rural payments agency

Rural Payments Agency Annual Report and Accounts 2009-2010

Rural Payments Agency Annual Report and Accounts 2009-2010

TSO

Rural Payments Agency
Annual Report and Accounts
2009–2010

Presented to the House of Commons pursuant to Section 7(2) of the Government Resources and Accounts Act 2000
Ordered by the House of Commons to be printed 26 July 2010

HC141 London: The Stationery Office £16.00

ISBN: 9780102966138

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

ID P002366890 07/10

Printed on paper containing 75% recycled fibre content minimum.

Contents

Foreword by the Chief Executive

The Rural Payments Agency (the Agency) continues to strive to provide a consistently good quality service for our customers and achieve all its externally published targets.

The programme of enhancements to the Single Payment Scheme has enabled better claim validation resulting in faster payments for the 2009 Scheme year. Eighty five percent of farmers were paid in the first month of the payment window opening, representing a significant improvement on previous years. The Agency is focused on paying outstanding claims as quickly as possible.

Last year the National Audit Office (NAO) conducted a Value For Money (VFM) audit of the Single Payment Scheme. In doing so it reported a number of areas of concern relating to the cost and effectiveness of the system used to administer the scheme. While costs for the Agency overall have reduced, much more needs to be done to bring down the cost of claim processing. The recommendations from the Public Accounts Committee, along with previous reports from the NAO and the Environment Food and Rural Affairs Select Committee, were incorporated into the 2013 Defra Review of RPA. The review systematically looked at our Finance, Operations and Information Technology systems. The findings published on 20 July 2010, show significant improvement opportunities exist.

The Comptroller and Auditor General qualified the Agency accounts for 2008–09 because data on debt was unreliable and International Financial Reporting Standards had not been applied correctly. Further work to resolve unreliable data is needed and will continue throughout 2010–11. The difficulty of working with systems and data established during the implementation of the Single Payment Scheme in 2005 continues to drive up costs and generate errors. The Agency has struggled to resolve or bring these matters to a close. The solutions that will be made possible by the 2013 Defra Review of RPA need to be embraced and pursued relentlessly.

Work to update mapping information held by the Agency has completed and will reduce the risk of financial correction being applied by the European Commission. Additional work caused by a knock on to the Single Payment Scheme 2010 has been incorporated into our plans for processing Single Payment Scheme 2010 applications although progress at the same level as 2009 will be difficult to achieve without a continuing focus on making accurate payments early in the payment window.

The Parliamentary Ombudsman reported on two specific cases relating to the 2005 Single Payment Scheme year. We accepted her conclusion that there had been maladministration.

I am very committed to investment in our people through training and development and am delighted the Agency regained its Investors in People accreditation in December 2009. I am grateful to everybody working in the Agency for their efforts and contribution made towards improving our performance.

Tony Cooper
Chief Executive
21 July 2010

Management commentary

The Rural Payments Agency is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra) and was formed in October 2001. As an accredited paying agency under European Commission regulations, we make support payments to farmers in England and to traders throughout the United Kingdom (UK). We manage reimbursement submissions to the European Commission on behalf of Natural England in respect of rural development and on behalf of 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 (CAP) 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 also carry out a wide range of inspections on farms and at abattoirs, factories, ports, airports and markets to make sure CAP scheme rules are met and that claims for payment are valid.

In 2009–10 the Agency paid in the region of £2.05 billion to farmers and traders across the UK under related schemes and distributed a further £1.23 billion to other paying agencies in the UK. There are some 60 schemes, varying greatly in size. For example, the Single Payment Scheme receives applications from approximately 107,500 farmers in England. The 2009 Single Payment Scheme fund value was £1.88 billion, whereas some small scale trader schemes may receive a total of 10 applications valued at less than £10,000 in a year. We manage these 60 schemes directly, but we are also the paying agency for a further 30 schemes delivered by other organisations including Natural England and the Forestry Commission.

Each CAP 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 (disallowance), resulting in the UK taxpayer being penalised.

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

Agency objectives and performance

Objective 1

To make Single Payment Scheme payments accurately and to progressively reduce the time from claim to payment.

What we set out to achieve in 2009–10:

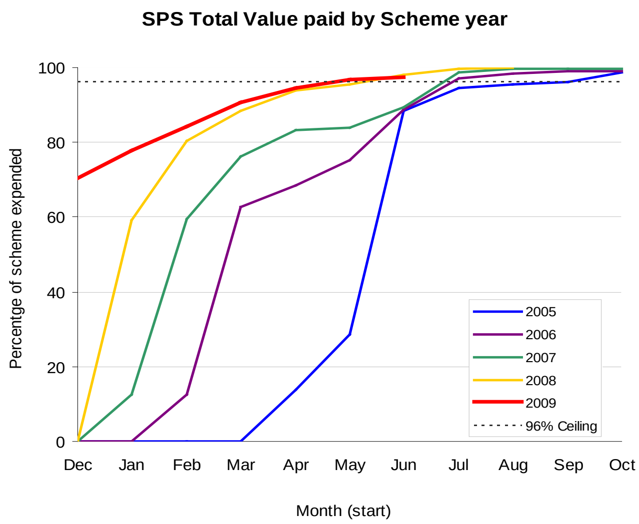
Improve our business processes to make earlier payments to more farmers compared with previous scheme years, continue the development of an electronic application for the Single Payment Scheme, update the Rural Land Register and upgrade our customer register.

2009–10 Performance:

Further enhancements of Single Payment Scheme processing led to faster claim validation and payments. We met our first performance target five weeks early. On 16 April, the Agency met its final 2009 Single Payment Scheme performance target set by the European Union, to make 95.238% of payments by value by the end of June 2010. We had made 99.99% of payments by value by the end of June 2010. We also met our performance targets for rural development, trader scheme payments and livestock tracing.

The SPS Online service was successfully piloted in the 2009 scheme year. We have rolled out the SPS Online service to all applicants for the 2010 scheme year. Over 16,000 farmers submitted their 2010 Single Payment Scheme application using both Farm Software packages (2,781 applicants) and SPS Online (13,443 applicants). This is equal to some 15% of Single Payment Scheme applications received by the Agency.

Updating mapping information held on the Rural Land Register is complete. This will improve accuracy and significantly reduce the risk of disallowance arising from the use of historic land information. The updated information is being used by members of the Defra Network including Natural England and the Forestry Commission.



Objective 2

To provide services allowing greater direct access for customers and improve our customer satisfaction results.

What we set out to achieve in 2009–10:

Increase choice of ways to make a Single Payment Scheme application and a new online Cattle Tracing System. Create a customer research panel of farmers to improve our understanding of our customers' viewpoints. Where possible reduce the administrative burden on our customers.

2009–10 Performance:

Customer satisfaction with the Agency's service continues to improve.

We developed a new and improved Cattle Tracing System Online (CTS Online). This is a customer facing website which allows cattle keepers to send information directly to the central database.

We have introduced an alternative to paper-based customer registration through telephone services, reducing workloads and increasing accuracy. We continue to offer drop in centre facilities.

We launched a farmers' panel and a panel of inspectors, to gather information on our customers' experiences and inform us on how we can improve initiatives and policy decisions.

We continue to apply Better Regulation principles where possible. Our guidance and forms are designed to be easier to understand, and less time consuming for our customers to complete. Improvements to the Single Payment Scheme system have achieved a significant reduction on the administrative burden to farmers.

Objective 3

To administer and regulate agricultural subsidy, rural development, trader and livestock schemes.

What we set out to achieve in 2009–10:

Improve the Cattle Tracing System online services and launch a new online system. Link the Cattle Tracing System to that in Northern Ireland and improve recording of cattle death information. Provide support for the Rural Development Programme for England. Manage the move from Hill Farm Allowance to the Uplands Entry Level Scheme. Manage declining trader schemes and introduce relevant CAP Health Check changes. Administer the restructuring of the sugar regime, and the Fresh Fruit and Vegetable Aid Scheme. Introduce changes to the School Milk Scheme.

2009–10 Performance:

The new version of CTS Online was launched in October 2009. It was developed in collaboration with Defra's Whole Farm Approach and uses Government Gateway security. More than 50% of cattle births and nearly 20% of movements have been reported using the website.

A new application, UK Cattle Movements, was released in April 2009 this enabled staff to see cattle tracing data from the whole of the UK by drawing information from both Great Britain and Northern Ireland databases. This has brought the UK into line with European Union requirements and enabled a reduction in cattle identification inspections from 10% to 5% from 2009 onwards. We upgraded the ear-tag allocation system to enable the ordering of electronic tags for sheep and goats in September 2009.

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. We supported the development of the Uplands Entry Level Scheme by Natural England as well as developing the Uplands Transitional Payment to begin in 2010–11.

Processing of export refund claims and import and export licences has been maintained within Ministerial and regulatory targets. The Agency has also made payments under the European Union Dairy Fund, with a total value of €29 million being distributed to UK dairy farmers. The Agency reached the target of paying out in excess of 95.29% of the Fund by 30 June 2010. Cereals intervention also started again in 2009–10.

We made 99% of sugar restructuring payments to beet growers and machinery contractors within the regulatory window. We implemented a new school milk regulation. We made CAP Health Check changes to milk quotas, including the allocation of the first five annual 1% milk quota increases to UK producers.

Objective 4

To work closely and constructively with Defra and the Defra Network, including providing accurate and timely delivery input into policy development.

What we set out to achieve in 2009–10:

Strengthen relationships with Defra and Defra Network members, continue to take part in joint working initiatives and work towards better strategy development and risk management within the Department. Work with the Department to introduce the CAP Health Check changes and participate in discussions on future policy changes.

2009–10 Performance:

We contributed to the Defra Network Horizon Scanning and Futures work to enable better development of policy and management of the Agency.

We met with Defra Network of Strategy and Risk teams during the year to build on good practice risk management and strategic planning throughout the network.

Our work with Defra and the Defra Network on the introduction of changes to the Single Payment Scheme was successful, and came into force on 1 January 2010. These changes include new cross compliance rules, minimum claim size and a shortened usage period for unused entitlements for the 2010 scheme year.

We have worked with colleagues in Defra to improve the Cattle Tracing System processes. An improved service launched in October 2009, has reduced the burden on farmers.

We continue to operate Defra Investigation Services (DIS) on behalf of the whole Defra Network.

Objective 5

To develop leadership and learning so that the Agency improves the competence and performance of its people.

What we set out to achieve in 2009–10:

Roll out management and leadership development programmes; improve the performance management system; develop a pay and reward strategy; provide training for processing staff to support system developments and to become a customer-led organisation; introduce specialist training for professional groups; and enhance career development.

2009–10 Performance:

The Agency was re-accredited with Investors in People status in December 2009.

An independent evaluation of the Leadership Development Programme has resulted in a more bespoke and modular approach in 2010–11. This will include coaching for senior leaders and Agency Management Board members based on their individual needs and requirements.

The Advanced Management Skills Programme was designed to develop the skills of our middle management in areas such as leadership and managing change.

We have simplified the Performance Management System and we are developing a pay and reward strategy, taking into account the current constraints on public expenditure.

Progress has been made on the majority of initiatives within the Performance Work-stream of the What We Do Matters initiative.

Training on protecting information was rolled out across the Agency to improve security awareness. At Level 1, all employees and non-permanent employees completed the training course. Level 2 training was successfully completed by the Senior Information Records Officer, Information Asset Owners and Accounting Officer.

The Inspectorate is an approved centre for the award of Edexcel and NPTC qualifications and offers a range of accredited qualifications under its Professional Development Programme. Over 50% of inspectors have obtained an award under the Professional Development Programme.

Succession plans are in place for key business roles which will be reviewed by the Agency Management Board twice a year. In addition, we have also introduced a leadership potential group. Succession planning for all Senior Civil Service posts is now conducted twice a year with Defra. This will be used to plan recruitment activity.

Objective 6

To minimise disallowance, particularly around the Single Payment Scheme.

What we set out to achieve in 2009–10:

Support Defra in managing the risks around the Single Payment Scheme in 2005–08; close the Structural Funds 2000–06 Programme as required by the European Commission; strengthen procedures to identify and reduce the risk of disallowance; introduce strategic data quality management. Improve training and guidance for processing staff.

2009–10 Performance:

Our arrangements for managing the risk of disallowance are well embedded. The Disallowance Risk Control Framework requires the recording and management of risks and better informed decision making based on advice from the Disallowance and Accreditation Committee.

We have engaged with external European auditors to share best practice on the operation of the Single Payment Scheme. We have gained a greater understanding of the concerns being raised and appropriate actions to mitigate the risk of future financial correction and reduce that applied for previous years.

The Agency submitted the Structural Funds closure document on 31 March 2010.

A Data Quality Management Strategy covering the range of the Agency's responsibilities sets out the principles to apply across the Agency.

Training needs for staff working on the Single Payment Scheme continue to be identified and met via local training matrices. Improved guidance and instructions are being developed and accredited trainers are working with our Single Payment Scheme teams to ensure improved capability.

Objective 7

To increase operating efficiency by managing resources better, utilising technology and sharing Government services.

What we set out to achieve in 2009–10:

Apply Better Regulation principles in planning and delivery; contribute to Defra's Simplification Plan by making changes which reduce the burden on customers; develop ways to anticipate risks, and deliver good quality information technology improvements on time and within budget.

2009–10 Performance:

The Agency's net running costs in 2009–10, at £225m, were £15m lower than in 2008–09. We have reduced the Agency's overall full time equivalent headcount from 3,708 at 31 March 2009 (2008–09: average 3,700) to 3,265 at 31 March 2010 (2009–10: average 3,407).

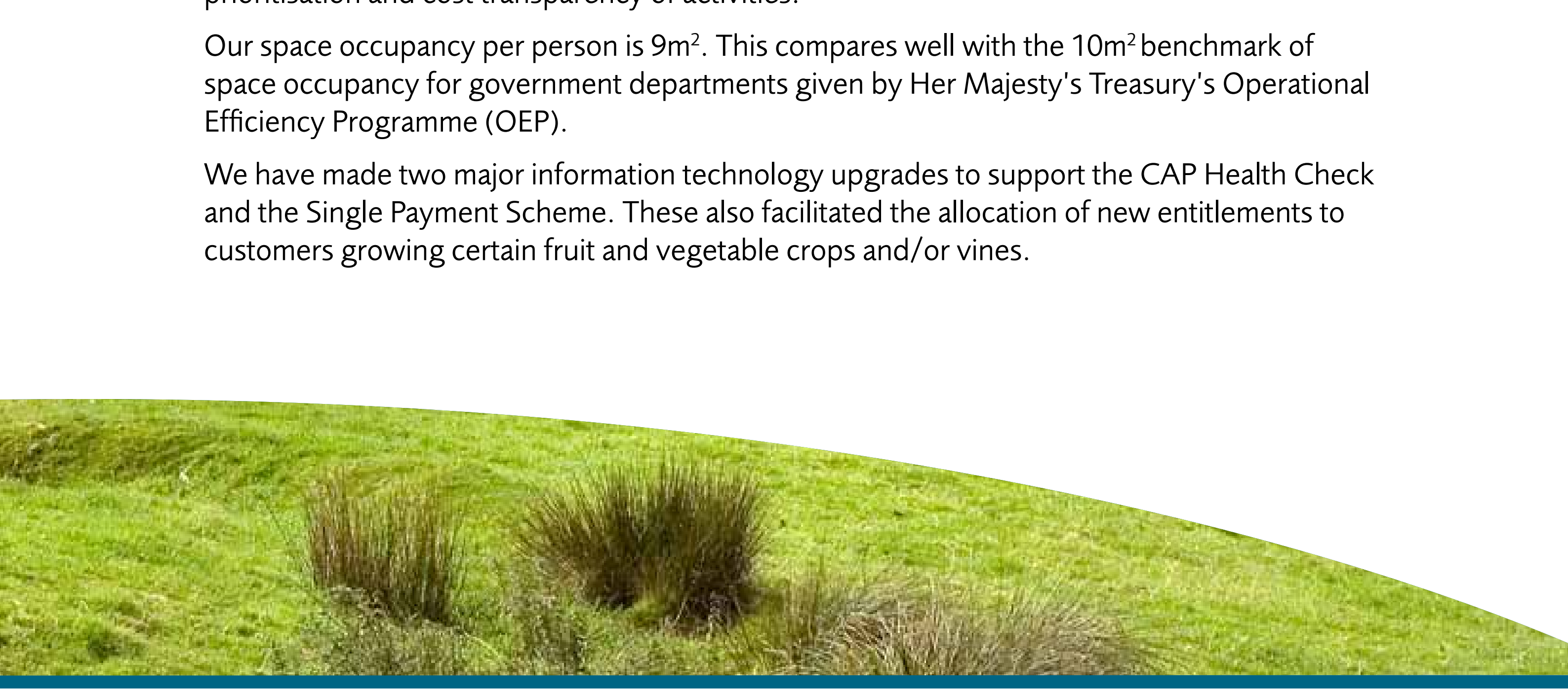
Compulsory online training in diversity awareness is being rolled out across the Agency and will form part of the induction process.

