Rural Payments Agency

Rural Payments Agency Annual Report and Accounts 2018-2019

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Rural Payments Agency
Annual Report and Accounts 2018-2019

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Performance Report

Chief Executive Officer's Statement

2018-19 has been a significant year for the Rural Payments Agency. We are committed to supporting Defra deliver its vision and 25 Year Plan of creating a great place for living. Our role in agricultural land management and in support of food security and safety are highlighted by the preparations for leaving the EU and the Agriculture Bill. We will continue to support the Defra vision and the communities we serve to deliver the changes needed and our objectives for the year ahead.

- **Being an outstanding organisation:** 2018 was our most successful year for Basic Payment Scheme (BPS) since its introduction, 65% of customers receiving their payment on the first day (a 23% increase on last year), rising to over 93% being paid in the first month and to over 99% now injecting over £1.6bn into our rural economy. In addition, we have resolved the vast majority of historic issues which includes payment related queries from prior years and making some 1,600 historic scheme payments to eligible commoners. This has been a huge achievement for the agency and could not have been achieved without the hard work, expertise, flexibility and collaboration of colleagues in every role across the business. During autumn 2018 we took on responsibility for the delivery of the Countryside and Environmental Stewardship (CS and ES) schemes. This involved the transfer of over 700 people working on Countryside Stewardship and continuity of service to customers and stewardship schemes. We worked with Natural England to provide much needed cash flow and subsequently clearing £13.5m of advance bridging payments.

- **Leading the world and enhancing our environment**: Across all land use schemes, we have delivered 1,563 land inspections ahead of schedule ensuring that our land remains protected and enhanced. We have issued 70% more higher tier and a three-fold increase in the numbers of mid-tier agreements, from last year as well as issuing advance payments to more than 95% of customers from 55% in April of last year. We have importantly ensured that customers receive application packs to enter much needed environmental agreements to enhance the natural capital of our land, issuing to over 90% of customers with online access for many. This represented three times as many as before.

- **Supporting rural communities**: We have committed over £75m investment into the delivery of superfast broadband into rural communities. Work under the Socio Economic Schemes of the Rural Development Programme for England has continued and, by the end of 2018-19 the Rural Development team, working with partners and rural businesses have contracted to create nearly 9,000 jobs in the rural economy and so far over 1,650 of these are already in existence.

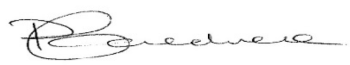
- **Delivering a safe and ambitious departure from the EU**: Our expertise from across the areas of policy, programme and change management and operational delivery has been supporting Defra in developing a new regulatory and delivery framework after we leave the EU maximising both the protection and opportunity that this offers us. Our teams working on Common Market Organisations trade and intervention schemes have met all of our commitments whilst preparing us for scenarios to leave the EU. They are also helping Defra draft a significant amount of domestic legislation.

During the year we have taken important steps to transform our customer experience (across all our schemes), delivering on our promises to address overdue correspondence, complaints and payment adjustments and introducing new ways of working to provide better responses in a timely fashion, something our stakeholders have welcomed.

- **Our People**: Underpinning all of this change has meant a significant programme of work to maximise capability and embed the cultural changes needed to allow the agency to face forward and be a trusted delivery partner and respected organisation. There is still much work to do; the foundations were laid in 2018-19 and we look forward to creating sustainable change during the next 12 months. Our people remain our greatest asset and their commitment to improving outcomes for the department and rural communities has been evident in what we have done this year.

We have started to build the agency of the future, embedding changes, sharing resources and adopting new ways of working. We've made substantial progress and have the aspiration and plans to achieve more for our customers building our custodianship of better quality and more transparent information on our land, cattle, rural customer and the farm businesses. This will enable us to play a key role in delivering Defra's objective to be one of the world's leading food and farming nations with a thriving rural economy. The join up of policy and delivery has improved our ways of working and made a tangible difference to our ability to solve problems and find solutions that achieve the best outcomes for customers and Defra whilst ensuring that we are meeting the requirements set out in the regulations.

I am committed to continue these changes we have seen and build on our successes to ensure the future meets the needs of our customers, encourages real environmental benefits, and promotes rural communities to create a better place for living.



Paul Caldwell
Chief Executive and Accounting Officer
25 June 2019

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 a 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 categories which explain our ambitious, long term aims, and the positive differences we will make to the UK by 2020. They include a single objective that covers all work to deliver a smooth exit from the EU; two impact objectives built around the work to deliver priority environmental outcomes and an organisational objective that shows how Defra group should operate in order to deliver its outcomes.

Defra organisational reform

RPA plays a critical role in the implementation of Defra measures designed to create a thriving rural economy by administering all Agricultural Policy schemes in England. These schemes provide support and services focused on helping economic growth in the food and farming industry with RPA working alongside partner organisations as part of the Food, Farming and Biosecurity system. During this year, RPA completed its own organisational reform programme, creating a new senior structure and also welcoming colleagues into the organisation from Natural England to deliver critical services for the Countryside and Environmental Stewardship schemes.

Key issues and risks to delivery of objectives

The agency has balanced a number of high profile risks this year. This ranges from progressing preparations for a range of scenarios for UK's exit from the EU whilst also delivering organisational transformation challenges, particularly with the adoption of Countryside Stewardship and Environmental Stewardship operational processing into the organisation. The agency has simultaneously continued to deliver commitments and improvements against ongoing business as usual activity, particularly the Basic Payment Scheme.

In considering risk, the agency continually reviews the required resources, associated deployment plans and necessary financial requirements to support the delivery of targets and continuation of other scheme administrative activities. A flexible approach to meet these needs is adopted.

European Union exit

The exit from the EU will have a significant effect on the agency, the agency continues to engage with the wider department to develop a detailed understanding of this impact. On the day we leave the EU, food producers and retailers must still be able to trade and we will continue our high standards of animal welfare and environmental protection, together with a guarantee of on-going support for our farmers. The department and the agency's EU exit work will support the strategic aim of the 25 Year Environment Plan of achieving a Green Brexit.

The key future risks for the agency will be building capacity and capability sufficient to meet demands of EU exit, as well as effective prioritisation, so that the timing and sequencing of work provides the best support to ministers and the department.

Going concern statement

The financial statements are prepared on a going concern basis. The agency is the only Common Agricultural Policy (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 into the implementation period 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 2020, as well as confirming that all multi-year projects agreed by the 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

For 2018 we exceeded last year's performance of 90.6% of BPS customers paid by the end of December, by paying 93.4% of customers in the same time period. All Trader Scheme targets were met, with 99.9% of import and export licences issued within five working days compared to our target of 95%. Cattle births, deaths and movements performance significantly exceeded our 96% target, with over 99% registered within five working days. The RPA continued the delivery of the European Agricultural Fund for Rural Development (EAFRD) Socio-Economic schemes as part of the 2014-20 Rural Development Programme with 8,653 jobs contracted against our target of 6,750. This seven year programme funds rural development measures in the UK, which include those that are beneficial for the environment and climate change.

Performance Analysis

Key business performance indicator	What RPA did
Timely processing and payment of the Basic Payment Scheme • To issue as many payments as promptly as possible from 1 December 2018 • To pay bridging payments to those customers who have not received a full payment by end of March 2019	• 93.4% of claims were paid by 31 December 2018 • In April 2019 the agency paid bridging payments to the value of £8.6m
Timely processing and payment of Trader Schemes • 100% of Fruit & Vegetable claims paid by 15 October the following year • 100% of valid School Milk claims paid within 90 calendar days • 100% of valid Private Storage Aid claims paid within 120 calendar days of receipt • 95% of import and export licences issued within 5 working days • A minimum of 59 Olive Oil inspections by 31 December 2018	• 100% of Fruit & Vegetable claims paid by 15 October the following year • 100% of valid School Milk claims paid within 90 calendar days • There were no Private Storage Aid claims made during the financial year • 99.9% of import and export licences issued within 5 working days • 59 Olive Oil inspections were carried out by 31 December 2018
Timely processing and payment of Rural Development Programme schemes • Create 6,750 jobs in Rural Areas from 2014-20 programme • To commit up to £117m of funding for Growth Programme by 31 March 2019 • To commit up to £60m of funding for LEADER by 31 March 2019 • To commit up to £111m of funding for Countryside Productivity grants by 31 March 2019 • 95% of applications appraised within 60 calendar days • 95% of claims processed within 30 calendar days	• 8,653 jobs in Rural Areas were contracted by 31 March 2019 • £117m of funding for Growth Programme was achieved by 31 March 2019 • £46.9m of funding for LEADER was achieved by 31 March 2019 • £72.3m of funding for Countryside Productivity grants was achieved by 31 March 2019 • 71.3% of applications were appraised within 60 calendar days • 88% of claims were processed within 30 calendar days
Maintain accurate records of cattle in Great Britain • 96% of notified cattle births, deaths and movements recorded within 5 working days of receipt • To issue cattle passports for valid applications and online within 5 working days	• Over 99% of notified cattle births, deaths and movements have been recorded within 5 working days of receipt • 99.6% of cattle passports were issued within 5 working days

Key business performance indicators are regularly reviewed and updated from previous years.

Detailed analysis of agency BPS payments performance

The agency paid 55,179 (65%) BPS claims worth £0.9bn on the 1 December 2018, by 31 December 2018 this stood at 78,787 (93%) worth £1.6bn. By 31 March 2019, the totals had increased to 83,371 (99%) claims worth £1.8bn. In April 2019 the agency paid a further £8.6m in bridging payments.

Percentage of BPS payments by scheme year	2018	2017
End of December	**93%**	91%
End of March	**99%**	96%

For those customers who didn’t receive a payment early in the window, a financial support payment route has been reintroduced. Requests were received from 234 customers and payments were made to 37 claimants prior to the receipt of their full BPS claim being paid.

Stewardship performance summary

The agency took on responsibility for the delivery of Countryside Stewardship (CS) and Environmental Stewardship (ES) on 1 October 2018 from Natural England.

The administration of CS and ES involves activity including validation and verification which results in agreements being offered and payments issued.

Countryside Stewardship

	Scheme year	Performance as at 31 March 2019
CS Claims Final payment - up to 6 December 2018	**2017**	**98.6%**
CS Advance payment	**2018**	**38.3%**
CS Agreement issued to Customer Mid - Tier	**2019**	**98.2%**
CS Agreement issued to Customer Higher - Tier	**2019**	**94.7%**

On CS, the RPA focused on completing 2017 finals and 2018 advances as well as issuing the 2018 and 2019 agreements. By the end of the financial year the agency had issued final payments to 98.6% of 2017 eligible claims and advance payments to 38.3% of eligible 2018 claims. The RPA issued bridging payments to eligible 2018 claims in early April 2019, which meant that 95% of claimants received a payment. By the end of the financial year 98.2% of Mid-Tier 2019 agreement offers and 94.7% of Higher Tier 2019 agreement offers had been sent to applicants.

Environmental Stewardship

	Scheme year	Performance as at 31 March 2019
ES Advance payment	**2017**	**99.6%**
ES Final payment	**2017**	**82.2%**
ES Advance payment	**2018**	**47.6%**

On ES, the RPA focused on completing the small number of outstanding 2016 advance and final payments before moving onto 2017 advance and final payments. By the end of the financial year the agency had issued advance payments to 99.6% and final payments 82.2% of 2017 eligible claims. The IT system, Genesis, is designed to ensure that prior year work is completed on a claim before any further work can be undertaken. As such the RPA made progress on completing 2018 advance payments by the end of the financial year the agency had issued 2018 advance payments to 47.6% of eligible claims.

Trader schemes

The RPA paid 100% of Fruit & Vegetable claims by 15 October of the following year the claim was received, of which 91.8% were completed within 100 calendar days. 100% of School Milk claims were paid within 90 calendar days. 99.9% of import and export licences issued within five working days exceeded the commitments set for the year.

The agency issued 48,463 import licences and 841 export licences within five working days of receipt. A total of 42,581 individual Certificates of Free Sale were issued.

During 2018 we visited 59 retailers and bottling plants to carry out Olive Oil sampling.

There were 12,126 Horticulture and Marketing Inspections (HMI) across the country up to 31 December 2018 at which point HMI moved out of RPA to the Animal and Plant Health Agency (APHA).

Rural Development Programme

During 2018-19 the value of grant funding agreements increased by over £230m as project applications were appraised and funding agreed with rural businesses. Contracted projects have leveraged an additional £420m of private match funding to deliver projects so far this Programme. Payments to businesses exceeded £100m during the year and to date more than 5,200 projects have been completed and are delivering benefits to the rural economy. By the end of the year projects were contracted to deliver over 8,600 jobs (the target for the programme is 6,750) and businesses have already created nearly 1,600 jobs (FTE equivalent). Training beneficiaries in the Animal Health and Welfare (AHW) projects exceed 1,100, with numbers on course to build significantly.

The majority of schemes have now closed to new applications, with the exception of LEADER and the new rounds of Countryside Productivity Small Grant Scheme. The remaining applications in Countryside Productivity are in appraisal and funding decisions will be made in the spring of 2019. The final full applications for the Growth Programme are expected by autumn 2019, with a maximum of 440 remaining.

The majority of the original large and small Countryside Productivity (CP) schemes have now closed, while European Innovation Projects remain in delivery. Four large CP schemes closed for applications during the year, with 26 Forestry Productivity projects improving forestry productivity, extraction and primary processing of timber products and 59 Water Resource Management projects improving farm productivity through more efficient use of water for irrigation and securing water supplies for crop irrigation by the construction of on-farm reservoirs being awarded funding. Around £6m of non-contracted funding from these schemes was transferred to increase the budget for CP Adding Value to Agri-food. This scheme, to improve the processing of primary agricultural products, was significantly over-subscribed at application stages.

