rural payments agency

Annual Report & Accounts 2005 – 2006

Rural Payments Agency

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The Rural Payments Agency (RPA) is an executive agency of the Department for Environment, Food and Rural Affairs (Defra). We provide a range of key services in support of the department's objectives, including making rural payments, carrying out rural inspections and tracing livestock.

Single Payment Scheme

RPA is responsible for administering the Single Payment Scheme (SPS) in England. This was introduced in 2005 and replaces 11 previous subsidy schemes.

Introducing the scheme has been difficult and, while RPA started making payments in February 2006, we failed to complete the bulk of payments by the end of March – the deadline we set ourselves and communicated to our customers.

The failure to complete the bulk of SPS payments to this schedule has been the most significant issue in our year. RPA very much regrets this failure and the impact it has had on the farming community.

On 16 March 2006, a number of immediate actions were taken to address the situation:

- Mark Addison replaced Johnston McNeill as Chief Executive.
- We increased direct contact with customers to help process claims more effectively.
- We introduced tolerances for small discrepancies in land areas.

In the weeks following 16 March 2006, RPA introduced a number of steps to improve payment processing. We agreed with ministers that partial payments should be made at the beginning of May 2006 to the majority of eligible applicants with claims over €1,000. Subsequent batches of partial payments have been made since to speed up the process.

RPA aims to complete the validation of SPS 2005 claims as quickly as possible and is giving highest priority to paying eligible claimants of over €1,000 who have yet to receive any payment.

As under previous Common Agricultural Policy schemes, the total amount to be paid by RPA under SPS 2005 will not be known for certain until the last claim is completely validated.

However, estimates put the figure at around £1.515 billion, of which over £1.438 billion (94.9%) was paid by 30 June 2006. By 31 August 2006 this had increased to £1.485 billion (98%) of the estimated fund value.

RPA will be making interest payments on delayed SPS payments. Farmers may be eligible if they did not receive by the end of June 2006 the full sum due to them within the payment window, where responsibility for the delay rests with RPA. Interest will be paid at the London Interbank Offered Rate +1%, calculated from 1 July 2006.

Over the coming year, we intend to do our utmost to ensure that SPS 2006 claims are processed and paid as quickly as possible.

An EU Regulation has now been adopted which provides for all SPS 2006 claims to be accepted without late claim penalty until 15 June 2006. This extra time means that around 4,000 farmers will not now be penalised.

Completing the SPS in 2006 and future years remains immensely challenging. We are committed to learning lessons to ensure the situation improves. However, at this stage it is unlikely there will be significant progress before 2007.

Other schemes

While SPS has been the main focus for RPA this year, we are also responsible for running many other schemes. In November 2005, the Agriculture Council agreed the first major reform of the sugar regime since it was introduced 40 years ago. This resulted in an additional subsidy of around £52 million to be paid to farmers by RPA in 2006. On 22 June 2006, the Secretary of State announced that these payments would be made on historic entitlements separately from SPS 2006. This means the £52 million subsidy will be added to entitlements held by sugar beet producers who meet defined criteria, rather than being used to increase the flat rate value of all entitlements. Further details, including the arrangements for 2007, will be announced in due course.

RPA is also responsible for paying the Hill Farm Allowance. We have a dedicated team focusing on this scheme and we continue to make manual and automated full payments where possible and part payments where not (based on the validated parcels of land in a claim). By August 2006, we had paid out £16.3 million to 7,750 customers, which represents around 77% of the 10,000 eligible customers due to receive payment.

Considerable regulatory changes have been made to a number of schemes, including the Butter for Manufacture Scheme and the Dehydrated Fodder Scheme. The Over Thirty Month Slaughter Scheme has been closed and the Older Cattle Disposal Scheme introduced. All these changes have been fully implemented by RPA.

We have also processed import and export licences and export refund claims for customers, enabling them to continue trading with other countries. However, diversion of resources to SPS has affected the level of service we provide to our customers.

Under the internal market trader schemes, we have continued to buy, sell and store intervention goods to help balance the market, as well as support a wide range of businesses from large sugar and starch operators to small traders making wine kits.

This year's audit by the European Court of Auditors made some adverse observations about our running of the Fruit and Vegetables Producers' Scheme. These presented us with immediate and demanding challenges and led to considerable anxiety within the industry.

Because of these observations, we have thoroughly reviewed our control and inspection regimes. We have also set up an Experts' Group to facilitate a regular dialogue with fruit and vegetable producers so that they are kept informed of upcoming changes.

This year, RPA has paid a substantial amount in rural development support payments through rural development schemes. These aim either to conserve and improve the rural environment or to support rural businesses and communities as they change and adapt.

Lifting of the beef ban

The EU beef ban was lifted in March 2006. UK farmers are now able to export live cattle born after 1 August 1996. Beef and beef products of cattle slaughtered after 15 June 2005 can also be exported. RPA's ability to demonstrate good record keeping through our Cattle Tracing System (CTS Online) helped to facilitate this.

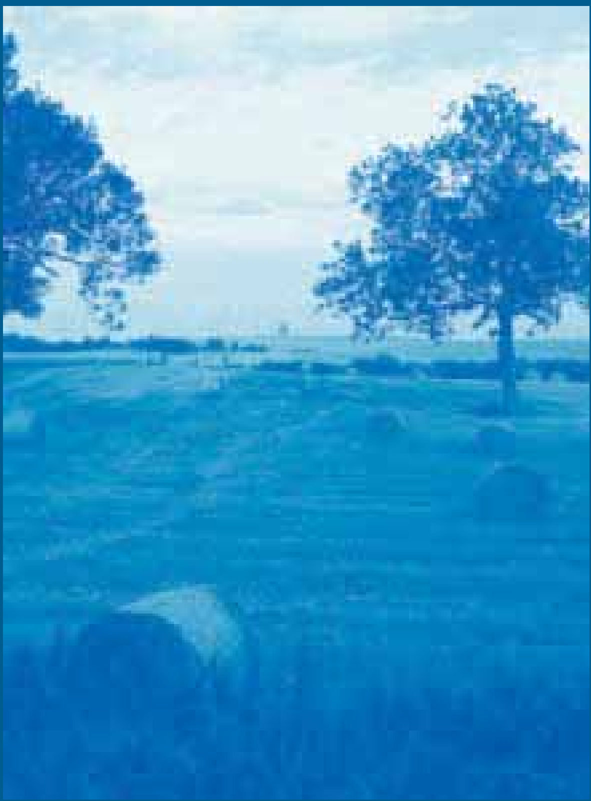
On 7 November 2005, the Over Thirty Month rule was officially lifted, allowing the sale of meat for human consumption from cattle aged over 30 months at slaughter. The rule was put in place in May 1996 to protect the public from the possibility of infected meat during the BSE crisis. RPA closed the Over Thirty Month Slaughter Scheme on 22 January 2006.

RPA's performance in administering this scheme was affected by the release of staff to work on SPS and a surge in animal registrations as the scheme drew to a close in January. To replace the closing Over Thirty Month Slaughter Scheme, RPA launched the Older Cattle Disposal Scheme (OCDS) on 23 January 2006. We completed the changeover to the OCDS on time and on budget. Through the new scheme, RPA continues to support keepers of older cattle born before 1 August 1996, which will remain excluded from the food chain. The scheme will run until 31 December 2008.

Rural inspections

The merger this year of the Horticultural Marketing Inspectorate (HMI) with the RPA Inspectorate is a major step forward for effective and efficient inspections. The HMI team is responsible for enforcing EC marketing standards for fresh fruit, vegetables, salad crops, nuts, cultivated mushrooms, flowers and bulbs throughout England and Wales, wherever fresh produce is grown, imported, exported, bought or sold. The merger aims to deliver many benefits, including a more efficient and cost effective service to customers and stakeholders.

Throughout the year we carried out an intensive programme of training to enable our inspectors to undertake the full range of land eligibility and cross-compliance checks. This will continue through 2006 and 2007, when further cross-compliance requirements come into force.



Better customer contact

RPA's Customer Service Centre (CSC) was launched in February 2005, in the lead-up to farmers submitting the first SPS application forms. However, early criticism was levelled at the centre because it lacked sufficient capacity to answer calls from customers. This year we provided facilities for 120 experienced staff from across RPA who supply additional capacity to answer customer calls as volumes increase.

