Rural Payments Agency

Annual Report and Accounts 2013-2014

Rural Payments Agency Annual Report and Accounts 2013-2014

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Contents

	Page
Foreword by Mark Grimshaw	1
Introduction to RPA	
The Rural Payments Agency	6
Our vision	6
Agency structure	6
The Executive Team	7
Strategic Report	
Five Year Plan	10
Review of the year	11
Strategic Improvement Plan	13
Strategic Alignment – One Business	14
CAP reform	15
The year ahead	16
Operational Report	
Performance commentary	18
Customer, stakeholder and supplier engagement	20
Audit of schemes	28
Our people	29
Security and information risk	34
Fraud	35
Annual Sustainability Report	36
Financial review	40
Corporate Governance Report	
Statement of Accounting Officer's responsibilities	44
Corporate Governance	45
Remuneration Report	52
Governance Statement	58
Comptroller and Auditor General	
Certificate of the Comptroller and Auditor General to the House of Commons	66
Report of the Comptroller and Auditor General to the House of Commons	68
Financial Report	
Statement of Accounts	72

Foreword by Mark Grimshaw

The Rural Payments Agency (RPA) had its most successful year. We achieved record-breaking Single Payment Scheme (SPS) payments and we met the first objective of our Five Year Plan, which was to stabilise the agency. We also laid down important foundations for a successful transition to the new Common Agricultural Policy (CAP) in 2015.

The farmers and food producers we support faced another very tough year in 2013-14. It was therefore essential that we did everything possible to ensure that we worked efficiently and effectively and adopted a partnership approach in everything we did.

Between April 2013 and March 2014 we delivered 42 of the 45 projects in our Strategic Improvement Plan (SIP), designed to stabilise the agency. We will therefore be wrapping up the plan a year ahead of schedule, having delivered improved payment performance and accuracy, greater efficiencies and reduced exposure to financial penalties.

We achieved our best ever SPS payment performance in the year just ended. By 31 December 2013 99,263 customers had been paid – an increase of more than 2,000 compared to the same time in 2012. We also exceeded expectations by meeting our March 2014 payment commitments in January, two months ahead of schedule.

As well as paying earlier, the agency has improved the accuracy of these payments and has made good progress in recovering historical debt. I am pleased that for the first time since 2007-08 the agency's accounts have received a clear audit opinion.

RPA continued to deliver excellent service in other business areas, such as running the cattle tracing service. Our performance across the year was above target, with over 99% of birth, movement and death transactions completed within agreed deadlines. We also exceeded our payment target for trader schemes, paying over 98% of claims in just five working days

In December 2013 our parent department, Defra, made an important decision on the future of how rural payments are handled. It agreed to move the Rural Delivery Team of the Rural Development Programme for England into the RPA, along with some functions from Natural England and the Forestry Commission. Responsibility for processing all EU payments will therefore be brought together within the RPA, resulting in improved customer service for many thousands of existing and future customers. Defra's decision is a clear recognition that the agency has been turned round and can be trusted to deliver for its customers.

We know that effective customer service depends on listening to the views of farmers, traders and agents. Over the last year the agency has seen further improvements in our customer satisfaction scores. We achieved our highest ever overall scores for British Cattle Movement Service (BCMS) and for the SPS Claim Form, while satisfaction scores for our farm inspection visits were very strong.

Our new complaints and appeals process, launched in December 2012, also delivered important benefits last year, including easier access for customers, earlier resolution of complaints, more consistent decision-making and fewer delays. Customer feedback has been very positive.

"The Rural Payments Agency had its most successful year to date in 2013-14."

We have maintained strong relationships with our stakeholders in the farming, food and environmental sectors, working closely with them to improve our existing services as well as to prepare for the reform of CAP in 2015. Together, we have supported Defra's CAP Delivery Programme with the development of the systems and processes for the new CAP schemes.

The drive to increase the use of digital channels was a strong feature of our work last year. Much of our guidance was produced digitally as the 'default' option for the first time, while we ran a very successful campaign to help customers make the shift from paper claims to online – in 2013 the numbers of people claiming SPS online increased by nearly a third.

We also contributed to the Government's Red Tape Challenge. We have been working with Defra and other regulators to ensure that statutory farm inspections are joined up with other inspections wherever possible: we now access TB test data from veterinary labs to ensure that our cattle identification inspections take place at the same time as TB tests where appropriate.

Investment in our people continued to be a major part of our strategy last year. We invested in personal, professional and technical development with an emphasis on change leadership, project management and providing a quality service. Our admired Talent Management Scheme has continued to develop, and we launched a new Senior Leader Programme.

The coming year will be a challenging one for the RPA as we seek to maintain our high levels of performance, take over responsibility for all EU payments, and ensure our customers and people are ready for the new CAP scheme in 2015.

The commitment and hard work shown across the agency in the last year gives me confidence that we will have the people and processes in place to meet those challenges. I would like to thank those in the agency for their achievements.

Mark Grimshaw
Chief Executive Officer
26 June 2014

The story of 2013

SOUTH WEST **Farmer**

RPA records "best ever" performance

Friday 8 March 2013

New figures from the Rural Payments Agency show it had paid 98.4% of Single Payment Scheme customers and 97.2% of its estimated fund value by 19 February - although 1,500 claims are still outstanding.

@PhilipArkell: Plenty seem to have been paid, well done @ Ruralpay in tough times it is very useful to receive money on time.

"The work they do is very important…overall, as the years have gone on, we've established good relationships and I think Simon [Cann] and his team do an excellent job."
Mark Tate, Birmingham Wholesale Market trader's chair, on our HMI team

Civil Service WORLD

"On the operational front, our Rural Payments Agency continues to deliver real improvements for the single payment scheme – paying out more than 97% five weeks ahead of schedule, and getting £1.6bn out to farmers who rely on it, particularly in a tough year."
Bronwyn Hill

FPC

19 March 2013

David Heath
Minister of State for Agriculture and Food
Defra
Nobel House
17 Smith Square
London
SW1P 3JR

Dear Minister

UK MARKETING OF CITRUS

I wish to thank your department, and in particular the Rural Payments Agency, for their support for the UK fresh produce industry with regard to resolving an issue relating to the marketing of popular varieties of citrus in the UK.

We were advised by the Rural Payments Agency last year of an issue arising from a legal interpretation held by the Spanish authorities with regard to the Nadorcott variety of mandarins. Due to the complexities of ascertaining the provenance of some varieties, there appeared to have been some cases where Nadorcott mandarins had been labelled inadvertently as clementines for the UK market.

With the assistance of Tony Crouch and Ian Hewitt of the RPA we were able to holding briefings with the RPA to advise our members of the correct interpretation of the labelling requirements under the EU Marketing Standards and to understand the implications for the next season of citrus imports in relation to packing, labelling and marketing of citrus. As a result, we applied for and secured a collective trade mark which our FPC members may use to ensure that UK consumers can identify readily this popular range of citrus.

We are grateful for the advice which we have received from the RPA, and for the pragmatic approach taken by your department and agency in allowing the UK industry sufficient time to put measures in place to resolve this issue.
Without this time to agree, register and introduce a generic trade name we believe that the situation would have affected adversely not only UK retailers and their suppliers, as well as growers overseas, but also would have damaged consumers' confidence and expectations of a highly popular range of fruit.

Yours sincerely

Nigel Jenney
Chief Executive

"I wish to thank your department and in particular the RPA for their support for the UK fresh produce industry with regard to resolving an issue relating to the marketing of popular varieties of citrus in the UK."
Nigel Jenney, Chief Executive
Fresh Produce Consortium

British Farming Forum:

'Oldwall' from Preston wrote: 'just checked online, payment is there for 2nd December - happy Xmas.'

'Wooley' wrote: 'Thank you RPA, even after all those numerous and tedious inspections you have lumped on me this year. In the bank today.'

'Static' wrote: 'Got mine. Almost fallen off my seat. Right too. First time in 14 submissions over several farms.'

'Linsman' wrote: 'Here too.Earliest ever.'

SPS Payments, December 2013

FARMERS WEEKLY

RPA dedicated case workers bring better service

Wednesday 24 July 2013

More land agents who submit multiple Single Payment Scheme claims on behalf of farmers will be given a single point of contact to deal with at the Rural Payments Agency.

Farmers Guardian

Record number of cattle movements recorded online

Thursday 28 March 2013

MORE than 91 per cent of all cattle movements, births and deaths were reported electronically in February – the highest ever figure and a 5.5 percent increase on the same time last year.

FARMERS WEEKLY

RPA makes best ever start to payment

Wednesday 4 December 2013

The Rural Payments Agency paid 95,600 English farmers on the first day of the payment window. It is the agency's best ever start to the payment campaign, which began on 2 December.

"As the outgoing Defra non-executive director on the RPA management board, I've seen the painstaking, detailed, expert work that RPA colleagues have done over the last couple of years to turn around the Agency's performance and public image. Lifting 2 out of the 3 NAO account qualifications has been a major achievement which we didn't necessarily think was achievable. We've also benefitted hugely from RPA colleagues' input into our CAP negotiating strategy, providing evidence to back up the amendments we needed to negotiate, and now helping with our implementation. Many thanks to all!"
Sarah Hendry

@CLA Christopher (Christopher Price): @Ruralpay has certainly seen massive change for better in recent years

Dear Lesley,
Many thanks for dealing with this so quickly and efficiently. That's a great help to the company cash flow.
Kind regards,
Martin Riggall, Company Secretary
Anglian PEA Growers

Department for Environment Food & Rural Affairs

Nobel House
17 Smith Square

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www.defra.gov.uk

"I also want to congratulate you on the enormous strides the RPA has continued to make to turn round its performance, not only on the Single Payment Scheme but right across the board. The fact that the Agency met or exceeded all of its performance indicators for 2012-13, and is on course to achieve even more challenging targets this year, is a testament to the progress you have made."
George Eustice MP

From George Eustice MP
Parliamentary Under Secretary of State for Farming, Food and Marine Environment

Dear Mark

Would you please pass on my personal thanks for the hard work which has once again gone into handling the Single Payment Scheme this year.

The fact that you were able to make pay 95,600 farmers on the first day of the payment window, as well as exceeding the end of December target for the amount paid, is another record performance - one to be proud of.

This is an excellent achievement, building on the success of last year. I know that it is greatly appreciated by those in the farming industry across England. I was very pleased to be able to announce this success in a statement to the House of Commons this morning.

There are still farmers who have not been paid, but I know that you are working hard to make sure that the remaining payments are made as soon as possible. I am looking forward to being able to make further announcements about your continued success in the coming days and weeks.

I also want to congratulate you on the enormous strides the RPA has continued to make to turn round its performance, not only on the Single Payment Scheme but right across the board. The fact that the Agency met or exceeded all of its performance indicators for 2012-13, and is on course to achieve even more challenging targets this year, is a testament to the progress you have made.

Your work to improve digital engagement has been excellent. The campaign to encourage and help farmers to apply for this year's SPS scheme electronically has meant that online applications have overtaken paper applications for the first time, and I know that in February your British Cattle Movement Service broke all records for electronic reporting.

The ever-increasing levels of customer satisfaction are most welcome, and I know that this has all taken a great deal of hard work by you and your people throughout the Agency.

Please thank them on my behalf, encourage them to think about what they have achieved and keep up the excellent work.

George Eustice

GEORGE EUSTICE MP

NFU

"It feels as if the RPA have done a really sterling job over recent years to get back on track."

Peter Kendall,
President of the National Farmers Union

Harry Cotterell (President, CLA) at the EFRA hearings: *"I would preface any remark on this subject by pointing out the incredible difference between the RPA five years ago and the RPA now. Our organisation, which really was almost snowed under with complaints and problems relating to the old RPA, is now virtually running with hardly any complaints. Quite a lot of them are user error, rather than necessarily RPA error. That is through effective management. We would like to see that effective management continue."*

Introduction to the RPA

The Rural Payments Agency

The Rural Payments Agency (RPA or the agency) is an executive agency of the Department for Environment, Food and Rural Affairs (Defra). Established in October 2001 as an accredited European Union (EU) Paying Agency, the agency operates according to the accreditation requirements set out in Commission Regulation (EC) No 885/2006 and Council Regulation (EC) No 1306/2013 (this superseded regulation (EC) No 1290/2005 on 1 January 2014). RPA also act as the UK Funding Body under the European Commission regulation.

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

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

Our vision

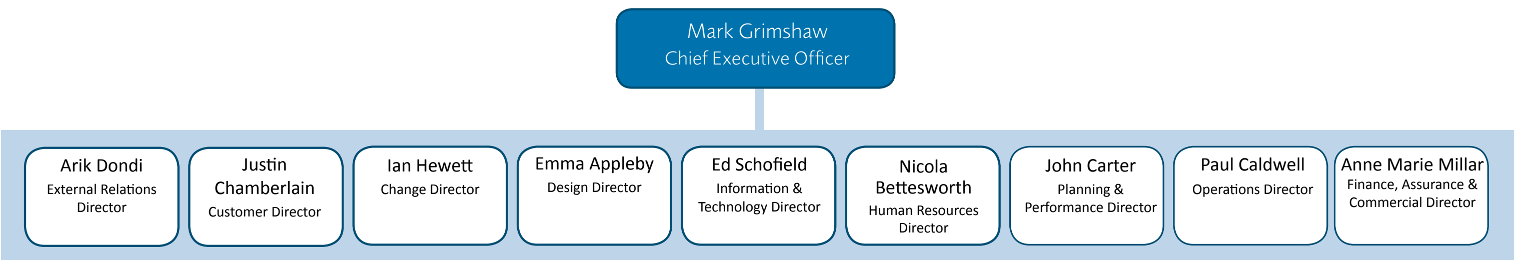
The vision, shared by RPA people, is to be an effective, trusted and a value for money organisation.

Progress over the past three years shows that the agency has successfully implemented changes that have resulted in improvements to our performance in every aspect of the business and most notably in payments to our customers.

Our future vision is to be the delivery organisation of choice.

Agency structure

The RPA is headed by the Chief Executive Officer and a team of executive directors that spans nine directorates. This "Arc" structure is a recognised method of sharing executive responsibility for the overall organisation. It ensures that each directorate is responsible for the part it plays in supporting the Arc while acknowledging its impact on other directorates. The Chief Executive Officer, along with the executive directors, form the Executive Team.



The Executive Team

Members of the Executive Team share their highlights of the year.

Mark Grimshaw
Chief Executive Officer

I have been pleased with how the Executive Team have worked together to meet the challenges presented to the agency and for the excellent support of our non-executive directors.

Arik Dondi
External Relations Director

This year the External Relations Directorate has played a key role in influencing policy on all aspects of CAP Reform in Europe and England by taking evidence-based suggestions from our operational experience into the negotiations in Brussels and the decision-making forums in Whitehall. This allowed us to contribute direct interpretations of legislation and policy into delivery systems and communications to our customers. The coming year will provide plenty of further opportunity to contribute, as details of the new CAP schemes are being worked through and delivery of new schemes and regulations begins.

Justin Chamberlain
Customer Director

This year has seen the best ever performance delivered by the agency, the highest number of customers using our online services, the highest ever customer satisfaction scores, and the launch of 'CAP Reform Countdown'; learning the lessons of the past by providing timely information to our customers to transition as smoothly as possible to the new CAP schemes, systems and services in Year Three of our Five Year Plan.

Emma Appleby
Design Director

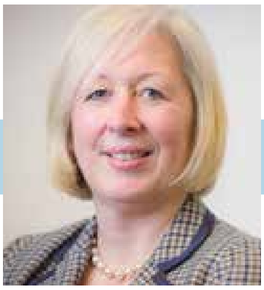
My highlight of the year has been the way we have focused on the delivery of business designs for the CAP Delivery Programme, Strategic Improvement Plan and business as usual, playing a critical role in supporting the agency to deliver its best ever performance, whilst doing significant recruitment and up skilling. It has been rewarding to see the team grow in confidence and capability.

Ian Hewett
Change Director

My highlight of the year has been the successful completion of the Strategic Improvement Plan, where we delivered the majority of the Programme a year ahead of schedule, under budget and with a positive assessment from the Office of Government Commerce. All of this while the agency has delivered our best ever performance and provided excellent customer service, as reflected in our customer survey.

Ed Schofield
Information & Technology Director

This year I&T have been progressing initiatives to ensure that we are ready for implementation of CAP Delivery Programme and able to maintain performance and meet targets in the final year of SPS Processing. We have been developing new services using our in house development capability to support Complaints and Appeals and Trader Schemes. We have ensured that our existing suppliers have met their Service Level Agreements and are maximising the Change Management budgets and on-boarding new suppliers who are delivering services to support both CAP Delivery Programme and management of the Managed Document Service in the production and issue of the SP5 SPS application form and products.



Nicola Bettesworth Human Resources Director

My directorate has been focusing on RPA's capacity and capability to deliver and has made significant progress in this area. We have, with the introduction of a new Attendance Management policy achieved a considerable reduction in agency level sick absence, while improved workforce and demand plans have enabled us to adopt a flexible resourcing approach to ensure that people with the appropriate skills, knowledge and experience are in place to support business delivery. We have delivered a comprehensive Leadership Development Programme for all people at Grade 6 and 7, and have launched Talent Management Schemes for other grades.

John Carter Planning & Performance Director

The Planning & Performance Directorate has been key in supporting the success of our 5 year plan, and a key contributor to the RPA delivering its best year of performance in its history. All of this against a background of delivering business as usual within a challenging financial remit and delivering more with less. It really has been a team effort. The coming year will provide a further test of our planning and performance capability as we focus on delivering year 3 of our 5 year plan. We will look to maintain the service we currently provide to customers whilst preparing ourselves fully for the CAP reform and the new Basic Payment Scheme that will be launched towards the end of the year.

Paul Caldwell Operations Director

In 2013-14 our people have demonstrated considerable flexibility, supporting peaks of work across Operations. As a result we delivered our best ever SPS payment performance paying 92.3% of our customers 89.3% of the estimated fund value on the first banking day of the payment window. We achieved all our trader scheme targets and an increased volume of inspections whilst supporting change activity in both these lines of business. In our Customer Service Centre we have introduced auto delivery and answering of calls and a network management team to help us to forecast and answer calls more efficiently; we achieved our British Cattle Movement Service targets whilst also adapting to business changes, and we have cleansed data to improve our customer register.

Anne Marie Millar Finance, Assurance & Commercial Director

Specific highlights have been the work undertaken to clear our debt and credit balances which has allowed us to remove the final qualification on the agency's accounts; the good financial management undertaken that allowed the agency to make appropriate in year savings; successful completion of the independent review of our internal audit team which was very glowing; the hard work in managing the large number of EU audits that has helped us reduce the impact of disallowance; the negotiation undertaken on our legacy contracts resulting in significant savings; and the significant contribution the directorate has made to the CAP Delivery Programme including preparation for the implementation of the new finance systems.

Strategic Report

Five Year Plan

The work of the RPA contributes towards the rural economy and its economic growth through the achievement of Defra's Strategic Priorities. The agency does this, in particular, in the important areas of supporting a thriving, competitive British food and farming sector and through the delivery of the Pillar 2 CAP schemes, enhancing the environment and biodiversity to improve quality of life.

In February 2012 the agency launched its Five Year Plan. It sets out the strategic goals and priorities in the period 2012 to 2017 and details how RPA will deliver a better service to its customers, pay them the right amount of money on time, make the agency more effective and efficient. The Five Year Plan aims to overcome the legacy issues of poor timeliness, failure to provide value for money and inaccuracy; that led to qualification of the agency's Exchequer Accounts.

The 3 core objectives of the Five Year Plan are:

- to stabilise RPA - this will enable the agency to deliver its 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 work closely with the Defra-led CAP Delivery Programme to develop the specifications and procure the replacement systems that meet the CAP reform 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

In the year April 2013 to March 2014 RPA delivered the majority of its SIP projects and achieved the best ever SPS payment performance while continuing to deliver excellent service in other business areas such as the running of BCMS. RPA has met its first objective which is to stabilise the agency. In the third year of the Five Year Plan, the agency will be preparing for the CAP schemes.

