Rural Payments Agency

Rural Payments Agency Annual Report and Accounts 2012–2013

Rural Payments Agency
Annual Report and Accounts
2012–2013

Presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Act 2000
Ordered by the House of Commons to be printed 5 July 2013

HC283 London: The Stationery Office £30.00

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

You can download this publication from www.rpa.defra.gov.uk

ISBN: 9780102984132

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

ID 2562316 07/13

Printed on paper containing 75% recycled fibre content minimum.

Contents

Foreword by the Chief Executive Officer

The Rural Payments Agency (RPA) continued to deliver improved performance during 2012–13. We met our targets and made significant progress in enhancing our efficiency, customer service and data quality as we seek to ensure the agency is strongly placed to implement Common Agricultural Policy (CAP) reform.

2012–13 was a tough year for the British farming and food industry. It was vital RPA remained focused on working in partnership with these industries to do all we could to support farmers and the rural economy.

Paying customers on time and accurately was key to this. We met the end of December payment target for the Single Payment Scheme on the first banking day of December. We paid 98.4% of Single Payment Scheme customers and 97.2% of the estimated fund value by the 15 February 2013, over 5 weeks ahead of target. We achieved targets for trader and rural development scheme payments, and exceeded those for the Cattle Tracing Scheme.

The agency delivered a strong and consistent performance across a wide range of indicators. We met our Headline Indicators, Customer Commitments, and Defra and Taxpayer Commitments.

We have made real progress in delivering the objectives set out in our Five Year Plan. Projects within our Strategic Improvement Plan have stabilised the agency's operation and many are now delivering transformational change, including improving customer service, data, processes, IT systems, and the skills and performance of our people.

These projects help support the achievements of the agency's public commitments including reducing the risk of disallowance, implementing National Audit Office recommendations and have helped us remove two accounts qualifications.

Customers are at the heart of our focus as we continue to support the rural economy. During the 2012–13 financial year, important Strategic Improvement Plan projects were completed and are delivering a better service to customers.

A pilot project was set up to deliver focused support to agents who complete more than 25% of Single Payment Scheme applications on behalf of farmers and landowners. This tailored service helped validate more cases rapidly, and we are now extending the offer to all agents.

A team to handle complex cases was set up to focus on resolving outstanding and often long-term issues. This has helped clear outstanding debts, and validated 50% more of these cases than in the previous year. We introduced a new complaints and appeals process, designed to resolve complaints at an early stage, saving customers' time.

Improving the accuracy of our data and our mapping is a core strategic objective. We introduced a 1% tolerance within the Rural Land Register on changes we find through physical inspection. This removes unnecessary bureaucracy and directly reduces the potential for making inaccurate payments.

Operational improvements to our inspectorate meant more effective scheduling, resulting in more claims being validated earlier.

Being ready for CAP reform is essential for RPA and the farming and food industry. We have continued to work closely in partnership with Defra, our sponsor department, and industry stakeholders to ensure we are all in the best position possible for the future implementation of the new CAP scheme.

RPA's Future Options Programme developed an outline business case for different CAP delivery options and was presented to the Defra Minister and Secretary of State, before being submitted to the Cabinet Office and HM Treasury in October. The case was approved. The Future Options Programme has now successfully become the CAP Delivery Programme under Defra's leadership.

We have delivered improved performance alongside better value for money for the taxpayer. Some 41% of 2012 Single Payment Scheme applications were made online, supporting the government's Digital by Default agenda to cut cost and paperwork.

I thank our people across the agency, my directors and our non-executive directors for their commitment and hard work. Our efforts in forging even closer working partnerships with our stakeholders and customers are at the heart of our vision to be the delivery organisation of choice.

I believe our achievements during the 2012–13 financial year indicate our strategic Five Year Plan is well on track and we can continue to improve our support to farmers and the rural economy.

Mark Grimshaw
Chief Executive Officer

26 June 2013

Management commentary

Introduction to RPA

The Rural Payments Agency (RPA, or the agency) is an executive agency of the Department for Environment, Food and Rural Affairs (Defra, or the department). Established in October 2001 as an accredited European Union (EU) Paying Agency, we operate according to the current accreditation requirements set out in Council Regulation (EC) No 1290/2005 and Commission Regulation (EC) No 885/2006. We also act as the UK Funding Body under this European Commission regulation.

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

In addition, as a funding body, we have responsibility for receiving and administering money from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. We also have responsibility for livestock identification and traceability services within Great Britain.

Our headquarters is located in Reading. We also have main offices in Carlisle, Exeter, Newcastle, Northallerton and Workington.

In April 2013 we employed approximately 2,300 people across the agency.

Our vision

Our vision is to be an effective, efficient and trusted paying agency of EU funds. Our progress over the past 2 years shows that we have successfully implemented changes to the agency that have resulted in improvements to our performance in every aspect of the business and most notably in payments to our customers. We have met the immediate challenge of stabilising the agency and ensuring we have had appropriate control of our processes and associated risks. We continue to address a legacy of issues and have plans in place to deal effectively with change, while continuing to provide improvements to our customers.

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

Corporate governance

We operate within a framework of a strategic plan and an annual Business Plan. The strategic plan sets our duties and priorities as set by ministers. The Business Plan details the annual performance indicators for 2012–13, as set by the RPA Oversight Board. Progress against these objectives is recorded in the Annual Report, and subject to scrutiny from Defra and others such as the National Audit Office (NAO), Environment and Rural Affairs Select Committee and the Public Accounts Committee.

Changes to governance framework

Our governance structure both within RPA and in relation to Defra changed in 2012–13. The Future Options Programme, preparing for the new requirements of the Common Agricultural Policy (CAP) reform, became Defra's CAP Delivery Programme in November 2012. Increased confidence in the agency resulted in the RPA governance being brought in line with other agencies in Defra. As part of this, ministers agreed to suspend the RPA Oversight Board for 12 months while revised governance arrangements are trialled.

The revised arrangements include a Quarterly Performance Review between the Chief Executive Officer and the Defra Corporate Owner, as well as quarterly meetings between the Minister, chair of the Agency Management Board, chair of the Audit and Risk Committee and the Chief Executive Officer. These new governance arrangements aim to improve the levels of engagement between RPA and the department while reducing the level of bureaucracy associated with formal boards.

Details of our corporate governance are shown at Annex A. Details of the main boards during the reporting year are as follows.

RPA Oversight Board

The RPA Oversight Board was part of the collective strategic and corporate leadership of RPA, and brought together ministerial and civil service leaders with non-executives from outside government. Its remit included appropriate oversight of performance and delivery.

The RPA Oversight Board engaged with wider stakeholders openly and transparently, through appropriate reporting within existing communication channels.

The RPA Oversight Board met four times between April and December 2012.

RPA Agency Management Board

The Agency Management Board brought together the Chief Executive Officer, nominated RPA executive directors and non-executive directors. It is responsible for strategic oversight of the agency's performance and as such advises and challenges the Chief Executive Officer, escalating issues to Defra, ministers and previously the RPA Oversight Board as appropriate. It specifically approved the Five Year Plan and annual Business Plan for endorsement by ministers; provides leadership in the delivery of statutory, corporate and business responsibilities; ensures that risks are effectively identified and managed; encourages improvements in performance across the agency; and ensures effective governance and control is in place for the agency.

The Agency Management Board is chaired by a lead non-executive director. The chair works closely with the Chief Executive Officer to ensure that the Agency Management Board works effectively in the support and challenge it provides to RPA's Executive Team. The chair also attended the RPA Oversight Board and now attends the quarterly meeting with ministers.

The Agency Management Board has reviewed its terms of reference in light of the suspension of the RPA Oversight Board.

RPA Audit and Risk Committee

The Audit and Risk Committee is made up of non-executive directors, some of them also attend the Agency Management Board. It is responsible for advising both the Agency Management Board and Chief Executive Officer as Accounting Officer, on all matters relating to strategic processes for risk and control; the governance statement, accounting policies, the Annual Report and Accounts, including the process for review of the accounts prior to submission to the external auditors; assurance of internal and external audits (including work conducted on behalf of the Certifying Body); anti-fraud policies and whistle-blowing processes.

The Audit and Risk Committee is chaired by an appropriately qualified non-executive director. The Audit and Risk Committee chair also attended the RPA Oversight Board and now attends the quarterly meeting with the Minister. They have access to the chair of the Defra Audit and Risk Committee.

The Executive Team

The agency is headed by the Chief Executive Officer and a team of executive directors spanning the organisation in an Arc structure. This is a recognised method of sharing executive responsibility for the overall organisation. Each directorate plays a part in supporting the Arc while acknowledging its impact on other directorates. The Chief Executive Officer and executive directors form the Executive Team.

Agency Management Board

Members of the Agency Management Board for the reporting period

Trevor Spires, CBE	Non-Executive Director – chair
John Carter	Planning and Performance Director
Sharon Ellis	External Relations Director
Mark Grimshaw	Chief Executive Officer
Anne Marie Millar	Finance, Assurance and Commercial Director
Sarah Hendry	Rural Development, Sustainable Communities and Crops Director, Defra (Corporate Customer)
Peter Conway	Non-Executive Director, chair of the Audit and Risk Committee
Janet Baker	Non-Executive Director, until March 2013
Jim Godfrey, OBE	Non-Executive Director, until January 2013
Jo Broomfield	Design and Change Director, until December 2012

Audit and Risk Committee

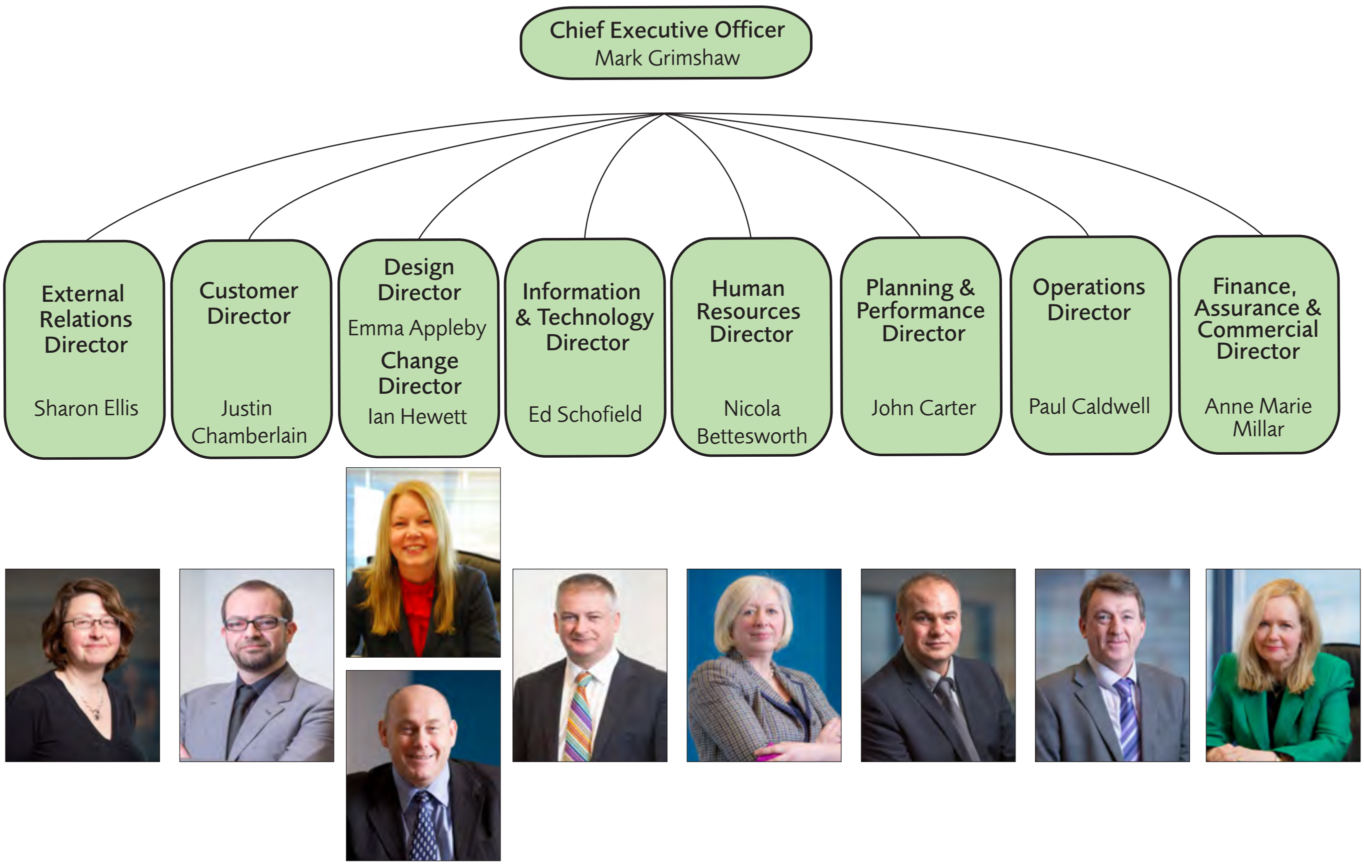
Members of the Audit and Risk Committee for the reporting period

Peter Conway	Non-Executive Director – chair
Alison White	Non-Executive Director
Janet Baker	Non-Executive Director, until March 2013
Jim Godfrey, OBE	Non-Executive Director, until January 2013

Executive Team

Members of the Executive Team for the reporting period

Mark Grimshaw	Chief Executive Officer – chair
Emma Appleby	Design Director, from January 2013
Nicola Bettesworth	Human Resources Director
Paul Caldwell	Operations Director
John Carter	Planning and Performance Director
Justin Chamberlain	Customer Director
Sharon Ellis	External Relations Director
Ian Hewett	Change Director, from January 2013
Anne Marie Millar	Finance, Assurance and Commercial Director
Ed Schofield	Information and Technology Director
Jo Broomfield	Design and Change Director, until December 2012



RPA Oversight Board

Members of the RPA Oversight Board for the reporting period

David Heath, MP	Minister of State for Agriculture and Food – chair, from September 2012
Tom Taylor	Defra Finance Director
Ian Trenholm	Director General, Chief Operating Office, Defra (Corporate Owner) from June 2012
Sarah Hendry	Rural Development, Sustainable Communities and Crops Director, Defra (Corporate Customer)
Mark Grimshaw	Chief Executive Officer
Anne Marie Millar	Finance, Assurance and Commercial Director
Trevor Spires, CBE	Non-Executive Director, chair of the Agency Management Board
Peter Conway	Non-Executive Director, chair of the Audit and Risk Committee
Phil Nunnerley	Non-Executive Director, Defra
Nick Lock	Non-Executive Director, Defra
John Roberts	Defra Head of RPA Sponsorship Team
James Paice, MP	Minister of State for Agriculture and Food – chair, until September 2012
Katrina Williams	Director General, Food and Farming Group, Defra (Corporate Owner) until June 2012

Relationship between RPA and Defra

The relationship between RPA and Defra is set out in an agreed framework document, published in April 2012.

The Secretary of State for Environment Food and Rural Affairs has overall responsibility for RPA and is accountable to Parliament for all matters concerning the agency. Ministerial responsibility and oversight for RPA has been assigned to the Minister of State for Agriculture and Food.

Defra's Permanent Secretary, as the Principal Accounting Officer, is the principal adviser to the Secretary of State on matters affecting Defra as a whole, including resource allocations across the department, and is responsible for ensuring a high standard of financial management.

Defra's Chief Operating Officer, as RPA's Defra Corporate Owner, is responsible for the overall performance of the agency, and appoints and manages RPA's Chief Executive Officer.

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

Relationship with Parliament

The Secretary of State is accountable to Parliament for everything relating to RPA. Where the agency acts on behalf of devolved administrations, the relevant minister is accountable to their respective Parliament or assembly.

Our Chief Executive Officer provides the Secretary of State or relevant minister with any information needed to deal with parliamentary or assembly questions or other business for which RPA is responsible.

The Chief Executive Officer is responsible for writing to Members of Parliament or Assembly in response to written parliamentary or assembly questions. These written responses are published in the Official Report. If a Member of Parliament or Assembly wants to raise a matter relating to RPA's operations they should write to the Chief Executive Officer.

The Chief Executive Officer refers anything to the relevant minister which does not entirely relate to RPA.

Risk management

The Audit and Risk Committee and Executive Team recognised that a new approach to risk management was needed to support the delivery of the Five Year Plan and enable RPA to become a 'risk managed' as opposed to 'risk aware' organisation. An independent assessment concluded that some aspects of RPA's risk management were well developed, but the structure of the approach led to inconsistencies and failed to provide sufficient assurance that risks were being appropriately managed. The Executive Team identified that the agency needed to become an organisation with effective understanding and control of risk.

Elements of the new risk strategy were introduced throughout 2012 including, for the first time, a risk management structure supported by a defined risk appetite. In December 2012 the new approach was fully implemented with the introduction of a centralised team of specialist 'risk partners', replacing the less structured network of 'risk coordinators'. Good progress has been made with notable improvement in the consistency and quality of risk management across the agency. The new centralised team has a consolidated view of agency risks and is actively joining together risk work across directorates.

The Executive Team, Agency Management Board and Audit and Risk Committee have helped develop the revised risk approach. They have developed and agreed the agency's risk statement that supports the new methodology. This is given in the governance statement of this report.

Executive directors, their directorates and the risk partner team are building strong working relationships, focusing and managing risks that are important to achieving the agency's objectives. The progress made on risk management was recognised by non-executive directors and other Agency Management Board members in their annual review of their effectiveness. In February 2012, six areas in relation to risk management were highlighted as in need of improvement and by February 2013 members agreed that all areas had been addressed.

External audit activity of schemes

The agency continues to work with Defra and delegated bodies to address compliance weaknesses identified internally and through external audit activity across all of the agency's schemes. The challenge over the next year is to respond to the emerging CAP delivery requirements to help ensure the compliance elements of the new schemes have been carefully considered.

The Single Payment Scheme (SPS) was subject to a European Court of Auditors' Systems Audit in June 2012. A number of observations were raised by the auditors, many of which are being addressed by the Strategic Improvement Plan. The agency carried out a gap analysis to identify any issues that were not captured in the plan and as a result the scope of a number of projects were widened.

A decision relating to the imposition of financial corrections (disallowance) for SPS and agri-environment schemes for scheme years 2007 to 2011 was released in February 2013. The decision included a revised figure for the correction which accurately reflected the successful negotiations undertaken by the agency with the European Commission.

We received a financial correction proposal for a European Commission Single Payment Scheme Entitlements Audit in 2007 and a subsequent European Court of Auditors audit in 2009, relating to scheme years 2009–10. The proposal only makes reference to weaknesses in the handling of the National Reserve which has previously been accepted by the agency. This indicates that the European Commission has accepted the case made by the agency that there was no risk to the fund relating to the Single Payment Scheme New Entrants and the Data Quality issues highlighted by the European Court of Auditors during an audit in 2009.

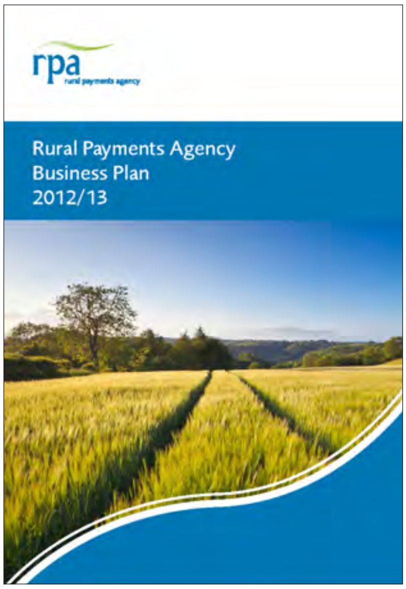
In July 2012 the European Commission indicated that there is the likelihood of significant financial correction in relation to the 2011 Irregularities and Debt Management Audit. An informal discussion with the European Commission clearly highlighted what they were expecting us to provide as evidence to defend our position. A strong response was sent in December 2012. There will be another opportunity to re-enforce our arguments at a bilateral meeting later in 2013.

The agency was subject to an Accreditation Audit in September 2012 with no significant issues raised. The European Commission returned later in the month to examine the cross compliance scheme. We had anticipated some of the issues they would identify and had already put a structured plan in place for mitigation.

We have continued to work in conjunction with Natural England to align their claim and payment cycle with that of SPS. The European Commission has accepted our proposed changes for 2015 onwards. Work is ongoing to ensure the changes are implemented by this date.

The Annual Certification Audit, undertaken by the National Audit Office in its role as the Certifying Body, resulted in an unqualified audit opinion on the agency's EU accounts, but with an Emphasis of Matter on the European Agricultural Fund for rural development debtors. Feedback from the National Audit Office was that the audit process was better and further advanced compared with 2011.

Business Plan 2012–13 update



Our 2012–13 Business Plan, published on June 2012, outlined our main objectives and how they would be delivered, during year one of our Five Year Plan. This included specific, measurable and strategic improvements aimed at stabilising the agency in preparation for CAP reform.

The Business Plan included challenging new indicators for every area of our operations including speed and accuracy of payments, levels of customer satisfaction and financial control.

Defra Structural Reform Plan

Our work supports rural economy and economic growth by contributing to Defra's Structural Reform Plan, particularly in the important area of 'Supporting British farming and encouraging sustainable food production'. Our data and processes also support delivery of the Pillar 2 CAP schemes which contributes to the Defra priority 'to help enhance the environment and biodiversity to improve quality of life'.

2012–13 Performance indicators

Challenging performance indicators were set for all areas of our business, and we regularly monitored delivery against them. We met or exceeded all of these indicators for 2012–13.

SPS 2012

Our payment performance for SPS in 2012 was the most successful in the agency's history, getting vital funds to farmers more efficiently and effectively than ever before. On the first banking day of December, we exceeded our end of December SPS payment target by paying more than £1.38bn to over 95,000 farmers in England.

As part of our customer commitment to excellent service, greater transparency and real engagement, we informed those farmers who did not receive payment in December of what stage their claim had reached. We achieved our end of March SPS payment target (to pay 97% of customers and value) more than 5 weeks ahead of schedule and therefore achieved the benchmark set by the European Union 4 months early.

Non-SPS schemes

For our trader schemes, we made 95% of payments within 28 days and 99% within 60 calendar days, as promised.

The 2012 Fruit and Vegetable Aid scheme target was met with more than £12m paid to customers. We worked closely with Fruit and Vegetable Producer Organisations to complete a comprehensive recognition review. As a result of this joint working all but one of the organisations which had been suspended from the scheme (and wanted to remain in the scheme) were assessed as fully compliant, ensuring access to valuable funding and giving them greater security in the future.