Final grant funding agreements will be issued in the spring of 2019, to date 56 projects have been awarded nearly £23m. CP Improving Farm Productivity scheme was also significantly over-subscribed at application stage, final grant funding awards will also be made in the spring of 2019. To date nearly 100 projects have been awarded over £13m in grant funding, with the objective of improving farm productivity. The first round of the automated CP Small Grant Scheme closed last year, the majority of projects have now closed (2,213) leaving around 80 to conclude and claim. The second round of the scheme is in development and launch is scheduled in the spring of 2019. Outputs achieved from CP include over 1,100 farm workers trained in AHW topics, more than 650 jobs contracted to be created, with over 100 already in existence, over 60,000 hectares of agricultural land benefitting from water resource management projects and over 2,500 farm holdings supported with grant funding.

The 2017-2018 Growth Programme offer closed for Expression of Interest (EOI) stage with over 1,800 EOIs received requesting over £340m of grant funding. Over 1,100 successful applicants were invited to submit a full application and over 650 have now been received. Of the £165m allocation across the three themes (Food Processing, Tourism and Business Development) nearly 50% have been contracted to date. Over the next six months up to a maximum of another 440 full applications are expected. 62 of the 87 projects from the initial round of the Growth Programme have now completed and closed. The Rural Broadband Infrastructure scheme had its allocation increased through the year to £75m. Most of the projects are now contracted and are in delivery giving thousands of rural businesses and homes the opportunity to connect to high-speed broadband. Outputs achieved to date include creating over 3,200 jobs with over 350 of those already in existence. Tourism projects are delivering nearly 40 thousand additional day visits and over 13 thousand overnight stays.

LEADER groups are approaching the final stages of attracting project applications, with many groups now certain to contract their funding allocation. By the end of 2018-19 over 3,000 projects were approved to receive over £105m in grant funding. LEADER projects are forecast to create nearly 4,700 jobs, with over 1,100 now in existence.

The final Farming Recovery Fund projects were closed during 2018-19 completing the scheme to recover farmland from the flooding. The Cumbrian Countryside Access Scheme projects, which assisted tourism infrastructure recovery, are now in the final stages of delivery.

Cattle records

The British Cattle Movement Service (BCMS) achieved all key performance indicators with over 99% of cattle births; deaths and movements transactions completed within agreed deadlines. The agency has processed 2.7m passports; 2.6m of these online. An average of 97.8% of transactions (births, deaths and movements) have been reported electronically.

The Farming Regulation Task Force (MacDonald Review project) is now completed and all Cattle Tracing System (CTS) links in England removed. BCMS Animal Movement Licence System team now request County Parish Holding numbers from the Customer Case Management Team for non-contiguous commons cases as part of business as usual and also capture contiguous commons use.

Work is continuing on the 7,000 County Parish Holdings review, as of 31 March 2019, 3,681 cases have been resolved. We are working with the Welsh government to resolve the remaining 19 CTS links in Wales.

BCMS continue to provide subject matter expert input for the Livestock Programme and are also working with other GB partners to help support delivery. We are also working with the Systems Architects on the replacement of the Ear Tag Allocation System (ETAS).

In addition we have undertaken a campaign to promote online reporting ahead of the move to the Livestock Programme which has seen more people register for Cattle Tracing System Online (CTSO). We have also worked in tandem with the Food Standard Agency to secure an external contractor to remove and destroy cattle passports from the largest slaughterhouses in England and Wales.

Compliance

The RPA completed 100% of Cattle Identification Inspections and Sheep and Goat Inspections within the regulatory deadlines. In addition, as a delegated agent of RPA, APHA colleagues completed 498 combined sheep and goat inspections as part of the Defra Farm Visits Programme. The level of sheep and goat inspections was increased for 2018-19 due to the requirements for Cross Compliance.

The Countryside Productivity Small Grants scheme had its first round of funding in 2018-19 which generated 59 inspections for capital items purchased as part of the scheme.

During 2018 we carried out 243 Beef Carcase Classification inspections, 52 MTS Video Imaging Analysis inspections, 23 Small Scale Operator inspections, 143 Pig Carcase Grading inspections and 96 Deadweight Price Reporting inspections.

Obligations continue to be met on Meat Technical Schemes, with the agency carrying out 232 Beef Labelling Initial inspections this year.

Delivering services

There have been 303,011 updates to the digital land records representing 378,356 published parcels. The completion of these jobs supported the BPS and Countryside Stewardship payment targets. Proactive Land Change Detection activity continues to support the Land Parcel Identification System plan.

Defra General Enquiries and Pet Travel Scheme helplines successfully transferred into our Customer Contact Centre in April 2018. These helplines received 51,168 calls, answering 49,949 calls (97.6%) across the year. 94.3% of customers had their call answered within one minute.

Following Countryside and Environmental Stewardship colleagues joining the agency from Natural England, we have started centralising the customer helpline support for these schemes within the Customer Contact Centre.

For schemes other than Defra/Pet and Environmental Stewardship, the Customer Contact Centre has received 302,671 calls, answering 261,017 calls (86.2%) across the year. 64.8% of customers had their call answered within two minutes.

Transparency of data and access to information

The RPA responded to 380 requests for information this year, of which 92.6% were within the agreed deadlines (2017-18: 431 and 98.2%). These cases involved requests for information under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, and the General Data Protection Regulations (GDPR)/Data Protection Act 2018.

The RPA also received eight Internal Reviews and eight Information Commissioner's Office complaints and lodged one appeal with the First Tier Tribunal following a decision notice by the ICO (yet to be resolved). An additional 173 routine business 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	2018-19	2017-18
Payment within 5 days	**67.3%**	90.6%
Payment within 10 days	**84.7%**	97.2%

Complaints and appeals

The RPA saw a 15.1% decrease in the volume of complaints recorded. Queries were predominately related to the BPS. The number of outstanding complaints has reduced by 69%.

Complaints handled by RPA	2018-19	2017-18
Prior year complaints unresolved	**1,252**	2,088
New complaints received	**1,151**	1,356
Complaints resolved, withdrawn or cancelled	**2,014**	2,192
Complaints unresolved at 31 March	**389**	1,252

46 appeals against decisions by the RPA were received in 2018-19, which is a 65% increase from the previous year. Of the 25 appeals resolved (excluding withdrawn), 32% were upheld in the RPA favour. Appellants are able to submit and appeal to RPA at any time following an unsuccessful complaint.

RPA consider that the increase in the number of appeals received this year is due to an increase in the number of BPS complaints being received in previous years. The reduction in the number of outstanding complaints in the past 12 months has therefore led to an increased flow of cases to appeal.

Appeals are considered by RPA's Appeals team and then sent to the Independent Agricultural Appeals Panel (IAAP). The IAAP then refer their recommendations to the Minister of State (Defra) to make a final decision.

Independent Agricultural Appeals Panel appeals handled	2018-19	2017-18
Prior year appeals unresolved	**28**	26
Appeals received	**46**	30
of which:		
Customer complaint upheld	**11**	5
Customer complaint partially upheld	**6**	5
RPA decision upheld	**8**	11
Appeals withdrawn	**3**	7
Appeals resolved	**28**	28
Appeals unresolved at 31 March	**46**	28

Three cases involving the agency saw an investigation completed by the Ombudsman's office during 2018-19; two complaints were upheld and one complaint was not upheld.

Human Rights Disclosure

The agency has an obligation to ensure that all its actions respect the human rights of those who work for the agency, and for whom they provide services. There has not been any litigation against the agency alleging a breach of the Human Rights Act 1998 during 2018-19.

Anti-corruption and anti-bribery matters

The agency will not accept any level of fraud or corruption. All RPA staff must follow the relevant RPA Conduct and Propriety policy, the civil service code and all other relevant procedures and policies.

All cases of suspected fraud, bribery and corruption are thoroughly investigated and dealt with appropriately. RPA is committed to protecting public resources, revenue, property, information and other assets from any attempt, either by members of the public, contractors, sub-contractors or its own employees, to gain, by deceit, any financial or other benefits.

The RPA Fraud Risk Management Strategy is aligned to the Defra Group Counter Fraud Strategy and anti-bribery and corruption policy. These apply to all RPA staff whether permanent, part-time, fixed term or contingent workers.

Financial Review

Preparation of the Annual Report and Accounts

The Statement of Accounts reports the financial results for the year from 1 April 2018 to 31 March 2019. 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 is appointed under the Government Resources and Accounts Act 2000. A notional cost of £245,000 (2017-18: £245,000) was incurred for the audit of the agency's accounts and is now included within Corporate overhead recharge (notional) costs. In the previous year this was shown separately within Note 3.

The Comptroller and Auditor General is also the auditor of the RPA's 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 the UK, was £2.8m (2017-18: £2.4m).

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 agency's 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. 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 £156.5m are up compared to the previous year (2017-18: £142.1m). There has been an increase in depreciation and amortisation this year of £1.2m (8%) due to £3.2m of assets being acquired in 2018-19.

Net running costs, allowing for income were £137.8m (2017-18: £130.0m). The increase is mainly due to the additional wages and salary costs of 334 Natural England staff that joined the agency on the 1 October 2018 of £3.4m, and the increase in agency staff costs in the year of £7.4m (154%) mainly due to 380 Natural England temporary staff who joined the agency on the 1 October 2018. The agency also incurred additional IT costs of £4.6m (13.5%) from Defra via the Corporate overheads recharge. Receipts from the Rural Development Programme for England Technical Assistance (RDPE TA) of £15.1m were considerably higher than in the previous year (2017-18: £8.2m), which partly offset this increase in running costs.

Payments made, and reimbursements claimed, under the schemes administered by the agency have increased to £2.0bn (2017-18: £1.8bn). The higher payments made in 2018-19 reflect the fact that the agency has paid out 99% of BPS 2018 by 31 March 2019, compared to 93% having been paid out in 2017-18 for BPS 2017. Funds provided to Scotland, Wales, Northern Ireland and the Forestry Commission for Scotland and Wales of £1.3bn, are higher than last year (2017-18: £1.0bn), this is due to delayed BPS 2017 payments for Scotland which only started in April 2018. Income closely correlates to expenditure for each agency.

Overall net scheme expenditure for the year is a loss of £7.6m; this is compared to a net gain in 2017-18 of £11.6m. The negative movement here is due in part to weakening of the euro during 2018-19 resulting in an unrealised foreign exchange gain of £0.5m compared to a gain of £4.1m in 2017-18. The agency also paid out £10.0m in cash in 2018-19, to settle a wrongful de-recognition claim under the Fresh Fruit and Vegetables Aid Scheme rules, £2m of this was accounted for in the 2017-18 Annual Report and Accounts.

Financial position

Non-current assets of the agency have fallen in the year by £10.9m primarily due to a full year's amortisation being charged on the assets acquired from Defra in December 2016. During the year the agency acquired £3.2m of assets from Defra (2017-18: £3.4m), a non cash transfer through general reserves.

Trade receivables have increased by £208.0m (72%) compared to 31 March 2018. This is due to an increase in monies due from the European Commission for BPS expenditure incurred. As reported in the Performance Analysis the agency paid BPS 2018 payments faster than BPS 2017, increasing the amounts claimed from the European Commission at 31 March 2019.

Trade payables, due within one year, have decreased by £17.1m (23%) compared to 31 March 2018. This is mainly due to a reduction of £23.6m (43%) in scheme accruals, in part due to the drop in the number of claims requiring a top up payment, which is down from £27.1m at 31 March 2018 to £2.8m at 31 March 2019.

The overall impact of these movements was to increase the cash balance of the agency to £499.6m at 31 March 2019, compared to an £462.4m cash balance at 31 March 2018.

At 31 March 2019 the agency had bridging payment capital commitments of £8.6m (31 March 2018: £117.0m), see Note 15. These payments were made in April 2019 to those farmers who had not received a claims payment by the end of March 2019. The agency will recover these payments from fully validated claims which, in line with the treatment of other scheme payments the agency will recover from the European Commission in 2019-20. Consequently these payments are not included in the Statement of Comprehensive Net Expenditure for 2018-19.

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

To mitigate this risk, the agency enters into forward foreign exchange 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 2019, these derivative contracts represent a net asset of approximately £20.3m to the agency. This valuation is consistent with foreign exchange movements in 2018-19 and off-set the corresponding potential losses in the value of the euros receivable from the European Commission.

The second significant risk relates to the potential that the European Commission 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 with any costs incurred accounted for in the core department's accounts.

Sustainability Report

The RPA is committed to continuous improvement against sustainability targets. The total greenhouse gas emissions have decreased to a new low of 1,234.2 tonnes of carbon dioxide, a reduction of 81% from the baseline data in 2009-10.