Review of the year

RPA published its business plan on 3 July 2013, setting out what it would achieve in year 2 of the Five Year Plan, which included continuing to implement the Strategic Improvement Plan, stabilising the agency in preparation for CAP reform and supporting the CAP Delivery Programme before the introduction of the new CAP schemes. RPA also agreed with Defra a challenging set of business as usual indicators to continue to set standards for improved performance across the agency.

Headline Indicators

High Level Theme	What success looks like	What RPA did
Delivering Service to Our Customers	• An average customer satisfaction score of 8 out of 10 across the year	✔ We achieved an average customer satisfaction score of 8.6 out of 10
Timely Payment of the Single Payment Scheme	• 93% of customers paid 86% of the fund value by 31 December 2013 • 97% of customers paid 97% of the fund value by 31 March 2014	✔ 93% of customers were paid in the first week of December, more than three weeks ahead of deadline. On the first banking day of 2013 payment window over 89% of the value was paid ✔ 97% of customers and 97% of the fund value was paid by the end of January, more than two months ahead of deadline
Timely Payment of Application for Trader Schemes	• 98% of Fruit and Vegetable producers paid within 100 calendar days • 96% of other schemes paid within 28 calendar days • 99% of other schemes paid within 60 calendar days	✔ 100% of claims have been paid within 100 days of receipt ✔ In excess of 98% of applications have been paid within 28 working days ✔ In excess of 99% of applications have been paid within 60 working days
Timely Payment of Applications to Rural Development Programme for England Schemes	• 98% within 5 days of receipt	✔ Over 98% of claims were processed within 5 days of receipt
Getting it Right	• 99% of payments to be accurate first time, measured against financial value	✔ We have maintained a payment accuracy rate of over 99% across SPS, Trader and RDPE Schemes
Maintain Accurate Records of Cattle In Great Britain	• 96% of notified births, deaths and movements to be entered onto the system within 5 working days of receipt	✔ Over 99% of births, deaths and movements have been entered within 5 days of receipt

Customer Commitments

What success looks like	What RPA did
Call-backs made to customers within one working day.	Returned all calls to customers within 24 hours of their initial query to our Customer Service Centre.
Normally respond to letters within 10 working days of receipt.	98% of letters were responded to within 10 working days.
Acknowledge customer emails within 1 day of receiving them, and reply to the query within 10 days of receipt.	100% of emails have been acknowledged within 1 day, and 99% responded to within 10 days.
Update maps to reflect reported changes within 30 working days or acknowledge the request, outlining any further action required.	100% of requests have been acknowledged or maps updated within 30 working days.
Normally issue requested cattle passports within 5 working days or within 2 working days if applied for online.	Over 96% of passports issued within 5 days, and over 99% issued within 2 days where it was applied for online.
Register the majority of complaints and agree a resolution plan within 15 working days. Where an agreement is not reached we will normally review the proposed resolution within 15 working days.	95% of complaints were resolved or an action plan agreed within 15 days. Where an agreement wasn't reached, in 99% of cases the proposed resolution was reviewed within 15 days.
Undertake a full review of decisions where complaints cannot be resolved satisfactorily and advise on the outcome within 30 working days.	In 70% of cases we were able to review the decision and advise on the outcome within 30 days.
Answer the majority of calls made to us within 25 seconds.	The average time to answer a call is 19 seconds.

Department and Taxpayer Commitments

What success looks like	What RPA did
Maintain a focus on costs, living within a reduced budget and reducing the full end to end cost of an SPS claim.	Throughout the year the agency has stayed within its budget and accepted further cost reductions. We have reduced our SPS cost per claim.
Minimise the risk of disallowance by responding to and agreeing a timetable to address all specific audit actions.	Governance in place through disallowance committees and control of audit recommendations.
Support the government's Digital by Default strategy by agreeing a baseline for digital transaction costs for SPS claims and cattle movements and increasing the number of SPS applications made online.	For the first time, the majority of SPS applications were made online in 2013. 54% applied online, an increase of over 13,500 customers compared to 2012.
Complete all of our compliance activities, including inspections, within regulatory requirements.	All inspections completed within regulatory requirements.

Strategic Improvement Plan

The three year SIP comprised of 45 projects designed to stabilise the RPA and provide improvements across six main themes:

1. Data cleanse.
2. Improved processes and controls.
3. Maintained and improved technology.
4. Fit for purpose structure and corporate services.
5. Better customer service tools.
6. Improved people capacity and capability.

As the RPA moves into the third year of the Five Year Plan, 42 of the 45 projects have been completed and the benefits are being delivered with all of the agreed commitments to the public achieved.

Extensive work to enhance customer, debt and land register data has improved payment performance, reduced disallowance risk, increased customer satisfaction and aided in the removal of the value and existence qualifications on the Exchequer Accounts for April 2012 to March 2013.

Improved processes and controls have resulted in both improved customer service and better value for money through:

- the introduction of dedicated case workers for agents and customers with complex claims which has lead to improved levels of customers satisfaction increased productivity and a reduction in the level of complaints and appeals
- changes in payment processes which have created a more flexible and agile workforce, able to respond to changing demands, fully utilising the workforce while also enabling a reduction in Full Time Equivalent (FTE) numbers

The agency has introduced a new approach and IT system to manage complaints and appeals which has improved customer satisfaction along with reducing the number of escalated complaints and appeals.

The SIP supported implementation of the Governments Civil Service Reform Plan by promoting the "digital by default" approach. RPA delivered an online guidance portal for RPA people and delivered a campaign encouraging customers to use online services. This resulted in an additional 15,350 SPS applications being received online in 2013 which was 23% above target.

The SIP was completed a year early.

The SIP closed at the end of March 2014 having successfully laid the foundations for the delivery of CAP Reform and delivered better services and performance for customers and the taxpayer. The agency is able to enter a period of transition with processes, controls, governance and capability functioning effectively, supporting the aim to be the delivery organisation of choice.

Strategic Alignment – One Business

In December 2013 Defra made an important decision on the future of how it handles Common Agricultural payments. Defra decided to move the Rural Development Programme for England delivery team into the RPA along with some functions from Natural England and the Forestry Commission.

On movement of EU Payments work:

"This is the first decision that has been made as part of the 'one business' work and will ensure we are still delivering quality outcomes, providing a better service for our customers and saving money."

Permanent Secretary Bronwyn Hill

CAP reform

The current CAP schemes which RPA delivers will soon be coming to an end. This means new schemes will come into effect for direct payments, rural development and Trader schemes. The negotiation of these replacement schemes, led by Defra, has been taking place since 2011 between the European Commission, European Parliament and Member States. The agency has been working closely with Defra to help them understand the impact of proposals on the RPA and its customers, focusing on reducing complexity and achieving value for money. These aims are shared by paying agencies in all Member States, which have been working together to influence the EU Commission on implementation issues. As the negotiations are coming to a close the agency is aware of the broad scale of the new schemes, although detailed rules will continue to emerge between April 2014 to March 2015 as RPA works towards implementation.

CAP Delivery Programme

The RPA has been working very closely with the Defra CAP Delivery Programme, which is developing and procuring new systems and processes for the new CAP schemes. Defra is aiming to build a modern, fit for purpose service that will make it quicker and easier for farmers and other CAP recipients to be aware of and apply for the full range of available CAP funding. While the CAP negotiations have been concluding, development of the new IT system has continued in a flexible way that will allow changes to be integrated as they occur and put user needs first.

The new system is being developed using an 'agile' methodology, which means development is rapid and incremental. Mistakes are spotted quickly through feedback from both expert reviewers and customer testing. The most important parts of the service are being developed first to meet the fundamental application and payment needs.

The CAP Delivery Programme is intending to reduce its delivery risks and costs by integrating existing CAP software where possible with bespoke development. This includes the procurement of an established system, which is being used by other European Countries. The system is compliant with the current CAP regulations and will help reduce the disallowance risk.

The year April 2014 to March 2015 is an extremely significant year for the CAP Delivery Programme and RPA. The full CAP delivery applications and payments service will be launched in 2015, with Basic Payment Scheme customers accessing the scheme via this new service.

The year ahead

The year April 2014 to March 2015 will be a challenging year for the RPA while progress on our Five Year Plan continues to focus on providing an effective customer service while maintaining value for money for the taxpayer.

Year 3 of the plan will see the agency focus attention on:

- continuing to maintain and improve performance with customers, as the benefits from the Strategic Improvement Plan are fully realised
- ensuring that the outcomes of the Defra 'One Business' Programme decision to make the agency responsible for processing all transactions across the new CAP scheme (pillars one and two) are implemented effectively
- ensuring that RPA customers and people are ready for the new CAP schemes starting in 2015

April 2014 to March 2015 will be a challenging year for the RPA.

The implementation of CAP reform will require the agency to implement a significant level of change including systems, working processes, guidance, controls and organisational structure. As a result, this will be the most challenging year of the plan to date, as the agency balances the completion of our transition to CAP reform and the management of business as usual.

The 2014-15 business plan provides more details of what the agency will deliver in the year April 2014 to March 2015.

Mark Grimshaw
Chief Executive Officer
26 June 2014

Operational Report

Performance commentary

Once again RPA achieved a record breaking performance against the 2014 Single Payment Scheme paying 92.3% of our customers 89.3% of the estimated fund value on the first banking day of the payment window. By 31 December 2013 99,263 customers had been paid representing £1.6 billion of the fund, which in comparison to 2012, means RPA managed to pay over 2,000 more customers in December 2013.

Volume of SPS Payments Paid

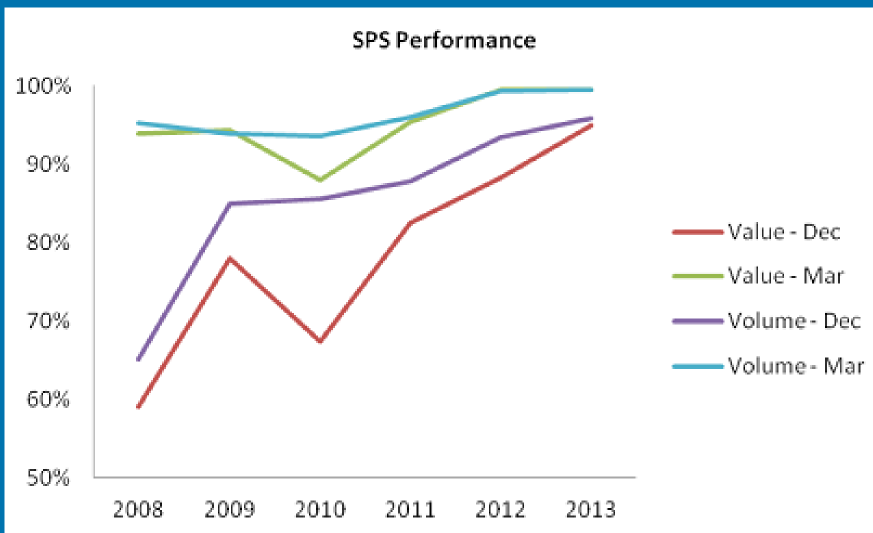
Scheme Year	2010	2011	2012	2013
1st banking day of December	78%	81%	91%	**92%**
End of December	85%	87%	93%	**96%**
End of March	93%	96%	99%	**99%**

Value of SPS Payments Paid

Scheme Year	2010	2011	2012	2013
1st banking day of December	61%	72%	85%	**89%**
End of December	74%	82%	88%	**95%**
End of March	88%	96%	99%	**99%**

"Thanks to the hard work of its staff, the Rural Payments Agency is continuing to improve its service to farmers, this year transferring payments more promptly than ever before."

Farming Minister
George Eustice



In addition to the achievement in paying a record number of customers in December, the agency has also exceeded expectations by meeting the March 2014 payment commitments in January, some two months ahead of schedule.

For the trader schemes RPA exceeded the payment target of paying 96% of claims within 28 days by paying over 98% in five working days. Over 99% were paid within 60 calendar days.

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

RPA paid Upland Transitional Payments customers much earlier than in previous years with 98.8% of the eligible scheme payments by volume and 98.7% by value.

In the year April 2013 to March 2014 the agency issued 28,692 import licences; 7,982 extracts; and 1,218 export licences within 5 days of receipt of application and also issued 35,163 Certificates of Free Sale.

RPA paid 98% of all the Fruit and Vegetable Producer Organisations scheme claims within 100 days of receipt. Overall payment performance improved during the year with 98% of payments made within 75 days compared to 72% the previous year.

RPA completed 100% of inspections for all Livestock and Meat inspections schemes, including Beef Carcase Classification, Dead Weight Price Reporting, Pig Carcase Grading, Compulsory Beef Labelling Scheme, Beef Import Tariff Quota, Food Standard Agency Audits and BCMS cattle passport collections. The agency successfully delivered Single Common Market Organisation changes for Beef Carcase Classification, Dead Weight Price Reporting, and Pig Carcase Grading schemes and introduced a new Enforcement Notice process for serious non compliance of Compulsory Beef Labelling Scheme.

All quota movements and school milk claims were processed within 28 days of receipt to 100% accuracy.

The Horticulture and Marketing Inspectors (HMI) delivered regulatory changes to labelling obligations affecting all HMI customers successfully implementing new green banana enforcement regulations and the roll out of EU Olive Oil sampling rules on behalf of Defra in March 2014 following industry consultation.

Approximately 1,300 additional cross compliance inspections were completed with the introduction of 25 temporary inspectors from within RPA to support the delivery. We achieved a customer satisfaction score for inspections averaging 8.7 over the first three quarters.

BCMS achieved all key performance indicators. Performance across the year has remained above these indicators with over 99% of birth, movement and death transactions completed within agreed deadlines.

The agency's key commitment to send new maps to customers requesting changes within 30 working days (or where the change cannot be made or if the change will inevitably take longer than 30 days to process, to advise the customer) was met.

Record of 96% of BCMS births, deaths and movements registered within 5 days.

Customer, stakeholder and supplier engagement

Our customers

The RPA has understood that to be an effective customer service organisation listening to the views of farmers, traders and agents is essential.

As such, the agency has attended agricultural events and seminars to communicate and gather insight on issues of importance to farmers and rural communities. The RPA has expanded its presence at national, regional and county shows in the year April 2013 to March 2014 so that RPA people can talk to as many customers as possible.

Customer Insight Manager Keith Wellings (far left) with Parliamentary Under Secretary of State George Eustice at the NFU Conference in February 2014.

In parallel the RPA has implemented a significant communications campaign with the farming industry to encourage and assist farmers to move from applying schemes using paper applications to electronic claims. In SPS 2013, 55,581 farmers applied online which represented 54% of the total number of claims received.

The agency recognised the need for farm businesses to know when they are likely to receive their SPS payments. So each farmer (or their agent) who would not receive a payment in December 2013 was made aware of this fact and the reasons behind it in early December.

The RPA continues to keep customer feedback at the heart of its decision making. Quarterly customer satisfaction surveys measure farmer's experience of RPA's key service areas, including payments, the Customer Service Centre (CSC), written communications, physical inspections and the BCMS.

As government services are becoming increasingly online based, the agency has also undertaken research into the types of barriers that make it difficult for customers to claim online. RPA are using this research to plan ways of supporting customers to utilise online services over the coming year.

Customer satisfaction scores

Over the last year RPA have seen further improvements in customer satisfaction scores, most notably achieving the highest ever overall scores for BCMS of 9.0 out of 10 for the period July 2013 to September 2013 and the SPS Claim Form score of 8.9 between April 2013 to June 2013. The agency has also matched the highest ever overall satisfaction score of 8.7 out of 10 for the period October 2013 to December 2013, which is consistent with last year, 90% of surveyed customers said they were "satisfied" or "very satisfied" with the service they received from RPA.

The RPA has achieved an average customer satisfaction score for the year of 8.6 out of 10, the highest ever achieved.

Customer satisfaction exceeds 8 out of 10

Complaints and appeals

In December 2012, the agency launched a new process for handling complaints and appeals. This involved a two-tier internal process with dedicated complaints handling teams at each tier. Further information on this can be found on the RPA website.

Where customers remain dissatisfied with the outcome of the complaint review tier, they can escalate their complaint to the Independent Agricultural Appeals Panel for complaints against decisions that have been taken, or to the Parliamentary Ombudsman for complaints against the service they have received.

The initial launch of the new process was evaluated in early 2013. Administrative issues in the implementation of the new database recording system were found and rectified later in the year. These issues did not affect the customer experience in pursuing their complaints through the new process.

Evaluation of the first year's performance of the new process has demonstrated achievement:

- of key improvements and benefits
- better accessibility to the process for customers
- resolution of complaints at the earliest stage in the process

- greater consistency of decision making
- a reduction in the delays encountered in the previous process

Feedback from customers who have had cause to use the process has been generally positive, particularly over the allocation of single points of contact, the timeliness of contact and the provision of a more thorough explanation of our decision making.

The database has allowed for recording and monitoring of all complaints received by the agency, including those received by telephone. Previously only those complaints at the escalated stages were recorded. Consequently, the number of recorded complaints received has increased to 2,311 in the year April 2013 and March 2014 from 1,309 in the year April 2012 and March 2013.

Of the complaints resolved in the year April 2013 to March 2014, 72% were resolved at the first stage usually by a case worker without the need to escalate for further review. Overall, around half of all complaints received were upheld as we continue to deal with the issues of the prior implementation of CAP Reform. The final stage for complaints about decisions is a referral to the Independent Agricultural Appeals Panel that make recommendations to the Minister. The number of referrals to the panel has reduced to 52 from 82 the previous year.

Complaints handled	2013-14	2012-13
Prior year complaints unresolved	**364**	182
New complaints received	**2,311**	1,309
Complaints resolved	**2,124**	1,127
Complaints unresolved at end of March	**551**	364

Appeals handled	2013-14	2012-13
Prior year appeals unresolved	**57**	-
Appeals received	**52**	82
Appeals resolved	**69**	25
Upheld	**15**	4
Partially upheld	**3**	1
Not upheld	**49**	12
Appeals withdrawn	**2**	8
Appeals unresolved at end of March	**40**	57

Improved management information has secured a culture change in the agency whereby complaints are welcomed for customer insight. Complaint resolution and handling performance are agenda items at the senior management meetings. Root cause analysis and lessons learned processes are under development where initial improvements in a few business areas have been realised through implementing the lessons learned from complaints received.

Further development of the complaints remedy process is underway and due to deliver in 2014. This should help improve the performance and efficiency of the financial remedy processes arising from complaints.

Parliamentary and Health Service Ombudsman

RPA have seen an increased volume of investigations by the Parliamentary and Health Service Ombudsman (PHSO), partly as a result of changes in their investigation process but also due to our improved signposting to customers. Cases previously considered as initial enquiries are now subject to full investigation. The agency continues to work with the Ombudsman's office to remedy any issues of maladministration identified by the Ombudsman and identify lessons learned to prevent recurrence.

In the year April 2013 to March 2014 RPA received 41 Ombudsman enquiries of which 18 resulted in investigations and two of these have been completed, with one complaint partly upheld and one not upheld. This compares with 38 enquiries in the previous year which led to just two investigations, one of which upheld the complaint and the other partly upheld the complaint.

In order to further improve complaints handling, the agency has been working closely with other departments as part of the Cross-Government Complaints Forum and also with other parts of Defra to consider scope for greater harmonisation in our handling of complaints.

PHSO	2013-14	2012-13
No. of enquiries	**41**	38
No. of investigations	**18**	2
No. completed	**2**	2
Investigations upheld	**-**	1
Investigations partly upheld	**1**	1
Investigations not upheld	**1**	-

Access to Information Requests

In the year April 2013 to March 2014 we responded to 925 requests for information, of which 84.32% were within the agreed deadlines (April 2012 to March 2013: 922 and 96.4%). These cover requests for information under the Data Protection Act 1998, the Freedom of Information Act 2000 and/or the Environmental Information Regulations 2004.

Our Stakeholders

RPA has maintained strong relationships with stakeholders in the agricultural and agri-food sectors and worked with key industry bodies to make sure that the agency delivers its services more effectively. Internal stakeholders and partners within Defra also work with RPA to help deliver collaborative services and communications where possible.

The RPA Technical Stakeholder Groups meet regularly at national and regional level and are supported by a regional engagement programme. The agency hosts meetings of our Environmental Stakeholder Group at a national level.