We made 98% of payments under the Rural Development Programme for England within 5 working days, again meeting the commitment.

We also achieved the target to record 98% of cattle births, movements or deaths within 7 working days. In February 2013 the agency's British Cattle Movement Service broke all records for electronic reporting of cattle movements when 91.5% of overall transactions were reported electronically.

Customer satisfaction

Data collected from our customers shows that we are meeting our targets and achieving the highest ever levels of customer satisfaction. For the third quarter of the financial year (October–December 2012) we achieved a score of 8.7 out of 10. As well as being our highest ever score it is a significant improvement from 8.3 at the same time last year.

To improve our customers' experience and reduce the associated bureaucracy, in December 2012 we introduced a new complaints and appeals process. Approximately 98% of complaints, which would previously have taken months to address, are now being dealt with within 15 working days. Therefore, showing we have improved our response rate to complaints.

Digital by Default

By the end of the 2012 SPS application deadline, more than 42,000 applications had been submitted electronically and more than a quarter of these came from farmers or agents using online services for the first time. Around 90% of all cattle movements are now being reported online.

Mapping

We continued work to bring our maps up to date. This is an important element of the Five Year Plan, to demonstrate to the European Commission that we are making scheme payments based on accurate land data. We have a much better understanding of the nature of the land changes we receive and have implemented a more effective strategy for keeping the Rural Land Register up to date. For example, we have started to apply regulatory tolerances which will help to reduce the overall volume of change. It will also mean that we are able to focus our effort on processing 'real changes' which have an impact on claims or the accuracy of the data.

Working with both Natural England and the Forestry Commission, we have implemented a new process for dealing with 'dual use' cases (for example, where two people claim on the same piece of land under different schemes) which will ensure all claims are managed consistently and therefore reduce the risk of financial correction being imposed by the European Commission.

Performance indicator table

Headline Indicators		
Deliver to our customers and achieve an average customer satisfaction rate of at least 8 out of 10	All quarters exceeded 8 out of 10 with 8.7 achieved in quarter 3, the highest ever recorded	Met
Timely payment of SPS in terms of volume and value: paying 91% of customers 84% of forecast fund value by 31 December 2012 and 97% of customers, 97% of value by 31 March 2013	On the first banking day of December 2012 more than 91% of customers were paid in excess of 84% of the fund value and the 97% indicators were met over 5 weeks ahead of deadline	Met
Timely payment of applications for trader schemes: to pay 95% of customers or producers within 28 calendar days of receipt of an application and 99% within 60 calendar days	In excess of 95% of applications have been paid within 28 days and 99% within 60 calendar days throughout the year	Met
Timely payment of applications to Rural Development Programme for England (RDPE) schemes: paying 98% of valid applications within 5 working days of request	In excess of 98% of applications have been paid within 5 working days	Met
Getting it right by making accurate payments, measured at 98% of the financial value	SPS accuracy 99% Trader schemes accuracy 99.9% RDPE schemes accuracy 99%	Met
Maintain accurate records of cattle in Great Britain by recording 98% of notifications within 7 working days of receipt	Recorded births within 7 working days, 99.5% Recorded deaths within 7 working days, 99.3% Record movements within 7 working days, 99.6%	Met

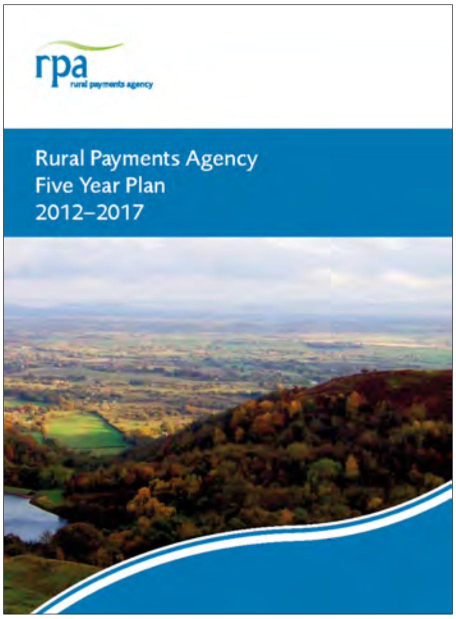
Customer Commitments		
Returning calls to customers within 1 working day	Returned all calls to customers within 24 hours of their initial query to our Customer Service Centre	Met
Reply to majority of letters within 15 working days of receipt or let customers know where not possible	98% of letters were responded to within 15 working days across the year	Met
Acknowledge emails within 2 working days and reply within 15 working days or let customers know when this is not possible	All emails from customers were acknowledged within 2 working days and replied to within 15 working days	Met
Updating maps with reported changes or respond within 30 working days	All requested mapping changes were made or responded to within 30 working days	Met
Normally post cattle passports to customers within 3 working days if application made online or within 5 working days for paper requests	Passports were issued to 99% of customers within 3 and 5 working days respectively	Met
Investigate and respond to complaints or agree a plan to do so within 15 working days	All complaints were responded to within 15 working days	Met

Performance indicator table (continued)

Defra and Taxpayer Commitments		
Focus on costs by monitoring the use of the delegated budget from Defra	Throughout the year the agency has been within budget limits and adapted to cost reductions in the year We have reduced our SPS cost per claim	Met
Minimise the risk of disallowance by a) undertaking activities to address specific audit actions and b) develop tools to manage	Governance in place through disallowance committees and control of audit recommendations with significant reductions in 56 outstanding recommendations across the year	Met
Support the Digital by Default initiative where possible and promote take up of at least a third of online SPS applications	Programmes in place to support digital by default with transaction costs identified in 2 areas and 41% of SPS applications made online in 2012	Met
Validation of over and under payments by taking steps to quantify the position and reduce the overall position	Debt strategy and debt recovery process put in place Payments made and debt recovery undertaken on all possible cases in line with strategy with reductions in levels of recorded debt and credits due Action taken to develop plans to address the accounts qualification	Met
SPS related inspections carried out by 31 December 2012	All inspections carried out within deadline	Met
Introduce a Quality Assurance Team	The team was introduced in early 2012–13 and has carried out a number of quality assurance audits	Met

Five Year Plan

In February 2012, we launched our Five Year Plan which sets out our strategic goals and priorities to 2017. It sets out how we will provide a better service to our customers, pay them the right amount of money on time, make the agency more effective and efficient, and enhance our support of the rural economy. It aims to overcome legacy issues of inaccuracy, lack of timeliness and failure to deliver value for money. The plan also contributes to the government's overall objective to stimulate economic growth through supporting and developing British farming and encouraging sustainable food production and Defra's priorities of growing the rural economy and improving the environment.



Our three core objectives set out in the Five Year Plan were:

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

Strategic Improvement Plan

The three year Strategic Improvement Plan comprised of a series of 45 projects designed to stabilise the agency and deliver improvements across six main themes: data cleanse; improved processes and controls; maintained and improved technology; fit for purpose structure and corporate services; better customer service tools; and improved people capacity and capability.

In 2012–13, the first year of the Strategic Improvement Plan, a total of 11 Strategic Improvement Plan projects were completed, with the remainder actively underway and a number of projects are already making a difference. During work on the 45 projects we identified the need for an additional set of projects, which have been approved through our governance process. Important improvements delivered during the first year of the Strategic Improvement Plan were:

- Developed application forms for 2012 SPS that were made available to customers along with enhancements to the online system. The improvements contributed towards the best ever performance of SPS in 2012. Further enhancements have been made to application forms and the online system for the 2013 scheme year.

- Improved customer processes and introduction of specialist complex case worker teams to handle complex SPS cases effectively and efficiently. This has had a positive impact on both the payment target and the customer experience.
- Introduced an improved process and new systems for handling complaints and appeals to ensure customers dissatisfaction is captured and resolved at the earliest opportunity.
- Increased operational efficiency through a set of business process improvements, in particular for inspections and payments, which should increase the accuracy and timeliness of customer payments.

The agency is continuing to cleanse important data sets for land, customer and financial information.

As of the end of March 2013, 40 of the 43 2012–13 public commitments detailed in the Five Year Plan have been delivered on schedule, with three re-positioned to quarter 1 of 2013–14 in agreement with Defra. One commitment was delivered through a different approach.

Future Options Programme

The Future Options Programme was developed to identify and implement the preferred option to support the delivery of Pillar 1 CAP schemes which the agency manages.

In July 2012 the programme's scope was widened to include the delivery of both Pillars 1 and 2 of CAP services provided by ourselves, Natural England, the Forestry Commission and the Defra Rural Development Programme for England (RDPE) Delivery Team. This decision was taken as approximately 80% of processes are common.

During 2012–13 the programme made significant progress:

- It defined requirements for a future computer system and built these into the outline business case.
- It reviewed all existing computer systems working with all CAP delivery bodies to secure continued support.
- The programme submitted an outline business case to the Cabinet Office and HM Treasury on 22 October 2012.
- The outline business case recommended an option for delivering the future CAP schemes which the programme believed would bring most benefit to our customers and the taxpayer.
- Defra took over as programme lead due to the joining together of Pillar 1 and Pillar 2 services under CAP reform.
- The programme was renamed 'CAP Delivery Programme' to reflect its critical nature in addressing one of the government's major challenges in CAP reform.

- The programme received approval, for the preferred option as detailed in the outline business case, from the Cabinet Office on 14 January 2013 and HM Treasury on 22 January 2013.
- The decision to use a multiple IT Outsource (ITO) option was selected, supported by HM Treasury and the Cabinet Office. It provides many benefits for CAP recipients such as offering the ability for increased join-up across all CAP delivery bodies. It also aligns well with Defra and wider government IT strategies and policies, for example in creating opportunities to re-use assets or enabling purchases through agreed commercial frameworks.

Kainos, an IT software company, joined the programme in November 2012 to complete development of a system prototype, working closely with the programme team and the Government Digital Service, part of the Cabinet Office. An 'agile approach' to software development was used to test some design assumptions during the development and to understand whether 'agile' would benefit the final solution development.

CAP Delivery Programme

One of the biggest challenges the agency and Defra face is ensuring effective delivery of the reformed Common Agricultural Policy in the most cost efficient way for taxpayers, while best supporting farmers and the rural economy. The Future Options Programme became the CAP Delivery Programme under Defra's ownership in November 2012.

The new programme's scope includes the full range of CAP services from direct payments which support farm incomes, to schemes and grants that protect the environment and promote rural development.

This joint approach reflects the significant common technology, processes and systems needed to deliver the majority of CAP schemes. It will drive significant improvements in customer service, transactional efficiency and accuracy, cost savings and innovation.

The agency has been engaged and continues to play an integral part with Defra to ensure that issues of deliverability, both for us and our customers, are considered when policy choices are being made. We are appropriately represented on all the main governance bodies within Defra and have also involved the Agency Management Board and RPA Oversight Board throughout the year as the CAP reform proposals have developed.

Corporate information

Human Resources (HR) policies

Defra HR operating model

In April 2012, under a 'Next Generation HR' initiative, Defra and its agencies aligned professional services under a one HR approach. A new Defra HR team was created aligning services across the Defra network with common policies and approaches.

HR policies

The Cabinet Office changed the way that people policies are reviewed and delivered across the civil service, with new policies being launched by Civil Service Employee Policy (CSEP) to ensure common practice is adopted. Defra has also undertaken a programme to review and refresh existing policies this year. During the year the agency implemented policies from CSEP and Defra HR covering:

- Managing poor performance.
- Whistle-blowing.
- Domestic violence.
- Reservists.

In addition, we are currently preparing for revised policies from CSEP to be delivered early in 2013–14 covering attendance management, grievance procedures and special leave.

Within the agency we have made our policies and procedures more accessible for our people. Through relaunching our HR intranet pages we have provided our people with easier access to the information they need.

Civil Service Reform

A Defra-wide review of terms and conditions is ongoing. This review is a Civil Service Reform Plan commitment to make sure employment packages reflect what a good, modern employer would offer.

Capacity

Workforce planning

Work progressed in the year to stabilise our organisational design, aligning our business functions to our Arc structure. We also developed capability around workforce planning, aligning our demand with our people planning. This has allowed us to maximise the use of our resources by ensuring that our people are placed in the right area, at the right times and has allowed us to make objective business decisions on our resource requirements for the future. For example, we were able to run a Voluntary Exit Scheme.

Recruitment

We have focused on filling business critical roles, particularly those requiring professional qualifications or specialist professional skills such as finance, information & technology and project management.

Over the financial year people have joined the agency in a variety of roles (including in short-term contingent roles). In particular, our recruitment into the change management and design areas has allowed us to achieve our public commitments through the support of highly professional and disciplined project management.

We have investigated options for recruitment and retention allowances to ensure that the agency not only attracts high calibre candidates for particular roles but that we retain those people, building stability in critical business areas and ensuring that skills are transferred to others, building a pool of professional expertise.

Civil Service Resourcing

In October 2012, we joined an e-recruitment service provided by Civil Service Resourcing (CSR) that provides an online advertising and application process for vacancies. Defra is just one of several departments taking advantage of the benefits of a more efficient online service.

There have been some early issues with this new approach and we are currently working with CSR on improvements to make the process more efficient and effective allowing us to recruit the right people, with the right skills, into the right roles at the right times.

Capability – Developing our people

Leadership Development Programme

In February 2012 we launched a programme to assess the capabilities of our senior leaders through formal online assessments and 360 degree feedback. This year we used the results of the capability assessments to launch a Leadership Development Programme. This consisted of a series of senior leader events and the roll-out of a 'Be the leader you can be' training course.

Relaunch of Civil Service Learning

Civil Service Learning (CSL) offers all RPA people a range of learning resources that are common across the civil service. It includes classroom based learning but the majority of CSL is provided as online learning and resources. Following the commitment of the Cabinet Office to civil servants, the agency has already provided for 5 days of learning in each financial year for each of our people. We expect that the majority of this will be met by using current and future online CSL and resources.

We have worked with Defra to develop a communications campaign to promote CSL, linking with the performance management cycle, civil service competency framework and the agency's business requirements.

Increased investment in development

There have been opportunities for development through the senior leader events which built on the Senior Leader Development Assessments concluded at the beginning of the year with coaching sessions and the launch of the Talent Management Scheme.

We have continued to invest in the development of professional and technical expertise especially in critical areas of change management, enterprise architecture and accountancy.

Capability development programme

We developed capability around workforce planning aligning our demand with our people planning. The agency has worked to increase business critical skills around professional training and agency requirements.

The Executive Team approved the proposed approach to developing capability plans that simplifies the process, and introduces skills audits, enhanced personal development and horizon scanning for 2014–15.

Talent management

The agency launched a Talent Management Scheme to identify and develop our existing talent, focusing initially on people working in frontline service delivery, in administrative and first line management grades.

We had over a hundred applications for the scheme and selected 23 people into the first tranche of the scheme. A similar scheme for middle manager grades will be launched in 2013–14.

Employee engagement

People Survey

In the 2012 People Survey our 'overall engagement index' was 38%. This was an increase of 2% from the previous year and reflects the agency's continuing progress made under our ongoing change programme.

There was a significant increase (of 14% from the previous year) in people who felt that the agency is being managed well and a 10% increase in people who felt that they are kept informed about matters that affect them.

We have also introduced a new performance management system that ensures poor performance is tackled and our best performers are rewarded, supporting a fair and consistent application of performance management principles.

One Agency roadshows

During 2012–13 we launched our 'One Agency' roadshows. These are an opportunity for our directors to share the agency's success and for them to engage directly with a large proportion of our people across our major sites. They have been well received.

The first roadshows set the scene for our people, with directors highlighting significant achievements to date and the challenges ahead. Further roadshows were held in November 2012 to update our people on our progress. They also included non customer facing areas such as financial accounting, planning and performance, and information and technology.

Launch of 'Hot Seat'

We started an online live question and answer session called the 'Hot Seat', with directors and other key business area owners. These proved to be extremely popular and have provided a way for all of our people to engage with important issues in a focused and targeted way. Some of the issues covered by sessions were pension reform, performance management and the Voluntary Exit Scheme.

Continuation of 'Adopt a Site' engagement

To improve our local engagement we introduced 'Adopt a Site' arrangements, where an Executive Team member became the sponsor for each of the agency's main sites. We will look to extend these arrangements to include people who are not based at our main sites.

Diversity

The agency is committed to providing a working environment that embeds the principles of equality and diversity. All of the projects in our change programme consider how they impact on people and equality and we continue to guarantee interviews for people with disabilities under the 'Two Ticks' symbol scheme.

We are discussing the development of a Defra network approach to implementing the Public Sector Equality Duty and have provided our people with a link direct to the Defra intranet 'Diversity and inclusion' site that gives resources, information and contacts covering:

- Age.
- Disability.
- Gender.
- Race and ethnicity.
- Religion and belief.
- Sexual orientation.
- Carers.
- Supporting working carers.
- Working families.

We contributed to analysis undertaken across the Defra network to explore the impacts around equality and diversity arising from mid year performance appraisal ratings, particularly around emerging patterns. A number of recommendations are being considered about how to explore the findings further.

In line with commitments under the Public Sector Equality Duty, we have worked with colleagues in our Customer Directorate to develop a number of customer equality objectives and an action plan for 2012–13. This includes improving our intelligence around disabilities in our customer group and enhancing our services to customers with a range of additional requirements. In line with the revised approach to equality, and the phasing out of Equality Impact Assessments, we are implementing a new approach to demonstrating particular attention to diversity and equality.

Employee relations

Celebrating our success

Throughout the year we have encouraged our people to recognise their colleagues who have gone above and beyond their normal duties to deliver a service or piece of work. Recognition of these achievements has ranged from simple thank you letters to formal awards presented at our One Agency roadshows.

This scheme is being relaunched for 2013–14 allowing our managers to do more to recognise the efforts of their teams and putting in place measures for the Executive Team to recognise the efforts of those people where the achievement is considered exceptional.

Trade Unions

Our working relationships with the Trade Unions on a local basis have been constructive. They have had valuable input into the planning of the Voluntary Exit and Talent Management Schemes which helped these initiatives be a success.

Defra led on the review of Trade Union facility time in consultation with Departmental Trade Union Side with input from the agency. A phased implementation of changes in line with the Cabinet Office directive is planned from April 2013.

Employment Tribunals

As part of the Defra HR approach, all work previously undertaken by a team of HR case workers within RPA, is now undertaken by a specialist and professional Complex Casework Team within Defra HR. This ensures a consistent approach is taken to both advice and action in relation to casework.

During 2012–13, there has been one tribunal which was dismissed. There are currently two open employment tribunal cases waiting for hearing dates.

Health and wellbeing

Absence management

For the year ending 31 March 2013 our 'average working days lost' (AWDL) was 9.2. This compares to an AWDL for 31 March 2012 of 8.6. This represents an increase over the 12 month period and is 1.5 days above the Cabinet Office target of 7.7.

During 2011–12 we introduced an HR Taskforce, working with our managers to ensure that the policy and procedures for dealing with absence were followed and that all of our people were supported in ensuring they could maintain a healthy work life balance. This support continued during 2012–13 until the autumn when we took the opportunity to consider both the positive impact of the task force in managing long-term sickness cases, and on the causes of absence.

As a result of this work we are relaunching the task force and developing plans for the reduction of absence across the agency. This work will be supported by a new approach to addressing absence and concentrating on increasing attendance to meet the Cabinet Office target of 7.7 AWDL.

Civil Service Employee Policy will be launching a new attendance management policy that will provide our people and managers with clearer information on the steps to be taken where absence reaches a point of concern.

Occupational Health

We have a blended approach of contracted welfare assistance supplied through the Positive People Company (PPC), an Employee Assistance Professional (EAP), and an in house RPA welfare officer. PPC provided a range of services including a website of resources and information and a 24 hour, 7 day a week telephone counselling service. Our in house welfare officer visited each site on a monthly basis for face to face visits and also provided a service by telephone and email during normal office hours.

We made sure that people suffering from persistent and long-term health issues, including long-term sickness absence, were referred to our occupational health service to ensure that the requisite support required and any reasonable adjustments were put in place.

A review was launched to consider whether we should move to a single model in providing welfare services through PPC, or continue with our blended approach.

Health and Safety

All work related incidents, including ill health, near misses, violent and verbal abuse are reported centrally to the Health and Safety Unit. There were no fatalities this year and there was a significant fall in the number of incidents (as defined under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1996) (RIDDORs) from four in 2011–12 to two in 2012–13.

RIDDOR	**2012–13**	2011–12
Fatal injuries	**0**	0
Major injuries	**0**	1
Dangerous occurrences	**0**	0
Over 3 day injuries	**2**	3
Occupational diseases	**0**	0
Total	**2**	4
Incident by type		
Animal related	**6**	2
Ill health (inc. musculo-skeletal & stress)	**45**	55
Minor/other	**56**	41
Near misses	**17**	21
Road traffic accidents	**16**	15
Slips, trips, falls	**43**	40
Violence/aggression/verbal abuse	**8**	7
Total	**191**	181

The Health and Safety Unit received 191 reports of work related accidents, ill-health, disease or near misses. This is a 5% increase on 2011–12, although there is no significant change in the overall Incidence Rate (calculated per 100,000 employees). There was a 50% decrease in all RIDDOR incidents reported to the Health and Safety Executive compared with 2011–12. There was a reduction of 100% in the number of these reports in the 'major injury' category.

The agency did not receive any health and safety enforcement notices and was not convicted of any breach of health and safety law.

The main focus for 2012–13 was to achieve the government's goal of promoting and encouraging greater corporate responsibility for occupational health and safety by improving the health and safety management capabilities within the agency. Our objectives were to:

- Improve our health and safety culture.

  We have continued to improve awareness and competence of health and safety at all levels within the agency. Guidance and support was given to our people to help them recognise and understand their health and safety responsibilities.

- Maintain and further develop coherent policies and procedures focusing on priority risk areas.

  The stress policy embedded during the year. This includes a tool that allowed teams within the agency to undertake stress risk assessments using the results of the engagement survey. Supporting documents and action planning guides enabled managers to take appropriate follow up action.

  Risk around people working alone continued to be a focus with procedures being developed and implemented to help reduce the incidence of work related violence towards our inspectors. These processes are still being developed across all areas but the main hazard area (cattle inspections) has already seen these embedded into their standard operating procedures. Inspectors have proximity locator devices which use mobile phone signals. Although network coverage is not always available, locators do reduce risks when working alone. We will continue to monitor improvements in communication technology as replacement devices may become available.

