Rural Payments Agency

Rural Payments Agency Annual Report and Accounts 2016-2017

www.gov.uk/rpa

HC194

Rural Payments Agency
Annual Report and Accounts 2016-2017

Presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed 19 July 2017

HC 194

This publication is available at www.gov.uk/government/publications

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

Print ISBN 9781474143653
Web ISBN 9781474143660

ID 12041709 07/17

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

Performance Report

Chief Executive Officer's Statement

Our Paying Agency performance in 2016-17 had many successes and challenges as we sought to address the difficulties faced as a result of the implementation of the Basic Payment Scheme in 2015.

Our people worked tirelessly on the 2016 Basic Payment Scheme and I was pleased that we issued payments to over 90% of our claimants by the end of December 2016. We were able to build on this success and fulfil our March 2017 aim much earlier than we had planned. By the end of March 2017 we had paid 98% of eligible claimants. While we have continued to direct our efforts at those still to receive their payment, I welcomed the 'bridging payment' announcement made by the Secretary of State in February 2017. These payments will have provided some financial relief to those that were waiting on their full claim payments.

We have also continued to work to clear queries related to the Basic Payments Scheme and prepare our plans for the launch of the application window for the 2017 Basic Payments Scheme. The application window opened on 1 March 2017 and we have seen a further increase in those claimants who submitted their applications online, as we continue to improve the simplicity of both the Rural Payment Service and the Basic Payment Scheme application process.

RPA administers around 40 schemes in addition to the Basic Payment Scheme.

Under the 2014-20 Rural Development Programme socio-economic schemes we issued more than £30m in grants designed to support the rural economy. We have worked with local communities to provide funding on over 800 activities focused on economic growth.

During 2016-17 we maintained our payment performance levels on Fruit and Vegetable, School Milk and Private Storage Aid claims. We issued 78,000 licences and certificates; we completed just under 33,000 inspections on the schemes that we administer; and we processed millions of livestock traceability transactions.

I became Interim Chief Executive following Mark Grimshaw's departure from the RPA in March 2017. I would like to recognise his significant contribution and achievements since his arrival in January 2011.

Many of you will be aware of the changes being made by the department on how the Defra Group operates and I've seen at first hand, through my experience of attending the Food, Farming and Biosecurity system committee, the opportunities for greater collaboration that this new approach brings.

In addition the RPA plays an important role in the department's preparations for leaving the EU. We are working closely with the department on preparations for the future providing insight and advice based on our significant experience of administering CAP schemes, making payments to farmers, providing market support measures and Rural Development support.

Finally, I would like to acknowledge the hard work and dedication shown by people in all areas of our business. We have achieved much in 2016-17 and we know there is more to do in 2017-18.

Paul Caldwell
Interim Chief Executive Officer

Purpose and Objectives

The Rural Payments Agency (RPA or the agency) is an executive agency of the Department for Environment, Food and Rural Affairs (Defra or the department). Established in October 2001 as an accredited European Union (EU) Paying Agency, the agency operates according to the accreditation requirements set out in Commission Regulation (EU) No 907/2014 and Council Regulation (EU) No 1306/2013. The RPA also acts as the UK Funding Body under the European Commission regulation. As the only accredited paying agency in England, the RPA has responsibility for making direct aid and rural development payments to farmers in England.

The RPA is also the paying agency for market support measures across the United Kingdom under the authority of the Secretary of State for Environment, Food and Rural Affairs and as appropriate in agreement with the Scottish Government, Welsh Government and Department of Agriculture, Environment and Rural Affairs Northern Ireland. The 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.

Defra strategy

The Defra Strategy sets out a shared vision and set of strategic objectives for the Defra group for the period up to 2020. It is intended to provide staff across the Defra group (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear vision, direction and shared framework. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan. The strategy provides a clear unifying framework for how we will design and deliver our goals, track delivery and measure success across the whole of Defra. At the heart of the strategy is our shared vision for the Defra group: creating a great place for living.

The goals are focused on four impact objectives, which explain our ambitious, long term aims, and the positive differences we will make to the UK by 2020. Defra has one delivery objective, which describes the high levels of service and value for money for the taxpayer which the department will strive for. The strategy sets out two organisational objectives outlining how we organise ourselves to deliver, and what Defra will be like: a Defra that will act together, be simpler, avoid duplication, maximise impact, and embrace digital and data.

Defra organisational reform

RPA is responsible for a number of functions critical to the successful development and implementation of Defra's Target Operating Model and will continue to work collaboratively with all Defra partners to ensure good progress is made. This includes the transfer of a number of RPA functions into Defra Corporate Services from 1 April 2017 as well as RPA's own sub-programme of organisation reform, designed to ensure its structure and ways of working continues to support customers and is aligned with Defra's transformation programme.

Key issues and risks to delivery of objectives

Delivery of the Basic Payment Scheme (BPS), both for residual 2015 payments and the commencement of 2016 payments, has been a specific focus and priority for the agency. The delivery of BPS payments has been considered across the existing governance framework and the impact of other risks on the timeliness and accuracy of these payments has been closely monitored at each stage. Linked to the delivery of accurate payments, financial corrections applied by the European Commission where they consider implementation of scheme regulations to have been infringed, continues to receive close attention through a strong governance framework across the agency and the department.

The agency continually reviews the resources required to support the delivery of targets and continuation of other scheme administrative activities and adopts a flexible approach to meet them. The agency prepared for and executed the transfer of Corporate Service functions to the department on the 1 April 2017 ensuring continuity of service was maintained in doing so.

The exit from the EU will have a significant impact on the agency, engagement with the wider department to develop a detailed understand of this impact is ongoing.

Going concern statement

The financial statements are prepared on a going concern basis. The agency is the only CAP accredited paying agency in England, as such the agency plays an important role in delivering significant EU funds to the rural economy and enhancing environmental outcomes. The current CAP programme is expected to remain in place while negotiations for the UK to leave the EU take place. Furthermore, the UK government have committed to maintaining funding to the agricultural sector to match what it would have received under Pillar 1 of the CAP until the end of the Multiannual Financial Framework in 2020, as well as confirming that all multi-year projects agreed by government before November 2016 will be fully funded even when these projects continue beyond the UK's departure from the EU.

The agency expects to continue to deliver agricultural support payments in line with Defra strategy and Government commitments; hence the agency considers the going concern basis to be appropriate.

Performance Summary

The RPA achieved the first payment target for the 2016 Basic Payment Scheme by paying 91% of customers by the end of December 2016. The end of March 2017 BPS target of 93% was achieved on 23 January 2017. All Trader Scheme targets were met. Cattle births, deaths and movements were recorded within target. The RPA continued delivery of the European Agricultural Fund for Rural Development (EAFRD) Socio-Economic schemes as part of the 2014-20 Rural Development Programme.

Performance Analysis

Key business performance indicator	What RPA did
Timely processing and payment of the Basic Payment Scheme • 90% of customers paid by 31 December 2016 • 93% of customers paid by 31 March 2017	• 91% of customers were paid by 31 December 2016 • 98% of customers were paid by 31 March 2017
Timely processing and payment of Trader Schemes • 98% of Fruit & Vegetable claims paid within 100 calendar days • 98% of School Milk claims paid within 60 calendar days • 98% of Private Storage Aid claims paid within 60 calendar days • 95% of import and export licences issued within 5 working days	• 100% of Fruit & Vegetable claims were paid within 100 calendar days • 100% of School Milk claims were paid within 60 calendar days • 100% of Private Storage Aid claims were paid within 60 calendar days • 99.8% of import and export licences issued within 5 working days
Timely processing and payment of Rural Development Programme Schemes • 95% of Socio-Economic Schemes valid claims processed within agreed timescales • 98% of Rural Development claims paid within 5 working days of receipt into RPA	• 89.1% of Socio-Economic Schemes valid claims processed within agreed timescales • 100% of Rural Development claims were paid within 5 working days of receipt into RPA
Maintain accurate records of cattle in Great Britain • 96% of notified cattle births, deaths and movements recorded within 5 working days of receipt	• Over 98% of notified cattle births, deaths and movements have been recorded within 5 working days of receipt
Delivering service to our customers • 60% of calls answered within 2 minutes • 90% of calls successfully answered • 98% of complaints to be fully resolved or an action plan put in place within 15 working days	• 50.3% of calls answered within 2 minutes • 83.3% of calls successfully answered • 74.4% of complaints fully resolved or an action plan put in place within 15 working days

Detailed analysis on performance of RPA

BPS

The agency paid 48,262 (56%) claims worth £621m on 1 December 2016, by 31 December 2016 this stood at 78,140 (91%) worth £1.41bn. By 31 March 2017, the totals had increased to 83,714 (98%) and worth £1.58bn.

Percentage of Basic Payments Scheme payments paid

Scheme Year	2016	2015
End of December	91%	51%
End of January	95%	77%
End of March	98%	85%

As the agency did for BPS 2015, a BPS Financial Support payment process was used to provide financial support to those in need. Requests were received from 278 customers and payments were made to 245 claimants prior to the receipt of their full BPS claim being paid.

Trader Schemes

The RPA paid 100% of the Fruit and Vegetable claims within 100 calendar days of receipt, 100% of School Milk and Private Storage Aid claims within 60 calendar days of receipt and 99.8% of import and export licences issued within five working days exceeding the commitments set for the year. The RPA issued 51,637 import licences and

1,162 export licences within five working days of receipt and also issued 42,072 Certificates of Free Sale. The RPA received 1,461 claims for the first reduction period of the Milk Reduction Production Scheme and 121 claims for the second reduction period. The agency paid 1,451 claims from the first and 111 from the second.

Obligations continue to be met on Meat Technical Schemes, with the agency carrying out 326 beef labelling initial inspections this year. The Horticulture and Marketing Inspectors delivered 21,201 inspections across the country by 31 March 2017. During the year, five traders were referred to the Crown Prosecution Service for failure to comply. The RPA conducts inspections for all schemes against regulatory deadlines including land eligibility and cross compliance. A number of sheep and goat inspections 623, were undertaken by an external supplier. In addition, as a delegated agent of RPA, Animal and Plant Health Agency colleagues completed 340 combined sheep and goat inspections as part of the Defra Farm Visits Programme. The level of sheep and goat inspections remained broadly in line with last year.

Rural Development Programme

The Rural Development Programme for England delivers a range of programmes and schemes to England's rural businesses. The Countryside Productivity programme small grants offer provided funds to over 200 projects, paying £2.5m in claims and achieving over 450 new products and techniques. The programme also agreed £3.9m in large grants for longer-term investments, with 21 projects underway. Under the Growth Programme (GP), the RDP continue to work with 37 Local Enterprise Partnerships, aligning EAFRD with European funding streams from other Government Departments, to boost growth and create jobs in rural businesses. £9.1m to 89 projects has been contracted and forecast the creation of nearly 450 jobs. A further large scale GP offering up to £120m of investment for food processing, tourism infrastructure and business development activities was launched in January 2017. Delivery under the LEADER Programme increased significantly, supporting 79 Local Action Groups to provide funding for projects that create jobs, help business to grow and benefit the rural economy. Over 600 projects requesting £18m of grants have been approved, expecting to create over 1,200 new jobs.

After the severe flooding in the North of England during the winter of 2015-16, a Farming Recovery Fund (FRF) was set up to help farmers and land owners return land back to productive use. In addition, the Cumbria Countryside Access Fund (CCAF), was offered to restore and build resilience in access for tourism in the Cumbria area. Nearly £9m of grants to over 1,000 FRF projects were awarded and CCAF has contracted three large-scale projects worth £4m. The prioritisation of these emergency funds and the resource required to administer them was challenging, and as a result the RPA has a small shortfall against the target of 95% of claim payments made in 30 working days, with almost 90% achieved.

Cattle Records

The British Cattle Movement Service achieved all key performance indicators with over 98% of cattle births, deaths and movements recorded within agreed deadlines. The agency has processed 2.7m cattle passports; 2.6m of these online.

Delivering Services

There have been 322,308 digitisation jobs completed representing 465,462 published parcels. The completion of these tasks supported the BPS and Countryside Stewardship payment targets. Proactive land change detection activity continues to support the Land Parcel Identification System plan that underpins the work supporting the disallowance defence strategy.