Greenhouse Gas Emissions		**2018-19**	2017-18	2016-17	2015-16	2009-10 Baseline
Non-financial indicators (tonnes CO^2)	Scope 1 emissions (direct)	**613.9**	718.6	822.5	822.4	1,020.2
	Scope 2 emissions (indirect)	**447.4**	776.5	1,047.5	1,192.8	3,981.9
	Scope 3 emissions (direct travel)	**172.9**	169.9	116.0	208.4	1,419.3
	Total emissions	**1,234.2**	1,665.0	1,986.0	2,223.6	6,421.4
Related energy consumption (KWh)	Electricity non-renewable	**-**	-	-	1,012	7,590,268
	Electricity renewable	**1,580,250**	2,065,482	2,264,957	2,382,964	
	Gas	**1,089,080**	1,255,188	1,186,034	1,222,420	5,556,447
Financial indicators (£)	Expenditure in energy	**338,259**	240,052	421,566	442,398	1,174,738
	Carbon Reduction Commitment (CRC) licence expenditure	**41,369**	39,389	39,389	31,822	Nil [1]
	Expenditure on official business travel	**2,099,950**	2,121,107	2,282,886	2,630,055	2,268,130

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

Waste Management		**2018-19**	2017-18	2016-17	2015-16	2009-10 Baseline
Recovered or recycled (tonnes)	Reused or recycled	**101.18**	157.95	88.10	111.50	428.10
	Composted	**3.46**	6.08	15.58	6.53	1.98
	Incinerated with energy recovery	**45.36**	49.72	46.34	51.94	28.26
	Total recovered or reused	**150.00**	213.75	150.02	169.97	458.34
Not recovered or recycled (tonnes)	Incinerated without energy recovery	**1.07**	0.24	3.77	-	0.04
	Landfill	**10.27**	7.83	13.04	21.47	159.82
Total waste (tonnes)		**161.34**	221.82	166.83	191.44	618.20
% recovered or reused		**92.97**	96.36%	89.92%	88.79%	74.14%

Finite Resource Consumption	**2018-19**	2017-18	2016-17	2015-16	2009-10 Baseline
Water consumption (m^3)	**10,778**	11,420	10,831	11,823	16,248
Water supply costs (£)	**45,241**	47,408	41,867	79,405	77,490

Paul Caldwell
Chief Executive and Accounting Officer
25 June 2019

Accountability Report

Corporate Governance

Purpose

This section describes the governance, risk management and internal control arrangements for the agency and how our processes have evolved in response to a changing business environment and set of risks over 2018-19.

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.

Tamara Finkelstein, 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 Chief Executive Officer (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 CEO is line managed by the Director General for Food, Farming and Biosecurity.

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	**Title**	**Start date (if not in post at 1 Apr 2018)**	**End**
Paul Caldwell (ET Chair)	Chief Executive Officer	-	Present
Alison Webster	Strategy and Policy Director	-	Present
Emma Appleby[1]	Business Transformation Director	-	Present
Sarah Milum	EU Reporting and Compliance Director	-	30 November 2018
Peter Bainbridge[3]	Interim Operational Delivery Director	-	20 May 2018
Andy King	Operations Delivery Director	30 April 2018	Present
Nicola Bettesworth[2]	Human Resources Director	-	18 June 2018
Anne Marie Millar[2]	Finance Director for Rural Payments Agency & EU Finances	-	Present
Peter Crewe	Interim Compliance and Assurance Director	1 December 2018	Present
Susan Boyd	BPS Operations Director	15 April 2018	Present
Alison Johnson	Interim Countryside Stewardship Operations Director	1 October 2018	Present
Catriona Morton	Environmental Stewardship Operations Director	23 July 2018	30 April 2019
David Painter[2]	Digital, Data and Technology Services Director	1 February 2019	Present
Paul Egginton[2]	Digital, Data and Technology Services Director	-	31 January 2019

1. *Emma Appleby title was changed from Change & Service Design Director during the year.*
2. *Nicola Bettesworth, Anne Marie Millar, David Painter, are employees of Defra group corporate services, as was Paul Egginton until he retired on 31 January 2019. Nicola Bettesworth title was changed from Human Resource Director for RPA on 19 June 2018, when she was appointed Human Resources Chief Operations Officer for Defra. Anne Marie Millar assumed responsibility for EU accounts from 1 December 2018 and from that date her title was changed to Finance Director for Rural Payments Agency & EU Finances.*
3. *Peter Bainbridge remained an ET member until 20 May 2018, to facilitate a hand over to Andy King and Susan Boyd.*

The Agency
Management Board
Chaired by a Non-Executive Director, the Agency Management Board (AMB) is responsible for strategic oversight of the Agency's performance, advising and challenging the CEO, and escalating issues to Defra and ministers as appropriate. It provides leadership in the delivery of statutory corporate and business responsibilities, ensures that risks are effectively identified and managed, encourages improvements in performance across the agency and ensures effective governance and control is in place for the agency.

Key business at AMB meetings in 2018-19 included:

- Budget planning for financial year 2019-20
- Countryside & Environmental Stewardship Scheme Performance
- Communications with customers and handling of customer complaints
- The impact of EU Exit and preparation work being undertaken for all possible exit scenarios

The Audit and Risk Assurance Committee
Chaired by a Non-Executive Director, who is also a member of AMB, the Audit and Risk Assurance Committee (ARAC) is responsible for advising both the AMB and CEO (as Accounting Officer) on whether the Agency's accounts, internal control systems including internal and external audits have been fully discharged. RPA's ARAC chair is also a member of the Defra Audit and Risk Committee.

Key business at ARAC meetings in 2018-19 included:

- Review of the Annual Report, the accounts approach and discussion on lessons learnt including the impact of EU Exit planning
- Regular reviews of the agency's approach to risk and fraud risk management
- Review of the EU Accounts and Audit Planning Report for the Exchequer Audit carried out by the National Audit Office

Membership and Attendance		ARAC		AMB	
Name	**Title**	**Attendee**	**Meetings attended**	**Attendee**	**Meetings attended**
Paul Caldwell	Chief Executive Officer	-	-	Member	8 of 8
Anne Marie Millar	Finance Director for Rural Payments Agency & EU Finances	-	-	Member	8 of 8
David Cotton	Non-Executive Director	Member	4 of 4	Member	8 of 8
Alison Webster	Strategy and Policy Director	-	-	Member	7 of 8
Sarah Church	Defra Director, Future Farming and Countryside programme	-	-	Member	6 of 8
Trevor Spires	Non-Executive Director (until 31 July 2018)			Chair	4 of 4
Peter Conway	Non-Executive Director (until 31 July 2018)	Chair	2 of 2	Member	4 of 4
Elizabeth Passey	Non-Executive Director (from 1 July 2018, Chair from 1 August 2018)	-	-	Chair	4 of 5
Andy King	Operations Delivery Director (from 1 July 2018)	-	-	Member	4 of 5
Stephen Park	Non-Executive Director (from 1 July 2018, Chair of ARAC from 1 August 2018 to 15 April 2019)	Chair	2 of 2	Member	4 of 5
David Gardner	Non-Executive Director (from 1 July 2018)	-	-	Member	3 of 5
Emma Appleby	Business Transformation Director, (a member of AMB from 1 April 2018 to 30 September 2018)	-	-	Member	1 of 4
Paul Dillon-Robinson	Independent Member (from April 2018), and then Non-Executive Director (from 1 May 2018)	Member	2 of 2	-	-

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 focused 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 Environment, Rural & Marine system and is represented on both systems boards.

Security, information risk and fraud

Compliance to Information security ISO/IEC 27001:2013 is audited annually by the British Standards Institution (BSI). This is a requirement under Commission Regulation 885/2006. The Security Unit conducts compliance reviews of the RPA, suppliers and delegated bodies to ensure assurance of alignment to ISO/IEC 27002:2013. Under Commission Regulation 907/2014 there was a requirement to be certified to ISO/IEC 27001:2013 from 16 October 2016. The Security Unit achieved ISO/IEC 27001:2013 Certification for the agency in August 2015 and recertification in August 2018 and has successfully supported continuous assessments visits completed in subsequent years.

The departmental context for security and information assurance has changed dramatically in the past two years, with the department subject to increased threats as a result of its critical role in EU exit activities, the introduction of new data protection legislation and a new set of minimum baseline requirements for security mandated by the Cabinet Office.

Throughout the year work has continued to support compliance with new data protection legislation, including identifying risks to personal data and strengthening systems and procedures for managing them.

A senior civil service level Senior Security Advisor (SSA) has been appointed to lead on physical, personnel and cyber security across the Defra Group, including RPA. The SSA is responsible for managing security risks, providing assurance and advice on security issues, and advising the Permanent Secretary, Executive Team and the Audit and Risk Assurance Committee on the continued effectiveness of controls.

The SSA led a review of departmental security as part of the annual Cabinet Office Departmental Security Health Check, which assessed compliance against new minimum baseline standards for physical, personnel and cyber security. RPA fared well and identified areas requiring improvements have been defined and incorporated into a Defra Group wide Security Improvement Plan to address these issues.

As part of this plan, a single group-level security management and assurance function has now been established under the SSA, covering physical, personnel and cyber security, and working level and senior level governance groups have been stood up to oversee management of security risks.

In cyber security, progress has also been made in starting up a new operational cyber security service to provide oversight and protective monitoring across suppliers and to ensure that cyber security risks are proactively managed. Defra's UnITy Programme is also in the process of replacing existing IT infrastructure and systems with more secure alternatives. All UnITy suppliers are required to maintain comprehensive security management plans to report incidents and events centrally.

RPA also continues to be actively engaged with the Transforming Government Security programme, initiated by Cabinet Office to address common security risks in a joined up way across government. RPA now utilises a security vetting service from the Cluster 2 Security Unit, led by the Home Office, and will adopt further services over the coming year.

Information handling

The agency has an established governance structure to ensure that information assets are handled appropriately by the Senior Risk Owner (SRO). To support the SRO, Defra security team and the Data protection Manager 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 2018-19 a total of 37 potential incidents were reported, following investigation seven of these incidents related to personal data.

Category	Nature of incident	2018-19	2017-18
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
III	Insecure disposal or inadequately protected electronic equipment, devices or paper documents	**-**	-
IV	Unauthorised disclosure	**7**	-
V	Other	**-**	-

Category IV incident

There were seven cases of inspection reports that were issued to the wrong customers. Quality checks have been introduced as a preventative measure to identify and correct postage errors.

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 agency takes appropriate recovery action on cases where the recommendation is made to recover funds.

RPA external fraud	2018-19	2017-18
Number of new external fraud referrals in year	**137**	102
Number of external fraud referrals closed	**133**	109
Value of:		
Detected fraud value	**£88,421**	£105,004
Detected fraud number of cases	**13**	4
Prevented fraud value	**£400,909**	£501,052
Prevented fraud number of cases	**12**	12
Number of external fraud cases outstanding	**60**	56

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 income and expenditure, Statement of Financial Position 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 HM Treasury, 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 confirms 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, appointed Paul Caldwell, the agency Chief Executive Officer, as Accounting Officer of the RPA. 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 agency 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 of the Defra Directors General, along with the Group Directors for Strategy, HR and Communications and the Chief Executive Officer 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.

RPA's 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 AMB 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 the wide range of schemes that we administer.

Significant risks during the year have been associated with the adoption of Countryside Stewardship and Environmental Stewardship operational processing into the organisation, understanding the potential impacts of EU Exit, achievement of Basic Payment Scheme payment targets for 2018, managing potential EU financial corrections, budget impacts and the demands on people capacity and capability. These risks are considered and managed through a robust agency governance framework.

Fraud risk management

The Fraud Risk Management Steering Group (FRMSG), chaired by the Finance Director for the agency has acted in an advisory committee capacity to the Executive Team and the CEO in his role as Accounting Officer. The steering group has representatives from directorates across the agency and the wider Defra group. The group has met six times within the reporting year to consider detection and awareness of fraud in the RPA. Fraud risk management assurance reports have been provided to the ARAC during the course of the year. Assurance has also been taken from positive results of the Cabinet Office Counter Fraud Functional Standards Assessment. During the year FRMSG have supported the commission of targeted audit work in higher fraud risks areas, including the starters, movers and leavers processes and fraud referral processes. This has identified opportunities for improvement that are being addressed.

Disallowance risk management
Disallowance risks are regularly reviewed with updated forecasts, advice and progress reports provided to the department's Disallowance Strategy governance groups. Adherence with the Strategy is monitored through the agency's Compliance Board. Quarterly reports on the risk of disallowance are also presented to the ARAC and the AMB. The Executive Team considers any significant disallowance risk and any proposals for business changes are considered from a disallowance risk point of view as part of formal governance before implementation can be agreed.

The agency works closely with the UK Co-ordinating Body, devolved administrations and delivery partners (e.g. Natural England, Forestry Commission) to identify and mitigate potential causes of disallowance. We also engage proactively and constructively with the external auditors, European Commission and European Court of Auditors to ensure that any adverse audit findings are understood with a view to minimizing any associated disallowance.

The agency supports the Defra Disallowance Strategy by undertaking actions in line with its operational, tactical and strategic components. We manage all aspects of the European Commission's Clearance of Accounts audits and have been successful in reducing amounts of disallowance proposed.

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 managed on a tactical level in order to meet delivery objectives. At the Executive Team level in-depth 'deep-dive' reviews of key specific risks have been undertaken, this has provided a more detailed understanding of the challenges and mitigations for these risks and led to the identification of additional management responses.

The ARAC receive reports in order to consider the effectiveness of risk management. Risk discussions are held at each ARAC meeting who in turn report on risk effectiveness to the AMB. The agency's Risk Management team collaborate with Defra colleagues on risk escalations to Defra System Committees as required.

Quality assurance of analytical models
The agency's business critical analytical models are subject to regular review and challenge.

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 based on the results of its annual body of work. The AMB and the ARAC 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.

There was one reported case during the period 2018-19 that met the criteria for Whistleblowing. The investigation and follow-up discussion have now been concluded and the individual has agreed the proposed remediation addresses their concerns and at the same time ensures their anonymity. Having been satisfactorily resolved, the outcome was reported to the team in Defra HR who monitor them.

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 sufficiently. Moderate assurance also means that some improvements are required to enhance the effectiveness of risk management, control and governance.

At the time of reporting, internal audit had issued ratings below Moderate in two reviews (out of a total of 50), relating to the processing of staff joining, moving and leaving, and the internal and external fraud referral processes. In all cases, my team has continued to act upon the agreed actions arising from internal audit's work.

Compliance with governance codes

An informal review carried out against the NAO 'Corporate Governance in Central Government Departments: Code of Good Practice 2011 Compliance Checklist' indicated that RPA complies with the 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 and Rural 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.

During this period, RPA appointed four new non-executive members, including chairs of its Agency Management Board and Audit and Risk Assurance Committee.