- Achieve key targets that demonstrate continual improvement across RPA's health and safety management system.
  - We achieved an 8.1 rating using the Health and Safety Executive's Corporate Health and Safety Performance Indicator (CHaSPI) audit tool. This was the target set at the beginning of the year.
  - We achieved 97% coverage of generic risk assessments against a target of 90% which exceeded our target.
  - We achieved a reduction of 10% of work related stress cases compared with figures for 2011–12.
  - We had a target of 90% of work station self assessments having been completed. 99% of the agency's people have completed this assessment.

To demonstrate our commitment to reducing the risks faced by our people, we set a target of zero incidents as defined under RIDDOR. There were two 'over 7 day absence' and no 'major injury' cases reported in 2012–13. These cases have been thoroughly investigated and measures put in place to help prevent, and reduce the consequences of similar incidents in the future. Although the overall RIDDOR target was not met we achieved a decrease of 50% compared with the previous year.

Audits to review and improve health and safety standards were completed on all of the main sites. These were conducted as a combined audit with the Interserve contract compliance audit. A programme of 6-monthly interim progress reviews was also introduced. This year, for the first time, the agency's inspectorate function was included in the audit process. These audits are designed to:

- Monitor compliance with legal and organisational standards and procedures.
- Assess the range of hazards on each site and the level of risk control in place for each of these hazards.
- Identify any local 'grey areas' in the division of responsibility between Interserve and the agency.

- Provide recommendations tailored to the needs of the site being audited.
- Provide a meaningful benchmark between different sites.

The findings were generally good with recommendations being implemented to ensure standards were improved and maintained.

Security

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

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

The alignment to Information Security ISO 27001:2005 is audited annually by the Certifying Body. This is a requirement under Commission (EC) Regulation No 885/2006. The Agency Security Unit also conducts compliance reviews of the agency, suppliers and delegated bodies to ensure assurance of alignment to ISO 27001:2005. We have received a favourable 2012 Certifying Body report for information security management.

At the end of 2011–12 we successfully implemented a revised model for the Information Asset Owner process. This aligned the process to the new organisational structure to be more efficient and effective during 2012–13.

Information handling

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

Category	Nature of incident	2012–13	2011–12
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	**0**	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	**1**	4
III	Insecure disposal or inadequately protected electronic equipment, devices or paper documents	**1**	0
IV	Unauthorised disclosure	**1**	3
V	Other	**0**	0

The Category II incident:

A package containing customer data following a Data Protection Act 1998 subject access request went missing in transit. The package was found within Royal Mail, then delivered.

The Category III incident:

Personal data was left unsecured in a personal pedestal. This was quickly identified and the pedestal was secured.

The Category IV incident:

Following an internal Data Protection Act 1998 subject access request (person A), information was emailed internally to the wrong person (person B). Person A and person B shared the same name. The Deputy Information Asset Owner (DIAO) has implemented new procedures. This will ensure that future requests will be checked and responded to by the DIAO.

Payment of suppliers

We complied 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 for departments to pay suppliers within 10 working days of receiving invoices, providing they were correct and not subject to dispute. In the March 2010 budget, a further stretch of this target was announced for departments to pay 80% of undisputed invoices within 5 working days of receiving them from May 2010.

Both the 5 and 10 days payment statistics have been reported to Defra. For the year ending 31 March 2013, 71% of payments for all invoices were made within 5 days (2011–12: 99.36%). For the year ending 31 March 2013, trade payables to suppliers represented one day of expenditure (2011–12: 2 days).

Transparency of Data

In line with the wider governmental transparency agenda, we have been committed to making more of our information and data available. In April 2013 we will begin publishing headline performance information on our website which will enable the general public to understand how well we are doing in achieving our Business Plan indicators. In addition we are working on making some of our datasets available externally, on our website. This will be delivered in phases, with the first phase being delivered by the end of 2013.

We are fully committed to supporting greater transparency across government to enable our customers to assess the efficiency and productivity of our service. We are committed to supporting Defra in its efforts to identify and make further data available.

We are equally committed to supporting greater transparency with regard to our third party administrative spend. Each month we have reported all government procurement card spend, our expenditure with all suppliers greater than £25,000 per transaction, and a complete procurement spend analysis of all supplier procurement spend. In addition, we have recorded all procurement opportunities over £20,000 on Contract Finder.

Our data will be a key part of the CAP Delivery Programme and be used to support new business processes to be run by Natural England, the Forestry Commission, the Defra Rural

Development Programme, and the agency. As part of that we are exploring how to securely share as much of this data as possible with our customers. For example, we want to be able to provide the data we hold about customers' land with them online. This will make their interaction with us easier, and give information to help them make decisions in relation to the services we provide to them.

Tax Arrangements of Public Sector Appointees

In line with the recommendations of a review of 'Tax Arrangements of Public Sector Appointees' published by HM Treasury in May 2012, which came into effect on 23 August 2012, RPA put in place controls to ensure its non payroll people earning greater than £220 per day are contractually obliged to assure the agency that they are meeting their tax obligations. Compliance with this has been good and we will continue to monitor this area.

Off-payroll engagements at a cost of over £58,200 per annum in place as of 31 January 2012	
No. in place on 31 January 2012	10
of which	
No. that have since come onto the organisation's payroll	0
of which	
No. that have since been re-negotiated/re-engaged, to include contractual clauses allowing the department to seek assurance as to their tax obligations	3
No. that have not been successfully re-negotiated, and therefore continue without contractual clauses allowing the department to seek assurance as to their tax obligations	0
No. that have come to an end	7
Total	10

All new off-payroll engagements between 23 August 2012 and 31 March 2013, for more than £220 per day and more than 6 months	
No. of new engagements	47
of which	
No. of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	47
of which	
No. for whom assurance has been requested and received	46
No. for whom assurance has been requested but not received	1*
No. that have been terminated as a result of assurance not being received	0
Total	47

* This contractor left the agency before the assurance was received.

Our need for non payroll people reflects our hybrid approach to resource planning. We are undergoing a significant transformation with the delivery of the Strategic Improvement Plan and CAP Delivery Programme.

We have provided returns to Defra, within agreed deadlines, over the course of the year and these are shown on the table above.

Fraud

Fraud referrals are reviews undertaken by the agency to consider whether a potential fraud has occurred. These referrals are closed when cases are either passed on for further investigation, or review by appropriate scheme management units, or no evidence of potential fraud has been established. The agency takes appropriate recovery action on cases where the recommendation is made to recover funds.

Fraud referrals closed	Value of potential fraud associated with referrals
144	£1.36m

Stakeholder and customer engagement

Our stakeholders

RPA is committed to maintaining effective relationships with our stakeholders. A main area of improvement under the Strategic Improvement Plan has been to increase engagement with stakeholders to make sure that we deliver our services more effectively. New stakeholder management techniques are being introduced across the business so that our projects and programme teams identify and engage with stakeholders to improve communication.

Our Technical and Environmental Stakeholder Groups met regularly at national and regional level, and are supported by a regional engagement programme.

This involvement has allowed stakeholders representing all our customer groups, to shape and influence our activities and policies, such as payment scheme guidance, communicating with the farming sector and engaging with the Digital by Default initiative.

We have attended events and seminars to communicate and gain a better understanding of issues, including where our service could be improved to meet their needs better.

CAP reform will bring significant new challenges for our customers. We are working with stakeholders to find mutually beneficial ways of using their expertise to help our customers understand the new rules and use online services. For example, we are working with agents to make it easier for them to help their clients by providing them with specific contacts within the agency.

We continue to work with Defra to make best use of the RPA Farmer Panel, which provided a valuable insight into how the CAP reform changes may affect our customers and change their farming behaviours.

We have forged and continue to maintain strong relationships with stakeholders across the food, farming, and environmental sectors. RPA meets with the ministerial team and senior contacts within Defra at strategic level, and works daily with people across the department and our partner agencies.

Our customers

We are keen to meet our customers face to face wherever possible so we have maintained a strong presence at farming industry shows and events. This has given us the opportunity to listen to farmers, capture their views and answer individual queries. We have also helped farmers to prepare for the 'Digital by Default' future and suggested CAP reform changes.

We have worked closely with the farming industry to help farmers move from submitting paper applications to applying electronically, including using our SPS Online service.
By attending numerous local industry events we have helped farmers to see the benefits of going online and provided support to those doing so for the first time. This awareness resulted in 42,600 customers applying electronically in 2012 (2011: over 31,000) and significantly, more than a quarter were from farmers and agents who were using online services for the first time.

Farmers have told us that knowing when they will receive their SPS payment is important. We have provided a clear and honest view of the progress of each farmer's claim but we are not always able to predict the actual timing of their payment. We ensured that in December we were able to let each farmer not likely to be paid in that month know that was the case. We kept in regular contact and agreed individual arrangements for how and when they preferred to be kept up to date.

We used customer insight to keep customers at the heart of what we do. Each quarter, an independent research company interviews farming customers from a mix of farming business types, sizes and regions. Annual research has also been conducted with our trader customers in the last quarter of the year, including those involved with dairy and import and export schemes.

We asked for opinions on the agency's main service areas, including people, communications, inspections and payments. We have taken this feedback and identified areas that are working well (so we do not introduce needless changes that can be disruptive to customers) and specific areas for improving our customer service. For example, this customer engagement has seen us respond by introducing dedicated teams to improve RPA letters and guidance, using clearer and more helpful language.

There was a significant improvement in our customers' satisfaction during the year. In quarter 3 of 2012–13 we achieved our highest ever overall average customer satisfaction score at 8.7 out of 10 (quarter 3 of 2011–12: 8.3 out of 10). 91% of our surveyed customers told us they considered themselves 'satisfied' or 'very satisfied' and 44% also felt RPA is providing a better service now than 12 months ago.

In December 2012, we received recognition for our customer research approach. RPA was awarded, jointly with our survey provider ORC International, the 2012 Market Research Society Award for Public Policy and Social Research, for use of customer research in guiding internal decision-making to deliver improvements.

As well as asking our customers for their views about our main services, we have used our RPA Farmer Panel to delve deeper into specific topics, giving a richer picture of our customers' experience. Thousands of farmers have been asked for their views and this has been important in helping RPA plan and deliver service improvements for our customers.

Customer complaints

The agency launched a new Complaints and Appeals process in December 2012. The underlying principles of that new service are:

- simple, accessible, transparent process to work with customers to resolve their issues;
- resolution of the customers' issues at the first point of contact;
- identifying maladministration and remedying it early; and
- using lessons learned from the issues raised to feed improvements back into the business.

We discussed and agreed the guidance for the process with important stakeholders.

The new process focuses on resolving complaints at the first point of contact. Case workers will work with customers to try to resolve their issue in an agreed timescale. If they cannot, the case can be escalated to a resolution team within the area, which will look at the issue again and make a decision.

If, despite that, we have still not been able to resolve the issue, the case can be escalated to a team in our Customer Directorate for either:

- Decision Review, for cases where a customer feels we have not administered the scheme rules and regulations correctly; or
- Service Review, if they are not happy with the way we have treated them.

They independently review all the circumstances and reach a decision. If the customer is still not happy they can pursue their issue with the Ombudsman (for 'service' issues) or, for 'decisions', they can proceed to Appeal (see below).

The number of complaints in the year has remained similar to last year.

	2012–13	2011–12
Number of complaints handled in Customer Directorate	**1,127**	1,123

Appeals

The formal Appeals process enables customers to challenge decisions under any of the schemes we manage. Under the old process applying for the first part of the year, this involved 2 stages. Stage 1 was an internal review of the case by our Complaints and Appeals team. If a customer was not satisfied with the outcome they could take the case to Stage 2 where an independent panel of 3 members would review the case and make a recommendation to the Minister. The Minister took the formal decision to uphold or reject the appeal.

Under the new process, the first stage appeal is replaced by a formal independent review by our Complaints and Appeals team (Decision Review). If that outcome does not satisfy the customer, then they can move to the appeal stage, which mirrors the Stage 2 process set out above.

The new process, described above, is designed to resolve complaints at the earliest possible stage and to reduce the need for cases to escalate to review and to appeal.

During 2012–13 the agency received 211 Stage 1 Appeals (2011–12: 298) and 82 Stage 2 Appeals (2011–12: 83). The majority of the appeals received were in connection with SPS.

Stage 1 Appeals	**Number of appeals**	**Unresolved**	**Resolved**	Successful	Partially Successful	Unsuccessful	Withdrawn
SPS	206	23	183	18	2	138	25
Other schemes	5	0	5	0	0	3	2

Stage 2 Appeals	**Number of appeals**	**Unresolved**	**Resolved**	Successful	Partially Successful	Unsuccessful	Withdrawn
SPS	78	54	24	3	1	12	8
Other schemes	4	3	1	1	0	0	0

Parliamentary Ombudsmen

We have worked with the Ombudsman's office to resolve any issues of maladministration by the agency. We are committed to meeting the Ombudsman's Principles of Good Administration. We have taken all complaints seriously and tried to handle them sensitively and fairly. We admit when we have got things wrong and where we can, we put things right and also let them know how we can avoid this happening again.

The Ombudsman has highlighted the need to recognise and remedy maladministration at the earliest point and that the agency must have suitable guidance and process in place to do so as opposed to relying on the outcome of an Ombudsman approach.

Our improvements to the Complaints and Appeals process has avoided customers having to escalate cases to the Ombudsman. We have actively taken part in the cross government Complaints Forum which has recently been re-formed to include representatives from all government departments and agencies. Its key objectives are to work together to improve complaint handling, in direct response to the 2011 Parliamentary Ombudsman Annual Report.

Our work to improve our handling of complaints and appeals was noted in the Ombudsman's 2012 Annual Report.

Access to information requests

In the year to 31 March 2013 we responded to 922 requests for information, of which 96.4% were within the agreed deadlines (2011–12: 959 and 94%). These cases involved requests for information under the Data Protection Act 1998 or the Environmental Information Regulations 1992–2004.

Better regulation

The agency is committed to achieving simplicity, wherever possible, in the implementation of CAP payment schemes it runs. However, many EU schemes are highly prescriptive for paying agencies, with serious financial consequences (disallowance) for not meeting statutory process requirements. Therefore, as most of our work is directed by European legislation, the most achievable way for us to deliver better regulation is to make sure that we implement legislation as appropriately as possible.

We always try to balance control requirements with flexibility to support the farming sector in focusing on its core business. For example, continued enhancement of SPS Online, the electronic application system, includes features to highlight potential issues where more information is needed from applicants. This enables farmers to resolve issues more quickly, reducing the time and burden of ongoing contact with the agency and freeing their time to focus on their core business. It leads to quicker, right first time SPS payments, helping to support the rural economy.

Further, we are continuing to explore how an 'earned recognition' approach, suggested by the Farming Regulation Task Force, could be incorporated into our inspection regimes and if possible, implementing the approach.

Farming Regulation Task Force

RPA has embraced the recommendations of the Farming Regulation Task Force Report accepted by Defra. We have continued to deliver our commitment to consult closely with stakeholders before developing and launching any new forms or guidance. This helps make sure the language, content and format of our advice, guidance and other information is helpful, easily understood and correctly applied on farm.

We continue to work closely with Defra and the Defra network to make progress in reducing regulatory burdens on farmers by: increasing information and intelligence sharing with other agencies; working to make sure on-farm inspections are well co-ordinated; and helping to provide clarity to farmers about how our inspections are carried out. We contributed to the delivery of the National Audit Office Value for Money Study on the Streamlining of Farm Oversight.

We are also continuing work around County Parish Holding number allocation and livestock movement reporting, which aim to simplify the current processes, while offering livestock keepers increased flexibility to manage their holding in a way best suited to their individual needs.

The principles of the Farming Regulation Task Force recommendations are also embedded in Strategic Improvement Plan project design and delivery.

Improved guidance

We worked closely with customers during 2012–13 to implement tangible improvements in services. We established dedicated teams to work with agents and have supported our case workers in giving helpful advice on payment timings to farmers.

In response to the Farming Regulation Task Force we are committed to making greater use of online facilities to communicate with the farming community. For 2013 we published the Guide to Cross Compliance in England online only and sent each farmer a paper update on changes for 2013. We continue to work with main stakeholders and delivery agencies to support farmers in the move away from paper guidance.

We supplied paper copies of the Single Payment Scheme Handbook for England 2013, to all customers, as we do not plan to issue paper copies in future. We have worked with the industry to provide clear guidance on issues that have caused difficulty in the past, such as dual use, intentional overdeclaration and ineligible features.

We have improved the clarity of our letters to farmers and agents by highlighting key points and using language that can easily be understood.

We work with Defra's Farm Industry Group to explore ways of combining messages from across the Defra network with SPS communications and we continue to see year on year increases in our customer satisfaction survey scores for our written communications.

As we move our services to the single government website (GOV.UK) we will present information to farmers based on their specific business needs. This will use customer segmentation to package schemes and services so that groups of customers can access necessary information.

Red Tape Challenge

We are actively contributing to the Government's Red Tape Challenge, largely through our response to the Farm Regulation Task Force. We are also working to improve the quality of our data and the customer experience, including through the work of Defra's Smarter Environmental Regulation Review.

We will continue to look for opportunities to join up our inspection activities with other inspection bodies, either physically on the ground or through sharing of inspection data and intelligence. The Farm Regulation Task Force recommended the setting up of a network of regional inspection forums to join up at local level and we are actively participating in the new groups that are being set up across the country.

CAP reform

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

Our External Relations Directorate has taken a major role in developing the agency's detailed understanding of the CAP reform proposals and using that understanding to ensure that both the Defra negotiating team, and other European Paying Agencies, recognise some of the delivery challenges in the proposals. For example, the impact of the 'greening' proposals on how the agency runs its Land Parcel Identification System could be very expensive to manage and produce significant disallowance risk.

Our work to make sure that other paying agencies and Defra recognise that challenge has been a significant part of the process that has resulted in the proposed transition period for holding the greening data within that system. We have also played a major role in ensuring that Defra recognises the importance of having the option to rollover entitlements and that the legislation reflects that flexibility.

Introduction of new policies

During the course of the year we have been able to deliver or prepare for a range of policy requests and regulatory change. This has included:

- The development of new EU schemes introducing Producer Organisations (PO) into the dairy sector and associations of POs into the Fruit and Vegetable Sector.
- Additional cross compliance requirements arising from changes in supporting EU and domestic regulation.
- The introduction of controls and procedures arising from new schemes under the Rural Development Programme for England.

- Providing additional data capture services for the movement of sheep and goats.
- Enhancements to cater for the electronic notification of cattle deaths.
- Improved movement procedures to support the TB Eradication Plan.



Annual Sustainability Report

The agency continues to achieve an excellent 'greening government commitment' performance. From a revised agency baseline figure (2009–10) of 6,421 tonnes we have reduced our output of carbon through buildings and transport to 3,566 tonnes in the last year. We have already exceeded the 25% target for 2014–15 of 4,816 tonnes. We have achieved this through a rationalisation of our estate and an ongoing programme to change behaviours and make our people 'think carbon'.

In terms of waste our baseline figure was 618 tonnes (2009–10) with a target to reduce waste to 463.5 tonnes by 2014–15. In 2012–13 we recorded a 22% reduction, on 2011–12, to just 286 tonnes. Further, our recycling and waste recovery rate remains at around 88% with the amount sent to landfill continuing to fall.

We have not made such convincing strides with our water performance. An unreported and invisible leak at one of our sites increased water output considerably. From a baseline of 16,116 m^3 in 2008–09 we reduced our water consumption to 15,899 m^3. In 2013–14 we are expecting a significant reduction, as we continue to rationalise our estate.

The agency has reduced the amount of paper sent to our customers by continuing to encourage online application for our main schemes or services. Electronic applications have increased considerably over the past 2 years with now over 41% of people applying online. This equates to nearly more than 42,000 bulky documents that no longer have to be printed, delivered and eventually disposed of. In addition around 90% of cattle movements are now recorded online and also contribute to reducing our demand for resources.

The agency is committed to reducing the impact of our business on the environment. We are an office based organisation with a team of field based inspectors and our main emissions come from our buildings. In February 2011, Defra published greening government commitments which established a number of commitments on reducing the environmental impacts of government activities. Our latest performance figures are summarised on pages 40 to 42.

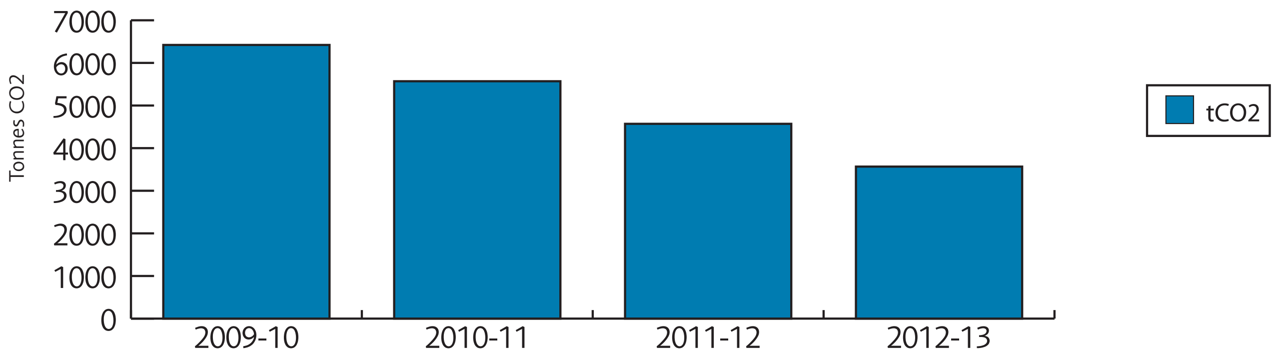
Summary of performance

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

<table>
<tr><th colspan="2">Greenhouse gas emissions</th><th>2009–10</th><th>2010–11</th><th>2011–12</th><th>2012–13*</th></tr>
<tr><td rowspan="4">Non-financial indicators (tonnes CO2)</td><td>Total emissions</td><td>6,421.4</td><td>5,569.7</td><td>4,920.7</td><td>3,565.8</td></tr>
<tr><td>Scope 1 emissions (direct)</td><td>1,020.2</td><td>653.5</td><td>517.2</td><td>383.0</td></tr>
<tr><td>Scope 2 emissions (indirect)</td><td>3,981.9</td><td>3,831.1</td><td>3,394.6</td><td>2,290.0</td></tr>
<tr><td>Scope 3 emissions (official travel)</td><td>1,419.3</td><td>1,085.1</td><td>1,008.9</td><td>892.8</td></tr>
<tr><td rowspan="3">Related Energy Consumption (kWh)</td><td>Electricity non-renewable</td><td rowspan="2">7,590,268</td><td rowspan="2">7,302,832</td><td>589,664</td><td>548,219</td></tr>
<tr><td>Electricity renewable</td><td>5,815,909</td><td>3,816,556</td></tr>
<tr><td>Gas</td><td>5,556,447</td><td>3,559,128</td><td>2,810,295</td><td>2,087,218</td></tr>
<tr><td rowspan="3">Financial indicators (£)</td><td>Expenditure in energy</td><td>1,174,738</td><td>905,467</td><td>683,941</td><td>555,658</td></tr>
<tr><td>Carbon Reduction Commitment (CRC) Licence expenditure</td><td></td><td></td><td>55,953</td><td>31,400</td></tr>
<tr><td>Expenditure on official business travel</td><td>2,268,130</td><td>1,757,184</td><td>1,714,273</td><td>2,134,454</td></tr>
<tr><td colspan="5">Commentary</td><td>* anticipated</td></tr>
<tr><td colspan="5">RPA continues to reduce its environmental and carbon footprint with a 32% reduction in electricity consumption this year compared with the previous year. There has also been a 28% reduction in carbon emissions. There will be a challenge to maintain this achievement in the future with particular pressure on travel where costs have increased this year.