During 2016-17, the Customer Contact Centre received 412,716 calls, and successfully answered 343,867 (83.3%). Customers had 50.3% of their call answered within two minutes. Resource was focussed on issuing BPS payments and this has had an impact on the achievement of this business performance indicator. The RPA has worked in partnership with the HM Revenue and Customs Surge Team to deploy apprentices to assist with the April and May 2017 peak volume of calls.

Common Agriculture Policy (CAP) Delivery Programme

The CAP Delivery Programme continued to deliver against its plan during 2016-17. The remaining functionality required to improve BPS processing was successfully delivered and over 80% of BPS applications were submitted online for the 2016 scheme year. Development focussed on introducing the remaining functionality required to operate the Countryside Stewardship scheme. All functionality required to process Countryside Stewardship claims and applications has been developed; a small number of additions will be deployed under the business as usual releases that will occur in 2017.

Six recommendations arising from the National Audit Office review and Public Accounts Committee hearings were addressed and closed. Any outstanding actions arising from Internal Audit or Infrastructure and Projects Authority (IPA) reviews have also been completed. The programme was removed from the Government's Major Project Portfolio at the end of March 2017.

Residual programme functions have transitioned into the Rural Payments Agency and Natural England throughout the year. Ongoing support contracts are in place and governance arrangements for the Rural Payments Service going forward have been agreed.

The programme cost to date and forecast costs for support remain within the full business case approval limit of £215.8m. A further impairment review has been completed and CAP Delivery Programme assets have been valued and transferred to the Rural Payments Agency, see Note 8.

Transparency of data and access to information

The RPA responded to 646 requests for information this year, of which 87.3% were within the agreed deadlines (2015-16: 621 and 89.1%). These cases involved requests for information under the Data Protection Act 1998, the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. An additional 52 business as usual requests were managed by the Information Rights Team. All government procurement card spend, expenditure with all suppliers greater than £25,000 per transaction and a complete procurement spend analysis is reported on the central government website.

Supplier payment statistics	2016-17	2015-16
Payment within 5 days	**92.2%**	90.5%
Payment within 10 days	**97.4%**	97.3%

Complaints and appeals

The RPA saw a significant increase in the volume of complaints recorded. Queries raised by farmers over their BPS payments under the 2015 scheme were raised as complaints in 2016-17. The agency conducted a standard reconciliation of BPS 2015 payments and as these were completed associated complaints were able to be resolved. At the end of March 2017 just over 2,000 complaints were unresolved.

Complaints handled by RPA	2016-17	2015-16
Prior year complaints unresolved	**351**	402
New complaints received	**2,930**	1,364
Complaints resolved, withdrawn or cancelled	**1,193**	1,415
Complaints unresolved at 31 March	**2,088**	351

The RPA has recently refined its complaints process, to take on feedback from farmers, agents and stakeholders, who felt that the previous process often took too long for complainants to get through. The revised process removes a stage and is intended to allow good, considered decisions to be taken at the earliest possible stage.

Only 25 appeals against decisions by the RPA were received in 2016-17. This was the lowest number of appeals received for more than ten years. Appeals are considered by the Independent Agricultural Appeals Panel and then referred with their recommendations to the Minister of State for Agriculture, Fisheries and Food to make a final decision.

Independent Agricultural Appeals Panel appeals handled	2016-17	2015-16
Prior year appeals unresolved	**21**	25
Appeals received	**25**	32
of which:		
• customer complaint upheld	**5**	6
• customer complaint partially upheld	**5**	12
• RPA decision upheld	**6**	12
• appeals withdrawn	**4**	6
Appeals resolved	**20**	36
Appeals unresolved at 31 March	**26**	21

Just one case involving the agency saw an investigation completed by the Ombudsman's Office during 2016-17; the complaint was not upheld.

Financial Review

Preparation of the Annual Report and Accounts

The Statement of Accounts reports the financial results for the year from 1 April 2016 to 31 March 2017. It is prepared in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, the Accounts Direction issued by HM Treasury and the Financial Reporting Manual (FReM) published by HM Treasury.

Auditor

The 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 £245,000 was incurred for the audit of the agency's accounts (2015-16: £270,000).

The Comptroller and Auditor General is also the auditor of the Statement of Accounts for the European Agriculture Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) which have a financial year ending 15 October. The cash cost for the audit of these funds, for transactions for England, was £2.5m (2015-16: £2.2m).

Financial performance

The RPA normally considers its financial performance in two categories; running costs representing monies needed to provide the service required of the agency by Defra and scheme costs related to the funds administered.

The running costs are funded by Defra. Payments under the EAGF and EAFRD schemes are initially funded by the UK Exchequer, with subsequent reimbursement sought from the European Commission (EC). When the reimbursement is received by the agency, it is repaid to the UK Exchequer, net of short-term funding requirements. Gross running costs this year of £150m is in line with the previous year (2015-16: £149m). There has been a large increase in amortisation this year of £3.6m (192%) due to the acquisition of £82.5m of assets from Defra, and IT costs have risen by £4.6m (24%) due in part to the agency taking over CAP programme costs from Defra in November 2016. These increases have been partly offset by a reduction in total staff costs of £6.4m, due to the reduction in permanent and agency staff employed in the year.

Net running costs, allowing for income were £142m (2015-16: £134m). The increase is mainly due to receipts from the Rural Development Programme for England Technical Assistance (RDPE TA) of £3.2m being considerably lower than in the previous year (2015-16: £10.3m). This is due to a number of funded activities such as greening and assisted digital projects now being completed.

Payments made, and reimbursements claimed, under the schemes administered by the agency have increased to £1.9bn (2015-16: £1.3bn). BPS schemes were introduced in 2015-16, and there was an initial reduction in payments made in that year. The higher payments made in 2016-17 include a catch- up for BPS 2015 payments not made in the earlier year. This factor is also the main reason that funds provided to Scotland, Wales, Northern Ireland and the Forestry Commission for Scotland and Wales has increased to £1.0bn (2015-16: £600m).

Overall net scheme expenditure for the year is a gain of £10.1m; this is compared to a net expenditure in 2015-16 of £7.6m. The positive movement here is due in part to a net gain in BPS (income higher than expenditure) of £8.7m due in part to the agency's hedging approach gaining from a strengthening of the euro during 2016 by £4m, and the agency's financial discipline mechanism payments gaining from a favourable euro movement of almost £3m between the expenditure being incurred and the repayment from the EC. In addition the OPAs also contributed a net gain of £3.8m in the year, again due to favourable euro movement.

Financial position

Non-current assets of the agency have increased in year by £82.1m primarily due to the acquisition of £82.5m of assets from Defra.

Trade receivables have fallen significantly by £460.4m (51%) compared to 31 March 2016. This is due to a reduction in monies due from the EC related to the Basic Payment Scheme. The agency paid BPS 2016 payments quicker than BPS 2015 so consequently there were less monies owed from the European Commission (EC) at 31 March 2017.

Trade payables including those due after more than one year, have increased overall by £48.2m (27%) mainly due to an £43.7m (247%) increase in scheme accruals as provisions booked last year have now become more probable, increasing accruals as a result.

The overall impact of these movements was to decrease the cash balance of the agency to £393.9m at 31 March 2017, compared to £554.6m at 31 March 2016.

The agency paid BPS 2016 bridging payments in April 2017 to those farmers who had not received their full payment by the end of March 2017. In line with the treatment of other scheme payments the agency will recover this expenditure from the EC in 2017-18 based on validated claims. Consequently these payments are not included in the Statement of Comprehensive Expenditure for 2016-17, but the agency does have a capital commitment to make the payments in 2017-18.

Financial risk

The agency 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 reimbursements from the EC are received in euros. Consequently, any differential between the prevailing exchange rate when reimbursement is received and the scheme exchange rates fixed by the EC will result in an exchange gain or loss for the agency.

To mitigate this risk, the agency enters into derivative contracts for the Basic Payment Scheme and for the UK Rural Development Programmes. Trader schemes are assessed on an individual basis with derivative contracts established where it is cost effective to do so. As at 31 March 2017, these derivative contracts have decreased in value, representing a net liability of approximately £3.6m to the agency, compared to a net liability of £96.1m in 2015-16. This decrease in value is consistent with foreign exchange movements in 2016-17 and is mirrored by an equal and opposite gain in value on the euros receivable from the EC, thereby resulting in a neutral position for the agency as intended.

The second significant risk relates to the potential that the EC may retrospectively choose not to reimburse the agency for payments the agency makes should there have deemed to be any infringements in scheme regulations. Such disallowances represent a high risk to the agency due to the complexity and extent of scheme regulations. Management of this risk is described in the Governance Statement.

Sustainability Report

Total greenhouse gas emissions have reduced to a new low of 1,986 tonnes of carbon dioxide, a reduction of 69% from the baseline data in 2009-10. The RPA has also reduced energy usage, particularly non-renewable electricity. The total water consumption by the agency has decreased by 33% from the baseline data in 2009-10 to a new low of 10,831 cubic metres. The RPA is committed to continuous improvement against sustainability targets.

Greenhouse Gas Emissions		**2016-17**	2015-16	2014-15	2013-14	2009-10 Baseline
Non-financial indicators (tonnes CO^2)	Scope 1 emissions (direct)	**823**	822.4	412.6	351.1	1,020.2
	Scope 2 emissions (indirect)	**1,047**	1,192.8	1,331.8	1,409.0	3,981.9
	Scope 3 emissions (direct travel)	**116**	208.4	950.8	1,147.1	1,419.3
	Total emissions	**1,986**	2,223.6	2,695.2	2,907.2	6,421.4
Related energy consumption (KWh)	Electricity non-renewable	**-**	1,012	11,979	96,914	7,590,268
	Electricity renewable	**2,264,957**	2,382,964	2,466,375	2,816,421	
	Gas	**1,186,034**	1,222,420	1,259,333	1,902,166	5,556,447
Financial indicators (£)	Expenditure in energy	**421,566**	442,398	416,738	414,159	1,174,738
	Carbon Reduction Commitment (CRC) licence expenditure*	**39,389**	31,822	31,822	22,950	*
	Expenditure on official business travel	**2,282,886**	2,630,055	2,016,398	2,418,960	2,268,130

**There was no CRC licence fee in the baseline year of 2009-10.*

Waste Management		**2016-17**	2015-16	2014-15	2013-14	2009-10 Baseline
Recovered or recycled (tonnes)	Reused or recycled	**88.10**	111.50	95.36	147.14	428.10
	Composted	**15.58**	6.53	3.30	2.21	1.98
	Incinerated with energy recovery	**46.34**	51.94	29.45	1.78	28.26
	Total recovered or reused	**150.02**	169.97	128.11	151.13	458.34
Not recovered or recycled (tonnes)	Incinerated without energy recovery	**3.77**	-	0.02	-	0.04
	Landfill	**13.04**	21.47	26.24	28.53	159.82
Total waste (tonnes)		**166.83**	191.44	154.37	179.66	618.20
% recovered or reused		**89.92%**	88.79%	82.99%	84.12%	74.14%

Finite Resource Consumption	**2016-17**	2015-16	2014-15	2013-14	2009-10 Baseline
Water consumption (m^3)	**10,831**	11,823	13,929	17,982	16,248
Water supply costs (£)	**41,867**	79,405	27,081	80,916	77,490

Paul Caldwell
Interim Chief Executive Officer

6 July 2017

Accountability Report

Corporate Governance

Director's report

Governance framework

Defra's Secretary of State has overall responsibility for RPA and is accountable to Parliament for all matters concerning the agency. Ministerial responsibility for the agency has been assigned to the Minister of State for Agriculture, Fisheries and Food.

Clare Moriarty, Defra's Permanent Secretary, is the 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 interim CEO, Paul Caldwell, is designated 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, regularity and reputation and ensures business continuity. The interim CEO is line managed by the Director General for Food, Farming, Animal and Plant Health.

The Executive Team

The RPA is headed by the CEO and a team of Executive Directors, these individuals form the Executive Team (ET) that sets the direction for the agency and has the overall authority to run the agency on a day-to-day basis.