We have also taken on new responsibilities for running more Defra helplines.

Defra asked RPA to establish the Great Britain poultry register in autumn 2005. In a few weeks, we were able to set up the helpline to handle registrations and queries, with the help of IBM Greenock in Scotland. We launched the poultry registration helpline in December 2005.

In February 2006, RPA also took on the management of Defra's avian influenza helpline, for members of the public to report the discovery of dead birds.

RPA's practical experience in operating customer helplines means that this is now an important and successful part of our business.

In August 2005, we relaunched the RPA website, making some fundamental changes to make it more accessible and informative. The site contains a wealth of information, including the latest traded statistics for milk quotas and rates and downloadable forms for almost every RPA scheme, including the SPS application form.

RPA's future

In March 2006, the Secretary of State announced the Hunter Review to look at RPA's current and future possible functions and the effectiveness of our relationship with Defra and our other key stakeholders, and to make recommendations for the future. The review is being led by David Hunter and is due to report by the end of 2006.

Our challenges for 2006–07 will be to complete all SPS 2005 payments, including interest payments where applicable and Hill Farm Allowance payments.

A recovery programme for RPA is being developed. However, it is clear that the difficulties are deep-rooted within the organisation and, realistically, 18–24 months will be needed to stabilise, begin to improve performance and reduce resources to more manageable levels.

However, I have been impressed by the level of commitment from the people working in RPA and the support being offered by Defra. Combined, these will help us reach a more stable position during the next year.

Tony Cooper

Tony Cooper
Interim Chief Executive

Find out more

To find out more about RPA and to get more up-to-date news, visit **www.rpa.gov.uk**

RURAL PAYMENTS AGENCY
Annual Report for the year ended 31 March 2006

Introduction

A brief history

The Rural Payments Agency (RPA) is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra). RPA was formed on 16 October 2001. Since then, as an accredited Paying Agency under European Union (EU) regulations, RPA has been fully engaged in making support payments to farmers in England and to traders throughout the United Kingdom (UK).

Aims and objectives

RPA will deliver a high-quality service that is responsive to the needs of its customers and will operate as economically, efficiently and effectively as possible, in accordance with EU accreditation requirements and policies laid down by the Secretary of State and, as appropriate, those of the devolved administrations.

RPA's principal objectives are to:

- administer those Common Agricultural Policy (CAP) measures financed from the Guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF) that are delegated to it within England and, as appropriate, the UK, in support of Defra's policy objectives, in full conformity with EU and domestic law and Paying Agency accreditation requirements;
- provide operational advice in support of policy formation by Defra;
- comply with UK corporate governance principles;
- provide fair, responsive, high-quality services to its customers, minimising the administrative burdens placed on the customers it serves;
- operate within Spending Review agreements using resources economically, efficiently and effectively while delivering all agreed schemes, services and targets;
- provide high-quality and accessible data on animal traceability to support public health, animal health and welfare requirements; and
- maintain and continue to develop core capability and flexibility to meet changing requirements.

RPA currently provides the following key services:

- rural payments – processing and payment of CAP and national subsidies, including structural funds;
- rural inspections; and
- animal movement tracking – cattle identification, registration and tracing.

RPA also acts as a funding agent for EAGGF Guarantee payments made by the five other Paying Agencies in the UK. This involves, in the first instance, providing the funds to make the payments and, subsequently, the recovery of equivalent funds from the European Commission.

This Annual Report and Accounts has been prepared and published by RPA. The accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000.

Management structure

Directors

The following were Directors of RPA at the end of March 2006, with the exception of Hugh MacKinnon who was succeeded by Ian Hewett in June 2005, and Johnston McNeill who was replaced by Mark Addison as Acting Chief Executive in March 2006. In May 2006 Mark Addison was succeeded by Tony Cooper as Interim Chief Executive:

Mark Addison	Acting Chief Executive from 16 March 2006
Johnston McNeill	Chief Executive until 15 March 2006
Alex Kerr	Deputy Chief Executive and Finance and Resources Director
Hugh MacKinnon	Operations Director until May 2005
Ian Hewett	Operations Director from June 2005
Alan McDermott	Information Services Director
Simon Vry	Business Development Director, and Interim Chief Operating Officer from March 2006
Martin Truran	Legal Services Director from June 2005
Sally Lewis	Acting Legal Services Director until June 2005

The Finance and Human Resources (HR) Directorates were merged into the Finance and Resources Directorate from 1 April 2005. In October 2005, Richard Gregg, then Human Resources Director, was appointed to head up Defra Investigation Services within RPA.

Sally Lewis was acting Legal Services Director until Mr Truran's appointment. Both are members of Defra's legal services.

Alex Kerr was succeeded by Michael Cooper as Acting Finance and Corporate Services Director in September 2006.

Membership of the Audit Committee for the reporting period was:

Georges Selim (Chairman)	Director for the Centre for Internal Auditing, Cass Business School (non-executive)
Johnston McNeill	RPA Chief Executive until 15 March 2006
Mark Addison	Acting RPA Chief Executive from 16 March 2006
Christine Tacon, CBE	General Manager, Farmcare, part of the Co-operative Group (non-executive)
Jane Brown	Director of Land Management and Rural Affairs, Defra

Directors' interests

All related parties and Directors' interests can be found in Note 27, Related party transactions.

The RPA Ownership Board provides a forum for the RPA management team to be advised and supported by Defra and others with a major interest in RPA. Its members include representatives from each of the devolved administrations and four external members with extensive business, industry, academic and e-government expertise.

The Ownership Board meets on a quarterly basis. Its focus during this period has been on Change Programme and SPS developments, delivery against performance targets and customer service standards.

Membership of the Ownership Board for the reporting period was:

Sir Brian Bender, KCB	Defra Permanent Secretary (Chairman) up to the end of September 2005
Helen Ghosh	Defra Permanent Secretary (Chairman) with effect from 9 November 2005
Johnston McNeill	RPA Chief Executive until 15 March 2006
Mark Addison	Director General Operations and Service Delivery, Defra until 15 March 2006 Acting RPA Chief Executive from 16 March 2006
Georges Selim	Director for the Centre for Internal Auditing, Cass Business School (non-executive)
Christine Tacon, CBE	General Manager, Farmcare, part of the Co-operative Group (non-executive)
Ian Watmore	Head of e-Government, Cabinet Office (non-executive)
Gordon Meek, OBE	Farmer representative (non-executive)
Andrew Burchell	Director of Finance, Defra
Andrew Lebrecht	Director General Food, Farming and Fisheries, Defra
Malcolm Hunt	Head of Livestock Data Division, Defra
Sue Armitage	Head of CAP Management Division, National Assembly for Wales Agricultural Department
Ronnie Jordan	Head of Grants and Subsidies, Department of Agriculture and Rural Development, Northern Ireland
Linda Rosborough	Head of CAP Management Division, The Scottish Executive Environment and Rural Affairs Department

Public interest

Charitable donations

RPA made no donations to charities during the year 2005–06 (2004–05: nil).

Equal opportunities and diversity

The Equal Opportunities and Diversity Unit (EODU) has worked during 2006 with an external training company to update the modular programme designed to help managers embed diversity into the core business of the Agency. This will sit alongside the existing equality training modules on the Learning Management System (LMS) and will also provide additional scope for refresher training in diversity.

The EODU has run a programme of open days at all main RPA sites. These cover a wide range of equality issues, with an emphasis on disability and adaptive equipment.

RPA is proud to hold the Two Ticks Symbol – Positive About Disabled People accreditation. The symbol is a recognition given by the Employment Service to employers who have agreed to take action to meet five commitments regarding the employment, retention, training and career development of disabled employees. If employers follow these five commitments, all employees and customers benefit, not just those who have a disability. One of these commitments is that the employer will interview all applicants with a disability who meet the minimum criteria for a job vacancy and consider them on their abilities. Acquiring this symbol is a very positive step for an employer as it demonstrates a commitment to its employees and customers.

We shall be working closely with Defra in developing a Joint Equality Scheme as required under race and disability legislation.

