust statements have not been prepared. The amounts excluded are disclosed in Note 34 of these financial statements.

The impact of this change in accounting policy on 2010–11 and previous years is set out below.

	Note	**Year to 31 March 2011**	Year to 31 March 2010	Year to 31 March 2009
		£000	£000	£000
Statement of Comprehensive Net Expenditure				
Decrease in income	12	**(10,902)**	(11,560)	(10,019)
Increase in Net Operating Cost		**(10,902)**	(11,560)	(10,019)

	Note	**Year to 31 March 2011**	Year to 31 March 2010	Year to 31 March 2009
		£000	£000	£000
Statement of Financial Position				
Decrease in Cash and cash equivalents	20	**-**	(11,560)	(10,019)
Decrease in creditor for Amounts due to the Consolidated Fund	21	**-**	11,560	10,019
Decrease in Taxpayers' equity		**-**	-	-

2.2 Accounting for notional Cost of Capital charges

During 2010–11, the Agency has adopted changes to the 2010–11 FReM with respect to notional Cost of Capital charges. In previous years, these were included within the Statement of Comprehensive Net Expenditure. Under the changes set out in the 2010–11 FReM, these are excluded from the financial statements.

The 2009–10 comparatives have been restated to reflect this change in accounting policy.

The impact of this change in accounting policy on 2010–11 and previous years is set out below.

	Note	**Year to 31 March 2011**	Year to 31 March 2010	Year to 31 March 2009
		£000	£000	£000
Statement of Comprehensive Net Expenditure				
Decrease in other running costs	4	**1,863**	1,961	1,471
Decrease in costs of schemes administered by the Agency	5	**6,653**	5,780	4,331
Decrease in costs of schemes administered by Other paying agencies (OPAs)	11	**4,593**	6,062	5,154
Decrease in Net Operating Cost		**13,109**	13,803	10,956

This change in accounting policy had a nil net impact on the Statement of Financial Position of any financial year.

2.3 Correction of prior year figures

Restatement of income – Single Payment Scheme in England

The Agency has restated income recognised under the Single Payment Scheme in England for the year end 31 March 2010 to more accurately reflect income during the year.

The impact of the restatement on the financial statement for the year ended 31 March 2010 was to increase income (Note 6.1) by £17.02m. There was a corresponding increase in the receivable due from European Agricultural Guarantee Fund (Note 17) of £17.02m.

3. Staff numbers and related costs

3.1 Staff costs comprise:

	Year to 31 March 2011			Year to 31 March 2010
	Permanently employed staff	**Short term/ fixed term appointments**	**Total**	Total
	£000	**£000**	**£000**	£000
Wages and salaries	**64,812**	**1,276**	**66,088**	76,049
Social security costs	**4,634**	**94**	**4,728**	5,547
Other pension costs	**11,434**	**133**	**11,567**	12,587
Early retirement and early severance costs:				
Provided in the year	**634**	**91**	**725**	1,652
Released	**(128)**	**0**	**(128)**	(113)
Unwinding of discount	**69**	**0**	**69**	102
	81,455	**1,594**	**83,049**	95,824
Less recoveries in respect of outward secondments			**(223)**	(247)
Agency staff			**329**	4,691
Contractors			**4,955**	5,977
Total staff costs			**88,110**	106,245

No staff costs have been capitalised (2009–10: £nil).

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:

	Year to 31 March 2011	Year to 31 March 2010
Permanently employed staff	**2,570**	2,714
Short term/fixed term appointments	**64**	375
Casuals	**0**	0
Contractors	**26**	33
Agency	**19**	285
	2,679	3,407

The cost of contractors engaged in normal business as usual roles within the Agency are reflected in Note 3.1. Those contractors engaged on specific tasks or a unique piece of work (for example, projects) are reflected in Note 4.

3.2 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 2010–11 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

For 2010–11 employer's contributions of £11.4m (2009–10: £12.4m) 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 2010–11 employer's contributions of £136k (2009–10: £185k) 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 £10.5k (2009–10: £15k), 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 £11.6k (2009–10: £14k). There were no prepaid contributions at that date.

Further details about Civil Service pension arrangements can be found in the Remuneration Report and on the Civil Service website (www.civilservice-pension.gov.uk/my-civil-service/pensions/index.aspx).

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

3.3 Reporting of Civil Service and other compensation schemes - exit packages

	Year to 31 March 2011	Year to 31 March 2010	**Year to 31 March 2011**	Year to 31 March 2010
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	**101**	55	**128**	54
£10,000 - £25,000	**1**	4	**15**	80
£25,000 - £50,000	**2**	7	**88**	260
£50,000 - £100,000	**0**	6	**0**	450
£100,000 - £150,000	**0**	1	**0**	131
£150,000 - £200,000	**0**	1	**0**	163
£300,000 - £350,000	**1**	0	**311**	0
Total number of exit packages and costs	**105**	74	**542**	1,138

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 scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

During the year to 31 March 2011 there were no Compulsory Redundancies (2009–10: nil).

4. Other running costs

	Note	Year to 31 March 2011	Year to 31 March 2010 *Restated
		£000	£000
Rentals under operating leases			
Rent on buildings		**0**	4
Non-cash items (including notional charges)			
Auditors remuneration and expenses (notional)	31	**460**	490
Defra capital charges – buildings (notional)	31	**13,044**	15,084
Loss on disposal of non-current assets	31	**113**	1,003
Depreciation	13	**2,534**	3,953
Amortisation	14	**18,753**	15,207
Impairments	14	**716**	0
		35,620	35,737
Other Expenditure			
Accommodation		**629**	1,011
IT and other Project costs		**32,527**	40,874
Administration losses write-offs		**15**	0
Administration special payment write-offs		**35**	0
Other running costs		**1,112**	1,906
Non payroll staff costs		**2,963**	5,375
Contractor staff costs		**2,688**	18,996
Communications costs		**6,685**	8,348
Agents fees		**2,004**	3,547
Finance lease interest		**326**	340
Other		**1,603**	1,851
		50,587	82,248
		86,207	117,989

* See Note 2.2.