ET membership throughout the year is listed below:

The Executive Team	ET Membership	
Name and title	**Start date (if not in post at 1 April 2016)**	**End**
Mark Grimshaw[1] – Chief Executive (ET Chair)	-	28 Feb 17
Paul Caldwell – Operations Director	-	31 Oct 16
BPS Operational Delivery Director	1 Nov 16	28 Feb 17
Interim Chief Executive Officer (ET Chair)	1 Mar 17	present
Arik Dondi[2] – External Relations Director	-	31 Dec 16
Justin Chamberlain[2] – Customer Director	-	31 Dec 16
Mark Ashenden – Interim External Relations Director	1 Jan 17	present
Emma Appleby – Design Director	-	present
Nicola Bettesworth[3] **–** Human Resources Director	-	present
Anne Marie Millar[3] – Finance, Assurance and Commercial Director	-	present
Ed Schofield[3] – Information and Technology Director	-	present
Jo Broomfield[4] – CAP Delivery Director	-	31 Mar 17
John Carter – Planning and Performance Director	-	present
Ian Hewett[5] – Change Director	-	31 Mar 17
Alison Webster – Rural Development Director	-	present
Sarah Milum[6] – EU Reporting and Compliance Director	1 Aug 16	present
Alison Johnson – Interim Operations Director	1 Nov 16	present

1. Mark Grimshaw left RPA on 28 February 2017.
2. Arik Dondi and Justin Chamberlain resigned from the RPA effective 31 December 2016.
3. As part of the transformation of Corporate Services to Defra Nicola Bettesworth, Anne Marie Millar and Ed Schofield became Defra group members on 1 April 2017.
4. Jo Broomfield transferred to Defra on 1 April 2017.
5. Ian Hewett went on loan to Defra on 1 April 2017.
6. The existing EU Reporting and Compliance Director role was made a member of ET from 1 Aug 2016.

The Agency Management Board

The Agency Management Board (AMB) is responsible for ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control. As part of this the AMB is required to set up an Audit, Risk and Assurance Committee chaired by an independent non-executive member to provide independent advice and ensure that this committee provides assurance on risk. The board receive regular data led reports which form the basis of discussion and challenge during board meetings which provides the board with assurance on data quality. The AMB is expected to assure itself of the effectiveness of the internal control and risk management systems.

Key business at AMB meetings in 2016-17 included:

- monthly review of the CAP Delivery Programme, agency performance reports and committee updates
- monitoring of the agency's delivery of its statutory, corporate and business responsibilities
- strategic planning and discussion of Defra's organisational reform and transformation activities
- deep dive reviews of initiatives impacting the agency

The Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) is responsible for advising both the Agency Management Board and CEO 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 Certification Body) and anti-fraud policies. The ARAC Chair is also a member of Defra's Audit and Risk Assurance Committee. During the reporting year and in addition to quarterly meetings, ARAC conducted a number of teleconferences to support the sign off of the EU and UK accounts.

Key business at ARAC meetings in 2016-17 included:

- review and approval of accounting policies and the Annual Report and Accounts for 2015-16, as audited by the National Audit Office, in which the RPA received an unqualified opinion
- approval of the 2016 EU Accounts, as audited by the National Audit Office
- regular reviews of the agency's approach to risk and fraud risk management
- consideration of continuing improvements relating to the assurance and governance framework
- review of all Internal Audit reports and the annual Internal Audit plan

Membership and attendance	ARAC		AMB	
Name and title	**Attendee**	**Meetings attended**	**Attendee**	**Meetings attended**
Mark Ashenden[1] – Interim External Relations Director	-	-	Member	3/3
Paul Caldwell[2] – Operations Director/BPS Operational Delivery Director/Interim Chief Executive Officer	-	-	Member	3/3
John Carter – Planning and Performance Director	-	-	Member	9/10
Sarah Church – Defra Director, Food and Farming	-	-	Member	6/10
Peter Conway – Non-Executive Director	Chair	4/4	Member	9/10
David Cotton – Non-Executive Director	Member	4/4	Member	9/10
Arik Dondi[3] – External Relations Director	-	-	Member	6/7
Angela Gillibrand – Non-Executive Director	Member	4/4	Member	9/10
Mark Grimshaw[4] – Chief Executive Officer	-	-	Member	8/9
Anne Marie Millar – Finance, Assurance and Commercial Director	-	-	Member	9/10
Arthur Reeves[5] – Independent Member of the ARAC	Member	1/2	-	-
Trevor Spires – Non-Executive Director	-	-	Chair	9/10
Radburne Thomas – Non-Executive Director	-	-	Member	10/10

1. Mark Ashenden assumed the role of Interim External Relations Director and AMB member from January 2017.

2. Paul Caldwell attended two AMB meetings as an attendee in his role as BPS Operational Delivery Director (January and February 2017) and one in his role as member and Interim Chief Executive Officer (March 2017).

3. Arik Dondi attended AMB meetings until December 2017.

4. Mark Grimshaw attended AMB meetings until February 2017.

5. Arthur Reeves' last ARAC meeting was June 2016.

Relationship with Defra

Defra's Executive Committee (ExCo), is responsible for overseeing the strategic direction and performance of the Defra group. Responsibilities for decisions which affect more than one organisation, or set a precedent for the future, ultimately lie with ExCo. ExCo is supported by a number of key subcommittees and subcommittee members which include CEOs of relevant delivery bodies and Defra directors. In addition an extended ExCo meets regularly as a wider group which includes the RPA CEO.

At Defra group level, activity is managed through outcome focussed systems. These bring together all the delivery bodies involved in service delivery in their respective systems. They focus on ensuring delivery of outcomes, joining up policy development and operations and planning and prioritisation to ensure that we provide the best possible service to our customers and value to the taxpayer. The RPA is a delivery body within the Food, Farming & Biosecurity system and the Natural Environment & Rural systems and is represented on both systems boards.

Security, information risk and fraud

The alignment to Information security ISO/IEC 27002:2013 is audited annually by the British Standards Institution (BSI). This is a requirement under Commission Regulation 885/2006. The Agency Security Unit conducts compliance reviews of the RPA, suppliers and delegated bodies to ensure assurance of alignment to ISO/IEC 27002:2013. A favourable 2016 Certifying Body report for information security management was received. Under Commission Regulation 907/2014 there was a requirement to be certified to ISO/IEC 27001:2013 from 16 October 2016. The Agency Security Unit achieved ISO/IEC 27001:2013 Certification for the agency in August 2015 and has successfully supported continuous assessments visits.

Information handling

The agency has an established governance structure to ensure that information assets are handled appropriately by the Senior Information Risk Owner (SIRO). To support the SIRO, the Agency Security Officer and Information Asset Coordinator provide a focal point for Information Asset Owners to seek guidance on effective approaches to managing risk within the defined risk tolerance.

Information data handling courses are embedded in induction processes. Each year all RPA people are required to complete the General User Responsible for Information training course. Information Asset Owners and those directly involved in information governance are also required to complete specialist training provided by Civil Service Learning.

In 2016-17 a total of 37 potential incidents were reported, following investigation two of these incidents related to personal data.

Category	Nature of incident	2016-17	2015-16
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	**-**	-
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	**1**	4
III	Insecure disposal or inadequately protected electronic equipment, devices or paper documents	**-**	-
IV	Unauthorised disclosure	**-**	6
V	Other	**1**	-

Category II incident

A member of RPA accidently left their RPA laptop and a number of documents on a train. The laptop was confirmed to be in 'shut down' mode and therefore not considered to be at risk. The documents were copies of seven Basic Payment Scheme forms and one case management document detailing customer information. The loss was immediately reported to the train operator and the police. None of the above material has been recovered.

Category V incident

Monitoring activity reported a high level of activity on Cattle Tracing System (CTS) Online. Investigation showed that 13 accounts requested large volumes of data. The accounts all belonged to one group known as 'External Officials' who are veterinary groups. The account holders were contacted to determine the source of the activity. A number of account holders confirmed they had shared their log-on credential information with a company called Farm Vet Systems. Their accounts have been suspended and recommended actions are being progressed to update the terms and conditions to the use of CTS Online.

Personal data incidents

There were no personal data incidents that fell within the criteria for reporting to the Information Commissioner's Office.

External fraud

External fraud referrals are assessed by the RPA Fraud Referral Team to consider whether a potential fraud has occurred. The reduction in new referrals for 2016-17 is due to a change in process for complaints about breaches of cross compliance, these are now handled by the Cross Compliance Team. The agency takes appropriate recovery action on cases where the recommendation is made to recover funds.

RPA external fraud	**2016-17**	2015-16
Number of new external fraud referrals in year	**119**	170
Number of external fraud referrals closed	**138**	159
Value of:		
• detected fraud value	**£469,787 & €210,053**	£180,373
• detected fraud number of cases	**16**	9
• prevented fraud value	**£65,569**	£18,139
• prevented fraud number of cases	**5**	15
Number of external fraud cases outstanding	**63**	82

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the RPA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the RPA and of its net resource outturn, application of resources, changes in Taxpayers' Equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by RPA, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed
- disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis
- to be aware of all relevant information and to ensure that there is no relevant audit information of which the entity's auditors are unaware

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.

The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

The Permanent Secretary, Clare Moriarty appointed Mark Grimshaw, the agency Chief Executive Officer, as Accounting Officer of the RPA until the 28 February 2017. Paul Caldwell was appointed Interim Chief Executive Officer as Accounting Officer of the RPA from 1 March 2017. The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the RPA's assets, as set out in Managing Public Money published by HM Treasury.

Governance Statement

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.

Governance Framework

Defra's Executive Committee is chaired by the Permanent Secretary and comprises the Defra Director General, along with the Group Director of Strategy, Group HR Director, Transformational Change Director, Group Director of Communications and the CEO of the Environment Agency. The committee provides a strategic steer, makes decisions where appropriate on cross-network issues, reviews plans and progress on improving Defra's capacity and capability for the future, and oversees cross departmental initiatives to inform strategic decisions by ministers on their priorities and spending plans.

The Agency Management Board (AMB) is responsible for ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control. As part of this the AMB is required to set up an Audit, Risk and Assurance Committee (ARAC) chaired by an independent non-executive member to provide independent advice and ensure that this committee provides assurance on risk. AMB is expected to assure itself of the effectiveness of the internal control and risk management systems.

The Audit and Risk Assurance Committee (ARAC) is responsible for advising both the Agency Management Board and CEO 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 Certification Body) and anti-fraud policies. The ARAC Chair is also a member of Defra's Audit and Risk Assurance Committee.

The RPA is headed by the CEO and a team of executive directors who collectively form the Executive Team that sets the direction for the agency and has the overall authority to run the agency on a day-to-day basis.

Internal Controls

Risk overview

The RPA operates in a highly regulated environment which requires appropriate controls and governance across all of the forty schemes that we administered.

Significant risks during the year have been associated with the achievement of Basic Payment Scheme payment targets for 2016, managing potential EU financial corrections, budget impacts, demands on people capacity and capability and the transfer of Corporate Service functions into the core Department. These risks are being considered and managed through the robust agency governance framework.

Fraud risk management

The Fraud Risk Management Steering Group, chaired by the Finance, Assurance and Commercial Director has acted in an advisory committee capacity to Executive Team and the CEO in his role as Accounting Officer. The Steering Group has representatives from Directorates across the agency and has met six times to consider detection and awareness of fraud in the RPA. The Committee has received assurance on a range of fraud related topics. Assurance reports have been provided to the Audit and Risk Assurance Committee during the course of the year.

Disallowance risk management

The risk of disallowance is a key consideration in the delivery of CAP schemes. The European Commission's implementation of revised guidelines for calculating disallowance has been reflected in a more formulaic approach to determining the initial financial risk arising from conformity audits. This has required an increased focus on identifying the expenditure at risk and using that information in negotiations with the Commission. The Disallowance Forecasting Group has allowed for enhanced estimates of financial exposure and has supported decision making within RPA and through the cross Defra Disallowance Steering and Working Groups.

RPA monitors the level of disallowance exposure through our Executive Team meetings on a monthly basis, together with quarterly strategic reviews. Any proposals for change in operational practice are verified through formal governance before implementation can be agreed. Quarterly reports on the risk of disallowance are also presented to the Audit and Risk Assurance Committee and Agency Management Board.

RPA continues to challenge disallowance through the Commission's established procedures and has been successful in reducing disallowance proposals in line with the department's disallowance strategy.

Effectiveness of risk management

The Executive Team holds responsibility for the identifying and managing of the most significant risks through Executive Team and Directorate level meetings. There is an overarching Risk Management process for escalation of risks. Operational risks have been well managed on a tactical level in order to meet delivery objectives. Strategic risk has had less attention as a consequence of this delivery focus. I recognise this and have put in steps to improve including changes in senior level management, governance and organisational structure.