Policy on payment of suppliers

In accordance with the Confederation of British Industry's Prompt Payment Code and the Government's commitment to the prompt payment of bills, RPA aims to pay all invoices according to agreed contractual conditions or, where no such condition exists, within 30 days. During 2005–06, 83% of all invoices relating to running costs were paid within 30 days (2004–05: 83%). The lack of progress comparing 2004–05 and 2005–06 was primarily due to the large increase in employment agency supplier invoices. By the end of the year, 96% of invoices were being actioned within the 30 days.

Auditor

The Comptroller and Auditor General is RPA's auditor in accordance with the Government Resources and Accounts Act 2000.

A notional cost of £300k (2004–05: £312k) is incurred for the audit of these accounts.

The Comptroller and Auditor General is also the auditor for the EAGGF Guarantee accounts for the UK as a whole, which have a financial year ending on 15 October. The costs incurred in relation to this audit amount to £1,166k (2004–05: £665k).

The costs in 2005–06 include additional work required by the European Commission on IT security, Single Payment Scheme and supplementary procedures on previous years' audits. VAT on these costs is irrecoverable.

Environmental policy

During the last accounting year RPA developed and published a Sustainable Development Action Plan. This action plan enforces RPA's commitment to the establishment and maintenance of the Environmental Management System which has been set up to manage our environmental impacts and give continuous improvement to our environmental performance.

The Agency has also achieved BS EN ISO 14001:2004 Certification for its Environmental Management System at the following sites: Exeter, Reading (all buildings) and Northallerton. The three remaining sites are to be audited for certification in September 2006.

RPA is committed to improve its environmental performance and to prevent pollution. Our activities comply with all relevant legislation, official codes of practice (including the Framework for Sustainable Development on the Government Estate) and, so far as practicable, recognised best practice in environmental management.

Management summary

Basis of funding and accounts

These accounts are prepared in accordance with section 7(2) of the Government Resources and Accounts Act 2000, and with additional guidance given by HM Treasury in the 2005–06 *Financial Reporting Manual* (FReM). The UK Exchequer initially funds payments made by RPA. The European Commission (EC) then reimburses amounts payable from the Guarantee section of the EAGGF. RPA is also required to prepare accounts for the EC covering payments, chargeable to EAGGF. Our approach to financial risk management is set out in note 20.

Financial results

Key financial results for 2005–06 are:

		2005–06		2004–05
	£ million	**£ million**	£ million	£ million
Running costs		**236**		249
Cost of CAP market support	**3,737**		3,662	
Less EC contributions and other receipts	**(3,478)**		(3,362)	
Net scheme costs		**259**		300
NET OPERATING COSTS		**495**		549

RPA is a major customer-facing delivery arm of Defra, providing a range of services in support of the Department's objectives.

The RPA's work contributes to three of Defra's strategic priorities:

- Sustainable food and farming, including animal health and welfare, and the Department's emergency preparedness.
- Natural resource protection.
- Sustainable rural communities.

RPA's role is linked particularly to the following Defra objectives:

- To deliver more customer-focused, competitive and sustainable farming and food industries and secure further progress via CAP and World Trade Organisation (WTO) negotiations in reducing CAP trade-distorting support.
- To improve the health and welfare of kept animals, and protect society from the impact of animal diseases, through sharing the management of risk with industry.

Change Programme

The RPA Change Programme was established in April 2001 to deliver new business and IT systems and processes with an objective of achieving administration cost savings and an improved service to customers. In 2003 the delivery of significant reforms to the CAP was integrated into the Change Programme.

Significant events during the year included:

- May 2005 – SPS 2005 High Volume Data Capture, via manual keying and scanning, and level 1 claim validation went live.
- July 2005 – SPS 2005 Level 2 Claim Validation, including Cross-Compliance checks, went live.

- September 2005 – SPS 2005 Rural Land Register land change update work was outsourced.
- October 2005 – SPS 2005 Entitlements and Payments modules went live.
- November 2005 – Following an EC decision to permit partial payments, RPA established a contingency partial payments project.
- January 2006 – Functionality to support SPS 2006 (Customer Land Links, Land and Entitlements Transfer Form Generation and SPS 2006 Claim Form Generation) went live.
- February 2006 – Definitive entitlements were established for SPS 2005 claims.
- February 2006 – Payments started for SPS 2005 claims.
- March 2006 – Further functionality to support SPS 2006 (data capture via Optical Character Recognition/Intelligent Character Recognition – OCR/ICR) went live.

The spend charged to the Change Programme budget was £57.5 million in 2005–06, bringing the total spent so far to £237.7 million. The forecast costs of the Change Programme until completion are £243.7 million.

RPA has been working with Accenture since February 2003, following the signing of a contract on 31 January 2003 for the development of new IT systems to support achievement of the Change Programme. This contract was renegotiated in May 2004 and again in January 2006. In 2005–06 expenditure against the supplier amounted to £18.5 million (£18.0 million operating costs and £0.5 million capital). The total spend with Accenture is expected to be £50.3 million.

An Office for Government Commerce (OGC) Gateway 5 Post Programme Review of the Change Programme is planned to be undertaken during October 2006 following the closure of the Change Programme on 31 May 2006.

Rural payments

RPA's major role as a Paying Agency is to ensure the speedy, efficient and effective delivery of authorised subsidy payments to farmers and traders. RPA currently delivers over £2 billion of CAP payments to farmers and traders under existing land, livestock and trader schemes. For direct production subsidy payments (CAP Pillar 1) this includes processing claims and making payments.

For CAP Pillar 2 schemes under the England Rural Development Programme (ERDP), which are aimed at supporting rural communities to develop and diversify, claim processing is mainly carried out by other bodies, except for the Hill Farm Allowance. In all cases RPA makes and accounts for the CAP Pillar 2 payments and is responsible, as Paying Agency, to the EC for ensuring that scheme management and claim authorisation are carried out correctly.

RPA will act as the Single Paying Agency in respect of rural payments under the new Rural Development Programme, which replaces the ERDP in 2007. In October 2006 the delivery of socio-economic funds is to be transferred to the Regional Development Agencies (RDAs) and RPA will continue to work closely with the RDAs and Defra to facilitate the smooth transition of legacy work and payments functionality, as well as ensuring scheme management and administrative control systems are in place to provide financial regularity and accuracy.

Rural and horticultural marketing inspections

Another key service is regulatory inspection, some of which underpins RPA's role as a Paying Agency. RPA conducts inspections relating to payments under the CAP (including ERDP) and for cattle identification purposes. Most of our farm and agribusiness inspections are carried out by our local teams of inspectors based at over 40 offices in England and two in Scotland.

The Inspectorate also carries out a range of inspections on behalf of other Defra bodies, including beef and pig carcass classification and labelling, agricultural wages and injurious weeds. RPA's Inspectorate merged with the Horticultural Marketing Inspectorate on 1 April 2006. Horticultural marketing standards aim to encourage fair competition, facilitate trade and encourage consumer choice while removing unsatisfactory produce from the food chain. RPA is closely involved in the implementation of Hampton Review recommendations to implement a single agricultural inspectorate.

Livestock identification and tracing

RPA provides the national cattle identification service and traceability through the British Cattle Movement Service (BCMS). RPA is responsible for the Cattle Tracing System (CTS). RPA currently registers around 3 million cattle births and 14 million movement notifications to the CTS each year. It provides the front-line customer services to administer these records and to provide assistance to farmers. Our remit has been broadened to include the Animal Movement Licensing Scheme (AMLS), the implementation of a sheep and goat ear tag system and the creation of a Poultry Register for commercial premises. This was developed as part of Defra's emergency preparedness for avian influenza.

Single Payment Scheme

Background

The introduction of the Single Payment Scheme (SPS) has been a significant change for RPA, replacing 11 direct support schemes. It required a major refocusing of business activity, in particular the RPA Change Programme, which was already in progress before the specification of SPS was finalised.

Implementation of the scheme has been difficult and in January 2005 RPA announced that SPS payments were unlikely to commence before February 2006. The payment window allowed for under the EC Regulations governing the scheme ran from 1 December 2005 to 30 June 2006.