We improved risk management techniques, with increased levels of controls and mitigations. All key risks include a forward schedule of mitigations, which is regularly reviewed by the Agency Management Board and Agency Executive Group. Two corporate risk management training courses are now available to staff.

Our What We Do Matters Workforce Planning initiative is reviewing the number, location, grade profile and skill sets of staff in the Agency. In addition, an Agency-wide priority based budgeting exercise was conducted for the 2010–11 resource allocation, to allow systematic prioritisation and cost transparency of activities.

Our space occupancy per person is 9m^2. This compares well with the 10m^2 benchmark of space occupancy for government departments given by Her Majesty's Treasury's Operational Efficiency Programme (OEP).

We have made two major information technology upgrades to support the CAP Health Check and the Single Payment Scheme. These also facilitated the allocation of new entitlements to customers growing certain fruit and vegetable crops and/or vines.



Performance against targets

	Target	Achievement *
1	To administer Common Agricultural Policy and other schemes to meet the following requirements: • To have paid 75% by value of valid Single Payment Scheme 2009 claims by 31 January 2010 and 90% by value of valid 2009 claims by 31 March 2010. • To process and pay at least 90% of valid claims by volume for non-Single Payment Scheme schemes within Ministerial guidelines and 99% within the set European Commission deadlines or in their absence within 60 days of receipt of the claim. • 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
2	To demonstrate a continued commitment to customers by achieving a minimum annual average customer satisfaction score of 7.0 out of 10.0, as measured through surveys of external customers, and by reducing the number of complaints received compared with 2008–09.	Met (in part) **
3	To demonstrate clear progress towards achieving Her Majesty's Treasury (HM Treasury) disallowance target of 2% or less of fund value, for all Common Agricultural Policy schemes directly administered by the Rural Payments Agency.	Unable to assess ***
4	To demonstrate a 9% reduction from the 2008–09 year in the cost of administering the Agency without compromising service delivery.	Met #
5	To demonstrate improved capacity and capability to meet targets and implement change.	Met (in part) ##

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

** This target was divided into two parts. The first relating to our average customer satisfaction score which was 7.3. The second part relates to customer complaints. The overall assessment is considered part met as we did receive 174 more complaints compared with 2008–09.

*** Although evidence of progress in this area was assessed it was felt that it was not possible to take a view on whether, and to what extent, the current action being taken to mitigate/control disallowance will result in an actual disallowance of 2% or less.

The costs used for calculating performance against target 4 are based on a technical note agreed with Defra. This includes staff, non-pay costs and capital expenditure and excludes non-cash and the UK Co-ordinating Body costs together with a number of other adjustments to determine costs within the Agency's control.

This target was divided into two parts for assessment. The first related to the delivery of key business change projects, and the second to achievements in HR related issues. The overall assessment is considered part met due to the non-delivery of the RLR data refresh project.

Financial review

Preparation of the Annual Report and Accounts

The Agency's Statement of Accounts reports the results for the year 1 April 2009 to 31 March 2010. 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 Statement of 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 £490k was incurred for the audit of the Agency's accounts (2008–09: £448k). The Comptroller and Auditor General is also the auditor of the Statement of Accounts for the European Agriculture Guarantee Fund and for the European Agriculture Fund for Rural Development which have financial years ending on 15 October. The cash cost incurred for the audits of these funds for the year ending 15 October 2009, which cover all UK paying agencies, was £1,198k (2008–09: £1,182k).

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

2009–10 is the first year in which the financial statements of central government bodies have been prepared on the basis of International Financial Reporting Standards rather than UK Generally Accepted Accounting Practice (GAAP). The effect of the change for both 2009–10 and for the comparative year 2008–09 is set out in Note 2 to the Statement of Accounts. In addition to a change in nomenclature (for example, fixed assets are now non-current assets, debtors are now receivables and creditors are now payables etc), the change has resulted in the Agency reviewing its accounting policy for how the costs and income of the Single Payment Scheme are recognised. The new policy is set out in Note 1.12.

The Agency's running costs in 2009–10, at £225m, were £15m lower than in 2008–09 reflecting the steps taken in the year to improve efficiency. £11.5m of this reduction came from lower staff costs and £3.5m resulted from reducing other running costs and from income. The increase in non-cash costs set out in Note 4 of the Statement of Accounts followed Defra's decision to revert from hard charging to notionally charging for the accommodation leased or owned by Defra which the Agency occupies.

The Agency paid £130m (see Note 5) more in scheme expenditure in England in 2009–10 than in 2008–09, primarily resulting from increased payments to trader schemes (see Note 5). Foreign exchange gains (offset by the cost of capital) reduced 2009–10 scheme costs in England from the £2,090m paid to £2,054m, whereas foreign exchange losses and the cost of capital increased the cost of the £1,960m paid in 2008–09 to £2,240m. With scheme income for 2009–10 remaining similar to that in 2008–09, the net 2009–10 position for England was a gain of £17m compared to a cost in 2008–09 of £161m.

The Agency also increased the funding to Scotland, Wales, Northern Ireland and the Forestry Commission in the year by £159m from £1,067m to £1,226m as a result of movement in the euro/sterling exchange rate for the Single Payment Scheme. 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 rose from £1,127m to £1,218m, resulting in a net cost for the year of £8.2m.

The effort made by the Agency during 2009–10 to speed payment of the Single Payment Scheme in England and then to seek reimbursement of payments made from the European Commission, resulted in the Agency's Statement of Financial Position transforming from the 2008–09 position, in which liabilities exceeded assets by £245m, to a position in which assets at 31 March 2010 exceeded liabilities by £24m. £231m of this £269m transformation is the combined result of paying claimants more promptly and hedging foreign exchange risks (that is trade payables, cash and derivative liabilities reduced by £381m, £314m and £83m respectively, while receivables and derivative assets increased by £74m and £7m respectively).

The remaining £38m of this £269m transformation resulted from a £24m increase in intervention stock inventories for butter, milk powder and barley, a £6m increase in non-current assets, and an £8m reduction in current and non-current provisions.

Financial commentary

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

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 on the last working day of September for the scheme year) 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. Given the extent and complexity of scheme regulations, 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 Management Board. The Committee meets monthly to actively manage and monitor disallowance risk through the Disallowance Risk Control Framework, which sets out requirements, of scheme control plans and their reporting requirements and ensures that these are fully taken into account in business decisions. The Agency has no direct control over any disallowance that might be proposed by the European Commission, but has continued to seek to mitigate this risk through its scheme delivery and through liaising with the 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 potential 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 during 2009–10 to address the financial weaknesses these qualifications and this review revealed. The finance team has been supported by an additional experienced Finance Director provided by Defra and by additional resources from Deloitte. 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 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.

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. For the year ending 31 March 2010 96% of payments for such invoices were made within this target (2008–09: 98%) and at 31 March 2010 trade payables to suppliers represented 11 days of expenditure (2008–09: 13 days).

For 2010–11, the Agency is implementing a 'No Purchase Order, No Payment' policy with suppliers and is taking steps to achieve the revised payment target, set for central government departments in the March 2010 budget, to pay 80% of undisputed invoices within 5 days from May 2010.

Public interest

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 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 throughout the year with Defra, Natural England, Animal Health, the Forestry Commission, local authorities, government offices and Regional Development Agencies. This collaboration has helped us to make payments, carry out livestock tracing and inspections, and it has supported rural development.

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 and monitors customer satisfaction with our services. The Customer Improvements Team has worked closely with colleagues throughout the Agency to make improvements in order to achieve greater customer satisfaction.

Having listened to our customers and taken action to improve customer service in 2009, over 500 members of staff across the Agency took part in a series of farm visits in different parts of the country. These visits involved a first hand look at the work and responsibilities that form the 'working day' of a farmer. This gave them a chance to see a working farm and understand the types of issues affecting rural businesses.

The Agency worked closely with Defra and the Defra Network to identify joint working opportunities and 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 this year. We intend to introduce more electronic channel services in the future.

Customer complaints

We monitor the number of formal complaints which our Customer Relations Team receives from customers, their agents and Members of Parliament. We recognise there is further improvement required and will use complaints to help identify areas in most need.

	2009–10	2008–09
Number of complaints	1,116	942

Appeals

The formal appeals process enables customers to challenge decisions under any of the schemes we manage. This is a two stage process. Stage 1 is an internal review of the case by our Customer 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 2009–10 the Agency received 422 Stage 1 Appeals, and 116 Stage 2 Appeals. The majority of the appeals received were in connection with the Single Payment Scheme. This year we streamlined the Stage 2 Appeal system to resolve cases sooner.

Freedom of Information

In the year to 31 March 2010 we responded to 554 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 which the Agency administers support the farming and agri-food industries. 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.

The Agency is a national employer with sites in Carlisle, Exeter, Newcastle, Northallerton, Reading and Workington. Many of our staff have strong personal connections with farming communities. Our Inspectorate is based in 43 offices across England, where we share accommodation with other members of the Defra Network. We open 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 2010 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. This year, to improve our customer service, we have opened additional drop in centres in Truro and Wye (Kent).

Stage 1 Appeals	Number of Appeals (withdrawn)	Unresolved	Resolved	Successful	Partially Successful	Unsuccessful
Single Payment Scheme	418 (7)	177	234	55	10	169
Other schemes	4	2	2	1	0	1

Stage 2 Appeals	Number of Appeals (withdrawn)	Unresolved	Resolved	Successful	Partially Successful	Unsuccessful
Single Payment Scheme	115 (7)	70	38	0	0	38
Other schemes	1	1	0	0	0	0

Risk management

The Agency is exposed to a range 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, political, reputational and legal risks has been an integral part of the strategic, corporate and business planning process. Our risk management process continues to provide procedures for the systematic identification, escalation and management of risk. Assessment and review of risk has taken place at all levels including corporate, directorate, project, partnership, team and individual. Agreed action plans are in place to address significant risks and these are regularly reviewed and challenged at appropriate levels. Risks are recorded in the Agency risk register.

Our risk management strategy provides the framework, within which the Agency leads, directs and controls the management of risks and issues affecting the business. It underpins the Agency's reputation and performance. We continue to seek ways of improving how we manage risks within the Agency.

External audit activity of schemes

We have supported external audit bodies in their activities relating to the conformity (within scheme rules), of the Agency's transactions, and assurance of its accounts and control procedures.

We have provided evidence and discussed changes made to the delivery of the Single Payment Scheme. In particular, we have focused on developments to improve the accuracy of the Rural Land Register and entitlements. We have explained the impact of the incremental programme of improvements through the conduct of audits undertaken by the European Commission and European Court of Auditors. We have successfully argued in bilateral discussions with the European Commission and through the conciliation process, that the proposed levels of financial correction should be reduced to reflect these improvements.

The increased work and expenditure under the Rural Development Programme has resulted in more audit activity. The Agency's working arrangements with its delegated bodies, Natural England and the Regional Development Agencies, who together make payments under the programme, has been subject to detailed scrutiny.

Sustainable development

The Agency follows the Defra Environmental Policy. We are working to reduce the size of our estate and are working with other agencies to maximise the use of space on our larger sites. Our performance for space occupancy is well within the top 25% of the best performing government departments and agencies. By reducing our accommodation footprint we have also reduced our carbon footprint. We plan further rationalisation in the future which will reduce our environmental impact still further.

We have met the requirements of the Environmental Management System International Organisation for Standardisation (ISO) ISO 14001:2004 at all of the Agency's main sites.

This year has been a bedding-in period for Interserve which is Defra's agent for supplying sustainable workplace management. Some initiatives, around changing people's behaviour have been rolled out and the response from staff has been very positive. We expect to see greater progress next year. An internal sustainability report has been prepared for this year and we expect to publish one next year on our website.

We are committed to minimising our environmental impact. We are encouraging our customers to apply online, reducing the need for paper forms and we have set up further drop in centres for Single Payment Scheme applications to minimise the travel undertaken by our customers. Within the Agency we have improved our video conferencing facilities to reduce the need for staff to travel to meetings. Many of our staff, particularly those within the Inspectorate do need to travel to verify claims. For these staff, a new assigned car scheme has been introduced which only includes vehicles with carbon dioxide (CO_2) emissions to a maximum of 130g/km CO_2 or less. We are reviewing our travel policy to increase the emphasis on sustainable travel.

Equal opportunities and diversity

The Agency is committed to embedding the principles of equality and diversity into the workplace. We have signed up to the Defra Equality Schemes on Disability, Gender and Race and we have also:

- Published a commitment to equality of opportunity in all of our recruitment and we 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 2010 was 15.8%.
- Retained the Two Ticks – Positive about Disabled People symbol which guarantees interviews to internal and external job applicants with disabilities who meet the minimum requirement for that job.
- Started working with the staff Disability Support Network to improve the design and delivery of the support we provide to staff with disabilities and to ensure that staff who become disabled while in employment, are retained either in their existing post or in alternative suitable work.
- Monitored how we comply with a range of employment policies using diversity data. We are improving the diversity data collection processes to help us monitor the data.

The Agency strengthened its relationship with Defra to support the Race, Gender and Disability Equality Schemes being put in place. We have been involved in planning activities to review equality impact training across the Defra family and in planning activities to respond to the new Equality Act. We completed and published 21 equality impact assessments on a range of Human Resources policies, office relocations and organisational changes. We are represented on the Defra Diversity Champions Group and are actively involved in the Departmental Equal Opportunities Committee. We are building relationships with the staff support networks to make sure they are involved with any developing work across the Agency.

Information Handling

The Agency has a Senior Information Risk Owner at Agency Management Board level. He advises the Agency on the approach to be taken to security and for handling high level security risks. The Senior Information Risk Owner is also responsible for resolving any differences of opinion on security risks. We recognise that customers rely on us to keep the personal information they supply to the Agency secure. This is reinforced by the need to meet legal, contractual, duty of care and best practice requirements. We are subject to annual audits by our own Internal Audit and security teams and various external auditors who specifically target information security management.

The Agency has a structured and consistent method to measure compliance against the Cabinet Office's Security Policy Framework and ISO 27001:2005 requirements. Most sites, suppliers and delegated bodies have been assessed under ISO 27001:2005. The Security Policy Framework and ISO 27001:2005 are mandatory security requirements that the Agency must follow.

Summary of other protected personal data related incidents in 2009–10

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office, but recorded centrally within Defra, are set out in the table below.

The category II loss refers to the well publicised incident involving unaccounted for tapes which could have contained protected personal data. This incident related to two backup tapes used in the IBM data centre to provide IT services for the Agency. It was established that a combination of several low probability events would have to take place for the tapes and the information to be misused. In particular, the tapes were not of a type that could be easily read, specialist equipment and technical skills would have been needed. The risk of these tapes having been stolen for criminal purposes by someone with access to the system in the data centre is low. In April 2010 the Information Commissioner's Office conducted an audit on our revised procedures for handling removable media.

Two of the category IV incidents involving possible unauthorised disclosure were wholly within the Agency and were raised by observant staff. Procedures are being, or have been, put in place to address the issues. The other two incidents relate to our printers inadvertently sending out the wrong Single Payment Scheme application forms (SP5) to farmers. The data was not considered sensitive. The Agency visited the printers to review their operations and procedures in April 2010. The category V incident has led to further guidance on data transfers being issued.