The Audit and Risk Assurance Committee received reports in order to consider the effectiveness of risk management. Risk discussions are held regularly, including at each Audit and Risk Assurance Committee meeting who in turn report on risk effectiveness to the Agency Management Board. The agency's Risk Management team is collaborating with Defra colleagues to ensure the approach to risk management is more aligned across the network in support of Defra's revised governance framework.

Quality assurance of analytical models

The agency has a quality assurance framework of its business critical analytical models which are subject to regular internal and external review.

Information governance

The Information and Technology Director was the RPA's Senior Information Risk Owner (SIRO) throughout 2016-17. As an Executive Director the SIRO provided board-level accountability and assurance that information risks were addressed. There have been no significant breaches this year. Following the transfer of corporate services into the core department, the responsibilities of the role have transferred to the Design Director.

Effectiveness of internal controls

Through the RPA's existing governance framework coupled with documented discussions with Executive Directors the agency has assessed the effectiveness of its controls as well as highlighting significant issues for the agency. The Internal Audit Team reviewed and provided assurance on this process. The Agency Management Board and the 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.

Effectiveness of whistleblowing arrangements

The Department encourages employees to use the whistleblowing procedures to raise concerns about past, present or imminent conduct within the Defra group or conflicts with the Civil Service Code. The Department implemented the Civil Service Employee Policy in January 2013 across Defra and its executive agencies (including RPA) and updated the policy in December 2016. Although no reports were raised in 2016-17, Defra conducted an internal audit across the group, resulting in an assurance level of 'moderate'. The recommendations resulting from this internal audit were implemented by 30 June 2016, and were all low or medium risk, and not related to RPA specifically.

Internal Audit opinion

The Head of Internal Audit has provided me with her annual report, which incorporates her opinion on RPA's system of governance, risk management and internal control based on internal audit's work completed during the year, in line with the plan agreed by management and the ARAC. Her overall opinion is that moderate assurance can be given that there is a sound system of internal control designed to meet RPA's objectives and that controls are being applied consistently. Moderate assurance also states that some improvements are required to enhance the effectiveness of risk management, control and governance.

Internal audit issued limited assurance ratings in four reviews (out of a total of 55) relating to Countryside Stewardship and technical assistance claims processing, and rated CAP data quality governance and oversight as unsatisfactory. In all cases, my team has continued to act upon the agreed actions from internal audit's work.

Compliance with governance codes

An informal review carried out against the National Audit Office (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

Governance arrangements are effective and proportionate given the level of activity currently being undertaken by the Agency.

Defra's Executive Committee (ExCo) is now being supported by a number of sub-committees (with RPA being part of the Food, Farming & Biosecurity and the Natural Environment systems) whose focus is on ensuring delivery of outcomes, joining up policy development and operations to ensure the department is providing the best possible service to customers. RPA has representatives at both systems committees.

For the majority of the reporting year the agency was led by the previous CEO. Written assurance was received that all the appropriate governance arrangements were in place and were effective during this period.

The agency has recently secured an extension to the contract of three of our non-executive directors, including the chairs of our Agency Management Board and Audit and Risk Assurance Committee.

Framework Document

RPA's Framework Document, setting out the broad framework within which the agency operates, has been recently been updated and is currently undergoing review by HMT. Once finalised, it will be published on the Gov.Uk website.

Effectiveness of Board performance

Regular meetings with the chair of the Agency Management Board have occurred to keep him informed of what is happening across the agency and to discuss the effectiveness of the Board. Both the Agency Management Board and the Audit and Risk Assurance Committee have carried out reviews and the results indicate that both the board and committee were operating effectively.

Significant issues 2016-17

CAP Delivery Programme
A formal response to the Public Accounts Committee's (PAC) report on the CAP Delivery Programme was published on 20 April 2016. The PAC made six recommendations with the Government reporting that three had already been implemented.

The NAO published a further report in October 2016 with a PAC hearing held in November 2016 to review progress. Publication of the recent Treasury minute confirms that six recommendations have now been implemented.

The review conducted by the Infrastructure and Projects Authority (IPA) in March 2017 gave the Programme approval to exit from the Government's Major Projects Portfolio. It has since been formally closed and the newly established Rural Payments Executive Group is responsible for overseeing the completion of the recommendations made in the IPA's report and any subsequent amendments to the IT system.

Basic Payment Scheme
The implementation of the Basic Payment Scheme (BPS) has been challenging.

For BPS 2015, the agency has completed its initial review of payment queries through a standard reconciliation process. Top-up payments have been made where necessary and the RPA continue to assess any new queries as and when they arise.

For BPS 2016, the RPA achieved our targets of paying 90% of farmers by the end of December 2016 and 93% by the end of March 2017. Our focus has remained on paying the rest of the eligible BPS 2016 claims as promptly as possible and those farmers. Bridging Payments worth 75% of the expected claim value were issued to claimants who had not received their full payment by the end of March.

For BPS 2017, the RPA provided support for farmers and landowners, and their agents, to submit their applications. Around 85,000 applications were received by the initial 15 May 2017 deadline.

Inspection Programme
The analysis of the BPS 2015 inspection results was not completed in time to allow the resulting additional BPS 2016 inspections to be undertaken in line with EU regulatory requirements. In order to mitigate the potential disallowance risk that arises from this regulatory breach, the agency has retrospectively undertaken the checks that should have been performed by 31 December 2016. The decision to undertake the retrospective checks was taken after year end in April 2017.

Improvements have been made to ensure timely analysis of future inspection results to provide an earlier indication of whether additional inspections are needed for BPS 2017. This assessment will be completed before the opening of the 2017 BPS payment window.

Disallowance
Disallowance results from control weaknesses identified in EU audits. This is often calculated as a flat-rate percentage of the total value of the particular scheme. Disallowance is reported in the Defra annual accounts, in 2016-17, the department have accrued for £11.7m of new disallowance penalties.

Natural England Environmental Stewardship Advance Payments

During 2016, Natural England made a number of advance payments on Environmental Stewardship claims where all of the administrative checks had not been fully completed. RPA ensured that the EU funds were not put at risk as the reimbursement claimed from the EU was reversed during the finalisation of the 2016 EU Accounts. There was a financial risk to Exchequer funds as a result. Subsequently RPA and Natural England have worked closely together to take the necessary remedial action to complete the checks and submit appropriate reimbursement claims. The RPA as the Paying Agency has reinforced the responsibilities of a delegated body with Natural England and is working collaboratively with them to ensure that future decisions, that could pose a similar risk, are considered through appropriate governance.

Defra Group Governance

Defra Group Governance is still maturing and some delivery risks remain with regards to how corporate services will continue to support the agency following the transfer of these functions into the department. There is also a need to ensure that the Accounting Officer and the Head of Paying Agency roles, held by the RPA CEO, retain appropriate responsibility and accountability with the new group governance.

European Union Referendum

On 23 June 2016, the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation in future once the UK has left the EU.

Paul Caldwell
Interim Chief Executive Officer

6 July 2017

Remuneration and Staff

Remuneration report

Although costs for the CEO and the members of ET are included in the RPA's annual accounts, they are formally employed by Defra. The framework for remunerating the CEO and ET, 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.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 SCS 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 members of ET 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. Members of the SCS are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP). NCVP is performance related and is paid in arrears in the financial year after that in which it was earned. During 2016-17, NCVP for 2015-16 performance was paid to approximately 25% of the SCS and was capped at £11,000, £13,000 and £15,000 per individual depending on grade. NCVP values, informed by each individual's appraisal grade were paid within Cabinet Office guidelines. The table of salary and non-cash benefits shown in this report includes NCVP paid to the CEO, ET and Non-Executive Directors.

Service contracts

The Constitutional Reform and Governance Act 2010 require Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. Further information about the Civil Service Commission can be found at www.civilservicecommission.org.uk.

The CEO and ET are permanent civil servants. The Executive Directors are required to give three months' notice under the terms of their contracts. Our Non-Executive Directors are appointed on fixed term contracts with a notice period of one month.

The employment of the CEO and members of ET may be terminated in accordance with normal Civil Service procedures. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Compensation for loss of office

Mark Grimshaw left under voluntary exit terms on 28 February 2017. He received a compensation payment in the range £90,000-£95,000. Justin Chamberlain left under voluntary exit terms on 31 December 2016. He received a compensation payment in the range £90,000-£95,000. Compensation for leave not taken, where appropriate, is included within the salary figures in the remuneration table.

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 agency and treated by HM Revenue and Customs as a taxable emolument. In both 2016-17 and 2015-16 John Carter and Ian Hewett had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Pay multiples (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

Total remuneration includes salary, non-consolidated performance related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

	2016-17	2015-16
Annualised Band of Highest Paid Director Remuneration (£'000)*	**160-165**	160-165
Median Total Remuneration (£)	**26,033**	26,060
Ratio	6.2	6.2

**The remuneration of the highest paid Director includes bonus payments and benefits in kind, but excludes severance payments, employer pension contributions, and the cash equivalent transfer value of pensions.*

In 2016-17, four (2015-16: one) employees received remuneration in excess of the highest-paid director. The banded remuneration for employees in the agency ranged from £10,000-£15,000 to £180,000-£185,000. These figures exclude the Non-Executive Directors.

Remuneration (including salary) and pension entitlements (audited)

The remuneration and the pension interests of the Non-Executive Directors and the Directors of the agency are detailed in the following tables:

	2016-17					2015-16				
Name and title	**Salary**	**Bonus payments**	**Benefits in kind**	**Pension benefits**	**Total**	Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	**£000**	**£000 (To nearest £100)**	**£000**	**£000**	£000	£000	£000 (To nearest £100)	£000	£000
Peter Conway Non-Executive Director	**20-25**	**-**	**-**	**-**	**20-25**	20-25	-	-	-	20-25
David Cotton Non-Executive Director	**10-15**	**-**	**-**	**-**	**10-15**	10-15	-	-	-	10-15
Angela Gillibrand Non-Executive Director	**10-15**	**-**	**-**	**-**	**10-15**	5-10	-	-	-	5-10
Arthur Reeves[1] Independent Member of ARAC	**0-5**	**-**	**-**	**-**	**0-5**	0-5	-	-	-	0-5
Trevor Spires Non-Executive Director	**20-25**	**-**	**-**	**-**	**20-25**	20-25	-	-	-	20-25
Radbourne Thomas Non-Executive Director	**5-10**	**-**	**-**	**-**	**5-10**	5-10	-	-	-	5-10

1. Arthur Reeves left on 30 June 2016.

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

Name and title	2016-17 Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	£000 (To nearest £100)	£000	£000
Emma Appleby Design Director	100-105	10-15	-	36	150-155
Mark Ashenden[1] Interim External Relations Director from January 2017	15-20	-	-	5	20-25
Nicola Bettesworth Human Resources Director	75-80	10-15	-	28	115-120
Jo Broomfield CAP Delivery Director	115-120	-	-	18	130-135
Paul Caldwell[2] Interim Chief Executive Officer from March 2017	75-80	-	-	107	180-185
John Carter Planning and Performance Director	65-70	-	2.9	28	95-100
Justin Chamberlain[3] Customer Director until December 2016	60-65	-	-	-	60-65
Arik Dondi[4] External Relations Director until December 2016	45-50	-	-	20	65-70
Mark Grimshaw[5] Chief Executive Officer until February 2017	190-195	-	-	-	190-195
Ian Hewett Change Director	85-90	-	3.8	13	100-105
Alison Johnson[6] Interim Operations Director from November 2016	25-30	-	-	24	50-55
Anne Marie Millar Finance, Assurance and Commercial Director	130-135	-	-	24	155-160
Sarah Milum[7] EU Reporting & Compliance Director from July 2016	50-55	-	-	10	60-65
Ed Schofield Information and Technology Director	100-105	10-15	-	39	150-155
Alison Webster Rural Development Director	100-105	-	-	14	115-120

1. Mark Ashenden is an employee of Defra who is seconded to the agency with effect from 1 January 2017. The amounts in the remuneration table represent the salary amounts reimbursed to Defra. His whole year equivalent salary would be in the range £60,000-£65,000.
2. Paul Caldwell held the post of Operations Director from 1 April 2016 to 31 October 2016, and BPS Operational Delivery Director from 1 November 2016 to 28 February 2017. He was appointed Interim Chief Executive Officer with effect from 1 March 2017. His whole year equivalent salary is in the range £85,000-£90,000.
3. Justin Chamberlain left the agency on 31 December 2016. His whole year equivalent salary was in the range £80,000-£85,000.
4. Arik Dondi left the agency on 31 December 2016. His whole year equivalent salary was in the range £60,000-£65,000.
5. Mark Grimshaw left the agency on 28 February 2017. The amounts in the remuneration table include payments in lieu of notice in the range £40,000-£45,000. His whole year equivalent salary was in the range £160,000-£165,000.
6. Alison Johnson was appointed Interim Operations Director from 1 November 2016. Her whole year equivalent salary was in the range £60,000-£65,000.
7. Sarah Milum was appointed EU Reporting & Compliance Director from 1 July 2016. Her whole year equivalent salary was in the range £70,000-£75,000.