These sessions allow stakeholders who represent all of the agency's customer segments to help influence RPA approaches to service improvement and development, such as cross compliance guidance, timely messages for farmers affected by drought or flooding and communicating with the farming sector on the advantages of online services.

The transition from the Single Payment to the Basic Payment Scheme with CAP Reform in 2015 will bring significant new challenges for customers. The agency is working with stakeholders to find ways to explain changes to customers as well as highlight the increasing reliance on digital services.

RPA continue to work in partnership with stakeholders across the food, farming, and environmental sectors, meetings with the ministerial team and senior contacts within Defra at strategic level and working with people across the department and our operational partners.

Foreign engagement

The RPA has welcomed engagement with government institutions from a number of countries who are keen to share our knowledge of CAP scheme administration and areas of corporate business. RPA's expertise in controls and management of large databases to support schemes has been recognised as a source for ideas and comparisons by countries aiming to develop similar structures in support of their agriculture, food industries and rural development. In the year April 2013 to March 2014 there have been visits from Turkey, South Korea, Serbia and a Ministerial visit from Moldova to the RPA. Planning is ongoing with further visits from Mexico and Turkey, with Moldova making a return visit to extend earlier studies.

Improved guidance

The RPA has focussed on providing online information to customers using digital channels. In 2014 the 'Guide to Cross Compliance in England complete edition' was published online with a helpful update-only edition sent to paper claimants. RPA also published the 'SPS 2014 supplement' online, with paper copies only sent to SPS 2013 paper applicants. RPA's recent SPS 2014 digital uptake campaign targeted people who have internet access but have yet to apply for SPS online. The agency attended shows and events to promote SPS Online, as well as calling customers to encourage them to use online services.

As part of the government's transition to the new GOV.UK website, the agency reviewed its online content and identified what information customers required. The website will move to GOV.UK in spring 2014, guidance has been rewritten in line with the Government Digital Service (GDS) style-guide and Smarter Guidance principles. RPA has started to apply the GDS style principles to all customer products. The RPA has started to give customers information about the BPS and this will continue through 2014.

All RPA content will move to GOV.UK in 2014

Better regulation

The RPA is committed to supporting Defra's contribution to the better regulation goals and achieving simplicity wherever possible. To achieve this, RPA takes every opportunity to minimise the burden on customers by implementing European legislation as appropriately as possible to ensure that when policies are developed they are consistent, targeted, deliverable and proportionate.

In particular, the agency undertook activity in the following areas:

- **The Accountability for Regulator Impact (ARI) Scheme** is part of a wider package of measures to help regulators enable compliant businesses to grow. Since July 2013 RPA has introduced internal processes to recognise when a Business Engagement Assessment is necessary under the ARI scheme and will consult with businesses to ensure the agency measures and agrees the benefits or burdens arising from a significant change that does not arise directly from implementing new or amended legislation.

- **The Revised Regulators' Code** came into effect on 1 April 2014. It provides a clear framework for how regulators should interact with those they regulate. The RPA have been working with Defra to identify if any changes are necessary to comply with the code. The revised code requires the agency to carry out activities in a way that supports regulated businesses, ensuring that decisions made are transparent to help customers understand what they can expect from the agency.

- **The Red Tape Challenge** aims to review existing regulations across government departments. The Defra CAP Delivery Programme leads on reviewing CAP 2015 requirements, including changes to RPA systems, scheme deliverance and identifying simplification opportunities. Smarter Guidance and data projects have reduced burdens on businesses and regulators by focussing attention on guidance available, for instance through the transfer of RPA's website content to GOV.UK in 2014 the Defra Smarter Guidance Project has begun to review all Core Defra and RPA guidance to make it simpler, clearer and more customer focused.

- **Data sharing and reducing burdens** activity has led to a joined up review of the number and type of site visits undertaken by delivery bodies. The agency has supported Defra and its regulators to provide inspection information for the Find-it Tool pilot project. The project is aiming to develop a Geographical Information System (GIS) based tool which could be used to co-ordinate cross agency inspections, plan national strategies and develop risk rankings for farm businesses. A range of baseline data has been collected in the year April 2013 to March 2014 that will be used to measure the success of the Find-It tool if it is implemented.

- **Farming Regulation Task Force** recommendations have improved joining up of inspections, for example Tuberculosis (TB) test data is now accessed directly from AHVLA systems facilitating Cattle Identification Inspections to be scheduled together with TB tests. The agency has provided representation at a number of Regional Inspection Forums formed as a result of a Task Force recommendation and through this presence RPA have provided clarity to farmers and other regulators about how inspections are carried out. The agency has also contributed to the development of a Farm Inspections guide published by Defra and continues to engage with Defra to explore further opportunities to build earned recognition into inspection regimes.

Transparency of data

In line with the wider government transparency procedures RPA are fully committed to supporting greater transparency across government to enable customers to assess details about our services. The agency is committed to supporting Defra in its efforts to identify and make further data available and equally committed to supporting greater transparency with regard to third party administrative spend. Reports are produced each month on all government procurement card spend, expenditure with all suppliers greater than £25,000 per transaction and a complete procurement spend analysis of all supplier procurement spend. This information is made available on a central government website. In addition, the agency has recorded all procurement opportunities over £20,000 on Contracts Finder.

Payment of suppliers

RPA 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 fifth and tenth day payment statistics have been reported to Defra, 87% of payments for all invoices were made within 5 days and 99% of all payments for all invoices were made within 10 days. This compares to the year April 2012 to March 2013 when 68% of payments were made within 5 days and 83% of payments were made within 10 days.

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 continues to be good and monitoring will continue.

All new off-payroll engagements between 1 April 2013 and 31 March 2014, for more than £220 per day and more than 6 months	
No. of new engagements	13
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	13
of which	
No. for whom assurance has been requested and received	11
No. for whom assurance has been requested but not yet received	2
No. that have been terminated as a result of assurance not being received	-

There are two outstanding assurances at the end of March 2014, one is a recent starter the other left the agency before assurance was provided.

Off-payroll engagements as of 31 March 2014, for more than £220 per day and that last for longer than six months	
Number of existing engagements as of 31 March 2014	27
of which	
Number of engagements that have existed for less than one year at the time of reporting	2
Number of engagements that have existed for between one and two years at the time of reporting	24
Number of engagements that have existed for between two and three years at the time of reporting	-
Number of engagements that have existed for between three and four years at the time of reporting	-
Number of engagements that have existed for four and more years at the time of reporting	1

Our need for non payroll people reflects the hybrid approach to resource planning. The agency is undergoing a significant transformation with implementation of the CAP Delivery Programme.

Audit of schemes

The RPA continues to maintain a strong focus on demonstrating to external audit bodies that it is delivering its schemes in compliance with EU rules. To assist with this the agency has strengthened its approach to the governance around disallowance risk management to ensure that there are clear audit trails for decisions that are likely to support future exchanges with the European Commission.

This is particularly important as the agency manages the transition to the new CAP delivery requirements to ensure that lessons learned from previous audit observations are carefully considered. The agency is also ensuring that the implementation of the decision to align EU payments across the agency and its delegated bodies fully complies with the rules on Paying Agency accreditation.

In addition to its usual annual cycle of audit activity relating to its EU accounts, the agency has only been subject to one new European Commission audit which looked at progress in improving our debt management. Following this audit visit in January 2014, the agency believes that it has provided EU auditors with evidence of a much improved position regarding the administration of its debt management. Formal feedback is yet to be received.

The year April 2013 to March 2014 has seen a high level of activity with ongoing audit enquiries involving bilateral discussions with the European Commission and hearings with the EU Conciliation Body in relation to previous audit missions. This process (conformity clearance) must conclude before the Commission can finalise any proposed disallowance.

The RPA attended a bilateral meeting with the Commission in relation to the 2012 Cross-Compliance audit, which enabled the agency to present its response. The disallowance proposal has yet to be received.

The agency has used the EU Conciliation procedure on two occasions to challenge the level of financial correction proposed against our administration of the Fruit and Vegetables scheme and Agri environment schemes under Axis 2. The Fruit and Vegetable hearing took place in March 2014 and following the issue of the Conciliation Body's report further exchanges with the Commission are ongoing. It is anticipated that the outcome of these exchanges will be reflected in the final disallowance proposal. The agri-environment case is ongoing and a provisional date for the Conciliation hearing has been set for September 2014.

In May 2014 a disallowance proposal was received for the 2010 and 2011 SPS scheme years representing a 2% flat rate correction on relevant expenditure. In June 2014 the agency submitted its case to the Conciliation Body.

Our people

Organisational Design and Development

Following the announcement of the closure of the Northallerton office several plans were put in place to ensure the agency could accommodate the people who chose to work from either the York or Newcastle offices while maintaining operational performance.

The agency recognises that closing the Northallerton office had an impact on the local community and worked hard to minimise this by ensuring that those living in and around the town could commute to other offices nearby without relocating. This has resulted in two thirds of RPA people based in Northallerton being redeployed to the York and Newcastle offices.

The outcome of a number of specific reviews in Trader, Inspections and Customer teams are being considered. The challenge is to continue developing the organisation while responding to changes. The agency is developing an approach entitled 'future size and shape' which attempts to capture the various challenges, consider all possible options and develop a harmonized approach which allows for the right sized agency fit for the future, including the new CAP scheme and strategic alignment.

Capacity and Capability

Work has continued in developing agency capacity and capability through workforce planning. A number of temporary inspectors were chosen, whose flexibility allowed the agency to meet a high demand in this work while providing the people involved with a significant development opportunity.

The closure of the Northallerton office presented some severe challenges notably in respect of timescales. The vast majority of people have been moved to York and Newcastle with the remainder electing to take up the option of exit under a Voluntary Exit Scheme and Voluntary Redundancy scheme, with a small number being managed as surplus. This was all achieved while the operational team continue to provide a high standard of work.

The Senior Leader Programme was launched in March 2013, this programme targeted a range of skills and included agency designed events as well as Civil Service leadership courses. The programme concluded in March 2014 with a Networking Event.

The agency, as defined by the Learning and Development plan, invested in personal, professional and technical development with an emphasis on change leadership, project management and providing a quality service.

The Executive Team commissioned the development of an agency wide capability plan to incorporate development needs against the Civil Service Capability Plan, the Civil Service Competencies as well as professional development. This plan was drafted and approved for implementation in 2014.

Developing the workforce

The Talent Management Scheme has continued to develop. The first group has twenty three members, of which five were promoted within the first few months of scheme membership. A comprehensive review was held by the Chief Executive Officer during the first six months of the scheme. Some highlights include significant business placements, mentoring support, shadowing important meetings and the opportunity to participate in a variety of external events such as Civil Service Live and various agricultural shows.

Applications for the second group of the AO/EO scheme opened in January 2014, there were 58 applications with 19 successfully being awarded a place on the scheme. The HEO/SEO scheme was launched in February 2014, there were 59 applications which are being considered and an assessment centre was held early in spring 2014.

"The Talent Management Scheme has helped me to gain a greater understanding of the agency as a whole so that I can see how my area of the business fits into the bigger picture. This knowledge will benefit me in my current role as well as providing knowledge which could be beneficial when applying for new positions in the future."

Julie Edgar
Livestock Inspections Policy Manager

During the year the agency invested in a range of personal, professional and technical development with an emphasis on change leadership, project management and providing a quality service.

In addition to developing its overall capability, the agency launched three specific programmes:

1. The SCS Programme, launched in May 2013, identified both individual as well as team development activities for implementation in the year April 2013 to March 2014.
2. The Senior Leader Programme, launched in March 2013 targeted a range of skills and included agency designed events as well as Civil Service leadership courses. The programme concluded in March 2014 with a Networking Event.
3. The third programme focused on the middle management level designing an HEO/SEO programme to be launched in April 2014.

The agency conducted a review of the learning and development function and processes. This resulted in process efficiencies and a model defining the learning and development offering across the agency to be implemented in 2014.

With an increased focus on capability the Executive Team commissioned the development of an agency wide capability plan to incorporate development needs against the Civil Service Capability Plan, the Civil Service Competencies as well as professional development. This plan was drafted and approved for implementation in the year April 2014 to March 2015, this plan will be supported by a campaign to promote the '5-a-year' learning and development days.

Celebrating Our Success

Throughout the year RPA people have been encouraged to recognise their colleagues who have gone above and beyond their normal duties in order to provide a service or good piece of work. Recognition of these achievements has ranged from simple thank you letters to monetary rewards. This reward scheme has proved a significant success.

Diversity

Two of the three Defra public service objectives under Public Sector Equality Duty sit with the agency and subsequently RPA recognises the need for customers to access our services effectively. This becomes ever more important with the strive to improve digital take-up. The two objectives are:

1. Developing further the capability to identify its customers who have a disability and understanding their needs in relation to accessing RPA services.
2. Developing the support services it offers to customers with a disability.

The agency has undertaken some analysis that has identified a number of areas where members of groups with protected characteristics appear to fare less well than expected. Focus groups are being set up to understand why this is happening and help to identify options for improvement. Working closely with Trade Unions areas of shared interest between colleagues have been identified where a joint approach might be beneficial, such as the steps that need to be taken to increase the proportion of people who are prepared to supply diversity information.

Gender Diversity 2013-14	Male	Female
Executive Team	7	3
Agency (excluding Executive Team)	949	1,095
Non Executive Directors	5	1

Employee Engagement

There has been a small improvement from 39% to 41% in the overall engagement index. While the pattern of results for the RPA is similar to those in 2012, improvement has been made in important areas, such as leadership and managing change (+5%), learning and development (+8%) and organisational objectives and purpose (+6%). Along with an increase in engagement, there has been an overall increase in those areas which improve and encourage engagement.

Most of the indicators show the RPA moving in the right direction although the rate of improvement is low at just 2% to 3% each year. A detailed analysis of the results for each directorate revealed that there are five important themes which are directly impacting employee engagement, these are:

- leading and managing change
- learning and development
- pay and benefits
- my work
- inclusion and fair treatment

Each Director has commissioned to work with their people to review the results, identify opportunities for increased engagement and create actions plans. HR will co-ordinate activity across the agency to ensure that best practice is shared and the implementation of activity is monitored.

Employee Relations

Working relationships with the Trade Union have remained positive and constructive, giving valuable input into a number of initiatives, particularly the relocation of people from the Northallerton office which has now closed.

Levels of facility time were reduced in July 2013 in accordance with the Cabinet Office requirement. Working together with Trade Union colleagues the agency moved to new arrangements and a new Trade Union engagement framework, developed in partnership with the Trade Union will be introduced next year.

Employment Tribunals

There were no employment tribunals in the year April 2013 to March 2014. There is one open employment tribunal case awaiting a hearing date.

Absence Management

In the year April 2013 to March 2014 the "average working days lost" (AWDL) to sickness absence was 7.0 days, this represents a significant decrease from 9.2 days in the year April 2012 to March 2013.

In the autumn of 2013 a new strategy was introduced for managing attendance in preparation for the new Civil Service Attendance Management Policy. A completely new internal mechanism for measuring and managing absence was developed which concentrates on the managers actions to support attendance for people working for RPA. This new approach allows RPA to forecast absence levels based on historic trends while factoring in management actions to reduce levels of absence. This has worked very well with managers now clear on the action required of them the agency and absence levels are reducing in line with expectation. A further HR Taskforce was established in mid 2013, to coincide with the introduction of the new policy, working with managers to ensure that the policy and procedures for dealing with absence were followed and that the entire agency was supported in ensuring they could maintain a healthy work/life balance.

Average working days lost to sickness absence reduced to 7.0 days.

Occupational Health and Wellbeing

The contracted welfare assistance was jointly supplied through the Positive People Company, an Employee Assistance Professional and an Occupational Health provider supplied through Health Management Ltd. This contract expired at the end of March 2014 and from April 2014 the Employee Assistance Programme is now provided by ATOS, branded as 'Help'. The contract for the Occupational Health provider has recently been through a tender exercise. Both providers will offer a range of services including a website of resources and information together with face to face and telephone counselling services.

Once again the RPA made sure that people suffering from long term health issues are referred to the occupational health service to ensure that the necessary support is provided and any reasonable adjustments are put in place.

In addition to these proposals the agency is considering initiatives proposed by the Defra Wellbeing Network such as mobile health kiosks which form part of the 'Know Your Numbers' campaign and enable people to check their heart health, cholesterol and blood pressure.

Health and Safety

Ensuring the Health and Safety of RPA people is central to the agency's work, and this is achieved through co-operative effort at all levels within the organisation, which encourages employee involvement.

There have been 2 reportable incidents that fall under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) legislation, both were under the slips, trips and falls categories. Overall the incident rate has reduced by 16% this year which is above the anticipated 10% annual reduction. The most significant reductions have been for work related stress and slips, trips and falls. There has been an increase in the number of near miss reports which is an indication of a positive and aware health and safety culture in the agency.

Regular site audits have been undertaken and in depth bomb and emergency evacuation/business continuity exercises at all our main sites has increased both emergency preparedness and awareness.

RIDDOR	2013-14	2012-13
Fatal injuries	**-**	-
Major injuries	**-**	-
Dangerous occurrences	**-**	-
Over 7 day injuries (2012-13: 3 days)*	**2**	2
Occupational diseases	**-**	-
Total	**2**	2
Incident by type		
Animal related	**8**	6
Ill health (inc. musculo-skeletal & stress)	**41**	45
Minor/other	**39**	56
Near misses	**25**	17
Road traffic accidents	**14**	16
Slips, trips, falls	**23**	43
Violence/aggression/verbal abuse	**10**	8
Total	**160**	191

* Change to RIDDOR regulations October 2013.

Security and information risk

The agency recognises that customers rely on RPA to keep all information they supply 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.

RPA are subject to many audit regimes throughout the year including audits by the agency's Internal Audit function in addition to various external audits which specifically target information assurance and security and the management of security risk. RPA ensure the continued improvement of information security and assurance as well as demonstrate compliance against Cabinet Office's Security Policy Framework on an annual basis. As a delivery partner of Defra the agency also contributes to the departments Information Assurance Maturity Model return to the Cabinet Office.

The alignment to Information security ISO 27001:2005 is audited annually by the Certifying Body, this is a requirement under Commission Regulation 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. RPA has received a favourable 2013 Certifying Body report for information security management.

Information Handling

There was a reduction in the total number of reported incidents to one. This one incident involved personal data where a Doctors certificate was posted by recorded delivery and signed as received by reception personnel. However it was not received by Human Resources located within the same building. Investigation confirmed the item to be 'lost' within site. It was later found within the post room and delivered successfully. This did not fall within the criteria for reporting to the Information Commissioner's Office.

Category	Nature of incident	2013-14	2012-13
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	**1**	-
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	**-**	1
III	Insecure disposal or inadequately protected electronic equipment, devices or paper documents	**-**	1
IV	Unauthorised disclosure	**-**	1
V	Other	**-**	-

Fraud

Fraud referrals are reviews undertaken by the agency to consider whether a potential fraud has occurred. These referrals are closed when enquiries establish no evidence of fraud or after fraud has been detected and recommendations for action have been completed by the appropriate business area, or after investigations by Defra Investigation Services have been completed. The agency takes appropriate recovery action on cases where the recommendation is made to recover funds.

	2013-14	2012-13*
Fraud referrals closed	**163**	144
Value of potential fraud associated with closed referrals	**£2.91m**	£1.36m

*In 2012-13 cases were considered closed when passed for investigation.

Annual Sustainability Report

The RPA, in the year April 2013 to March 2014, has continued to make good progress against sustainability targets.

More than 55,000 of our customers now apply for their SPS payment online. This has reduced the amount of paper usage and reduced the need to store hard copy documents. RPA has also achieved 100% 'closed loop' paper recycling which means that waste paper is collected, shredded, cleaned and recycled before its return to the agency. This reduces both the volume of waste and the cost of its disposal.

RPA's Greening Government Commitment performance remains very strong. Carbon emissions are currently 49% less than baseline, meaning the agency has exceeded the five year 25% greening government commitment target set for all government departments. Reducing the size of the estate has been an important contributor but using less has led to increased savings in our energy costs.