Framework document

RPA's framework document, setting out the broad framework within which the agency is on the Gov.uk website.

www.gov.uk/government/publications/rural-payments-agency-framework-document

Effectiveness of Board performance

Regular meetings with the chair of the Agency Management Board have occurred to keep her 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 2018-19

Transition of Countryside Stewardship and Environmental Stewardship to RPA

There have been some difficulties in the delivery of Countryside Stewardship and Environmental Stewardship across 2018-19. Bridging payments were issued by Natural England in 2018 and by the Rural Payment Agency in 2019 to eligible Countryside Stewardship and Environmental Stewardship claimants. The administration of these schemes moved from Natural England to the RPA from 1 October 2018. Whilst a Memorandum of Understanding between the organisations was being finalised, interim monitoring arrangements covering the performance and governance of the schemes were in place. The Memorandum of Understanding, which includes and formalises these governance arrangements has now been agreed and was signed in June 2019.

The RPA announced on 19 June 2019 that all eligible farmers and land owners in Countryside Stewardship and Environmental Stewardship agreements with revenue payments outstanding for the scheme years 2015-2018 would receive full payments for the current estimated value of their claims by the end of July 2019. These payments are initially Exchequer funded and once fully processed will be reimbursed by the EU.

Basic Payment Scheme

Our focus has been on delivering year-on-year improvements to the BPS scheme and this year we delivered our best ever performance for paying farmers since the scheme began. For BPS 2018, over 93% of eligible farmers received their payment during December 2018 (the opening month of the payment window) which had increased to 99% by the end of March 2019. Bridging payments were issued to the majority of remaining claimants in April 2019.

We have also made significant progress in delivering improved levels of customer service through resolving the vast majority of legacy issues, including almost 9,000 payment related queries and making 1,600 historic payments to commoners.

Disallowance

A Member State may incur disallowance, in the form of a financial penalty, if the European Commission considers that actions taken to control and administer CAP payments have not been compliant. The European Commission will base any subsequent financial correction on its assessment of the potential risk to EU funds, or apply a flat-rate penalty where it cannot make a reasonable estimate. The flat-rate penalty is applied to the expenditure considered to be at risk and is set out in guidelines and statute.

A Member State can try to reduce the penalty by showing that the risk of loss to the fund has been overestimated. Assessment of losses and negotiations with Member States can often take several years to conclude. The RPA has experience of negotiating with the European Commission with the aim of reducing the levels of disallowance. Disallowance is however reported in the Defra annual accounts, in 2018-19, the department have accrued for £9.2m of new disallowance proposals.

European Union exit

On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the EU. Until the United Kingdom leaves the EU 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 government has negotiated with the Union on the terms of its withdrawal from, and future relationship with, the Union. The terms on which the UK leaves the EU will determine what arrangements apply to EU legislation in future once the UK has left the EU.

The EU and UK have agreed to an extension of Article 50 which can be terminated when the Withdrawal Agreement has been ratified, to 31 October 2019, and we will continue to support the department in ensuring arrangements are in place on Day 1 so there is no gap in the regulatory and delivery frameworks and build new delivery systems to enable a smooth and orderly exit, and new approaches that are tailored to the needs of this country, enabling us to leave the environment in a better state than we found it.

We will continue to ensure our staff are regularly informed about progress and provide sufficient opportunity to be able to contribute their experience and capability to ensure a smooth transition from the existing to the new schemes.

Remuneration and Staff

Purpose

The staff and remuneration report provides information on people in the agency and sets out the entity's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors. It also provides details on remuneration and staff that Parliament and others see as important to accountability, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No.1981 and amended by HM Treasury's Financial Reporting Manual.

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 2018-19, NCVP for 2017-18 performance bonuses was paid to approximately 25% of the SCS and was capped at £10,000 or £11,000 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. Departments also have discretion to make in-year non-consolidated award payments to recognise outstanding contribution for up to 20% of SCS staff. These are limited under Cabinet Office guidance to a maximum of £5,000.

Service contracts

The Constitutional Reform and Governance Act 2010 requires 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
No compensation amounts were paid to executive directors during the year. 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 2018-19 no director (2017-18 John Carter) had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Bonuses
Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2018-19 relate to performance in 2017-18 and the comparative bonuses reported for 2017-18 relate to the performance in 2016-17.

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.

	2018-19	2017-18
Annualised band of highest paid director remuneration (£'000)[1]	**130-135**	130-135
Median total remuneration (£)	**21,293**	24,784
Ratio	**6.2**	5.3

1. *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 2018-19, nil (2017-18: nil) 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 £130,000-£135,000 (2017-18: £15,000-£20,000 to £130,000-£135,000). These figures exclude the Non-Executive Directors.

Countryside Stewardship and Environmental Stewardship staff transferred into the RPA from Natural England on 1 October 2018 affecting the overall grade mix in the RPA. The increase in agency staff at RPA resulting from this transfer has impacted most on the median.

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:

	2018-19					2017-18				
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
David Cotton *Non-Executive Director*	5-10	-	-	-	5-10	5-10	-	-	-	5-10
Elizabeth Passey[1] *Non-Executive Director (from 1 July 2018)*	5-10	-	-	-	5-10	-	-	-	-	-
Stephen Park[2] *Non-Executive Director (from 1 July 2018 until 15 April 2019)*	10-15	-	-	-	10-15	-	-	-	-	-
Paul Dillon- Robinson[3] *Non-Executive Director (from 1 July 2018)*	0-5	-	-		0-5	-	-	-	-	-
David Gardner[4] *Non-Executive Director (from 1 July 2018)*	0-5	-	-	-	0-5	-	-	-	-	-
Trevor Spires[5] *Non-Executive Director (to 31 July 2018)*	5-10	-	-	-	5-10	20-25	-	-	-	20-25
Peter Conway[6] *Non-Executive Director (to 31 July 2018)*	5-10	-	-	-	5-10	20-25	-	-		20-25

1. *Elizabeth Passey's whole year equivalent salary for 2018-19 would be in the range £5,000 to £10,000.*
2. *Stephen Park's whole year equivalent salary for 2018-19 would be in the range £10,000 to £15,000.*
3. *Paul Dillon-Robinson's whole year equivalent salary for 2018-19 would be in the range £0 to £5,000.*
4. *David Gardner's whole year equivalent salary for 2018-19 would be in the range £0 to £5,000.*
5. *Trevor Spires' whole year equivalent salary for 2018-19 would be in the range £20,000 to £25,000.*
6. *Peter Conway's whole year equivalent salary for 2018-19 would be in the range £20,000 to £25,000.*

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

Name and title	2018-19 Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	£000 (To nearest £100)	£000	£000
Emma Appleby *Business Transformation Director*	90-95	10-15	-	36	140-145
Nicola Bettesworth[1] *Human Resources Director (to 18 June 2018)*	15-20	-	-	112	125-130
Paul Caldwell *Chief Executive Officer*	105-110	-	-	82	190-195
Paul Egginton[2] *Digital, Data and Technology Services Director (until 31 January 2019)*	75-80	0-5	-	41	120-125
Alison Johnson[3] *Interim Countryside Stewardship Operations Director (from 1 October 2018)*	30-35	-	-	20	50-55
Anne Marie Millar[1] *Finance Director for Rural Payments Agency & EU Finances*	130-135	-	-	-	130-135
David Painter[4] *Digital, Data and Technology Services Director (from 1 February 2019)*	10-15	-	-	20	30-35
Sarah Milum[5] *EU Reporting and Compliance Director (to 30 November 2018)*	45-50	-	-	22	70-75
Andy King[6] *Operations Delivery Director (from 30 April 2018)*	65-70	-	-	64	130-135
Catriona Morton[7] *Environmental Stewardship Operations Director (from 23 July 2018 until 30 April 2019)*	45-50	-	-	(6)	35-40
Peter Crewe[8] *Interim Compliance and Assurance Director (from 1 December 2018)*	20-25	-	-	26	50-55
Susan Boyd[9] *BPS Operations Director (from 15 April 2018)*	65-70	0-5	-	61	125-130
Alison Webster *Strategy and Policy Director*	100-105	-	-	5	105-110

1. *Anne Marie Millar is an employee of Defra but a RPA Director. Nicola Bettesworth is an employee of Defra and was a RPA Director until 18 June 2018, when she was appointed Human Resources Chief Operating Officer in Defra. Her whole year equivalent salary as a RPA Director was in the range £75,000 to £80,000.*
2. *Paul Egginton was an employee of Defra but a RPA Director who retired on 31 January 2019, his whole year equivalent salary was in the range £90,000 to £95,000.*
3. *Alison Johnson was appointed Interim Countryside Stewardship Operations Director from 1 March 2018, and was seconded to Natural England from that date to 30 September 2018. Her secondment stopped on the 1 October 2018 when Countryside Stewardship transferred from Natural England to the agency. Her whole year equivalent salary was in the range £65,000 to £70,000.*
4. *David Painter is an employee of Defra but a RPA Director, who was appointed Digital, Data and Technology Services Director from 1 February 2019. His whole year equivalent salary was in the range £70,000 to £75,000.*
5. *Sarah Milum resigned with effect from 30 November 2018. Her whole year equivalent salary was in the range £85,000 to £90,000.*
6. *Andy King was appointed Operations Delivery Director from 30 April 2018. His whole year equivalent salary was in the range £70,000 to £75,000.*
7. *Catriona Morton was appointed Environmental Stewardship Operations Director from 23 July 2018 to 30 April 2019. Her whole year equivalent salary was in the range £65,000 to £70,000.*
8. *Peter Crewe was appointed Interim Compliance and Assurance Director from 1 December 2018. His whole year equivalent salary was in the range £65,000 to £70,000.*
9. *Susan Boyd was appointed BPS Operations Director from 15 April 2018. Her whole year equivalent salary was in the range £65,000 to £70,000.*

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

Name and title	2017-18 Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	£000 (To nearest £100)	£000	£000
Emma Appleby *Change & Service Design Director*	100-105	-	-	36	**135-140**
Mark Ashenden[1] *Interim External Relations Director (to 15 October 2017)*	35-40	0-5	-	8	**45-50**
Peter Bainbridge[2] *Interim Operational Delivery Director (from 16 October 2017 to 31 March 2018)*	25-30	-	-	32	**60-65**
Nicola Bettesworth[3] *Human Resources Director*	75-80	10-15	-	16	**100-105**
Paul Caldwell *Chief Executive Officer*	85-90	10-15	-	146	**240-245**
John Carter[4] *Planning and Performance Director (to 15 October 2017)*	35-40	-	1.8	10	**45-50**
Julie Donnelly[5] *Interim Change Director (from 4 April 2017 to 15 October 2017)*	30-35	-	-	28	**60-65**
Paul Egginton[6] *Digital, Data and Technology Services Director (from 9 November 2017)*	35-40	-	-	(1)	**35-40**
Alison Johnson[7] *Interim BPS Operational Delivery Director (to 28 February 2018)*	55-60	0-5	-	49	**105-110**
Anne Marie Millar[3] *Finance Director*	130-135	-	-	-	**130-135**
Sarah Milum *EU Reporting and Compliance Director*	70-75	0-5	-	6	**80-85**
Ed Schofield[8] *Digital, Data and Technology Services Director (to 8 November 2017)*	60-65	-	-	24	**80-85**
Alison Webster *Strategy and Policy Director*	100-105	-	-	(6)	**95-100**

1. *Mark Ashenden was an employee of Defra who was seconded to the agency until 15 October 2017. The amounts in the remuneration table represent the salary amounts reimbursed to Defra. His whole year equivalent salary would be in the range £65,000-£70,000.*
2. *Peter Bainbridge was appointed Interim Operational Delivery Director from 16 October 2017 to 31 March 2018. His whole year equivalent salary was in the range £60,000-£65,000.*
3. *Nicola Bettesworth and Anne Marie Millar are employees of Defra but RPA Directors in 2017-18.*
4. *John Carter ceased to be a member of ET on 15 October 2017. His whole year equivalent salary was in the range £65,000-£70,000.*
5. *Julie Donnelly was appointed Interim Change Director from 4 April 2017 to 15 October 2017. Her whole year equivalent salary was in the range £65,000-£70,000.*
6. *Paul Egginton was an employee of Defra who was appointed Digital, Data and Technology Services Director from 9 November 2017. His whole year equivalent salary was in the range £90,000-£95,000.*
7. *Alison Johnson went on secondment to Natural England on 1 March 2018. Her whole year equivalent salary was in the range £60,000-£65,000.*
8. *Ed Schofield was an employee of Defra and was an RPA Director until 8 November 2017. His whole year equivalent salary was in the range £100,000-£105,000.*

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 2019 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2019	CETV at 31 March 2018	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	£000 (To nearest £100)
Emma Appleby *Business Transformation Director*	**10-15 plus lump sum of nil**	**0-2.5 plus lump sum of nil**	**156**	**114**	**15**	**-**
Nicola Bettesworth *Human Resources Director (to 18 June 2018)*	**35-40 plus lump sum of 95-100**	**5-7.5 plus lump sum of 10-12.5**	**746**	**583**	**87**	**-**
Paul Caldwell *Chief Executive Officer*	**40-45 plus lump sum of 110-115**	**2.5-5 plus lump sum of 5-7.5**	**864**	**719**	**63**	**-**
Paul Egginton *Digital, Data and Technology Services Director (to 31 January 2019)*	**45-50 plus lump sum of 145-150**	**0-2.5 plus lump sum of 5-7.5**	**1,142**	**1,048**	**42**	**-**
David Painter *Digital, Data and Technology Services Director (from 1 February 2019)*	**25-30 plus lump sum of 60-65**	**0-2.5 plus lump sum of 0-2.5**	**504**	**472**	**14**	**-**
Alison Johnson *Interim Countryside Stewardship Operations Director (from 1 October 2018)*	**30-35 plus lump sum of 75-80**	**0-2.5 plus lump sum of 0-2.5**	**593**	**537**	**13**	**-**
Anne Marie Millar[1] *Finance Director for Rural Payments Agency & EU Finances*	**-**	**-**	**-**	**-**	**-**	**-**
Sarah Milum *EU Reporting and Compliance Director (to 30 November 2018)*	**30-35 plus lump sum of 95-100**	**0-2.5 plus lump sum of 0-2.5**	**699**	**621**	**13**	**-**
Peter Crewe *Interim Compliance and Assurance Director (from 1 December 2018)*	**25-30 plus lump sum of 80-85**	**0-2.5 plus lump sum of 2.5-5**	**621**	**590**	**25**	**-**
Andy King *Operations Delivery Director (from 30 April 2018)*	**20-25 plus lump sum of nil**	**2.5-5 plus lump sum of nil**	**272**	**191**	**40**	**-**
Catriona Morton *Environmental Stewardship Operations Director (from 23 July 2018 to 17 April 2019)*	**25-30 plus lump sum of 80-85**	**Nil plus lump sum of nil**	**598**	**563**	**(6)**	**-**
Susan Boyd *BPS Operations Director (from 15 April 2018)*	**30-35 plus lump sum of 100-105**	**2.5-5 plus lump sum of 5-7.5**	**726**	**605**	**54**	**-**
Alison Webster *Strategy and Policy Director*	**40-45 plus lump sum of 120-125**	**0-2.5 plus lump sum of 0-2.5**	**959**	**890**	**6**	**-**

1. *Anne Marie Miller opted out of the pension scheme in 2017-18.*

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 4.60% and 8.05% for members of classic, premium, classic plus, nuvos and 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 8.00% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers, at 31 March 2019 that provider was Legal & General. 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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Staff costs and numbers are disclosed in Note 2.