RPA sent entitlement statements to farmers in mid February 2006. It made the first payments before the end of February, in accordance with its target, and aimed to make the bulk of payments by the end of March. However, by the middle of March it had become clear that this would not be possible. This further delay in payments led the Secretary of State to appoint Mark Addison to lead the RPA on an acting basis with effect from 16 March 2006 in place of Johnston McNeill. Mark Addison remained in post until Tony Cooper was subsequently appointed as the Interim Chief Executive on 15 May 2006 to steer RPA through the implementation of SPS 2006.

Position at end of March 2006

The claims made under the Scheme relate to calendar years. For accounting purposes the liability for Scheme payments is accrued for evenly on a month by month basis. As at 31 March 2006 the full amount due for the 2005 Scheme year and an amount equivalent to the first quarter of the 2006 Scheme year were recognised as liabilities in the Agency's accounts. At 31 March 2006, £217 million, around 14% of the amounts due for the 2005 Scheme year, had been paid.

The Secretary of State sanctioned several actions recommended by the Acting Chief Executive to speed up payments to farmers, including strengthening RPA's capacity in key areas, changing RPA's structure to streamline command and control, reforming RPA processes to deliver greater customer focus, and addressing HR procedures.

Many of the SPS 2005 payment acceleration actions agreed with the Secretary of State have been delivered, and work continues on clearing outstanding tasks on partially validated claims to continue making full payments. As of close of business on 31 March 2006 £217 million was paid to 27,862 customers, representing 24% of our customers.

Completion of SPS 2005

Ministers agreed that RPA should make partial payments from the beginning of May 2006 to the majority of eligible applicants with claims over €1,000. Subsequent batches of partial payments have been made since to speed up the process.

RPA aims to complete the validation of SPS 2005 claims as quickly as possible and is giving highest priority to paying claimants for over €1,000 who have yet to receive any payment.

The total amount to be paid under SPS 2005 will not be known for certain until the last claim is completely validated. However, the figure net of modulation is estimated at around £1.515 billion, of which over £1.438 billion (94.9%) was paid by 30 June 2006. At this point, 91,720 claimants had received a full payment and a further 16,168 had received a partial payment. The combined total of 107,888 represents over 92% of the revised estimated total claimant population entitled to a payment of 116,474.

The Scheme Regulations expect 96.14% of the UK fund to have been paid by 30 June 2006. This was achieved on 31 July 2006. By 31 August 2006 this had increased to 98% (£1.485 billion).

SPS also requires an additional payment of up to €150 to be made to all claimants by the end of September under Article 12 of Regulation 1782/2003 in respect of the exemption from the EU element of modulation for the first €5,000 of a claim.

RPA will be making interest payments on delayed SPS payments. Farmers may be eligible if they did not receive by the end of June 2006 the full sum due to them within the payment window and where responsibility for the delay rests with RPA. Interest will be paid at the London Interbank Offered Rate +1%, calculated from 1 July 2006.

The current planning assumption is that at least 1,200 full-time equivalent processing staff will be required for SPS 2005 to the end of September 2006 and that a much smaller number will continue to work on the completion of SPS 2005 after that date. Experienced processing staff will need to be allocated responsibility to deal with representations, appeals and complaints arising from SPS 2005. It is uncertain, at this stage, what the volume of complaints will be; however at the beginning of September 2006 approximately 180 representations and 140 appeals are in progress.

The National Audit Office has published a Value for Money study (HC 1631/2005–06) on the administration of SPS 2005 in October 2006.

SPS 2006 and sugar reform

As at 31 August 2006 110,236 claim forms had been received for the SPS 2006 scheme year, and processing of these is under way. It will be important to manage and monitor closely the transfer of staff from SPS 2005 processing to SPS 2006 work. Plans for SPS 2006 assume that around 1,250 full-time equivalent staff will be available and that the SPS processing system, RITA (RPA IT Application) will be able to support this number of staff. A higher number could potentially speed up processing and reduce the risk of disallowance, although constraints (systems, buildings and particularly management capacity) would in practice be likely to limit RPA's ability to deploy extra staff. A whole-case (as opposed to task-based) approach is being adopted and a claims tracking system will be introduced so it is clear who is dealing with a claim at any given point in time.

In 2005 the Agriculture Council of the EU agreed the first major reform of the sugar regime since it was introduced 40 years ago. Under these arrangements, additional subsidy of around £52 million has to be paid to farmers along with SPS 2006. RPA will develop a non-RITA solution for sugar, with interfaces to the existing accounting, customer registration and EU reporting systems, and will pay on a 100% historic basis for 2006.

SPS 2007

An SPS 2007 lead manager has been appointed, and planning for this scheme year has now commenced. It will be important for as many claimants as possible to receive fully pre-populated claim forms for SPS 2007. In advance of a mandatory EU requirement from 2008, RPA will work to increase the number of customers receiving payments by BACS (Banks Automated Clearing System), which will create additional customer registration work.

Other issues

E-business

The modernising of the Agency's technical infrastructure has provided us with the opportunity to develop web-enabled interfaces with our customers. Cattle Tracing System (CTS) Online is now processing around 65% of transactions electronically.

Customer Register

The Customer Register is the single repository of customer information which supports payments to customers for subsidy schemes and suppliers. The Register was developed as a corporate asset for Defra with the intention of being the source of customer information for all systems within the Defra community and to support wider Defra initiatives to rationalise customer registers.

Land Register

RPA has developed a Rural Land Register (RLR) and this is an essential part of the delivery of the SPS. The RLR holds information on a large proportion of English land and links customer and land data.

Livestock Registers

RPA will continue to operate the CTS, the Animal Movements Licensing System (AMLS) and the Poultry Register. The CTS database was improved during the year to make it quicker, more reliable and easier to maintain.

The EU Standing Committee on the Food Chain and Animal Health (SCOFCAH) unanimously approved a proposal to resume exports of cattle born after 1 August 1996, and beef from cattle slaughtered after 15 June 2005. One of the contributing factors to this decision was confirmation of the traceable evidence held in the CTS database.

RPA's role in delivery for Defra

RPA is delivering CAP reform in England and administers the new SPS for farmers and other users of rural land. It also co-ordinates inspections to ensure compliance with good farming and environmental practice by claimants under the SPS, working closely with the other bodies involved, including the Environment Agency, the State Veterinary Service, and with effect from 2 October 2006, Natural England.

RPA also operates on behalf of the devolved administrations in Scotland, Wales and Northern Ireland, through Service Level and/or Agency Agreements. The British Cattle Movement Service (BCMS) operates throughout Great Britain, and the non-cattle animal system, AMLS, covers England and Wales.

RPA has contributed to Defra and other government department programmes and initiatives including: Better Regulation, CAP Simplification, the Whole Farm Approach (WFA), International Trade Single Window (ITSW), Implementation of Official Food and Feed Hygiene Regulations and the Farm Regulation and Charging Strategy.

RPA provides the administrative services for the National Fallen Stock Scheme (NFSS), including the operation of the NFSS helpline. Defra and the devolved administrations are working in partnership with the National Fallen Stock Company (NFSCo), a not-for-profit organisation established to provide a national service for the farming community throughout the UK for the collection and disposal of fallen stock.

Cattle disposal schemes

The Older Cattle Disposal Scheme (OCDS), which replaced the Over Thirty Month Slaughter Scheme (OTMS), commenced on 23 January 2006. There will be a much reduced number of abattoirs, required initially to process the pre-1996 cattle expected to be presented to the OCDS, with an associated fall in the level of processing and storage capacity required. It is estimated that throughput to the new scheme will attract around 400,000 animals between 2006 and 2008.

RPA managed and administered the OTMS throughout the UK on behalf of Defra and the devolved administrations. This included: the slaughter and disposal of OTMS animals and by-products; paying producers compensation; management of agents and management of contractors providing slaughter; transport; and storage and disposal services. RPA has met or bettered a number of demanding targets for the disposal of meat and bonemeal (MBM) and tallow.

Trader schemes

RPA currently administers around 40 active CAP trader schemes across the UK.

During the year RPA received some adverse EC audit observations related to the administration of the fruit and vegetables producers' scheme. This led to considerable anxiety within the industry. RPA has thoroughly reviewed control and inspection regimes and is in negotiation with the EC. RPA has now set up an Experts' Group to facilitate a regular dialogue with fruit and vegetable producers. The information from meetings of the group is now communicated to all producers. Initial feedback has been encouraging and we hope to build on this arrangement.