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

Name and title	2015-16 Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	£000 (To nearest £100)	£000	£000
Emma Appleby Design Director	105-110	10-15	-	36	150-155
Nicola Bettesworth Human Resources Director	75-80	-	-	33	110-115
Jo Broomfield CAP Delivery Director from 1 May 2015	115-120 (125-130)	-	-	25	140-145
Paul Caldwell Operations Director	60-65	-	-	18	80-85
John Carter Planning and Performance Director	65-70	-	3.5	30	100-105
Justin Chamberlain Customer Director	90-95	-	-	-	90-95
Arik Dondi External Relations Director	65-70	-	-	29	90-95
Mark Grimshaw Chief Executive Officer	160-165	-	-	44	205-210
Ian Hewett Change Director	90-95	10-15	2.6	48	150-155
Anne Marie Millar Finance, Assurance and Commercial Director	130-135	-	-	48	175-180
Ed Schofield Information and Technology Director	100-105	-	-	39	140-145
Alison Webster Rural Development Director	100-105	-	-	32	135-140

Pension benefits (audited) information
Non-Executive Directors are not entitled to a pension so are not included within the following table.

Name and title	Accrued pension at pension age as at 31 March 2017 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	£000 (To nearest £100)
Emma Appleby Design Director	5-10 plus lump sum of nil	0-2.5 plus lump sum of nil	92	71	12	-
Mark Ashenden Interim External Relations Director from January 2017	25-30 plus lump sum of 20-25	0-2.5 plus lump sum of nil	366	363	2	-
Nicola Bettesworth Human Resources Director	30-35 plus lump sum of 80-85	0-2.5 plus lump sum of nil	544	508	13	-
Jo Broomfield CAP Delivery Director	40-45 plus lump sum of 125-130	0-2.5 plus lump sum of 2.5-5	852	800	14	-
Paul Caldwell Interim Chief Executive Officer from March 2017	25-30 plus lump sum of 85-90	2.5-5 plus lump sum of 12.5-15	566	459	85	-
John Carter Planning and Performance Director	25-30 plus lump sum of 65-70	0-2.5 plus lump sum of 0-2.5	394	364	12	-
Justin Chamberlain Customer Director until December 2016	-	-	-	-	-	8.4
Arik Dondi External Relations Director until December 2016	10-15 plus lump sum of 30-35	0-2.5 plus lump sum of 0-2.5	170	155	6	-
Mark Grimshaw[1] Chief Executive Officer until February 2017	-	-	-	540	-	-
Ian Hewett Change Director	30-35 plus lump sum of 95-100	0-2.5 plus lump sum of 0-2.5	682	642	11	-
Alison Johnson Interim Operations Director from November 2016	25-30 plus lump sum of 65-70	0-2.5 plus lump sum of 0-2.5	439	419	16	-
Anne Marie Millar Finance, Assurance and Commercial Director	45-50 plus lump sum of nil	0-2.5 plus lump sum of nil	913	885	24	-
Sarah Milum EU Reporting & Compliance Director from July 2016	30-35 plus lump sum of 90-95	0-2.5 plus lump sum of 0-2.5	581	565	8	-
Ed Schofield Information and Technology Director	10-15 plus lump sum of nil	0-2.5 plus lump sum of nil	135	108	17	-
Alison Webster Rural Development Director	35-40 plus lump sum of 110-115	0-2.5 plus lump sum of 2.5-5	837	786	13	-

1. Mark Grimshaw opted out of the pension scheme on 31 March 2016.

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced; the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service, joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections; three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60, and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS remained in the PCSPS after 1 April 2015 if they were within 10 years of their normal pension age on 1 April 2012. Those who on 1 April 2012 were between 10 years and 13 years and 5 months from their normal pension will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes. 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 3.10% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.60% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. 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. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. 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 3.0% and 12.5% up to 30 September 2015 and 8.00% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.
Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

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

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

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

Staff report

Senior staff by pay-band

The table below provides the number of Senior Civil Servants or equivalent within the agency by pay-band:

Senior Civil Servants by pay-band	As at 31 March 2017	As at 31 March 2016
Pay-band 3	**-**	1
Pay-band 2	**2**	2
Pay-band 1	**11**	12

Staff composition

The RPA has employed a flexible blended resourcing approach, resourcing peaks in workload by using a mix of agency operational resource, people from across the wider organisation, people from across the wider Defra Group, and agency temps and contractors. This flexible resourcing approach allows the permanent civil servant numbers to be below that required for periods of peak demand.

In the Project Delivery profession the RPA invested in Change capability with the development of an 'academy' including Apprenticeships, Talent Management and creating SEO and HEO Assistant Project Manager Roles to build capacity and capability to reduce the need for contingent labour within the directorate.

The RPA focused on the closure of the CAP programme and transitioning the CAP Delivery Programme into business as usual within IT. This included building and retaining the skills and capabilities that are required to make that transition successful.

Workforce profile	As at 31 March 2017	As at 31 March 2016
Permanently employed staff	**1,759**	1,893
Agency	**92**	145
Contractors	**49**	69
Total	**1,900**	2,107

Gender diversity as at 31 March 2017	Male	Female
Executive Team	**6**	**6**
Permanently employed staff (excluding Executive Team)	**881**	**866**
Non-Executive Directors	**4**	**1**

Developing the workforce

The Talent Management Scheme (TMS) is continuing to provide opportunities to develop talent within the agency, with a focus on developing future senior leaders. The RPA ran five cohorts of TMS; the first cohort has already graduated. There are currently 38 members on the scheme across four cohorts; this is down from 56 last year. The reduction is due to people leaving the RPA. In addition the RPA has launched an EO development scheme, covering the fundamentals of line management and focusing on building leadership capability.

Celebrating our success

The award scheme has been used throughout the year both by line managers and the Executive Team to recognise and reward in-year achievements of RPA people who have gone above and beyond their normal duties to support successful delivery of business objectives.

Attendance management

The RPA's annual working days lost figure for the 2016-17 year was 6.1, achieving a target of 6.4 set by the Cabinet Office.

Year to 31 March	2017	2016	2015	2014	2013
Annual working days lost	**6.1**	6.9	6.7	7.0	9.2

Employee engagement

The RPA's engagement index has decreased in 2016 to 42% (2015: 43%). The engagement index for the Defra Network has increased to 56% (2015: 50%). The Civil Service engagement index has also increased to 59% (2015: 58%).

Engagement index	2016	2015
RPA engagement index	**42%**	43%
Defra engagement index	**56%**	50%
Civil Service benchmark engagement index	**59%**	58%

RPA remains committed to a range of programmes to address issues in the survey and improve communication to its people, including the use of roadshows, adopt a site initiatives and improvement action plans.

Employee relations and tribunals

There has been one employment tribunal claim between 1 April 2016 and 31 March 2017. The Trade Union engagement framework which was introduced in April 2014 is now embedded within the agency. Facility time used by the Trade Union representatives has been within the maximum introduced by the Cabinet Office in 2013.

Exit packages

In 2016 the RPA was part of two Defra wide voluntary exit schemes. The aim of these schemes was to retain those people with the skills and capabilities that the business would need going forward, and those who are essential to business delivery. The agency has been able to offer voluntary exit to 50 people, seven of which left before 31 March 2017, and the remaining 43 will leave by 30 June 2017.

Off-payroll appointments

In line with the recommendations of a review of Tax Arrangements of Public Sector Appointees published by HM Treasury in May 2012 the 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 requirement has been good. Monitoring continues to take place with regular reports being supplied to Defra.

Number of new engagements	2016-17
Which include contractual clauses giving the department the right to request assurance in relation to income tax and national insurance obligations	**10**
For whom assurance has been requested	**10**
of which:	
• assurance has been received	**10**
• assurance has not been received	**-**
• that have been terminated as a result of assurance not being received or ended before assurance was received	**-**

Number of existing engagements	2016-17
Existing engagements as at 31 March 2017	**39**
of which:	
• existed for less than one year at time of reporting	**6**
• existed between one and two years at time of reporting	**14**
• existed between two and three years at time of reporting	**10**
• existed between three and four years at time of reporting	**7**
• existed for four or more years at time of reporting	**2**

Expenditure costs on consultancy in 2016-17 were £1.9m (2015-16: £1.4m). These costs are categorised by their nature within IT costs and Non-IT professional services in Note 3 of the accounts.

Parliamentary Accountability and Audit

Regularity of expenditure (audited)

The agency reports losses and special payments:

	31 March 2017		31 March 2016	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	**253**	**336**	324	691
Claims waived or abandoned	**129**	**170**	439	(152)
Special payments scheme	**129**	**18,913**	223	371
Special payments administration	**4**	**23**	3	32
Realised exchange loss	**1**	**8,469**	-	-
Total	**516**	**27,911**	989	942

Losses exceeding £0.3m

An accrual of £15.0m has been recorded in the year to 31 March 2017 in relation to payments to be made to Single Payment Scheme customers to settle retrospective claims on common land. The agency has also booked an accrual of £3.6m for retrospective fruit and vegetable scheme payments.

All other expenditure is considered to be regular.

Fees and charges (audited)

The agency has no material income from fees and charges.

Remote contingent liabilities (audited)

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed.

During this two year period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

Long term expenditure trends

The agency provides a detailed commentary on current and prior year performance within the Performance Analysis section.

Paul Caldwell
Interim Chief Executive Officer

6 July 2017

THE CERTIFICATE AND REPORT 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 2017 under the Government Resources and Accounts Act 2000.

The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, CashFlows, 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 and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

In addition I read all the financial and non-financial information in the Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 Payments Agency's affairs as at 31 March 2017 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Performance Report and Accountability 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures 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

The Rural Payments Agency (the Agency) is an Executive Agency of the Department for Environment, Food and Rural Affairs (the Department). The Agency's results are consolidated into the Department's Annual Report and Accounts.

Financial penalties, known as 'disallowance' penalties, are levied by the European Commission when it considers actions taken by member states to control and administer CAP payments have been non-compliant with regulations. While the Agency is responsible for managing the Common Agricultural Policy (CAP) schemes in the UK, the Department is responsible for paying these penalties, and they are recorded in the financial statements of the Department rather than the Agency. My report on the Department's Annual Report and Accounts (HC 188) explains the disallowance penalties incurred in 2016-17.

Scheme payments are accounted for by the Agency, a number of initial payments were made to many customers pending further data checks and investigations before concluding on whether a final payment is required. At the time I certified the Department's accounts the Department and Agency had accrued for £21.1 million as an estimate of amounts due to farmers in relation to claims initially paid before 31 March 2017. The RPA has recognised that there is a degree of uncertainty around this estimate, as disclosed in its accounting policies. It is important for the RPA to have a clear process for valuing the potential liabilities arising from these payments, where further checks are being made. RPA should continue to seek reduction in the level of these potential liabilities at year-end.

The Agency has taken a number of actions to facilitate earlier disbursement of payments to farmers following the systems issues arising from the introduction of a new CAP payments system in 2015 and changes to EU Commission regulations. My report on the Department's Annual Report and Accounts (HC 188) also explains the issues faced by the Agency in making CAP payments on a timely basis.