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	4
V	Other	1

Wider security

A programme of work is looking at ways to improve security within the requirements laid down in the Security Policy Framework. This covers the Data Handling Review, the Baseline Personnel Security Standard; Counter Terrorism Protective Security information and IT security. Additionally the European Union requires us to comply with ISO 27001:2005.

Health and Safety

This year the Agency focused on reviewing our management of health and safety to make sure that arrangements in place to protect our staff and customers remain effective and follow best practice guidelines. We have increased the visibility of health and safety leadership, and improved our health and safety culture throughout the organisation. The Agency Executive Group 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 7.4 for 2009–10, this was an improvement on 7.0 for 2008–09. The CHaSPI tool will continue to be used to set future targets for continuous improvement. The Agency also underwent an independent, external audit of health and safety arrangements this year. The audit found that we had a robust health and safety management system and that there was excellent management support for improving health and safety across the Agency. There were, however, some areas for improvement identified and have been used to set health and safety objectives and targets for 2010–11.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations	Number
Fatal injuries	0
Major injuries	4
Dangerous occurrences	0
Over three day injuries	6
Total	**10**

#	Number
Animal related	7
Ill health (including musculo-skeletal)	38
Minor/other	46
Near misses	49
Road traffic accidents	18
Slip, trip, fall	52
Violence/aggression/verbal abuse	13
Total	**223**

Health and safety incidents reported

Work related incidents, including near misses, ill health and violence/aggression/verbal abuse are reported centrally to the Health and Safety Unit. In accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1996 (RIDDOR) the Agency reported no fatalities during 2009–10. 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 for the year is set out on page 24.

Human Resources policies

The Agency has revised and reissued policies on: whistle-blowing, anti-violence and abuse, home working, flexible working, career breaks, annual and special leave, e-mail, internet and electronic communications usage, conduct and propriety rules, bullying and harassment, family leave and redeployment. The Agency's ethical values have been discussed by the Agency Management Board and this has led to a tightening of our processes, including producing an annual report for the Agency Management Board on all corporate people issues.

The recruitment policy is currently under review as a matter of priority, addressing the areas for concern highlighted by Internal Audit. This saw a new recruitment process in place at the end of the financial year. An updated travel and subsistence policy is planned for the beginning of 2010–11, which will look at increased efficiency and sustainability.

Sickness absences

At 31 March 2010, the average working days lost to sickness was 10.2 days per employee (12 month rolling period). This compares with 11.2 working days lost per employee year in 2008–09. We have introduced further management tools for sickness absence, including alerts for managers highlighting when a threshold number of days of sickness absence have been taken.

Management structure

Directors

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

Tony Cooper	Chief Executive
David Halsey	Chief Information Officer and Senior Information Risk Officer
Steve Pearce	Chief Operating Officer
Robin Moulson	Finance Director
Jacqui Marshall	Human Resources Director
Chris Swinson, OBE	Non-executive
Steve Betteridge	Non-executive until 31 March 2010
Nicola Bastin	Non-executive

Rural Payments Agency Audit and Risk Committee

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

Chris Swinson, OBE	Non-executive
Christine Tacon, CBE	Non-executive until 31 December 2009
Will Lifford	Non-executive
David Prince, CBE	Non-executive
Jim Godfrey	Non-executive from 11 January 2010

Information on directors' interests and on related parties can be found in Note 29 of the Statement of Accounts, related party transactions.

Defra's Strategic Advisory Board for the Rural Payments Agency

The Strategic Advisory Board advises Defra's Director General Food and Farming Group in its capacity as the Agency's Corporate Owner. The Board normally meets four times a year and members also advise the Agency and Defra on strategic aspects of our work where they have specific expertise.

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	Chief Executive, Rural Payments Agency
Anne Marie Millar	Finance Director, Defra
Chris Swinson, OBE	Non–executive and Chair of Rural Payments Agency Audit and Risk Committee
Philip Nunnerley	Non–executive, Defra
Nick Lock	Non–executive, Defra, from December 2009
Mike Segal	Director, Defra Farming for the Future (Corporate Customer) until November 2009
Sarah Hendry	Director, Food and Farming Group, representing Defra customer interests, from November 2009
Vic Platten	Head, Agency Relationship Team

Remuneration report

Remuneration policy

Although the costs for the Chief Executive and members of the Agency Management Board are included in the Agency's Statement of 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. Defra's Remuneration Committee takes the final decisions on relative assessments of staff performance. The membership consists of Defra's Director Generals, Chief Scientific Advisor, and the non-executive Chair of Defra's Audit and Risk Committee. It is chaired by the Permanent Secretary.

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 a pot 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 30) 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 26).

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 that end on 3 June, 2 July and 8 June 2011 respectively. Jacqui Marshall is on a secondment with an eight week notice period from the Ministry of Defence which ends on 30 November 2010 and Steve Pearce is employed on an interim basis with a one month notice period which is due to end on 31 October 2010. The Agency's non-executive Directors were also appointed on fixed term contracts with a notice period of one month: Chris Swinson was appointed on a contract that ends on 31 March 2011, Steve Betteridge was appointed on a contract that ended on 31 March 2010 and Nicola Bastin was appointed on a contract that ends on 21 October 2010.

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 2010, there were no outstanding loans to Executive Directors of the Agency Management Board (2008–09: nil).

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

No amounts have been paid during the year in respect of compensation or awards to former senior managers.

Salary and non-cash benefits (audited information)

Name and Title	**2009–10 Salary and Allowances paid #**	2008–09 Salary and Allowances paid #
	£000	£000
Tony Cooper* – Chief Executive	155–160	150–155
Hugh Taylor – Chief Operating Officer (from 11 June 2007 until 30 April 2008)	–	70–75 (80–85)
William Burton – Chief Operating Officer (from 19 May 2008 until 31 October 2008)	–	90–95 (240–245)
Steve Pearce** – Chief Operating Officer (from 16 October 2008)	250–255	115–120 (255–260)
Robert Kendall – Finance Director (from 4 June 2007 until 6 June 2008)	–	65–70 (175–180)
Robin Moulson – Finance Director (from 9 June 2008)	105–110	75–80 (95–100)
David Halsey – Chief Information Officer and Senior Information Risk Officer	130–135	130–135
Andrew Good – Human Resources Director (until 19 December 2008)	–	140–145 (185–190)
Jacqui Marshall*** – Human Resources Director (from 1 December 2008)	80–85	20–25 (75–80)
Steve Betteridge – (non-executive Director)	10–15	5–10
Nicola Bastin – (non-executive Director)	10–15	5–10
Chris Swinson – (non-executive Director) (from 1 April 2008)	15–20	10–15

\# Salary includes gross pay, non-pensionable, non-consolidated variable pay (NCVP), overtime, reserved rights, recruitment and retention allowances and any other allowances subject to UK taxation. Figures in brackets show reporting period equivalents for directors who started or left during the year.

* The remuneration shown for Tony Cooper includes costs which HMRC have yet to determine constitute a benefit-in-kind. They are based on the Agency's best estimate and are included to show the remuneration if they are so determined. They increase the remuneration shown from band 145-150 (2008-09: 140-145).

** Steve Pearce is employed on an interim basis. In the year ending 31 March 2010 payments totalling £320,224, including VAT of £39,781, were made to third parties in respect of his services.

*** Jacqui Marshall is on a two year loan from the Ministry of Defence. No payments are due to the Ministry of Defence under the terms of the loan agreement.

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 2010 and related lump sum	Cash Equivalent Transfer Value at 31 March 2009#	Cash Equivalent Transfer Value at 31 March 2010	Real increase in Cash Equivalent Transfer Value at 31 March 2010
	£000	£000	£000	£000	£000
Tony Cooper – Chief Executive	2.5–5 plus 10–12.5 lump sum	60–65 plus 185–190 lump sum	1,201	1,363	85
Hugh Taylor – Chief Operating Officer (from 11 June 2007 until 30 April 2008)	–	–	–	–	–
William Burton – Chief Operating Officer (from 19 May 2008 until 31 October 2008)	–	–	–	–	–
Steve Pearce – Chief Operating Officer (from 16 October 2008)	–	–	–	–	–
Robert Kendall – Finance Director (from 4 June 2007 until 6 June 2008)	–	–	–	–	–
Robin Moulson – Finance Director (from 9 June 2008)	0–2.5 plus Nil lump sum	0–5 plus Nil lump sum	28	62	29
David Halsey – Chief Information Officer and Senior Information Risk Officer	0–2.5 plus Nil lump sum	5–10 plus Nil lump sum	94	140	37
Andrew Good – Human Resources Director (until 19 December 2008)	–	–	–	–	–
Jacqui Marshall – Human Resources Director (from 1 December 2008)	5–7.5 plus 7.5–10.0 lump sum	25–30 plus 50–55 lump sum	316	416	77
Steve Betteridge – (non-executive Director)	–	–	–	–	–
Nicola Bastin – (non-executive Director)	–	–	–	–	–
Chris Swinson – (non-executive Director) (from 1 April 2008)	–	–	–	–	–

These figures may differ from the closing figures in last year's accounts due to the CETV factors being updated to comply with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

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.

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 Retail Prices Index (RPI). 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).

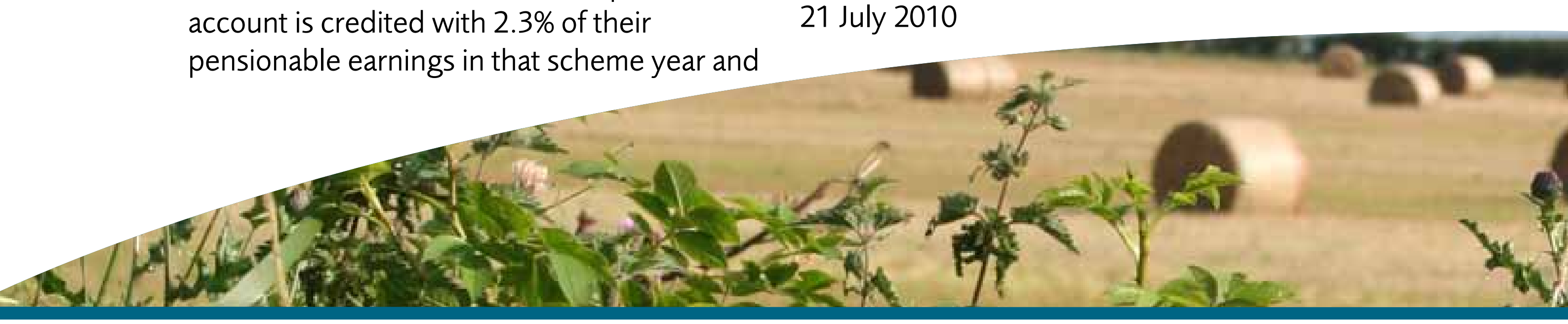
Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for Premium, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension 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 RPI. 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-pensions.gov.uk

Tony Cooper
Chief Executive
21 July 2010



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, Statement of 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:

- fulfil the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, 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

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.
- 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, the impact should they be realised, and to manage them effectively, efficiently and economically.
- Has been in place for the period of this report.

In response to a recommendation from my Internal Audit team, the Agency's Internal Control Framework was reviewed in 2009. As a result the Agency has documented the Internal Control Framework and identified those responsible for control areas. The framework has been used to inform 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 nine month and annual effectiveness questionnaires.

Capacity to handle risk

My Agency Management Board considered the strategic risks to delivering the organisation's business objectives and these were recorded on the Strategic Risk Register. The Agency Management Board considered the Agency's key strategic risks on a monthly basis and periodically undertook an in-depth assessment to ensure the right risks had been identified and were being managed. Individual Agency Management Board members were assigned responsibility for managing each risk, ensuring mitigation plans were in place and communicated throughout the business. The Audit and Risk Committee has overseen the strategic processes for risk, control and governance.

Agency identified risks are linked in to the Department through reporting to Defra's Strategic Advisory Board for RPA and work is underway to establish a shared view of strategic risks.

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 strategic oversight.

The risk and control framework

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

The Agency has in place a range of guidance and awareness products relating to risk, which continue to be widely available. My Risk Management Team and nominated Risk Managers promoted awareness and the sharing of best practice.

Recommended actions from the 2008–09 review of risk maturity and internal audits on risk management and corporate governance, such as; making Agency-wide risk training available, improving the quality of actions to address risks and improving the assessment of risk data quality have been taken forward and implemented to improve our maturity level. The Agency Management Board considered a further Agency assessment of risk maturity but concluded there was sufficient evidence available to indicate what further improvement in risk management was necessary before the assessment was made.

Each Directorate has maintained a risk register, with clearly defined escalation routes to The Agency Board via monthly Performance Reports. Executive Directors meet quarterly to look at cross cutting risks and the Agency Management Board recommends escalation of risks to Defra where appropriate.

The Agency must also apply controls to the schemes for which it is responsible. The Single Payment Scheme distributes significant funds from Europe and key controls are in place to ensure the claimant is entitled to claim, and has the right entitlements that relate to correctly defined land.

Review of effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors, the executive managers reporting to me 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.

The Agency was unable to administer the Single Payment Scheme effectively in 2005 and 70% of the Agency's focus has been on making payments to farmers under this scheme, putting in place arrangements to provide faster and more accurate payments and take the Agency forward to a position where it can run its business, demonstrate internal controls and prepare for the future. Moving the organisation from the crisis management position of 2006 and 2007 has taken longer than I anticipated. The legacy issues caused by the way the Single Payment Scheme was introduced continue to draw the attention of management away from the improvements and strengthening of controls required for the well being of the organisation, demonstrating value for money and continuously improving services.

The issues are caused by a combination of poorly created data in 2005 which was drawn from historic information, processor errors, gaps in the IT solution, over-engineered procedures and complicated policy.

In 2009–10 NAO undertook its third Value for Money Review and qualified the Agency Statement of Accounts for 2008–09 and identified poor quality data as a key issue.

Great progress has been made towards faster payment, with 85% of all farmers paid in December the first month of the payment window; Agency running costs have reduced by about 22% over the last two years; and, customer satisfaction levels have improved to acceptable levels. However, limited progress has been possible in bringing other issues to a satisfactory conclusion. In particular progress has been slower than necessary in two key areas. The first revolves around the quality of data held by the Agency and the second concerns stronger internal controls.

A project with the full support of the Agency was initiated by Defra to analyse the root causes of data errors and rectify them. Deloitte has been engaged by Defra to undertake the analysis and manage the project.

Significant effort has been applied to improving accuracy of payment. For example sample checks were made pre and post payment to measure and improve accuracy levels. During the past 12 months a major piece of work has been underway to address the shortcomings in the Rural Land Register which resulted in financial corrections (disallowance) being applied by the Commission for 2005 and 2006. The work was known to be difficult and a number of changes had to be made during the project to address how maps appeared and to deal with slower than anticipated progress. These difficulties demonstrate a lack of project skills, preparation and risk management. Other large scale projects have been completed successfully over the year and the lesson again for the Agency is to be measured by what it can achieve with its change and management capability.

Work has continued to correct errors in entitlements held by farmers. This has taken considerable effort and will require yet more activity to put right. The initial work to correct cases considered those aspects known to be incorrect. However cases were later found to have additional errors. System enhancements at the end of 2008 were made to enable corrections to be completed and cases recalculated for each year of the scheme. Relatively slow progress has been made across the potential caseload and cases involving land and entitlement transfers have proven to be particularly problematic because of the need to recalculate large data sets on multiple linked cases across all scheme years.

The second key area concerns internal controls. The Agency in collaboration with Deloitte has developed and implemented a Financial Control Plan monitoring progress against the findings of the review. Progress against the action plan has been made with the support of Deloitte personnel. A plan for handover and strengthening the finance team is in progress under the direction of an interim Finance Director.