Included in Notes 3 and 4 are the costs associated with the Co-ordinating Body which are summarised in the following table:

	Year to 31 March 2011	Year to 31 March 2010
	£000	£000
Payroll costs	**457**	449
Other costs	**28**	31
Certifying Body audit fee	**1,210**	1,198
	1,695	1,678

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

5. Schemes administered by the Agency

	Note	**Year to 31 March 2011**	Year to 31 March 2010 * Restated
		£000	£000
Single Payment Scheme in England	6.1	**1,683,152**	1,883,396
Bovine Spongiform Encephalopathy related	6.2	**259**	1,455
Trader based – Internal Market	7	**22,993**	168,052
Trader based – External Trade	8	**1,877**	15,793
Intervention buying and selling	9	**18,541**	1,366
School Milk		**4,118**	4,039
Scheme related losses		**7,082**	13,607
20% retention of irregularities**	6.1	**(872)**	(1,036)
Other scheme costs		**(4,481)**	3,155
		1,732,669	2,089,827
Release from bad debt provision	17	**(461)**	(9,542)
Cost of hedging contracts		**4,409**	4,091
Realised exchange loss/(gain)		**18,325**	(28,763)
Unrealised exchange gain		**(4,857)**	(1,560)
Derivative ineffectiveness	24	**176**	(5,473)
Total Scheme Expenditure		**1,750,261**	2,048,580

* See Note 2.2.

** Under current European Commission guidance the Agency is permitted to retain 20% of penalties charged for non-compliance with regulations by claimants.

6. Farm based schemes

6.1 Single Payment Scheme in England

The Single Payment Scheme, introduced by the European Commission in 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 2011			Year to 31 March 2010		
	Expenditure	**Income**	**Net**	Expenditure	Income *Restated	Net
	£000	**£00**	**£000**	£000	£000	£000
Single Payment Scheme	**1,681,348**	**(1,668,370)**	**12,978**	1,856,839	(1,860,287)	(3,448)
Pre Single Payment Scheme grants and subsidies	**1,814**	**(2,253)**	**(439)**	0	0	0
Dairy Premium Scheme	**(10)**	**112**	**102**	26,557	(26,557)	0
	1,683,152	**(1,670,511)**	**12,641**	1,883,396	(1,886,844)	(3,448)
20% retention of irregularities	**(872)**	**(1)**	**(873)**	(1,036)	1,012	(24)
Total Scheme Expenditure/ (Income)	**1,682,280**	**(1,670,512)**	**11,768**	1,882,360	(1,885,832)	(3,472)

* See Note 2.3.

6.2 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 2011			Year to 31 March 2010		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Older Cattle Disposal Scheme (OCDS)	**197**	**(4,771)**	**(4,574)**	(59)	(2,854)	(2,913)
Over Thirty Month Slaughter (OTMS)	**59**	**(10)**	**49**	544	(5,016)	(4,472)
TSE Agents services	**3**	**0**	**3**	3	0	3
Sale of tallow and hides	**0**	**0**	**0**	967	(959)	8
Total Scheme Expenditure/ (Income)	**259**	**(4,781)**	**(4,522)**	1,455	(8,829)	(7,374)

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.

OCDS replaced OTMS from 23 January 2006 following changes to OTMS rules. Compensation payments are co-financed by the European Commission, while the costs of operations are borne by the UK Exchequer and remain with the Agency. OCDS closed on 31 December 2008, with residual movements reflecting residual costs and disposals after 31 December 2008.

7. Trader based – Internal Market

	Year to 31 March 2011			Year to 31 March 2010		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Horticulture	**18,890**	**(15,952)**	**2,938**	18,884	(21,212)	(2,328)
Milk and milk products	**184**	**(170)**	**14**	279	(684)	(405)
Protein and textile plants	**1,068**	**(1,044)**	**24**	1,212	(1,227)	(15)
School milk	**706**	**(719)**	**(13)**	2,799	(2,826)	(27)
Sugar and isoglucose	**(9)**	**9**	**0**	143,982	(141,903)	2,079
Other	**2,154**	**(2,056)**	**98**	896	(2,194)	(1,298)
Total Scheme Expenditure/ (Income)	**22,993**	**(19,932)**	**3,061**	168,052	(170,046)	(1,994)

8. 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 2011			Year to 31 March 2010		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Milk and milk products	**1,399**	**(1,310)**	**89**	11,406	(11,372)	34
Processed goods	**(235)**	**239**	**4**	3,051	(3,244)	(193)
Sugar and isoglucose	**(11)**	**(291)**	**(302)**	613	(303)	310
Other	**724**	**(718)**	**6**	723	(4,219)	(3,496)
Total Scheme Expenditure/ (Income)	**1,877**	**(2,080)**	**(203)**	15,793	(19,138)	(3,345)

9. 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 2011	Year to 31 March 2010
	Butter	Milk Powder	Barley		
	£000	£000	£000	£000	£000
Sales	(13,494)	(4,121)	(9,601)	(27,216)	0
Other Income	(94)	(207)	(185)	(486)	(107)
Surrender of excess receipts	5,172	1,514	4,796	11,482	0
	(8,416)	(2,814)	(4,990)	(16,220)	(107)
Non-current asset depreciation	0	0	0	0	1
Cost of Sales	8,724	2,672	5,321	16,717	0
Operating Costs	204	851	3,366	4,421	2,346
Technical Costs recovered	(90)	(403)	(2,104)	(2,597)	(981)
	8,838	3,120	6,583	18,541	1,366
Total Net Expenditure	422	306	1,593	2,321	1,259

10. 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 payments were modulated (that is, Single Payment, 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 Single Payment Scheme 2005, €23.6m for Single Payment Scheme 2006 and €29.5m for Single Payment Scheme 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 Single Payment Scheme 2009 onwards the 'additional payment' paid to farmers has ceased.