Considerable regulatory changes have been made to a number of other trader schemes, including the Butter for Manufacture Scheme and the Dehydrated Fodder Scheme. All these changes have been fully implemented by RPA.

RPA has also processed import and export licences and export refund claims for customers, enabling them to continue trading with other countries. However, diversion of resources to SPS resulted in timeliness targets and customer service being compromised on occasions. Under the internal market trader schemes, RPA continues to buy, sell and store intervention goods where required to help balance the market, as well as support a wide range of businesses from large sugar and starch operators to small traders making wine kits.

Hampton Review

RPA has been working closely with Defra to implement the recommendations of the Hampton Review of Regulatory Inspection and Enforcement. The Defra Investigation Service (comprising the Defra Investigation Branch and the RPA Counter Fraud Team) was created on 1 January 2006. It will provide an investigation service for Defra and related bodies. In addition, the Horticultural Marketing Inspectorate merged with RPA's Inspectorate as a first step towards developing a single agricultural inspectorate.

Call centres

RPA manages a number of call lines on behalf of Defra and others. These include the pet helpline, the poultry registration helpline and the avian flu helpline. These activities are operated from the Workington office. RPA has developed a virtual call centre which allows extra staff to be deployed if needed from across other sites.

Agricultural appeal procedures

RPA is responsible for administering the formal independent agricultural appeal procedures. These procedures enable customers to appeal against a decision made under any of the schemes that RPA administers either in England only or across the UK.

The appeal procedure is in two parts. Stage 1 is an internal review of the case by RPA's Customer Relations Unit. If an appellant is dissatisfied with the outcome of their Stage 1 appeal they may take it to Stage 2: a review of the case by an independent Appeal Panel. The Panel addresses its findings to ministers who decide whether or not to accept the Panel's recommendation.

The terms of reference for Panel Members are to consider written or oral representations made by the appellants or their representatives in the light of the governing scheme legislation and to reach a decision on the basis of the facts, impartially and without discrimination or bias. The Panel convenes with three members and is chaired on a rotational basis. Panel members are paid £162 per hearing, together with a preparation fee. During the year 43 Panel hearings have been held.

The RPA website (www.rpa.gov.uk) includes a separate Publications Scheme that covers Panel work, under Access to Information / Appeals Panel Publication Scheme.

Stage 1 appeals	Total no. of appeals	Resolved appeals	Successful	Partially successful	Unsuccessful
Integrated Administration Control System (IACS)	43	13	7	0	6
Non-IACS	10	7	0	0	7
SPS	291	289	64	21	204
Moorland	9	9	2	3	4

Stage 2 appeals	Total no. of appeals	Resolved appeals	Successful	Partially successful	Unsuccessful
IACS	11	11	3	0	8
Non-IACS	3	3	0	0	3
SPS	94	84	10	4	70
Moorland	34	34	6	9	19

Looking forward

RPA's key challenges for 2006–07 will be to complete all SPS 2005 payments, including interest payments where applicable, and Hill Farm Allowance (HFA) payments.

For SPS 2006 RPA is developing a contingency solution to enable it to make partial payments if necessary.

RPA will also be implementing new arrangements under Modernising Rural Delivery and, from 1 January 2007, the new Rural Development Regulation.

Review of RPA (Hunter Review)

The Secretary of State announced a review of RPA on 16 March 2006. The Hunter Review has been established now that RPA is in its fifth year of operation and has been transformed from a relatively straightforward Paying Agency into a multi-faceted delivery body. The review will address the core functions and responsibilities of RPA over the next five to ten years. It will take into account the new strategic context and operating environment of RPA's present and planned activities, how these fit into the Defra family and how they relate to the work of other agencies and delivery partners.

Going concern

The balance sheet at 31 March 2006 shows negative taxpayers' equity of £156 million. This reflects the inclusion of liabilities falling due in future years, which are financed, mainly, by drawings from the UK Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament, to meet RPA's net cash requirement.

Fixed assets

Additions during the year were £14.5 million (2004–05: £18.6 million). Major additions comprised IT hardware and software.

Research and development

RPA has no research and development expenditure.

Exchequer accounts

RPA's 2004–05 Exchequer accounts were approved without qualification in July 2005. The annual report and accounts were published on 19 July 2005, before Parliament's summer recess.

EAGGF accounts

RPA's annual EAGGF accounts for the year ended 15 October 2005 were submitted on time to the EC and subsequently cleared without qualification by the Commission.

Pension liabilities

RPA makes employer's contributions for staff who are members of the four separate Civil Service Pension Schemes. Contributions to three of the schemes (Classic, Classic Plus and Premium) are based on actuarial advice, paid in full in year, through an accruing superannuation liability charge (ASLC) and is the equivalent of the employer's contribution in a funded scheme. In the fourth scheme (Partnership), contributions are a percentage of the member's pensionable earnings and the percentage varies according to the member's age.

Further details of funding levels are given in Note 2 to the accounts.

Contracts and Supplier Management (C & SM)

C & SM achieved savings of 14% in 2005–06; in the same year, the reported savings from OGC for government expenditure savings as a whole was 7.3%. Despite an increase of 300% in the numbers of invoices received over 2004–05, C & SM also improved its performance towards achieving RPA's invoice payment target and, by the end of the year, it was paying 96% of supplier invoices within 30 days.

Horticultural Marketing Inspections Unit

On 1 April 2006 the Horticultural Marketing Inspections Unit transferred from Defra. The costs incurred by Defra that were associated with this unit during 2005–06 were:

Operating cost statement

	Cost £000
Salaries	2,923
Other costs	586
Less income	(64)
TOTAL	3,445

Balance sheet

Fixed assets – tangible	1,473
Debtors falling due after more than one year	10
Debtors	21
Creditors falling due within one year	(17)
General fund	1,487

RPA's performance targets 2005–06

CUSTOMERS

1. To commence payments under the SPS by February 2006 and to process and pay 96% of valid SPS claims by value by 31 March 2006. **Part met**
2. To process and pay at least 90% of valid claims by volume under Pillar 1 schemes other than SPS/IACS within ministerial guidelines, and 99% within the set EU Commission deadlines, or in their absence 60 days. **Not met**
3. To process and pay valid claims with at least 98.5% accuracy. **Part met**
4. To record 98% of valid and complete notifications of births, deaths and movements of cattle on CTS within 14 days of their receipt. **Met**
5. To re-baseline customer satisfaction to take account of the new customer base under SPS and to build on that with improvements in future years. **Met**
6. To implement the SPS communications strategy and achieve success criteria, engaging with customers via roadshows and publications. **Met**

FINANCE

7. To ensure that disallowance within the control of RPA due to non-compliance with EU requirements remains below 2% of the value of CAP payments made by the Agency. **Met**
8. To operate within 3% of the forecast for total expenditure (departmental expenditure limits and annually managed expenditure combined) supplied at the time of the Defra 3rd Quarter Review. **Met**

BUSINESS PROCESSES

9. To issue SPS claim forms to all known potential claimants and enter on the database the data received. **Met**
10. To complete the agreed inspection programme for CAP schemes in accordance with EU regulatory requirements, taking into account any approved derogations. **Not met**
11. To provide accurate and timely operational advice in support of policy development and Defra business systems. **Not met**

PEOPLE

12. To implement a managed transition to the new organisational design while maintaining business continuity and ensuring that RPA retains sufficient people with appropriate skills to be able to process claims under SPS. **Met**
13. To ensure that relevant staff receive adequate training to process SPS claims effectively, by delivering a planned training programme. **Met**

INFORMATION MADE AVAILABLE TO AUDITOR

I have taken all the steps that are necessary to familiarise myself with any relevant audit information and to establish that the Agency's auditors are aware of that information and so far as I know there is no relevant audit information of which the Agency's auditors have no knowledge.

Tony Cooper

Signed
Tony Cooper,
Interim Chief Executive and Accounting Officer

26 October 2006

Statement on internal control

Introduction

The failure to complete the bulk of SPS 2005 payments by the end of March 2006 has been the key factor in the last year. RPA very much regrets this failure and the impact it has had on the farming community. The controls and governance in place, although extensive, were not sufficient to prevent this failure. On 16 March 2006 a number of immediate actions were taken to remedy the situation and Mark Addison replaced Johnston McNeill as Chief Executive. The Hunter Review was also announced, which will look at the long-term role and structure of RPA, and is due to report by the end of 2006.