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 2019**	As at 31 March 2018
Pay-band 3	**-**	-
Pay-band 2	**1**	1
Pay-band 1	**7**	5

This table doesn't include the Directors that are Defra employees.

Staff composition

RPA has continued its blended approach to resourcing and continues to use temporary agency workers to manage the peaks in workload. There has been a particular need to rely on agency workers to support efforts to improve and deliver Countryside and Environmental Stewardship schemes, which has increased the overall reliance on agency workers. Use of contractors has reduced for business as usual, however a number of contractors have been engaged in critical roles to support preparation for EU Exit.

Work on EU Exit activity continues, using a blended approach to ensuring we offer our own people opportunities whilst recognising the necessary short-term nature of the work initially on offer, supplementing with contingent labour where short-term need or critical skills are needed.

Workforce profile	**As at 31 March 2019**	As at 31 March 2018
Permanently employed staff	**1,837**	1,598
Agency	**743**	261
Contractors	**8**	23
Total	**2,588**	1,882

Gender diversity as at 31 March 2019	Male	Female
Executive Team not including Defra employees appointed as ET members	**3**	**5**
Permanently employed staff (excluding Executive Team)	**776**	**1,053**
Non-Executive Directors	**4**	**1**

Developing the workforce
The Talent Management Scheme continues to provide opportunities to develop talent within the agency, with a focus on developing future senior leaders. This year the Talent Management Scheme has rolled out to a wider group in Defra, extending the success RPA has seen in these schemes to a broader base.

Work has commenced following the conclusion of an Organisational Reform programme (looking at the structure of the organisation) to develop the organisation, building on changes made to develop new values, vision and purpose statements, and supporting with a programme of cultural change elements.

Celebrating our success
The award scheme has been used throughout the year 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 2018-19 year was 6.2 (2017-18: 7.6).

Year to 31 March	**2019**	2018	2017	2016	2015	2014
Annual working days lost	6.2	7.6	6.1	6.9	6.7	7.0

Employee engagement
The RPA's engagement index increased by 4% in 2018 to 48%.

Engagement index	**2019**	2018
RPA engagement index	**48%**	44%
Defra engagement index	**57%**	55%
Civil Service benchmark engagement index	**62%**	61%

A number of initiatives have been implemented to drive people engagement and cultural change to ensure staff feel valued and empowered. This has included the refresh of the agency's ways of working and the continued development of the RPA People Group.

Employee relations and tribunals
There were no employment tribunals between 1 April 2018 and 31 March 2019. The trade union engagement framework which was introduced in April 2014, is now firmly embedded within the agency. Facility time used by the trade union representatives has been within the maximum introduced by the Cabinet Office in 2013.

Employment issues and recruitment practice
Defra HR continues to provide an expert service to RPA, managing vacancies throughout their life cycle from inception to realisation and provide full administrative functions for resourcing. This has ensured RPA remains compliant with Civil Service Commissioning Recruitment Principles at all times.

Pay policy
RPA are now in the Defra pay bargaining unit. The 2018 pay award covered both Defra and RPA.

Exit packages (audited)
The agency was able to offer voluntary exit to three people in 2018-19 who left in the year. Exit packages are reported in staff costs in Note 2.3 of these accounts.

Diversity issues
RPA is part of the Defra Group Equality, Diversity and Inclusion Strategy 2017-20 to ensure positive action is taken on four key themes where people feel respected, valued, supported and engaged. The annual Diversity Data campaign took place during February 2019 to drive an increase in the number of people willing to declare their diversity information which will also provide statistical insight to enable wider analysis and pay gap reporting on gender, race, disability, sexual orientation and religion and belief.

Equal treatment in employment and occupation
RPA, as part of Defra, achieved Disability Confident Level 3: the highest level on the benchmarking scale. The agency is committed to meeting the highest levels of the benchmarking scale.

As part of the Defra submission for Disability Confident Leader status, which was awarded in February 2018 and included RPA, the agency provided evidence of our recruitment policies and reasonable adjustments made for people who declare a disability or a health condition that requires additional support to help them achieve their potential. The agency use the Civil Service Guaranteed Interview Scheme for those people informing us of a disability or health condition. The agency also follows the 'blind' application process to ensure that diversity information is not disclosed to vacancy holders/interviewers at any time during the application process and therefore avoid unconscious bias entering into the recruitment process. Interview panels are trained in aspects of 'Unconscious Bias' and its impact on decision making.

Working closely with the Disability Network Group, the agency considers their advice and expertise on complex cases in addition to using the 'Review Route' provided by the Civil Service Workplace Adjustment Team. The agency have a dedicated Disability Champion who supports and promotes the work of Disability Network Group and the wider Equality, Diversity and Inclusion (EDI) agenda. Financial support over the last three years has been provided by the RPA to fund 'Removing the Barriers' workshops across our business sites and across wider Defra business areas to inform and advise everyone on how to deal effectively with barriers in the working environment that may make it difficult for people with disabilities or health conditions. The agency encourages the use of workplace adjustments passports to assist people who have adjustments in place to easily move on to other business areas or roles.

EDI, including disability issues, is included in all our induction packs and is embedded into our Leadership and Management Development (LMD) training. The agency encourage people with health conditions, particularly if it is linked to a period of absence, to consider having an occupational health referral carried out so that we can support them in their role with appropriate adjustments if necessary. Our people are required to carry out regular display screen equipment training where on occasions workplace adjustments are identified. Appropriate action is taken to support people with the required adjustments.

Development opportunities are available to everyone through their performance discussions with their line management. The LMD training is open to everyone and provides information around health issues and disabilities as well as addressing how individuals with disabilities are supported at these sessions. Our Talent and Apprenticeship schemes are open to people with disabilities and health conditions and individual consideration of how best we can support candidates and successful applicants is discussed with the individual themselves and their line managers.

Trade union relationships

Working relationships with the trade union have remained positive and constructive, giving valuable input and support into initiatives throughout the year.

Facility time publication requirements

In accordance with the requirements of the Trade Union (Facility Time Publication Requirements) Regulations 2017, the following tables summarise trade union officials of employees and facility time usage during the year 2018-19.

Trade union representative	2018-19
Number of employees who were relevant union officials	**11**
Full time equivalent employee number	**10**

Number of employees by percentage of time spent on facility time	2018-19
0%	**3**
1-50%	**8**
51%-99%	**0**
100%	**0**

Percentage of pay bill spent on facility time	2018-19
Total pay bill spent on facility time (total cost of facility time ÷ total pay bill) x 100	**0.02%**
Total cost of facility time during the year to 31 March 2019	**£10,493**
Total pay bill cost during the year to 31 March 2019	**£58.31m**

Paid trade union activities	2018-19
Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by trade union representatives during the year to 31 March 2019 ÷ total paid facility time hours) x 100	**0.0%**

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 £245 per day are contractually obliged to assure the agency that they are meeting their tax obligations. Monitoring continues to take place with regular reports being supplied to Defra.

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months:

Number of new engagements	2018-19
Which include contractual clauses giving the department the right to request assurance in relation to income tax and national insurance obligations	**9**
For whom assurance has been requested	**9**
No. assessed as caught by IR35	**9**
No. assessed as not caught by IR35	**0**
of which:	
No. engaged directly (via PSC contracted to department) and are on departmental payroll	**0**
No. engagements reassessed for consistency/assurance purposes during the year	**9**
No. of engagements that saw a change to IR35 status following the consistency review	**0**

For all off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months:

Number of existing engagements	**2018-19**
Existing engagements as at 31 March 2019	**6**
of which:	
Existed for less than one year at time of reporting	**2**
Existed between one and two years at time of reporting	**4**
Existed between two and three years at time of reporting	**0**
Existed between three and four years at time of reporting	**0**
Existed for four or more years at time of reporting	**0**

Expenditure costs on out sourced agency staff in 2018-19 was £12.2m (2017-18: £4.9m) as reported in staff costs in Note 2.1 of these accounts. These staff were typically lower grade individuals used on a short term temporary basis to process BPS payments and provide cover for some business as usual tasks.

Expenditure costs on consultancy in 2018-19 was £1.4m (2017-18: £0.5m). These costs have been incurred directly by the agency, and are categorised by their nature within IT costs and Non-IT professional services in Note 3 of these accounts. Since 1 April 2017, the majority of consultancy costs incurred by the agency, have been paid by Defra and recharged to the agency in the Corporate overheads recharge (notional) in Note 3 of these accounts.

Parliamentary Accountability and Audit

Purpose

This section describes how the agency meets key accountability requirements to Parliament.

Regularity of expenditure (audited)

The agency reports losses and special payments:

	31 March 2019		31 March 2018	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses - Scheme	**1,645**	**10,594**	2,937	915
Cash losses - Administration	**2**	**3**	3	21
Claims waived or abandoned	**26**	**184**	4	13
Special payments - Scheme	**45**	**1,391**	61	1,442
Special payments - Administration	**-**	**-**	4	39
Realised exchange loss	**1**	**1,359**	1	2,814
Total	**1,719**	**13,531**	3,010	5,244

Losses exceeding £0.3m

Included within Cash losses - Scheme above are the following losses exceeding £0.3m:

Speciality Produce Limited, paid £10.2m for wrongful de-recognition under the Fresh Fruit and Vegetable Aid Scheme rules.

Fees and charges (audited)

The agency has no material income fees and charges.

Remote contingent liabilities - European Union exit (audited)

In July 2018, the UK Government announced an extension of its guarantee of EU funded projects after the UK left the EU. The guarantee was originally announced in 2016 and now guarantees the current level of agricultural funding under CAP Pillar 1 until 31 December 2020.

The financial settlement was agreed in principal by both the UK and EU, as set out in the draft Withdrawal Agreement of 25 November 2018. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified in the case of a no deal, and UK organisations are unable to access EU funding. As a result, and due to the EU funding the agency provides, an unquantifiable contingent liability is disclosed.

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable contingent liability is disclosed, relating to agricultural funding under CAP Pillar 1. In accordance with accounting standards, no contingent assets can be recognised.

Long term expenditure trends

A detailed commentary on current and prior year performance is included within the Performance Analysis section.

Paul Caldwell
Chief Executive and Accounting Officer
25 June 2019

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Opinion on financial statements

I certify that I have audited the financial statements of the Rural Payments Agency for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2019 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 regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Rural Payments Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Rural Payments Agency's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rural Payments Agency's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

Other Information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; 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 and have been prepared in accordance with the applicable legal requirements.

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 Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies **Date 2 July 2019**

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

Financial Statements

Account Statements

Statement of Comprehensive Net Expenditure for the Year to 31 March 2019

		Year to 31 March 2019		Year to 31 March 2018	
	Note	**£000**	**£000**	£000	£000
Running costs					
Staff	**2**	**71,639**		59,923	
Others	**3**	**84,839**		82,139	
		156,478		142,062	
Running costs income	**4**	**(18,711)**		(12,044)	
Net running costs			**137,767**		130,018
Scheme costs					
Rural Payments Agency					
Costs	**5**	**2,024,007**		1,783,395	
Income	**5**	**(2,016,710)**		(1,794,418)	
			7,297		(11,023)
Other paying agencies					
Costs	**6**	**1,344,069**		1,006,657	
Income	**6**	**(1,343,815)**		(1,007,230)	
			254		(573)
Net scheme expenditure/(income)			**7,551**		(11,596)
Net operating cost			**145,318**		118,422

Other Comprehensive Expenditure

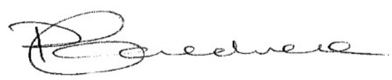
		Year to 31 March 2019	Year to 31 March 2018
	Note	**£000**	£000
Net operating cost		**145,318**	118,422
Items that will not be classified subsequently in the Statement of Comprehensive Net Expenditure			
Net gain on revaluation of property, plant and equipment	**14**	**(12)**	(26)
Net gain on revaluation of intangible assets	**14**	**(2,560)**	(2,187)
Items that maybe classified subsequently in the Statement of Comprehensive Net Expenditure when specific conditions are met			
Movement in cash flow hedge reserve		**1,566**	(11,302)
Total comprehensive expenditure for the period		**144,312**	104,907

The Notes on pages 53 to 81 form part of these accounts.