While work is in hand to embed risk management into the organisation mitigation action has not always been effective and as a result elements of key risks have become difficult issues to manage. This is particularly true around management capability, data reliability and project planning. Further work is needed to embed risk management fully into the day to day business of the Agency and the achievement of its longer term objectives. Indeed, for risk management to be successful management, it will need to focus first on addressing the highest risks.

My Internal Audit team, supported by KPMG, has provided me with their opinion on the adequacy and effectiveness of the Agency's risk management, control and governance processes. They have raised the following matters of emphasis:

- Strategic priorities.
- Core systems, infrastructure and information security.
- Corporate values and ethics.
- Commercials.
- Fraud risk management.
- Internal Control Framework.

These will require further attention in 2010–11.

An Internal Audit review of recruitment has resulted in a 'no assurance' rating. Immediate action has been taken to address recommendations made by Internal Audit. Although recruitment is currently minimal, all recruitment needs the approval of a senior member of the HR team and full documentation recorded and stored. Internal Audit has confirmed there are no concerns about payroll. Improvement is needed in the clearance of audit recommendations and arrangements are in place for directors to meet and review progress. Although we have worked hard to address those areas for improvement identified in the 2008–09 Statement of Internal Control there are still serious weaknesses in the Agency's controls.

These are:

- Capability.
- Financial controls.
- Financial correction (disallowance).
- Data quality.
- Procurement.
- Expiring contracts and out of support systems.
- Information assurance.

Significant Internal Control Problems

Capability

The Agency has areas where specific professional and technical skills are in short supply. A number of senior positions continue to be held by interim contractors and the inability to attract, build and maintain capability continues to add risk for the Agency. The Agency's reliance on contractors to fill senior and other critical roles includes support in the following areas: Operations, Performance Management Information, Finance, Procurement, Projects and Information Systems. The number of contractors has fallen significantly as progress has been made to remove our reliance on contractors. The 2013 Defra Review of RPA also considered how to improve Agency capability. Succession planning for the Agency Management Board and how to strengthen the leadership for the Agency requires urgent attention.

Financial controls

In the light of comments from the NAO last summer and findings by Deloitte reported in November I asked Defra for additional resources to be seconded into the finance function.

The Agency has put in place a new financial reporting system which will provide more effective support to budget holders and the finance budgeting and forecast team. The system will enhance reporting capability and enable the finance team to focus on key budgetary pressures.

Progress has been made with monthly reconciliations now performed and management checks for completeness and accuracy. This has enabled the Agency to produce a full set of management accounts within the Defra timeline.

As well as a monthly management accounting system serving both the Agency Management Board and Defra, a quarterly cost efficiency report was put in place in 2009–10 with a plan to expand this as and when information is made available at the right level of detail. The method applied by PricewaterhouseCoopers in the 2013 Defra Review of the RPA to assess the cost per claim for the Single Payment Scheme will be used to manage Single Payment Scheme costs.

Controls around fixed asset management have been strengthened through the provision of senior management support and clearer engagement with the business.

In the course of the year the Agency, working with Defra, re-evaluated their accounting policies in a number of areas including, amongst other things, hedge accounting, foreign exchange accounting and the timing of recognition of Single Payment Scheme income and expenditure. Deloitte assisted in this re-evaluation process.

To mitigate the risk effects of sterling/euro exchange rate fluctuations, the Agency has designated to hedge account for Single Payment Scheme and the appropriate elections and hedge agreements have been completed and agreed by Defra and shared with NAO. In respect of the Rural Development Programme for England (RDPE) hedging options have been evaluated through Defra's governance structure. Due to the relatively low level of trader scheme payments the decision, confirmed with Defra is to not set up a hedging arrangement. In addition improved arrangements have been put in place with the Bank of England to mitigate the risk of currency rate fluctuations.

The Agency was required to reimburse the European Commission for the value of Single Payment Scheme overpayments arising from administrative error. For 2005, 2006 and 2007 the agreed value was €77 million and this amount was deducted from the 2009–10 claim on the European Commission. Recoveries from farmers for these administrative errors belong to the UK Exchequer. The Agency has not had arrangements in place to be able to distinguish between recoveries in respect of these overpayments and other recoveries which are legitimately payable to the European Commission. This has resulted in overpaying the European Commission at the expense of the UK Exchequer. The outstanding Single Payment Scheme administration debts of €77million are being recovered from the European Commission as they are reworked or recovered from applicants by the Agency, and are subsequently presented for audit.

Financial correction (disallowance)

I recognise that I have no direct control over the level of financial correction proposed by the European Commission where control weaknesses are identified. Defra makes provision for any financial correction and will discuss with HM Treasury how this should be provided for in future years.

I have strengthened the disallowance management processes to ensure that the risks of financial correction are taken into account in business decisions and that the issues identified during external audits are given consideration at the appropriate level. The Disallowance and Accreditation Committee, which is a subcommittee of the Agency Management Board, meets monthly to actively manage and monitor disallowance risk through the Disallowance Risk Control Framework which sets out the reporting requirements and requirements of scheme control plans. In addition, Defra's Disallowance Working Group has met to consider the Department's exposure to contingent liability for disallowance and reducing current and future impact.

The European Commission has proposed a financial correction on the basis of weaknesses in the overall operation of the administration and control system for the Single Payment Scheme in 2005 and 2006. The Agency and Defra have successfully reduced the level of financial correction through bilateral discussions with the Commission and using the conciliation process to present evidence of improved controls.

The European Commission has proposed a financial correction on the basis of weaknesses in the controls over the operation of the Fruit and Vegetable schemes. The correction is in respect of payments made in the period 8 November 2005 to 15 October 2008. The Agency has completed a review to assess the regulatory compliance of Producer Organisations and is now dealing with the outcomes of the review and the implications with Defra for the current Policy.

A regulatory closure audit of the Objective 1 and Leader+ EAGGF structural fund programmes administered by Government Offices was completed by the Agency's Internal Audit team. This identified a number of failures in compliance with control requirements with the administration of the scheme which resulted in two programmes receiving a 'qualified opinion'. No opinion was given on the other two reports. With one programme (Objective 1 South West) we were not provided with fully reconciled accounts, and in the other (Objective 1 North West) the materiality threshold (2%) for identified errors was breached.

Data quality

The Agency's base data in 2005 for the Single Payment Scheme consisted of the Entitlement

Register, the Customer Register and the Rural Land Register; each element holding significant quantities of data that are used together to make customer payments.

The Rural Land Register Programme has received two Internal Audit reports giving little assurance and indicating weak internal controls. Much of the concern focused on the approach taken to the System Upgrade project (one of four within the programme, which was designed to update the IT platform upon which the Rural Land Register resides) which was approached through two deliverables, a tactical upgrade to the existing platform and a strategic investment in a new platform. The two high risk areas identified in the first audit have been addressed, with management actions closed.

The updated information and residual work from the programme is likely to increase the level of work in 2010. The data has also been improved with additional features (for example, Single Payment Scheme permanent ineligible features) being included in the mapping layer.

The Agency's accounts were qualified in 2008–09 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 debt position. The Single Payment Scheme Debt and Data project is part of the 2013 Defra review of RPA. The purpose of this project is to ensure that the Agency's accounts are not qualified for reasons relating to Single Payment Scheme debt in 2010–11. The project has six work-streams covering Financial Discipline and Reporting, Data Correction, Data Stabilisation, Reporting MI and Governance, 2013 Building for the Future and Cost Reduction.

Procurement

There have been a number of problems in the Agency relating to the Procurement and Commercial functions. These have included: a lack of commercial expertise within the organisation, a limited overview of current and future commercial forecasts/requirements, limited forward planning of commercial activity, and a lack of action to address poor supplier performance. There have been a number of cases where procurement activity has not complied with the Agency's own internal procurement rules and/or procurement legislation. These issues were further exacerbated by a lack of integration of the Commercial function, with commercial activities being fragmented across the Finance and Information Services Directorates.

In December 2009 a new interim Commercials Deputy Director was recruited. All commercial activity is now carried out by an integrated team reporting to this role. I have issued new, strengthened mandatory governance and compliance rules for procurement, emphasised that these apply to all staff and stressed that any future lack of compliance may lead to disciplinary action. Previous non-compliant activity has been documented and where appropriate corrective actions are being taken. Greater visibility of planned procurement activity has been introduced, with greater scrutiny of the business justification and value for money for proposed procurements.

Expiring contracts and out of support systems

Of particular concern is the requirement to re-negotiate our primary IT contracts by December 2011 with appropriate arrangements in place by June 2011 to allow sufficient transition time to any new solution providers. Investment to complete stage 1 of this activity had been agreed with options presented to the Agency. However, stage 2 activity was suspended pending the outcome of the 2013 Defra Review of RPA - Work-stream 3. The Agency and Defra worked jointly on the work-stream and submitted recommendations in March 2010. There is a risk that contracts will not be renegotiated to meet the transition and end of contract timeline. This is further complicated by CAP reform from 2013 and the shortening of timescales to move from existing arrangements to those that will be necessary to implement CAP changes for 2013 and beyond. Defra is leading the procurement activity.

The NAO value for money report in 2009, described concerns regarding the Agency's system components going out of supplier maintenance agreements. The Agency Executive Group agreed to invest resources in 2009–10 to address the priority risks associated with out of support systems. This work is due for completion in 2010–11.

The core Agency scheme processing and payment systems are both cumbersome and costly to operate and maintain. The Agency has undertaken an extensive IT development programme to deliver solutions migrating from a task based to a more customer focused (whole case) approach and to address gaps in required functionality. This coupled with statutory policy changes has resulted in substantial expenditure (both capital and revenue) over recent years, but the re-prioritisation of change initiatives now recognises the need to effectively balance the availability of limited funding against system failure and mandatory change through rigorous investment control mechanisms via the Agency's executive committees.

Information assurance

Following a self assessment exercise in 2009, the Certifying Body report found that the Agency was not fully ISO 27001 compliant, despite the Agency having responded positively to most of the intermediate recommendations from the previous year. We have established an Information Assurance Implementation Project to, amongst other things, achieve compliance on both ISO 27001 and meet the UK Government's new Security Policy Framework (SPF) requirements. This work complements our activities to meet the requirements of Hannigan's Data Handling Review.

During the year the Agency implemented a plan of ISO 27001:2005 reviews. These were scheduled to cover the Agency, its suppliers and delegated bodies. One of the first reviews from the schedule was of IBM. This identified that several backup tapes from Netstore were unaccounted for with potential implications for loss of personal and protected customer information. In line with the Defra Senior Information Risk Owner and Cabinet Office advice, all necessary control steps and actions were taken.

Following this incident the Agency was identified as a candidate for review by the Information Commissioner's Office. The Information Commissioner's Office auditors visited the Agency in April 2010 to conduct a review of the Agency's tape handling procedures and security incident management system. The lead auditor has confirmed to Defra that they have found good assurance on data transfer processes, security labelling and cataloguing of backup tape material, on site monitoring of backup tape material, physical security of storage areas and the procedures for incident management and reporting.

In March 2010 there was a near miss in terms of an incident that received press coverage, but was swiftly resolved. The pre-printed Single Payment Scheme application forms for 500 farmers were attached to a different farmer's name and sent to the wrong farmer. The error was due to a duplicated print file following an issue with one of the printers.

Tony Cooper
Chief Executive
21 July 2010

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 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows 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 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 the financial statements in accordance with applicable law and 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 Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

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.

Qualified opinion due to limitation of scope

The audit evidence available to me was limited because the Agency was unable to provide me with sufficient evidence to support the Single Payment Scheme trade receivables and the Single Payment Scheme trade payables recorded in the financial statements.

Except for the financial effects of such adjustments, if any, that might have been necessary had I been able to satisfy myself regarding the Single Payment Scheme trade receivables balance of £17.25 million and the Single Payment Scheme trade payables balance of £30.86 million, in my opinion:

- the financial statements give a true and fair view of the state of the Agency's affairs as at 31 March 2010, and of the net operating cost, changes in taxpayers' equity and cash flows 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 'Management commentary', 'Performance against targets', 'Basis of funding and accounts', 'Public interest' and 'Management structure' sections 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 our work relating to the Single Payment Scheme trade receivables and Single Payment Scheme trade payables balances:

- 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 had been maintained for Single Payment Scheme trade receivables and Single Payment Scheme trade payables.

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 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 43 to 46 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

26 July 2010

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 Rural Payments Agency experienced considerable difficulties in capturing and processing the data required to process payments for the first two years of the scheme and continues to experience difficulties in quantifying the value of payments made to farmers as a result of these difficulties.

Where the European Commission takes the view that the detailed European Regulations have not been applied correctly in processing European Union (EU) Scheme transactions there is a risk of financial penalties (referred to as disallowance) of expenditure under the Scheme. In anticipation of these financial penalties the Department for Environment, Food and Rural Affairs retains a provision in its financial statements for disallowance penalties arising in respect of the Single Payment Scheme, a number of smaller ongoing schemes and for predecessor schemes. The total provision for penalties held at 31 March 2010 by the Department is £220 million, but this provision is not accounted for in the RPA financial statements. Penalties totalling £160 million were confirmed by the European Commission. This includes £117 million in respect of Single Payment Scheme for scheme years 2005 and 2006. 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 2009–10 resource 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 2009–2010 resource accounts (HC 241).

The difficulties experienced by the Rural Payments Agency have led to three value for money reports[1] by the National Audit Office. Following the publication of the second report the Department and the Agency made a number of assurances to the Committee of Public Accounts that the problems of the original implementation were largely addressed and that progress was well underway to rectify mistakes and recover overpayments of SPS trade payables and quantify SPS trade receivables. My latest report in October 2009[2] demonstrated however that there was still a long way to go and that progress has been slow and costly. In particular, my report highlighted that IT systems were expensive and cumbersome,

[1] 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.

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

the high administrative cost per claim, unquantified under and overpayments of claims, and management and governance weaknesses.

Purpose of Report

The financial statements on the following pages represent the results of the Rural Payments Agency for the period from 1 April 2009 to 31 March 2010. I have limited the scope of my audit opinion as I was 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 publication of my second Value for Money follow up report in October 2009 and the qualification of my audit opinion on the Agency's financial statements for 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 Rural Payments 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.

Progress since my report on the 2008–2009 financial statements

In 2008–09 I qualified my audit opinion on the financial statements for the Rural Payments Agency on three separate grounds:

- Firstly, I was unable to obtain sufficient audit assurance to support the trade receivable balance arising from Single Payment Scheme overpayments and I therefore limited the scope of my audit opinion in this respect. I have again limited the scope of my audit opinion in 2009–2010 and further details are provided below.
- Secondly, I did not consider that the Agency's 2008–09 financial statements complied with Financial Reporting Standard 23 'The effects of changes in foreign exchange rates' and I therefore qualified my opinion on the basis of a disagreement on the application of this standard in the financial statements. The Agency has worked closely with the Department to resolve this issue and have appropriately reflected the effects of foreign exchange transactions in the 2009–2010 financial statements. The Agency has also restated the prior year balances. My opinion is no longer qualified in this respect.
- Finally, I qualified my regularity opinion due to the payment of material disallowance penalties being imposed by the European Commission relating to the Fruit and Vegetable Producer Groups and Operational Funds. The liability for any future disallowance payments rests with the Department for Environment, Food and Rural Affairs and therefore any qualification will be recorded on the Department's financial statements and not on the Agency's financial statements. I have qualified my audit opinion on

the Department for Environment, Food and Rural Affairs resource account for 2009–2010 due to material disallowance arising from the Agency's administration of European Commission agricultural subsidy schemes. I have reported separately in respect of the Department for Environment, Food and Rural Affairs 2009–2010 resource accounts (HC 241) on this issue.

As a result of my audit qualifications on the 2008-09 financial statements and the findings in my Value for Money report, the Department for Environment, Food and Rural Affairs commissioned an external review of the Rural Payments Agency. The findings of this review were published on 20 July 2010. This review commenced in August 2009 and cost a total of £1.9 million.

The review's recommendations included:

- improvements to the Agency's operations in order to reduce duplication and to bring down the cost of administering a claim;
- the use of a specialist team to improve the quality of the information on which claims are processed;
- changes to the Agency's responsibilities and operating model;
- improvement to the Agency's financial controls;
- reducing the Agency's reliance on temporary staff; and
- improvements to the governance arrangements exercised over the Rural Payments Agency by the Department for Environment, Food and Rural Affairs.