I joined RPA as Interim Chief Executive on 15 May 2006. The following statement describes the systems in place during the period from 31 March 2005. I have placed reliance on representations from the Deputy Chief Executive, who was in post throughout the period, as to the accuracy of the statements made about the period before my appointment. Through my engagement with the business since my appointment, I have obtained a more direct appreciation of the risks to corporate objectives as set out in this statement.

In the weeks following 16 March 2006, Mark Addison introduced a number of steps to improve output, and agreed with Ministers that partial payments should be made to eligible applicants with claims worth over €1,000 at the beginning of May. Subsequent batches of partial payments have been made since to speed up the process. These changes were discussed with legal colleagues and advice sought from an Assurance Working Group, staffed from the internal audit team. The changes were approved by Ministers and included:

- revising the sequence of checks to speed up the process and applying compensating controls;
- introducing tolerances for small discrepancies in land areas to help expedite the claims;
- streamlining the work process through direct contact with customers to resolve queries on claims and co-ordinate mapping land parcels data; and
- approving a partial payments system following scrutiny and approval by ministers.

Ministers also instructed RPA to make interest payments on delayed SPS payments. Farmers may be eligible if they did not receive by the end of June the full sum due to them within the payment window, and where responsibility for the delay rests with RPA. Interest will be paid at the London Interbank Offered Rate +1%, calculated from 1 July 2006, and a system is being developed to deliver this.

Defra officials are continuing to discuss likely scenarios with the Commission to avoid triggering EU rules on withholding EU funding of payments after the end of the 30 June 2006 payment window. The indications are that the UK as a whole reached in the order of 95.35% of payments by 30 June 2006.

Completing the 2005 payments and implementing the SPS in 2006 and subsequent years remains immensely challenging. Accordingly, we will be improving our controls and governance to help with this challenge.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in RPA for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Scope of responsibility

I am responsible for the day-to-day management of RPA, including the production of the Agency's resource accounts and resource accounting returns, and to the Secretary of State for Environment, Food and Rural Affairs for RPA's performance and operation. This includes securing efficiencies within the Agency, the economical conduct of the business, and the propriety and regularity of public funds for which I am responsible.

As Accounting Officer, I have responsibility for maintaining a system of internal control that supports the achievement of RPA policies, aims and objectives, agreed with Defra, while safeguarding the public funds and departmental assets, in accordance with the responsibilities assigned to me in *Government Accounting*.

Assurance

Operating under terms of reference in accordance with Treasury guidance, the RPA Audit Committee meets quarterly and advises the Agency in respect of RPA's accounts, internal control systems and internal audit practices. I regularly attend the Audit Committee meetings and am advised by them accordingly. The RPA Ownership Board receives regular reports from the Committee, along with internal assurance reports on risk, audit and compliance. The Finance and Resources Director and the Head of Internal Audit attend meetings, together with the National Audit Office Director for Financial Audit, and Defra. The RPA legal team has continued to ensure that we are getting the right level of legal support and assurance.

In addition, assurance on the system of internal control is provided by a review of Directors' assurance statements. These statements have identified the nature of the potential problems encountered over the year. They in turn are informed by regular reports by Internal Audit, to Government Internal Audit Standards, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's system of internal control, together with recommendations for improvement. This opinion has been qualified in respect of the controls applied to some of our newer systems, in particular the Rural Land Register (RLR).

Risk management: framework and control

RPA has a systematic process in place for assessing and managing its risk for each of its high-level business objectives. We maintain a risk register across the Agency and provide reports for consideration by the Executive Board, Audit Committee, Ownership Board, and Defra. Our internal audit work has identified the reporting of risk and escalation procedures as areas that we need to strengthen.

Risks to corporate objectives and significant internal control problems

Key risks in 2005–06 have been dominated by those surrounding the delivery of the SPS, its impact on other aspects of delivery and the demand on resources. Throughout the delivery of the Change Programme the Agency has sought additional assurance in the form of Gateway Reviews through the Office of Government Commerce (OGC), and has shared a risk-based approach with a Defra Executive Review Group (ERG) to balance the risk to accreditation in speeding up payments against reputational risks from late payment. Although the Agency started full payments by the end of February, it failed to meet its target to make the bulk of payments by the end of March, and measures outlined above in the introduction were taken to expedite payments.

There are continuing risks to our corporate objectives.

- There are continuing delays in completing SPS 2005. We have therefore targeted a number of countermeasures and have applied strong management controls and will have further discussions with the European Commission about the application of the late payment rules.
- The ability to make payments for the 2006 scheme year may be affected by the quality of data from the RLR. We have introduced business processes to consult customers more effectively to ensure the data we hold is correct for calculating future payments.
- The risk to SPS processing from delays to mapping of land became an issue during 2005. We recognised the risk to the subsequent ability to perform cross-compliance checks, calculate entitlements and authorise claims. The digitisation work was brought back in house from late April 2006 to speed up progress.
- The RITA system still does not provide full functionality or the capacity we need to implement sugar reform. Consequently, we have decided to deliver reform of the sugar regime through an off-RITA solution.
- Because of the expansion of the Agency to respond to the SPS crisis, the Agency has had to engage a substantial number of consultants and temporary staff to deal with inefficiencies in the system, e.g. manual workarounds. We are reviewing our capacity to transfer knowledge and promoting learning and development.
- Our work to check the land area claimed, by using satellite technology, was delayed in 2005. The majority of reject cases were based on correspondence rather than inspection, leading to more instances where definitive findings are hard to reach.
- The allocated resources to deliver 2005 payments along with those for 2006, coupled with the non-realisation of benefits from the Change Programme, have resulted in the potential for under-funding to deliver requirements in 2006–07 and beyond. A series of countermeasures, including negotiations around budget transfers, is under way to attempt to mitigate these risks; however, they still remain a key risk for the Agency.

Governance

Until governance arrangements were changed in August 2006 as described below, the Chief Executive chaired an Executive Board that governed strategic decision-making, with representation from all key areas of the business. The Board was supported by a subgroup structure. There has been a major issue to manage the SPS and allocate resources. This has stretched the resource available to effectively underpin the governance arrangements and compromised many of the Agency's objectives for 2005–06.

Improved controls are needed to include governance over key risks between policy and delivery so that they are not treated in isolation. This reflects the comments of OGC and NAO on the difficulties experienced in delivering the Change Programme. I am developing a more robust governance and organisational structure for RPA, with the aim of strengthening the Agency's management and drawing Defra and RPA closer together. I have created a new senior leadership team and corporate governance structure headed by an Agency Management Board. I have appointed two non-executive Directors to the Board who will provide focus, support the Board with expert business knowledge and provide an objective challenge. I have also initiated a comprehensive Business Support Programme to continue to develop RPA's structure.

Business planning and performance

Our mission is 'to be a customer-focused organisation delivering high-quality services, including processing payments and receipts, conducting inspections and recording animal identification, to government and the rural community'. For 2005–06, as a result of the failure to make SPS payments, we failed to meet this objective. Our goal for 2006–07 is to start the recovery work to improve performance.

Review of effectiveness

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and is set out under the assurance heading in this statement. In 2005–06, 50 audits have been conducted. These have been sponsored by executive managers within the Agency who have the responsibility for the development and maintenance of the internal control framework, along with comments made by the external auditors in their management letter and other reports. The Agency has also been advised on the control issues by the Ownership Board and Audit Committee, whose role is set out earlier in this statement. Other significant mechanisms for control include the programme and project boards described and OGC review.

In addition to the improvements to the controls outlined above, I have introduced measures to assess our risk-handling capacity against Treasury guidance, change the RPA structure to streamline controls, and revise the adequacy of governance. Early work on the Hunter Review has identified areas of improvement in the Agency's processes, organisational design and handling of management information. I will act upon these recommendations, along with the recommendations from internal audit reports, to strengthen internal control over the next year.