Statement of Financial Position as at 31 March 2019

			As at 31 March 2019		As at 31 March 2018
	Note	**£000**	**£000**	£000	£000
Non-current assets					
Property, plant and equipment	**7**	**1,426**		1,076	
Intangible assets	**8**	**63,640**		74,894	
Total non-current assets			**65,066**		75,970
Current assets					
Inventories		**342**		10,311	
Trade receivables and other current assets	**9**	**495,987**		287,910	
Derivative assets	**13**	**22,932**		13,516	
Cash and cash equivalents	**10**	**499,595**		462,360	
Total current assets			**1,018,856**		774,097
Total assets			**1,083,922**		850,067
Current liabilities					
Trade payables and other current liabilities	**11**	**(56,586)**		(73,731)	
Derivative liabilities	**13**	**(2,583)**		(656)	
Provisions for liabilities and charges	**12**	**(279)**		(343)	
Total current liabilities			**(59,448)**		(74,730)
Non-current assets plus net current assets			**1,024,474**		775,337
Non-current liabilities					
Trade payables and other liabilities	**11**	**(126,147)**		(128,587)	
Provisions for liabilities and charges	**12**	**(89)**		(140)	
Total non-current liabilities			**(126,236)**		(128,727)
Assets less liabilities			**898,238**		646,610
Taxpayers' equity					
General fund			**887,303**		634,906
Cash flow hedge reserve			**6,442**		8,617
Revaluation reserve	**14**		**4,493**		3,087
Total taxpayers' equity			**898,238**		646,610

The Notes on pages 53 to 81 form part of these accounts.



Paul Caldwell
Chief Executive and Accounting Officer
25 June 2019

Statement of Cash Flows for the Year to 31 March 2019

	Note	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Cash flows from operating activities			
Net operating cost		**(145,318)**	(118,422)
Adjustment for non-cash items included in other running costs	**3**	**69,661**	64,690
Adjustment for non-cash EFF transfer to Defra		**735**	-
Adjustment for restatement on adoption of IFRS 9	**13**	**609**	-
Adjustment for non-cash hedging costs transfer to Defra		**(45)**	(167)
Movement in provisions		**(115)**	(2,048)
Adjustment for derivative financial instruments		**(9,664)**	(5,185)
Decrease/(increase) in inventories		**9,969**	(2,256)
(Increase)/decrease in trade receivables and other current assets		**(208,077)**	149,749
Decrease in trade payables and other liabilities		**(19,581)**	(22,410)
Net cash (outflow)/inflow from operating activities		**(301,826)**	63,951
Cash flows from investing activities			
Purchase of property plant and equipment		**(4)**	(248)
Purchase of intangible assets		**-**	(789)
Net cash inflow/(outflow) from investing activities		**(4)**	(1,037)
Cash flows from financing activities			
Financing by Defra		**2,880,000**	2,265,000
Financing to Defra		**(2,435,000)**	(2,170,000)
Gain on asset transfers from Defra		**20**	-
Payments for Rural Development Programme for England on behalf of Defra		**(417,584)**	(323,115)
Receipts for Rural Development Programme for England on behalf of Defra		**357,755**	268,899
Disallowance transfer to Defra		**(46,126)**	(35,240)
Net cash inflow from financing activities		**339,065**	5,544
Increase in cash and cash equivalents in the period		**37,235**	68,458
Cash and cash equivalents at 1 April	**10**	**462,360**	393,902
Cash and cash equivalents at 31 March	**10**	**499,595**	462,360

The Notes on pages 53 to 81 form part of these accounts.

Statement of Changes in Taxpayers’ Equity for the Year to 31 March 2019

		General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers’ equity
	Note	**£000**	**£000**	**£000**	**£000**
Restated Balance at 1 April 2018		635,515	8,008	3,087	646,610
Net operating cost		**(145,318)**	**-**	**-**	**(145,318)**
Transfer from revaluation reserve to General fund:					
- property, plant and equipment	**14**	**33**	**-**	**(33)**	**-**
- intangible assets	**14**	**1,133**	**-**	**(1,133)**	**-**
Arising on revaluation during the year (net)		**-**	**-**	**2,572**	**2,572**
Notional charges		**52,959**	**-**	**-**	**52,959**
Gains on Cash flow hedges		**-**	**38,789**	**-**	**38,789**
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	**13**	**-**	**(42,083)**	**-**	**(42,083)**
Changes in fair value of the time value of options and forward elements of forward contracts in relation to transaction related hedge items, not subject to basis adjustments		**-**	**1,728**	**-**	**1,728**
Total recognised expense for period ended 31 March 2019		(91,193)	(1,566)	1,406	(91,353)
Financing by Defra		**2,880,000**	**-**	**-**	**2,880,000**
Financing to Defra		**(2,435,000)**	**-**	**-**	**(2,435,000)**
Payments for Rural Development Programme for England on behalf of Defra		**(417,584)**	**-**	**-**	**(417,584)**
Receipts for Rural Development Programme for England on behalf of Defra		**357,755**	**-**	**-**	**357,755**
Hedging costs transfer to Defra		**(45)**	**-**	**-**	**(45)**
Disallowance transfer to Defra		**(46,126)**	**-**	**-**	**(46,126)**
European Fishing Fund transfer		**735**	**-**	**-**	**735**
Assets transfer from Defra		**3,246**	**-**	**-**	**3,246**
Balance at 31 March 2019		887,303	6,442	4,493	898,238

The Notes on pages 53 to 81 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2018

	Note	General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers' equity
		£000	£000	£000	£000
Balance at 1 April 2017		694,646	(2,685)	1,552	693,513
Net operating cost		(118,422)	-	-	(118,422)
Transfer from revaluation reserve to General fund:					
- property, plant and equipment		44	-	(44)	-
- intangible assets		634	-	(634)	-
Arising on revaluation during the year (net)		-	-	2,213	2,213
Notional charges		49,247	-	-	49,247
Gains on Cash flow hedges		-	30,977	-	30,977
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges		-	(19,675)	-	(19,675)
Total recognised expense for period ended 31 March 2018		(68,497)	11,302	1,535	(55,660)
Financing by Defra		2,265,000	-	-	2,265,000
Financing to Defra		(2,170,000)	-	-	(2,170,000)
Payments for Rural Development Programme for England on behalf of Defra		(323,115)	-	-	(323,115)
Receipts for Rural Development Programme for England on behalf of Defra		268,899	-	-	268,899
Hedging costs transfer to Defra		(167)	-	-	(167)
Intangible assets transfer from Defra		3,380	-	-	3,380
Disallowance transfer to Defra		(35,240)	-	-	(35,240)
Balance at 31 March 2018		634,906	8,617	3,087	646,610
Restated on adoption of IFRS 9	13	609	(609)	-	-
Restated Balance at 31 March 2018		635,515	8,008	3,087	646,610

The Notes on pages 53 to 81 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2018-19 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted for the public sector. Where the FReM allows a choice of accounting policy, the accounting policy which has been judged to be most appropriate 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, intangible 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 (as at the Statement of Financial Position date) 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 Changes in Taxpayers' Equity. Property, plant and equipment assets are reviewed annually for indicators of 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.

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 applications 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		
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 EU 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 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.

1.7 Defra properties occupied by the agency
For 2018-19, 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.

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.

1.8 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.

1.9 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 section 8.2 of the 2018-19 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.

1.10 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.

1.11 European Commission funding of schemes administered by the agency

Rural development expenditure under the RDPE 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.

1.12 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 an 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.

1.13 Foreign currency transactions

The functional and presentational currency of the agency is sterling.

The agency receives reimbursements from the European Commission in euros for funds administered by the agency and other UK paying agencies in relation to 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 1.8, 1.10 and 1.11. 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 1.14 and Note 1.15.

1.14 Derivative financial instruments

The agency enters into a variety of foreign exchange forward and option 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.

1.15 Hedge accounting

The agency adopted IFRS 9 on 1 April 2018. In accordance with this standard, the agency elects 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. At inception of the hedge relationship, the agency documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flow of the hedging instrument are expected to offset changes in the cash flow of hedged items. The agency documents its risk management objective and strategy for undertaking its hedge transactions.

When forward contracts are used to hedge forecast transactions, the agency designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within Taxpayers' Equity. The change in the forward element of the contract that relates to the hedged item is recognised within Other Comprehensive Expenditure in the costs of hedging reserve within Taxpayers' Equity.

When option contracts are used to hedge forecast transactions, the agency designates only the intrinsic value of the options as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within Taxpayers' Equity. The changes in the time value of the options that relate to the hedged item are recognised within Other Comprehensive Expenditure in the costs if hedging reserve within Taxpayers' Equity.

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 items are recognised in the Statement of Comprehensive Net Expenditure, in the same line of the Statement of Comprehensive Net Expenditure as the recognised hedged item.

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in Taxpayers' Equity at that time remains in Taxpayers' Equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur the cumulative gain or loss and deferred costs of hedging that were reported in Taxpayers' Equity are recognised immediately in the Statement of Comprehensive Net Expenditure.

1.16 Trade receivables

Trade and other receivables primarily represent amounts expected from the EC, other government agencies, and customers under various schemes administered by the agency. Trade and other receivables are classified under IAS 32 Financial Instruments as financial assets.

The business model of the agency is to collect payments of principal from its debtors with no interest element. In general the largest receivables owed to the agency, tend to be public sector entities or the EC in respect of money owed for schemes processed, to which no real prospect of default applies. The agency has no non-current receivables or any receivables where a financing component has been applied. Therefore the agency recognised its receivables at fair value, and holds them at amortised cost which for receivables with no financing component, is the invoiced amount, less provision for expected credit losses.

Expected credit losses

The agency has reviewed receivable balances against the creditworthiness of the related customers. For those customers that are not other government agencies or the EU, the agency has policies and procedures in place to ensure credit risk is kept to a minimum. The agency is therefore not exposed to material credit risk.

Because receivables are short term in nature with no financing component the simplified model has been applied in which the loss allowance is equal to lifetime Expected Credit losses. Credit losses are recognised in the Statement of Comprehensive Net Expenditure and measured as the present values of the differences between the contractual cash flow, and the estimated future cash flow. 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 receivables against a future scheme payment) and historic collection data for customers who have left the scheme.

1.17 Pensions

Present and past employees of the agency are covered by the provisions of four separate defined benefit schemes called Principal Civil Service Pension Schemes (PCSPS), and from 1 April 2015 a career average basis scheme called alpha, which are described in Note 2.2. The agency recognises the expected cost of these pension schemes on a systematic and rational basis over the period during which it benefits from employees' services by payment to the five pension schemes calculated on an accruing basis. Liability for future benefits is a charge on the pension schemes on an accruing basis. The agency does not make contributions to any other pension scheme.

1.18 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.

1.19 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.

1.20 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. 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.

1.21 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 2018-19, 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.

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

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

b) Expected credit loss:

The Chief Executive Officer, in his capacity as Accounting Officer, periodically assesses the recoverability of trade receivables and in line with IFRS 9, recognises an expected credit loss 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 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 accrual of £2.8m (2017-18: £27m) has been recognised, which represents management's view of the most likely amounts due to individual claimants. The majority of these payments (£2.1m) will be funded through the European Commission, with the remaining £0.7m being funded by the Exchequer. A receivable for the accrued amount has been recognised in accordance with RPA's accounting policies.

1.23 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.

1.24 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.

1.25 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 1.10.

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 RDPE are also recognised as a loss by the department, not the agency. These are accounted for in the same way as penalties relating to schemes administered by the agency.

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

1.26 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. During 2018-19 the agency sold 7,345 tonnes of milk powder leaving 386 tonnes left in store at 31 March 2019.

1.27 Corporate overhead recharges (notional)
Defra corporate overhead services costs, comprising charges for legal HR, IT, estates, procurement and shared services including payroll and financials, are recognised by the agency as notional charges, with the core department recording the associated credit. The agency still benefits from the use of these corporate services but the full budgets are retained by Defra in order to procure and manage the services more efficiently and effectively. The annual non-cash charges for these services are instead issued to the agency for inclusion in the agency statutory accounts to ensure a true and fair view of costs is presented. A corresponding credit in the Defra accounts ensures that there is no duplication on consolidation.

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, are now effective and have been adopted by the agency:

IFRS 9 Financial Instruments - Classification and Measurement
See Note 13 Financial Instruments for details on the effect of this standard on these accounts.

IFRS 15 Revenue from Contracts with customers
The agency has not had any material adjustments following the introduction of this standard, due to the agency having minimal revenue contracts with customers:

The following reporting standard will become effective for the accounting periods after 1 January 2019:

IFRS 16 Leases
This standard will be adopted by the FReM for reporting periods from 1 April 2020. The first set of accounts likely to include the use of the standard are 2020-21. This requires entities to recognise the cumulative effects of initially applying IFRS16 at the date of initial application as an adjustment to the opening balances of Taxpayers' Equity. The agency does not envisage material adjustment to the financial statements following the introduction of this standard as most of the agency's operating leases are held and recorded by Defra.

2. Staff numbers and related costs

2.1 Staff costs comprise:

	Permanently employed staff	Short term/ fixed term appointment	Year to 31 March 2019 Total	Permanently employed staff	Short term/ fixed term appointment	Year to 31 March 2018 Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Wages and salaries	**44,216**	**888**	**45,104**	41,335	17	41,352
Social security costs	**4,391**	**64**	**4,455**	4,356	2	4,358
Other pension costs	**8,579**	**169**	**8,748**	8,231	3	8,234
Early retirement and early severance costs						
Expensed in the year	**139**	**-**	**139**	283	-	283
			58,446	54,205	22	54,227
Less recoveries in respect of secondments			**(367)**			(409)
Agency staff			**12,243**			4,852
Contractors			**1,317**			1,253
Total staff costs			**71,639**			59,923

No staff costs have been capitalised (2017-18: £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 2019	Year to 31 March 2018
Permanently employed staff	**1,560**	1,464
Agency	**470**	182
Contractors	**10**	10
Total	**2,040**	1,656

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 Pension schemes
From 1 April 2015, the Civil Service provides a career average basis pension arrangement called alpha, and also has four PCSPS pension benefit schemes. These PCSPS schemes are unfunded multi-employer defined benefit 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.