The Department for Environment, Food and Rural Affairs and the Agency acknowledged that the Agency did not have sufficient capacity and capability within their finance function and have used contract staff in 2009–2010. During the course of 2009–2010 the Agency incurred additional costs of £1.1 million to support the finance function. This represents 45% of the Agency's total finance costs. Additional costs to support the finance function in the Agency were also incurred by the Department. These totalled £273,000. In addition, the Department has spent £220,000 on external contractors to support the work undertaken to date on identifying the underlying causes of errors in the data held in respect of the Single Payment Scheme.

The additional support to the finance function has allowed progress to be made in the current year and this has resulted in improvements in key financial controls and reconciliations. It has also allowed the Agency to implement a number of significant and complex accounting adjustments relating to foreign exchange transactions and to reduce the Agency's exposure to volatility arising from these transactions. There is a risk however that the underlying capacity and capability of the Agency remains unaddressed as the level of investment in temporary support is not sustainable and their skills and knowledge are not embedded within the Agency's own staff.

Audit opinion

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

My report accompanying the Agency's financial statements in 2008–09 and my Value for Money report in October 2009 highlighted significant issues with the data held by the Agency to process the Single Payment Scheme. I recommended that the Department and the Agency resolve this as a matter of urgency. The Department and the Agency are investing considerable resources in attempting to resolve the underlying issues in the data held by the Agency for the Single Payment Scheme and make accurate payments and quantify the value of Single Payment Scheme trade payables and Single Payment Scheme trade receivables which arise due to incorrect payments to farmers. However, this work commenced after the external review of the Agency and is ongoing. The Department and the Agency plan to identify the key causes of under and over payments by the end of July 2010, some twelve months after my previous qualification and report and over three years since the NAO's first value for money study on the Agency highlighted the underlying issues. The Department and the Agency will subsequently need to quantify the total value of Single Payment Scheme trade payables and Single Payment Scheme trade receivables and establish a detailed project plan to address the underlying data quality and recover or reimburse amounts owing to and from farmers. Progress to date has been limited. The Agency has not been able to accurately assess the value of Single Payment Scheme trade payables and Single Payment Scheme trade receivables in 2009–2010 and therefore I have limited the scope of my audit opinion in this respect.

The 2009–2010 financial statements record Single Payment Scheme trade receivables for amounts owed to the Agency of £27 million. The Agency has provided for doubtful debts within this balance of £9.8 million. The net Single Payment Scheme trade receivables balance recorded is therefore £17.2 million. I have been unable to obtain assurance that this balance is reflected in the financial statements at the appropriate amount, that the stated balance reflects the total value of amounts due to the Agency and that these amounts will ultimately be recovered by the Agency. I therefore have limited the scope of my audit opinion in this respect.

The 2009–2010 financial statements also record Single Payment Scheme trade payables in respect of amounts owing to farmers of £30.9 million. There was insufficient evidence to support that this balance was reflected in the account at the appropriate amount and represents the total value of Single Payment Scheme trade payables which will ultimately result in a liability to be paid by the Agency. I have therefore limited the scope of my audit opinion in respect of the valuation, existence and completeness of this balance.

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

I have reported previously on the problems with the Agency and my concerns remain extant. Until the Agency has a management team with the skills and experience necessary to address the challenges little progress is likely to be made in improving data quality, ensuring that IT systems work effectively and are fully supported and in reducing the costs of administering the Single Payment Scheme. 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 & Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

26 July 2010

Statement of Accounts

Operating Cost Statement for the year ended 31 March 2010

	Note	2009–10		2008–09	
		£000	£000	£000	£000
Programme Costs					
Running Costs					
Staff costs	3	106,245		117,810	
Other running costs	4	119,950		123,730	
Gross Running Costs		226,195		241,540	
Income	12	(848)		(1,111)	
Net Running Costs			225,347		240,429
Scheme Costs					
Rural Payments Agency					
Costs	5	2,054,360		2,240,517	
Income	12	(2,071,120)		(2,079,455)	
			(16,760)		161,062
Other Paying Agencies					
Costs	11	1,226,479		1,067,144	
Income	11	(1,218,230)		(1,126,817)	
			8,249		(59,673)
Other income	12		(14,389)		(11,386)
Net Scheme (Income)/Costs			(22,900)		90,003
Net Operating Cost			202,447		330,432

The Notes on pages 53 to 105 form part of these accounts.

Statement of Financial Position as at 31 March 2010

	Note	2009–10		2008–09		2007–08	
		£000	£000	£000	£000	£000	£000
Non-current assets							
Property, plant and equipment	13	9,392		11,502		16,432	
Intangible assets	14	68,710		60,914		57,731	
Total non-current assets			78,102		72,416		74,163
Current assets							
Assets classified as held for sale	13.1	959		962		2,159	
Inventories	16	36,743		13,118		0	
Trade receivables and other current assets	17	489,783		415,596		449,790	
Derivative asset	24	7,062		0		0	
Cash and cash equivalents	20	51,523		365,655		691,792	
Total current assets			586,070		795,331		1,143,741
Total assets			664,172		867,747		1,217,904
Current liabilities							
Trade payables and other current liabilities	21	(512,910)		(888,988)		(1,196,008)	
Derivative liability	24	(712)		(83,207)		(84,610)	
Provisions for liabilities and charges	23	(2,392)		(9,634))		(12,818)	
Total current liabilities			(516,014)		(981,829)		(1,293,436)
Non-current assets plus/(less) net current assets/(liabilities)			148,158		(114,082)		(75,532)
Non-current liabilities							
Trade payable and other liabilities	21	(120,266)		(125,745)		(37,917)	
Provisions for liabilities and charges	23	(3,844)		(5,032)		(8,181)	
Total non-current liabilities			(124,110)		(130,777)		(46,098)
Assets less liabilities			24,048		(244,859)		(121,630)
Taxpayer's equity							
General fund			21,637		(246,312)		(124,761)
Cash flow hedge reserve			67		0		0
Revaluation reserve	15		2,344		1,453		3,131
Total taxpayer's equity/(deficit)			24,048		(244,859)		(121,630)

The Notes on pages 53 to 105 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2010

	Note	2009–10 £000	2008–09 £000
Cash flows from operating activities			
Net operating cost		(202,447)	(330,432)
Adjustments for non-cash items	30	58,426	34,070
Increase in inventories	16	(23,625)	(13,118)
(Increase)/decrease in trade receivables and other current assets		(92,771)	43,269
Increase in financial derivative asset		(7,062)	0
Decrease in trade payables and other current liabilities		(376,111)	(307,066)
Decrease in financial derivative liability		(82,495)	(1,403)
Adjustment for movement in Consolidated Fund liabilities	21	225,531	424,077
Increase/(decrease) in non-current trade payables and other liabilities due after more than one year	21	(5,601)	88,075
Decrease in non-current asset addition accruals	13/14	2,948	216
Decrease in provisions for liabilities and charges (excl. non-cash items)	23	(8,433)	(13,362)
Net cash outflow from operating activities		(511,640)	(75,674)
Cash flows from investing activities			
Purchase of property plant and equipment	13	(2,795)	(1,284)
Purchase of intangible assets	14	(24,240)	(23,438)
Proceeds of disposal of non-current assets		58	1,228
Net cash outflow from investing activities		(26,977)	(23,494)

The Notes on pages 53 to 105 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2010 (continued)

	Note	2009–10	2008–09
		£000	£000
Cash flows from financing activities			
Financing by Defra		2,890,000	2,135,000
Payments for Rural Development Programme for England on behalf of Defra		(427,825)	(382,685)
Payment for Structural Funds on behalf of Defra		(373)	(16,510)
Ad hoc disallowance transfer to Defra		(15,786)	(60,752)
Transfer European Commission shortfalls to Defra		0	(12,703)
Capital element of payments in respect of finance leases		155	(201)
Net cash inflow from financing activities		2,446,171	1,662,149
Decrease in cash and cash equivalents in the period before payments to the Consolidated Fund		1,907,554	1,562,981
Payments of amounts due to the Consolidated Fund		(2,221,686)	(1,889,118)
Decrease in cash in the period after payments to the Consolidated Fund		(314,132)	(326,137)
Cash and cash equivalents at 1 April	20	365,655	691,792
Cash and cash equivalents at 31 March	20	51,523	365,655

The Notes on pages 53 to 105 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2010

	Note	General fund	Cash flow Hedge Reserve	Revaluation Reserve	Total Reserves
		£000	£000	£000	£000
Balance at 1 April 2008		(124,761)	0	3,131	(121,630)
Net operating cost		(330,432)	0	0	(330,432)
Transfer from Revaluation Reserve to General Fund:					
Property plant and equipment		200	0	(200)	0
Intangible assets		717	0	(717)	0
Arising on revaluation during the year (net)		0	0	(761)	(761)
Notional charges	30	10,656	0	0	10,656
Total recognised (expense) for period ended 31 March 2009		(318,859)	0	(1,678)	(320,537)
Financing by Defra		2,135,000	0	0	2,135,000
Transfer Rural Development Programme for England to Defra		(382,685)	0	0	(382,685)
Transfer Structural Funds to Defra		(16,510)	0	0	(16,510)
Ad hoc disallowance transfer to Defra		(60,752)	0	0	(60,752)
Transfer European Commission shortfalls to Defra		(12,703)	0	0	(12,703)
In year adjustment relating to prior year – Adjustment to brought forward Consolidated Fund Extra Receipts		217,533	0	0	217,533
Consolidated Fund Extra Receipts repayable to Consolidated Fund		(1,682,575)	0	0	(1,682,575)
Balance at 31 March 2009		**(246,312)**	**0**	**1,453**	**(244,859)**

The Notes on pages 53 to 105 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2010 (continued)

	Note	General fund	Cash flow Hedge Reserve	Revaluation Reserve	Total Reserves
		£000	£000	£000	£000
Balance at 31 March 2009		(246,312)	0	1,453	(244,859)
Net operating cost		(202,447)	0	0	(202,447)
Transfer from Revaluation Reserve to General Fund:					
Property plant and equipment	15	176	0	(176)	0
Intangible assets	15	752	0	(752)	0
Arising on revaluation during the year (net)	15	0	0	1,819	1,819
Notional charges	30	28,650	0	0	28,650
Gains on Cash flow hedges	30	0	87,805	0	87,805
Transfer to Operating Cost Statement on cash flow hedges	30	0	(87,738)	0	(87,738)
Total recognised (expense)/income for period ended 31 March 2010		(172,869)	67	891	(171,911)
Financing by Defra		2,890,000	0	0	2,890,000
Transfer Rural Development Programme for England to Defra		(427,825)	0	0	(427,825)
Transfer Structural Funds to 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 repayable to Consolidated Fund		(1,996,155)	0	0	(1,996,155)
Balance at 31 March 2010		21,637	67	2,344	24,048

The Notes on pages 53 to 105 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

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

The 2009–10 is the first year financial statements have been produced under IFRS. Note 2 First-time adoption of IFRS (page 64) sets out the adjustments from UK GAAP.

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 1.11) 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 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 Operating Cost Statement. The recognition of 'right of use assets' is described in Note 1.7. 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 and 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 are provided on a straight line basis, on all non-current assets over each individual asset's estimated useful life, taking into account residual value (if applicable). Assets are depreciated/amortised from the month after they are available for use.

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

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

IT hardware:	
Laptops, printers and similar equipment	3 years
Servers	5 years
Communications	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 Assets held for sale

Assets held for sale are freehold buildings which are measured at fair value less selling costs. In accordance with IFRS 5 assets held for sale are not depreciated.

1.7 Right of use asset

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 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.

1.8 Leased assets

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

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

Rental costs arising under operating leases are charged to the Operating Cost Statement in the year in which they are incurred.

1.9 Defra properties occupied by the Agency

Within the Operating Cost Statement the full cost of occupation is reflected in relation to buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. 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.

1.10 Programme and scheme costs

All the activities of the Agency relate to scheme administration, therefore all costs are classified as Programme costs. Scheme costs are described in Notes 5 to 9, and 11. These include expenditure by the Agency and Other Paying Agencies (OPAs) of grants and subsidies direct to claimants, operating costs of the Older Cattle Disposal Scheme (OCDS), and Intervention.

1.11 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 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.

1.12 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 Agriculture 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.

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 are recognised as income with the associated CFER liability and these funds are remitted to the European Commission via HM Treasury. Sugar restructuring receipts are remitted directly to the European Commission through the monthly reimbursement process and are not reported in these accounts.

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.

1.13 Other Paying Agencies' income and costs

Other UK Paying Agencies make payments to claimants under both the European Agriculture Guarantee Fund and the European Agricultural Fund for Rural Development. The payments made by the other UK Paying Agencies are funded by the Agency and subsequently recovered by the Agency from the European Commission.

Scheme expenditure in relation to funding provided by the Agency is recognised when the Agency has a present obligation to make payment to the other UK Paying Agencies and the amount payable is considered reliably measurable and probable. These conditions are deemed to be met upon the receipt of a funding request from the other UK Paying Agencies.

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 Operating Cost Statement.

1.14 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 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 is reported net of National Modulation and European Commission Modulation for Single Payment Scheme 2007 and subsequent years.

1.15 European Commission funding of schemes administered by the Agency

Funding of 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 a movement 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 Operating Cost Statement.

1.16 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.

1.17 Capital charges

A notional charge, reflecting the cost of capital utilised, is included in the Operating Cost Statement. The charge is calculated by the application of HM Treasury's real rate of 3.5% (2008–09: 3.5%) on the average capital employed. In accordance with the FReM (paragraph 11.5.12) the charge is calculated monthly as the assets are not volatile and the monthly calculation produces a reasonable basis for calculation of the capital charge. Within this calculation the average receivable due from the European Agriculture Guarantee Fund and the European Agricultural Fund for Rural Development is weighted on an average daily basis to take into account the timing of funding receipts as this item is large and variable.

1.18 Foreign currency transactions

The functional and presentation currency of the Agency is pound 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, Rural Development Programme and Trader Schemes in accordance with the respective scheme rules and regulations.

Further, the Agency makes a portion of payments under the Single Payment Scheme in euros to farmers and/or other UK Paying Agencies.

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 1.12, 1.13 and 1.15. 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 Operating Cost Statement in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks (see Note 1.19 and Note 1.20).

1.19 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 Operating Cost Statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Operating Cost Statement 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 Operating Cost Statement.

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.

1.20 Hedge accounting

In accordance with IAS 39, the Agency elected to designate certain foreign currency derivatives as cash flow hedges of the euro denominated receipts from the European Commission in relation to the 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 Operating Cost Statement.

See Note 24 for details of the relevant Agency IFRS 7 disclosure.

Amounts previously recognised in the cash flow hedge reserve and accumulated in Taxpayers' Equity are reclassified to the Operating Cost Statement in the periods when the hedged item is recognised in the Operating Cost Statement, in the same line of the Operating Cost Statement 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 Operating Cost Statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in Taxpayers' Equity is recognised immediately in the Operating Cost Statement.

1.21 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 Operating Cost Statement 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.

1.22 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 and one (partnership) is a stakeholder pension with employer 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.

1.23 Provisions

Provisions are recognised when the Agency has a legal or constructive present obligation as a result of a past event, and 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.

1.24 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.

1.25 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 HM Treasury's Managing Public Money. Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.26 Operating segments

In accordance with the FReM (para 5.4.25) these accounts reflect the early adoption of IFRS 8 Operating Segments with effect from 1 April 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Agency that are regularly reviewed by the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. The Agency has identified the Chief Executive as the Chief Operating Decision Maker.

The Agency's operations are included entirely within Defra's Departmental Strategic Objective: 'A thriving farming and food sector, with an improving net environmental impact'. As in previous years the Chief Executive Officer continued to review and monitor the Agency's operational and financial performance at this aggregated level as presented in these financial statements.

The early adoption of this standard has had no effect on the presentation or disclosure of these financial statements.