Currently RPA is leading all other parts of the Defra family in terms of its energy performance.</td><td></td></tr>
</table>

RPA CO2 emissions

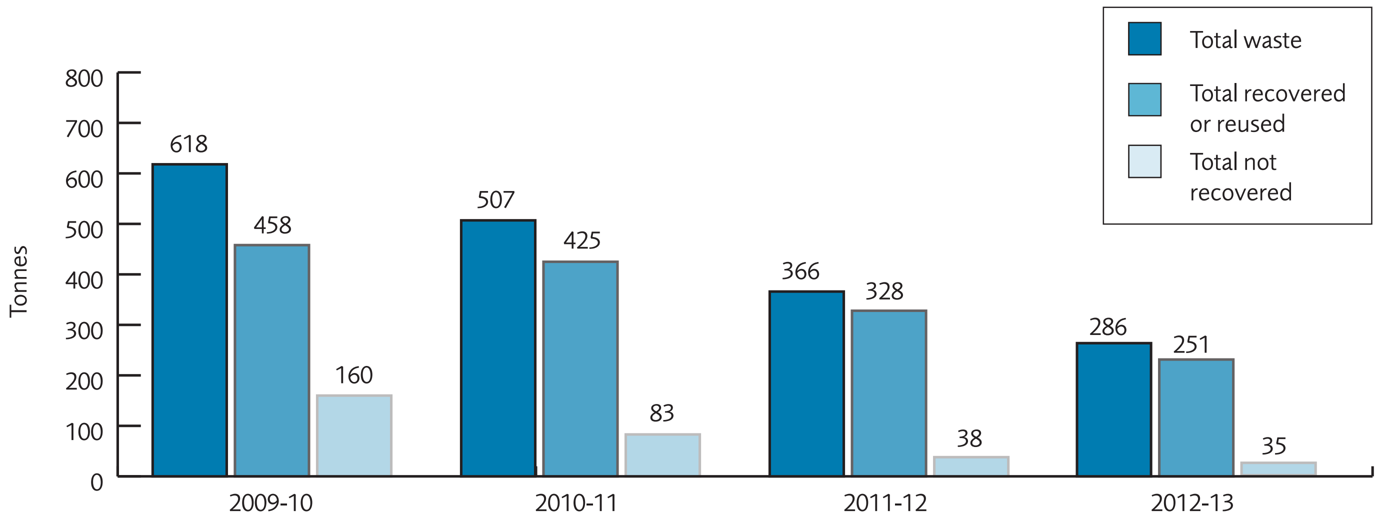


Waste management

The agency has a positive attitude to waste management with many people taking a keen interest in recycling. The Interserve contract brought all waste services under one contractor and we continue to reduce the amount sent to landfill.

Waste management		2009–10	2010–11	2011–12	**2012–13***
Non-financial indicators (tonnes)	Landfill	159.82	82.58	37.40	**34.90**
	Reused or recycled	428.10	387.11	306.80	**234.98**
	Composted	1.98	1.80	1.70	**2.04**
	Incinerated with energy recovery	28.26	35.97	19.20	**13.96**
	Incinerated without energy recovery	0.04	0.03	0.50	**0**
	Total recovered or reused	458.34	424.88	327.70	**250.98**
	Total not recovered	159.86	82.61	37.90	**34.90**
	Total waste	618.20	507.49	365.60	**285.88**
% recovered or reused		74.14	83.72	89.63	**87.79**
Commentary					* anticipated
RPA continues to drive down waste and although the % recovered has not increased, the amount of waste arising has significantly decreased. We are producing less than half the waste that we did in 2009–10. This is a significant achievement and means that the impact the agency has on the environment is significantly reduced. Compared with others in the Defra family we are currently the second best performer, behind the Marine Management Organisation.					

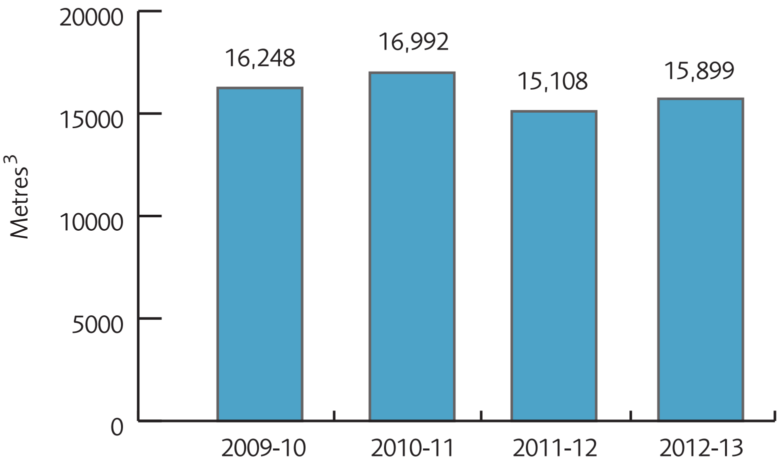
Total waste and disposal



Finite resource consumption

Finite resource consumption		2009–10	2010–11	2011–12	**2012–13***
Non-financial indicators (m^3)	Water consumption	16,248	16,992	15,108	**15,899**
Financial indicators (£)	Water supply costs		75,552	60,003	**46,015**
Commentary					* anticipated
RPA consumption increased last year as a result of an invisible leak. We will be reviewing consumption carefully over the next year and implementing a behavioural change programme to increase efficiency.					

Water consumption



Future strategy

RPA's Five Year Plan sets out our priorities from 2012 to 2015 showing how we will deliver a better service to our customers, pay them the right amount of money on time, make the agency more effective and efficient, and to better support the rural economy.

We will continue to work to ensure that RPA's objectives are delivered without additional impact on the environment and that sustainability is weaved into the entire decision-making process of the agency. The fact that we have already achieved greening government commitment targets in CO2 and waste management demonstrates a clear commitment to the environment which is as expected from a Defra executive agency.

Biodiversity action planning

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

Sustainable procurement

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

Financial review

Preparation of the Annual Report and Accounts

Our Statement of Accounts reports the financial results for the year 1 April 2012 to 31 March 2013. It is prepared in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, the Accounts Direction issued by HM Treasury and the Financial Reporting Manual (FReM), published by HM Treasury.

Auditor

Our annual accounts have been audited by the Comptroller and Auditor General who was appointed under the Government Resources and Accounts Act 2000. A notional cost of £400k was incurred for the audit of the agency's accounts (2011–12: £460k). The Comptroller and Auditor General is also the auditor of the Statement of Accounts for the European Agriculture Guarantee Fund and for the European Agriculture Fund for Rural Development which has financial years ending on 15 October. The cash cost incurred for the audits of these funds for the year ending 15 October 2012, for transactions for England, was £1,185k (2011–12: £1,260k). The auditor has not conducted any non audit work for the agency (either this year or last year).

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

Financial results

Our net running costs in 2012–13, at £169m, were £5.1m higher than in 2011–12. This is due to £19.8m increased project spend on the Strategic Improvement Plan and the CAP Delivery Programme. Excluding these, running costs reduced by £14.7m. This included savings of £3.6m from rent and accommodation charges and a £4.2m reduction in depreciation and amortisation costs.

The management team continues to focus on restricting spend on operating activities, while building a stable platform for the future Common Agricultural Policy schemes.

At £1,722m, we paid £335m less in 2012–13 than in 2011–12, see Note 4. This partly reflects changes in the sterling value of the European Fund for SPS. The fund is determined in euros and hence the sterling value fluctuates in line with currency movements. For example, the SPS fund for the 2012 scheme was estimated to be 5.6% lower than the equivalent 2011 scheme.

The agency continued to improve payment performance of SPS, with approximately 99.5% of the 2012 scheme paid out by 31 March 2013, compared with 98.5% of the 2011 scheme at 31 March 2012. Payments under SPS were £310m lower in 2012–13 than 2011–12, see Note 5.1.

The agency again successfully mitigated the foreign exchange risks associated with the operation of the EU schemes. In 2012–13, the agency achieved an overall foreign exchange gain, see Note 4.

Scheme income of £1,708m, see Note 11, in 2012–13 was £327m below that in 2011–12, reflecting the reduction in direct scheme expenditure, with a £318m decrease relating to SPS.

The net 2012–13 scheme position was a gain of £1m, compared with a loss in 2011–12 of £5m.

We provided funding to Scotland, Wales, Northern Ireland and the Forestry Commission (for Scotland and Wales) in 2012–13 of £1,173m, compared with £1,237m in 2011–12. We manage reimbursements from the European Commission on behalf of these agencies and incur the resulting foreign exchange costs. Hedging costs have been shared with the other paying agencies. The costs of these transactions are included with those for England, net of agreed recharges to the other paying agencies, as they are incurred as part of the same foreign exchange transactions. Scheme income relating to the other paying agencies in 2012–13 was £1,172m (2011–12: £1,236m) resulting in a net loss for 2012–13 of £0.4m (2011–12 £0.8m loss).

The faster payment profile of SPS compared with 2011–12 resulted in lower liabilities to pay at 31 March 2013, lower cash held for pending payments and earlier reimbursement from the European Commission. These contributed to reductions in trade payables of £44m, cash of £77m and receivables from the European Commission of £102m.

Non-current assets fell by £12m, principally due to depreciation and amortisation. Net derivative assets/liabilities were valued at £28m less at 31 March 2013, compared with 31 March 2012.

These were the principal movements underlying the £188m decrease in total assets less liabilities from £555m to £367m.

Financial commentary

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

We are exposed to 2 significant financial risks in administering scheme payments. The first is a foreign exchange risk as payments are predominantly made in sterling (although claimants can request to be paid in euros) while reimbursement from the European Commission is made in euros. The risk arises as the euro to sterling exchange rate can change between the date sterling is converted to euros for the reimbursement claim (the rate applicable to SPS expenditure is the euro to sterling exchange rate fixed by the European Commission) and the date the reimbursed euros are converted back into sterling using the rate when received.

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

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

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

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

SPS trade receivables and trade payables

The agency encountered problems with the implementation of SPS during 2005, characterised by errors in data entry and claim calculation. These have taken a number of years for the agency to fully understand and deal with. SPS is an annual scheme, but payments in each year are based on entitlements which were allocated to claimants at the start of the scheme. Therefore, corrections to one year can sometimes have an impact for each subsequent year, depending on the circumstances of the case.

SPS receivables represent overpayments made to customers. These arise as a consequence both of agency and customer errors. The agency expects to have a low-level flow of receivables arising in the normal course of business, for example, as a result of inspection findings.

SPS payables represent amounts recorded in accounts payable as due to customers. These could be due for payment in the next payment cycle, on hold due to the presence of debt from a different year or scheme, on hold due to a query with the payment calculation or through incomplete customer payment details.

The agency has made significant steps forward in resolving legacy issues surrounding SPS receivables and payables. It has defined a debt and credit clearance strategy and plan for clearance of these outstanding balances. This is based on checking cases which have indicators of inaccuracy while applying suitable tolerances to prevent excessive rework where it would not represent good value for money to the taxpayer. This has helped drive a significant decrease in these balances during 2012–13. The clearance plan is due to complete during 2013–14.

At 31 March 2013, the gross SPS trade receivables balance stood at almost £6.7m, compared with £14.9m at 31 March 2012, a reduction of 55%.

At 31 March 2013, the SPS trade payables balance of £16.0m included £14.3m relating to current year payments considered to be accurate and to be released shortly after the year end.

The equivalent balance at 31 March 2012 was £56.8m, of which £50.0m related to the latest scheme year.

The agency will continue to carry out its clearance plan and strategy during 2013–14, with the aim of reducing the outstanding balances and obtaining greater confidence in the completeness of SPS customer balances.

Remuneration report

Remuneration policy

Although costs for the Chief Executive Officer and members of the Agency Management Board are included in the agency's Annual accounts, they are formally employed by Defra.

The framework for remunerating the Chief Executive Officer and members of the Agency Management Board, as for all Senior Civil Servants, is set by the Prime Minister following independent advice from the Senior Salaries Review Body. Further details about this body can be found at www.ome.uk.com. The Cabinet Office advises Defra in March or April each year of the government's response to the Senior Salaries Review Body's recommendations and produces guidance for departments to follow.

Defra develops its Senior Civil Service Pay Strategy within this Cabinet Office framework and contains individual awards within the set range, ensuring that the overall pay awards are within the cost ceiling allowed.

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

Consolidated awards generally differ depending on the level of performance and the relative position of each person in their pay range. However, the Senior Civil Service was subject to a basepay pay freeze in 2012. NCVP is performance related and is paid in arrears in the financial year after that in which it was earned. NCVP earned in 2011–12 and paid in 2012–13 was capped at a maximum of £10,000 for Senior Civil Service pay bands 1 & 1A, £12,500 for pay band 2 and £15,000 for pay band 3. The table of salary and non-cash benefits (shown on page 49) includes NCVP paid to the Agency's Management Board and Chief Executive Officer.

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 the Agency governance structure, in Annex A).

Service contracts

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

The Chief Executive Officer and executive directors, including those on the Agency Management Board, are permanent civil servants. The executive directors are required to give 3 months' notice under the terms of their contracts.

Our non-executives were also appointed on fixed-term contracts with a notice period of one month. Peter Conway, Trevor Spires and Alison White are each on fixed contracts. Jim Godfrey and Janet Baker ceased directorship on 11 January 2013 and 31 March 2013 respectively.

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

Under arrangements made by Defra, loans may be made to staff to cover season ticket advances and relocation. As at 31 March 2013, other than Anne Marie Millar, who had an outstanding loan of £5,000, there were no outstanding loans to executive directors of the Agency Management Board.

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

No compensation amounts were paid to executive directors of the Agency Management Board during the year. Compensation for unpaid leave is also included with the emoluments figures in the table below.

Remuneration (including salary) and pension entitlements (audited)

The following sections provide details of the remuneration and pension interests of the directors of the agency.

Name and title	**2012–13**				2011–12			
	Salary	**Bonus payments**	**Benefits in kind**	**Total Remuneration**	Salary	Bonus payments	Benefits in kind	Total Remuneration
	£000	**£000**	**(£ to the nearest £100)**	**£000**	£000	£000	(£ to the nearest £100)	£000
Directors in post at 31 March 2013								
Emma Appleby – Design Director (from 1 January 2013)	**25–30 (115–120)**	**–**	**–**	**25–30**	–	–	–	–
Nicola Bettesworth – Human Resources Director (from 4 July 2011)	**70–75**	**–**	**–**	**70–75**	55–60 (70–75)	–	–	55–60
Paul Caldwell* – Operations Director	**60–65**	**–**	**–**	**60–65**	55–60	0–5	–	60–65
John Carter – Planning & Performance Director (from 13 June 2011)	**65–70**	**–**	**2,100**	**70–75**	50–55 (65–70)	0–5	300	50–55
Justin Chamberlain – Customer Director (from 15 July 2011)	**90–95**	**–**	**–**	**90–95**	60–65 (85–90)	–	–	60–65
Sharon Ellis – External Relations Director (from 1 May 2011)	**65–70**	**5–10**	**–**	**75–80**	60–65 (70–75)	–	–	60–65
Mark Grimshaw – Chief Executive Officer	**155–160**	**–**	**–**	**155–160**	155–160	–	–	155–160
Ian Hewett – Change Director** (from 1 January 2013)	**20–25 (80–85)**	**–**	**600**	**20–25**	35–40 (75–80)	–	1,000	35–40
Anne Marie Millar – Finance, Assurance & Commercial Director*** (from 25 July 2011)	**135–140**	**–**	**–**	**135–140**	85–90 (130–135)	–	–	85–90
Ed Schofield – Information & Technology Director (from 6 February 2012)	**95–100**	**–**	**–**	**95–100**	15–20 (95–100)	–	–	15–20
Peter Conway – Non-Executive Director****	**20–25**	**–**	**–**	**20–25**	15–20	–	–	15–20
Trevor Spires – Non-Executive Director****	**20–25**	**–**	**–**	**20–25**	15–20	–	–	15–20
Alison White – Non-Executive Director (from 13 July 2011)	**0–5**	**–**	**–**	**0–5**	0–5 (0–5)	–	–	0–5

Name and title	**2012–13**				2011–12			
	Salary	**Bonus payments**	**Benefits in kind**	**Total Remuneration**	Salary	Bonus payments	Benefits in kind	Total Remuneration
	£000	**£000**	**(£ to the nearest £100)**	**£000**	£000	£000	(£ to the nearest £100)	£000
Other civil service appointments previously serving as directors								
Jo Broomfield – Design & Change Director***** (from 11 July 2011 until 31 December 2012)	**95–100 (125–130)**	**–**	**–**	**95–100**	80–85 (120–125)	–	–	80–85
David Halsey – Chief Information Officer and Senior Information Risk Officer**** (until 29 April 2011)	**–**	**–**	**–**	**–**	10–15 (115–120)	5–10	–	15–20
Jacqui Marshall – Human Resources Director (until 11 July 2011)	**–**	**–**	**–**	**–**	25–30 (85–90)	–	–	25–30
Janet Baker – Non-Executive Director (until 31 January 2013)	**5–10 (5–10)**	**–**	**–**	**5–10**	10–15	–	–	10–15
Jim Godfrey – Non-Executive Director (until 11 January 2013)	**10–15 (15–20)**	**–**	**–**	**10–15**	10–15	–	–	10–15
External interim appointments previously serving as directors								
Chris Bowman****** – Interim Information & Technology Director (from 3 October 2011 until 6 February 2012)	**–**	**–**	**–**	**–**	80–85 (200–225)	–	–	80–85
David Clausen-Thue****** – Interim Finance Director (until 25 July 2011)	**–**	**–**	**–**	**–**	165–170 (430–435)	–	–	165–170

* The amount shown in 2012–13 for Paul Caldwell included a payment for unused holiday of £1,600. His contracted salary remained the same as 2011–12.

** Ian Hewett was previously Information & Technology Director from 18 April 2011 to 2 October 2011. He was appointed to Change Director on 1 January 2013.

*** The amount shown in 2012–13 for Anne Marie Millar included a payment for unused holiday of £5,038. Her contracted salary remained the same as 2011–12.

**** The 2011–12 salaries for Peter Conway and Trevor Spires and the annualised 2011–12 salary for David Halsey have been restated to correct the salary banding.

***** Jo Broomfield was Design & Change Director until 31 December 2012, but has remained an employee of the department. His salary in his capacity as Design & Change Director is reported above.

****** The amounts shown in 2011–12 for Chris Bowman and David Clausen-Thue represent the total cost to the agency of £80,768 and £169,159 respectively, including VAT, in respect of their services. These payments were made to third parties.

Remuneration multiples

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

	2012–13	2011–12
Annualised band of highest paid director remuneration (£000)*	**155–160**	155–160
Median total remuneration (£)	**23,610**	22,337
Ratio	**6.8**	7.1

* The highest paid remuneration excludes external interim appointments. As there were no external interim appointments in the current year, the ratio of the annualised highest paid director to the median total remuneration remained at 6.8 for 2012–13 (2011–12: 19.4). The remuneration of the highest paid director includes bonus payments and benefits in kind.

No agency employee was paid more than the highest paid director.

Salary

Salary includes gross salary; non pensionable; non consolidated variable pay (NCVP); overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; compensation in lieu of notice; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the agency and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HM Revenue and Customs as a taxable emolument. In 2012–13 and 2011–12 both John Carter and Ian Hewett had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2012–13 relate to performance in 2011–12 and the comparative bonuses reported for 2011–12 relate to the performance in 2010–11.

Pension benefits (audited) information

Name and title	Accrued pension at pension age as at 31 March 2013 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2013	CETV at 31 March 2012	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	(£ to nearest £100)
Directors in post at 31 March 2013						
Emma Appleby – Design Director (from 1 January 2013)	0–5 plus lump sum of nil	0–2.5 plus lump sum of nil	11	11	(1)	–
Nicola Bettesworth – Human Resources Director (from 4 July 2011)	25–30 plus lump sum of 75–80	0–2.5 plus lump sum of 2.5–5	390	353	16	–
Paul Caldwell – Operations Director	20–25 plus lump sum of 60–65	0–2.5 plus lump sum of 0–2.5	352	330	3	–
John Carter – Planning & Performance Director (from 13 June 2011)	15–20 plus lump sum of 55–60	0–2.5 plus lump sum of 2.5–5	272	248	10	–
Justin Chamberlain – Customer Director (from 15 July 2011)	–	–	–	–	–	8,800
Sharon Ellis – External Relations Director (from 1 May 2011)	10–15 plus lump sum of nil	0–2.5 plus lump sum of nil	156	132	13	–
Mark Grimshaw – Chief Executive Officer (from 17 January 2011)	15–20 plus lump sum of 55–60	0–2.5 plus lump sum of 5–7.5	342	285	37	–
Ian Hewett – Change Director (from 1 January 2013)	25–30 plus lump sum of 80–85	0–2.5 plus lump sum of 0–2.5	490	486	–	–
Anne Marie Millar – Finance, Assurance & Commercial Director (from 25 July 2011)	35–40 plus lump sum of nil	2.5–5 plus lump sum of nil	634	549	49	–
Ed Schofield – Information & Technology Director (from 6 February 2012)	0–5 plus lump sum of nil	0–2.5 plus lump sum of nil	26	3	17	–
Peter Conway – Non-Executive Director (from 1 March 2011)	–	–	–	–	–	–
Trevor Spires – Non-Executive Director (from 1 March 2011)	–	–	–	–	–	–
Alison White – Non-Executive Director (from 13 July 2011)	–	–	–	–	–	–

Pension benefits (audited) information (continued)

Name and title	Accrued pension at pension age as at 31 March 2013 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2013	CETV at 31 March 2012	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	(£ to nearest £100)
Other civil service appointments previously serving as directors						
Jo Broomfield – Design & Change Director (from 11 July 2011 until 31 December 2012)	30–35 plus lump sum of 100–105	0–2.5 plus lump sum of 2.5–5	609	579	19	–
David Halsey – Chief Information Officer and Senior Information Risk Officer (until 29 April 2011)	–	–	–	–	–	–
Jacqui Marshall – Human Resources Director (until 11 July 2011)	–	–	–	–	–	–
Janet Baker – Non-Executive Director (until 31 January 2013)	–	–	–	–	–	–
Jim Godfrey – Non-Executive Director (until 11 January 2013)	–	–	–	–	–	–
External interim appointments previously serving as directors						
Chris Bowman – Interim Information & Technology Director (from 3 October 2011 until 6 February 2012)	–	–	–	–	–	–
David Clausen-Thue – Interim Finance Director (until 25 July 2011)	–	–	–	–	–	–

Civil service pensions

Pension benefits are provided through the civil service pension arrangements. From 30 July 2007, civil servants may be in one of 4 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 money voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 1.5% and 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. 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 3 years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 3 providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

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

Further details about the civil service pension arrangements can be found at the website www.civilservice.gov.uk/pensions.