National Modulation

National Modulation for the Single Payment Scheme 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 generated.

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 the Single Payment Scheme 2005 and the Single Payment Scheme 2006 were claimed from the European Agricultural Guarantee Fund. For the Single Payment Scheme 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 the Single Payment Scheme 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%

11. Other paying agencies and Delegated Authorities

	Year to 31 March 2011			Year to 31 March 2010		
	Expenditure	**Income**	**Net**	Expenditure *Restated	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Other paying agencies						
SGRPID	**565,742**	**(566,769)**	**(1,027)**	572,582	(573,599)	(1,017)
WAG	**299,871**	**(299,472)**	**399**	319,463	(315,193)	4,270
DARDNI	**287,524**	**(287,669)**	**(145)**	326,466	(327,421)	(955)
	1,153,137	**(1,153,910)**	**(773)**	1,218,511	(1,216,213)	2,298
Delegated Authorities						
FC	**1,375**	**(1,433)**	**(58)**	1,906	(2,017)	(111)
	1,375	**(1,433)**	**(58)**	1,906	(2,017)	(111)
Total Scheme Expenditure/ (Income)	**1,154,512**	**(1,155,343)**	**(831)**	1,220,417	(1,218,230)	2,187

* See Note 2.2.

SGRPID – Scottish Government Rural Payments and Investigation Directorate
WAG – Welsh Assembly 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.

12. Income

Operating income analysed by classification and activity is as follows:

	Note	Year to 31 March 2011	Year to 31 March 2010 *Restated
		£000	£000
Running Costs Income**		**849**	848
Scheme Income			
Single Payment Scheme in England	6.1	**1,670,512**	1,885,832
Bovine Spongiform Encephalopathy related	6.2	**4,781**	8,829
Trader based – Internal Market	7	**19,932**	170,046
Trader based – External Trade	8	**2,080**	19,138
Intervention buying and selling	9	**16,220**	107
Other		**3,846**	4,187
		1,717,371	2,088,139
Other paying agencies			
European Commission contributions	11	**1,155,343**	1,218,230
Other Income			
Other		**3,235**	2,829
		3,235	2,829
Total Scheme Income		**2,875,949**	3,309,198
Total Income		**2,876,798**	3,310,046

* See Note 2.

** Running Costs Income includes £0.8m (2009–10: £0.7m) notional income relating to services provided across Defra by Defra Investigation Services, which is part of the Agency.

13. 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 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. 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 2009	8,768	24,318	253	120	201	33,660
Additions	0	1,559	418	0	0	1,977
Disposals	(3,194)	(3,351)	0	(37)	(212)	(6,794)
Reclassification (net from intangibles)	(201)	279	0	0	0	78
Revaluation	(614)	665	0	17	33	101
At 31 March 2010	4,759	23,470	671	100	22	29,022
Depreciation						
At 1 April 2009	5,876	15,916	66	99	201	22,158
Charged in year	1,130	2,751	71	2	0	3,954
Disposals	(2,919)	(3,245)	0	(32)	(212)	(6,408)
Revaluation	(639)	518	0	14	33	(74)
At 31 March 2010	3,448	15,940	137	83	22	19,630
Net Book Value						
At 1 April 2009	2,892	8,402	187	21	0	11,502
At 31 March 2010	1,311	7,530	534	17	0	9,392
Assets Financing						
Owned	1,311	6,317	0	17	0	7,645
Finance Leased	0	1,213	534	0	0	1,747
Net Book Value at 31 March 2010	1,311	7,530	534	17	0	9,392

14. Intangible assets

	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 an impairment loss of £716k (2009–10: £nil) relating to development expenditure was incurred. This was charged directly to the Statement of Comprehensive Net Expenditure. See Note 4.

14. Intangible assets (continued)

	Information Technology	Software Licences	Development Expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2009	156,348	8,394	7,214	171,956
Additions	829	126	21,155	22,110
Disposals	(28,016)	(2,113)	0	(30,129)
Reclassification (net to PPE)	20,905	73	(21,056)	(78)
Revaluations	(5,331)	482	0	(4,849)
At 31 March 2010	144,735	6,962	7,313	159,010
Amortisation				
At 1 April 2009	106,081	4,961	0	111,042
Charged in year	14,316	891	0	15,207
Disposals	(27,364)	(2,090)	0	(29,454)
Revaluations	(6,886)	391	0	(6,495)
At 31 March 2010	86,147	4,153	0	90,300
Net Book Value				
At 1 April 2009	50,267	3,433	7,214	60,914
At 31 March 2010	58,588	2,809	7,313	68,710
Assets Financing				
Owned	58,025	2,787	7,313	68,125
Finance Leased	563	22	0	585
Net Book Value at 31 March 2010	58,588	2,809	7,313	68,710

Information Technology includes the carrying value of internally developed software for the system used to process Single Payment Scheme claims. During 2009–10, due to anticipated changes in Common Agricultural Policy 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 2011 was £38.0m (31 March 2010: £47.3m).