1.27 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

a) Recoverability and useful lives of intangible assets:

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

Key factors to take into account when judging useful life and impairment assessments include estimates of the expected life span of the current schemes administered by the Agency. This also includes any schemes that may replace current schemes and will incorporate some, or in some cases all, of the functions of the current capitalised tangible 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.

1.28 Adoption of new and revised Standards

These accounts reflect the early adoption of IFRS 8 Operating Segments as further described in Note 1.26 above. The early adoption of this standard did not lead to a change in the presentation or incremental disclosure in these financial statements.

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
- IAS 24 Related party disclosures - Revised definition of related parties

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

The Chief Executive Officer, in his capacity as Accounting Officer, is currently assessing the impact of these Standards and interpretations on the Financial Statements in the Agency.

2. First-time adoption of IFRS

	General Fund	Revaluation Reserve	Total Reserves
	£000	£000	£000
Taxpayers' equity at 31 March 2008 under UK GAAP	(40,732)	3,131	**(37,601)**
Impact of change in accounting policy and correction of an error (see 2.1 and 2.2 below)	(82,458)	0	**(82,458)**
Taxpayers' equity at 31 March 2008 under UK GAAP (restated)	(123,190)	3,131	**(120,059)**
Employee leave accrual*	(2,206)	0	**(2,206)**
Revaluation of intangible assets**	(13)	0	**(13)**
Lease adjustment***	648	0	**648**
Total IFRS adjustments 31 March 2008	(1,571)	0	**(1,571)**
Taxpayers' equity at 31 March 2008 under IFRS	(124,761)	3,131	**(121,630)**
Taxpayers' equity at 31 March 2009 under UK GAAP	(138,594)	1,443	**(137,151)**
Impact of change in accounting policy and correction of an error (see 2.1 and 2.2 below)	(106,510)	0	**(106,510)**
Taxpayers' equity at 31 March 2009 under UK GAAP (restated)	(245,104)	1,443	**(243,661)**
Adjustments at 31 March 2008 as above	(1,571)	0	**(1,571)**
Increase in employee leave accrual 2008–09*	(37)	0	**(37)**
Revaluation of Intangible Assets at 31 March 2009**	13	10	**23**
Lease adjustment ***	387	0	**387**
Taxpayers' equity at 31 March 2009 under IFRS	(246,312)	1,453	**(244,859)**
Net Operating Costs for 2008–09 under UK GAAP			**306,743**
Impact of change in accounting policy and correction of an error (see 2.1 and 2.2 below)			**24,052**
In year movement of IFRS adjustments ((£37k) employee accrual, £13k revaluation and £387k lease adjustment)			**(363)**
Net Operating Costs for 2008–09 under IFRS			**330,432**

Adjustments on adoption of IFRS:

* In accordance with IAS 19 the employee leave accrual has been calculated representing the monetary value of annual leave due to the Agency's employees at the Statement of Financial Position date.

** In accordance with IAS 38 and FReM paragraph 7.2.5 Software Licences which are included in intangible assets have been revalued using price indices issued by UK statistics. In accordance with the FReM paragraph 8.2.18 the downward revaluation of (£13k) has been charged to the General Fund at 31 March 2008. This portion of the upward revaluation of £23k has been credited to the General Fund at 31 March 2009.

*** In accordance with IFRIC 4 embedded leases have been separated and accounted for in accordance with IAS 17, (see Note 1.8).

Operating Cost Statement movement in relation to finance leases per Note 4:

	£000
IT costs	(1,245)
Finance Lease Interest	376
Depreciation	348
Amortisation	134
Total adjustment	**(387)**

As part of the adoption of IFRS, the Agency identified certain assets that fall within IFRIC 12 Service Concession Arrangements with respect to IT equipment. The Agency recognised corresponding Right of Use Assets and finance lease liability as at 31 March 2009 of £0.2m (2008: £0.2m) accordingly which is reported in Note 13 and Note 21 respectively.

2.1 Change in accounting policies

In the Agency's UK GAAP annual accounts for 2008–09, Single Payment Scheme for England scheme income and cost was recognised evenly over each calendar year to which it applied. On adoption of IFRS, the Agency has changed its accounting policy whereby scheme income and expenditure are recognised as each claim is validated by the Agency and the amount payable to the claimant is reliably measurable.

In addition, in the Agency's annual accounts under UK GAAP for 2008–09, Single Payment Scheme customers with both receivable and payable balances in different scheme years were presented on a gross basis in the Statement of Financial Position. As the Agency has both the intention and the right to offset Single Payment Scheme receivables and payables with individual customers, in accordance with IAS 32, these have been classified for the prior periods to a net presentation.

The changes in accounting policy have resulted in a £189.3m increase to scheme income and a £206.0m increase to scheme expenditure for 2008–09. This change in accounting policy has also resulted in decreases of £567.3m and £745.4m to trade receivables and other current assets at 31 March 2009 and 1 April 2008, respectively, and decreases of £531.5m and £726.3m to trade payables and other current liabilities as at 31 March 2009, and 1 April 2008, respectively.

2.2 Correction of an error

Foreign exchange transactions

The Agency has historically translated certain euro-denominated scheme income and scheme expenditure based on the scheme rates under the various schemes. Additionally, the Agency did not remeasure certain euro-denominated monetary assets and liabilities to their spot rate at each reporting date. In accordance with the requirement of UK GAAP and IFRS, euro-denominated income and expenditure should be recognised at spot rate at the date the transactions are recorded and the related receivables and payables remeasured to the spot rate at each reporting date.

In these Annual accounts, taking into account the change in recognition policy for scheme income and expenditure as described above, the Agency has translated its euro-denominated scheme income and expenditure for the year ended 31 March 2009 at the spot rate on the date such transactions are recognised and remeasured its euro-denominated monetary assets and liabilities to spot rate at each reporting date. Additionally, the Agency has restated the balance due from Other Paying Agencies to appropriately reflect the net overfunding position. The previous receivables balance has been overstated, including amounts associated with exchange rate differences on euro-denominated funding.

The accounting impact of the correction for the application of foreign currency requirement under UK GAAP and IFRS, after consideration of the changes in policy described above, resulted in an increase to scheme income of £216.0m and an increase to scheme expenditure of £216.0m for the year ended 31 March 2009, a decrease of £45.0m to trade receivables and other current assets, a decrease of £2.6m to trade payables and other current liabilites, and an increase of £21.0m to non-current trade payables and other liabilities as at 31 March 2009. As at 31 March 2008, the impact of this correction resulted in a decrease of £53.1m to trade receivables and other current assets and an increase of £10.3m to trade payables and other current liabilities.

Valuation of derivative contract

The Agency entered into a forward contract with the Royal Bank of Scotland on 30 September 2008. As at 31 March 2009, the forward contract was recorded as a liability of £75.8m based on the Bank of England rate as at 1 April 2009. However, the forward contract should have been remeasured to Bank of England rate as at 31 March 2009, which would have resulted in a liability of £83.2m. Accordingly, this resulted in an increase of £7.4m to the derivative liability as at 31 March 2009 and a corresponding increase to scheme expenditure for the year ended 31 March 2009.

2.3 Reclassification under IFRS

In accordance with IAS 38, IT Software with a net book value of £49.4m at 31 March 2009 is now treated as intangible assets in Note 14. This was included in Information Technology in Note 12a of the Agency's 2008–09 Accounts.

Similarly, Development Expenditure with a net book value at 31 March 2009 of £7.2m is now treated as intangible assets in Note 14. This was classified as Construction in Progress in Note 12a of the Agency's 2008–09 Accounts.

Communications equipment classified as Office Machinery in the Agency 2008–09 Accounts Note 12a at 31 March 2009 with a net book value of £1.0m, is now included in Information Technology in Note 14.

Assets classified as held for sale presented as Freehold Land and Building and Plant and Machinery in the Agency 2008–09 Accounts Note 12a at 31 March 2009 with a net book value of £1.0m (2007–08: £2.2m) are now included separately on the face of the Statement of Financial Position and in Note 13.1. Assets funded by finance leases have been included in Note 13 at 31 March 2009 at £1.8m; and Note 14 at 31 March 2008 at £0.9m. The associated finance lease liability at 31 March 2009 of £1.5m is included in Note 21.

3. Staff numbers and related costs

3.1 Staff costs comprise:

	2009–10			2008–09
	Permanently employed staff	Short term / fixed term appointments	Total	Total
	£000	£000	£000	£000
Wages and salaries	69,158	6,891	76,049	80,138
Social security costs	5,124	423	5,547	5,974
Other pension costs	11,430	1,157	12,587	13,425
Early retirement and early severance costs				
Provided in the year	1,603	49	1,652	1,912
Provisions released	(113)	0	(113)	(13)
Unwinding of discount	102	0	102	115
	87,304	8,520	95,824	101,551
Less recoveries in respect of outward secondments			(247)	(95)
Agency staff			4,691	5,625
Contractors			5,977	10,729
Total staff costs			106,245	117,810

No staff costs have been capitalised (2008–09: £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:

	2009–10	2008–09
Permanently employed staff	2,714	2,829
Short term/fixed term appointments	375	496
Casuals	0	14
Contractors	33	61
Agency	285	300
	3,407	3,700

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 (i.e. projects) are reflected in Note 4.

3.2 Pension schemes

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

The contribution rates are set to meet the cost of benefits during 2009–10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

For 2009–10 employer's contributions of £12.6m (2008–09: £13.4m) 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 2009–10 employer's contributions of £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 £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 £14k (2008–09: £15k). 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).

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

4. Other running costs

	Note	2009–10 £000	2008–09 £000
Rentals under operating leases			
Rent on buildings		4	5,251
Non-cash items (including notional charges)			
Auditors remuneration and expenses (notional)	30	490	425
IFRS audit fee (notional)	30	0	23
Defra capital charges – buildings (notional)*	30	15,084	0
Loss on disposal of non-current assets	30	1,003	853
Depreciation		3,953	5,942
Amortisation	30	15,207	18,414
Impairment	30	0	250
Cost of capital charge (notional)	30	1,961	1,471
		37,698	27,378
Other Expenditure			
Accommodation		1,011	9,766
IT costs		40,874	42,629
Other running costs		1,906	5,563
Non-payroll staff costs		5,375	5,911
Contractor staff costs		18,996	12,488
Communications costs		8,348	7,175
Agents fees		3,547	5,473
Finance lease interest		340	376
Other		1,851	1,720
		82,248	91,101
		119,950	123,730

* Prior year costs were settled and presented within accommodation expenditure and rent on buildings.

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

	2009–10	2008–09
	£000	£000
Payroll costs	**449**	493
Other costs	**31**	32
Certifying Body audit fee*	**1,198**	1,182
	1,678	1,707

* The Certifying Body audit fee is a hard charge to the Agency.

5. Schemes administered by the Agency

	Note	**2009–10**	2008–09
		£000	£000
Single Payment Scheme	6.1	**1,883,396**	1,844,951
EC Financial correction	6.1	**0**	53
BSE related	6.2	**1,455**	62,856
Trader based – Internal Market	7	**168,052**	23,372
Trader based – External Trade	8	**15,793**	23,055
Intervention buying and selling	9	**1,366**	87
School Milk		**4,039**	5,536
Scheme related losses	31	**13,607**	1,882
20% retention of irregularities*	6.1	**(1,036)**	(379)
Other scheme costs		**3,155**	(1,790)
		2,089,827	1,959,623
(Release from)/charge to bad debt provision	17	**(9,542)**	9,075
Cost of capital charge	30	**5,780**	4,331
Realised exchange (gain)/loss		**(24,672)**	249,569
Unrealised exchange (gain)/loss		**(1,560)**	17,919
Derivative ineffectiveness	24	**(5,473)**	0
Total Scheme Expenditure		**2,054,360**	2,240,517

* 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

Single Payment Scheme, introduced by European Commission Council Regulation 1782/2003, replaced most existing crop and livestock payments from 1 January 2005.

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

	2009–10			2008–09		
	Expenditure £000	**Income £000**	**Net £000**	Expenditure £000	Income £000	Net £000
Single Payment Scheme	1,856,839	(1,843,268)	13,571	1,844,951	(2,002,236)	(157,285)
Dairy Premium Scheme	26,557	(26,557)	0	0	0	0
	1,883,396	(1,869,825)	13,571	1,844,951	(2,002,236)	(157,285)
EC financial correction	0	0	0	53	(9,857)	(9,804)
20% retention of irregularities	(1,036)	1,012	(24)	(379)	1,338	959
Total Scheme Expenditure/ (Income)	1,882,360	(1,868,813)	13,547	1,844,625	(2,010,755)	(166,130)

6.2 Bovine Spongiform Encephalopathy Related

The announcement of the possible link between BSE 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.

	2009–10			2008–09		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Older Cattle Disposal Scheme (OCDS)						
Premium Payments	**(117)**	**(2,854)**	**(2,971)**	25,600	(14,223)	11,377
Costs of operations						
Slaughter	**1**	**0**	**1**	10,168	0	10,168
Transport	**59**	**0**	**59**	2,816	0	2,816
Rendering	**19**	**0**	**19**	8,494	0	8,494
Incineration	**(838)**	**0**	**(838)**	5,852	0	5,852
Storage	**817**	**0**	**817**	2,374	0	2,374
	(59)	**(2,854)**	**(2,913)**	55,304	(14,223)	41,081
Over Thirty Month Slaughter (OTMS)						
Premium Payments	**(194)**	**(4,964)**	**(5,158)**	(23)	4,335	4,312
Costs of operations						
Transport	**0**	**(52)**	**(52)**	0	0	0
Incineration	**810**	**0**	**810**	0	0	0
Storage	**(72)**	**0**	**(72)**	7,538	0	7,538
	544	**(5,016)**	**(4,472)**	7,515	4,335	11,850
TSE Agents Services	**3**	**0**	**3**	37	0	37
Sale of tallow and hides	**967**	**(959)**	**8**	0	(963)	(963)
Total Scheme Expenditure/(Income)	**1,455**	**(8,829)**	**(7,374)**	62,856	(10,851)	52,005

The above analysis excludes the administration costs of BSE schemes. Negative expenditure reflects the release of accruals and provisions previously recognised as expenditure and no longer required (see Note 23).

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.

The Waste Incineration Directive 76/2000/EC and Inventory

The Waste Incineration Directive imposed additional safety measures for the incineration of tallow which required plant modification. Tallow incineration has been restricted to those renderers compliant with the Waste Incineration Directive.

7. Trader based – Internal Market

	2009–10			2008–09		
	Expenditure £000	**Income £000**	**Net £000**	Expenditure £000	Income £000	Net £000
Horticulture	18,884	(21,212)	(2,328)	19,650	(21,152)	(1,502)
Milk and milk products	279	(684)	(405)	547	(365)	182
Protein and textile plants	1,212	(1,227)	(15)	1,128	(1,213)	(85)
School milk	2,799	(2,826)	(27)	849	(891)	(42)
Sugar and isoglucose	143,982	(141,903)	2,079	(29)	33	4
Other	896	(2,194)	(1,298)	1,398	(1,405)	(7)
Total	168,052	(170,046)	(1,994)	23,543	(24,993)	(1,450)
European Commission financial correction	0	0	0	(171)	0	(171)
Total Scheme Expenditure/ (Income)	168,052	(170,046)	(1,994)	23,372	(24,993)	(1,621)

8. Trader based – External Trade

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

	2009–10			2008–09		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Milk and milk products	11,406	(11,372)	34	346	(341)	5
Processed goods	3,051	(3,244)	(193)	2,766	(2,789)	(23)
Sugar and isoglucose	613	(303)	310	18,979	(19,140)	(161)
Other	723	(4,219)	(3,496)	964	(901)	63
Total Scheme Expenditure/ (Income)	15,793	(19,138)	(3,345)	23,055	(23,171)	(116)

9. Intervention Buying and Selling

Intervention supports the market price by purchasing eligible surplus product into public Intervention storage. Product may also be 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.