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Mark Grimshaw
Chief Executive Officer

26 June 2013

Statement of Accounting Officer's responsibilities

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

In preparing the accounts we are required to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make 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 include responsibility for the propriety and regularity of the public finances for which he is answerable, keeping proper records and for safeguarding our assets. These are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in Managing Public Money.

Governance statement

Introduction

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

This governance statement outlines how I have carried out my responsibility to manage and control our resources during the course of the year. The agency's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk in relation to achieving its policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achieving departmental policies, aims and objectives; evaluate the likelihood of those risks being realised; and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Agency Management Board and the Audit and Risk Committee have reviewed and contributed to this governance statement. My directors have provided me with annual assurance questionnaires which have given me their assessment of how effectively our controls have been applied within the agency. Internal Audit has reviewed and challenged these assurance questionnaires along with the associated evidence based on information gathered from its rolling programme of work, knowledge of auditable units, and the agency's risks.

Governance arrangements

Account of corporate governance

An informal review carried out against the NAO 'Corporate governance in central government departments: Code of good practice 2011 Compliance Checklist' indicated that as an executive agency rather than a central government department, RPA complies within the code's principles for an organisation of our size, status and legal framework. It recognised that the Executive Team sets the agency strategy with the Agency Management Board taking an assurance role; that the Executive Team takes the lead in ensuring that reporting obligations are fulfilled; and that the Audit and Risk Committee terms of reference are not published publicly.

The agency has complied with the cost allocation and charging requirements set out by HM Treasury and Office of Public Sector information guidance.

There were no 'written directions' in the year.

Governance framework

Details of our governance structure can be found earlier in this Annual Report and Accounts. Each governance board or committee within the agency has agreed terms of reference and a dedicated secretariat.

The Agency Management Board is responsible for setting our strategic direction and making strategic choices. It takes responsibility for our performance and agrees the issues that should be escalated to Defra. The Audit and Risk Committee supports the Agency Management Board and Accounting Officer to ensure that effective assurance is in place covering the agency's internal controls, risk management and governance activities. The Executive Team has overall authority to run the agency on a day to day basis. It makes decisions and sets our policy and direction, and takes responsibility for delivering our Five Year Plan and annual Business Plan.

There were changes to our governance arrangements as a result of the decision, by Defra, to create the CAP Delivery Programme in November 2012. My Design and Change Director, who was responsible for the Future Options Programme transferred to Defra at the same time and this led to a change in the composition of my Executive Team, with 2 new directors joining with the separation of the design and change roles.

Increased confidence in our performance, together with the arrival of a new Chief Operating Officer in Defra have resulted in changes to the Defra and RPA governance arrangements bringing them in line with other Defra executive agencies. This included the introduction of Quarterly Performance Reviews, between me and the Defra Corporate Owner, and my regular ministerial update meetings, which also involved the chairs of the Agency Management Board and agency's Audit and Risk Committee. The RPA Oversight Board has been suspended for a year while these new arrangements are trialled. To the end of March 2013, one Quarterly Performance Review has been held, which proved to be a useful forum.

We introduced a number of other forums such as the Workforce Approvals Board, Line of Business Forums, Resource Planning Group and Delegated Agents Forum that support the wider governance within the agency.

We no longer have to report on a quarterly basis to the Public Accounts Committee, agreeing to report to them on an exception basis if we missed any of our published milestones given in the Business Plan.

Performance of the Agency Management Board

The Agency Management Board met 10 times in the year. It has reviewed and agreed its terms of reference and has a formal schedule of matters some of which cannot be delegated. The Agency Management Board has ensured that it has received regular and adequate feedback on the work of its committees, so that it can consider their decisions.

On appointment, members of the Agency Management Board and Audit and Risk Committee have provided a list, in writing, of all possible conflicts of interest. Annually, all non-executives must update their entries on the RPA register of interests. In addition, conflicts of interest have been registered at the start of each meeting with the chair managing discussions appropriately.

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

In my role as Accounting Officer, and being subject to the associated Parliamentary scrutiny, I expect the Agency Management Board to support me in an advisory capacity and fulfil the function of 'critical friend'. I will document any instances where I have not taken their advice. There have been no instances in the reporting year.

The Agency Management Board carried out the annual assessment of its effectiveness assessment in April 2013. The discussion on the results indicated a significant improvement in members' assessment of the board's effectiveness. It was recognised that the Executive Team had developed a strong strategy and the Agency Management Board saw its role as assuring and guiding delivery of that strategy. The board felt that they were starting to explore more of the strategic developments in relation to the future of the agency above their current role of reviewing progress of the Strategic Improvement Plan. It acknowledged that its relationship with other committees was clearer but could be improved.

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

Board attendance during reporting year	
Trevor Spires	10 of 10
John Carter	10 of 10
Sharon Ellis	8 of 10
Mark Grimshaw	10 of 10
Anne Marie Millar	9 of 10
Sarah Hendry	8 of 10
Janet Baker	7 of 10
Peter Conway	10 of 10
Jim Godfrey	7 of 9 until January 2013
Jo Broomfield	7 of 8 until December 2012

The Agency Management Board devoted time at each meeting to challenge and add value to our work programmes. Substantial items covered in 2012–13 included the Annual Report and Accounts (and accounts qualification); increased confidence in the agency's performance following the successful delivery of the 2011 and 2012 SPS; Strategic Improvement Plan, with 2 exceptions, one of which was escalated to Defra and the Public Accounts Committee in the reporting year; Future Options Programme, now CAP Delivery Programme; disallowance, including the new Disallowance Dashboard being reviewed at every meeting; CAP reform negotiations; customer satisfaction scores; the agency's People Survey; the agency's response to the potential IT challenges of a subcontractor going into administration; Voluntary Exit Scheme and ongoing Debt and Data work.

The Audit and Risk Committee's role, through challenge, scrutiny, monitoring and advice has been to assist the Agency Management Board and Executive Team to fulfil its corporate governance responsibilities ensuring that an appropriate control environment is maintained by the agency. It has an agreed Terms of Reference that is regularly reviewed. The chair of the Audit and Risk Committee has provided a regular report to the Agency Management Board.

We have shown the attendance of the Audit and Risk Committee attendance in the following table:

Committee attendance during reporting year	
Peter Conway	6 of 6
Alison White	5 of 6
Janet Baker	6 of 6 until March 2013
Jim Godfrey	6 of 6 until January 2013

The Audit and Risk Committee has provided me with important assurance and scrutiny in our delivery of the Exchequer and the European accounts; risk management; and delivery of the Internal Audit plan.

Both the Agency Management Board and Audit and Risk Committee have commented favourably on the quality of the papers and management information presented by the agency.

Our non-executives play an important independent role in scrutinising the performance of my Executive Team in meeting its agreed objectives. As an executive agency of Defra appointments are made through fair and open competition. We have had changes in our non-executive directors , and in making new appointments to the Agency Management Board and Audit and Risk Committee we have considered succession plans for the future.

Our Annual Report and Accounts details any payments made to ministers and non-executive directors for schemes we managed in 2012–13.

Internal Controls

Risk overview

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

The agency commissioned a formal review of our risk maturity and this has prompted a new approach for risk management supported through a central Risk Management Team. The team is in place and the approach is being implemented across the agency. This will allow the agency to move from a risk aware, to a risk managed organisation.

The Executive Team, Agency Management Board and Audit and Risk Committee have led the risk culture change and developed the agency's risk statement:

'The agency seeks to achieve its objectives by considering evaluated risks, evidenced with clear and accurate information, which are commensurate to the benefits that can be achieved.'

The Agency Management Board provided strategic advice and guidance towards the management of risks and looked for assurance from the Audit and Risk Committee and the Executive Team that they were managed effectively. The Agency Management Board reviewed the agency's risks every quarter.

The Audit and Risk Committee provided this assurance through evaluation of the outcomes of risk management, by regular review of the agency risk register and at every meeting a detailed discussion on one of the top risks. The Audit and Risk Committee chair has noted the improvements in the way that the agency handles its risks.

We have reviewed our risks and have listed those where despite the action we are taking we still feel that they are very high or high risks:

- A lack of clarity and understanding around the development of 2013 CAP reform and what it means for the agency. We are working closely with Defra to understand the emerging picture.
- Policy choices made by Defra may increase the complexity and risk around the implementation of CAP 2013. We are looking to strengthen our interfaces with the department to help to provide informed impact assessments of these policy choices.

- Our ability to successfully engage with the CAP Delivery Programme. We are considering the best approach as a main customer of the programme.
- The financial correction (disallowance) applied for historic schemes is not contained within expectations. We continue to work through proposed corrections and the delivery of the Strategic Improvement Plan will look to minimise the likelihood of future correction.
- Insufficient capacity across workforce to deliver both normal business activity and ongoing project workstreams linked to the Strategic Improvement Plan and the CAP Delivery Programme. The agency has commissioned a series of projects to address a number of these concerns.
- Insufficient capability in key areas to deliver challenging activities which will prepare the agency for the future. We have designed a flexible resource approach for our critical business areas and this has been rolled out in our Operations Directorate. We are exploring opportunities in other parts of the agency.

Fraud risk management

The Fraud Risk Steering Group acts as an advisory committee to the Executive Team and to me in my role as Accounting Officer. The group had met 3 times up to the end of March 2013. Highlights were a review of the work carried out by PricewaterhouseCoopers in embedding fraud controls within the agency; regular reviews of the agency's fraud risk register; overview of the roll out of the mandatory online fraud awareness training; and reviews of management information on fraud referrals.

The fraud risk register was refreshed with the assistance of the National Fraud Authority which ran a workshop to review the agency's fraud risks. We have made progress in improving our understanding of the agency's fraud risks but we need to continue to build on this progress.

Quality assurance of analytical models

Within the agency we have an appropriate quality assurance framework of our business critical analytical models. In particular, our model that calculates the exchange rate impact of our scheme reimbursement has had regular internal and external review.

Information security

My Information and Technology Director is the agency's Senior Information Risk Owner. He is supported in this role by the Agency Security Unit, the Information Asset Owner, the Deputy Information Asset Owner Group and the Knowledge and Information Management Unit which leads on data protection related activity and issues.

Information assurance and governance is supported by a comprehensive and consistent agency information asset register supported further by risk assessments and logs of data sharing agreements.

There are appropriate processes in place to assess all requests for data sharing and all Access to Information requests. All our people have been made aware of their obligations relating to information management and security, partly through completing the online Protecting Information course as an annual assessment. All of the agency's people successfully completed this assessment in 2012–13.

Up to the end of March 2013, there had only been 3 incidents involving personal data. All were fully investigated and none found to be systemic. Remedial action has been taken in all cases.

Information Assessment Maturity Model

We, as a delivery partner of Defra, completed our part of the Information Assurance Maturity Model last year and our overall score as a delivery partner was level 2. This indicates our Information Assurance processes are established within the agency. We consider this to be the appropriate level for the agency for the current level of input.

Audit findings

Internal Audit undertook an annual programme of work agreed with the Audit and Risk Committee. In their annual assessment they identified a number of key areas such as the agency now having a largely stable Executive Team that has provided clear leadership and the development of initiatives intended to deal with strategic risks such as capability and capacity. The recent SPS payment statistics, the more positive interactions with key stakeholders and a growing reputation have helped to evidence that the organisation is moving in the right direction. The annual assessment recognised that the Executive Team continues to invest a significant amount of their time in getting to grips with the historic issues. For example, time and effort have been invested in understanding the scale and the detail of our debt and to develop workable solutions to deal with the problems.

While they have found a number of areas of positive performance through their review work, they also identified that further work needs to be done in some of these areas before the 'key strategic exposures' can be considered to be suitably controlled. They have indicated that this is consistent with the picture painted by the agency strategic risk register which has identified that action is required to improve confidence of mitigation activities operating effectively and in delivering our target risk levels.

During the year the agency contributed to the NAO value for money study report on 'Streamlining farm oversight' and is considering with Defra and other network bodies how to respond to the recommendations in the report.

Significant issues

CAP Delivery Programme (formerly the Future Options Programme)

The Future Options Programme successfully delivered its Outline Business Case to HM Treasury. The CAP Delivery Programme led by Defra, was created following changes to the scope of the Future Options Programme to include Pillar 2 payments. The governance arrangements were extended beyond RPA to include Defra's Rural Development Programme for England Delivery Team, Natural England and the Forestry Commission. I and the other Chief Executive Officers are members of the programme board.

Preparing for and then successfully delivering the CAP reforms is a significant challenge. The new schemes are likely to be more complex based upon regulations and timings that are still to be finalised. Significant risks include tight timescales, IT elements delivered through 'agile' methods and multiple outsourcing, data cleansing, data migration and complex phasing, integration and transition all delivered while maintaining business as usual.

Successful delivery requires governance, integrated assurance and risk management to be in place and effective. The agency will also need to support and work closely with the programme, Defra and other stakeholders to ensure that the problems of CAP 2005 are not repeated.

Capability

There has been an over reliance on a small number of key individuals within the agency over the year. There has also been ongoing difficulty in bringing in the right expertise to fill important roles, in particular, for new areas of activity where the agency does not have the required skills. Recruitment of interims and consultants has provided a short-term fix but has not helped develop the overall delivery capability of the agency.

We have reduced our dependency on consultants and contractors in our finance function but we recognise that we have a number of critical subject matter experts who will be essential in helping us develop proposals being delivered through the CAP Delivery programme.

We have begun to address some of the wider issues identified through the commission of our people projects (Leadership Development; Talent Management; Succession Planning; Civil Service Recruitment; Performance Management; Capability Development and Workforce Planning) as part of the Strategic Improvement Plan.

Capacity

Our people resource levels in the main areas of the agency remain insufficient and there continues to be an over reliance on a number of important individuals. An emerging concern is the resource requirements to support the challenging implementation of the Defra led CAP Delivery Programme. The capacity in the finance function has improved with the successful completion of recruitment of important posts although gaps still remain.

We have agreed that we will use a blended resource model that includes additional permanent recruitment and the use of interims and contractors. We have created the Workforce Approvals Board to help in reviewing the agency's requirements against the agency's operational plan. We also realigned our workforce around the Arc structure as part of our work on the Organisational Design project. There are still some issues to resolve as a result of this work.

Strategic Improvement Plan

We continue to deliver key improvements to our systems, processes and people. In the first year, of the three year plan, the agency has delivered 40 of the 43 2012–13 public commitments including the implementation of a Quality Assurance Team; completed an end to end review of the land eligibility, cross compliance and remote sensing inspections processes, identifying areas for improvement; publication of a Debt and Credit Strategy; introduce an improved process for handling customer complaints and appeals; and implement improvements to customer payments process. Thirty projects have closed or are being closed; we have started a further 26 projects; and have kept within agreed budget allocations.

In October 2012 a Gateway Review delivered an Amber/Green Delivery Confidence Assessment. In its report it noted that the Strategic Improvement Plan was justifiable and had strong leadership, programme governance and highly effective controls. It highlighted a number of delivery risks including Executive Team capacity, the lack of a benefits strategy and a gap in bridging tactical information technology investments with the CAP Delivery Programme delivery.

In December 2012 we notified the Public Accounts Committee, through Defra, of a delay in delivering a published milestone on the Rural Land Register project. Through a considered review we established that we could achieve the same outcome through a different approach that was cheaper and less disruption to making the 2012 SPS payments. A further exception was considered and reported to Defra in April 2013. This amended the delivery dates of 3 milestones from quarter 4 of 2012–13 to quarter 1 of 2013–14.

Governance

The increased confidence in the agency's performance has allowed Defra to change the relationship it has with the agency. The introduction of the Quarterly Performance Reviews has provided, so far, Defra with the right level of discussion on matters relating to the agency.

Our agency governance framework has enabled the agency to tackle historic issues and significantly improve performance. In addition we have supplemented this with introduction of the Workforce Approvals Board, Lines of Business Forum; Resource Planning Group and the Delegated Agents Forum. All of this provides additional scrutiny and assurance. Each forum has a Terms of Reference. We continue to ensure that any overlaps between these forums are understood and worked through.

I understand that our governance continues to require significant time investment from my Executive Team but our progress, so far, shows that the current arrangements continue to be fit for purpose. We have commissioned some work to consider director succession plans.

The implementation of the Arc organisational design continues to mature and while we have identified some gaps where activities were undertaken, these are being worked through to ensure clear lines of responsibility are agreed.

Financial controls

The National Audit Office has commented, in their final 2012–13 Audit Completion Report of the Exchequer Accounts, that overall, there had been an improvement in the internal control environment of the agency compared with the prior year.

We continue to receive over €3bn from the European Commission on an annual basis. This creates considerable foreign exchange risk for the agency. The majority of this risk is managed through hedging contracts for SPS and rural development scheme payments.

The Hedging Steering Committee, chaired by Defra, consists of senior finance managers from RPA and Defra, supported by external technical specialists where required. This committee has met regularly throughout the period, providing strong governance over management of exchange rate risk, and reviews the overall hedging strategy on an annual basis. The action we have taken continues to successfully mitigate significant foreign exchange risks during 2012–13. Defra reviewed the governance and found it fit for purpose. We are working with Defra to develop a Memorandum of Understanding.

Disallowance

Disallowance penalties on historic activity remain significant. However, we have begun to strengthen our engagement with key stakeholders in EU audit bodies and this, coupled with robust defence on 'notified cases', has helped reduce the impact of disallowance. We have continued to work throughout the year with other delegated bodies, such as Natural England, to ensure that we as a paying agency have learned from the errors made to reduce the likelihood of additional financial correction being imposed.

We were notified in July 2012 of the likelihood of significant financial correction which related to an audit undertaken in October 2011. We have submitted a formal response that is currently being considered by the European Commission. We also received confirmation in March 2013 of the imposition of €124m of financial correction related to 2007 to 2011 schemes.

The Strategic Improvement Plan will deliver fixes to current major control weaknesses within the agency that will in due course lead to a reduction in the risk of disallowance. In the meantime, disallowance penalties which are reported in Defra's accounts, are likely to continue for several years given the lead times to close past scheme years and for the control improvements to take effect. An important objective of the CAP Delivery Programme is to minimise the financial corrections that may arise from the new schemes.

Accounts qualification

In 2012–13, RPA's accounts, as well as Defra's, were again qualified as a result of insufficient evidence to support the completeness of SPS trade receivables and payables.

We have now published an agreed Debt and Credit strategy that is being supplemented with the detailed implementation plans together with projects under the Strategic Improvement Plan that will deliver improvements in the quality of our data. This work has helped to provide evidence that has resulted in the removal of the existence and valuation accounts qualification for 2012-13.

RPA People Survey

We received our People Survey results and communicated them to our people in November 2012. The results showed that our overall engagement index score has increased by 2% to 38%. While this is an improvement on last year, the results are still well below the civil service average engagement index score of 57%. However, there are some positive results from the survey. I am pleased that people feel that the agency has become better at managing change, an increase of 8% on last year. The percentage who felt the agency is being managed well has also increased by 14%. Another important positive increase was seen in those who felt that the agency keeps people informed about matters that affect them, an increase of 10%.

I felt encouraged to see that as an agency RPA is among the best in the civil service when it comes to people having a clear understanding of our vision, and the plans we have to achieve it. I recognise that there is more to do to improve engagement and deal with some of the issues that will be highlighted by the survey results. I have seen an increase in positive scores over the last 2 years however. This is encouraging to see when the agency is going through a period of significant change while making our Five Year Plan a reality.

There is still work to be done to build further on the good work undertaken.

IT Services

In the reporting year a subcontractor, who supported our IT services, went into administration. This presented a potential significant issue for our day to day operations. However, in conjunction with our contractor we developed plans that would have allowed us to maintain the delivery of our critical functions. There was no significant impact on our operational performance.

Conclusion

We have continued to make progress over the year. Our SPS performance was the best in the agency's history and we continue to make improvements in other areas of our business. There are significant risks and challenges ahead. We will need to deliver changes in our business as well as continuing to improve our performance for our customers while ensuring that CAP reform is implemented effectively.

Mark Grimshaw
Chief Executive Officer
26 June 2013

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 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statement of Comprehensive Net Expenditure, Other Comprehensive Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Rural Payments Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Rural Payments Agency; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Basis for qualified opinion on financial statements

The audit evidence available to me was limited because the Rural Payments Agency was unable to provide me with sufficient evidence to support the completeness of SPS trade receivables balance of £4.5 million (being receivables of £6.7 million less an allowance for doubtful debt of £2.1 million) and the completeness of SPS trade payables balance of £16 million recorded in the financial statements.

Opinion on financial statements

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

- the financial statements give a true and fair view of the state of the Rural Payments Agency's affairs as at 31 March 2013 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the sections entitled Management Commentary, Corporate Governance, Business Plan 2012–13 Update, Five Year Plan, Corporate Information and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the limitation on my work relating to the SPS trade receivables and SPS trade payables balances described above:

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

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the governance statement does not reflect compliance with HM Treasury's guidance.