15. Assets classified as held for sale

Assets classified as held for sale were included in the Statement of Financial Position as at 31 March 2010 at a net book value of £959k. The revaluation reserve associated with this asset of £371k was released in the year. The asset was a freehold building no longer used by the Agency. It was sold to a third party during May 2010. The net sale proceeds were equal to its book carrying value.

16. Inventories

Intervention inventories:

	Intervention			Tallow	Total
	Butter	Milk Powder	Barley		
	£000	£000	£000	£000	£000
Inventory at 1 April 2009	**5,052**	**7,099**	**0**	**967**	**13,118**
Movement	3,672	14,658	6,262	(967)	23,625
Inventory at 1 April 2010	**8,724**	**21,757**	**6,262**	**0**	**36,743**
Movement	(8,724)	(2,671)	2,407	0	(8,988)
At 31 March 2011	**0**	**19,086**	**8,669**	**0**	**27,755**

17. Trade receivables and other current assets

	31 March 2011	31 March 2010 *Restated	31 March 2009
	£000	£000	£000
Amounts falling due within one year			
Trade receivables**	**36,556**	39,900	61,057
Less Allowance for doubtful debts**	**(20,244)**	(20,705)	(30,247)
	16,312	19,195	30,810
Due from European Agricultural Guarantee Fund/European Agricultural Fund for Rural Development***	**455,543**	479,456	357,971
Due from Defra and its Agencies	**1,415**	1,397	3,671
Due from Other Government Departments (including OPAs)	**32,971**	3,442	19,657
Prepayments and accrued income	**1,001**	1,508	1,045
VAT recoverable	**1,900**	1,698	2,133
Other receivables	**127**	106	309
Total receivables	**509,269**	506,802	415,596

* See Note 2.3.

** Included within these balances are £24.5m in relation to Single Payment Scheme receivables, and £13.0m of Single Payment Scheme allowance for doubtful debts (2009–10: £27.0m and £9.8m respectively). See Note 18.

*** A total of £178.6m has been billed to the European Commission, and once received, will be paid over to the Consolidated Fund (2009–10: £196.8m).

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 2011 amounted to £16.3m (2009–10: £19.2m; 2008–09: £30.8m). Generally the average credit period is 30 days for Single Payment Scheme receivables and 30 days for non-Single Payment Scheme 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 2011 is 502 days (2009–10: 559 days).

17. Trade receivables and other current assets (continued)

Ageing of past due but not impaired receivables:

	31 March 2011	31 March 2010	31 March 2009
	£000	£000	£000
30 days – 6 months	**490**	3,052	466
6 months – 1 year	**210**	189	1,756
1 year – 18 months	**863**	374	86
Over 18 months	**1,123**	161	175
Total	**2,686**	3,776	2,483

Movement in the allowance for doubtful debts:

	31 March 2011	31 March 2010	31 March 2009
	£000	£000	£000
Balance at the beginning of the period	**(20,705)**	(30,247)	(21,172)
Reversal of impairment losses/ (impairment) losses recognised	**(2,406)**	9,518	(9,092)
Amounts written off during the year as uncollectable	**2,867**	24	17
Balance at the end of the period	**(20,244)**	(20,705)	(30,247)

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 2011	31 March 2010	31 March 2009
	£000	£000	£000
30 days – 6 months	**2,235**	1,958	2,047
6 months – 1 year	**1,564**	561	1,615
1 year – 18 months	**1,606**	1,891	597
Over 18 months	**5,867**	8,098	16,839
Total	**11,272**	12,508	21,098

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

18. Single Payment Scheme trade receivables and trade payables

	Amounts falling due within one year			
	Single Payment Scheme Trade Receivables		Single Payment Scheme Trade Payables	
	31 March 2011	31 March 2010	**31 March 2011**	31 March 2010
	£000	£000	**£000**	£000
Single Payment Scheme trade receivables and trade payables	**24,540**	27,023	**54,541**	30,859
Less allowance for doubtful debts	**(13,045)**	(9,775)	**0**	0
Net Single Payment Scheme trade receivables and trade payables	**11,495**	17,248	**54,541**	30,859

Single Payment Scheme 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 Single Payment Scheme trade receivables, once invoiced, is generally 30 days except in those instances where either 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.

Single Payment Scheme trade payables represent amounts owed to customers and 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 Single Payment Scheme 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), Single Payment Scheme claims and claim adjustments outstanding at the Statement of Financial Position date are netted across all scheme years by customer, where the Agency has both an intention and a legal right to offset.

Supplemental Information - validated and other Single Payment Scheme trade receivables and trade payables

As at 31 March 2011 and 31 March 2010, Single Payment Scheme balances can be analysed as follows:

	Amounts falling due within one year			
	Single Payment Scheme Trade Receivables		Single Payment Scheme Trade Payables	
	31 March 2011	31 March 2010	**31 March 2011**	31 March 2010
	£000	£000	**£000**	£000
Validated Single Payment Scheme trade receivables and trade payables (including unpaid full claims)	**2,200**	0	**8,053**	0
Less allowance for doubtful debts	**(1,197)**	0	**0**	0
Net validated Single Payment Scheme trade receivables and trade payables	**1,003**	0	**8,053**	0
Other Single Payment Scheme trade receivables and trade payables arising from adjustments to amounts previously paid to customers	**22,340**	27,023	**46,488**	30,859
Less allowance for doubtful debts	**(11,848)**	(9,775)	**0**	0
Net Single Payment Scheme trade receivables and trade payables	**11,495**	17,248	**54,541**	30,859

Validated Single Payment Scheme trade receivables and trade payables

Validated Single Payment Scheme trade receivable/payable balances represent future economic benefits which are considered reliably measurable and not subject to a significant level of uncertainty. The Agency has currently identified a validation process which it is confident will remove any significant risk of uncertainty in relation to the Single Payment Scheme balances. Accordingly, any claims that have been subjected to this process are treated as validated with all other claims remaining in the other category.