	Note	**2009–10**	2008–09
		£000	£000
Non-current asset depreciation		1	1
Intervention operating costs		1,365	86
Total costs		1,366	87
Intervention Income	12	(107)	(58)
Total Intervention buying and selling		1,259	29

10. Modulation

Modulation is applied as a deduction from the budget available for farm based schemes under the European Agriculture 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 EC (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 (i.e. Single Payment, Nut 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 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 generates.

For England, the following National Modulation rates applied:

Scheme Year	2005	2006	2007	2008
Modulation Deduction Percentage	2%	6%	12%	13%

The value of claims paid to farmers plus the national modulation deductions for Single Payment Scheme 2005 and Single Payment Scheme 2006 were claimed from the European Agriculture Guarantee Fund. For Single Payment Scheme 2007 onwards payments are reclaimed net of all modulation and a separate claim is made to the European Agriculture Guarantee Fund when the Rural Development expenditure is incurred.

National Modulation for Single Payment Scheme 2009 onwards is set by national legislation. For England, the following National Modulation rates have been announced:

Scheme Year	2009–2012
Banding/Modulation Deduction Percentages	
Up to €5,000	14%
€5,000 to €300,000	12%
Greater than €300,000	8%

11. Other Paying Agencies and Delegated Authorities

	Note	**2009–10**			2008–09		
		Expenditure £000	**Income £000**	**Net £000**	Expenditure £000	Income £000	Net £000
Other Paying Agencies							
SGRPID		572,582	(573,599)	(1,017)	500,902	(531,519)	(30,617)
WAG		319,463	(315,193)	4,270	284,322	(298,099)	(13,777)
DARDNI		326,466	(327,421)	(955)	273,071	(294,621)	(21,550)
		1,218,511	(1,216,213)	2,298	1,058,295	(1,124,239)	(65,944)
Cost of capital charge	30	6,062	0	6,062	5,154	0	5,154
		1,224,573	(1,216,213)	8,360	1,063,449	(1,124,239)	(60,790)
Delegated Authorities							
FC		1,906	(2,017)	(111)	3,695	(2,578)	1,117
Total Scheme Expenditure/ (Income)		1,226,479	(1,218,230)	8,249	1,067,144	(1,126,817)	(59,673)

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

The Forestry Commission ceased to be a paying agency on 16 October 2006. The Forestry Commission is funded directly by Defra for payments made within England. The Agency funds the Forestry Commission for payments made by Scotland and Wales.

12. Income

Operating income analysed by classification and activity is as follows:

	Note	2009–10	2008–09
		£000	£000
Running Costs Income*		848	1,111
Scheme Income			
Single Payment Scheme in England	6.1	1,868,813	2,010,755
BSE related	6.2	8,829	10,851
Trader based – Internal Market	7	170,046	24,993
Trader based – External Trade	8	19,138	23,171
Intervention buying and selling	9	107	58
Other		4,187	9,627
		2,071,120	2,079,455
Other Paying Agencies			
European Commission Contributions	11	1,218,230	1,126,817
Other Income			
Sugar Levies / Production Charge		11,560	10,233
Other		2,829	1,153
		14,389	11,386
Total Scheme Income		3,303,739	3,217,658
Total Income		3,304,587	3,218,769

* Running Costs Income includes £0.7m (2008-09: £0.7m) notional income relating to services provided across Defra by Defra Investigation Services, which is part of the Agency.

All European Commission scheme income with the exception of OPA income is paid directly to HM Treasury when received and is treated as CFER.

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 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
Revaluations	(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)
Reclassification	0	0	0	0	0	0
Revaluations	(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

Property, plant and equipment additions are reconcilable to the Statement of Cash Flows by the adjustment for accruals shown in the Statement of Cash Flows.

Cash expenditure in 2009–10 on Property, plant and equipment amounted to £2.8m (2008–09: £1.3m), as reflected in the Statement of Cash Flows.

Transport equipment, plant and machinery includes transport equipment at 31 March 2010 with a revalued cost of £89k, depreciation of £72k, and net book value of £17k, and plant and machinery at 31 March 2010 with a revalued cost of £11k, depreciation of £11k, and a net book value of £nil.

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 2008	13,072	24,145	233	156	2,920	40,526
Additions	(2,667)	3,931	20	0	0	1,284
Disposals	(1,808)	(2,872)	0	4	(2,692)	(7,368)
Reclassification (net to intangibles)	0	(140)	0	0	0	(140)
Revaluations	171	(746)	0	(40)	(27)	(642)
At 31 March 2009	8,768	24,318	253	120	201	33,660
Depreciation						
At 1 April 2008	5,060	16,226	0	114	2,694	24,094
Charged in year	2,560	3,228	66	10	79	5,943
Disposals	(1,649)	(2,725)	0	(8)	(2,546)	(6,928)
Reclassification	0	(72)	0	0	0	(72)
Revaluations	(95)	(741)	0	(17)	(26)	(879)
At 31 March 2009	5,876	15,916	66	99	201	22,158
Net Book Value						
At 1 April 2008	8,012	7,919	233	42	226	16,432
At 31 March 2009	2,892	8,402	187	21	0	11,502
Assets Financing						
Owned	2,892	6,766	0	21	0	9,679
Finance Leased	0	1,636	187	0	0	1,823
Net Book Value at 31 March 2009	2,892	8,402	187	21	0	11,502

Transport Equipment, Plant and Machinery includes Transport Equipment at 31 March 2009 with a Cost/revaluation of £95k, Depreciation of £74k, and Net Book Value of £21k.

13.1 Assets held for sale

Assets held for sale are freehold buildings which are measured at estimated sales value less selling costs. In accordance with IFRS 5 assets held for sale are not depreciated. Current year movement of £3k represents a downward revaluation to reflect the revised expected proceeds. The net book value of these assets is £959k (2008–09: £962k), see Note 1.6. During 2008–09 the Agency disposed of assets held for sale for £1.2m with a net book value of £746k after a negative revaluation of £451k recognised in the Revaluation Reserve. During 2007–08, the Agency adjusted the carrying value of Assets held for sale by a negative revaluation of £216k, to reflect the lower expected sales proceeds.

14. Intangible Assets

	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

Intangible asset additions are reconcilable to the Statement of Cash Flows by the adjustment for accruals shown in the Statement of Cash Flows.

Cash expenditure in 2009–10 on Intangible Assets amounted to £24,240k (2008–09: £23,438k), as reflected in the Statement of Cash Flows.

Information Technology includes the carrying value of internally developed software for the system used to process Single Payment Scheme claims. Due to anticipated changes in CAP payment regulations and processes capitalised expenditure on this system has been re-lifed in the current year to 31 March 2014, which has reduced the amortisation charge for 2009–10 by a net £4.8m. All future capitalised expenditure will be fully amortised by 31 March 2014.
The Net Book Value included is £47.3m (2008–9: £37.4m).

14. Intangible Assets (continued)

	Information Technology	Software Licences	Development Expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2008	128,847	10,370	8,322	147,539
Additions	4,525	2,614	16,083	23,222
Disposals	(4,921)	(4,704)	0	(9,625)
Reclassification (net from PPE)	17,191	140	(17,191)	140
Revaluations	10,706	(26)	0	10,680
At 31 March 2009	156,348	8,394	7,214	171,956
Amortisation				
At 1 April 2008	81,565	8,243	0	89,808
Charged in year	17,355	1,059	0	18,414
Disposals	(4,352)	(4,378)	0	(8,730)
Impairment	250	0	0	250
Reclassifications	0	72	0	72
Revaluations	11,263	(35)	0	11,228
At 31 March 2009	106,081	4,961	0	111,042
Net Book Value				
At 1 April 2008	47,282	2,127	8,322	57,731
At 31 March 2009	50,267	3,433	7,214	60,914
Assets Financing				
Owned	49,423	3,381	7,214	60,018
Finance Leased	844	52	0	896
Net Book Value at 31 March 2009	50,267	3,433	7,214	60,914

Impairments

The total impairment charge for the year 2009–10 was £nil (2008–09: £250k) which related to Intangible assets.

15. Revaluation Reserve

The revaluation reserve relates to revaluation of Property, plant and equipment (Note 13), Assets held for sale (Note 13.1), and Intangible Assets (Note 14) analysed as follows:

	Property, Plant and Equipment	Assets held for sale	Intangible Assets	Total
	£000	£000	£000	£000
Balance at 1 April 2009	472	373	608	1,453
Revaluation during the year	175	(2)	1,646	1,819
Transfer to General Fund*	(176)	0	(752)	(928)
Balance at 31 March 2010	471	371	1,502	2,344

* 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.

16. Inventories

Intervention inventories

	Intervention			Tallow	Total
	Butter	Milk Powder	Barley		
	£000	£000	£000	£000	£000
Inventory at 1 April 2008	0	0	0	0	0
Movement	5,052	7,099	0	967	13,118
Inventory at 1 April 2009	5,052	7,099	0	967	13,118
Movement	3,672	14,658	6,262	(967)	23,625
At 31 March 2010	8,724	21,757	6,262	0	36,743

17. Trade receivables and other current assets

	2009–10	2008–09	2007–08
	£000	£000	£000
Amounts falling due within one year			
Trade receivables*	39,900	61,057	74,713
Less Provision for debts*	(20,705)	(30,247)	(21,172)
	19,195	30,810	53,541
Due from European Agriculture Guarantee Fund/European Agricultural Fund for Rural Development**	462,437	357,971	357,410
Due from Defra and its Agencies	1,397	3,671	10,476
Due from Other Government Departments (including OPA's)	3,442	19,657	23,373
Prepayments and accrued income	1,508	1,045	1,908
VAT recoverable	1,698	2,133	2,910
Other receivables	106	309	172
Total Receivables	489,783	415,596	449,790

* Included within these balances are £27.0m in relation to Single Payment Scheme receivables, and £9.8m of Single Payment Scheme allowance for debts (2008–09: £32.8m and £11.5m respectively) see Note 18.

**A total of £196.8m has been billed to the European Commission, and once received, will be paid over to the Consolidated Fund (2008–09: £197.2m).

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 2010 amounted to £19.2m (2008–09: £30.8m; 2007–08: £53.5m).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 2010 is 218 days (2009: 297 days).

Ageing of past due but not impaired receivables:

	2009–10	2008–09
	£000	£000
30 days – 6 months	**3,052**	466
6 months – 1 year	**189**	1,756
1 year – 18 months	**374**	86
Over 18 months	**161**	175
Total	**3,776**	2,483

Movement in allowance for doubtful debts:

	2009–10	2008–09
	£000	£000
Balance at the beginning of the period	**(30,247)**	(21,172)
(Reversal of impairment losses)/ impairment losses recognised	**9,518**	(9,092)
Amounts written off during the year as uncollectible	**24**	17
Balance at the end of the period	**(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:

	2009–10	2008–09
	£000	£000
30 days – 6 months	**1,958**	2,047
6 months – 1 year	**561**	1,615
1 year – 18 months	**1,891**	597
Over 18 months	**8,098**	16,839
Total	**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	
	2009–10	2008–09	**2009–10**	2008–09
	£000	£000	**£000**	£000
Single Payment Scheme trade receivables and trade payables	**27,023**	32,819	**30,859**	44,906
Less allowance for doubtful debts	**(9,775)**	(11,455)	**0**	0
Net Single Payment Scheme trade receivables and trade payables	**17,248**	21,364	**30,859**	44,906

Single Payment Scheme trade receivables represent adjustments to amounts previously paid to customers, arising as a consequence of errors made by customers, process errors and/or system errors. The credit period for Single Payment Scheme trade receivables, once invoiced is generally 30 days except in those instances where an agreement is reached between the Agency and the customer to allow for recovery through the interception of future payments. 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 (a) adjustments to amounts previously paid to customers arising from errors made by customers, processing errors and/or system errors and (b) 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 June 30 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, as the Agency has both an intention and a legal right to offset.

Completeness of Single Payment Scheme trade receivables and trade payables

In addition to the adjustments to amounts previously paid to customers identified and recognised by the Agency, there is a significant risk that certain additional adjustments to amounts previously paid to customers exist but are yet to be identified by the Agency. Until the data cleansing exercise, described in the section on Data quality on pages 38 and 39 of the Statement on Internal Control, is finalised, there exists significant uncertainty with respect to the completeness of identified adjustments. As a consequence of this uncertainty, there exists a significant risk of material adjustment to the carrying amount of Single Payment Scheme trade receivables and trade payables.

Allowance for Doubtful Debts and Ageing

	2009–10	2008–09
	£000	£000
At 1 April	11,455	2,775
(Reversal of impairment losses)/ Impairment losses recognised	(924)	9,051
Amounts written off during the year as uncollectible	(23)	(17)
Impairment losses recovered	(733)	(354)
At 31 March	9,775	11,455

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:

- The 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 for interception.

Of the aggregate adjustments, 10% has been invoiced as at the year end. An ageing analysis of past due but not impaired invoiced trade receivables is as follows:

	2009–10	2008–09
	£000	£000
30 days – 6 months*	3,052	456
6 months – 1 year	189	1,753
1 year – 18 months	374	0
Over 18 months	121	0
Total	3,736	2,209

* 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 debtors is as follows:

	2009–10	2008–09
	£000	£000
30 days – 6 months	1,474	0
6 months – 1 year	356	382
1 year – 18 months	186	0
Over 18 months	284	0
Total	2,300	382

As noted throughout this Annual Report, legacy issues arising from the implementation of the Single Payment Scheme continue to cause difficulties for the Agency. The information presented below shows the total number of customers with potential adjustments, by scheme year, as at 31 March (a customer may appear in multiple scheme years):

Scheme year	**2009–10**	2008–09	2007–08
	No.	No.	No.
2005	10,150	22,330	17,087
2006	8,080	16,128	11,214
2007	5,475	5,392	8
2008	3,263	946	0
2009	1,410	0	0
Number of customers impacted by potential adjustments	14,844	16,977	23,260

19. Intra-Government Receivables

	2009–10	2008–09	2007–08
	£000	£000	£000
Balances with other central Government bodies	6,411	25,207	36,528
Balances with local authorities	126	254	231
Total intra-Government balances	6,537	25,461	36,759
Balances with bodies external to government	483,246	390,135	413,031
Total Receivables	489,783	415,596	449,790

20. Cash and cash equivalents

	Note	**2009–10**	2008–09	2007–08
		£000	£000	£000
Balances held at 1 April		**365,655**	691,792	128,521
Net cash (outflow)/inflow		**(314,132)**	(326,137)	563,271
Balances held at 31 March		**51,523**	365,655	691,792
The following balances were held at 31 March				
Office of HM Paymaster General	24	**51,045**	363,316	690,278
Commercial banks and cash in hand	24	**478**	2,339	1,514
Balances held at 31 March		**51,523**	365,655	691,792

21. Trade payables and other liabilities

Amounts falling due within one year

	Note	**2009–10**	2008–09	2007–08
		£000	£000	£000
Trade payables*		**34,307**	49,463	14,251
Due to Defra and its Agencies**		**66,417**	198,739	107,964
Due to Other Government Departments (including OPA's)		**1,217**	1,079	1,205
Amounts due to the Consolidated Fund		**325,849**	551,381	975,458
Cash securities***	24	**2,716**	2,563	3,261
European Commission Financial correction		**0**	0	22,375
Deferred income		**22**	4,663	5,104
Scheme accruals		**54,780**	28,887	20,510
Single Payment Scheme additional aid accrual		**0**	13,682	13,707
Single Payment Scheme interest		**277**	67	0
Accruals (includes invoices received but not approved)		**21,784**	32,561	26,265
Employee leave accrual		**2,271**	2,243	2,206
Other taxation and social security		**2,818**	3,228	3,133
Finance leases		**300**	267	221
Other payables		**152**	165	348
Total Payables		**512,910**	888,988	1,196,008

21. Trade payables and other liabilities (continued)

Amounts falling due after more than one year

	Note	**2009–10**	2008–09	2007–08
		£000	£000	£000
Advances received on Rural Development Programmes for Defra and other UK Paying Agencies		**118,726**	124,327	36,252
Finance Leases		**1,540**	1,418	1,665
		120,266	125,745	37,917
Total trade payables and other liabilities		**633,176**	1,014,733	1,233,925

* Includes £30.9m of Single Payment Scheme creditors (2008–09: £44.9m) see Note 18.