Report of the Comptroller and Auditor General

My report on pages 70 to 73 provides further details 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

27 June 2013

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

Introduction

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

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

The Agency experienced considerable problems in capturing and processing the data required to process payments for the first two years of the Scheme. It has since made significant progress in resolving difficulties in quantifying the value of under and over payments made to farmers and other Scheme claimants as a result of these problems. These are included in the Statement of Financial Position as Scheme trade receivables (representing past overpayments and so amounts due from Scheme claimants) and Scheme trade payables (representing past underpayments and so amounts due to Scheme claimants) balances.

As a result of these difficulties, in 2011–12, I was unable to obtain evidence to support whether the reported Scheme trade receivables and Scheme trade payables balances included all unsettled overpayments or underpayments (completeness). I was also unable to obtain evidence to support whether the reported balances were recorded at the correct value (valuation), and reflected actual unsettled overpayments or underpayments at the year end (existence).

Purpose of Report

The financial statements on the following pages present the results of the Agency for the period from 1 April 2012 to 31 March 2013. This report explains the nature of my qualified opinion in 2012–13, progress made by the Agency in correcting the problems experienced in the past, and the future challenges posed by CAP reform.

Limitation of scope in respect of the completeness of Scheme trade receivables and Scheme trade payables

Note 16 to the 2012–13 financial statements reports Scheme trade receivables of £6.7 million (2011–12: £14.9 million) and Scheme trade payables of £16.0 million (2011–12: £56.8 million). During 2012–13, the Agency has prioritised validation of the balances reported in the financial statements (valuation and existence), but has not yet undertaken the more extensive work necessary to address whether these balances reflect all amounts due to, and payable by, the Agency (completeness).

I have obtained sufficient evidence to support the existence and valuation of the Scheme trade receivables and Scheme trade payables balances as reported in the 2012–13 financial statements. I am therefore able to provide a clear opinion on these aspects of the Scheme trade receivables and Scheme trade payables balances.

I have been unable to obtain assurance that these balances in the financial statements reflect all amounts due to, and payable by, the Agency. I have therefore limited the scope of my audit opinion in respect of the completeness of Scheme trade receivables and Scheme trade payables balances. I qualified my opinion in this respect in 2011–12.

Progress since my report on the 2011–12 financial statements

In April 2012, the Agency implemented a 3 year Strategic Improvement Plan with the aim of stabilising itself in preparation for CAP reform. This comprised a series of 45 projects across 6 main themes, of which the data cleanse theme includes the validation of Scheme trade receivables and Scheme trade payables balances. Validation involves the identification of any corrupt data, recalculation of claim values and checking of data held in operational, accounting and payments systems. By 31 March 2013 this work was partially complete with 39% of the balances reported at 31 March 2012 validated.

The Agency has also taken further action to write off balances where they represent irrecoverable overpayments to claimants or where it is not value for money to pursue recovery. In 2011–12, I reported that the Agency had written off £6.4 million of Scheme trade receivables in line with the Agency's interpretation of Scheme regulation 'Article 73'. This regulation establishes that overpayments to farmers should only be recovered within 4 years where the farmer has not been notified of the overpayment and did not deliberately seek overpayment. During 2012–13, having obtained HM Treasury approval, the Agency wrote off a further £0.8 million under Article 73 and a further £0.7 million for value for money reasons.

In addition to the data cleanse under the Strategic Improvement Plan and write offs, there have been further movements on Scheme trade receivables and Scheme trade payables, including payments, provision for doubtful debts, corrections and new balances. As a result the reported balance of Scheme trade receivables has reduced to £6.7 million (2011–12: £14.9 million), of which £4.3 million remains unvalidated. Of the total Scheme trade receivables balance £2.1 million (2011–12: £7.4 million) is provided for as recovery is doubtful.

Scheme trade payables have fallen to £16.0 million (2011–12: £56.8 million). This balance comprises £2.8 million that has been validated and £1.9 million of unvalidated balances relating to prior years. The residual £11.3 million relates to the 2012 scheme year and is either awaiting payment or related to a historic unvalidated balance. The balance relating to the current year represents 0.9% (2011–12 2.7%) of current year Scheme expenditure which is an appropriate level for the nature of the Agency's operations and the reduction since 2011–12 further demonstrates improved processing by the Agency.

As a result of the improvements in data quality, and a reduction in the value of unvalidated debts, I was able to obtain evidence over the existence and valuation of Scheme trade receivables and Scheme trade payables. There remains a risk of further movements in the value of reported balances as the Agency completes its validation processes, however my testing has provided sufficient evidence that Scheme trade receivables and Scheme trade payables balances as reported in the financial statements for 2012–13 exist and are accurately valued.

Planned action to address the completeness of Scheme trade receivables and Scheme trade payables

The Agency aims to address completeness, and conclude its validation of known Scheme trade receivables and Scheme trade payables balances, through the Accounts Payable/Accounts Receivable (AP/AR) Cleanse project. The final project scope was approved in March 2013.

The Agency recognises the importance of continuing its work to improve data quality and to cleanse important data sets for land, customer and financial information. The AP/AR Cleanse project is scheduled to conclude the validation of Scheme trade payables and Scheme trade receivables and address completeness of these balances by March 2014. Further work will be required to confirm that current plans, including the AP/AR Cleanse project, will fully address my remaining qualification on the completeness of these balances.

Reporting to the Public Accounts Committee

The Public Accounts Committee has asked the Department to report by exception on slippages in the delivery of the Agency's 43 public commitments in its Strategic Improvement Plan. The Department has reported 4 slippages arising in 2012–13 to the Committee. Details of these slippages have been included within the Governance Statement on page 57. The slippages arose in response to identification of more cost effective proposals, and in response to a key supplier entering administration and the consequent need to minimise the risk of loss to the Agency. I consider that the delays to these projects were reasonable responses.

CAP Delivery Programme

In April 2012, the Agency announced the Future Options Programme to consider alternative models for delivering some or all of the Agency's business following CAP reform after 2013. In November 2012 the programme's scope was widened to encompass all schemes delivered by the Department and its Arms Length Bodies. As a result the programme was renamed the CAP Delivery Programme and ownership passed to the Chief Operating Officer for the Department, supported by a Programme Board led by Defra's Accounting Officer, and which includes representatives from all bodies responsible for delivering the Common Agricultural Policy.

The CAP Delivery Programme incorporates the procurement, development and implementation of new systems for the Agency during 2013–14. Development and implementation of the new systems will present a number of challenges, including the requirement that data cleansing is completed on time in order to ensure that accurate and complete data is transferred to the new systems.

Since the introduction of the previous CAP schemes, the Department has finalised or provided for £600.1 million of financial penalties ('disallowance') from the European Commission because it has not correctly applied Scheme regulations. The Department is responsible for these financial penalties as the designated UK Authority for CAP funds, and therefore they are not recorded in the Agency's financial statements. The requirement to pay material financial penalties ('disallowance') where Scheme regulations are not correctly applied results in a loss to the UK Exchequer which I consider to be outside Parliament's intentions and is therefore irregular expenditure. I have reported on the Department's 2012–13 financial statements in relation to the regularity of financial penalties accounted in year. Further details are set out in my report on that account (HC40).

Delivery of the CAP Delivery Programme is critical to the successful delivery of CAP reform; to correctly apply Scheme regulations to pay claimants accurately and to minimise penalties. Successful implementation of the reform will involve development and delivery of new schemes which will present a number of significant challenges. The Agency will need to work with the Department and other delivery bodies to ensure successful delivery of the new schemes which are expected to be more complex, based on unconfirmed regulations and subject to an uncertain implementation date. In addition, the IT element of the programme will be delivered through an agile approach which involves outsourcing to multiple IT providers. The Agency has recognised a number of significant risks as a result. It will need a strong relationship with the programme team and other important stakeholders to ensure that these are adequately managed and that the Agency and the Department learn the lessons from the implementation of CAP 2005.

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

27 June 2013

Statement of Accounts

Statement of Comprehensive Net Expenditure for the Year to 31 March 2013

	Note	Year to 31 March 2013		Year to 31 March 2012	
		£000	£000	£000	£000
Administration costs					
Staff	2	**41,453**		31,847	
Others	3	**55,574**		53,096	
		97,027		84,943	
Programme expenditure					
Staff	2	**48,804**		51,039	
Others	3	**23,836**		28,666	
		72,640		79,705	
Programme income	11	**(603)**		(707)	
Net running costs			**169,064**		163,941

Scheme costs					
RPA					
Costs	4	**1,706,082**		2,041,049	
Income	11	**(1,707,569)**		(2,034,509)	
		(1,487)		6,540	
Other paying agencies					
Costs	10	**1,172,910**		1,236,553	
Income	10	**(1,172,477)**		(1,235,717)	
		433		836	
Other income	11	**(200)**		(2,773)	
Net scheme (income)/ costs – Programme			**(1,254)**		4,603
Net operating cost			**167,810**		168,544

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

The Notes on pages 80 to 132 form part of these accounts.

Other Comprehensive Expenditure

	Note	**Year to 31 March 2013**	Year to 31 March 2012
		£000	£000
Net operating cost		**167,810**	168,544
Net gain on revaluation of property, plant and equipment	23	**(578)**	(131)
Net (gain)/loss on revaluation of intangible assets	23	**(1,699)**	876
Movement in cash flow hedge reserve		**8,011**	(9,541)
Total comprehensive expenditure for the period		**173,544**	159,748

The Notes on pages 80 to 132 form part of these accounts.

Statement of Financial Position as at 31 March 2013

	Note	31 March 2013		31 March 2012	
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	12	4,083		5,526	
Intangible assets	13	28,236		38,788	
Derivative assets	22	56		52	
Total non-current assets			32,375		44,366
Current assets					
Inventories	14	0		2,132	
Trade receivables and other current assets	15	421,155		527,996	
Derivative assets	22	3,628		17,596	
Cash and cash equivalents	18	95,479		172,508	
Total current assets			520,262		720,232
Total assets			552,637		764,598
Current liabilities					
Trade payables and other current liabilities	19	(54,499)		(88,062)	
Derivative liability	22	(13,728)		(130)	
Provisions for liabilities and charges	21	(3,025)		(5,918)	
Total current liabilities			(71,252)		(94,110)
Non-current assets plus net current assets			481,385		670,488
Non-current liabilities					
Trade payables and other liabilities	19	(113,052)		(112,699)	
Derivative liability	22	(56)		(52)	
Provisions for liabilities and charges	21	(976)		(2,780)	
Total non-current liabilities			(114,084)		(115,531)
Assets less liabilities			367,301		554,957
Taxpayers' Equity					
General Fund			366,294		546,705
Cash flow hedge reserve			(1,832)		6,179
Revaluation reserve	23		2,839		2,073
Total Taxpayers' Equity			367,301		554,957

The Notes on pages 80 to 132 form part of these accounts.

Mark Grimshaw
Chief Executive Officer
26 June 2013

Statement of Cash Flows for the Year to 31 March 2013

	Note	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Cash flows from operating activities			
Net cash outflow from operating activities	29	**(59,773)**	(278,223)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(349)**	(1,311)
Purchase of intangible assets		**(1,451)**	(1,684)
Proceeds of disposal of non-current assets		**360**	48
Net cash outflow from investing activities		**(1,440)**	(2,947)
Cash flows from financing activities			
Financing by Defra		**2,755,000**	2,725,000
Financing to Defra		**(2,630,000)**	(2,200,000)
Payments for Rural Development Programme for England on behalf of Defra		**(501,471)**	(486,652)
Payment for Structural Funds on behalf of Defra		**0**	(9)
Receipts for Rural Development Programme for England on behalf of Defra		**385,150**	390,492
Funding of foreign exchange losses on sugar levy transactions on behalf of HM Treasury		**(151)**	0
Late Payment Penalty 2005 reversed		**0**	9,043
Disallowance transfer to Defra		**(23,518)**	(23,577)
Transfer of modulation balances to Defra		**0**	1,369
Capital element of payments in respect of finance leases		**(826)**	(337)
Net cash (outflow)/inflow from financing activities		**(15,816)**	415,329
(Decrease)/increase in cash and cash equivalents in the period before payments to the Consolidated Fund		**(77,029)**	134,159
Payments of amounts due to Defra/Consolidated Fund		**0**	(182,132)
Decrease in cash and cash equivalent in the period after payments to the Consolidated Fund		**(77,029)**	(47,973)
Cash and cash equivalents at 1 April	18	**172,508**	220,481
Cash and cash equivalents at 31 March	18	**95,479**	172,508

The Notes on pages 80 to 132 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2013

	Note	General Fund	Cash flow hedge reserve	Revaluation reserve	Total reserves
		£000	£000	£000	£000
Balance at 1 April 2012		546,705	6,179	2,073	554,957
Net operating cost		(167,810)	0	0	(167,810)
Transfer from revaluation reserve to General Fund:					
Property, plant and equipment	23	319	0	(319)	0
Intangible assets	23	1,192	0	(1,192)	0
Arising on revaluation during the year (net)		0	0	2,277	2,277
Notional charges	29	878	0	0	878
Losses on cash flow hedges		0	(196,865)	0	(196,865)
Transfer to Statement of Comprehensive Net Expenditure on cash flow hedges	22	0	188,854	0	188,854
Total recognised expense for period to 31 March 2013		(165,421)	(8,011)	766	(172,666)
Financing by Defra		2,755,000	0	0	2,755,000
Financing to Defra		(2,630,000)	0	0	(2,630,000)
Payments for Rural Development Programme for England on behalf of Defra		(501,471)	0	0	(501,471)
Receipts for Rural Development Programme for England on behalf of Defra		385,150	0	0	385,150
Funding of foreign exchange losses on sugar levy transactions on behalf of HM Treasury	32	(151)	0	0	(151)
Disallowance transfer to Defra		(23,518)	0	0	(23,518)
Balance at 31 March 2013		366,294	(1,832)	2,839	367,301

The Notes on pages 80 to 132 form part of these accounts.

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

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

The Notes on pages 80 to 132 form part of these accounts.

Notes to the Resource Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2012–13 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

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

The financial statements are prepared on a going concern basis.

1.1 Accounting convention

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

1.2 Inventory valuation

Intervention inventory comprises agricultural commodities purchased under terms specified by the European Agricultural Guarantee Fund and valued in accordance with its direction, see Note 1.10. This 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 differs from International Accounting Standard 2 (IAS 2), as specifically approved in the FReM (paragraph 10.2.8).

1.3 Property, plant and equipment

Property, plant and equipment is recognised at fair value, with depreciated historic cost revalued annually using appropriate price indices issued by UK National Statistics, used as a proxy for fair value for all assets. The unrealised element is credited/debited to the revaluation reserve as shown in the Statement of Change in Taxpayers' Equity. Property, plant and equipment assets are reviewed annually for impairment. The agency has set a capitalisation threshold of £2,000. Below this threshold costs are charged directly to the Statement of Comprehensive Net Expenditure. The recognition of 'right of use assets' is described in Note 1.7. 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, see Note 1.3. Intangible assets comprise internally developed application and bespoke IT software projects, licences and packages developed by third parties. Software projects being developed are capitalised as development expenditure and treated as capital expenditure (but not amortised or revalued until the software is fully developed and brought into use). The agency has set a capitalisation threshold for software projects of £100,000.

1.5 Depreciation and amortisation

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

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

Depreciation:	
Plant and machinery	10–25 years
Furniture and fittings	5 years
Office machinery	5 years
Right of use assets	8 years
IT hardware:	
Laptops, printers and similar equipment	3 years
Communications	5 years
Servers	up to 7 years

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

* All IT assets capitalised in respect of internally developed software to process SPS claims are amortised over the period ending 31 March 2015, see Note 13.

1.6 Impairment

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

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

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

1.7 Right of use assets

The agency benefits from participation in Defra's contract with IBM for the supply of IT services. The contract is for a term of 8 years from February 2010. The contract falls within the scope of IFRIC 12 as interpreted by the FReM and is disclosed within the accounts as a service concession arrangement. Defra has apportioned a share of this arrangement to the agency based on the agency's usage of the facility. A lease liability has been included to reflect the agency's share of the capital value of payments to IBM to lease IT infrastructure assets throughout the duration of the 8 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 12.

1.8 Leased assets

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

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

Rental costs arising under operating leases are charged to the Statement of Comprehensive Net Expenditure in the year in which they are incurred, even if the payment is not made on such a basis.

1.9 Defra properties occupied by the agency

The full cost of occupation of buildings that are either owned or leased by Defra is reflected within the Statement of Comprehensive Net Expenditure. The costs are determined by Defra, based on proportionate occupation of the properties and include rates, utilities, management overheads, and associated capital charges. For Defra leasehold properties this also includes rental costs.

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

1.10 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.

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

1.11 Agency scheme income and expenditure

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

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

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

All of the agency's scheme expenditure is pre-funded by the UK Exchequer. Following receipt of reclaims from the European Commission, surplus funds are repaid to HM Treasury.

In accordance with European Commission regulations, the agency collects and surrenders both sugar and isoglucose production charges and other charges to fund the restructuring of the sugar regime. Production charges were formerly recognised as income with the associated liability to HM Treasury, and these funds were remitted to the European Commission via HM Treasury. These charges are excluded from income. Sugar restructuring receipts are remitted directly to the European Commission through the monthly reimbursement process and are not reported in these accounts.

1.12 Other UK paying agencies' income and costs

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

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

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

However, the impacts of any foreign exchange movements between the claim date and the date of actual reimbursement by the European Commission are borne by the agency and accordingly recognised within the Statement of Comprehensive Net Expenditure. With effect from the year ended 30 September 2012, certain foreign exchange gains and losses are shared with the other UK paying agencies. The agency's foreign exchange figures are presented net of these recharges.

1.13 Modulation

Modulation is a process 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 2 types of modulation – national (or voluntary) modulation and European Commission (or compulsory) modulation.

National modulation

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

European Commission modulation

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

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

1.14 European Commission funding of schemes administered by the agency

Rural development expenditure under the Rural Development Programme for England is managed by the agency on behalf of Defra. Accordingly, scheme income and expenditure are reported in Defra's resource accounts, with transfers reported as movements through the General Fund.

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

1.15 Value Added Tax (VAT)

Defra and its executive agencies share a single VAT registration. Most activities relating to the group are outside the scope of VAT. As a result, input tax cannot generally be recovered. However, under a HM Treasury concession applying to government departments, limited input VAT recovery may be possible on certain specified contracted out services attributable to those activities. For those limited activities where output VAT is charged, directly attributable input VAT can be recovered under the normal rules.

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

1.16 Foreign currency transactions

The functional and presentational currency of the agency is sterling.

The agency receives reimbursements from the European Commission in euros for funds administered by the agency and other UK paying agencies in relation to SPS, the Rural Development Programme and trader schemes in accordance with the respective scheme rules and regulations.

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

These foreign currency transactions are recognised as scheme income and scheme expenditure at the rates of exchange prevailing on the dates of recognition of those transactions as described in Notes 1.11, 1.12 and 1.14. At each Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in the Statement of Comprehensive Net Expenditure in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks, see Note 1.17 and Note 1.18.

1.17 Derivative financial instruments

The agency enters into a variety of foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in Note 22.

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

A derivative with a positive fair value is recognised as a financial asset where as a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset or current liability if the remaining maturity of the instrument is less than 12 months, or is greater than 12 months but is expected to be realised or settled within 12 months.

The agency does not enter into derivative arrangements for speculative purposes.

1.18 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 SPS and the Rural Development Programme for England. At the inception of the hedge relationship the agency documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the agency documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged items as required by the standard.

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

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

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

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

1.19 Trade receivables

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

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

1.20 Pensions

Present and past employees of the agency are covered by the provisions of 5 separate Principal Civil Service Pension Schemes (PCSPS), which are described in Note 2.2. Four of these schemes are defined benefit schemes and one (partnership) is a stakeholder pension with employee contributions. The agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for future benefits is a charge on the PCSPS on an accruing basis. In respect of the defined contribution schemes, the agency recognises the contributions payable for the year. The agency does not make contributions to any other pension scheme.

1.21 Provisions

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

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

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

1.22 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.

1.23 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 entirely within the control of the entity; or a present obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

In addition to contingent liabilities disclosed in accordance with IAS 37, the agency discloses for Parliamentary reporting and accountability purposes certain statutory and non statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money and Government Accounting Northern Ireland. Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.24 Operating segments

IFRS 8 as interpreted for the public sector in the FReM (paragraph 5.4.27) requires operating segments to be identified on the basis of internal reports about components of the agency. These are regularly reviewed by the Chief Operating Decision-Maker to allocate resources and to assess their performance. The agency has identified the Chief Executive Officer as the Chief Operating Decision-Maker.

For segmental reporting during 2012–13, Defra uses major areas of spend as reported monthly to the Defra Management Committee. The agency represents entirely one of these discrete areas of spend. As in previous years, the Chief Executive Officer continued to review and monitor the agency's operational and financial performance at this aggregated level as presented in Defra's financial statements.

1.25 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 historic experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

- 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 costs incurred meet the criteria for capitalisation in the accounting standards, whether the capitalised software will continue to provide sufficient benefit to the agency to support its carrying amount, and whether the useful life of the existing capitalised internally generated intangibles assets remains appropriate.

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

- Allowances for doubtful debt:

  The Chief Executive Officer, in his capacity as Accounting Officer, periodically assesses the recoverability of its 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, historic 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 SPS in 2005 for which the ageing and bad debt allowance details are provided in Note 15 and Note 16 of these accounts.

1.26 Administration and programme income and expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme costs. The classification of expenditure and income as administration or programme follows the definition set by HM Treasury Consolidated Guidance 2012–13.

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

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

1.27 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of 3 months or less. The carrying amount of these assets approximates their fair value. Bank overdraft amounts are included within trade and other payables in the Statement of Financial Position.

1.28 General Fund

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

1.29 Financial penalties

The agency receives income through reimbursement of scheme expenditure from the European Commission. This includes reimbursements of payments made by other UK paying agencies, see Note 1.12.

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

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

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

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

1.30 Accounting for sugar levies

The agency has adopted the requirements of Chapter 13 'Accounting for Consolidated Fund Revenue' of the 2012–13 FReM. This requires revenue collected from taxes, duties and fines payable to public sector entities, in accordance with laws and regulations established to provide revenue to the government, to be excluded from the financial statements of that entity. This includes the exclusion of all related assets and liabilities. If these amounts excluded are material to the entity concerned, the entity is required to prepare a trust statement detailing these transactions.

In accordance with this requirement, the agency has excluded revenue collected as sugar levies from the financial statements. The agency does not consider these amounts to be material to the entity for either the current or prior year accounting period and separate trust statements have not been prepared. The amounts excluded are disclosed in Note 32 of these financial statements.