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

13 July 2017

Financial Statements

Account Statements

Statement of Comprehensive Net Expenditure for the Year to 31 March 2017

		Year to 31 March 2017		Year to 31 March 2016	
	Note	**£000**	**£000**	£000	£000
Running costs					
Staff	**2**	**81,752**		88,197	
Others	**3**	**67,910**		60,970	
		149,662		149,167	
Running costs income	**4**	**(7,529)**		(14,721)	
Net running costs			**142,133**		134,446
Scheme costs					
Rural Payments Agency					
Costs	**5**	**1,869,681**		1,292,334	
Income	**5**	**(1,876,019)**		(1,284,880)	
		(6,338)		7,454	
Other paying agencies					
Costs	**6**	**1,044,160**		633,092	
Income	**6**	**(1,047,951)**		(632,975)	
		(3,791)		117	
Net scheme (income)/expenditure			**(10,129)**		7,571
Net operating cost			**132,004**		142,017

Other Comprehensive Expenditure

		Year to 31 March 2017	Year to 31 March 2016
	Note	**£000**	£000
Net operating cost		**132,004**	142,017
Net gain on revaluation of property, plant and equipment	**14**	**(82)**	(9)
Net gain on revaluation of intangible assets	**14**	**(1,605)**	(49)
Movement in cash flow hedge reserve		**(36,352)**	39,288
Total comprehensive expenditure for the period		**93,965**	181,247

The Notes on pages 45 to 72 form part of these accounts.

Statement of Financial Position as at 31 March 2017

		Year to 31 March 2017		Year to 31 March 2016	
	Note	**£000**	**£000**	£000	£000
Non-current assets					
Property, plant and equipment	**7**	**1,381**		1,334	
Intangible assets	**8**	**84,371**		2,360	
Total non-current assets			**85,752**		3,694
Current assets					
Inventories		**8,055**		3,823	
Trade receivables and other current assets	**9**	**437,659**		898,059	
Derivative asset	**13**	**2,086**		3,545	
Cash and cash equivalents	**10**	**393,902**		554,576	
Total current assets			**841,702**		1,460,003
Total assets			**927,454**		1,463,697
Current liabilities					
Trade payables and other current liabilities	**11**	**(99,957)**		(60,898)	
Derivative liabilities	**13**	**(5,713)**		(99,685)	
Provisions for liabilities and charges	**12**	**(2,275)**		(53,143)	
Total current liabilities			**(107,945)**		(213,726)
Non-current assets plus net current assets			**819,509**		1,249,971
Non-current liabilities					
Trade payables and other liabilities	**11**	**(125,740)**		(116,554)	
Provisions for liabilities and charges	**12**	**(256)**		(183)	
Total non-current liabilities			**(125,996)**		(116,737)
Assets less liabilities			**693,513**		1,133,234
Taxpayers' equity					
General fund			**694,646**		1,172,218
Cash flow hedge reserve			**(2,685)**		(39,037)
Revaluation reserve	**14**		**1,552**		53
Total taxpayers' equity			**693,513**		1,133,234

The Notes on pages 45 to 72 form part of these accounts.

Paul Caldwell
Interim Chief Executive Officer

6 July 2017

Statement of Cash Flows for the Year to 31 March 2017

	Note	Year to 31 March 2017	Year to 31 March 2016
	Note	**£000**	£000
Cash flows from operating activities			
Net operating cost		**(132,004)**	(142,017)
Adjustment for non-cash items included in other running costs	**3**	**24,508**	20,716
Adjustment for non-cash items included in other running costs income	**4**	**(228)**	(450)
Adjustment for non-cash hedging costs transfer to Defra		**(170)**	(11)
Movement in provisions		**(50,795)**	35,625
Adjustment for derivative financial instruments		**(56,161)**	79,614
Increase in inventories		**(4,232)**	(3,823)
Decrease/(increase) in trade receivables and other current assets		**460,401**	(448,801)
Increase in trade payables and other current liabilities		**47,780**	82,484
Net cash inflow/(outflow) from operating activities		**289,099**	(376,663)
Cash flows from investing activities			
Purchase of property plant and equipment		**(279)**	25
Purchase of intangible assets		**(2,671)**	(442)
Proceeds of disposal of non-current assets		**-**	834
Net cash (outflow)/inflow from investing activities		**(2,950)**	417
Cash flows from financing activities			
Financing by Defra		**1,850,000**	2,100,000
Financing to Defra		**(2,125,000)**	(1,125,000)
Payments for Rural Development Programme for England on behalf of Defra		**(327,637)**	(414,637)
Receipts for Rural Development Programme for England on behalf of Defra		**268,691**	384,018
Disallowance transfer to Defra		**(112,390)**	(93,576)
Capital element of payments in respect of finance leases		**(487)**	(276)
Net cash (outflow)/inflow from financing activities		**(446,823)**	850,529
(Decrease)/increase in cash and cash equivalents in the period		**(160,674)**	474,283
Cash and cash equivalents at 1 April	**10**	**554,576**	80,293
Cash and cash equivalents at 31 March	**10**	**393,902**	554,576

The Notes on pages 45 to 72 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2017

	Note	General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers' equity
		£000	£000	£000	£000
Balance at 1 April 2016		1,172,218	(39,037)	53	1,133,234
Net operating cost		**(132,004)**	**-**	**-**	**(132,004)**
Transfer from revaluation reserve to General fund:					
- property, plant and equipment	**14**	**31**	**-**	**(31)**	**-**
- intangible assets	**14**	**157**	**-**	**(157)**	**-**
Arising on revaluation during the year (net)		**-**	**-**	**1,687**	**1,687**
Notional charges		**18,253**	**-**	**-**	**18,253**
Loss on Cash flow hedges		**-**	**(44,423)**	**-**	**(44,423)**
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	**13**	**-**	**80,775**	**-**	**80,775**
Total recognised expense for period ended 31 March 2017		(113,563)	36,352	1,499	(75,712)
Financing by Defra		**1,850,000**	**-**	**-**	**1,850,000**
Financing to Defra		**(2,125,000)**	**-**	**-**	**(2,125,000)**
Payments for Rural Development Programme for England on behalf of Defra		**(327,637)**	**-**	**-**	**(327,637)**
Receipts for Rural Development Programme for England on behalf of Defra		**268,691**	**-**	**-**	**268,691**
Hedging costs transfer to Defra		**(170)**	-	-	**(170)**
Intangible assets transfer from Defra		**82,497**	**-**	**-**	**82,497**
Disallowance transfer to Defra		**(112,390)**	**-**	**-**	**(112,390)**
Balance at 31 March 2017		694,646	(2,685)	1,552	693,513

The Notes on pages 45 to 72 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2016

	Note	General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers' equity
		£000	£000	£000	£000
Balance at 1 April 2015		444,905	251	122	445,278
Net operating cost		(142,017)	-	-	(142,017)
Transfer from revaluation reserve to General fund:					
- property, plant and equipment	14	9	-	(9)	-
- intangible assets	14	118	-	(118)	-
Arising on revaluation during the year (net)		-	-	58	58
Notional charges		18,409	-	-	18,409
Loss on Cash flow hedges		-	(143,876)	-	(143,876)
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	13	-	104,588	-	104,588
Total recognised expense for period ended 31 March 2016		(123,481)	(39,288)	(69)	(162,838)
Financing by Defra		2,100,000	-	-	2,100,000
Financing to Defra		(1,125,000)	-	-	(1,125,000)
Payments for Rural Development Programme for England on behalf of Defra		(414,637)	-	-	(414,637)
Receipts for Rural Development Programme for England on behalf of Defra		384,018	-	-	384,018
Hedging costs transfer to Defra		(11)	-	-	(11)
Disallowance transfer to Defra		(93,576)	-	-	(93,576)
Balance at 31 March 2016		1,172,218	(39,037)	53	1,133,234

The Notes on pages 45 to 72 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2016-17 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.

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		Amortisation	
IT hardware			
• laptops, printers and similar equipment	3 years	IT software	5 to 7 years
• Communications	5 years	IT licences	up to 7 years
• Servers	up to 7 years		
Office machinery	5 years		
Right of use assets	8 years		
Others	5 - 25 years		

The estimated useful lives of tangibles and intangibles will be reassessed as and when the full impact of the United Kingdom's decision to leave the European Union is known.

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 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 has benefited from participation in Defra's contract with IBM for the supply of IT services. The contract was originally for a term of eight years from February 2010. The contract falls within the scope of IFRIC 12 as interpreted by the FReM and is disclosed within the accounts as a service concession arrangement. Defra has apportioned a share of this arrangement to the agency based on the agency's usage of the facility.

A lease liability has been included to reflect the agency's share of the capital value of payments to IBM to lease IT infrastructure assets throughout the duration of the nine 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.

In 2016-17 Defra bought back the assets from IBM used in providing the IT services. Consequently the agency reports no lease liability, or right of use assets at 31 March 2017.

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
For 2016-17, the full cost of occupation of buildings that are either owned or leased by Defra is reflected within the Statement of Comprehensive Net Expenditure as part of 'Corporate overhead recharge (notional)', see Note 3. 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. These costs in previous years were not notional but were paid to Defra in cash and recorded under Rent on buildings, and Accommodation in Note 3.

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
Defra core accounts recognise the income and expenditure for schemes over which it acts as Managing Authority, thereby demonstrating control of policy and prioritisation of spend. Payments made by the agency on such schemes (e.g. rural development expenditure under the Rural Development Programme for England) are reported in the agency accounts as movements through the General Fund.

Income and expenditure relating to all other schemes are recognised in the accounts of the agency. 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.

The Basic Payment Scheme and the 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 completion of substantive processes to validate each claim against European Commission rules for the schemes, and the amount payable to each claimant is considered reliably measurable and probable.

The Basic Payment Scheme and the 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.

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.

1.10 Accounting for sugar levies

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. Sugar restructuring receipts are remitted directly to the European Commission through the monthly reimbursement process.

In accordance with Chapter 10 'Whole of Government Accounts' of the 2016-17 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 21 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 European Commission funding of schemes administered by the agency

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

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.

1.13 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.

1.14 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 Basic Payment Scheme and the Single Payment Scheme, the Rural Development Programme and Trader Schemes in accordance with respective scheme rules and regulations.

Furthermore, the agency makes a portion of payments under the Basic Payment Scheme and 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 1.12. 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 1.15 and Note 1.16.

1.15 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 than 12 months, or is greater than 12 months but is expected to be realised or settled within 12 months. The agency does not enter into derivative arrangements for speculative purposes.

1.16 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 Basic Payment Scheme and 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.

1.17 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.

1.18 Pensions

Present and past employees of the agency are covered by the provisions of six 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.

1.19 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.

1.20 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.

1.21 Contingent 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.

1.22 Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the agency that are regularly reviewed by the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. The agency has identified the Chief Executive Officer as the Chief Operating Decision Maker.

For segmental reporting during 2016-17, 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.

1.23 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, which 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.

c) Additional (post payment) claim amounts:

In preparing the accounts an assessment is made of the extent to which adjustments are likely to be needed in relation to claims already paid where potential system or data issues have been identified post payment. This may result in additional payments or recoveries being required, and therefore management estimates are needed to assess additional amounts which might need to be recognised. In assessing the value of these future payments the RPA considers queries raised by the recipients of claim payments; the underlying accuracy of data supporting the claim; the input and processing of claims, their compliance with scheme rules and the application of any penalties or adjustments. Management also identifies the claim populations displaying similar characteristics to those individual claims found to be affected by system or data issues, so as to assess any additional liabilities. An extrapolation of the potential liability for queries not yet investigated has been undertaken using outcome data from those already resolved. Within these techniques the assumptions used are sensitive to change and not all claims in these populations will require corrective action. Management estimates the maximum potential liability based on the extrapolations could be £38m. An accrual of £21m has been recognised, which represents management’s view of the most likely and reliable value of the liability. Since this liability will be funded through the European Commission, a receivable for the same amount has been recognised in accordance with RPA’s accounting policies.

1.24 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.

1.25 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.

1.26 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.

1.27 Intervention buying and selling
Intervention buying is a method of supporting market prices for agricultural commodities. The agency is required to buy, at prices determined by the European Commission, produce of defined quality offered in accordance with detailed regulation. This produce is then sold out of intervention for specific end uses, on terms prescribed by the European Commission, when prices are high or there is a shortage on the open market.

The agency inventories comprise solely of milk powder purchases held in store.

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

IFRS 9 Financial Instruments - Classification and Measurement
IFRS 15 Revenue from Contracts with customers
IFRS 17 Leases

These become effective for accounting periods starting after 1 January 2018 for IFRS 9 and IFRS 15, and for IFRS 17 after 1 January 2019. The agency plans to adopt these standards once required to do so by the FReM.

The agency does not anticipate material adjustments to the financial statements following the introduction of these standards.