Waste has also reduced dramatically from 618 tonnes in the baseline year to 180 tonnes. This has exceeded the five year 25% Greening Government Commitment target.

Water consumption has actually increased over the past year, this is largely due to a recently identified issue resulting in higher than expected consumption. The measures now in place should result in a steep drop in consumption in the year April 2014 to March 2015.

Summary of Performance

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

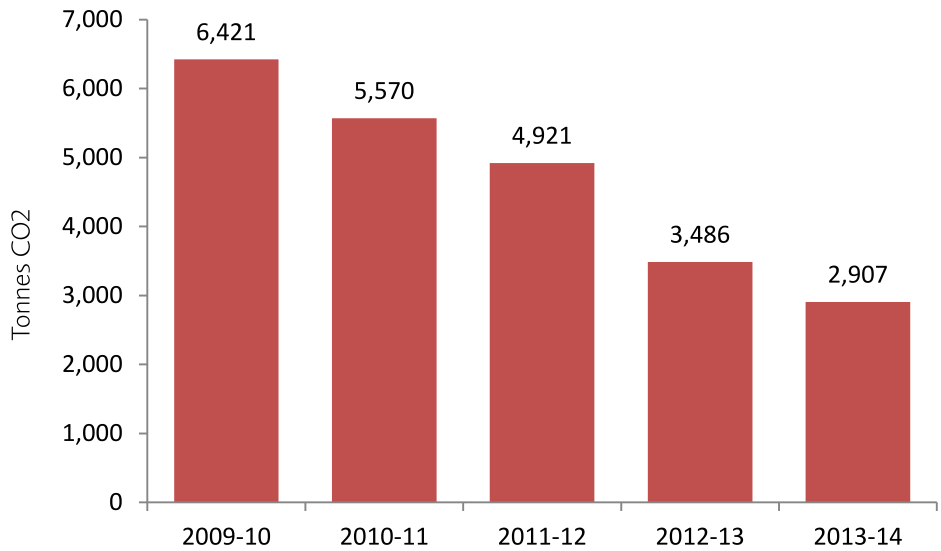
RPA has exceeded the five year 25% greening government commitment target.

Greenhouse Gas Emissions

Emissions continue to fall year on year driven by reduced electricity and gas consumption. The agency have also reduced the non-renewable element of our electricity and hope to phase this out completely in the year April 2014 to March 2015. The RPA are on target to make a 65% reduction in our carbon consumption when compared with the Greening Government baseline in April 2009 to March 2010. This easily exceeds the 25% target set for all government departments.

Greenhouse Gas Emissions		2009-10	2010-11	2011-12	2012-13	2013-14
Non financial indicators (tonnes CO2)	Total emissions	6,421.4	5,569.7	4,920.7	3,485.9	**2,907.2**
	Scope 1 emissions (direct)	1,020.2	653.5	517.2	356.0	**351.1**
	Scope 2 emissions (indirect)	3,981.9	3,831.1	3,394.6	2,014.9	**1,409.0**
	Scope 3 emissions (direct travel)	1,419.3	1,085.1	1,008.9	1,115.0	**1,147.1**
Related Energy Consumption (kWh)	Electricity non-renewable	7,590,268	7,302,832	589,664	548,219	**96,914**
	Electricity renewable			5,815,909	3,816,556	**2,816,421**
	Gas	5,556,447	3,559,128	2,810,295	2,087,218	**1,902,166**
Financial indicators (£)	Expenditure in energy	1,174,738	905,467	683,941	555,658	**414,159**
	Carbon Reduction Commitment (CRC) licence expenditure			55,953	37,000	**21,702**
	Expenditure on official business travel	2,268,130	1,757,184	1,714,273	2,134,454	**2,418,960**

RPA CO2 emissions

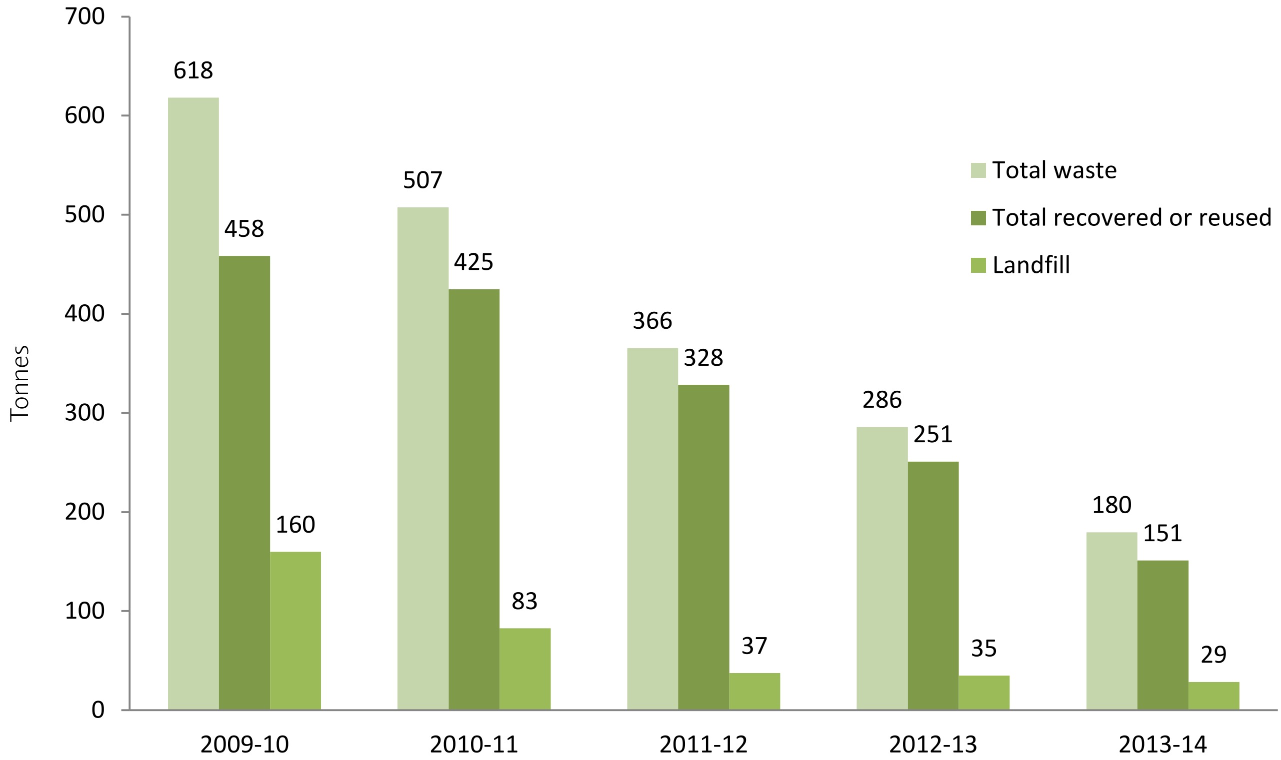


Waste Management

The amount of waste that the agency has produced has fallen dramatically in the year April 2013 to March 2014. While the amount going to landfill has fallen it has not fallen in line with the overall reduction in waste produced. The percentage therefore that has been recycled /recovered has fallen. This is an area for us to target in the year April 2014 to March 2015.

Waste Management (tonnes)	2009-10	2010-11	2011-12	2012-13	2013-14
Reused or recycled	428.10	387.11	306.80	234.98	**147.14**
Composted	1.98	1.80	1.70	2.04	**2.21**
Incinerated with energy recovery	28.26	35.97	19.20	13.96	**1.78**
Incinerated without energy recovery	0.04	0.03	0.50	0.00	**0.00**
Total recovered or reused	458.38	424.91	328.20	250.98	**151.13**
Landfill	159.82	82.58	37.40	34.90	**28.53**
Total waste	618.20	507.49	365.60	285.88	**179.66**
% recovered or reused	74.14%	83.72%	89.77%	87.79%	**84.12%**

Total Waste and Disposal

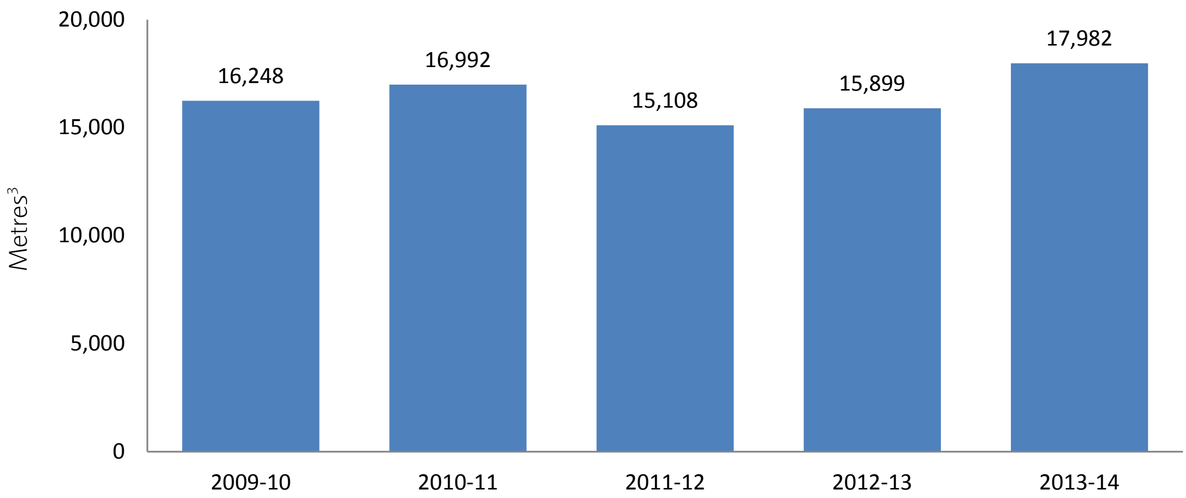


Finite Resource Consumption

RPA has not been able to reduce water consumption as anticipated. The agency has completed some initiatives that should have a beneficial impact by reducing our consumption in the year April 2014 to March 2015.

Finite Resource Consumption		2009-10	2010-11	2011-12	2012-13	2013-14
Non-financial indicator (m3)	Water Consumption	16,248	16,992	15,108	15,899	**17,982**
Financial indicators (£)	Water Supply Costs		75,552	60,003	46,015	**80,916**

Water Consumption



Financial review

Preparation of the Annual Report and Accounts

The Statement of Accounts reports the financial results for the year from 1 April 2013 to 31 March 2014. 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

RPA's 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 £320k was incurred for the audit of the agency's accounts (2012-13: £400k).

The Comptroller and Auditor General is also the auditor of the Statement of Accounts for the European Agriculture Guarantee Fund and the European Agricultural Fund for Rural Development which have a financial year ending 15 October. The cash cost for the audit of these funds, for transactions for UK, was £1.3m (2012-13: £1.2m). The auditor has not conducted any non-audit work for the agency in either of the last two years. During the year the RPA reimbursed the NAO for the cost of a secondment into the agency.

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

Financial Results

The agency normally considers its financials in two categories; Running Costs representing monies needed to provide the service required of RPA by Defra, and Scheme Costs related to the funds RPA administer.

The running costs of the agency are funded by Defra. Payments under the European Agriculture Guarantee Fund and the European Agricultural Fund for Rural Development are initially funded by the UK Exchequer, with subsequent reimbursement sought from the European Commission. When the reimbursement is received by the agency, it is repaid to the UK Exchequer, net of short-term funding requirements.

The RPA's net running costs this year (£151m) were £18m less than in the year April 2012 to March 2013, mainly due to an £11m reduction in staff costs which continues the trend of the last five years. Since the year April 2009 to March 2010, the agency has cut staff costs by over £72m per annum, and has reduced the number of permanent employees by nearly a quarter. The other significant saving of approximately £8m relates to project costs. CAP Delivery Programme costs were recorded against the agency in the year April 2012 to March 2013 but against Defra this year.

The ability of the agency to reduce costs through greater efficiency and automation is a key element helping to contribute to the significant pressures on the budget of Defra and all other UK Government Departments.

Payments made, and reimbursements claimed under the schemes RPA administer are virtually unchanged from the year April 2012 to March 2013 at £1.7bn.

Funds provided to Scotland, Wales, Northern Ireland and the Forestry Commission (for Scotland and Wales) by the agency were also stable year on year at £1.2bn. RPA manage reimbursements from the European Commission on behalf of these bodies, and incur the resulting foreign exchange gains and losses. Overall the agency gained £0.4m from such transactions during the year (2012-13: loss of £0.4m).

Improved payment performance related to scheme transactions has enabled the RPA to reduce trade payables by £7.6m, reduce total receivables by £86m, and increase cash balances by £60m compared to 31 March 2013.

Non-current assets have reduced by £13m (40%) over the last year, primarily due to existing intangible assets suffering depreciation designed to consume their value from the accounts in line with their expected replacement (under the CAP Delivery Programme) in 2015.

The RPA is exposed to two significant financial risks inherent in the process of administering scheme payments. The first is a foreign exchange risk since scheme payments are predominantly made in Sterling while reimbursement from the European Commission is received in Euros. Consequently, any differential between the prevailing exchange rate when reimbursement is received and the scheme exchange rates fixed by the European Commission will result in an exchange gain or loss for the agency. To mitigate this risk, the RPA enters into derivative contracts for SPS and for the Rural Development Programme for England. No such arrangements are entered into for Trader schemes due to their lower values relative to the costs of hedging.

The second significant financial risk relates to the potential that the European Commission may retrospectively choose not to reimburse the agency for payments made should there have been any infringements in scheme regulations. Such disallowances represent a high risk to the RPA due to the complexity and extent of scheme regulations. Management of this risk is described further in the Governance Statement.

SPS trade receivables and 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 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 RPA 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 RPA has made significant progress in resolving legacy issues surrounding SPS receivables and payables. It has defined a debt and credit clearance strategy and completed a cleanse programme during April 2013 to March 2014. This was 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 and substantially validated outstanding balances.

At 31 March 2014, the gross SPS trade receivables balance stood at £5.1m, compared with £6.7m on 31 March 2013, a reduction of 24%.

At 31 March 2014, the SPS trade payables balance of £8.2m included £7.6m relating to current year payments considered to be accurate and to be released shortly after the year end. The equivalent balance at 31 March 2013 was £16.0m, of which £14.3m related to the latest scheme year.

The progress made has given the RPA confidence that the SPS customer balances are materially complete. This has allowed the agency to be in a position to provide evidence to the NAO that has allowed them to remove the final element of the qualification on the accounts which has been in place since 2008-09.

Mark Grimshaw
Chief Executive Officer
26 June 2014

Corporate Governance Report

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed RPA to prepare for each financial year agency accounts detailing the resources acquired, held or disposed of and the use of resources during the year. The agency accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs, the net operating costs, changes in Taxpayers' Equity and cash flows for the financial year. HM Treasury has approved the Chief Executive Officer as the Accounting Officer with responsibility for preparing the 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 RPA are required to:

- observe the relevant accounting and disclosure requirements
- apply suitable accounting policies on a consistent basis
- make judgments and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts
- 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 RPA assets. These are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in Managing Public Money.

Corporate Governance

The RPA operates within a framework of a strategic plan and an annual business plan. The strategic plan outlines our duties and priorities as set by ministers while the business plan details the annual performance indicators as agreed with the department, Defra. Progress against these objectives is recorded in the Annual Report and is subject to scrutiny from Defra and others including the National Audit Office (NAO), Environment, Food and Rural Affairs (EFRA) Select Committee and the Public Accounts Committee (PAC).

Governance Framework

Defra's Secretary of State, Rt Hon Owen Paterson MP, has overall responsibility for RPA and is accountable to Parliament for all matters concerning the agency. Ministerial responsibility for RPA was assigned to Minister of State David Heath MP (to October 2013) and subsequently to Parliamentary Under Secretary of State, George Eustice MP.

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

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

Relationship with Defra and Parliament

In January 2013, in recognition of the agency's improved performance, Defra suspended the Oversight Board which had previously been chaired by the responsible Minister. The new governance arrangements comprised quarterly meetings with the Minister, RPA Chief Executive Officer and Corporate Owner and, separately, with the Chief Executive Officer and the non-executive chairs of the Agency Management Board and the Audit, Risk and Assurance Committee.

The Permanent Secretary has appointed the department's Chief Operating Officer, Ian Trenholm, as Corporate Owner to act on her behalf on day to day issues and to generate the close contact needed between Defra and the agency. Ian Trenholm is a member of the Defra Executive Committee and manages the Chief Executive Officer. The Corporate Owner is responsible for overseeing the overall performance of the agency and carries out Quarterly Performance Reviews to hold RPA to account on performance, risk reporting and corporate matters.

The Corporate Owner has appointed a Corporate Customer, Sarah Hendry, from within the Defra senior management team to provide a high level interface with the agency on all matters relating to the overall delivery and quality of services provided. She supports the Minister and the Corporate Owner in making sure that the requirements of Defra and other agencies on RPA are met. This is managed primarily through a Customer Board which has been effective in coordinating the policy requests from Defra into the agency. Sarah Hendry was also Defra's nominated Director on the Agency Management Board until November 2013 when she was replaced by Julie Pierce, Defra's Chief Information Officer.

Within the department, Defra's Executive Agencies Team and RPA Customer Policy Team advise the Minister, Corporate Owner and Corporate Customer on their responsibilities in relation to the agency. This involves balancing a range of interests that Defra, and government more broadly, has in the organisation. The RPA's Customer Policy Team and the Executive Agencies Team act as the main Defra interfaces to the agency.

Agency Management Board

The Agency Management Board is responsible for strategic oversight of the agency's performance, advising and challenging the Chief Executive Officer, and escalating issues to Defra and ministers as appropriate. It provides leadership in the delivery of statutory, corporate and business responsibilities; ensures that risks are effectively identified and managed; encourages improvements in performance across the agency; and ensures effective governance and control is in place for the agency.

The Agency Management Board brings together a non-executive director chair, Trevor Spires, with the Chief Executive Officer and three nominated RPA executive directors, four other non-executive directors and a Defra director. Other RPA executive directors attend on a rotational basis. The role of RPA's non-executive directors is to advise, support and challenge using their experience and expertise from different areas, including the private sector. Four new non-executive directors were appointed in this reporting year.

Members of the Agency Management Board for the reporting period:

Trevor Spires, CBE	Non-Executive Director – Chair
John Carter	Planning and Performance Director
Peter Conway	Non-Executive Director – Chair of Audit, Risk and Assurance Committee
David Cotton	Non-Executive Director (from July 2013)
Arik Dondi	External Relations Director (from December 2013)
Angela Gillibrand	Non-Executive Director (from July 2013)
Mark Grimshaw	Chief Executive Officer
Anne Marie Millar	Finance, Assurance and Commercial Director
Julie Pierce	Defra representative (from December 2013)
Radburne Thomas	Non-Executive Director (from July 2013)
Sharon Ellis	External Relations Director (until November 2013)
Sarah Hendry	Defra Corporate Customer (until November 2013)

Audit, Risk and Assurance Committee

The Audit, Risk and Assurance Committee 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; assurance of internal and external audits (including work conducted on behalf of the Certifying Body) and anti-fraud policies.

The Audit, Risk and Assurance Committee is formed of four non-executive directors, three of whom also sit on the Agency Management Board chaired by Non-Executive Director Peter Conway.

Regular attendees include the Finance, Assurance and Commercial Director, Head of Defra Internal Audit and the National Audit Office.

Members of the Audit, Risk and Assurance Committee for the reporting period:

Peter Conway	Non-Executive Director – Chair
David Cotton	Non-Executive Director (from July 2013)
Angela Gillibrand	Non-Executive Director (from July 2013)
Arthur Reeves	Non-Executive Director (from July 2013)
Alison White	Non-Executive Director (until June 2013)

Executive Team

The Executive Team sets the direction for the agency and takes responsibility for the delivery of the Five Year Plan, Strategic Improvement Plan and Annual Business Plan. It has overall authority to run the agency on a day to day basis. The team spans the organisation in an Arc structure, sharing executive responsibility for the overall organisation. Each directorate plays a part in supporting the Arc while acknowledging the impact of their actions on other directorates.

Members also have key roles across the range of other governance activity which ensures consistency on the quality and appropriateness of where decisions are made.