1.31 Adoption of new and revised standards

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

IFRS 9 Financial Instruments – Classification and Measurement;

IFRS 13 Fair Value Measurement; and

IAS 19 Employee Benefits – new presentation requirements.

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

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

IFRS 13 is effective for accounting periods beginning on or after 1 January 2013. The agency plans to adopt the standard in line with the effective date. The agency does not anticipate material adjustments to its financial statements.

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

2. Staff numbers and related costs

2.1 Staff costs comprise:

	Administration permanently employed staff	Administration short-term/ fixed-term appointments	Administration total	Programme permanently employed staff	Programme short-term/ fixed-term appointments	Programme total	Year to 31 March 2013
	£000	£000	£000	£000	£000	£000	£000
Wages and salaries	23,365	41	23,406	36,108	0	36,108	59,514
Social security costs	1,912	4	1,916	2,400	0	2,400	4,316
Other pension costs	4,314	9	4,323	6,208	0	6,208	10,531
Early retirement and early severance costs:							
Provided in the year	0	0	0	4,095	0	4,095	4,095
Released	0	0	0	(1)	0	(1)	(1)
Unwinding of discount	0	0	0	50	0	50	50
	29,591	54	29,645	48,860	0	48,860	78,505
Less recoveries in respect of secondments			(524)			(56)	(580)
Agency staff			1,172			0	1,172
Contractors			11,160			0	11,160
Total staff costs			41,453			48,804	90,257

No staff costs have been capitalised (2011–12: £nil).

2. Staff numbers and related costs (continued)

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

Average number of persons employed

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

	Administration	**Programme**	**Year to 31 March 2013**	Administration	Programme	Year to 31 March 2012
Permanently employed staff	**718**	**1,563**	**2,281**	732	1,680	2,412
Agency	**45**	**0**	**45**	28	0	28
Contractors	**63**	**0**	**63**	21	0	21
	826	**1,563**	**2,389**	781	1,680	2,461

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

Further information on director remuneration costs are included in the remuneration report on page 47.

2.2 Pension schemes

PCSPS provides for 4 pension benefit schemes. These are unfunded multi employer defined schemes. The agency is unable to identify its share of the underlying assets and liabilities for these defined benefit schemes and they are therefore accounted for as defined contribution schemes.

The contribution rates are set to meet the cost of benefits during 2012–13 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

For 2012–13 employer's contributions of £10.4m (2011–12: £10.7m) 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 is due to review employer contributions every four years following a full scheme valuation and the last review was in 2007.

Employees joining after 1 October 2002 can also opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2012–13 employer's contributions of £130k were paid to one or more of a panel of 3 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 £9k, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits or death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the Statement of Financial Position date were £11.2k (2011–12: £11.4k). 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.gov.uk/pensions/scheme-guides.

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

2.3 Reporting of civil service and other compensation schemes – exit packages

	Year to 31 March 2013	Year to 31 March 2012	**Year to 31 March 2013**	Year to 31 March 2012
Exit package cost band	**Number of other departures agreed**		**Total value of other departure packages by cost band (total cost)**	
			£000	£000
Up to £10,000	**27**	13	**237**	81
£10,001 – £25,000	**118**	53	**1,800**	857
£25,001 – £50,000	**39**	41	**1,361**	1,437
£50,001 – £100,000	**8**	12	**496**	836
£100,001 – £150,000	**0**	3	**0**	324
£150,001 – £200,000	**0**	1	**0**	176
Total number of exit packages and costs	**192**	123	**3,894**	3,711

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

During 2012–13 there were no compulsory redundancies (2011–12: nil).

3. Other running costs

	Note	Administration	Programme	Year to 31 March 2013	Administration	Programme	Year to 31 March 2012
		£000	£000	£000	£000	£000	£000
Rentals under operating leases							
Rent on buildings		3,275	0	3,275	4,446	0	4,446
Non-cash items (including notional charges)							
Auditors' remuneration and expenses (notional)	29	400	0	400	460	0	460
Shared Services Defra	29	1,011	0	1,011	0	0	0
Loss/(gain) on disposal of non-current assets	29	34	11	45	(6)	0	(6)
Depreciation	12	2,023	208	2,231	2,402	199	2,601
Amortisation	13	1,325	12,217	13,542	1,964	15,427	17,391
		4,793	12,436	17,229	4,820	15,626	20,446
Other expenditure							
Accommodation		7,218	5	7,223	7,600	2,004	9,604
IT costs		17,700	8,180	25,880	20,690	6,639	27,329
Project costs		15,089	368	15,457	7,373	283	7,656
Administration losses write-offs		6	0	6	101	0	101
Administration special payment write-offs		25	3	28	9	63	72
Other running costs		2,068	(1,282)	786	1,962	(927)	1,035
Non payroll staff costs		1,248	1,541	2,789	871	1,817	2,688
Communications costs		3,583	433	4,016	4,578	622	5,200
Agents fees		73	926	999	0	1,109	1,109
Finance lease interest		255	0	255	393	0	393
Scheme administrative costs		241	41	282	253	170	423
Certifying Body (NAO) grant certification fee		0	1,185	1,185	0	1,260	1,260
		47,506	11,400	58,906	43,830	13,040	56,870
		55,574	23,836	79,410	53,096	28,666	81,762

3. Other running costs (continued)

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

	Administration	**Programme**	**Year to 31 March 2013**	Administration	Programme	Year to 31 March 2012
	£000	**£000**	**£000**	£000	£000	£000
Payroll costs	**0**	**478**	**478**	0	438	438
Other costs	**0**	**52**	**52**	0	24	24
Certifying Body (NAO) grant certification fee	**0**	**1,185**	**1,185**	0	1,260	1,260
	0	**1,715**	**1,715**	0	1,722	1,722

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

4. Schemes administered by the agency

	Note	**Year to 31 March 2013**	Year to 31 March 2012
		£000	£000
SPS in England	5.1	**1,678,815**	1,988,560
Bovine Spongiform Encephalopathy related	5.2	**(597)**	4,004
Trader based – Internal Market	6	**31,316**	18,541
Trader based – External Trade	7	**(215)**	359
Intervention buying and selling	8	**2,314**	27,147
School Milk Local Authority		**2,992**	3,130
Scheme related losses		**7,489**	14,983
		1,722,114	2,056,724
Release from bad debt provision	15	**(4,594)**	(11,931)
Cost of hedging contracts		**(812)**	1,763
Realised exchange (gain)/loss		**(10,353)**	2,627
Unrealised exchange gain		**(273)**	(8,206)
Derivative ineffectiveness	22	**0**	72
Total scheme expenditure		**1,706,082**	2,041,049

5. Farm based schemes

5.1 SPS in England

SPS introduced by Council Regulation (EC) 1782/2003, replaced most existing crop and livestock payments from 1 January 2005.

	Year to 31 March 2013			Year to 31 March 2012		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
SPS*	**1,679,255**	**(1,671,815)**	**7,440**	1,989,357	(1,990,571)	(1,214)
Pre SPS grants and subsidies	**0**	**0**	**0**	14	265	279
	1,679,255	**(1,671,815)**	**7,440**	1,989,371	(1,990,306)	(935)
Retention of irregularities**	**(440)**	**(80)**	**(520)**	(811)	44	(767)
Total scheme expenditure/ (income)	**1,678,815**	**(1,671,895)**	**6,920**	1,988,560	(1,990,262)	(1,702)

* SPS income includes a reduction of £16.4m resulting from foreign exchange hedging transactions, see Note 22.

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

5.2 Bovine Spongiform Encephalopathy related

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

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

	Year to 31 March 2013			Year to 31 March 2012		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Older Cattle Disposal Scheme (OCDS)	**(597)**	**0**	**(597)**	3,678	54	3,732
Over Thirty Month Slaughter (OTMS)	**0**	**0**	**0**	320	0	320
TSE Agents services	**0**	**0**	**0**	6	0	6
Total scheme expenditure/ (income)	**(597)**	**0**	**(597)**	4,004	54	4,058

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 2 elements, 80% on the rendering of the carcass and 20% on destruction of the Meat and Bone Meal and Tallow produced from the rendering process.

6. Trader based – Internal Market

	Year to 31 March 2013			Year to 31 March 2012		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Horticulture	**27,173**	**(27,211)**	**(38)**	13,559	(9,623)	3,936
Milk and milk products	**221**	**(232)**	**(11)**	89	(93)	(4)
Protein and textile plants	**585**	**(542)**	**43**	1,212	(1,203)	9
School milk	**475**	**(443)**	**32**	374	(427)	(53)
Other	**2,862**	**(2,771)**	**91**	3,307	(3,297)	10
Total scheme expenditure/ (income)	**31,316**	**(31,199)**	**117**	18,541	(14,643)	3,898

7. Trader based – External Trade

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

	Year to 31 March 2013			Year to 31 March 2012		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Milk and milk products	**(4)**	**14**	**10**	9	8	17
Processed goods	**(5)**	**63**	**58**	(53)	70	17
Sugar and isoglucose	**(48)**	**51**	**3**	(35)	(299)	(334)
Other	**(158)**	**198**	**40**	438	(1,741)	(1,303)
Total scheme expenditure/ (income)	**(215)**	**326**	**111**	359	(1,962)	(1,603)

8. Intervention buying and selling

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

	Intervention		**Year to 31 March 2013**	Year to 31 March 2012
	Milk powder	**Barley**		
	£000	**£000**	**£000**	£000
Sales	**0**	**0**	**0**	(14,682)
Other income	**0**	**0**	**0**	(143)
Surrender of excess receipts	**(1,504)**	**(406)**	**(1,910)**	(9,486)
	(1,504)	**(406)**	**(1,910)**	(24,311)
Cost of sales	**1,654**	**478**	**2,132**	25,623
Operating costs	**63**	**149**	**212**	2,157
Technical costs recovered	**(7)**	**(23)**	**(30)**	(633)
	1,710	**604**	**2,314**	27,147
Total net expenditure	**206**	**198**	**404**	2,836

9. Modulation

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

It is applied on 2 bases European Commission (compulsory) modulation and national (voluntary) modulation.

European Commission modulation

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

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

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

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

Council Regulation (EC) No 73/2009 amended European Commission modulation and is applied for direct aid payments. European Commission modulation is split into 3 bands with increasing percentages within the bands.

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

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

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

9. Modulation (continued)

Regulation (EU) No 671/2012 extended the application of Council Regulation (EC) No 73/2009 into 2013 and confirmed the following rates for the European Commission (compulsory) modulation will continue to apply:

Scheme year	2013
Banding/modulation deduction percentages	
Up to €5,000	0%
€5,000 to €300,000	10%
Greater than €300,000	14%

National modulation

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

For England, the following national modulation rates applied:

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

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

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

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

Regulation (EU) No 671/2012 extended the application of Council Regulation (EC) No 73/2009 into 2013 and confirmed that the option to deduct national (voluntary) modulation will continue to apply. The 2013 national modulation rates for England will be confirmed later in the year.

10. Other paying agencies and delegated authorities

	Year to 31 March 2013			Year to 31 March 2012		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Other paying agencies*						
SGRPID	**590,319**	**(590,022)**	**297**	616,106	(615,965)	141
WG	**291,336**	**(291,299)**	**37**	311,224	(311,218)	6
DARDNI	**288,407**	**(288,338)**	**69**	307,870	(307,002)	868
	1,170,062	**(1,169,659)**	**403**	1,235,200	(1,234,185)	1,015
Delegated authorities						
FC	**2,848**	**(2,818)**	**30**	1,353	(1,532)	(179)
	2,848	**(2,818)**	**30**	1,353	(1,532)	(179)
Total scheme expenditure/ (income)	**1,172,910**	**(1,172,477)**	**433**	1,236,553	(1,235,717)	836

* Other paying agencies income includes a reduction of £10.6m resulting from foreign exchange hedging transactions, see Note 22.

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

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

11. Income

Operating income analysed by classification and activity is as follows:

	Note	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Running costs income*		**603**	707
Scheme income			
SPS in England	5.1	**1,671,895**	1,990,262
Bovine Spongiform Encephalopathy related	5.2	**0**	(54)
Trader based – Internal Market	6	**31,199**	14,643
Trader based – External Trade	7	**(326)**	1,962
Intervention buying and selling	8	**1,910**	24,311
School Milk Local Authority		**2,891**	3,385
		1,707,569	2,034,509
Other paying agencies			
European Commission contributions	10	**1,172,477**	1,235,717
Other income			
Other		**200**	2,773
		200	2,773
Total scheme income		**2,880,246**	3,272,999
Total income		**2,880,849**	3,273,706

* Running costs income includes £0.5m (2011–12: £0.7m) notional income relating to services provided across Defra by the Defra Investigation Services (DIS), which is part of the agency.

12. Property, plant and equipment

	Information technology hardware and office machinery	Right of use assets	Transport equipment, plant and machinery	Furniture and fittings	Total
	£000	£000	£000	£000	£000
Valuation					
At 1 April 2012	**22,733**	**1,324**	**5**	**22**	**24,084**
Additions	**591**	**0**	**0**	**0**	**591**
Disposals	**(4,532)**	**(362)**	**0**	**(4)**	**(4,898)**
Revaluations	**255**	**0**	**0**	**0**	**255**
At 31 March 2013	**19,047**	**962**	**5**	**18**	**20,032**
Depreciation					
At 1 April 2012	**18,057**	**474**	**5**	**22**	**18,558**
Charged in year	**2,070**	**161**	**0**	**0**	**2,231**
Disposals	**(4,513)**	**0**	**0**	**(4)**	**(4,517)**
Revaluations	**(323)**	**0**	**0**	**0**	**(323)**
At 31 March 2013	**15,291**	**635**	**5**	**18**	**15,949**
Net Book Value					
At 1 April 2012	4,676	850	0	0	5,526
At 31 March 2013	**3,756**	**327**	**0**	**0**	**4,083**
Assets Financing					
Owned	**3,480**	**0**	**0**	**0**	**3,480**
Finance leased	**276**	**327**	**0**	**0**	**603**
Net Book Value at 31 March 2013	**3,756**	**327**	**0**	**0**	**4,083**

Included in property, plant and equipment are assets with historic cost of £8.8m (2011–12: £12.0m) which have been fully depreciated. These assets are still in use by the agency.

12. Property, plant and equipment (continued)

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

13. Intangible assets

	Information technology	Software licences	Development expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2012	158,077	7,026	0	165,103
Additions	0	1,202	113	1,315
Disposals	0	(48)	0	(48)
Revaluations	4,321	(172)	0	4,149
At 31 March 2013	162,398	8,008	113	170,519
Amortisation				
At 1 April 2012	121,172	5,143	0	126,315
Charged in year	12,634	908	0	13,542
Disposals	0	(24)	0	(24)
Revaluations	2,852	(402)	0	2,450
At 31 March 2013	136,658	5,625	0	142,283
Net Book Value				
At 1 April 2012	36,905	1,883	0	38,788
At 31 March 2013	25,740	2,383	113	28,236
Assets Financing				
Owned	25,632	2,383	113	28,128
Finance leased	108	0	0	108
Net Book Value at 31 March 2013	25,740	2,383	113	28,236

During 2012–13 there were no impairment losses (2011–12: £nil).

Included in intangible assets are assets with a historic cost of £48.7m (2011–12: £48.3m) which have been fully depreciated. These assets are still in use by the agency.

Information technology includes the carrying value of internally developed software for the system used to process SPS claims. During 2012–13 capitalised expenditure on this system was re-lifed to 31 March 2015 to align with the CAP reform implementation schedule. All related capitalised expenditure will be fully amortised by 31 March 2015. The Net Book Value as at 31 March 2013 was £17.2m (31 March 2012: £25.0m).

13. Intangible assets (continued)

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

14. Inventories

Intervention inventories:

	Intervention Milk powder	**Intervention Barley**	**Total**
	£000	**£000**	**£000**
At 1 April 2011	19,086	8,669	27,755
Movement	(17,432)	(8,191)	(25,623)
At 31 March 2012	**1,654**	**478**	**2,132**
Movement	(1,654)	(478)	(2,132)
At 31 March 2013	**0**	**0**	**0**

15. Trade receivables and other current assets

Amounts falling due within 1 year

	31 March 2013	31 March 2012
	£000	£000
Amounts falling due within 1 year		
Trade receivables*	**10,884**	19,805
Less allowance for doubtful debts*	**(3,718)**	(8,313)
	7,166	11,492
Due from European Agricultural Guarantee Fund/European Agricultural Fund for Rural Development	**399,808**	501,576
Due from Defra and its agencies	**872**	1,510
Due from other government departments (including other paying agencies)	**10,878**	11,329
Prepayments and accrued income	**722**	666
VAT recoverable	**1,628**	1,315
Other receivables	**81**	108
Total receivables	**421,155**	527,996

* Included within these balances are £6.7m in relation to SPS receivables, and £2.1m of SPS allowance for debts (2011–12: £14.9m and £7.4m respectively), see Note 16.

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

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

Total trade receivables (net of allowances) held by the agency at 31 March 2013 amounted to £7.2m (2011–12: £11.5m). Generally the average credit period is 30 days for SPS receivables and 30 days for non SPS receivables.

Trade receivables, disclosed above include amounts (see page 110 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 2013 is 219 days (2011–12: 228 days).

15. Trade receivables and other current assets (continued)

Ageing of past due but not impaired receivables:

	31 March 2013	31 March 2012
	£000	£000
30 days – 6 months	**394**	439
6 months – 1 year	**124**	393
1 year – 18 months	**73**	58
Over 18 months	**732**	412
Total	**1,323**	1,302

Movement in the allowance for doubtful debts:

	31 March 2013	31 March 2012
	£000	£000
Balance at the beginning of the period	**(8,313)**	(20,244)
Reversal of impairment losses	**3,227**	5,844
Amounts written off during the year as uncollectable	**1,368**	6,087
Balance at the end of the period	**(3,718)**	(8,313)

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

Ageing of impaired trade receivables:

	31 March 2013	31 March 2012
	£000	£000
30 days – 6 months	**2,160**	1,399
6 months – 1 year	**853**	906
1 year – 18 months	**342**	766
Over 18 months	**2,454**	2,680
Total	**5,809**	5,751

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

16. SPS trade receivables and trade payables

	Amounts falling due within 1 year			
	Trade receivables		Trade payables	
	31 March 2013	31 March 2012	**31 March 2013**	31 March 2012
	£000	£000	**£000**	£000
SPS trade receivables and trade payables	**6,663**	14,860	**16,021**	56,846
Less allowance for doubtful debts	**(2,137)**	(7,362)	**0**	0
Net SPS trade receivables and trade payables	**4,526**	7,498	**16,021**	56,846

SPS trade receivables represent adjustments to amounts previously paid to customers arising as a consequence of errors made by customers, process errors or system errors. The credit period for SPS trade receivables, once invoiced is generally 30 days except in those instances where an agreement is reached between the agency and the customer to allow for recovery through the interception of future payments or extended repayment terms are agreed. While the agency has an ability to charge interest on overdue balances, it is currently not the agency's policy to do so.

SPS trade payables represent adjustments to amounts previously paid to customers arising as a consequence of errors made by customers, processing errors or system errors and full claims that have been validated but remain unpaid at the reporting date. Interest on SPS trade payables accrues to the customer at LIBOR plus 1% on all adjustments and full claims that are settled after 30 June of the scheme year to which they relate. At 31 March 2013, SPS trade payables included £14.3m relating to the current scheme year (31 March 2012: £50.0m).

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

16. SPS trade receivables and trade payables (continued)

Allowance for doubtful debts and ageing

	31 March 2013	31 March 2012
	£000	£000
Opening balance	**7,362**	13,045
Reversal of impairment losses	**(2,605)**	(3,634)
Amounts written off during the year as uncollectable	**(1,289)**	(874)
Impairment losses recovered	**(1,331)**	(1,175)
Closing balance	**2,137**	7,362

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

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

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

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

	31 March 2013	31 March 2012
	£000	£000
30 days – 6 months*	**41**	206
6 months – 1 year	**17**	185
1 year – 18 months	**26**	11
Over 18 months	**0**	7
Total	**84**	409

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

16. SPS trade receivables and trade payables (continued)

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

	31 March 2013	31 March 2012
	£000	£000
30 days – 6 months	**1,073**	621
6 months – 1 year	**720**	471
1 year – 18 months	**262**	545
Over 18 months	**1,683**	2,144
Total	**3,738**	3,781

17. Intra-government receivables

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

	31 March 2013	31 March 2012
	£000	£000
Balances with other central government bodies	**12,499**	13,245
Balances with local authorities	**878**	909
Total intra-government balances	**13,377**	14,154
Balances with bodies external to government	**407,778**	513,842
Total receivables	**421,155**	527,996

18. Cash and cash equivalents

	31 March 2013	31 March 2012
	£000	£000
Balances held at 1 April	**172,508**	220,481
Net cash (outflow)	**(77,029)**	(47,973)
Total balance	**95,479**	172,508
The following balances were held at 31 March		
Government Banking Services	**95,464**	169,733
Commercial banks and cash in hand	**15**	2,775
Total balance	**95,479**	172,508

The closing balance of third party money held as cash securities at 31 March 2013 was £2.7m (2011–12: £2.1m). Of this, £2.0m (2011–12: £1.6m) was held in a public bank account.

At 31 March 2013 the cash equivalent balance was £nil (2011–12: £nil).

19. Trade payables and other current liabilities

	31 March 2013	31 March 2012
	£000	£000
Amounts falling due within 1 year		
Trade payables*	**16,877**	60,426
Due to Defra and its agencies	**7,991**	8,019
Due to other government departments (including other paying agencies)	**4,692**	2,436
Cash securities**	**2,710**	2,127
Scheme accruals	**8,949**	4,110
SPS interest	**106**	127
Accruals and deferred income	**7,631**	5,274
Employee leave accrual	**2,321**	2,475
Other taxation and social security	**1,399**	1,369
Finance leases	**564**	619
Other payables	**1,259**	1,080
Total payables	**54,499**	88,062
Amounts falling due after more than 1 year		
Advances on Rural Development Programmes	**112,591**	111,467
Finance leases	**461**	1,232
	113,052	112,699
Total trade payables and other liabilities	**167,551**	200,761

* Includes £16.0m of SPS payables (2011–12: £56.8m), see Note 16.

** Traders wishing to undertake certain transactions under European Commission regulations are required to guarantee completion of the transaction by lodging a security with the agency. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. The security received is included within cash, see Note 18, with the corresponding liability with the trader, shown above.