2. Staff numbers and related costs

2.1 Staff costs comprise:

	Permanently employed staff	Short term/ fixed term appointment	Year to 31 March 2017 Total	Permanently employed staff	Short term/ fixed term appointment	Year to 31 March 2016 Total
	£000	**£000**	**£000**	£000	£000	£000
Wages and salaries	**54,196**	**244**	**54,440**	59,258	633	59,891
Social security costs	**5,341**	**23**	**5,364**	4,518	43	4,561
Other pension costs	**10,592**	**46**	**10,638**	11,354	115	11,469
Early retirement and early severance costs						
Expensed in the year	**2,291**	**-**	**2,291**	2,621	-	2,621
	72,420	**313**	**72,733**	77,751	791	78,542
Less recoveries in respect of secondments			**(885)**			(2,218)
Agency staff			**2,258**			4,916
Contractors			**7,646**			6,957
Total staff costs			**81,752**			88,197

No staff costs have been capitalised (2015-16: £nil).

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:

	Year to 31 March 2017	Year to 31 March 2016 Restated
Permanently employed staff	**1,830**	1,973
Agency	**113**	198
Contractors	**68**	48
Total	**2,011**	2,219

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, they are not considered to be employees and are excluded from staff costs in Note 2.1, and are reflected within Non-IT professional services in Note 3.

2.2 Pensions 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 2016-17 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

For 2016-17 employer's contributions of £10.5m (2015-16: £11.3m) were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of benefits accruing during 2016-17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 can also opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2016-17, employer's contributions of £125k were paid to one or more of a panel of three appointed stakeholder providers. Employer's contributions are age-related and range from 8.0% to 14.75% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition employer's contributions of £4.6k, 0.5% 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 £9.8k (2015-16: £10.6k). There were no prepaid contributions at that date.

Further details about Civil Service pension arrangements can be found in the Remuneration Report and on the Civil Service website (http://www.civilservicepensionscheme.org.uk/).

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

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. Where the agency has agreed early retirements, the additional costs are met by the agency and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

During the year to 31 March 2017 there were no Compulsory Redundancies (2015-16: none).

	Year to 31 March 2017	Year to 31 March 2016	**Year to 31 March 2017**	Year to 31 March 2016
Exit package cost band	Number of other departures agreed		Total value of other departure packages by cost band (total cost) £000	
Up to £10,000	**3**	3	**22**	6
£10,001 - £25,000	**20**	31	**344**	495
£25,001 - £50,000	**15**	37	**508**	1,236
£50,001 - £100,000	**12**	12	**902**	846
Total number of exit packages and costs	**50**	83	**1,776**	2,583

3. Other running costs

	Note	**Year to 31 March 2017**	Year to 31 March 2016
	Note	**£000**	£000
Non-cash items (including notional charges)			
Auditors remuneration and expenses (notional)		**245**	270
Corporate overhead recharge (notional)[1]		**18,236**	18,589
Gain on disposal of non-current assets		**-**	(802)
Depreciation	**7**	**562**	788
Amortisation	**8**	**5,465**	1,871
		24,508	20,716
Other expenditure			
Accommodation including recharges		**(756)**	(323)
IT costs		**23,018**	18,824
IT costs relating to projects		**559**	129
Non-payroll staff costs		**3,426**	4,269
Communications costs		**3,462**	4,946
Non-IT professional services		**10,701**	10,041
Finance lease interest		**22**	46
Certification Body (NAO) grant certification fee		**2,534**	2,234
Other running costs		**436**	88
		43,402	40,254
Total		**67,910**	60,970

1. Services and facilities provided by Defra.

The agency does not directly meet the costs of certain services that are provided centrally by Defra. These costs include legal services, HR services, IT services, estates, and procurement advice. These services are agreed and managed through service level agreements between the agency and Defra. The agency reports these notional recharges to accurately reflect the true costs of operations, with a matching credit recorded in general funds.

During the year the agency received no non-audit services from the NAO (2015-16: £nil).

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

	Year to 31 March 2017	Year to 31 March 2016
	£000	£000
Payroll costs	**509**	618
Other costs	**136**	199
Certification Body (NAO) grant certification fee	**2,534**	2,234
Total	**3,179**	3,051

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

	Year to 31 March 2017	Year to 31 March 2016
	£000	£000
DIS notional	**(228)**	(450)
Other running costs income	**(7,301)**	(14,271)
Total	**(7,529)**	(14,721)

Running costs income includes £0.2m (2015-16: £0.5m) notional income relating to services provided across Defra by the Defra Investigation Services (DIS), which is part of the agency.

A further £3.2m (2015-16: £10.3m) relates to the agency's ability to claim from the 2007-13 Rural Development Programme for England Technical Assistance (RDPE TA) fund. This helps to fund activities designed to ensure the transition from the 2007-13 RDPE programming period to the 2014-20 RDPE programming period.

The agency also received income for work on the British Cattle Movement Service on behalf of Defra of £4.0m (2015-16: £3.8m).

5. Schemes administered by the agency

	Year to 31 March 2017			Year to 31 March 2016		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Basic Payment Scheme[1]	**1,818,264**	**(1,827,600)**	(9,336)	1,218,566	(1,218,756)	(190)
Single Payment Scheme	**145**	**2,341**	2,486	8,553	(5,493)	3,060
Internal Trade - Horticulture	**30,312**	**(33,617)**	(3,305)	29,817	(28,765)	1,052
Internal Trade - other	**5,019**	**(5,207)**	(188)	3,207	(3,209)	(2)
Dairy Fund	**9,354**	**(9,349)**	5	26,632	(25,695)	937
Other schemes	**2,125**	**(2,369)**	(244)	2,437	(1,903)	534
	1,865,219	**(1,875,801)**	**(10,582)**	1,289,212	(1,283,821)	5,391
Other scheme related costs[2]	**43**	**-**	43	5,061	-	5,061
Cost of hedging contracts	**(3,394)**	**-**	(3,394)	(3,245)	-	(3,245)
Realised exchange loss/(gain)	**8,469**	**-**	8,469	(2,271)	-	(2,271)
Unrealised exchange (gain)/loss	**(656)**	**-**	(656)	3,577	-	3,577
Other scheme related income	**-**	**(218)**	(218)	-	(1,059)	(1,059)
Total scheme expenditure/(income)	**1,869,681**	**(1,876,019)**	**(6,338)**	1,292,334	(1,284,880)	7,454

1. BPS income includes a reduction of £11.1m (2015-16: reduction of £25.0m) resulting from foreign exchange hedging transactions, see Note 13.

2. 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 2017			Year to 31 March 2016		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Other paying agencies[1]						
Scottish Government Rural Payments and Inspections Division	**428,824**	**(431,447)**	**(2,623)**	209,941	(210,023)	(82)
Welsh Assembly Government	**313,676**	**(314,353)**	**(677)**	168,819	(169,117)	(298)
Department of Agriculture, Environment and Rural Affairs, Northern Ireland	**301,135**	**(301,619)**	**(484)**	253,614	(253,409)	205
	1,043,635	**(1,047,419)**	**(3,784)**	632,374	(632,549)	(175)
Delegated authorities						
Forestry Commission	**525**	**(532)**	**(7)**	718	(426)	292
Total scheme expenditure/(income)	**1,044,160**	**(1,047,951)**	**(3,791)**	633,092	(632,975)	117

1. OPAs income includes a reduction of £28.3m (2015-16: increase of £2.7m) resulting from foreign exchange hedging transactions, see Note 13.

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	Total
	£000	**£000**	**£000**
At 1 April 2016	**9,559**	**1,066**	**10,625**
Additions	**581**	**(54)**	**527**
Disposals	**(1,919)**	**(1,012)**	**(2,931)**
Revaluations	**162**	**-**	**162**
At 31 March 2017	**8,383**	**-**	**8,383**
At 1 April 2016	**8,344**	**947**	**9,291**
Charged in year	**497**	**65**	**562**
Disposals	**(1,919)**	**(1,012)**	**(2,931)**
Revaluations	**80**	**-**	**80**
At 31 March 2017	7,002	-	7,002
At 1 April 2016	**1,215**	**119**	**1,334**
At 31 March 2017	**1,381**	**-**	**1,381**
Owned	**1,381**	**-**	**1,381**
Net Book Value at 31 March 2017	**1,381**	**-**	**1,381**

Included in property, plant and equipment are assets with a historic cost of £6.2m (31 March 2016: £6.7m) 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	Total
	£000	£000	£000
At 1 April 2015	10,147	1,139	11,286
Additions	-	(73)	(73)
Disposals	(650)	-	(650)
Reclassification	60	-	60
Revaluations	2	-	2
At 31 March 2016	9,559	1,066	10,625
At 1 April 2015	8,285	842	9,127
Charged in year	683	105	788
Disposals	(617)	-	(617)
Revaluations	(7)	-	(7)
At 31 March 2016	8,344	947	9,291
At 1 April 2015	1,862	297	2,159
At 31 March 2016	1,215	119	1,334
Owned	1,215	-	1,215
Finance leased	-	119	119
Net Book Value at 31 March 2016	1,215	119	1,334

8. Intangible assets

	Information technology	Software licences	Development expenditure	Total
	£000	**£000**	**£000**	**£000**
Valuation				
At 1 April 2016	**143,146**	**4,248**	**423**	147,817
Additions[1]	**82,497**	**15**	**3,359**	85,871
Disposals	**(979)**	**(52)**	**-**	(1,031)
Reclassifications	**395**	**17**	**(412)**	-
Revaluations	**1,650**	**146**	**-**	1,796
At 31 March 2017	**226,709**	**4,374**	**3,370**	**234,453**
Amortisation				
At 1 April 2016	**141,946**	**3,511**	**-**	145,457
Charged in year	**5,003**	**462**	**-**	5,465
Disposals	**(979)**	**(52)**	**-**	(1,031)
Revaluations	**96**	**95**	**-**	191
At 31 March 2017	**146,066**	**4,016**	**-**	**150,082**
Net Book Value				
At 1 April 2016	**1,200**	**737**	**423**	2,360
At 31 March 2017	**80,643**	**358**	**3,370**	**84,371**
Assets Financing				
Owned	**80,643**	**358**	**3,370**	84,371
Net Book Value at 31 March 2017	**80,643**	**358**	**3,370**	**84,371**

1. Additions within Information technology of £82.5m reflect the transfer of assets from Defra to the agency as of 1 December 2016. These assets have an remaining amortised life of six years from 1 April 2017.

During the year to 31 March 2017 there were £nil impairment losses (2015-16: £nil). Included in intangible assets are assets with a historic cost of £126.4m (31 March 2016: £121.2m) which have been fully amortised. These assets are still in use by the agency.

	Information technology	Software licences	Development expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2015	141,757	4,307	52	146,116
Additions	-	-	343	343
Reclassifications	(57)	(31)	28	(60)
Revaluations	1,446	(28)	-	1,418
At 31 March 2016	143,146	4,248	423	147,817
Amortisation				
At 1 April 2015	139,161	3,056	-	142,217
Charged in year	1,380	491	-	1,871
Revaluations	1,405	(36)	-	1,369
At 31 March 2016	141,946	3,511	-	145,457
Net Book Value				
At 1 April 2015	2,596	1,251	52	3,899
At 31 March 2016	1,200	737	423	2,360
Assets Financing				
Owned	1,200	737	423	2,360
Net Book Value at 31 March 2016	1,200	737	423	2,360

9. Trade receivables

Amounts falling due within one year:

	31 March 2017	31 March 2016
	£000	£000
Due from Defra and its agencies	**1,706**	5,282
Due from other government departments (including OPAs)	**8,751**	9,706
VAT recoverable	**2,340**	2,138
Total Intra-government balances	**12,797**	17,126
Trade receivables	**3,997**	5,186
Less allowance for doubtful debts	**(2,056)**	(2,070)
	1,941	3,116
Due from European Agricultural Guarantee Fund/European Agricultural Fund for Rural Development	**418,685**	872,990
Prepayments and other receivables	**4,236**	4,827
Total other receivables	**424,862**	880,933
Total receivables	**437,659**	898,059

The credit period for trade receivables invoices is nil 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.

10. Cash and cash equivalents

	31 March 2017	31 March 2016
	£000	£000
Balances held at 1 April	**554,576**	80,293
Net cash (outflow)/inflow	**(160,674)**	474,283
Total balance	**393,902**	554,576

The following balances are held at 31 March:

	31 March 2017	31 March 2016
	£000	£000
Government Banking Services	**393,894**	554,568
Commercial banks and cash in hand	**8**	8
Total balance	**393,902**	554,576

The closing balance of third party money held as cash securities at 31 March 2017 was £2.5m (31 March 2016: £2.3m). Of this, £2.5m (31 March 2016: £2.3m) was held in a public bank account.