Signed
Tony Cooper
Interim Chief Executive and Accounting Officer

26 October 2006

Remuneration report

Remuneration Committee

The Defra Remuneration Committee provides group guidance and policy with regard to remuneration for the whole of the Defra Group, including RPA. Therefore the policy on remuneration/recommendations for senior managers of RPA relevant to the current and future financial years is determined by this Committee, and RPA ensures that the organisation adheres to these policies/recommendations at all times.

The Cabinet Office advises the Department in March or April each year of the Government's response to the Senior Salaries Review Body's recommendations and produces guidance to departments to follow. Defra developed its Senior Civil Service (SCS) pay strategy within the Cabinet Office framework and has contained individual awards within the set range, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed.

Defra's SCS pay strategy sets out the circumstances that govern the basis for line managers making pay recommendations, based on Cabinet Office guidance. The SCS Pay Committee, chaired by the Permanent Secretary, takes the final decisions on relative assessments of staff performance.

Individual performance for the majority in the SCS is assessed relative to all others in the peer group; consolidated pay awards and non-consolidated bonuses are calculated entirely on the basis of their achievements. A member's consolidated pay award depends upon their position within the pay range, and their level of performance.

RPA Executive Board

Directors in the year were Johnston McNeill (Chief Executive until 15 March 2006), Mark Addison (Acting Chief Executive from 16 March 2006), Hugh MacKinnon (Operations Director) who was succeeded by Ian Hewett in June 2005, Alex Kerr (Deputy Chief Executive and Finance and Resources Director), Alan McDermott (Information Services Director), and Simon Vry (Business Development Director, and Interim Chief Operating Officer from March 2006). Both Johnston McNeill and Mark Addison were appointed under the Civil Service Management Code.

Johnston McNeill was removed from post on 15 March 2006 and is currently on leave of absence on full pay. Defra are discussing Johnston McNeill's future including possible terms of departure which will be formally agreed with HM Treasury. Any amounts agreed will be borne by Defra

In October 2005, Richard Gregg (former Human Resources Director) took on the new role of Head of Defra Investigation Services within RPA, following review of delivery and investigation activities within RPA and Defra.

From June 2005 Legal Services were directed by Martin Truran, who replaced Sally Lewis who had held the post on an interim basis. Both are members of Defra Legal Services.

Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended until they reach the normal retirement age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Johnston McNeill was appointed by Defra as Chief Executive of the Rural Payments Agency for a fixed period from 1 January 2001 to 31 December 2006 with the possibility of an earlier or later end date by mutual agreement, but with permanent status as a civil servant.

Alan McDermott (Information Services Director) was appointed in August 2001 on a six month recurring fee paid contract. Fee-paid appointments are not pensionable under the Principal Civil Service Pension Scheme.

Salary, pension and non-cash benefits analysis

Salary and non-cash benefits	**2005–06**		2004–05	
Name and title	Salary and allowances paid £000	Non-cash benefits received £	Salary and allowances paid £000	Non-cash benefits received £
Mark Addison Acting Chief Executive (from 16 March 2006)	0–5	0	0	0
Johnston McNeill* Chief Executive (until 15 March 2006)	140–145	1,500	125–130	700
Alex Kerr Deputy Chief Executive and Finance and Resources Director	95–100	2,000	80–85	800
Ian Hewett Operations Director (from June 2005)	55–60	17,100	0	0
Hugh MacKinnon Operations Director (until May 2005)	15–20	0	85–90	0
Alan McDermott Information Sevices Director	225–230	0	225–230	0
Simon Vry Business Development Director, and Interim Chief Operating Officer (from March 2006)	80–85	0	75–80	0
Richard Gregg Head of Defra Investigation Services Former Human Resources Director	70–75	0	70–75	0
Martin Truran Director of Legal Services (from June 2005)	50–55	0	0	0
Sally Lewis Acting Director of Legal Services (until June 2005)	10–15	0	0–5	0

* From 16 March 2006 salary costs for Johnston McNeill became the responsibility of Defra.

Salary includes gross pay, performance pay or bonuses, overtime, reserved rights, recruitment and retention allowances, and any other allowances subject to UK taxation.

Bonuses for Directors, excluding the Chief Executive, are non pensionable, discretionary and related to individual performance. A percentage of the total Defra Senior Civil Servants salary costs is available to be allocated on this basis. For 2005–06 this percentage was 6.2%. (2004–05 5%). Bonus payments are approved by the Defra Remuneration Committee.

The Chief Executive's bonus is non pensionable, discretionary, geared to specific targets and is approved by Defra's Permanent Secretary. The bonus available is up to 18.5% of pensionable salary. All bonuses are paid in arrears in the financial year after that in which they were earned.

Hugh MacKinnon retired from RPA on 31 May 2005. Pension information below is at this date.

Comparative salary information for Ian Hewett has not been disclosed for 2004–05 as he was not a member of the Executive Board at that time.

Mark Addison was on loan from Defra. Therefore salary information for the full financial year can be found within the Defra 2005–06 Resource Accounts.

Pension benefits

Name and title	Real increase during the reporting year in pension and related lump sum at age 60 £000	Total value of accrued pension and related lump sum at age 60 and related lump sum £000	Cash equivalent transfer value at 31 March 2005 £000	Real increase in cash equivalent transfer value at 31 March 2006 £000
Mark Addison Acting Chief Executive (from 16 March 2006)	0	0	0	0
Johnston McNeill Chief Executive (until 15 March 2006)	0–2.5 plus 2.5–5 lump sum	15–20 plus 55–60 lump sum	244	23
Alex Kerr Deputy Chief Executive and Finance and Resources Director	0–2.5 plus 5–7.5 lump sum	25–30 plus 80–85 lump sum	381	33
Ian Hewett Operations Director (from June 2005)	0–2.5 plus 5–7.5 lump sum	20–25 plus 60–65 lump sum	226	36
Hugh MacKinnon Operations Director (until May 2005)	–0.25–0 plus –2.5–0 lump sum	40–45 plus 110–115 lump sum	729	–4
Alan McDermott Information Sevices Director	0	0	0	0
Simon Vry Business Development Director, and Interim Chief Operating Officer (from March 2006)	0–2.5 plus 0–2.5 lump sum	5–10 plus 0–5 lump sum	37	13
Richard Gregg Head of Defra Investigation Services Former Human Resources Director	0–2.5 plus 2.5–5 lump sum	20–25 plus 70–75 lump sum	339	18
Martin Truran Director of Legal Services (from June 2005)	0–2.5 plus 2.5–5 lump sum	15–20 plus 45–50 lump sum	211	19
Sally Lewis Acting Director of Legal Services (until June 2005)	0–2.5 plus 2.5–5 lump sum	10–15 plus 35–40 lump sum	156	18

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory-based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump-sum equivalent to three years' 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in Classic.

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

Cash equivalent transfer value (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a 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 CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in the value of CETV

This reflects the increase in the value of the CETV effectively funded by the employer. It takes account of 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.

Tony Cooper

Signed
Tony Cooper
Interim Chief Executive and Accounting Officer

26 October 2006

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed RPA to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by RPA during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of RPA, the net resource outturn, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Chief Executive of RPA as Accounting Officer with responsibility for preparing RPA's accounts which are required to comply with the requirements of the Government's Financial Reporting Manual (FReM) and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, RPA is required to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the accounts; and
- prepare the financial statements on the going concern basis.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding RPA's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in *Government Accounting* (TSO).

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

I certify that I have audited the financial statements of the Rural Payments Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 29 to 32 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword, Introduction, Management Structure and Public Interest sections included in the Annual Report, the unaudited part of the Remuneration Report, and the Management Summary, including RPA's performance targets 2005–06. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and of the net operating cost, total recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have the following observations to make on these financial statements.

Control weaknesses in the administration of the European Commission Single Payment Scheme

As set out at Note 30 to the Accounts, and in the Statement on Internal Control at pages 29 to 32, the Agency has experienced considerable problems in making the payments to farmers necessary to discharge the £1.4 billion liability included in the balance sheet as at 31 March 2006 in respect of unpaid claims against the Single Payment Scheme 2005. The results of my separate examination of these problems, carried out under section 6 of the National Audit Act 1983 and presented to Parliament under section 9 of that Act, are published as HC 1631/2005–06, *The Delays in Administering the 2005 Single Payment Scheme in England*.