For 2018-19 employer's contributions of £8.7m (2017-18: £8.2m) were payable into the alpha and 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 2018-19 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, an occupational defined contribution scheme. During 2018-19, employer's contributions of £116k were paid to the pension 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 earnings. In addition employer's contributions of £3.9k, 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 £11.2k (2017-18: £8.7k). There were no prepaid contributions at that date.

Further details about civil service pension arrangements can be found in the Remuneration Report and on the Civil Service website www.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 packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), 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 2019 there were no compulsory redundancies (2017-18: three) and three voluntary redundancies (2017-18: nil).

Exit packages cost band	**Year to 31 March 2019**	Year to 31 March 2018	**Year to 31 March 2019**	Year to 31 March 2018	**Year to 31 March 2019**	Year to 31 March 2018	**Year to 31 March 2019**	Year to 31 March 2018
	Number of compulsory departures		**Value of compulsory departures**		**Number of other departures**		**Value of other departures**	
			£000	£000			**£000**	£000
Up to £10,000	**-**	3	**-**	10	**2**	-	**7**	-
£10,001 - £25,000	**-**	-	**-**	-	**-**	-	**-**	-
£25,001 - £50,000	**-**	-	**-**	-	**1**	-	**37**	-
£50,001 - £100,000	**-**	-	**-**	-	**-**	-	**-**	-
Total No. of exit packages and costs	**-**	3	**-**	10	**3**	-	**44**	-

3. Other running costs

	Note	**Year to 31 March 2019**	Year to 31 March 2018
	Note	**£000**	£000
Non-cash items (including notional charges)			
Corporate overhead recharge (notional)[1]		**52,959**	49,247
Depreciation	**7**	**858**	626
Amortisation	**8**	**15,844**	14,817
		69,661	64,690
Other expenditure			
Accommodation including recharges		**91**	(22)
IT costs		**107**	133
Non-payroll staff costs		**2,744**	2,788
Communications costs		**2,100**	1,981
Non-IT professional services		**7,248**	10,405
Certification Body (NAO) grant certification fee		**2,840**	2,439
Other running costs		**48**	(275)
		15,178	17,449
Total		**84,839**	82,139

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 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 the general funds.

The Corporate overhead recharge (notional) comprises:

	Year to 31 March 2019	Year to 31 March 2018
	£000	£000
Estate Management costs	**6,833**	7,149
Information Technology	**38,649**	34,061
Human Resources services	**2,773**	2,834
Legal services	**719**	1,220
Communications	**193**	270
Shared services including payroll and financial	**3,547**	3,468
Auditors remuneration and expenses	**245**	245
Total	**52,959**	49,247

During the year to 31 March 2019, the agency received no non-audit services from the NAO (2017-18: £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 2019	Year to 31 March 2018
	£000	£000
Payroll costs	**459**	474
Other costs	**128**	106
Certification Body (NAO) grant certification fee	**2,840**	2,439
Total	**3,427**	3,019

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 2019	Year to 31 March 2018
	£000	£000
Other running costs income	**(18,711)**	(12,044)
Total	**(18,711)**	(12,044)

Running costs income includes £15.1m (2017-18: £8.2m) relates to the agency's ability to claim from the 2007-13 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 BCMS on behalf of Defra of £3.5m (2017-18: £3.7m).

5. Schemes administered by the agency

	Year to 31 March 2019			Year to 31 March 2018		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Basic Payment Scheme[1]	**1,964,373**	**(1,965,752)**	**(1,379)**	1,731,315	(1,733,647)	(2,332)
Single Payment Scheme	**80**	**(111)**	**(31)**	154	162	316
Internal Trade - Horticulture	**32,886**	**(33,052)**	**(166)**	31,853	(34,350)	(2,497)
Internal Trade - other	**2,600**	**(2,653)**	**(53)**	4,064	(4,115)	(51)
Dairy Fund	**-**	**12**	**12**	18,122	(19,216)	(1,094)
Other schemes	**14,400**	**(13,646)**	**754**	2,143	(1,895)	248
	2,014,339	**(2,015,202)**	**(863)**	1,787,651	(1,793,061)	(5,410)
Other scheme related costs[2]	**10,829**	**-**	**10,829**	787	-	787
Cost of hedging contracts	**(2,000)**	**-**	**(2,000)**	(3,702)	-	(3,702)
Realised exchange loss	**1,359**	**-**	**1,359**	2,814	-	2,814
Unrealised exchange gain	**(520)**	**-**	**(520)**	(4,155)	-	(4,155)
Other scheme related income	**-**	**(1,508)**	**(1,508)**	-	(1,357)	(1,357)
Total scheme expenditure/(income)	**2,024,007**	**(2,016,710)**	**7,297**	1,783,395	(1,794,418)	(11,023)

1. *BPS income includes an increase of £13.1m (2017-18: increase of £2.0m) resulting from foreign exchange hedging transactions, see Note 13.*
2. *Other scheme related costs include losses, special payments, legal fees and movements in the allowance for doubtful debts and provisions.*

6. Other paying agencies and delegated authorities

	Year to 31 March 2019			Year to 31 March 2018		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Other paying agencies[1]						
Scottish Government Rural Payments and Inspections Division	**729,680**	**(729,814)**	**(134)**	380,192	(380,367)	(175)
Welsh Assembly Government	**306,944**	**(306,368)**	**576**	320,993	(321,112)	(119)
Department of Agriculture, Environment and Rural Affairs, Northern Ireland	**307,403**	**(307,591)**	**(188)**	305,305	(305,584)	(279)
	1,344,027	**(1,343,773)**	**254**	1,006,490	(1,007,063)	(573)
Delegated authorities						
Forestry Commission	**42**	**(42)**	**-**	167	(167)	-
Total scheme expenditure/(income)	**1,344,069**	**(1,343,815)**	**254**	1,006,657	(1,007,230)	(573)

1. *OPAs income includes an increase of £17.2m (2017-18: increase of £1.7m) 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	**Total**
	£000	**£000**
Valuation		
At 1 April 2018	**4,032**	**4,032**
Additions	**1,196**	**1,196**
Revaluations	**900**	**900**
At 31 March 2019	**6,128**	**6,128**
Depreciation		
At 1 April 2018	**2,956**	**2,956**
Charged in year	**858**	**858**
Revaluations	**888**	**888**
At 31 March 2019	**4,702**	**4,702**
Net Book Value		
At 1 April 2018	**1,076**	**1,076**
At 31 March 2019	**1,426**	**1,426**
Assets Financing		
Owned	**1,426**	**1,426**
Net Book Value at 31 March 2019	**1,426**	**1,426**

Included in property, plant and equipment are assets with a historic cost of £3.7m (31 March 2018: £2.2m), which have been fully depreciated. These assets are still in use by the agency.

The historic cost of net book value for property, plant and equipment as at the Statement of Financial Position date is £1.4m. During the year 2018-19 the agency had £1.2m Leica inspection tablets assets transferred from Defra through reserves.

	Information technology hardware and office machinery	Total
	£000	£000
Valuation		
At 1 April 2017	8,383	8,383
Additions	258	258
Disposals	(4,613)	(4,613)
Reclassification	37	37
Revaluations	(33)	(33)
At 31 March 2018	4,032	4,032
Depreciation		
At 1 April 2017	7,002	7,002
Charged in year	626	626
Disposals	(4,613)	(4,613)
Revaluations	(59)	(59)
At 31 March 2018	2,956	2,956
Net Book Value		
At 1 April 2017	1,381	1,381
At 31 March 2018	1,076	1,076
Assets Financing		
Owned	1,076	1.076
Net Book Value at 31 March 2018	1,076	1,076

8. Intangible assets

	Information technology	Software licences	Development expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2018	**143,500**	**3,117**	**470**	**147,087**
Additions	**2,030**	**-**	**-**	**2,030**
Reclassifications	**470**	**-**	**(470)**	**-**
Revaluations	**3,230**	**2**	**-**	**3,232**
At 31 March 2019	**149,230**	**3,119**	**-**	**152,349**
Amortisation				
At 1 April 2018	**69,165**	**3,028**	**-**	**72,193**
Charged in year	**15,769**	**75**	**-**	**15,844**
Revaluations	**671**	**1**	**-**	**672**
At 31 March 2019	**85,605**	**3,104**	**-**	**88,709**
Net Book Value				
At 1 April 2018	**74,335**	**89**	**470**	**74,894**
At 31 March 2019	**63,625**	**15**	**-**	**63,640**
Assets Financing				
Owned	**63,625**	**15**	**-**	**63,640**
Net Book Value at 31 March 2019	**63,625**	**15**	**-**	**63,640**

During the year to 31 March 2019 there were £nil impairment losses (2017-18: £nil).

Included in intangible assets are assets with a historic cost of £45.2m (31 March 2018: £45.0m) which have been fully amortised. These assets are still in use by the agency.

The historic cost of net book value for intangible assets as at the Statement of Financial Position date is £59.2m.

Included in intangibles are software assets acquired from Defra to deliver CAP scheme payments. These intangible assets had a historic costs of £90.3m and at 31 March 2019 a net book value of £57.9m, with 4 years remaining amortised life at 31 March 2019.

During year 2018-19 the agency had £2.1m of assets mainly comprising CAP software, transferred from Defra through reserves.

8. Intangible assets (continued)

	Information technology	Software licences	Development expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2017	226,709	4,374	3,370	234,453
Additions	2,656	-	534	3,190
Disposals	(81,516)	(1,258)	-	(82,774)
Reclassifications	3,397	-	(3,434)	(37)
Revaluations	(7,746)	1	-	(7,745)
At 31 March 2018	143,500	3,117	470	147,087
Amortisation				
At 1 April 2017	146,066	4,016	-	150,082
Charged in year	14,540	277	-	14,817
Disposals	(81,516)	(1,258)	-	(82,774)
Revaluations	(9,925)	(7)	-	(9,932)
At 31 March 2018	69,165	3,028	-	72,193
Net Book Value				
At 1 April 2017	80,643	358	3,370	84,371
At 31 March 2018	74,335	89	470	74,894
Assets Financing				
Owned	74,335	89	470	74,894
Net Book Value at 31 March 2018	74,335	89	470	74,894

9. Trade receivables

Amounts falling due within one year:

	31 March 2019	31 March 2018
	£000	£000
Due from Defra and its agencies	**13,864**	6,377
Due from other government departments (including OPAs)	**6,641**	11,680
VAT recoverable	**896**	1,418
Total Intra-government balances	**21,401**	19,475
Trade receivables	**4,700**	5,926
Less expected credit loss for receivables	**(1,620)**	(1,662)
	3,080	4,264
Due from European Agricultural Guarantee Fund/European Agricultural Fund for Rural Development	**470,364**	259,532
Prepayments and other receivables	**1,142**	4,639
Total other receivables	**474,586**	268,435
Total receivables	**495,987**	287,910

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 scheme balances.

10. Cash and cash equivalents

	31 March 2019	31 March 2018
	£000	£000
Balances held at 1 April	**462,360**	393,902
Net cash inflow	**37,235**	68,458
Total balance	**499,595**	462,360

The following balances are held at 31 March:

	31 March 2019	31 March 2018
	£000	£000
Government Banking Services	**499,595**	462,360
Total balance	**499,595**	462,360

The closing balance of third party money held as cash securities at 31 March 2019 was £2.6m (31 March 2018: £2.0m). Of this, £2.0m (31 March 2018: £2.0m) was held in a public bank account.

At 31 March 2019 the cash equivalent balance was £nil (31 March 2018: £nil).

11. Trade payables and other current liabilities

Amounts falling due within one year:

	31 March 2019	31 March 2018
	£000	£000
Due to Defra and its agencies	**586**	434
Due to other government departments (including OPAs)	**8,348**	5,372
Other taxation and social security	**1,116**	980
Total Intra-government balances	**10,050**	6,786
Trade payables[1]	**6,981**	5,241
Cash securities[2]	**2,576**	2,018
Scheme accruals	**30,681**	54,280
Running cost accruals	**5,332**	4,544
Other payables	**966**	862
Total other payables	**46,536**	66,945
Total payables	**56,586**	73,731

1. *Trade payables principally comprise amounts outstanding for claims to be paid to customers.*
2. *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 2019	31 March 2018
	£000	£000
Advances on Rural Development Programmes	**126,147**	128,587
Total	**126,147**	128,587
Total trade payables and other liabilities	**182,733**	202,318

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

As at 31 March 2019, the agency considers that the fair value of the advances received on Rural Development Programmes for Defra and OPAs is £126.1m (31 March 2018: £128.6m).

12. Provisions

	Running cost provisions	Scheme related provisions	Total
	£000	**£000**	**£000**
Balance at 1 April 2018	256	227	483
Provided in the year	**2**	**-**	2
Utilised	**(117)**	**-**	(117)
Balance at 31 March 2019	141	227	368
Analysed as			
Current	**52**	**227**	279
Non-current	**89**	**-**	89
Balance at 31 March 2019	141	227	368
Analysis of expected timing of discounted flows			
No later than one year	**52**	**227**	279
Later than one year and not later than five years	**89**	**-**	89
Balance at 31 March 2019	141	227	368

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 the end of 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.