At 31 March 2017 the cash equivalent balance was £nil (31 March 2016: £nil).

11. Trade payables and other current liabilities

Amounts falling due within one year:

	31 March 2017	31 March 2016
	£000	£000
Due to Defra and its agencies	410	2,050
Due to other government departments (including OPAs)	14,077	15,557
Other taxation and social security	1,285	1,248
Total Intra-government balances	**15,772**	18,855
Trade payables	6,307	7,556
Cash securities[1]	2,477	2,276
Scheme accruals	61,282	17,623
Running cost accruals	9,513	7,599
Other payables	1,088	1,172
Finance leases	-	270
Advances on Rural Development Programmes	3,518	5,547
Total other payables	**84,185**	42,043
Total payables	**99,957**	60,898

1. 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.

Amounts falling due after more than one year:

	31 March 2017	31 March 2016
	£000	£000
Advances on Rural Development Programmes	125,740	116,337
Finance leases	-	217
Total	**125,740**	116,554
Total trade payables and other liabilities	**225,697**	177,452

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 2017, the agency considers that the fair value of the advances received on Rural Development Programmes for Defra and OPAs is £129.3m (31 March 2016: £121.9m).

As at 31 March 2017, the agency considers the fair value of finance lease liabilities to be £nil (31 March 2016: £0.5m), see Note 16.2.

12. Provisions

	Running cost provisions	Scheme related provisions	Total
	£000	£000	£000
Balance at 1 April 2016	**321**	**53,005**	**53,326**
Provided in the year	**862**	**1,203**	**2,065**
Released	**-**	**(20,565)**	**(20,565)**
Utilised	**(340)**	**(31,955)**	**(32,295)**
Balance at 31 March 2017	**843**	**1,688**	**2,531**
Analysed as			
Current	**587**	**1,688**	**2,275**
Non-current	**256**	**-**	**256**
Balance at 31 March 2017	**843**	**1,688**	**2,531**
Analysis of expected timing of discounted flows			
No later than one year	**587**	**1,688**	**2,275**
Later than one year and not later than five years	**256**	**-**	**256**
Balance at 31 March 2017	**843**	**1,688**	**2,531**

12.1 Running cost provision

Running cost provisions include the early retirement and severance costs of former employees and other provisions to be fully paid by April 2020.

12.2 Scheme related provision

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.

There is no longer a BPS provision for underpayments, or a SPS retrospective commons payments provision, which are now both treated as accruals.

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 2017	31 March 2016
	£000	£000
Financial Assets		
Trade receivables and other current assets	**433,732**	893,232
Cash and cash equivalents	**393,902**	554,576
Derivative instruments classified as held for trading	**959**	3,545
Derivative instruments in designated hedge accounting relationships	**1,127**	-
Sub-total of derivatives assets	**2,086**	3,545
Financial Liabilities		
Trade payables and other liabilities	**223,085**	174,728
Derivative instruments classified as held for trading	**1,796**	19,985
Derivative instruments in designated hedge accounting relationships	**3,917**	79,700
Sub-total of derivatives liabilities	**5,713**	99,685
Other		
Financial Guarantee Contracts		
Cash securities	**2,477**	2,276
Non-cash guarantees	**1,922,000**	2,354,000

Cash on deposit at 31 March 2017 consists of money lodged with Government Banking Services and Commercial Banks.

The sterling denominated accounts held within Government Banking Services are not subject to an interest rate charge while the euro denominated accounts held are subject to an interest rate charge of 0.55%.

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 £547m and euro guarantees totalling €1,607m (£1,375m) were held at 31 March 2017 (£658m and €2,143m (£1,696m) at 31 March 2016).

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 the Basic 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:

	31 March 2017		31 March 2016	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Euro	**560,365**	**129,258**	1,072,152	121,884

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 2017	31 March 2016	**31 March 2017**	31 March 2016
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost[1]	**(43,111)**	(95,027)	**43,111**	95,027
Derivative instruments				
(Increase)/decrease in Net operating cost[2]	**22,900**	39,733	**(18,466)**	(38,585)
Increase/(decrease) in Taxpayers' Equity[3]	**56,219**	102,507	**(51,785)**	(101,360)

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

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

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

Outstanding foreign currency contracts:

	Average exchange rate 31 March 2017	Foreign currency 31 March 2017	Notional value 31 March 2017	Fair value 31 March 2017
	Euro: Sterling	**€000**	**£000**	**£000**
Current derivative assets to sell euros	**0.85812**	**175,650**	**150,729**	**1,854**
Current derivative assets to buy euros	**0.85281**	**(33,134)**	**(28,257)**	**232**
Current derivative liabilities to sell euros	**0.85277**	**794,422**	**677,462**	**(5,649)**
Current derivative liabilities to buy euros	**0.86960**	**(7,119)**	**(6,190)**	**(64)**

During the year the agency entered into forward exchange contracts to hedge the monthly euro denominated receipts in relation to the Basic Payment Scheme. As at 31 March 2017, 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 £2.74m. It is anticipated that the funds will be received during 2017-18, 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 2017, there are no gains or losses deferred to the cash flow hedge reserve in respect of Rural Development Programme contracts.

The agency also entered into a forward exchange contract to hedge the first €5m euro denominated receipts in relation to the Dairy Production Reduction scheme. As at 31 March 2017, the aggregate amount of gains under forward foreign exchange contracts deferred to the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £0.012m. It is anticipated that the funds will be received during 2017-18, at which time the amount deferred in equity will be reclassified to the Statement of Comprehensive Net Expenditure.

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

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

	Year to 31 March 2017
	£000
Agency - scheme income	**(11,100)**
Other paying agencies - scheme income	**(28,250)**
Loss - scheme expenditure	**(41,425)**
Total transferred to Statement of Comprehensive Net Expenditure	**(80,775)**

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 affected 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.

	31 March 2017		31 March 2016	
	Non-interest bearing	**Finance lease liability**	Non-interest bearing	Finance lease liability
	£000	**£000**	£000	£000
Zero - three months	**93,826**	**-**	52,357	72
Three - twelve months	**3,518**	**-**	5,547	214
One - five years	**125,740**	**-**	-	244
Greater than five years	**-**	**-**	116,337	-
Total	**223,084**	**-**	174,241	530

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.

Non-interest bearing as follows:

	31 March 2017	31 March 2016
	£000	£000
Zero - three months	**394,769**	706,964
Three - twelve months	**38,963**	186,268
Total	**433,732**	893,232

Gross settled foreign exchange forward contracts

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

	31 March 2017		31 March 2016	
	Derivative liabilities	**Derivative assets**	Derivative liabilities	Derivative assets
	£000	**£000**	£000	£000
Zero - three months	**5,149**	**803**	96,907	3,161
Three - six months	**(127)**	**-**	341	-
Total	**5,022**	**803**	97,248	3,161

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 2016	**4**	**49**	53
Revaluation during the year	**82**	**1,605**	1,687
Transfer to General Fund[1]	**(31)**	**(157)**	(188)
Balance at 31 March 2017	**55**	**1,497**	**1,552**

1. 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

At 31 March 2017 the agency had bridging payments capital commitments of £45.1m (31 March 2016: None). These payments were made in April 2017.

16. Lease commitments

16.1 Operating leases

Total future minimum lease payments at 31 March 2017 under operating leases are given in the table below for each of the following periods:

	31 March 2017	31 March 2016
	£000	£000
Vehicles		
Not later than one year	**397**	401
Later than one year and not later than five years	**266**	642
Total	**663**	1,043

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 2017	31 March 2016
	£000	£000
Land		
Later than five years	**3**	2
Total	**3**	2
Buildings		
Not later than one year	**2,544**	6,013
Later than one year and not later than five years	**4,699**	5,534
Later than five years	**2,790**	197
Total	**10,033**	11,744

16.2 Finance leases

Total future minimum lease payments under non-cancellable finance leases at 31 March 2017 are given in the table below for each of the following periods:

	31 March 2017	31 March 2016
	£000	£000
Not later than one year	**-**	286
Later than one year and not later than five years	**-**	244
	-	530
Less interest element	**-**	(43)
Present value of obligations	**-**	487

The present values of total future minimum lease payments under non-cancellable finance leases at 31 March 2017 are given in the table below for each of the following periods:

	31 March 2017	31 March 2016
	£000	£000
Not later than one year	**-**	270
Later than one year and not later than five years	**-**	217
Present value of obligations	**-**	487

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 2017	31 March 2016
	£000	£000
Not later than one year	**13,742**	15,954
Later than one year and not later than five years	**11,932**	8,648
Total	**25,674**	24,602

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 2017	31 March 2016
	£000	£000
Not later than one year	**2,430**	2,416
Later than one year and not later than five years	**9,719**	9,666
Later than five years	**4,873**	7,262
Total	**17,022**	19,344

The following projected commitments relate to the service element associated with the proportion of usage by the agency of Defra's IBM contract in accordance with IFRIC 12, see Note 1.6.

	31 March 2017	31 March 2016
	£000	£000
Not later than one year	**4,590**	4,748
Later than one year and not later than five years	**4,432**	3,913
Total	**9,022**	8,661

Private Finance Initiative (PFI) commitments

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 at 31 March 2017 is £70k, and the agency's total commitment at 31 March 2017 is £1.4m.

Defra freehold properties

The estimated value of non-specialised freehold property owned by Defra but occupied by the agency at 31 March 2017 is £3.5m (31 March 2016: £3.8m). 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 material contingent liabilities where the possibility of an outflow in settlement is not considered to be remote:

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. At 31 March 2017 there were 3 EC audits relating to Fruit & Vegetables, Rural Development Programme Expenditure and Rural Development Axis 1 & 3, where the EC have yet to communicate their view on disallowances. Consequently there is an ongoing potential liability in respect of financial corrections which is unquantifiable.

All financial corrections are funded by Defra, and the contingent liabilities for these are reported in Defra accounts and not those of the agency.

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

19. Related party transactions

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

- Animal and Plant Health Agency
- Food Standards Agency
- Environment 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 and Inspections Division
- Welsh Assembly Government
- Department of Agriculture, Environment and Rural Affairs, Northern Ireland
- Forestry Commission (as delegated paying agent)

Disclosure of employment

David Cotton is a non-executive director of the agency. He is a partner of HE Cotton & Son which received scheme payments of £39k during the year to 31 March 2017. He is also a director of Kingshill Farming Company Ltd which received scheme payments of £0.3k and €67k during the year to 31 March 2017.

Angela Gillibrand is a non-executive director of the agency. She is also a partner of Lotmead Farm Partnership which received scheme payments of £28k, during the year to 31 March 2017.

Radburne Thomas is a non-executive director of the agency. He is the owner of JB Thomas and Son which received scheme payments of £25k during the year to 31 March 2017.

These transactions were undertaken in the normal course of business and all transactions were at arms' length. These non-executive directors also receive salaries as shown on the Remuneration Report.

20. Events after the reporting period

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

21. Sugar production charges

In accordance with section 8.2 of the 2016-17 FReM, sugar production charges collected on behalf of the European Commission, including related income, expenditure, penalties, assets and liabilities are excluded from the financial statements of the agency apart from appropriations of net revenue which the agency is entitled to record as revenue in the Statement of Comprehensive Net Expenditure.

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

	Year to 31 March 2017	Year to 31 March 2016
	£000	£000
Sugar production charges collected in the financial year	**10,917**	9,363
Sugar production charges accrued in the financial year	**35**	36
Total	**10,952**	9,399

All amounts collected or accrued above are subsequently surrendered to HM Treasury by the agency. At 31 March 2017, the agency held no assets and liabilities in relation to sugar production charges, within the financial statements of the agency:

	Year to 31 March 2017	Year to 31 March 2016
	£000	£000
Balance held at the start of the year	**-**	-
Amount collected or accrued in the financial year	**10,952**	9,830
Payments to HM Treasury in the financial year	**(10,917)**	(9,363)
Liability to pay HM Treasury	**(35)**	(36)
Appropriation of Net Revenue[1]	**-**	(431)
Balance held on trust at the end of the year	**-**	-

1. In 2015-16 the agency received £431k from British Sugar; the agency will use these funds to pay any subsequent claims from beet growers.

ISBN 978-1-4741-3141-4

HC194