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

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

As at 31 March 2013, the agency considers the fair value of the advances received on Rural Development Programmes for Defra and other paying agencies to be £112.6m (2011–12: £111.5m).

The agency consider the fair value of finance lease liabilities at 31 March 2013 to be £1.0m (2011–12: £1.9m), see Note 25.2.

20. Intra-government payables

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

	31 March 2013	31 March 2012
	£000	£000
Balances with other central government bodies	**13,905**	11,520
Balances with local authorities	**177**	303
Total intra-government balances	**14,082**	11,823
Balances with bodies external to government	**40,417**	76,239
Total payables less than 1 year	**54,499**	88,062
Balances with bodies external to government due after more than 1 year	**113,052**	112,699
Total payables	**167,551**	200,761

21. Provisions for liabilities and charges

	Pensions and related costs	**Dilapidations provision**	**OCDS and OTMS schemes**	**Other scheme provisions**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2012	**2,935**	**2,000**	**1,101**	**2,662**	**8,698**
Provided in the year	4,095	0	0	1,000	**5,095**
Released	(1)	0	(600)	0	**(601)**
Utilised	(5,166)	(1,000)	(413)	(2,662)	**(9,241)**
Unwinding of discount	50	0	0	0	**50**
Balance at 31 March 2013	**1,913**	**1,000**	**88**	**1,000**	**4,001**
Analysed as:					
Current	937	1,000	88	1,000	**3,025**
Non-current	976	0	0	0	**976**
Balance at 31 March 2013	**1,913**	**1,000**	**88**	**1,000**	**4,001**
Analysis of expected timing of discounted flows:					
Not later than 1 year	937	1,000	88	1,000	**3,025**
Later than 1 year and not later than 5 years	904	0	0	0	**904**
Later than 5 years	72	0	0	0	**72**
Balance at 31 March 2013	**1,913**	**1,000**	**88**	**1,000**	**4,001**

21. Provisions for liabilities and charges (continued)

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

21.1 Pensions and related costs

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 2013 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 2013 is £1.91m (2011–12: £2.94m). The provision has been discounted using a discount rate of 2.35%.

21.2 Dilapidations provision

The agency has provided for dilapidation costs associated with the future exit of a number of leased premises. These are expected to be incurred by 31 March 2014.

21.3 Older Cattle Disposal and Over Thirty Month Slaughter schemes

Meat and Bone Meal and Tallow were produced as by-products arising from the Older Cattle Disposal Scheme and Over Thirty Month Slaughter. Provision has been made for the estimated cost of disposal of Meat and Bone Meal and Tallow produced up to 31 March 2013. This includes final costs of vacating and making good premises hired during the crisis.

21. Provisions for liabilities and charges (continued)

21.4 Other scheme provisions

The agency has a number of cases where customers have challenged its decisions regarding their claim eligibility for scheme payments. This has been reviewed on a case by case basis, with provision made where the agency considers payment to be probable and can be measured reliably. These are expected to be paid by 31 March 2014.

22. Financial instruments

Significant accounting policies

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

Categories of financial instruments

	31 March 2013	31 March 2012
	£000	£000
Financial assets		
Trade receivables and other current assets	**420,432**	527,330
Cash and cash equivalents	**95,479**	172,508
Derivative instruments classified as held for trading	**3,297**	52
Derivative instruments in designated hedge accounting relationships	**387**	17,596
Sub total of derivative assets	**3,684**	17,648
Financial liabilities		
Trade payables and other liabilities	**165,230**	198,286
Derivative instruments classified as held for trading	**2,995**	145
Derivative instruments in designated hedge accounting relationships	**10,789**	37
Sub total of derivative liabilities	**13,784**	182
Financial guarantee contracts		
Cash securities	**2,710**	2,127
Non-cash guarantees	**791,300**	473,771

Cash on deposit at 31 March 2013 consists of money lodged with Government Banking Services and commercial banks.

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

Cash securities are provided by certain traders, see Note 19. No interest is paid to traders on cash balances lodged with the agency as security.

Securities may also be in the form of a non-cash guarantee by a bank or an insurance company acceptable to the agency. Sterling guarantees totalling £358.0m and euro guarantees totalling €512.4m (£433.3m) were held at 31 March 2013 (£292.3m and €217.7m (£181.5m) at 31 March 2012). 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

22. Financial instruments (continued)

respect of the agency's hedge strategy, the review and selection of hedge service providers, the execution of contracts, hedge accounting, the valuation of derivatives, the process for settlement of derivatives and external reporting.

Market risks

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

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

Foreign currency denominated monetary assets and monetary liabilities

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

	Assets		Liabilities	
	31 March 2013	31 March 2012	**31 March 2013**	31 March 2012
	£000	£000	**£000**	£000
Euro	**435,312**	588,753	**112,591**	111,467

22. Financial instruments (continued)

Sensitivity analysis

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

	Impact of movement in euro/sterling rate sterling appreciates by 10%		Impact of movement in euro/sterling rate sterling depreciates by 10%	
	31 March 2013	31 March 2012	**31 March 2013**	31 March 2012
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost*	**(32,003)**	(47,386)	**32,003**	47,386
Derivative instruments:				
(Increase)/decrease in Net operating cost**	**14,360**	(2,320)	**(12,903)**	2,320
Increase/(decrease) in Taxpayers' Equity***	**24,100**	62,378	**(22,643)**	(62,378)

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

** This is the result of the changes in fair value of derivatives instrument held for trading.

*** This is the result of the changes in fair value of derivative instruments designated as cash flow hedges.

Outstanding foreign currency contracts

	Average exchange rate	Foreign currency	Notional value	Fair value
	31 March 2013	**31 March 2013**	**31 March 2013**	**31 March 2013**
	Euro/sterling	**€000**	**£000**	**£000**
Current derivative assets	**0.84396**	**314,114**	**265,101**	**3,628**
Non-current derivative assets	**0.85275**	**19,296**	**16,455**	**56**
Current derivative liabilities	**0.80327**	**326,603**	**262,352**	**(12,804)**
Current derivative liabilities	**0.84933**	**(145,816)**	**(123,846)**	**(924)**
Non-current derivative liabilities	**0.85275**	**(19,296)**	**(16,455)**	**(56)**

In September 2012 the agency entered into forward exchange contracts to hedge the monthly euro denominated receipts in relation to SPS. As at 31 March 2013, the aggregate amount of losses under forward foreign exchange contracts deferred in the cash flow hedge reserve

22. Financial instruments (continued)

relating to the exposure on these anticipated future receipts is £1.86m. It is anticipated that the funds will be received during 2013–14, at which time the amount deferred in equity will be reclassified to the Statement of Comprehensive Net Expenditure.

The agency also entered into forward exchange contracts to hedge the quarterly euro denominated receipts in relation to the Rural Development Programmes. As at 31 March 2013, the aggregate amount of gains under such contracts deferred in the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £0.03m. It is anticipated that the funds will be received during 2013–14, at which time the amount deferred in equity will be reclassified to the Statement of Comprehensive Net Expenditure.

In December 2011 the agency entered into forward exchange contracts to hedge the exposure on the repayment of the European Fisheries Fund advance held by Defra. As the underlying liability is with Defra an internal hedge has been established to transfer the risk exposure on the contracts. There is no deferral of gains or losses under these contracts to the cash flow hedge reserve.

In 2012–13 £nil (2011–12: £0.07m) has been recognised in the Statement of Comprehensive Net Expenditure arising from hedge ineffectiveness, see Note 4.

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

Own credit risk and counterparty credit risk

As the agency is a UK Government entity, the own credit risk for the agency is not significant. All derivative contracts are with Barclays or Hong Kong and Shanghai Banking Corporation which are currently 2 of the top international banks. Therefore the fair value of the counterparty credit risk is also limited.

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

	Year to 31 March 2013
	£000
Agency – scheme income	(16,436)
Other paying agencies – scheme income	(10,577)
Losses – scheme expenditure	(161,841)
Total transferred to Statement of Comprehensive Net Expenditure	**(188,854)**

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.

22. Financial instruments (continued)

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

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 money 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 2013					
Non-interest bearing	**51,614**	**0**	**112,591**	**0**	**164,205**
Finance lease liability	**168**	**503**	**585**	**0**	**1,256**
31 March 2012					
Non-interest bearing	80,391	0	111,467	0	191,858
Finance lease liability	183	550	1,471	261	2,465

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 2013					
Non-interest bearing	**420,432**	**0**	**0**	**0**	**420,432**
31 March 2012					
Non-interest bearing	525,907	0	0	0	525,907

22. Financial instruments (continued)

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

	Less than or equal to 3 months	More than 3 months but less than or equal to 6 months	More than 6 months but less than or equal to 1 year	Greater than 1 year	Total
	£000	£000	£000	£000	£000
Derivative liabilities					
31 March 2013					
Gross settled					
Foreign exchange forward contracts	**13,771**	**0**	**0**	**202**	**13,973**
31 March 2012					
Gross settled					
Foreign exchange forward contracts	53	118	0	364	535
Derivative assets					
31 March 2013					
Gross settled					
Foreign exchange forward contracts	**3,572**	**175**	**0**	**202**	**3,949**
31 March 2012					
Gross settled					
Foreign exchange forward contracts	14,401	3,436	0	364	18,201

23. Revaluation reserve

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

	Property, plant and equipment	Intangible assets	Total
	£000	£000	£000
Balance at 31 March 2012	263	1,810	2,073
Revaluation during the year	578	1,699	2,277
Transfer to General Fund*	(319)	(1,192)	(1,511)
Balance at 31 March 2013	**522**	**2,317**	**2,839**

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

24. Capital commitments

Contracted capital commitments at 31 March 2013 not otherwise included in these accounts:

	31 March 2013	31 March 2012
	£000	£000
Property, plant and equipment	**73**	0
Intangible assets	**41**	0
Total	**114**	0

25. Commitments under leases

25.1 Operating leases

Total future minimum lease payments at 31 March 2013 under operating leases are given in the table below for each of the following periods:

	31 March 2013	31 March 2012
	£000	£000
Vehicles		
Not later than 1 year	**195**	375
Later than 1 year and not later than 5 years	**69**	259
Total	**264**	634

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

	31 March 2013	31 March 2012
	£000	£000
Land		
Not later than 1 year	**0**	0
Later than 1 year and not later than 5 years	**0**	0
Later than 5 years	**2**	2
Total	**2**	2
Buildings		
Not later than 1 year	**2,489**	3,264
Later than 1 year and not later than 5 years	**5,438**	6,719
Later than 5 years	**1,296**	2,399
Total	**9,223**	12,382

25. Commitments under leases (continued)

25.2 Finance leases

Total future minimum lease payments under non cancellable finance leases at 31 March 2013 are given in the table below for each of the following periods:

	31 March 2013	31 March 2012
	£000	£000
Not later than 1 year	**671**	733
Later than 1 year and not later than 5 years	**585**	1,471
Later than 5 years	**0**	261
	1,256	2,465
Less interest element	**(231)**	(614)
Present value of obligations	**1,025**	1,851

The present value of total future minimum lease payments under non cancellable finance leases at 31 March 2013 are given in the table below for each of the following periods:

	31 March 2013	31 March 2012
	£000	£000
Not later than 1 year	**564**	620
Later than 1 year and not later than 5 years	**461**	1,067
Later than 5 years	**0**	164
Present value of obligations	**1,025**	1,851

26. Other financial commitments

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

	31 March 2013	31 March 2012
	£000	£000
Not later than 1 year	**16,660**	17,786
Later than 1 year and not later than 5 years	**28,542**	31,882
Later than 5 years	**0**	6,280
Total	**45,202**	55,948

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

	31 March 2013	31 March 2012
	£000	£000
Not later than 1 year	**2,574**	3,875
Later than 1 year and not later than 5 years	**10,211**	15,022
Later than 5 years	**15,316**	26,288
Total	**28,101**	45,185

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 IFRIC12, see Note 1.7.

	31 March 2013	31 March 2012
	£000	£000
Not later than 1 year	**3,963**	3,056
Later than 1 year and not later than 5 years	**14,745**	11,529
Later than 5 years	**0**	2,271
Total	**18,708**	16,856

Defra freehold properties

The estimated value of non specialised freehold property owned by Defra but occupied by the agency at 31 March 2013 is £4.5m (31 March 2012: £5.1m). There are no rental costs on Defra freehold properties.

27. Contingent assets and contingent liabilities disclosed under IAS 37

Contingent assets

The agency has no contingent assets.

Contingent liabilities

The agency has the following contingent liabilities:

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

In addition to the provision described in Note 21.4, the agency is currently in receipt of appeals from scheme claimants against the non payment of claims covering SPS and trader related schemes. If the appeals are successful they could either result in a liability for EU or Exchequer funded payments. The amount of any such potential liability is unquantifiable.

28. Related party transactions

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

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

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

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

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

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

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

- Department of Agriculture and Rural Development, Northern Ireland;
- Agriculture and Horticulture Development Board; and
- Food Standards Agency.

Disclosure of employment

James Paice was Minister of State for Agriculture and Food and was Chair of the RPA Oversight Board until 4 September 2012. He is also a partner in the partnership JE & AB Paice which in 2012–13 received £2k (2011–12: £2k) in scheme payments.

Jim Godfrey, a member of the agency's Audit and Risk Committee and Agency Management Board until the end of January 2013, is a director of RJ & AE Godfrey and Fen Peas Ltd which for the year to 31 March 2013 received £537k (2011–12: £1,045k) and £149k (2011–12: £58k) respectively from the agency in scheme payments. RJ & AE Godfrey is also a member of Fen Peas Ltd and in addition is a member of The Greenpea Company Ltd, which in 2012–13 received £579k (2011–12: £571k) from the agency in scheme payments.

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

29. Cash flows from operating activities

	Note	Year to 31 March 2013		Year to 31 March 2012	
		£000	£000	£000	£000
Net operating cost			**(167,810)**		(168,544)
Adjustment for					
Auditors' remuneration and expenses	3	**400**		460	
Shared Services Defra	3	**1,011**		0	
DIS Income	11	**(533)**		(652)	
Notional charges			**878**		(192)
Loss/(gain) on disposal of non-current assets	3		**45**		(6)
Depreciation	3		**2,231**		2,601
Amortisation	3		**13,542**		17,391
Movement in provisions	21		**(4,697)**		4,546
Adjustment for derivative financial instruments			**19,555**		(22,227)
Net operating cash outflow before movement in working capital			**(136,256)**		(166,431)
Decrease in inventories	14		**2,132**		25,623
Decrease/(increase) in trade receivables and other current assets	15		**106,841**		(18,727)
Decrease in trade payables and other current liabilities			**(32,490)**		(118,688)
Net cash outflow from operating activities			**(59,773)**		(278,223)

30. Losses and special payments

		Year to 31 March 2013		Year to 31 March 2012	
		No. of cases	**£000**	No. of cases	£000
Cash losses		**163**	**1,705**	86	4,593
Claims waived or abandoned		**20,415**	**126**	17,379	5,090
Administration losses write off		**19**	**6**	6	101
Special payments	Scheme	**161**	**7,820**	713	8,023
	Administration	**4**	**28**	6	72
Realised exchange losses		**0**	**0**	1	2,627
Total		**20,762**	**9,685**	18,191	20,506

Losses relating to sugar levies are excluded from this Note and are disclosed in Note 32.

Special payments exceeding £0.25m	**£000**	
Angus Growers	4,256	During a Producer Organisation review of the Fruit and Vegetable Aid Scheme all payments for aid accrued during the 2010 scheme year were held pending the outcome. Based on legal advice ministers took a decision to make payments to all Producer Organisations involved, including those interpreted as non-compliant by the European Commission. HM Treasury granted approval that these payments could be made ex gratia due to being subject to disallowance if paid from the EU fund.
Speciality Produce Ltd	2,162	
Nu-Star	413	This figure has been paid/accrued for in relation to a claim from Nu-Star. The claim relates to damage to a rented premises used during the BSE crisis.
Total	**6,831**	

31. Events after the reporting period

These accounts have been authorised for issue by the Accounting Officer on 27 June 2013.

32. Sugar production levies

In accordance with section 13.4 of the FReM, sugar production levies collected on behalf of the European Commission, including related income, expenditure, assets and liabilities are excluded from the financial statements, except where noted below.

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

	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Sugar production levies collected or accrued in the financial year	**12,955**	11,786

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

	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Amount payable to the HM Treasury		
Balance held on trust at the start of the year	**0**	0
Amount collected or accrued in the financial year	**12,955**	11,786
Payments to HM Treasury in the financial year	**(12,955)**	(11,786)
Balance held on trust at the end of the year	**0**	0

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

	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Liability for losses from claim for over-charges in previous years*	**13,900**	0
Foreign exchange losses on sugar levy transactions**	**151**	0
Total losses incurred in year	**14,051**	0

* The European Commission has acknowledged that sugar levy rates advised by regulation during the period between 2002 to 2006 were incorrect, leading to incorrect levies applied and charged on producers. The regulations have been retrospectively challenged by sugar producers within the European Union. During April 2013, £13.9m was paid to British Sugar in settlement of these claims. This will not be reimbursed by HM Treasury but has instead been paid from agency funds.

** Foreign exchange losses of £151k (2011–12: £nil) were incurred on the conversion of euro receipts to sterling for onward payment to HM Treasury. This loss has not been reimbursed by HM Treasury.

32. Sugar production levies (continued)

At 31 March, the agency held the following assets and liabilities in relation to sugar production levies, which have been excluded from the financial statements of the agency:

	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Cash collected from customers, yet to be paid over to HM Treasury	**0**	0
Liability for settlement of claim for over-charges in previous years	**(13,900)**	0
	(13,900)	0

These balances detailed above are excluded from the financial statements of the agency.

Contact details

Letter

Rural Payments Agency
PO Box 300
Sheffield
S95 1AA

Email

Customer Service Centre email:	csc@rpa.gsi.gov.uk
BCMS email:	bcms-enquiries@bcms.rpa.gsi.gov.uk

Telephone

Customer Service Centre:	0845 603 7777
BCMS helpline:	0845 050 1234
BCMS Welsh language helpline:	0845 050 3456

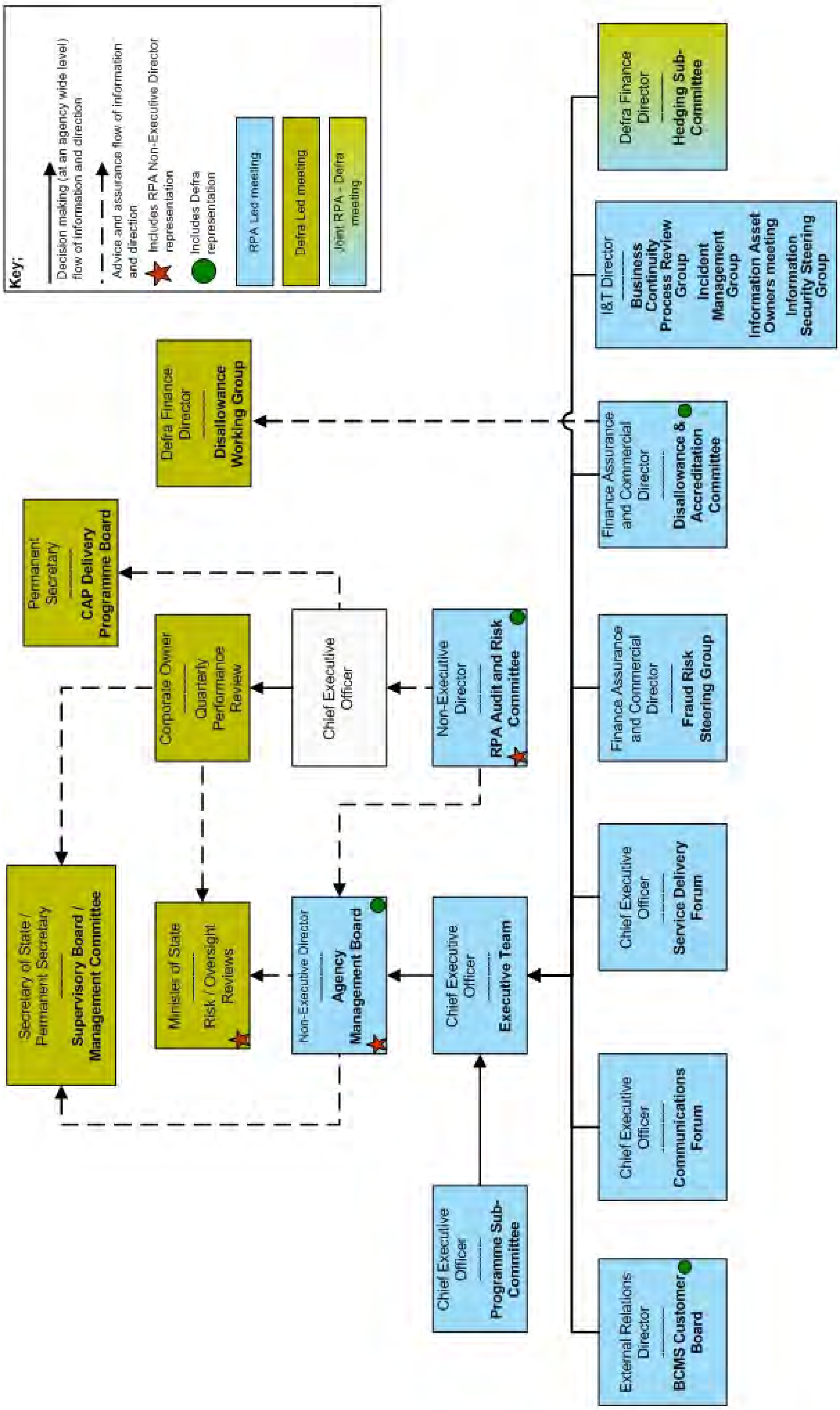
Text Relay is available to enable deaf, deafblind, deafened, hard of hearing and speech impaired people to communicate with hearing people by telephone.

To contact us using Text Relay dial:	18001 0845 603 7777
For BCMS using Text Relay dial:	18001 0845 050 1234

Please call our Customer Service Centre on 0845 603 7777 if you need this plan in any other format.

Our website:	www.rpa.defra.gov.uk
Twitter:	@Ruralpay

Annex A – Agency governance structure



information & publishing solutions

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

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

Online
www.tsoshop.co.uk

Mail, telephone, fax and email
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
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Houses of Parliament Shop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/general enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: shop@parliament.uk
Internet: http://www.shop.parliament.uk

TSO@Blackwell and other accredited agents

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

ISBN 978-0-10-298413-2

9 780102 984132

770404-001