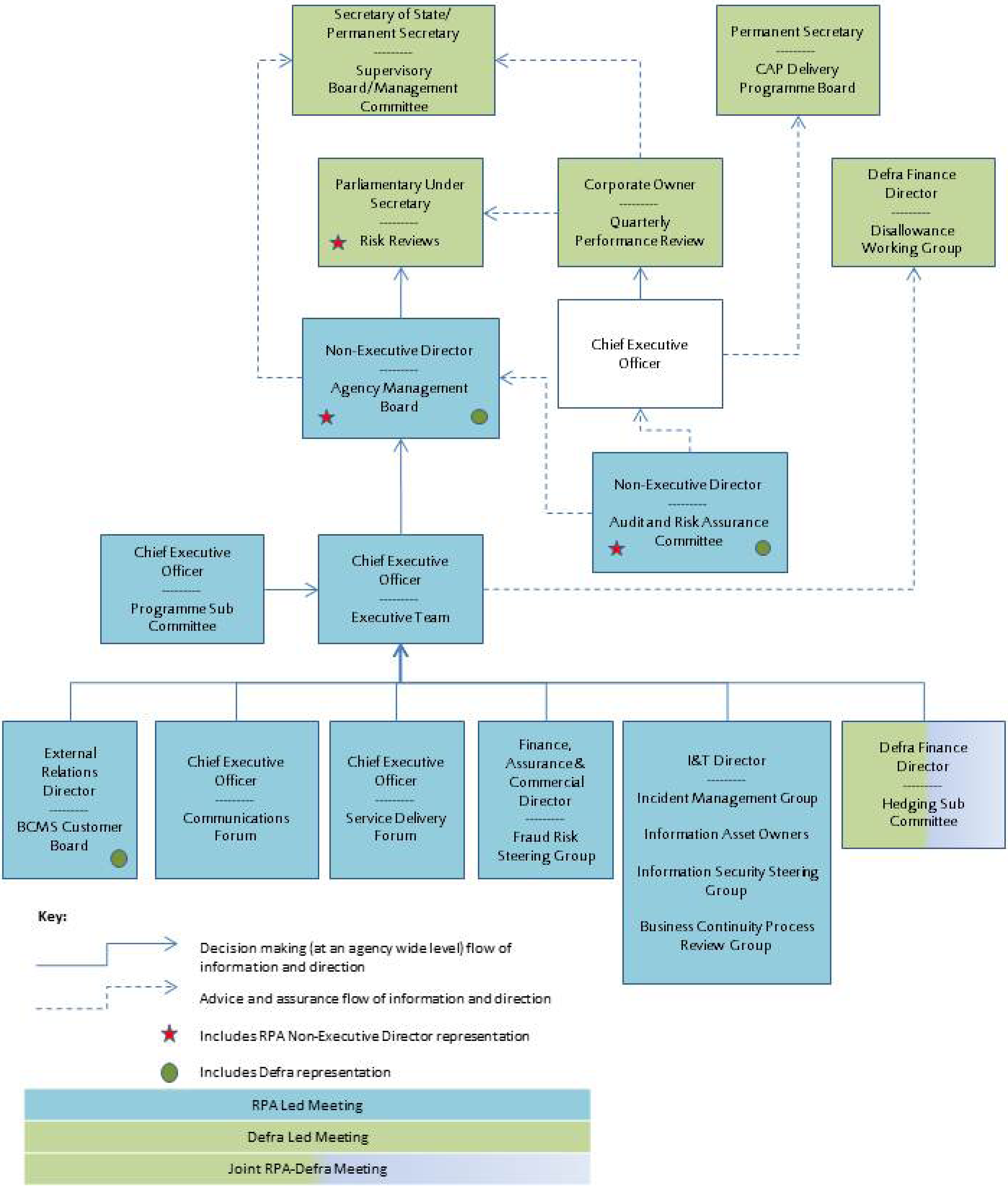
The governance framework of the agency is supported by a number of additional groups (page 48) covering specific elements of the agency's operations. These have central roles in the management of some of the key risks associated with the RPA.

In-year changes in membership of the Executive Team included confirmation of Emma Appleby and Ian Hewett as Design Director and Change Director respectively. They originally joined the Executive Team on an interim arrangement pending options for replacing Design and Change Director, Jo Broomfield, who left to lead Defra's CAP Delivery Programme. Arik Dondi replaced Sharon Ellis as External Relations Director in December, bringing with him experience of Defra and the Common Agricultural Policy.

Members of the Executive Team for the reporting period:

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

Governance Framework



Key Business at Agency Management Board and Audit, Risk and Assurance Committee meetings

On appointment, members of the Agency Management Board and Audit, Risk and Assurance Committee have provided a list, in writing, of all possible conflicts of interest. Annually, all non-executive directors update their entry on the RPA register of interests. In addition, conflicts of interest are declared at the start of each meeting with the chair managing discussions appropriately. New members have taken part in a detailed induction programme to help them familiarise themselves with agency business.

The Agency Management Board met monthly in the year to March 2014. It reviewed and agreed its Terms of Reference which include a formal schedule of matters which cannot be delegated.

Key business discussed at meetings throughout the year are shown in the table below.

April 2013	May	June	July	August	September
Review of AMB Terms of Reference Board effectiveness review Annual budget update Health & Safety Annual Report	Exchequer accounts 2012-13 Future of BCMS Strategic risk review and PESTLE (external factors) analysis Disallowance Report	Head of Internal Audit Annual Assessment Annual Report and governance statement Gifts and hospitality register and compliance with ethical standards HR Directorate update	Strategic Alignment Customer Directorate update Review of CAP DP input CAP Reform – Growth Programme	Proposals in response to budget cuts Change Directorate update CAP DP - Re-use and Transition	Strategic discussion: 2014-15 and beyond Design Directorate update Disallowance report
October	**November**	**December**	**January 2014**	**February**	**March**
Audit, Risk and Assurance Committee Chair's update Operations Directorate update Hedging in RPA Fruit and Vegetable Aid Scheme	CAP reform: potential costs and complexity CAP reform: risk scenarios I&T Directorate update Audit and Risk Assurance Committee Terms of Reference	RPA Business Plan 2014-15 Strategic Alignment HR Directorate update Transition planning	Customer Directorate update Close down of Strategic Improvement Plan CAP Reform Pillar 2 update	Change Directorate update Future size and shape of the organisation Disallowance reporting Update on CAP-D communications campaign	Strategic risk review I&T Directorate update Release of provision for current and future disallowance Board Effectiveness Budget update

Monthly Standing items on the Agency Management Board agenda include:

- CAP Delivery Programme update
- CAP Reform update
- Strategic Improvement Plan update
- Transition Planning (CAP delivery)
- Performance review
- Updates from sub-committees

The Audit, Risk and Assurance Committee met four times in the year to March 2014. It has reviewed and agreed its Terms of Reference.

Key business discussed at meetings throughout the year are shown in the table below.

April 2013	June	October	January 2014
Exchequer accounts	Exchequer accounts	Exchequer accounts	Exchequer accounts
Draft Annual Report 2012-13 and timetable	Annual Report and Accounts 2012-13 approval / Governance statement	Accounts qualification update	Accounts qualification update
Accounts qualification update	Draft Report of the NAO Comptroller and Auditor General	Audit Completion Report and management responses	Annual Report and Accounts 2013-14 timeline
Disallowance accounting	Draft Exchequer Audit Completion Report	EU Accounts	EU accounts
Hedging policy update	Disallowance update	European Agricultural Funds Accounts Timetable and Process	Review of EU accounts
Internal Audit progress report	Internal Audit Progress Report	Internal Audit progress report	EU Accounts Audit Completion Report
CAP Delivery Programme (CDP) Assurance	CAP Delivery Programme Assurance	CAP Delivery items	Disallowance reporting
Changes to Paying Agency responsibilities (Article 69)	Risk Register review	Paying Agency responsibilities and relationships with Delegated Bodies	Internal Audit progress report
Risk Register review	SIRO report	Finance and HR systems implementation progress report	CAP Delivery Programme – Assurance and Risk Management
Fraud report	ARC annual report to AMB	Risk Register review	Risk Register review
	Committee effectiveness review	Quality Assurance Team review	Ex-gratia payments 2013-14 review
		Audit, Risk and Assurance Committee Terms of Reference	

Agency Management Board and Audit, Risk and Assurance Committee Effectiveness Evaluation

Membership of both the Agency Management Board and Audit, Risk and Assurance Committee changed significantly in the past year with the appointment of four new non-executive directors in July 2013. New approaches to assessment of effectiveness were adopted as comparison with previous years would not be particularly relevant. Details on the outcome of the evaluation can be found in the Governance Statement. Non-executive directors have commented favourably on the standard of papers received by the committees.

Attendance

Attendance during the year		
	Agency Management Board	Audit, Risk Assurance Committee
Trevor Spires	12 of 12	
John Carter	11 of 12	
Peter Conway	12 of 12	4 of 4
David Cotton	9 of 9	2 of 2
Arik Dondi	4 of 4	
Angela Gillibrand	8 of 9	2 of 2
Mark Grimshaw	12 of 12	
Sarah Hendry	7 of 8	
Anne Marie Millar	11 of 12	
Julie Pierce	4 of 4	
Radburne Thomas	8 of 9	
Arthur Reeves		2 of 2
Alison White		2 of 2
Sharon Ellis	7 of 8	

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 (SCS), is set by the Prime Minister following independent advice from the Senior Salaries Review Body. Further details about this body can be found at www.private.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, ensuring that the overall pay awards are within the cost ceiling allowed.

Consolidated pay and non-pensionable, performance related pay 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. Non consolidated variable pay (NCVP) awards are performance related and paid in arrears in the financial year after that in which it was earned. In the year April 2013 to March 2014, NCVP for the previous year's performance was paid to approximately 25 per cent of the SCS and was capped at between £9,900 and £14,900 per individual. NCVP values, informed by each individual's appraisal grade, were paid within Cabinet Office guidelines. The table of salary and non-cash benefits shown includes NCVP paid to the Agency's Management Board and Chief Executive.

Agency Management Board

The Agency Management Board are accountable for the overall performance of the agency and its strategic direction in line with Defra's Departmental Strategic Objectives.

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 Senior Civil Servants. The Executive Directors are required to give three months' notice under the terms of their contracts.

Our Non-Executives are appointed on fixed term contracts with a notice period of one month.

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 RPA people to cover season ticket advances and relocation. As at 31 March 2014 there were no outstanding loans to Executive Directors of the Agency Management Board.

No compensation amounts were paid to Executive Directors of the Agency Management Board during the year. Compensation for unpaid leave, where appropriate, is included within the salary figures in the table below.

Remuneration multiples

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

	2013-14	2012-13
Annualised Band of Highest Paid Director Remuneration (£000)*	**175-180**	155-160
Median Total Remuneration (£)	**24,370**	23,610
Ratio	**7.2**	6.8

* The remuneration of the highest paid director includes bonus payments and benefits in kind, but excludes pension benefits.

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

Salary

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. In the period April 2012 to March 2013 and April 2013 to March 2014 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 a given year reflect the performance of the previous year.

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	2013-14 Salary	2013-14 Bonus Payments	2013-14 Benefits in Kind	2013-14 Pension Benefits	2013-14 Total Remuneration	2012-13 Salary	2012-13 Bonus Payments	2012-13 Benefits in Kind	2012-13 Pension Benefits	2012-13 Total Remuneration
	£000	£000	(£ to the nearest £100)	(Nearest £000)	£000	£000	£000	(£ to the nearest £100	(Nearest £000)	£000
Directors in post at 31 March 2014										
Emma Appleby Design Director (from 01/01/2013)	120-125	-	-	36	155-160	25-30 (115-120)	-	-	(1)	25-30
Nicola Bettesworth Human Resources Director	70-75	5-10	-	6	90-95	70-75	-	-	25	95-100
Paul Caldwell Operations Director	55-60	-	-	12	70-75	60-65	-	-	5	65-70
John Carter Planning & Performance Director	65-70	5-10	2,400	5	80-85	65-70	-	2,100	18	85-90
Justin Chamberlain Customer Director	85-90	-	-	-	85-90	90-95	-	-	-	90-95
Arik Dondi External Relations Director (from 04/11/2013)	20-25 (55-60)	-	-	5	25-30	-	-	-	-	-
Mark Grimshaw Chief Executive Officer	160-165	10-15	-	32	205-210	155-160	-	-	48	205-210
Ian Hewett Change Director (from 01/01/2013)	80-85	-	2,800	3	85-90	20-25 (80-85)	-	600	-	20-25
Anne Marie Millar Finance, Assurance & Commercial Director	130-135	-	-	16	145-150	135-140	-	-	57	190-195
Ed Schofield Information & Technology Director	100-105	-	-	39	140-145	95-100	-	-	41	145-150

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

Name and Title	2013-14					2012-13				
	Salary	Bonus Payments	Benefits in Kind	Pension Benefits	Total Remuneration	Salary	Bonus Payments	Benefits in Kind	Pension Benefits	Total Remuneration
	£000	£000	(£ to the nearest £100)	(Nearest £000)	£000	£000	£000	(£ to the nearest £100)	(Nearest £000)	£000
Peter Conway Non-Executive Director	20-25	-	-	-	20-25	20-25	-	-	-	20-25
David Cotton Non-Executive Director (from 01/07/2013)	5-10 (10-15)	-	-	-	5-10	-	-	-	-	-
Angela Gillibrand Non-Executive Director (from 01/07/2013)	5-10 (10-15)	-	-	-	5-10	-	-	-	-	-
Arthur Reeves Non-Executive Director (from 01/07/2013)	0-5 (0-5)	-	-	-	0-5	-	-	-	-	-
Trevor Spires Non-Executive Director	20-25	-	-	-	20-25	20-25	-	-	-	20-25
RadburneThomas Non-Executive Director (from 01/07/2013)	0-5 (5-10)	-	-	-	0-5	-	-	-	-	-
Other civil service appointments previously serving as directors										
Sharon Ellis External Relations Director (left 31/12/2013)	55-60 (75-80)	5-10	-	12	75-80	65-70	5-10	-	25	100-105
Alison White Non-Executive Director (left 10/07/2013)	0-5 (0-5)	-	-	-	0-5	0-5	-	-	-	0-5
Jo Broomfield Design & Change Director (left 31/12/2012)	-	-	-	-	-	95-100 (125-130)	-	-	24	120-125
Janet Baker Non-Executive Director (left 31/01/2013)	-	-	-	-	-	5-10	-	-	-	5-10
Jim Godfrey Non-Executive Director (left 11/01/2013)	-	-	-	-	-	10-15 (15-20)	-	-	-	10-15

Pensions Benefits (audited) Information

Name and Title	Accrued pension at pension age as at 31 March 2014 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2014	CETV at 31 March 2013	Real Increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	(£ to the nearest £100)
Directors in post at 31 March 2014						
Emma Appleby Design Director (from 01/01/2013)	0-5 plus lump sum of nil	0-2.5 plus lump sum of nil	29	11	10	-
Nicola Bettesworth Human Resources Director	25-30 plus lump sum of 75-80	0-2.5 plus lump sum of 0-2.5	418	389	3	-
Paul Caldwell Operations Director	20-25 plus lump sum of 65-70	0-2.5 plus lump sum of 0-2.5	383	352	8	-
John Carter Planning & Performance Director	20-25 plus lump sum of 60-65	0-2.5 plus lump sum of 0-2.5	294	272	2	-
Justin Chamberlain Customer Director	-	-	-	-	-	9,400
Arik Dondi External Relations Director (from 04/11/2013)	5-10 plus lump sum of 25-30	0-2.5 plus lump sum of 0-2.5	110	106	2	-
Mark Grimshaw Chief Executive Officer	20-25 plus lump sum of 60-65	0-2.5 plus lump sum of 5-7.5	395	342	24	-
Ian Hewett Change Director (from 01/01/2013)	25-30 plus lump sum of 80-85	0-2.5 plus lump sum of 0-2.5	518	484	1	-
Anne Marie Millar Finance, Assurance & Commercial Director	35-40 plus lump sum of nil	0-2.5 plus lump sum of nil	694	634	13	-
Ed Schofield Information & Technology Director	5-10 plus lump sum of nil	0-2.5 plus lump sum of nil	51	26	15	-
Other civil service appointments previously serving as directors						
Sharon Ellis External Relations Director (left 31/12/2013)	5-10 plus lump sum of nil	0-2.5 plus lump sum of nil	92	79	6	-

Pension Benefits

For the first time, remuneration reports now include a value for pension benefits as part of the total remuneration figure for the period. This is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the member. The real increases exclude increases due to inflation or any increase or decrease due to a transfer of pension rights. Total remuneration figures for April 2012 to March 2013 have been restated to include pension benefits for comparative purposes. Our non executive directors are not entitled a pension so are not included within the table on page 56.

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. 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 6.25% of pensionable earnings for classic and 3.5% and 8.25% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice.gov.uk/pensions.

Governance Statement

Introduction

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

The Governance framework of the agency is described earlier in the Corporate Governance Report.

Internal Controls

Risk Overview

The agency operates in a highly regulated environment with considerable scrutiny of delivery by a range of external organisations. Delivering 'business as usual' at the same time as preparing for CAP reform presents a number of significant risks which are managed in line with the agency's risk appetite.

The Agency Management Board advise on management of the most significant risks, the Audit and Risk Assurance Committee focus on effectiveness of risk management, whilst the Executive Team manages each risk in line with the agency's risk appetite. Risks are managed on three separate levels and can be escalated or de-escalated as part of the active management process.

Fraud Risk Management

The Fraud Risk Management Steering Group acts as an advisory committee to the Executive Team and to the Chief Executive Officer in his role as Accounting Officer. The Steering Group met three times up to the end of March 2014.

An internal audit review of fraud risk management resulted in the production of a fraud risk strategy and a Counter-Fraud and Error Action Plan. Actions are being embedded to enhance the approach to deterring, detecting and preventing internal and external fraud. A fraud risk specialist was employed to deliver the high/medium-rated actions such as a review of organisational design and governance arrangements, development of measures to monitor the levels of fraud and error, and a regular programme of training for RPA people.

A series of fraud risk assessments was undertaken during the year. By using information in the RPA's Fraud Risk Register and engagement with RPA business areas, the resulting fraud risk assessment reports provides assurance that controls are being applied to mitigate the risk of fraud. The fraud risk assessment reports have been shared with the CAP Delivery Programme to ensure that the new systems and processes consider and mitigate against future potential fraud risks.

From 1 April 2014 the Head of Internal Audit assumed responsibility for internal fraud referrals, the fraud risk register, training and awareness and fraud reporting together with line management for the Defra Investigation Service (DIS). External referrals and scheme-related fraud remains within the remit of the EU Reporting and Compliance director who fulfils the role of RPA corporate customer for referring cases to DIS.

Effectiveness of risk management

Our risk management approach was re-launched at the end of 2012-13, with the intention of moving from 'risk awareness' towards becoming a 'risk managed' organisation. This new approach continued to be embedded during the course of the year, led by active engagement of Directors and a team of Risk Partners dedicated to working with directorates to improve understanding and information.

There is now active consideration of the risks to delivery of objectives with effective escalation and delegation of risks. Risk Partners have been working with specialist areas of risk, such as fraud, business continuity and security, to provide an integrated corporate risk management approach.

Key risks are reported to the Executive Team and Agency Management Board on a quarterly basis and to the Audit and Risk Assurance Committee at each of its meetings. This includes 'deep dives' into specific risks such as the levels of people capability and capacity that exist to deliver change.

The risk team has raised general awareness of risk management with an agency-wide series of communications through the 'IRIS' intranet. Risk Partners have facilitated learning sessions and risk workshops which have increased levels of participation and awareness. During the year Risk Partners have gained professional qualifications from the Institute of Risk Management. This has improved assurance that risk management is operating effectively. Our approach to risk management has been shared with the department as a model for consideration in their own assessment of risk management effectiveness.

Internal Audit assessed the progress of implementing the new approach in summer 2013 and concluded, "RPA has made progress in developing its approach to risk management since an independent review undertaken in 2012. RPA continues to move in the right direction for meeting its target of becoming a risk managed organisation." A follow-up assessment will take place in 2014.