13. Financial instruments

13.1 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:

Financial Assets

	Amortised Cost	Fair value-SOCNE[1]	Fair value-OCE[2]	31 March 2019	31 March 2018
	£000	**£000**	**£000**	**£000**	£000
Trade receivables and other current assets	**494,943**	**-**	**-**	**494,943**	283,472
Cash and cash equivalents	**499,595**	**-**	**-**	**499,595**	462,360
Derivative instruments in designated hedge accounting relationships	**-**	**-**	**18,070**	**18,070**	11,164
Other derivative instruments	**-**	**4,862**	**-**	**4,862**	2,352
Sub-total of derivatives assets	**-**	**4,862**	**18,070**	**22,932**	13,516

Financial Liabilities

Trade payables and other liabilities	**180,551**	**-**	**-**	**180,551**	200,315
Derivative instruments in designated hedge accounting relationship	**-**	**-**	**796**	**796**	-
Other derivative instruments	**-**	**1,787**	**-**	**1,787**	656
Sub-total of derivatives liabilities	**-**	**1,787**	**796**	**2,583**	656

Others:

Financial Guarantee Contracts

Cash securities (included within both cash and trade payables above)				**2,576**	2,018
Non-cash guarantees				**1,902,000**	2,088,000

1. *Other derivative instruments not designated for hedging are measured at Fair Value through the Statement of Comprehensive Net Expenditure (SOCNE).*
2. *Derivative instruments in designated hedge accounting relationships are measured at Fair Value through Other Comprehensive Expenditure (OCE).*

Cash on deposit at 31 March 2019 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 £581m and euro guarantees totalling €1,544m (£1,321m) were held at 31 March 2019 (£684m and €1,604m (£1,404m) at 31 March 2018).

13.2 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.

13.3 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.

13.4 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 2019		31 March 2018	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Euro	**670,771**	**127,951**	403,352	128,587

13.5 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 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost[1]	**(54,282)**	(27,476)	**54,282**	27,476
Derivative instruments				
(Increase)/decrease in Net operating cost[2]	**26,145**	19,163	**(23,990)**	(15,755)
Increase/(decrease) in Taxpayers' Equity[3]	**52,126**	55,965	**(35,190)**	(52,557)

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 derivative instruments held for trading not in designated hedging arrangements.*
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 2019	Hedge ratio[1] 31 March 2019	Foreign Currency 31 March 2019	Notional value 31 March 2019	Fair value 31 March 2019
	Euro: Sterling	€000	€000	£000	£000
Current derivative assets to sell euros	**0.89219**	**1:1**	**683,778**	**610,058**	**22,926**
Current derivative assets to buy euros	**0.86210**	**1:1**	**(11,468)**	**(9,887)**	**7**
Current derivative liabilities to sell euros	**0.85420**	**1:1**	**254,648**	**217,520**	**(2,290)**
Current derivative liabilities to buy euros	**0.88220**	**1:1**	**(15,027)**	**(13,257)**	**(292)**

1. *The foreign currency forwards and options are denominated in the same currency as the highly probable future cash receipts from the European Commission (EUR), therefore the hedge ratio is 1:1.*

No hedge ineffectiveness was recognised during the period, and no future ineffectiveness is expected. However possible sources of hedge ineffectiveness have been identified as:

- The credit risk of both the European Commission and the derivative counterparty, and
- The risk that forecast future euro denominated reimbursements of expenditure may not occur

During the year the agency entered into derivative exchange contracts to hedge the monthly euro denominated receipts in relation to the Basic Payment Scheme. As at 31 March 2019, the aggregate amount of gains under derivative foreign exchange contracts deferred to the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £5.3m. It is anticipated that the funds will be received during 2019-20, 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 2019, there are no gains or losses deferred to the cash flow hedge reserve in respect of Rural Development Programme contracts.

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).

13.6 Own credit risk and counterparty credit risk

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

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

	Year to 31 March 2019
	£000
Agency - scheme income	**13,082**
Other paying agencies - scheme income	**17,192**
Gain - scheme expenditure	**11,809**
Total transferred to Statement of Comprehensive Net Expenditure	**42,083**

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.

13.7 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.

13.8 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.

Non-interest bearing as follows:

	31 March 2019	31 March 2018
	£000	£000
Zero - three months	**54,404**	71,727
Three - twelve months	**-**	-
One - five years	**126,147**	128,587
Greater than five years	**-**	-
Total	**180,551**	200,314

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 2019	31 March 2018
	£000	£000
Zero - three months	**419,030**	254,854
Three - twelve months	**75,913**	28,618
Total	**494,943**	283,472

13.9 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 2019		31 March 2018	
	Derivative liabilities	**Derivative assets**	Derivative liabilities	Derivative assets
	£000	**£000**	£000	£000
Zero - three months	**1,204**	**20,273**	460	12,017
Three - six months	**243**	**2,899**	18	1,774
Total	**1,447**	**23,172**	478	13,791

13.10 Hedging reserves

The following table gives details of movements in the agency's hedging reserves.

	Cash flow hedge reserve	**Deferred cost of hedging reserve**	**Total cost of hedging reserve**
	£000	**£000**	**£000**
Balance bought forward at 31 March 2018	(8,617)	-	**(8,617)**
Restatement on adoption of IFRS 9	-	609	**609**
Balance restated as at 1 April 2018	**(8,617)**	**609**	**(8,008)**
Gains on cash flow hedges	(38,789)	-	**(38,789)**
Transfer to Statement of Comprehensive net expenditure on cash flow hedges	42,083	-	**42,083**
Changes in fair values of the time value of options and forward elements of forward contracts in relation to transaction related hedged items, not subject to basis adjustments	-	(1,728)	**(1,728)**
Balance at 31 March 2019	**(5,323)**	**(1,119)**	**(6,442)**

On adoption of IFRS 9, the cumulative change in the time value of option contracts where only the intrinsic value of the options was designated as a hedging instrument was reclassified from the opening general fund to the deferred cost of hedging reserve. See Note 13.11 below.

The deferred cost of hedging reserve includes the effects of the following:

- Changes in fair value of the time value of options when only the intrinsic value of the option is designated as the hedging instrument;
- Changes in the fair value of the forward element of a forward contract when only the change in the value of the spot element of the forward contract is designated as the hedging instruments; and
- Changes in fair value of the foreign currency basis spread of a financial instrument when the foreign currency basis spread of a financial instrument is excluded from the designation of that financial instrument as the hedging instrument

The changes in fair value of the time value of option, forward element of a forward contract and currency basis of a financial instrument, in relation to a transaction related hedged item accumulated in the deferred cost of hedging reserve are reclassified to the Statement of Comprehensive Net Expenditure only when the hedged transaction affects the Statement of Comprehensive Net Expenditure.

13.11 Impact on the financial statements of adopting new accounting policies

The agency adopted IFRS 9 on 1 April 2018. In line with the transitional provisions of IFRS 9, the agency generally adopted the standard prospectively with the exception of accounting for the time value of options where only the intrinsic value of the option is designated as a hedging instrument. Having assessed the impacts of adoption, the agency has determined that there is only one adjustment arising, which is detailed in Note 13.10 above.

The table below illustrates the impact of this adjustment upon the agency's financial statements. We have shown below all the categories that are subject to adjustment, and other categories unaffected.

	31 March 2018 as originally presented	**Restatement on adoption of IFRS 9**	1 April 2018
	£000	**£000**	**£000**
Statement of Financial Position (extract)			
Financial Assets			
Trade receivables and other current assets	283,472	-	**283,472**
Cash and cash securities	462,360	-	**462,360**
Derivative instruments in designated hedge accounting relationships	11,164	-	**11,164**
Other derivatives instruments	2,352	-	**2,352**
Financial Liabilities			
Trade payables and other liabilities	200,315	-	**200,315**
Other derivative instruments	656	-	**656**
General Fund	634,906	609	**635,515**
Hedging reserve	8,617	(609)	**8,008**

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 2018	**37**	**3,050**	**3,087**
Revaluation during the year	**12**	**2,560**	**2,572**
Transfer to General Fund[1]	**(33)**	**(1,133)**	**(1,166)**
Balance at 31 March 2019	**16**	**4,477**	**4,493**

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 2019 the agency had bridging payments capital commitments of £8.6m (31 March 2018: £117.0m). These payments were made in April 2019 to those farmers who had not received their full BPS 2018 payment at 31 March 2019, to provide them with financial relief while the agency finalises the processing of their claims.

16. Lease commitments

16.1 Operating leases

Total future minimum lease payments at 31 March 2019 under operating leases are given in the table below for each of the following periods:

	31 March 2019	31 March 2018
	£000	£000
Vehicles		
Not later than one year	**253**	184
Later than one year and not later than five years	**518**	48
Total	**771**	232

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 2019	31 March 2018
	£000	£000
Land		
Later than five years	**2**	2
Total	**2**	2
Buildings		
Not later than one year	**2,129**	2,099
Later than one year and not later than five years	**4,762**	2,452
Later than five years	**2,503**	2,183
Total	**9,394**	6,734

16.2 Finance leases

At 31 March 2019, the agency had no future minimum lease payments under non-cancellable finance leases (31 March 2018: none).

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 2019	31 March 2018
	£000	£000
Not later than one year	**742**	707
Later than one year and not later than five years	**-**	15
Total	**742**	722

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 2019	31 March 2018
	£000	£000
Not later than one year	**2,135**	2,020
Later than one year and not later than five years	**8,541**	8,080
Later than five years	**12**	2,031
Total	**10,688**	12,131

Private Finance Initiative (PFI) commitments
An off-Statement of Financial Position PFI contract was signed by the Department 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. Break points in the lease exist at the 15, 20 and 25 year points. The building is not an asset of the Department 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.

In 2018-19 Defra occupied 1.5% of the building and recharges the occupiers for their share of costs, the agency's share for occupancy is 2.4% (2017-18: 1.3%).

The agency's total commitment at 31 March 2019 is £0.3m.

Defra freehold properties
The estimated value of non-specialised freehold property owned by Defra but occupied by the agency at 31 March 2019 is £2.6m (31 March 2018: £2.9m). There are no rental costs on Defra freehold properties.

18. Contingent assets and contingent liabilities disclosed under IAS 37

18.1 Contingent assets
The agency has no contingent assets.

18.2 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. 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, Single Payments Scheme and trader related schemes. If the appeals are successful they could either result in a liability for EU or Exchequer funded payments. The amount of any such potential liability is unquantifiable.

No contingent liability is disclosed in the 2018-19 Annual Report and Accounts due to the improved claims payment performance and consequent reduced uncertainty over additional claims amounts.

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 £52k during the year to 31 March 2019. He is also a director of Kingshill Farming Company Ltd which received scheme payments of £67k during the year to 31 March 2019.

David Gardner is a Non-Executive Director of the agency, who started in his current role on 1 July 2018. He received scheme payments of £1k during the year to 31 March 2019. He is also a Non-Executive Director of Waldersey Farms Limited which received scheme payments of £1.2m during the year to 31 March 2019.

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 Comptroller and Auditor General’s audit certificate and report was signed.

The extension of the Article 50 negotiating period confirmed on the 11 April 2019, and discussed within the Parliamentary Accountability and Audit section above, is a non –adjusting event after the reporting period. The agency will continue to monitor negotiations between the UK and EU. The agency anticipates that the UK governments guarantees on funding for CAP Pillar 1 until December 2020, should ensure funding to our agricultural community will not be adversely affected by the ongoing discussions.

21. Sugar production charges

In accordance with section 8.2 of the 2018-19 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 2019	Year to 31 March 2018
	£000	£000
Sugar production charges collected in the financial year	**19**	36
Sugar production charges accrued in the financial year	**-**	5
Total	**19**	41

All amounts collected or accrued above are subsequently surrendered to HM Treasury by the agency.

	Year to 31 March 2019	Year to 31 March 2018
	£000	£000
Balance held at the start of the year	**-**	-
Amount collected or accrued in the financial year	**19**	41
Payments to HM Treasury in the financial year	**(19)**	(36)
Liability to pay HM Treasury	**-**	(5)
Balance held on trust at the end of the year	**-**	-

In addition to the above transactions which have nil impact, the following losses, which have been excluded from the financial statements of the agency, remain outstanding for payment and recovery in subsequent years.

	Year to 31 March 2019	Year to 31 March 2018
	£000	£000
Liability for losses from claims for over-charges in previous years[1]	**2,842**	6,552
Liability for settlement of claims for over-charges in previous years[2]	**(1,222)**	(5,872)
Total losses incurred in year	**1,620**	680

1. *The European Commission has acknowledged that sugar levy rates advised by regulations (EC) No 2267/2000 and (EC) No 1993/2001 are invalid, leading to incorrect levies applied and charged to producers for periods 1999/2000 and 2000/2001. In April 2019, the agency paid £2.8m in settlement of over-charges as a result of the new sugar levy rates introduced in regulation (EU) 2018/264.*
2. *The agency envisages collecting £1.2m from the European Commission to offset the losses for over-charges incurred in 1999/2000 and 2000/2001.*

The following losses have been included in the financial statements of the agency in the financial year, as a result of incorrect sugar levies being applied and charged to producers for periods 1999/2000 and 2000/2001 and which are awaiting recovery.

	Year to 31 March 2019	Year to 31 March 2018
	£000	£000
Liability for losses from claims for over-charges in previous years[1]	**2,833**	-
Liability for settlement of claims for over-charges in previous years[2]	**(1,224)**	-
Total losses incurred in year	**1,609**	-

1. *In March 2019 the agency paid £2.8m to British Sugar to offset losses for over-charges incurred in 1999/2000 and 2000/2001. These losses are included within Other Scheme expenditure in Note 5 of the financial statements.*
2. *The agency envisages collecting £1.2m from the European Commission to offset these losses and an accrual for this amount has been included within Other Scheme income in Note 5 of the financial statement. On final settlement of the levy position the agency envisages collecting £1.6m from HM Treasury in 2019-20 to significantly recover the losses recorded in 2018-19.*

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