In determining the present value of estimated cash flows, the Agency considers, amongst other things:

- impact of agreed payments plans with the customers;
- how much can 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.

Other Single Payment Scheme trade receivables and trade payables

Other Single Payment Scheme trade receivables represent adjustments to amounts previously paid to customers that currently exist in the Agency's operational and financial systems which have not been through the current validation procedures. Other Single Payment trade payables represent amounts due to customers, including adjustments to amounts previously paid to customers which have not been through the current validation procedure.

These net trade receivables and trade payables balances represent a key source of estimation uncertainty, as a consequence of which there exists a significant risk of material adjustment to the carrying amounts currently presented.

The movement in Validated Single Payment Scheme trade receivables and trade payables during the year ended 31 March 2011 is as follows:

	Validated Adjustments	
	Trade Receivables	Trade Payables
	31 March 2011	31 March 2011
	£000	£000
At 1 April	**0**	**0**
New adjustments recognised in the period	**2,200**	**8,053**
At 31 March	**2,200**	**8,053**

Allowance for doubtful debts and ageing (validated and other)

	31 March 2011	31 March 2010
	£000	£000
Opening Balance	**9,775**	11,455
(Reversal of impairment losses)/ impairment losses recognised	**4,647**	(924)
Amounts written off during the year as uncollectable	**(618)**	(23)
Impairment losses recovered	**(759)**	(733)
Closing Balance	**13,045**	9,775

An allowance for doubtful debts is recognised against Single Payment Scheme 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:

- impact of agreed payments 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 2011	31 March 2010
	£000	£000
30 days – 6 months*	**297**	3,052
6 months – 1 year	**179**	189
1 year – 18 months	**820**	374
Over 18 months	**661**	121
Total	**1,957**	3,736

* 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.

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

	31 March 2011	31 March 2010
	£000	£000
30 days – 6 months	**533**	1,474
6 months – 1 year	**221**	356
1 year – 18 months	**1,390**	186
Over 18 months	**1,051**	284
Total	**3,195**	2,300

19. Intra-Government receivables

Trade receivables and other current assets shown in Note 17 can be analysed as follows:

	31 March 2011	31 March 2010	31 March 2009
	£000	£000	£000
Balances with other central government bodies	**35,694**	6,411	25,207
Balances with local authorities	**592**	126	254
Total intra-Government balances	**36,286**	6,537	25,461
Balances with bodies external to Government	**472,983**	500,265	390,135
Total receivables	**509,269**	506,802	415,596

20. Cash and cash equivalents

	31 March 2011	31 March 2010 *Restated	31 March 2009 *Restated
	£000	£000	£000
Balances held at 1 April	**39,963**	355,636	691,792
Net cash inflow/(outflow)	**180,518**	(315,673)	(336,156)
Total Balance held at 31 March	**220,481**	39,963	355,636
The following balances were held at 31 March			
Office of HM Paymaster General	**0**	39,485	353,297
Government Banking Services	**219,998**	0	0
Commercial banks and cash in hand**	**483**	478	2,339
Total Balance held at 31 March	**220,481**	39,963	355,636

* See Note 2.1.

** The closing balance of third party money held as cash securities at 31 March 2011 was £2.0m (2009–10: £2.7m; 2008–09: £2.6m). Of this, £0.6m (2009–10: £2.7m; 2008–09: £2.6m) was held in a public bank account.

21. Trade payables and other current liabilities

Amounts falling due within one year

	31 March 2011	31 March 2010 *Restated	31 March 2009 *Restated
	£000	£000	£000
Trade payables**	**58,756**	34,307	49,463
Due to Defra and its Agencies***	**116,611**	66,417	198,739
Due to Other Government Departments (including OPAs)	**906**	1,217	1,079
Amounts due to the Consolidated Fund	**179,521**	314,289	541,362
Cash securities****	**2,039**	2,716	2,563
Scheme accruals	**2,930**	54,780	28,887
Single Payment Scheme additional aid accrual	**0**	0	13,682
Single Payment Scheme interest	**122**	277	67
Accruals and deferred income	**15,309**	21,806	37,224
Employee leave accrual	**2,572**	2,271	2,243
Other taxation and social security	**1,514**	1,700	1,983
Finance leases	**473**	300	267
Other payables	**1,233**	1,270	1,410
Total payables	**381,986**	501,350	878,969

21. Trade payables and other current liabilities (continued)

Amounts falling due after more than one year

	31 March 2011	31 March 2010	31 March 2009
	£000	£000	£000
Advances received on Rural Development Programmes for Defra and other UK paying agencies	**117,777**	118,726	124,327
Finance Leases	**847**	1,540	1,418
	118,624	120,266	125,745
Total trade payables and other liabilities	**500,610**	621,616	1,004,714

* See Note 2.1.

** Includes £54.5m of Single Payment Scheme payables (2009–10: £30.9m). See Note 18.

*** Amounts due to Defra and its Agencies include £108.1m (2009–10: £67.4m; 2008–09: £193.3m) in respect of the transfer of Rural Development and Structural Funds programmes.