Risks that have been successfully managed and closed during the year include those associated with the introduction of the Financial Discipline Mechanism and relocation of people from our Northallerton site.

Quality assurance of analytical models

The agency has a quality assurance framework of its business critical analytical models. Regular internal and external review of the model calculates the exchange rate impact of scheme reimbursement.

Information Security

The Information and Technology Director is the agency's Senior Information Risk Owner. He is supported 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 agency information asset register supplemented by risk assessments and logs of data sharing agreements.

Processes are in place to assess all requests for data sharing and Access to Information. RPA people have been made aware of their obligations relating to information management and security, partly through completing the online 'Responsible for Information' course as an annual assessment. All of the agency's people have successfully completed this assessment in the year April 2013 to March 2014.

There was one incident involving personal data in the year April 2013 to March 2014. This was fully investigated and not found to be systemic.

Information Assessment Maturity Model

As a Defra delivery partner the agency completed its part of the Information Assurance Maturity Model with an overall level 2 score (good), indicating RPA's Information Assurance processes are established within the agency. This is considered to be the appropriate level for the agency for the current level of input.

Effectiveness of internal controls

My executive directors completed annual statements of assurance which assess the effectiveness of our controls as well as highlighting significant issues for the agency. Internal Audit reviewed and challenged each assurance statement and associated evidence log, based on information gathered from its annual programme of work and the agency's risks and gave it a high level of assurance. The Agency Management Board and Audit and Risk Assurance Committee have reviewed and contributed to this governance statement.

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

Audit Findings

The Internal Audit team undertook an annual work programme that was approved by the Executive Team and the Audit and Risk Assurance Committee. The system of internal control was assessed as 'moderate' in the majority of cases. In most reviews, while there were areas for improvement, the basic controls were found to be in place and operating effectively. Although the assessment system has changed since last year, this is clearly an improvement on the position in the year April 2012 and March 2013 when around half of all audit reports issued were rated 'amber' or below, resulting in an overall amber rating for the year. RPA continues to benefit from a clear direction of travel, good operational performance and a settled Executive Team providing strong leadership. During the year, governance structures have remained fairly constant; although in some cases have been challenged to improve to make them more effective with disallowance governance a specific example.

Internal Audit identified some areas during the year where controls were not in place, or not effective, resulting in high priority findings. In each area identified actions plans have been devised, and in some cases, already implemented. There remains a focus on implementing managing actions with Internal Audit providing monthly updates to sponsors and quarterly updates to the Executive Team and Audit Risk and Assurance Committee. These confirm that the picture is significantly better than eighteen months ago although the number of outstanding management actions remains relatively constant as audits are completed. In addition to this, there has been an improvement in risk management maturity across the agency when compared to the benchmark set in 2012.

Overall, while Internal Audit considered RPA to be operating in a high risk environment, it viewed the effectiveness of internal controls to be on an upward trajectory and raised the overall opinion rating to 'moderate' for the period April 2013 and March 2014. Pressures on capacity and capability to maintain 'business as usual' performance while some people are refocused on CAP Delivery, Strategic Alignment – One Business and other Defra initiatives will continue to provide significant challenges and require ongoing management to make sure that any increase in external risks do not outpace development of internal control.

Compliance with governance codes

An informal review carried out against the NAO 'Corporate governance in central government departments: Code of good practice 2011 Compliance Checklist' indicated that RPA complies with the code's principles for an agency of our size, status and legal framework.

Effectiveness of governance arrangements

The new governance arrangements with Defra have reduced the bureaucracy associated with the former Oversight Board while providing the minister and Defra with the necessary assurance on our performance. I have attended quarterly meetings with the responsible Minister with the Corporate Owner but there has only been one meeting with the non-executive chairs. In reviewing the arrangements for 2014, it is proposed to streamline the quarterly meetings with the non-executive chairs attending twice a year.

The Quarterly Performance Review chaired by the Corporate Owner and attended by the Corporate Customer considers our performance information before being submitted to Defra's Supervisory Board and reviews issues arising.

Four new non-executive directors were appointed who have brought a wealth of experience in agriculture and a wider industry perspective to the agency. Alison White completed her term as an independent member of the committee in July 2013.

We can present robust evidence that our governance focus has achieved a step-change in the agency's performance, followed by incremental year-on-year improvement with record-breaking performance and customer satisfaction scores. We are proud of this achievement which I attribute to the time investment by the agency's executive directors, our rigorous project management approach and attention to detail.

Effectiveness of Board performance

I have 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 Board, supplemented by quarterly one-to-one discussions with other non-executives. During the year a number of changes have been introduced including 'buddying' of non-executive directors with executive directors who are not members of the Agency Management Board and the attendance on rotation of those directors at board meetings. This has improved the level of knowledge and awareness of RPA issues and led an open and collaborative atmosphere at board meetings which has been welcomed by executive and non-executive directors alike.

The Board assessed its effectiveness in March 2014 and developed an improvement plan for implementation over the coming year to increase its strategic focus. The Audit and Risk Assurance Committee carried out a survey of its effectiveness in April 2014, which gave assurance of a high level of satisfaction.

Significant issues from 2013-14

Led by the Executive Team, and with the support of our non-executive directors, the agency has focused on improving operational performance for several years. The results have been impressive as has been widely acknowledged by stakeholders, partners and by our customers at large. The major challenge ahead is CAP reform, bringing with it new schemes to be hosted on a major new IT platform currently under development by Defra for implementation in 2015.

a) Preparation for change

The Strategic Improvement Plan (SIP) has helped drive our performance improvements over the past two years, delivering better quality data, processes and improved capability of our people. It was formally closed at the end of March 2014, allowing significant redirection of resources into the CAP Delivery Programme or our own Transition Programme which is preparing the business to receive the new system.

CAP reform has been our highest and increasing risk as the implementation date gets nearer.

b) CAP reform and CAP Delivery Programme

We work closely with Defra's CAP Delivery Programme which is developing the new IT platform, control environments and the associated business change to deliver the new schemes in 2015 as part of the wider Government Digital Transformation programme. A close partnership has been developed and we have contributed subject matter, design and compliance experts to ensure that the new systems will deliver what is needed. Successful delivery requires continued effective governance together with integrated assurance and risk management to ensure that the problems of CAP 2005 are not repeated.

The programme is releasing functionality via a series of controlled releases, starting at the end of July 2014, to reduce the risks associated with a single 'go-live' event.

We will support our customers as they learn about the new schemes, including rules on 'greening', active farming and entitlements, and how to interact with the new system. We are leading a strategic communications exercise, 'CAP Reform Countdown' with Defra, Natural England and the Forestry Commission to help customers prepare for the change.

Defra is pursuing the government's drive to be 'digital by default'. RPA customers have made good progress in adapting to new technology. For the first time, more than 50% of SPS claims were made on-line in 2013 and this further improved to nearly 70% in 2014. However for customers who are genuinely unable to claim on-line we will be developing an 'assisted digital' programme to support them.

c) Other changes

The systems change to implement the Financial Discipline mechanism to deduct 2.45% from SPS payments was identified as a significant risk but in the event, despite late confirmation of the final rate, it was introduced successfully without delaying the opening of the payment window in December 2013. Money deducted through the mechanism constitutes an EU agricultural crisis reserve. The next challenge will be that any unspent funds will have to be reimbursed.

Our work to clear our Accounts Payable and Accounts Receivable balances combined with the implementation of our Debt and Credit Strategy has allowed us to present evidence to the NAO that has resulted in the lifting of the final element of the accounts qualification.

This is a significant achievement and means for the first time since 2007-08 the agency's accounts have a clear audit opinion.

d) Disallowance

Errors and omissions by ourselves or by our customers which are identified in audits result in significant fines or 'disallowance' (penalties) which ultimately fall on the taxpayer. These penalties are often calculated as a flat rate percentage of the total value of the relevant scheme. In the case of multi-million or even billion pound schemes this amounts to significant sums. The total since 2006 amounts to approximately £580 million equivalent to 3.9% of all payments.

Our focus has been on improved systems to reduce the number of errors. This also benefits customers by delivering faster, more accurate payments. However we are still confronting historic errors identified through on-going EU audits of past scheme years. The resulting penalties are often imposed after years of negotiation and conciliation. Audits of the most recent scheme years should result in lower levels of disallowance due to our improved processes and controls.

During the year we reviewed the governance associated with disallowance. To increase awareness and visibility at the highest levels of the agency, the Disallowance and Accreditation Committee has been replaced by quarterly updates at ET, reports to every Audit and Risk Assurance Committee and twice yearly updates to the Agency Management Board. Our close working with Defra's Disallowance Working Group continues.

A new requirement of CAP reform of RPA as the Paying Agency will be to assure the verifiability and controllability of new environmental schemes (Pillar 2). Before accepting a new scheme, we will have to be confident of being able to control it. A higher level of inspections is expected to accompany this new responsibility which is at odds with the government aspiration to reduce the 'red tape' burden on the industry.

e) Strategic Alignment

We are working with Defra on a number of initiatives focused on better working across the department and its network of agencies and arm's length bodies and improvements to customer service. As part of this, the Rural Development Programme for England Delivery Team moved from Defra to RPA in June 2014.

f) Resources

Over the past few years, capacity and capability of our people have been identified as significant risks. Resources will continue to be stretched as we deliver the final year of the Single Payment Scheme, take on board the new IT systems and prepare for the new schemes. There will be heavy demand on subject matter experts and other skilled resource. Recruitment of IT personnel continues to be a challenge.

Our results from the Civil Service People Engagement survey continue to trail the benchmark. Work is in place within directorates to address specific issues. A number of programmes are already well-established, including a development programme for senior leaders and a talent management programme for our two most junior grades which is unusual within the Civil Service. Encouragingly, the area of most significant improvement in the survey is in the 'leadership and managing change' indicator.

Conclusion

The RPA has continued to improve its performance culminating in 2013-14 being the most successful year in the agency's history. This success is due to the people processes and governance, which has helped us achieve the first objective of the five year plan and prepare the way for the bigger challenge ahead of transitioning to new systems and policies.

Mark Grimshaw
Chief Executive Officer
26 June 2014

Pages 17 to 64 form the Director's Report as set out in the Companies Act 2006 (Strategic Report and Director's Report) Regulation 2013.

Comptroller and Auditor General

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 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Rural Payment Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Rural Payment 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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Rural Payment Agency's affairs as at 31 March 2014 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 Strategic Report and Operational Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

- the financial statements and the 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

My report on pages 68 to 70 provides further details of my unqualified opinion on the financial statements.

Sir Amyas C E Morse **1 July 2014**
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

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

Introduction

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

2. 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.

3. 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 payables (representing past underpayments and so amounts due to Scheme claimants) balances.

4. As a result of these difficulties, in 2012-13, I was unable to obtain evidence to support whether the reported Scheme trade receivables and payables balances included all unsettled overpayments or underpayments (completeness).

5. The Agency has made significant progress in 2013-14 in respect of demonstrating the completeness of these receivables and payables balances. As a result I have been able to obtain sufficient appropriate evidence to support the reported figures in the financial statements and issue an unqualified audit opinion. This report provides further detail on these matters.

6. In addition I have reported on other matters of relevance to the Agency's administration of the CAP.

Completeness of Scheme trade receivables and Scheme trade payables

7. Notes 9 and 11 to the 2013-14 financial statements report Scheme trade receivables of £5.1 million (2012-13: £6.7 million) and Scheme trade payables of £8.2 million (2012-13: £16.0 million).

8. In preparation for the new CAP schemes being introduced from 2015, in April 2012, the Agency implemented a 3 year "Strategic Improvement Plan" with the aim of stabilising the Agency in preparation for CAP reform. This comprised a series of 45 projects across 6 main themes.

9. Through the Strategic Improvement Plan the Agency identified customers with no recorded unsettled over or underpayments who were at highest risk of having been over or under paid. The Agency aimed to review these customers' balances within the "Cleanse the AP/AR Ledger" project. The project was approved in March 2013 and was closed in March 2014.

10. I have reviewed the appropriateness of the risk assessment process, confirmed the accuracy of applying the risk assessment to identify customers at higher risk of having unsettled balances and confirmed the accuracy of the Agency's reassessment of these customers' balances.

11. Alongside this testing I have considered the findings of my audit of scheme payments made in previous years. This testing has demonstrated a significant and sustained improvement in the accuracy of payments made by the Agency during the last three years. Consequently there has been a reduction in the risk of there being material unrecorded, unsettled over and underpayments that the Agency should be recognising as Scheme trade receivables and payables balances.

12. I have also considered the cause of Scheme trade receivables and payables balances created in the current year, and confirmed they are not indicative of wider systematic issues that have not been identified and addressed, and which could result in further unrecorded over and under payments.

13. As a result of my testing, and considering the results of the Agency's own work, I have obtained sufficient evidence to support the completeness of the Scheme trade receivables and payables balances as reported in the 2013-14 accounts. I am therefore able to provide a clear opinion on the Scheme trade payables and receivables balances reported at both 31 March 2014 and 31 March 2013.

Other matters of relevance to the administration of the CAP

Disallowance

14. Since the introduction of the Scheme, Defra has accrued or provided for £580 million of financial penalties ("disallowance") from the European Commission because it did not correctly apply Scheme regulations.

15. Defra is responsible for these financial penalties, for which £41.8 million was accrued in 2013-14, as the designated UK Authority for CAP funds. I consider such losses to the Exchequer to be irregular. However, whilst I consider this level of cost to the taxpayer significant, I do not consider this to be material in the context of the £6.3 billion of expenditure recognised in the Department's financial statements and the £3.4 billion of European Commission funded expenditure managed by the Department. I have therefore not qualified my opinion on regularity on the Department's 2013-14 financial statements.

16. The Agency is not responsible for paying disallowance penalties and they are therefore not recorded in the Agency's accounts. Accordingly my opinion on the Agency's accounts is not qualified in this regard.

17. The Agency and Defra currently forecast disallowance penalties, in respect of the Single Payment Scheme, at 2 per cent of scheme expenditure; with weaknesses in quality of data and cross checks considered to be the root cause.

18. The disallowance forecast across all schemes and scheme years is around 2.8 per cent. This is in excess of the 2 per cent Single Payment Scheme forecast due to significantly higher rates of disallowance expected to be applied by the Commission to some of the smaller schemes, such as the Fresh Fruit and Vegetables Aid scheme. Further details are set out in my report on the Defra 2013-14 accounts (HC10).

Strategic Improvement Plan

19. The Agency's Strategic Improvement Plan was closed at the end of March 2014 following completion of 42 of the 45 projects. The remaining 3 projects are due to be completed in 2014-15 and managed through usual governance arrangements. Early closure of the plan reflects significant progress by the Agency in stabilising its operations in readiness for new CAP schemes and systems.

CAP Reform

20. The problems experienced by the Agency and Defra in implementing the 2003 CAP reforms have undoubtedly contributed to the level of disallowance penalties since its introduction in 2005.

21. The European Commission is planning major changes to the way CAP works, with the aim of creating a more effective policy for a more competitive and sustainable agriculture industry and vibrant rural areas. The Agency has been working with Defra and other delivery bodies to ensure the successful delivery of the new schemes, which are expected to be more complex and based on as yet unconfirmed regulations.

22. To do this, the CAP Delivery Programme was established by Defra to procure, develop and implement new systems and processes to support the new schemes. The development of these new systems and processes is key to the successful delivery of future CAP schemes and minimising disallowance going forward. The Agency is working with the Programme team to develop the specifications and procure the replacement systems that will deliver CAP reform obligations, to mitigate the risk of errors similar to those which arose from the introduction of CAP 2005. Further details are set out in my report on the Defra accounts (HC10).

Sir Amyas C E Morse
Comptroller and Auditor General

1 July 2014

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial Report

Rural Payments Agency

Resource Accounts

2013-2014

Statement of Comprehensive Net Expenditure for the Year to 31 March 2014

		Year to 31 March 2014		Year to 31 March 2013	
	Note	£000	£000	£000	£000
Administration costs					
Staff	2	39,705		41,453	
Others	3	46,784		55,574	
		86, 489		97,027	
Programme expenditure					
Staff	2	39,399		48,804	
Others	3	25,846		23,836	
		65,245		72,640	
Programme income	4	(686)		(603)	
Net running costs			151, 048		169, 064
Scheme costs					
Rural Payments Agency					
Costs	5	1,700,387		1,706,082	
Income	5	(1,705,129)		(1,707,769)	
		(4,742)		(1,687)	
Other paying agencies					
Costs	6	1,203,886		1,172,910	
Income	6	(1,204,305)		(1,172,477)	
		(419)		433	
Net scheme income - programme			(5,161)		(1,254)
Net operating costs			145, 887		167, 810

The agency's expenditure and income is split between administration or programme as defined by HM Treasury, see Note 1.25.

The Notes on pages 79 to 121 form part of these accounts.

Other Comprehensive Expenditure

	Note	Year to 31 March 2014 £000	Year to 31 March 2013 £000
Net operating cost		**145,887**	167,810
Net loss/(gain) on revaluation of property, plant and equipment	**14**	**442**	(578)
Net loss/(gain) on revaluation of intangible assets	**14**	**55**	(1,699)
Movement in cash flow hedge reserve		**(1,827)**	8,011
Total comprehensive expenditure for the period		**144,557**	173,544

The Notes on pages 79 to 121 form part of these accounts.

Statement of Financial Position as at 31 March 2014

	Note	Year to 31 March 2014		Year to 31 March 2013	
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	7	3,165		4,083	
Intangible assets	8	15,917		28,236	
Derivative assets	13	298		56	
Total non-current assets			19,380		32,375
Current assets					
Trade receivables and other current assets	9	335,326		421,155	
Derivative asset	13	2,133		3,628	
Cash and cash equivalents	10	155,851		95,479	
Total current assets			493,310		520,262
Total assets			512,690		552,637
Current liabilities					
Trade payables and other current liabilities	11	(132,400)		(54,499)	
Derivative liability	13	(801)		(13,728)	
Provisions for liabilities and charges	12	(1,267)		(3,025)	
Total current liabilities			(134,468)		(71,252)
Non-current assets plus net current assets			378,222		481,385
Non-current liabilities					
Trade payables and other liabilities	11	(16,996)		(113,052)	
Derivative liability	13	(298)		(56)	
Provisions for liabilities and charges	12	(532)		(976)	
Total non-current liabilities			(17,826)		(114,084)
Assets less liabilities			360,396		367,301
Taxpayers' equity					
General fund			359,225		366,294
Cash flow hedge reserve			(5)		(1,832)
Revaluation reserve	14		1,176		2,839
Total taxpayers' equity			360,396		367,301

The Notes on pages 79 to 121 form part of these accounts.