**Amounts due to Defra and its Agencies include £64.1m (2008–09: £193.3m; 2007–08: £94.6m) in respect of the transfer of Rural Development and Structural Funds scheme income.

***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 2010, the Agency considers that the fair value of the advances received on Rural Development Programmes for Defra and OPAs to be £118.7m (2008–09: £124.3m; 2007–08: £36.2m) and fair value of these finance lease liabilities at 31 March 2010 to be £1.8m (2008–09: £1.7m; 2007–08: £1.9m).

22. Intra-Government Payables

	2009–10	2008–09	2007–08
	£000	£000	£000
Balances with other central Government bodies	**396,201**	754,291	1,087,733
Balances with local authorities	**100**	137	27
Total intra-Government balances	**396,301**	754,428	1,087,760
Balances with bodies external to government	**116,609**	134,560	108,248
Total	**512,910**	888,988	1,196,008
Balances with bodies external to government due after more than one year	120,266	125,745	37,917
Total	**633,176**	1,014,733	1,233,925

23. Provisions for liabilities and charges

	Pensions and related costs*	OCDS and OTMS disposal	Total
	£000	£000	£000
Balance at 1 April 2008	**7,131**	**13,868**	**20,999**
Provided in the year	1,912	5,015	6,927
Released	(13)	0	(13)
Utilised	(2,460)	(10,902)	(13,362)
Unwinding of discount	115	0	115
Balance at 31 March 2009	**6,685**	**7,981**	**14,666**
Analysed as:			
Current	2,073	7,561	9,634
Non-current	4,612	420	5,032
Balance at 31 March 2009	**6,685**	**7,981**	**14,666**
Analysis of expected cash outflows:			
In the remainder of the Spending Review period to 2011	2,073	7,561	9,634
Between 2012 and 2016	4,488	420	4,908
Between 2017 and 2021	124	0	124
Balance at 31 March 2009	**6,685**	**7,981**	**14,666**

	Pensions and related costs*	OCDS and OTMS disposal	Total
	£000	£000	£000
Balance at 31 March 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 cash outflows:			
In the remainder of the Spending Review period to 2011	1,740	652	2,392
Between 2012 and 2016	3,688	19	3,707
Between 2017 and 2021	137	0	137
Balance at 31 March 2010	**5,565**	**671**	**6,236**

* Includes early severance costs.

23.1 Pensions and related costs

The Agency reimburses the Agricultural 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 2010 is £0.04m (2008–09: £0.09m).

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 2010 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 2010 is £5.53m (2008–09: £6.60m).

23.2 OCDS and OTMS disposals

Meat and Bone Meal (MBM) and Tallow were produced as by products arising from the OCDS and OTMS schemes. Provision has been made for the estimated cost of disposal of MBM and tallow produced up to 31 March 2010.

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 is disclosed in Note 1.

Categories of Financial Instruments

	2009–10	2008–09	2007–08
	£000	£000	£000
Loans and receivables			
Trade receivables and other current assets	**486,471**	412,109	444,800
Financial assets			
Cash on deposit	**478**	2,339	1,514
Balances held at Office of HM Paymaster General (OPG)	**51,045**	363,316	690,278
Derivative classified as held for trading	**5,907**	0	0
Derivative instruments in designated hedge accounting relationships	**1,155**	0	0
Sub-total of derivatives	**7,062**	0	0
Financial liabilities			
Derivative classified as held for trading	**0**	(83,207)	(84,610)
Derivative instruments in designated hedge accounting relationships	**(712)**	0	0
Other			
Trade payables and other liabilities	**625,197**	1,001,871	1,206,166
Financial guarantee contracts			
Cash securities	**2,716**	2,563	3,261
Non-cash guarantees	**726,423**	466,271	529,200

Cash on deposit at 31 March 2010 consists of monies lodged with Lloyds TSB plc.

The balance held with Office of HM Paymaster General is 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 £669.9m and euro guarantees totalling €63.6m (£56.5m) were held at 31 March 2010 (£400.2m and €70.9m (£66.0m) at 31 March 2009, and £493.6m and €44.6m (£35.6m) at 31 March 2008). 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 EC 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**	
	2009–10	2008–09	**2009–10**	2008–09
	£000	£000	**£000**	£000
Euro	465,045	361,944	113,487	121,024

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. A positive number below indicates a decrease in net operating cost where sterling weakens 10% against the euro. For a 10% strengthening of sterling against the euro, there would be a comparable impact on the income, and the balances below would be negative. For derivative instruments a positive number below indicates a increase in Taxpayers' Equity where sterling appreciates 10% against the euro. For a 10% decrease of sterling against the euro, there would be a comparable impact on the Taxpayers' equity.

	Impact of movement in euro/pound sterling rate sterling appreciates by 10%		**Impact of movement in euro/pound sterling rate sterling depreciates by 10%**	
	2009–10	2008–09	**2009–10**	2008–09
	£000	£000	**£000**	£000
Net Operating cost*	(57,853)	(48,297)	57,853	48,297
Derivative instruments:				
Net Operating cost**	30,775	55,359	(17,240)	(55,359)
Other Equity**	11,404	0	(10,405)	0

* This is mainly 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 derivatives instruments designated as cash flow hedges.

Outstanding foreign currency contracts

	Average Exchange Rate	**Foreign Currency**	**Notional Value**	**Fair Value**
	2009–10	**2009–10**	**2009–10**	**2009–10**
	euro: sterling	**€000**	**£000**	**£000**
Current Derivative Assets	0.9079	360,721	327,495	7,062
Current Derivative Liabilities	0.8717	42,022	36,628	(712)

In September 2009 the Agency entered into forward exchange contracts to hedge the monthly euro denominated receipts in relation to the Single Payment Scheme. In March 2010, the Agency discontinued hedge accounting for the Single Payment Scheme. As at 31 March 2010, 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 nil.

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 2010, the aggregate amount of losses under such contracts deferred in the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £67k. It is anticipated that the euro receipts will occur in September 2010 at which time the amount deferred in equity will be reclassified to income or cost.

For the year ended 31 March 2010, a credit of £5.5m has been recognised in the Operating Cost Statement 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 (i.e. as prices) or indirectly (i.e. derived from prices).

Own credit risk and counterparty credit risk

As the Agency is a UK Government entity, the own credit risk for the Agency is not significant. All derivative contracts are with either Royal Bank of Scotland (RBS) which is controlled by the UK Government or Hong Kong and Shanghai Banking Corporation (HSBC) which is currently one of the top international banks.Therefore the fair value of the counterparty credit risk is also limited.

Net gains/(losses) on cash hedges transferred from Taxpayers' Equity to the Operating Cost Statement are as follows:

	2009–10
	£000
Agency – Scheme Income	11,362
Other departments – Scheme Income	(281)
Gains – Scheme expenditure	76,657
Total transferred to Operating Cost Statement	87,738

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	3 months to 1 year	1 – 5 years	Greater than 5 years	Total
	£000	£000	£000	£000	£000
31 March 2010					
Non-interest bearing	512,612	0	118,726	0	631,338
Finance lease liability	149	448	2,061	0	2,658
31 March 2009					
Non-interest bearing	870,376	13,682	124,327	0	1,008,385
Finance lease liability	152	455	2,236	0	2,843

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

	0-3 months	3 months to 1 year	1-5 years	Greater than 5 years	Total
	£000	£000	£000	£000	£000
31 March 2010					
Non-interest bearing	488,275	0	0	0	488,275
31 March 2009					
Non-interest bearing	414,551	0	0	0	414,551

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 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
31 March 2008				
Gross settled:				
Foreign exchange forward contracts	0	0	84,610	84,610
Derivative Assets				
31 March 2010				
Gross settled:				
Foreign exchange forward contracts	7,023	80	0	7,103
31 March 2009 and 2008				
Gross settled:				
Foreign exchange forward contracts	0	0	0	0

25. Capital commitments

Contracted capital commitments at 31 March 2010 not otherwise included in these accounts:

	2009–10	2008–09
	£000	£000
Property, plant and equipment	0	0
Intangible assets	2,319	20,902
Total	2,319	20,902

26. Commitments under leases

26.1 Operating leases

Total future minimum lease payments at 31 March 2010 under operating leases are given in the table below for each of the following periods:

	2009–10	2008–09
	£000	£000
Vehicles		
Not later than one year	352	261
Later than one year and not later than five years	403	92
Total	755	353

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.

	2009–10	2008–09
	£000	£000
Land		
Not later than one year	1	1
Later than one year and not later than five years	3	3
Later than five years	42	43
Total	46	47
Buildings		
Not later than one year	4,779	4,627
Later than one year and not later than five years	14,997	16,076
Later than five years	27,677	28,363
Total	47,453	49,066

26.2 Finance leases

Total future minimum lease payments under non-cancellable finance leases as of 31 March 2010 are given in the table below for each of the following periods:

	2009–10	2008–09
	£000	£000
Not later than one year	597	607
Later than one year and not later than five years	2,061	2,236
Later than five years	0	0
	2,658	2,843
Less interest element	(818)	(1,158)
Present value of future obligations	1,840	1,685

27. Other financial commitments

The Agency 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 at 31 March 2010 during 2010–11, analysed by the period during which the commitment expired are as follows:

	2009–10	2008–09
	£000	£000
Not later than one year	1,522	3,651
Later than one year and not later than five years	9,980	20,830
Later than five years	10,969	882
Total	22,471	25,363

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

	2009–10	2008–09
	£000	£000
Not later than one year	11	0
Later than one year and not later than five years	0	0
Later than five years	3,573	3,724
Total	3,584	3,724

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 1.7.

	2009–10	2008–09
	£000	£000
Not later than one year	0	0
Later than one year and not later than five years	0	477
Later than five years	815	0
Total	815	477

Private Finance Initiative

The Agency occupies part of a property which is the subject of a Private Finance Initiative contract entered into by Defra. The Agency is charged rent on this property. The capital value of the entire Private Finance Initiative contract is £18.21m of which £66k is attributable to the Agency. The amount charged to the Operating Cost Statement for use of the accommodation in 2009–10 is £15k and the Agency's commitment for 2010–11 is £15k. Further details can be found in Defra's 2009–10 Statement of Accounts.

The estimated value of non-specialised freehold property owned by Defra but occupied by the Agency at 31 March 2010 is £5.5m (31 March 2009: £11.8m). There are no rental costs on Defra freehold properties.

28. Contingent liabilities and contingent assets 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 has made provision for the amount for which it believes it is liable, and 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 Agriculture Guarantee Fund. Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent clarification negotiations with the European Commission in accordance with the European Commission's clearance of accounts procedure. There is an ongoing potential liability in respect of financial corrections which is unquantifiable.

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

Contingent 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.

29. 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 (formerly Central Science Laboratory); and
- Animal Health.

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 (formerly known as Meat and Livestock Commission); and,
- Milk Development Council.

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

- Scottish Government Rural Payments & 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 (formerly known as Meat and Livestock Commission); and,
- Meat Hygiene Service.

Disclosure of Employment

Christine Tacon, a member of the Agency's Audit and Risk Committee during the year, is General Manager of Farmcare (part of the Co-operative Group (CWS) Ltd). In 2009–10 Farmcare received £3.13m (2008–09: £2.76m) in scheme payments from the Agency. These external interests were known before appointment and were carefully considered by Defra.

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 received £0.60m and £0.06m respectively from the Agency in 2009–10 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 received £0.43m from the Agency in 2009–10 in scheme payments.

30. Notional charges and non-cash items

	Note	2009–10		2008–09	
		£000	£000	£000	£000
Notional Charges					
Audit fee	4		490		425
IFRS audit fee	4		0		23
Cost of capital charge					
Running costs	4	1,961		1,471	
Agency Scheme costs	5	5,780		4,331	
Other Paying Agencies	11	6,062		5,154	
			13,803		10,956
Defra charges					
Capital charges – buildings	4	15,084		0	
DIS Income	12	(727)		(748)	
			14,357		(748)
Total Notional Charges			28,650		10,656
Other Non-Cash Items					
Depreciation	4/9		3,954		5,943
Amortisation	4		15,207		18,414
Impairment	4		0		250
Loss on disposal of assets	4		1,003		853
(Release from)/charge to allowance for doubtful debt	5		9,542		(9,075)
Provisions provided in year	23		1,902		6,927
Provisions unwinding of discount	23		102		115
Provisions released	23		(2,001)		(13)
Movement in cash flow hedge fund reserve	24		67		0
Total Other Non-Cash Items			29,776		23,414
Total Non-Cash Items			58,426		34,070

31. Losses and special payments

	2009–10		2008–09	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	28,100	13,089	89	927
Claims waived or abandoned	3,089	400	16,273	956
Special payments	240	3,209	2,991	1,070
Total	31,429	16,698	19,353	2,953

£13.607m of the 2009–10 losses and special payments (2008–09: £1.882m) are not specific to any one scheme and so are identified separately in Note 5. All other cases are treated as expenditure applicable to the relevant scheme.

Losses exceeding £0.25m	**£000**	
Beck Foods Ltd	391	The company received payments from the Beef Stock Transfer Scheme (BSTS) in 1996 and went into receivership in 1997. There is no prospect of further recovery.
Alpine Cold Stores	279	The company received a Processing and Marketing Grant from the England Rural Development Programme in 2005–06 and went into administration in 2007. There is no prospect of further recovery.
Ulster Meats	3,090	The company received export refunds from the Agency's predecessor, the Intervention Board, before going into compulsory liquidation in 1991. There is no prospect of further recovery.
British Sugar plc	6,642	A penalty invoice was issued to the company in 1997. Following a ruling by the High Court of Justice that this should be quashed, the presumed debt has now been written off.
Total	10,402	

Special Payments exceeding £0.25m	**£000**	
Speciality Produce Ltd	2,916	The payment to the company resulted from the Fresh Fruit and Vegetable Aid scheme following a Judicial Review.
Total	2,916	

32. International Accounting Standard 10 (IAS 10) events after the reporting period

Assets classified as held for sale are included in the Statement of Financial Position at 31 March 2010 at a value of £959k as described in Note 1.6 and 13.1. Sale of these assets was completed during May 2010.

On 13 July 2010, Tony Cooper announced his retirement from the Agency with effect from 31 July 2010. An interim Chief Executive has been appointed, although not announced. Defra will be seeking to appoint a new Chief Executive from the widest available pool.

The Agency's Financial Statements are laid before the House of Commons by the Secretary of State for Defra. International Accounting Standard 10 (IAS 10): Events after the reporting period requires the Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the accounts are certified.

These accounts were authorised for issue on 26 July 2010.

RPA headquarters and offices

www.rpa.gov.uk

READING HEADQUARTERS
Kings House
Kings Road
Reading
RG1 3BU
E-mail: enquiries.reading@rpa.gsi.gov.uk

Correspondence Address
Rural Payments Agency
PO Box 1058
Newcastle upon Tyne
NE99 4YQ

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

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

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

WORKINGTON
British Cattle Movement Service (BCMS)
Curwen Road
Workington
Cumbria CA14 2DD
E-mail: enquiries-bcms@defra.gsi.gov.uk

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

Customer Service Centres

Single Payment Scheme Customer Registration Bovine Scheme	0845 603 7777
Cattle Tracing (BCMS)	0845 050 1234 (General) 0845 050 3456 (Welsh speaking)

Other help line numbers

Dairy Scheme inc. Milk quotas	01392 266 466
External Trade	0191 226 5050
Freephone fraud line	0800 347 347
Securities and Guarantees	0118 953 1723
Slaughter Schemes	0118 968 7333

rpa124 v1.0 jul 2010

rpa
rural payments agency

TSO

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

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

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

TSO@Blackwell and other Accredited Agents

Customers can also order publications from:
TSO Ireland
16 Arthur Street, Belfast BT1 4GD
Telephone orders/general enquiries: 028 9023 8451
Fax orders: 028 9023 5401

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

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

ISBN 978-0-10-296613-8
9 780102 966138