**** 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.

Trade payables and accruals 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 2011, the Agency considers that the fair value of the advances received on Rural Development Programmes for Defra and OPAs to be £117.8m (2009–10: £118.7m; 2008–09: £124.3m) and fair value of these finance lease liabilities at 31 March 2011 to be £1.3m (2009–10: £1.8m; 2008–09: £1.7m).

22. Intra-Government payables

Trade payables and other current liabilities shown in Note 21 can be analysed as follows:

	31 March 2011	31 March 2010	31 March 2009
	£000	£000	£000
Balances with other central Government bodies	**298,480**	383,523	743,026
Balances with local authorities	**72**	100	137
Total intra-Government balances	**298,552**	383,623	743,163
Balances with bodies external to Government	**83,434**	117,727	135,806
Total payables less than one year	**381,986**	501,350	878,969
Balances with bodies external to Government due after more than one year	**118,624**	120,266	125,745
Total payables	**500,610**	621,616	1,004,714

23. Provisions for liabilities and charges

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

	Pensions and related costs	OCDS and OTMS schemes	Total
	£000	£000	£000
Balance at 1 April 2009	6,685	7,981	14,666
Provided in the year	1,652	250	1,902
Released	(113)	(1,888)	(2,001)
Utilised	(2,761)	(5,672)	(8,433)
Unwinding of discount	102	0	102
Balance at 31 March 2010	5,565	671	6,236
Analysed as			
Current	1,740	652	2,392
Non-current	3,825	19	3,844
Balance at 31 March 2010	5,565	671	6,236
Analysis of expected timing of discounted flows			
Not later than one year	1,740	652	2,392
Later than one year and not later than five years	3,412	19	3,431
Later than five years	413	0	413
Balance at 31 March 2010	5,565	671	6,236

23.1 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 2011 is £0.02m (2009–10: £0.04m).

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 2011 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 2011 is £4.06m (2009–10: £5.53m).

23.2 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 2011.

24. 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 2011	31 March 2010 *Restated	31 March 2009 *Restated
	£000	£000	£000
Loans and Receivables			
Trade receivables and other current assets	**506,241**	503,490	412,109
Financial Assets			
Cash and cash equivalents	**220,481**	39,963	355,636
Derivative instruments classified as held for trading	**635**	5,907	0
Derivative instruments in designated hedge accounting relationships	**0**	1,155	0
Sub-total of derivatives assets	**635**	7,062	0
Financial Liabilities			
Derivative instruments classified as held for trading	**(124)**	0	(83,207)
Derivative instruments in designated hedge accounting relationships	**(14,813)**	(712)	0
Sub-total of derivatives liabilities	**(14,937)**	(712)	(83,207)
Other			
Trade payables and other liabilities	**491,753**	613,637	991,852
Financial Guarantee Contracts			
Cash securities	**2,039**	2,716	2,563
Non-cash guarantees	**767,733**	726,423	466,271

* The prior periods have been adjusted as recoverable VAT and other receivables are no longer included as financial assets. As described in Note 2.1, cash and cash equivalents and trade payables and other liabilities have also been restated.

Cash on deposit at 31 March 2011 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 21). 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 £638.1m and euro guarantees totalling €147.1m (£129.6m) were held at 31 March 2011 (£669.9m and €63.6m (£56.5m) at 31 March 2010, and £400.2m and €70.9m (£66.0m) at 31 March 2009). 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 Single Payment Scheme and Rural Development Programme scheme expenditure (including Scotland, Wales and Northern Ireland).

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

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 2011	31 March 2010 *Restated	**31 March 2011**	31 March 2010
	£000	£000	**£000**	£000
Euro	**483,586**	480,821	**117,777**	118,726

* See Note 2.3.

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 cost whereas a negative number indicates an increase in net operating cost. For Taxpayer's 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 2011	31 March 2010	**31 March 2011**	31 March 2010
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost*	**(38,543)**	(57,853)	**38,543**	57,853
Derivative instruments:				
(Increase)/decrease in Net operating cost**	**317**	24,867	**(317)**	(24,867)
Increase/(decrease) in Taxpayers' Equity***	**61,485**	10,904	**(61,485)**	(10,904)

* 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 instrument 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 2011	31 March 2011	31 March 2011	31 March 2011
	Euro: Sterling	€000	£000	£000
Current derivative assets	**0.85995**	**83,200**	**71,548**	**635**
Current derivative liabilities	**0.85963**	**(701,425)**	**(602,968)**	**(14,937)**

In September 2010 the Agency entered into forward exchange contracts to hedge the monthly euro denominated receipts in relation to the Single Payment Scheme. As at 31 March 2011, the aggregate amount of losses under forward foreign exchange contracts deferred in the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £4.56m.

The Agency also entered into forward exchange contracts to hedge the quarterly euro denominated receipts in relation to the Rural Development Programme. As at 31 March 2011, 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 £1.20m.

For the year ended 31 March 2011 a loss of £0.18m has been recognised in the Statement of Comprehensive Net Expenditure arising from hedges. See Note 5.

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 Agency's credit risk 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/(losses) on cash flow hedges transferred from Taxpayers' Equity to the Statement of Comprehensive Net Expenditure are as follows:

	Year to 31 March 2011
	£000
Agency – Scheme Income	**1,194**
Other paying agencies – Scheme Income	**304**
Gains – Scheme expenditure	**1,928**
Total transferred to Statement of Comprehensive Net Expenditure	**3,426**

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.