Mark Grimshaw
Chief Executive Officer
26 June 2014

Statement of Cash Flows for the Year to 31 March 2014

Cash flows from operating activities		Year to 31 March 2014	Year to 31 March 2013
	Note	£000	£000
Net operating cost		**(145,887)**	(167,810)
Adjustment for non-cash items included in other running costs	3	**15,844**	17,229
Adjustment for non-cash items included in other running costs income	4	**(598)**	(533)
Movement in provisions		**(2,202)**	(4,697)
Adjustment for derivative financial instruments		**(9,605)**	19,555
Net operating cash outflow before movements in working capital		**(142,448)**	(136,256)
Decrease in inventories		**-**	2,132
Decrease in trade receivables and other current assets		**85,829**	106,841
Decrease in trade payables and other current liabilities		**(18,785)**	(32,490)
Net cash outflow from operating activities		**(75,404)**	(59,773)
Cash flows from investing activities			
Purchase of property plant and equipment		**(1,194)**	(349)
Purchase of intangible assets		**(526)**	(1,451)
Proceeds of disposal of non-current assets		**-**	360
Net cash outflow from investing activities		**(1,720)**	(1,440)
Cash flows from financing activities			
Financing by Defra		**2,761,100**	2,755,000
Financing to Defra		**(2,425,000)**	(2,630,000)
Payments for Rural Development Programme for England on behalf of Defra		**(551,813)**	(501,471)
Receipts for Rural Development Programme for England on behalf of Defra		**458,435**	385,150
Funding of foreign exchange losses on sugar production charges on behalf of HM Treasury		**-**	(151)
Disallowance transfer to Defra		**(104,792)**	(23,518)
Capital element of payments in respect of finance leases		**(434)**	(826)
Net cash inflow/(outflow) from financing activities		**137,496**	(15,816)
Increase/(decrease) in cash and cash equivalents in the period		**60,372**	(77,029)
Cash and cash equivalents at 1 April	10	**95,479**	172,508
Cash and cash equivalents at 31 March	10	**155,851**	95,479

The Notes on pages 79 to 121 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2014

	Note	General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers' equity
		£000	£000	£000	£000
Balance at 1 April 2013		366,294	(1,832)	2,839	367,301
Net operating cost		(145,887)	-	-	(145,887)
Transfer from Revaluation Reserve to General fund:					
• Property, plant and equipment	14	48	-	(48)	-
• Intangible assets	14	1,118	-	(1,118)	-
Arising on revaluation during the year (net)		-	-	(497)	(497)
Notional charges		(278)	-	-	(278)
Gain on Cash flow hedges		-	27,425	-	27,425
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	13	-	(25,598)	-	(25,598)
Total recognised expense for period ended 31 March 2014		(144,999)	1,827	(1,663)	(144,835)
Financing by Defra		2,761,100	-	-	2,761,100
Financing to Defra		(2,425,000)	-	-	(2,425,000)
Payments for Rural Development Programme for England on behalf of Defra		(551,813)	-	-	(551,813)
Receipts for Rural Development Programme for England on behalf of Defra		458,435	-	-	458,435
Disallowance transfer to Defra		(104,792)	-	-	(104,792)
Balance at 31 March 2014		359,225	(5)	1,176	360,396

The Notes on pages 79 to 121 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 taxpayers' equity
		£000	£000	£000	£000
Balance at 1 April 2012		546,705	6,179	2,073	554,957
Net operating cost		(167,810)	-	-	(167,810)
Transfer from Revaluation Reserve to General fund:					
• Property plant and equipment	14	319	-	(319)	-
• Intangible assets	14	1,192	-	(1,192)	-
Arising on revaluation during the year (net)		-	-	2,277	2,277
Notional charges		878	-	-	878
Losses on Cash flow hedges		-	(196,865)	-	(196,865)
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	13	-	188,854	-	188,854
Total recognised expense for period ended 31 March 2013		(165,421)	(8,011)	766	(172,666)
Financing by Defra		2,755,000	-	-	2,755,000
Financing to Defra		(2,630,000)	-	-	(2,630,000)
Payments for Rural Development Programme for England on behalf of Defra		(501,471)	-	-	(501,471)
Receipts for Rural Development Programme for England on behalf of Defra		385,150	-	-	385,150
Funding of foreign exchange losses on sugar production charges on behalf of HM Treasury	22	(151)	-	-	(151)
Disallowance transfer to Defra		(23,518)	-	-	(23,518)
Balance at 31 March 2013		366,294	(1,832)	2,839	367,301

The Notes on pages 79 to 121 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 2013-14 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS's) as adapted for the public sector.

Where the FReM allows a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the agency for the purpose of giving a true and fair view has been selected. They have been applied consistently in the current and preceding year in dealing with items considered material in relation to the accounts.

The financial statements are prepared on a going concern basis.

1.1 Accounting convention

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

1.2 Property, plant and equipment

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

These assets are not subject to annual revaluations.

1.3 Intangible assets

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

1.4 Depreciation and amortisation

Depreciation and amortisation are provided at rates estimated to write off the valuation of property, plant and equipment, and intangibles on a straight line basis, over the estimated useful life of the asset, taking into account residual value (if it applies).

Assets are depreciated/amortised from the month after they are available for use.

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

Depreciation	Years	Amortisation	Years
IT hardware: Laptops, printers, and similar equipment	3	IT software	5
Communications	5	IT licences	up to 7
Servers	up to 7		
Office machinery	5		
Right of use assets	8		
Others	5-25		

1.5 Impairment

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

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

Downward revaluations, resulting from changes in market value, only result in 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.

1.6 Right of use assets

The agency benefits from participation in Defra's contract with IBM for the supply of IT services. The contract is for a term of 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 eight year contract. A matching asset has been raised to reflect the benefit that the agency will derive from having access to IBM's IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with Defra's depreciation policy. These IT infrastructure assets, which consist of laptops, servers, and hardware, are classified as right of use assets under property, plant and equipment in Note 7.

1.7 Leased assets

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

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

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

1.8 Defra properties occupied by the agency

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

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

1.9 Agency scheme income and expenditure

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

Single Payment Scheme income for England is recognised by the agency when it is probable that it will receive a reimbursement from the European Commission for scheme expenditure incurred and the amount to be received from the European Commission is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised, that is, upon the completion of all substantive processes to validate and reliably measure each claim. For all other European Agricultural Guarantee Fund schemes administered by the agency an accrual point has been established according to the applicable scheme rules and regulations. Where a present obligation for payment is identified to fall on or before the Statement of Financial Position date, it is shown as a payable in the current year's financial statements with 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.

1.10 Accounting for sugar charges

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. All amounts collected or accrued are subsequently surrendered to the European Commission via HM Treasury.

In accordance with the 'Whole of Government Accounts ' of the 2013-14 FReM, the agency has excluded revenue collected from sugar production charges from the financial statements. All related expenditure, assets and liabilities have also been excluded. The agency does not consider these amounts to be material to the entity for either the current or prior year accounting period and separate trust statements have not been prepared. The amounts excluded are disclosed in Note 22 of these financial statements.

1.11 Other UK paying agencies' income and costs

Other UK paying agencies make payments to claimants under both the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The payments made by the other UK paying agencies are funded by the agency and subsequently recovered by the agency from the European Commission. Scheme expenditure in relation to funding provided by the agency is recognised when the agency has a present obligation to make payment to the other UK paying agencies and the amount payable is considered reliably measurable and probable. These conditions are deemed to be met upon the receipt of a funding request from the other UK paying agencies, adjusted for amounts unspent by the paying agencies at period end.

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

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

1.12 Modulation

Modulation is a process for redirecting a proportion of Single Payment Scheme payments to farmers and other claimants, to the budget for Rural Development schemes. This process is supported by the European Commission and national legislation. Under these arrangements there are two types of modulation - National (or Voluntary) modulation and European Commission (or Compulsory) modulation.

Both types of modulation reduce the net amounts paid to farmers and other claimants and therefore the scheme expenditure reported within these accounts is net of modulation, with the funds retained in the first instance by the European Commission. Modulation funds are reclaimed from the European Commission when the rural development expenditure is incurred.

National modulation

The national modulation rates are set out in national legislation for each UK paying agency (England, Scotland, Wales and Northern Ireland). For England the following rates have been set:

Scheme year	2012	2013
Banding/modulation deduction percentages		
Up to €5,000	14%	14%
€5,000 to €300,000	9%	9%
Greater than €300,000	5%	5%

European Commission modulation

The European Commission modulation rates set out in European legislation are as follows:

Scheme year	2012	2013
Banding/modulation deduction percentages		
Up to €5,000	0%	0%
€5,000 to €300,000	10%	10%
Greater than €300,000	14%	14%

1.13 European Commission funding of schemes administered by the agency

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

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

1.14 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.

1.15 Foreign currency transactions

The functional and presentation currency of the agency is sterling.

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

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

These foreign currency transactions are recognised as scheme income and scheme expenditure at the rates of exchange prevailing on the dates of recognition of those transactions as described in Notes 1.9, 1.11 and 1.13. At each Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in the Statement of Comprehensive Net Expenditure in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks, see Note 1.16 and Note 1.17.

1.16 Derivative financial instruments

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

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

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset or current liability if the remaining maturity of the instrument is less than12 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.

1.17 Hedge accounting

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

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

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

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

1.18 Trade receivables

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

1.19 Pensions

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

1.20 Provisions

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

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

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

1.21 Early departure costs

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

1.22 Contingent assets and liabilities

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not 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.

1.23 Operating segments

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

For segmental reporting during 2013-14, Defra uses major areas of spend as reported monthly to the Defra Management Committee. The agency represents one of these discrete areas of spend. As in previous years, the Chief Executive Officer continued to review and monitor the agency's operational and financial performance at this aggregated level as presented in Defra's financial statements.

1.24 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

a) Recoverability and useful lives of intangible assets:

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

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

b) Allowances for doubtful debt:

The Chief Executive Officer, in his capacity as Accounting Officer, periodically assesses the recoverability of trade receivables and recognises an allowance for doubtful debt for those receivables for which partial or full recovery is not probable. In this assessment the factors considered include the credit quality and ageing of the receivables, historical trends on recoverability, the opportunity to recover through interception of future payments, the ability to net settle with the customer and the ability to agree a payment plan with the customer involved. The agency has a legacy of older receivables resulting from historic data integrity issues on the introduction of the Single Payment Scheme in 2005 for which the ageing and bad debt allowance details are provided in Note 9 of these accounts.

1.25 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 2013-14.

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 Note 5.

1.26 Cash and cash equivalents

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

1.27 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.

1.28 Financial penalties

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

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

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

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

1.29 Adoption of new and revised standards

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

IFRS 9 Financial Instruments - Classification and Measurement; and IFRS 13 Fair Value Measurement.

The agency plans to adopt both of these standards once required to do so by the FReM. For IFRS 13 this is likely to be from 1 April 2015, whereas for IFRS 9 this is unlikely to occur before 2017.

The agency does not anticipate material adjustments to the financial statements following the introduction of either standard.

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 2014 Total
	£000	£000	£000	£000	£000	£000	£000
Wages and salaries	24,934	43	24,977	30,418	-	30,418	55,395
Social security costs	2,007	3	2,010	2,070	-	2,070	4,080
Other pension costs	4,623	7	4,630	5,272	-	5,272	9,902
Early retirement and early severance costs							
Expensed in the year	-	-	-	2,710	-	2,710	2,710
Released	-	-	-	(43)	-	(43)	(43)
Unwinding of discount	-	-	-	23	-	23	23
	31,564	53	31,617	40,450	-	40,450	72,067
Less recoveries in respect of secondments			(1,616)			(1,051)	(2,667)
Agency staff			317			-	317
Contractors*			9,387			-	9,387
Total staff costs			39,705			39,399	79,104

* Included in contractors costs are remuneration fees for a NAO secondee of £75k (2012-13: £24k).

No staff costs have been capitalised (2012-13: £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 2013 Total
	£000	£000	£000	£000	£000	£000	£000
Wages and salaries	23,365	41	23,406	36,108	-	36,108	59,514
Social security costs	1,912	4	1,916	2,400	-	2,400	4,316
Other pension costs	4,314	9	4,323	6,208	-	6,208	10,531
Early retirement and early severance costs							
Expensed in the year	-	-	-	4,095	-	4,095	4,095
Released	-	-	-	(1)	-	(1)	(1)
Unwinding of discount	-	-	-	50	-	50	50
	29,591	54	29,645	48,860	-	48,860	78,505
Less recoveries in respect of secondments			(524)			(56)	(580)
Agency staff			1,172			-	1,172
Contractors			11,160			-	11,160
Total staff costs			41,453			48,804	90,257

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 2014	Administration	Programme	Year to 31 March 2013
Permanently employed staff	**751**	**1,300**	**2,051**	718	1,563	2,281
Agency	**20**	**-**	**20**	45	-	45
Contractors	**67**	**-**	**67**	63	-	63
Total	**838**	**1,300**	**2,138**	826	1,563	2,389

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.

2.2 Pension schemes

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

The contribution rates are set to meet the cost of benefits during 2013-14 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

For 2013-14 employer's contributions of £9.7m (2012-13: £10.4m) were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme actuary 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 2013-14 employer's contributions of £123k were paid to one or more of a panel of three appointed stakeholder providers. Employer's contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition employer's contributions of £8.7k, 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 £10.2k (2012-13: £11.2k). 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 (http://www.civilservice.gov.uk/pensions/scheme-guides).

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

	Year to 31 March 2014	Year to 31 March 2013	Year to 31 March 2014	Year to 31 March 2013
Exit package cost band	Number of other departures agreed		Total value of other departure packages by cost band (total cost)	
Up to £10,000	4	27	36	237
£10,001 - £25,000	62	118	1,010	1,800
£25,001 - £50,000	37	39	1,299	1,361
£50,001 - £100,000	4	8	238	496
£100,001 - £150,000	1	-	113	-
£150,001 - £200,000	-	-	-	-
Total number of exit packages and costs	108	192	2,696	3,894

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

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, 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 2013-14 there were nil Compulsory Redundancies (2012-13: nil).

3. Other running costs

		Administration	Programme	Year to 31 March 2014	Administration	Programme	Year to 31 March 2013
	Note	£000	£000	£000	£000	£000	£000
Rentals under operating leases:							
Rent on buildings		2,939	-	2,939	3,275	-	3,275
Non cash items (including notional charges):							
Audit fees (notional)*		320	-	320	400	-	400
Shared Services Defra		-	-	-	1,011	-	1,011
Loss on disposal of non-current assets		12	364	376	34	11	45
Depreciation	7	1,698	169	1,867	2,023	208	2,231
Amortisation	8	1,321	11,960	13,281	1,325	12,217	13,542
		3,351	12,493	15,844	4,793	12,436	17,229
Other Expenditure:							
Accommodation		6,605	-	6,605	7,218	5	7,223
IT costs		19,724	8,808	28,532	17,700	8,180	25,880
Project costs		6,136	50	6,186	15,089	368	15,457
Other running costs		3,269	165	3,434	2,340	(1,238)	1,102
Non payroll staff costs		1,398	1,825	3,223	1,248	1,541	2,789
Communications costs		3,219	237	3,456	3,583	433	4,016
Agents fees		-	1,015	1,015	73	926	999
Finance lease interest		143	-	143	255	-	255
Certifying Body (NAO) grant certification fee*		-	1,253	1,253	-	1,185	1,185
		40,494	13,353	53,847	47,506	11,400	58,906
		46,784	25,846	72,630	55,574	23,836	79,410

*In addition to these fees there is a remuneration fee for a NAO secondee of £75k (2012-13: £24k), see Note 2.1.

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 2014	Administration	Programme	Year to 31 March 2013
	£000	**£000**	**£000**	£000	£000	£000
Payroll costs	**-**	**496**	**496**	-	478	478
Other costs	**-**	**11**	**11**	-	52	52
Certifying Body (NAO) grant certification fee	**-**	**1,253**	**1,253**	-	1,185	1,185
	-	**1,760**	**1,760**	-	1,715	1,715

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

4. Running costs income

	Administration	Programme	Year to 31 March 2014	Administration	Programme	Year to 31 March 2013
	£000	**£000**	**£000**	£000	£000	£000
DIS income	**-**	**(598)**	**(598)**	-	(533)	(533)
Other running costs income	**-**	**(88)**	**(88)**	-	(70)	(70)
Total	**-**	**(686)**	**(686)**	**-**	(603)	(603)

Running costs income includes £0.6m (2012-13: £0.5m) notional income relating to services provided across Defra by the Defra Investigation Services (DIS), which is part of the agency.

5. Schemes administered by the agency

	Year to 31 March 2014			Year to 31 March 2013		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
Single Payment Scheme*	1,671,523	(1,671,773)	(250)	1,678,815	(1,671,895)	6,920
Internal Trade - Horticulture	26,285	(26,141)	144	27,173	(27,211)	(38)
Internal Trade - other	3,077	(3,111)	(34)	4,143	(3,988)	155
Other scheme	2,835	(2,708)	127	4,494	(4,475)	19
	1,703,720	(1,703,733)	(13)	1,714,625	(1,707,569)	7,056
Other scheme related costs**	166	-	166	2,895	-	2,895
Cost of hedging contracts	(336)	-	(336)	(812)	-	(812)
Realised exchange gain	(1,453)	-	(1,453)	(10,353)	-	(10,353)
Unrealised exchange gain	(1,724)	-	(1,724)	(273)	-	(273)
Derivative ineffectiveness	14	-	14	-	-	-
Other scheme related income	-	(1,396)	(1,396)	-	(200)	(200)
Total scheme expenditure/(income)	1,700,387	(1,705,129)	(4,742)	1,706,082	(1,707,769)	(1,687)

*SPS income includes an increase of £4.4m (2012-13: a reduction of £16.4m) resulting from foreign exchange hedging transactions, see Note 13.

**Other scheme related costs include losses, special payments and movements in the allowance for doubtful debts and provisions.

6. Other paying agencies and delegated authorities

	Year to 31 March 2014			Year to 31 March 2013		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Other paying agencies*						
SGRPID	**588,943**	**(589,612)**	**(669)**	590,319	(590,022)	297
WG	**289,708**	**(289,646)**	**62**	291,336	(291,299)	37
DARDNI	**323,440**	**(323,136)**	**304**	288,407	(288,338)	69
	1,202,091	**(1,202,394)**	**(303)**	1,170,062	(1,169,659)	403
Delegated authorities						
FC	**1,795**	**(1,911)**	**(116)**	2,848	(2,818)	30
	1,795	**(1,911)**	**(116)**	2,848	(2,818)	30
Total scheme expenditure/(income)	**1,203,886**	**(1,204,305)**	**(419)**	1,172,910	(1,172,477)	433

*OPAs income in 2013-14 includes an increase of £1.6m (2012-13: a reduction of £10.6m) resulting from foreign exchange hedging transactions, see Note 13.

SGRPID - Scottish Government Rural Payments & Investigation Directorate
WG - Welsh Government
DARDNI - Department of Agricultural 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. This expenditure and associated income is included above.

7. Property, plant and equipment

	Information technology hardware and office machinery	Right of use assets	Others	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2013	19,047	962	23	20,032
Additions	1,302	89	-	1,391
Disposals	(761)	-	(18)	(779)
Revaluations	(1,618)	-	-	(1,618)
At 31 March 2014	17,970	1,051	5	19,026
Depreciation				
At 1 April 2013	15,291	635	23	15,949
Charged in year	1,772	95	-	1,867
Disposals	(761)	-	(18)	(779)
Revaluations	(1,176)	-	-	(1,176)
At 31 March 2014	15,126	730	5	15,861
Net Book Value				
At 1 April 2013	3,756	327	-	4,083
At 31 March 2014	2,844	321	-	3,165
Assets Financing				
Owned	2,844	-	-	2,844
Finance leased	-	321	-	321
Net Book Value at 31 March 2014	2,844	321	-	3,165

Included in property, plant and equipment are assets with historic cost of £9.6m (2012-13: £8.8m) which have been fully depreciated. These assets are still in use by the agency.

7. Property, plant and equipment (continued)

	Information technology hardware and office machinery	Right of use assets	Others	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2012	22,733	1,324	27	24,084
Additions	591	-	-	591
Disposals	(4,532)	(362)	(4)	(4,898)
Reclassification	-	-	-	-
Revaluations	255	-	-	255
At 31 March 2013	19,047	962	23	20,032
Depreciation				
At 1 April 2012	18,057	474	27	18,558
Charged in year	2,070	161	-	2,231
Disposals	(4,513)	-	(4)	(4,517)
Reclassification	-	-	-	-
Revaluations	(323)	-	-	(323)
At 31 March 2013	15,291	635	23	15,949
Net Book Value				
At 1 April 2012	4,676	850	-	5,526
At 31 March 2013	3,756	327	-	4,083
Assets Financing				
Owned	3,480	-	-	3,480
Finance leased	276	327	-	603
Net Book Value at 31 March 2013	3,756	327	-	4,083

8. Intangible assets

	Information technology	Software licences	Development expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2013	162,398	8,008	113	170,519
Additions	832	423	138	1,393
Disposals	(8,048)	(77)	-	(8,125)
Revaluations	(378)	(684)	-	(1,062)
At 31 March 2014	154,804	7,670	251	162,725
Amortisation				
At 1 April 2013	136,658	5,625	-	142,283
Charged in year	12,359	922	-	13,281
Disposals	(7,684)	(65)	-	(7,749)
Revaluations	(488)	(519)	-	(1,007)
At 31 March 2014	140,845	5,963	-	146,808
Net Book Value				
At 1 April 2013	25,740	2,383	113	28,236
At 31 March 2014	13,959	1,707	251	15,917
Assets Financing				
Owned	13,959	1,707	251	15,917
Finance leased	-	-	-	-
Net Book Value at 31 March 2014	13,959	1,707	251	15,917

During 2013-14 there were £nil impairment losses (2012-13: £nil).