Liquidity risks

Liquidity risk management

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 *Restated	3 months to 1 year	1 – 5 years	Greater than 5 years	Total *Restated
	£000	£000	£000	£000	£000
31 March 2011					
Non-interest bearing	372,656	0	117,777	0	490,433
Finance lease liability	143	429	1,249	96	1,917
31 March 2010					
Non-interest bearing	493,071	0	118,726	0	611,797
Finance lease liability	153	458	1,919	257	2,787

* The balance at 31 March 2010 has been restated to exclude cash securities, accruals and deferred income, other taxation and social security and other payables from financial payables.

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 *Restated	3 months to 1 year	1 – 5 years	Greater than 5 years	Total *Restated
	£000	£000	£000	£000	£000
31 March 2011					
Non-interest bearing	487,885	18,356	0	0	506,241
31 March 2010					
Non-interest bearing	503,490	0	0	0	503,490

* The balance at 31 March 2010 has been restated to exclude VAT recoverable and other receivables from financial assets. As described in Note 2.3, financial assets have also been restated.

24. 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	Total
	£000	£000	£000	£000
Derivative Liabilities				
31 March 2011				
Gross settled				
Foreign exchange forward contracts	14,485	573	0	15,058
31 March 2010				
Gross settled				
Foreign exchange forward contracts	712	0	0	712
31 March 2009				
Gross settled				
Foreign exchange forward contracts	0	83,207	0	83,207
Derivative Assets				
31 March 2011				
Gross settled				
Foreign exchange forward contracts	0	0	0	0
31 March 2010				
Gross settled				
Foreign exchange forward contracts	7,023	80	0	7,103
31 March 2009				
Gross settled				
Foreign exchange forward contracts	0	0	0	0

25. Revaluation reserve

The revaluation reserve relates to revaluation of Property, plant and equipment (Note 13), Intangible assets (Note 14) and Assets held for sale (Note 15) analysed as follows:

	Property, plant and equipment	Assets held for sale	Intangible assets	Total
	£000	£000	£000	£000
Balance at 1 April 2010	**471**	**371**	**1,502**	**2,344**
Revaluation during the year	47	0	3,461	3,508
Transfer to General Fund*	(273)	(371)	(1,434)	(2,078)
Balance at 31 March 2011	**245**	**0**	**3,529**	**3,774**

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

26. Capital commitments

Contracted capital commitments at 31 March 2011 not otherwise included in these accounts:

	31 March 2011	31 March 2010
	£000	£000
Property, plant and equipment	**157**	0
Intangible assets	**557**	2,319
Total	**714**	2,319

27. Commitments under leases

27.1 Operating leases

Total future minimum lease payments at 31 March 2011 under operating leases are given in the table below for each of the following periods:

	31 March 2011	31 March 2010
	£000	£000
Vehicles		
Not later than one year	**316**	352
Later than one year and not later than five years	**248**	403
Total	**564**	755

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 2011	31 March 2010
	£000	£000
Land		
Not later than one year	**1**	1
Later than one year and not later than five years	**5**	3
Later than five years	**70**	42
Total	**76**	46
Buildings		
Not later than one year	**4,365**	4,779
Later than one year and not later than five years	**10,053**	14,997
Later than five years	**13,711**	27,677
Total	**28,129**	47,453

Defra has changed the basis of estimates of commitments to reflect the prevailing Management Board Estates strategy and the wishes of the Central Property Unit (CPU). At 31 March 2011 the lease break date is used to determine the end of the commitment. The commitment at 31 March 2010 reflects the date of the end of the lease.

27.2 Finance leases

Total future minimum lease payments under non-cancellable finance leases at 31 March 2011 are given in the table below for each of the following periods:

	31 March 2011	31 March 2010
	£000	£000
Not later than one year	**572**	611
Later than one year and not later than five years	**1,249**	1,919
Later than five years	**96**	257
	1,917	2,787
Less interest element	**(597)**	(947)
Present value of future obligations	**1,320**	1,840

The present value of total future minimum lease payments under non-cancellable finance leases at 31 March 2011 are given in the table below for the following periods:

	31 March 2011	31 March 2010
	£000	£000
Not later than one year	**473**	514
Later than one year and not later than five years	**785**	1,152
Later than five years	**62**	174
Present value of future obligations	**1,320**	1,840

28. 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 2011	31 March 2010 *Restated
	£000	£000
Not later than one year	**16,125**	19,871
Later than one year and not later than five years	**28,847**	36,139
Later than five years	**11,445**	17,953
Total	**56,417**	73,963

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 2011	31 March 2010 *Restated
	£000	£000
Not later than one year	**3,928**	3,534
Later than one year and not later than five years	**15,396**	14,092
Later than five years	**30,792**	31,705
Total	**50,116**	49,331

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 2011	31 March 2010 *Restated
	£000	£000
Not later than one year	**3,424**	3,498
Later than one year and not later than five years	**12,230**	12,586
Later than five years	**5,456**	8,388
Total	**21,110**	24,472

* The prior year comparatives in all 3 tables above have been restated to disclose commitments analysed by payment due dates, rather than the periods in which the commitments will expire.

28. Other financial commitments (continued)

Private Finance Initiative (PFI)

An off-Statement of Financial Position PFI contract was signed by Defra in February 2001. 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 1.9% of the building and recharges other occupiers for their share of the costs. The amount charged to the Statement of Net Expenditure for the use of the accommodation in 2010–11 is £15k (2009–10: £15k) and the Agency's total commitment at 31 March 2011 is £472k (31 March 2010: £489k).

Defra freehold properties

The estimated value of non-specialised freehold property owned by Defra but occupied by the Agency at 31 March 2011 is £4.9m (31 March 2010: £5.5m). There are no rental costs on Defra freehold properties.