Included in the intangible assets table are assets with a historic cost of £44.3m (2012-13: £48.7m) 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 Single Payment Scheme 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 capitalised expenditure will be fully amortised by 31 March 2015. The Net Book Value as at 31 March 2014 was £7.8m (31 March 2013: £17.2m).

8. Intangible assets (continued)

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

9. Trade receivables and other current assets

Amounts falling due within one year

	31 March 2014	31 March 2013
	£000	£000
Due from Defra and its agencies	**2,432**	872
Due from other government departments (including OPAs)	**5,679**	10,878
VAT recoverable	**1,607**	1,628
Total Intra -government balances	**9,718**	13,377
Trade receivables*	**8,061**	10,884
less allowance for doubtful debts*	**(2,501)**	(3,718)
	5,560	7,166
Due from European Agricultural Guarantee Fund/ European Agricultural Fund for Rural Development	**317,527**	399,808
Prepayments and other receivables	**2,521**	803
Total other receivables	**325,608**	407,778
Total receivables	**335,326**	421,155

*Included within these balances are £5.1m in relation to Single Payment Scheme receivables, and £1.7m of Single Payment Scheme allowance for doubtful debts (2012-13: £6.7m and £2.1m respectively). Single Payment Scheme trade receivables represent adjustments to amounts previously paid to customers arising as a consequence of errors made by customers, process errors or system errors.

The credit period for 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. The agency has an ability to charge interest on overdue balances, however it is the agency's policy to not charge interest on Single Payment Scheme balances.

Trade receivables disclosed above include amounts (see following table for aged analysis) which are past due at the reporting date but against which the agency has not recognised an allowance for doubtful debt because the amounts are still considered recoverable. The agency does not hold any collateral or other credit enhancements over these balances.

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. The average age of the past due but not impaired receivables at 31 March 2014 is 196 days (2012-13 (restated): 486 days).

9. Trade receivables and other current assets (continued)

Ageing of past due but not impaired receivables:

	31 March 2014	31 March 2013
	£000	£000
30 days - 6 months	**733**	394
6 months - 1 year	**30**	124
1 year - 18 months	**2**	73
Over 18 months	**117**	732
Total	**881**	1,323

Movement in the allowance for doubtful debts:

	31 March 2014	31 March 2013
	£000	£000
Balance at the beginning of the period	**(3,718)**	(8,313)
Reversal of impairment losses	**(110)**	3,227
Amounts written off during the year as uncollectible	**1,327**	1,368
Balance at the end of the period	**(2,501)**	(3,718)

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 2014	31 March 2013
	£000	£000
30 days - 6 months	**1,605**	2,160
6 months - 1 year	**1,236**	853
1 year - 18 months	**990**	342
Over 18 months	**1,191**	2,454
Total	**5,022**	5,809

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

10. Cash and cash equivalents

	31 March 2014	31 March 2013
	£000	£000
Balances held at 1 April	**95,479**	172,508
Net cash inflow/(outflow)	**60,372**	(77,029)
Total balance	**155,851**	95,479

The following balances were held at 31 March:

	31 March 2014	31 March 2013
	£000	£000
Government Banking Services	**155,842**	95,464
Commercial banks and cash in hand	**9**	15
Total balance	**155,851**	95,479

The closing balance of third party money held as cash securities at 31 March 2014 was £2.1m (2012-13: £2.7m). Of this, £2.0m (2012-13: £2.0m) was held in a public bank account.

At 31 March 2014 the cash equivalent balance was £nil (2012-13: £nil).

11. Trade payables and other current liabilities

Amounts falling due within one year

	31 March 2014	31 March 2013
	£000	£000
Due to Defra and its agencies	**9,119**	7,991
Due to other government departments (including OPA's)	**5,945**	4,692
Other taxation and social security	**1,183**	1,399
Total Intra -government balances	**16,247**	14,082
Trade payables*	**9,229**	16,877
Cash securities**	**2,074**	2,710
Scheme accruals	**1,569**	9,055
Running cost accruals	**8,003**	9,952
Other payables	**1,284**	1,259
Finance leases	**162**	564
Advances on Rural Development Programmes	**93,832**	-
Total other payables	**116,153**	40,417
Total payables	**132,400**	54,499

Amounts falling due after more than one year

Advances on Rural Development Programmes	**16,567**	112,591
Finance leases	**429**	461
Total	**16,996**	113, 052
Total trade payables and other liabilities	**149,396**	167,551

*Trade payables represent adjustments to amounts 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. Included in these balances are £8.2m in relation to Single Payment Scheme payables (31 March 2013: £16.0m).

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

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 2014, the agency considers that the fair value of the advances received on Rural Development Programmes for Defra and OPAs to be £110.4m (compared with 2012-13: £112.6m).

The agency consider the fair value of finance lease liabilities at 31 March 2014 to be £0.6m (2012-13: £1.0m), see Note 16.2.

12. Provisions for liabilities and charges

	Running cost provisions	Scheme related provisions	Total
	£000	£000	£000
Balance at 1 April 2013	2,913	1,088	**4,001**
Provided in the year	146	-	**146**
Released	(43)	-	**(43)**
Utilised	(2,040)	(288)	**(2,328)**
Unwinding of discount	23	-	**23**
Balance at 31 March 2014	**999**	**800**	**1,799**
Analysed as:			
Current	467	800	**1,267**
Non-current	532	-	**532**
Balance at 31 March 2014	**999**	**800**	**1,799**
Analysis of expected timing of discounted flows:			
No later than one year	467	800	**1,267**
Later than one year and not later than five years	506	-	**506**
Later than five years	26	-	**26**
Balance at 31 March 2014	**999**	**800**	**1,799**
Balance at 1 April 2012	4,935	3,763	8,698
Provided in the year	4,095	1,000	5,095
Released	(1)	(600)	(601)
Utilised	(6,166)	(3,075)	(9,241)
Unwinding of discount	50	-	50
Balance at 31 March 2013	2,913	1,088	4,001
Analysed as:			
Current	1,937	1,088	3,025
Non-current	976	-	976
Balance at 31 March 2013	2,913	1,088	4,001
Analysis of expected timing of discounted flows:			
No later than one year	1,937	1,088	3,025
Later than one year and not later than five years	904	-	904
Later than five years	72	-	72
Balance at 31 March 2013	2,913	1,088	4,001

12.1 Running cost provisions

Running cost provisions include the early retirement and severance costs of former employees to be fully paid by April 2020. During 2013-14 £1.0m of dilapidation provision carried forward from 2012-13, was utilised bringing that provision to £nil.

12.2 Scheme related 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 provisions made where the agency considers payment to be probable and can be measured reliably.

13. 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 2014	31 March 2013
	£000	£000
Financial Assets		
Trade receivables and other current assets	**334,447**	420,432
Cash and cash equivalents	**155,851**	95,479
Derivative instruments classified as held for trading	**2,176**	3,297
Derivative instruments in designated hedge accounting relationships	**255**	387
Sub-total of derivatives assets	**2,431**	3,684
Financial Liabilities		
Trade payables and other liabilities	**148,661**	165,230
Derivative instruments classified as held for trading	**1,099**	2,995
Derivative instruments in designated hedge accounting relationships	**-**	10,789
Sub-total of derivatives liabilities	**1,099**	13,784
Other:		
Financial Guarantee Contracts		
Cash securities	**2,074**	2,710
Non cash guarantees	**1,402,963**	791,300

Cash on deposit at 31 March 2014 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 11. No interest is paid to traders on cash balances lodged with the agency as security.

Securities may also be in the form of a non-cash guarantee by a bank or an insurance company acceptable to the agency. Sterling guarantees totalling £582.9m and euro guarantees totalling €992.9m (£820.1m) were held at 31 March 2014 (£358.0m and €512.4m (£433.3m) at 31 March 2013).

The interest rate applicable to these guarantees is nil.

13. Financial Instruments (continued)

Financial Risk Management Policies

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

Market risks

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

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

Foreign currency denominated monetary assets and monetary liabilities

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

	Assets 31 March 2014	Assets 31 March 2013	Liabilities 31 March 2014	Liabilities 31 March 2013
	£000	£000	**£000**	£000
Euro	**361, 969**	435, 312	**110,398**	112,591

13. Financial Instruments (continued)

Sensitivity analysis

The following table details the agency's sensitivity to a 10% increase and decrease in sterling against the euro. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for 10% change in foreign currency rates.

For net operating costs a positive number indicates a decrease in net operating costs whereas a negative number indicates an increase in net operating cost. For Taxpayers' equity a positive number indicates an increase in Taxpayers' equity whereas a negative number indicates a decrease in Taxpayers' equity.

	Impact of movement in Euro/Sterling rate Sterling appreciates by 10%		Impact of movement in Euro/Sterling rate Sterling depreciates by 10%	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost*	**(25,092)**	(32,003)	**25,092**	32,003
Derivative instruments:				
(Increase)/decrease in Net operating cost**	**34,235**	14,360	**(33,764)**	(12,903)
Increase/(decrease) in Taxpayers' Equity***	**2,161**	24,100	**(2,161)**	(22,643)

*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.

	Average Exchange Rate 31 March 2014	Foreign Currency 31 March 2014	Notional Value 31 March 2014	Fair Value 31 March 2014
	Euro: Sterling	€000	£000	£000
Current derivative assets	0.83342	285,547	237,980	2,133
Non-current derivative assets	0.85275	19,296	16,455	298
Current derivative liabilities	0.82152	161,708	132,847	(764)
Current derivative liabilities	0.83196	(6,571)	(5,467)	(37)
Non-current derivative liabilities	0.85275	(19,296)	(16,455)	(298)

13. Financial Instruments (continued)

During the year the agency entered into forward exchange contracts to hedge the monthly euro denominated receipts in relation to the Single Payment Scheme. As at 31 March 2014, the aggregate amount of losses under forward foreign exchange contracts deferred to the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £5k. 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 2014, there are no gains or losses deferred to the cash flow hedge reserve in respect of Rural Development Programme contracts.

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 2013-14 £14k (2012-13: £nil) has been recognised in the Statement of Comprehensive Net Expenditure arising from hedge ineffectiveness, see Note 5.

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

Own credit risk and counterparty credit risk.

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

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

	Year to 31 March 2014
	£000
Agency - scheme income	4,420
Other paying agencies - scheme income	1,586
Gains - scheme expenditure	19,592
Total transferred to Statement of Comprehensive Net Expenditure	25,598

13. Financial Instruments (continued)

Credit risks

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

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

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

Liquidity risks

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

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

Liquidity tables

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

	0 - 3 months	3 months to 1 year	1 - 5 years	Greater than 5 years	Total
	£000	£000	£000	£000	£000
31 March 2014					
Non-interest bearing	**37,672**	**93,832**	**16,567**	**-**	**148,071**
Finance lease liability	**43**	**130**	**522**	**-**	**695**
31 March 2013					
Non-interest bearing	51,614	-	112,591	-	164,205
Finance lease liability	168	503	585	-	1,256

13. Financial Instruments (continued)

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 2014					
Non-interest bearing	**333,060**	**1,387**	**-**	**-**	**334,447**
31 March 2013					
Non-interest bearing	420,432	-	-	-	420,432

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 less than or equal	More than 6 months but less than or equal	Greater than 1 year	Total
	£000	£000	£000	£000	£000
Derivative Liabilities					
31 March 2014					
Gross settled: Foreign exchange forward contracts	**748**	**-**	**-**	**517**	**1,265**
31 March 2013					
Gross settled: Foreign exchange forward contracts	13,771	-	-	202	13,973
Derivative Assets					
31 March 2014					
Gross settled: Foreign exchange forward contracts	**2,025**	**123**	**-**	**518**	**2,666**
31 March 2013					
Gross settled: Foreign exchange forward contracts	3,572	175	-	202	3,949

14. Revaluation reserve

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

	Property, plant and equipment	Intangible assets	Total
	£000	£000	£000
Balance at 31 March 2013	**522**	**2,317**	**2,839**
Revaluation during the year	(442)	(55)	(497)
Transfer to General Fund*	(48)	(1,118)	(1,166)
Balance at 31 March 2014	**32**	**1,144**	**1,176**

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

15. Capital commitments

Contracted capital commitments at 31 March 2014 not otherwise included in these accounts:

	31 March 2014	31 March 2013
	£000	£000
Property, plant and equipment	**-**	73
Intangible assets	**-**	41
Total	**-**	114

16. Commitments under leases

16.1 Operating leases

Total future minimum lease payments at 31 March 2014 under operating leases are given in the table below for each of the following periods:

	31 March 2014	31 March 2013
	£000	£000
Vehicles		
Not later than one year	**263**	195
Later than one year and not later than five years	**63**	69
Total	**326**	264

16. Commitments under leases (continued)

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 2014	31 March 2013
	£000	£000
Land		
Not later than one year	**-**	-
Later than one year and not later than five years	**-**	-
Later than five years	**2**	2
Total	**2**	2
Buildings		
Not later than one year	**2,308**	2,489
Later than one year and not later than five years	**7,626**	5,438
Later than five years	**3,960**	1,296
Total	**13,894**	9,223

16.2 Finance leases

Total future minimum lease payments under non-cancellable finance leases at 31 March 2014 are given in the table below for each of the following periods:

	31 March 2014	31 March 2013
	£000	£000
Not later than one year	**173**	671
Later than one year and not later than five years	**522**	585
Later than five years	**-**	-
	695	1,256
Less interest element	**(104)**	(231)
Present value of obligations	**591**	1,025

The present value of total future minimum lease payments under non-cancellable finance leases at 31 March 2014 are given in the table below for each of the following periods:

	31 March 2014	31 March 2013
	£000	£000
Not later than one year	**162**	564
Later than one year and not later than five years	**429**	461
Later than five years	**-**	-
Present value of obligations	**591**	1,025

17. Other financial commitments

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

	31 March 2014	31 March 2013
	£000	£000
Not later than one year	**17,809**	16,660
Later than one year and not later than five years	**26,491**	28,542
Later than five years	**-**	-
Total	**44,300**	45,202

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 2014	31 March 2013
	£000	£000
Not later than one year	**2,173**	2,574
Later than one year and not later than five years	**8,489**	10,211
Later than five years	**10,612**	15,316
Total	**21,274**	28,101

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 1.6.

	31 March 2014	31 March 2013
	£000	£000
Not later than one year	**4,467**	3,963
Later than one year and not later than five years	**12,360**	14,745
Later than five years	**-**	-
Total	**16,827**	18,708

17. Other financial commitments (continued)

Private Financial Initiative (PFI)

An off-Statement of Financial Position PFI contract was signed by Defra in February 2001. The scheme involved the grant of a 129 year ground lease to a PFI partner who constructed an office building for Defra, occupied in 2003, subject to a 30 year lease to 31 March 2033. The building is not an asset of Defra and will not revert to Defra at the end of the lease term. The freehold land subject to the ground lease is a Defra asset. Defra occupies 0.39% of the building and recharges other occupiers for their share of the costs. The amount charged to the Statement of Comprehensive Net Expenditure for the use of the accommodation in 2013-14 is £67k and the agency's total commitment at 31 March 2014 is £1,615k.

Defra freehold properties

The estimated value of non-specialised freehold property owned by Defra but occupied by the agency at 31 March 2014 is £4.3m (31 March 2013: £4.5m).

There are no rental costs on Defra freehold properties.

18. 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 12.2, the agency is currently in receipt of appeals from scheme claimants against the non payment of claims covering the Single Payment Scheme and Trader related schemes. If the appeals are successful they could either result in a liability for EU or Exchequer funded payments. The amount of any such potential liability is unquantifiable.

19. 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
- 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
- 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
- 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
- Food Standards Agency

Disclosure of Employment

David Cotton is a non-executive director of the agency, who started in his current role on 1 July 2013. He is a partner of HE Cotton & Son whom received scheme payments of £48k in 2013-14. He is also a director of Kingshill Farming Company Ltd which received scheme payments of £6k and €59k in 2013-14.

Angela Gillibrand is a non-executive director of the agency, who started in her current role on 1 July 2013. She is also a director of Lotmead Company which received scheme payments of £36k in 2013-14. She and her husband also owned Salthrop Park Farm which has now been sold. The farm received scheme payments of £4k in 2013-14.

Radburne Thomas is a non-executive director of the agency, who started in his current role on 1 July 2013. He is the owner of JB Thomas and Son which received scheme payments of £27k in 2013-14. He also acts as an agent and completes Single Payment Scheme applications for his clients.

These non-executive directors also receive salaries as shown on the Remuneration Report page 55.

20. Losses and special payments

	Year to 31 March 2014		Year to 31 March 2013	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	**313**	**2,330**	163	1,705
Claims waived or abandoned	**925**	**(213)**	20,415	126
Administration losses write off	**96**	**82**	19	6
Special payments				
Scheme	**440**	**(530)**	161	7,820
Administration	**-**	**-**	4	28
Total	**1,774**	**1,669**	20,762	9,685

Losses exceeding £0.3m	**£000**	
Ensors Gloucestershire Ltd	**891**	Ensors Gloucestershire Ltd received grant funding for the creation of a new abattoir, meat processing and parking facilities from 2010 to 2013. In September 2013 the company entered into administration and the business sold to a non compliant company resulting in the grant being invalid. The loss represents the Exchequer funding provided, less amounts expected to be received from the administrator.

There are no special payments exceeding £0.3m. Losses relating to sugar charges are excluded from this Note and are disclosed in Note 22.

21. Events after the reporting period

On 2 June 2014, the Rural Development Programme Delivery Teams (RDTs) transferred to the agency from core Defra. Based on 2013-14 values, this is likely to add approximately £6m to the annual running costs of the agency, primarily related to 120 staff expected to transfer. The RDTs currently manage schemes with income and expenditure of approximately £80m p.a. (based on 2013-14 values). It has not yet been determined which accounts will record these transactions.

These accounts have been authorised for issue by the Accounting Officer on these accounts have been authorised for issue by the Accounting Officer on the date the audit certificate and report was signed.

22. Sugar production charges

In accordance with section 13.4 of the FReM, sugar production charges 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 charges.

	Year to 31 March 2014	Year to 31 March 2013
	£000	£000
Sugar production charges collected or accrued in the financial year	**11,506**	12,955

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 2014	Year to 31 March 2013
	£000	£000
Amount payable to the HM Treasury		
Balance held at the start of the year	**-**	-
Amount collected or accrued in the financial year	**11,506**	12,955
Payments to HM Treasury in the financial year	**(11,506)**	(12,955)
Balance held on trust at the end of the year	**-**	-

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 2014	Year to 31 March 2013
	£000	£000
EC reimbursement*	**(2,193)**	-
Liability for losses from claim for over-charges in previous years**	**217**	13,900
Foreign exchange losses on sugar production charges transactions***	**-**	151
Total losses incurred in year	**(1,976)**	14,051

*On 2 December 2013 a Council Regulation was published fixing the revised Sugar Production Levies for 2001 - 2006 period and allowing reimbursement to be claimed from the Commission for amounts paid to producers and the amounts paid by producers to the beet growers. The principal sum paid to producers will be reimbursed to HM Treasury. The interest element will be reimbursed from EAGF to the agency.

**The European Commission has acknowledged that sugar levy rates advised by regulation during the period between 2001 to 2006 were incorrect, leading to incorrect production charges 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 Defra funds.

***Foreign exchange losses of £nil (2012-13: £151k) 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.

The balances detailed on the last table on page 120 are excluded from the financial satements of the agency.

At 31 March 2014, the agency held the following assets and liabilities in relation to sugar production charges, which have been excluded from the financial statements of the agency:

	Year to 31 March 2014	Year to 31 March 2013
	£000	£000
Accrued income	**2,193**	-
Cash collected from customers, yet to be paid over to HM Treasury	**-**	-
Liability for settlement of claim for over-charges in previous years	**(217)**	(13,900)
	1,976	(13,900)

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