29. Contingent assets and contingent liabilities disclosed under IAS 37

Contingent liabilities

The Agency has the following contingent liabilities:

The Agency is in dispute with the owners of certain storage facilities which it has used for the storage of tallow (under the OTMS). The disputes relate to alleged tank damage and/or contamination and tank rentals payable. The Agency is continuing to pursue investigations to reach an agreed settlement.

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 or European Agricultural Fund for Rural Development. Any amounts disallowed will depend on the assessed loss to the fund from the breach of the regulations. There is an ongoing potential liability in respect of financial corrections for such breaches which is not quantifiable until the formal proposal is made and confirmed. This follows from an audit and subsequent clarification negotiations with the European Commission in accordance with the European Commission's clearance of accounts procedure. The financial corrections are accounted within Defra's net operating costs.

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

Contingent assets

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.

30. 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 had transactions with the following Non-Departmental Public Bodies which are also linked to Defra:

- Natural England;
- Regional Development Agencies;
- Agriculture and Horticulture Development Board; and
- DairyCo (formerly Milk Development Council now a division of 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 and Investigations Directorate;
- Welsh Assembly Government;
- Department of Agriculture and Rural Development, Northern Ireland; and
- Forestry Commission (as delegated paying agent).

Payments for Agents' Services as disclosed in Note 4 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

Jim 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 ended 31 March 2011 received £2k (2009–10: £1k) in Single Payment Scheme and Higher Level Stewardship payments.

Jim Godfrey, a member of the Agency's Audit and Risk Committee from 11 January 2010, is a director of RJ & AE Godfrey and Fen Peas Ltd which for the year ended 31 March 2011 received £651k (2009–10: £586k) and £nil (2009–10: £55k) 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 Greenpea Company Ltd, which for the year ended 31 March 2011 received £396k (2009–10: £429k) from the Agency in scheme payments.

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

31. Notional charges and non cash items

	Note	**Year to 31 March 2011**		Year to 31 March 2010 *Restated	
		£000	**£000**	£000	£000
Notional Charges					
Audit fee	4		**460**		490
Defra charges					
Capital charges – buildings	4	**13,044**		15,084	
DIS Income	12	**(780)**		(727)	
			12,264		14,357
Total Notional Charges			**12,724**		14,847
Other Non Cash Items					
Depreciation	4		**2,534**		3,954
Amortisation	4		**18,753**		15,207
Impairment	4		**716**		0
Loss on disposal of assets	4		**113**		1,003
Release from allowance for doubtful debt	5		**(461)**		(9,542)
Provisions provided in year	23		**1,475**		1,902
Provisions unwinding of discount	23		**69**		102
Provision not required written back	23		**(751)**		(2,001)
Total Other Non Cash Items			**22,448**		10,625
Total Non Cash Items			**35,172**		25,472

* The 31 March 2010 column has been restated to exclude notional cost of capital (as explained in Note 2) and to exclude Movements in cash flow hedge reserve.

32. Losses and special payments

	Year to 31 March 2011		Year to 31 March 2010	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	**1,165**	**7,539**	28,100	13,089
Claims waived or abandoned	**11,920**	**854**	3,089	400
Administration write off	**5**	**15**	0	0
Special payments	**1,228**	**652**	240	3,209
Realised exchange losses	**0**	**18,325**	0	0
Total	**14,318**	**27,385**	31,429	16,698

Losses exceeding £0.25m	**£000**	
Paul's Malt	1,292	The companies received payments under 'Export Refunds (Malt) and pre-financing arrangement' relating to 1997 and before. The Agency identified irregularities in the payments and in 2001 the Agency commenced legal proceedings to recover the debt. Some recoveries were made against the original debt. The Agency has written off the unrecovered balance.
Crisp Maltings	307	
Baird's Malt	340	
Abbey View Ltd	416	The company received payments from the 'Fresh Fruit & Vegetable Aid Scheme 2004, 2005 and 2007'. In 2008 the Agency commenced recovery action for ineligible funding. On appeal the Agency agreed that this debt should be written off. The amount includes claiming for ineligible funding plus penalties and interest.
Glenfarm Holdings Ltd	588	Compensation for damage to rental premises.
IT Project	716	Cancellation of the Update Customer Details part of the Agency's eChannel Project.
Realised exchange losses	18,325	Losses due to fluctuations in exchange rates. See Notes 1.11, 1.13 , and 1.15.
Total	21,984	

There are no Special Payments exceeding £0.25m.

33. Events after the reporting period

During April 2011, the Agency took the decision to release 112 employees under a voluntary exit scheme. The estimated cost in relation to the scheme to be incurred in the year ended 31 March 2012 is approximately £3.2m and has not been included in these accounts.

These Accounts have been authorised for issue by the Accounting Officer on 15 July 2011.

34. Sugar Production Levies

As explained in Note 2, the Agency has changed its accounting policy with respect to sugar 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 2011	Year to 31 March 2010
	£000	£000
Sugar Production Levies collected or accrued in the financial year	**10,902**	11,560

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 shown below:

	Year to 31 March 2011	Year to 31 March 2010
	£000	£000
Amount payable to the Consolidated Fund		
Balance held at the start of the year	**11,560**	10,019
Amount collected or accrued in the financial year	**10,902**	11,560
Payments into the Consolidated Fund	**(22,462)**	(10,019)
Balance held on trust at the end of the year	**0**	11,560

The Agency held £nil cash at 31 March 2011 (2010: £11.56m) which had been collected from customers but had yet to be paid to HM Treasury. These balances are excluded from the financial statements.

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