The nature of the arrangements put in place to expedite payments under the scheme, including the partial payment of claims totalling £770 million may infringe European Commission Regulations, giving rise to the possibility that the Commission will not refund the full amount of the payments made (disallowance). A provision for disallowance (covering the UK as a whole, and including also previous schemes), together with a contingent liability in this respect, has been reflected in the accounts of the Agency's parent Department, the Department for Environment, Food and Rural Affairs (Defra)(HC 1643/2005–06).

John Bourn

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

27 October 2006

The maintenance and integrity of the Rural Payment Agency's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Operating cost statement

for the year ended 31 March 2006

Note		2005–06 £000	2005–06 £000	2004–05 £000
	PROGRAMME COSTS			
	RUNNING COSTS			
2	Staff costs	**106,333**		120,290
3	Other running costs	**130,175**		128,918
	GROSS RUNNING COSTS	**236,508**		
11	Income	**(785)**		(146)
	NET RUNNING COSTS		**235,723**	249,062
	SCHEME COSTS			
	RPA			
4	Costs	**2,676,350**		2,858,143
11	Less income*	**(2,400,086)**		(2,511,781)
			276,264	346,362
	Other departments			
10	Costs	**1,060,839**		803,396
10	Less income*	**(1,052,004)**		(790,174)
			8,835	13,222
11	Other income		**(25,773)**	(60,132)
	NET SCHEME COSTS		**259,326**	299,452
	NET OPERATING COST		**495,049**	548,514
	NET RESOURCE OUTTURN*		**2,892,667**	608,646

All income and expenditure are derived from continuing operations.

* The net resource outturn reflects the current practice that the major part of RPA's external income is paid over to the Treasury after being initially received by RPA. The total scheme income included England SPS income of £1,675.2 million. Other departments includes SPS income of £697.7 million.

Statement of total recognised gains and losses

for the year ended 31 March 2006

Note		2005–06 £000	2004–05 £000
	Net operating cost	**(495,049)**	(548,514)
21	Net (loss)/gain on revaluation of tangible fixed assets	**(1,430)**	1,651
	Total recognised losses for the financial year	**(496,479)**	(546,863)

The notes on pages 45 to 83 form part of these accounts.

Balance sheet

as at 31 March 2006

Note		2005–06		2004–05	
		£000	**£000**	£000	£000
	FIXED ASSETS				
13a	Tangible assets	**57,280**		64,171	
13b	Intangible assets	**5,090**		4,543	
			62,370		68,714
15	Debtors due after more than one year		**434,441**		412,886
	CURRENT ASSETS				
14	Stocks	**1,836**		20,414	
15	Debtors	**2,148,539**		622,457	
16	Cash at bank and in hand	**1,698,510**		131,279	
		3,848,885		774,150	
17	Creditors (due within one year)	**(4,452,724)**		(889,001)	
	Net current liabilities		**(603,839)**		(114,851)
	Total assets less current liabilities		**(107,028)**		366,749
18	Creditors (due after one year)		**(6,929)**		(14,374)
19	Provisions for liabilities and charges		**(42,015)**		(60,495)
			(155,972)		291,880
	TAXPAYERS' EQUITY				
21	General fund		**(158,981)**		287,027
21	Revaluation reserve		**3,009**		4,853
			(155,972)		291,880

The notes on pages 45 to 83 form part of these accounts.

Signed
Tony Cooper
Interim Chief Executive and Accounting Officer

26 October 2006

Cash flow statement

for the year ended 31 March 2006

Note		2005–06 £000	2004–05 £000
22a	Net cash outflow from operating activities	**(794,744)**	(478,141)
22b	Capital expenditure and financial investment	**(6,102)**	(10,780)
21/22a	Payments to the Consolidated Fund	**(66,923)**	(27,108)
22c	Financing	**2,435,000**	580,000
16	Increase in cash in the period	**1,567,231**	63,971

Notes to the resource accounts

1. Statement of accounting policies

The financial statements have been prepared in compliance with the 2005–06 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 follow UK Generally Accepted Accounting Practice for companies (UKGAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of RPA for the purpose of giving a true and fair view has been selected. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of tangible fixed assets at their value to the business by reference to their current costs.

1.2 Stock valuation

Intervention stocks

Stock comprises agricultural commodities purchased into intervention under terms specified by EAGGF (see Note 1.6) and valued in accordance with its directions. The effect of these directions is to secure stock at the stated values, as any shortfall in sales revenues is made good by the EC. The basis of valuation departs from SSAP 9, as specifically approved in the FReM (paragraphs 6.3.4 and 6.3.9).

Other stocks

The tallow and MBM stocks are valued at the balance sheet date in accordance with SSAP 9, reflecting their value to the business (see Note 5b).

1.3 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. RPA has set a capitalisation threshold for software projects of £100,000. The cost of individual items below this threshold is charged directly to the Operating cost statement. All other tangible fixed assets are capitalised irrespective of their cost.

Fixed assets are revalued annually using appropriate price indices issued by the Office for National Statistics. The unrealised element is credited to the revaluation reserve as analysed at Note 21 to these accounts. Items with zero net book value are not revalued. Land and buildings are subject to professional, external revaluation at intervals of not more than five years. The last valuation was carried out at 31 March 2003 on an existing use basis by a chartered surveyor on behalf of Lambert Smith Hampton (Consultant Surveyors and Valuers) in accordance with the Royal Institution of Chartered Surveyors' *Appraisal and Valuation Manual*.

Software projects being developed are recognised as construction in progress (CIP) and are treated as capital expenditure (but not depreciated) until the software is fully developed and brought into use. CIP is not revalued.

Depreciation is provided on a straight-line basis, on all tangible fixed assets, over each individual asset's estimated useful life. Assets are depreciated from the month after they are brought into use. Freehold land is not depreciated.

Principal asset lives are as follows:

Buildings	Up to 20 years	IT hardware:	
Plant and machinery	10–25 years	PCs, printers, etc.	3 years
Furniture and fittings	5 years	Servers	5 years
Vehicles	4 years	Communications	5 years
Office machinery	5 years	IT software	5 years

1.4 Intangible fixed assets

Intangible fixed assets relate solely to licences to use software developed by third parties. Intangible assets are amortised over periods up to five years and are not revalued.

1.5 Leased assets

All leases are assessed using the criteria as laid down in SSAP 21. Rental costs arising under operating leases are charged to the operating account in the year in which they are incurred. RPA does not have any finance leases.

1.6 Intervention buying and selling

Intervention buying is a method of supporting market prices for certain agricultural commodities, including butter, cereals and skimmed milk powder. RPA is required to buy, at prices determined by the EC, produce of defined quality which is offered to it in accordance with detailed regulations. Sales are made at prices and on terms prescribed by the EC. Operating costs include transport, handling, storage, testing and freezing and are shown net of funding from the EC. Costs of depreciation and any losses on sales are borne by the EC; any profits on upward revaluation or sales are surrendered to the EC (see also Note 1.2).

RPA receives a contribution towards its financing and technical costs, at the standard rates of reimbursement, from the EC, based on the average monthly value of stock held.

1.7 Programme costs

The whole of RPA's activities relate to scheme administration. Therefore all costs are classified as programme costs.

Scheme costs are described in Notes 4–8 and 10. These include expenditure by RPA and other Paying Agencies of grants and subsidies directly to claimants, operating costs of the OCDS, OTMS and intervention.

1.8 RPA scheme costs

SPS expenditure is accrued evenly over each calendar year to which it applies. For other schemes administered by RPA, an accrual point has been established according to the applicable scheme rules and regulations. Where an obligation is identified to fall on or before the balance sheet date, it is shown as a creditor in the current year's financial statements with the EC-funded element offset as a debtor. Similarly, any elements paid in advance of these accrual points are treated as prepayments with an offsetting creditor. Clearance decisions by EAGGF are charged as described in Note 1.16.

1.9 Other Paying Agencies' income and costs

Other UK Paying Agencies make payments to claimants under EAGGF schemes (see Note 10). These payments are funded by the RPA and subsequently recovered from the EC. These recoveries are subject to adjustments following clearance decisions by EAGGF as described in Note 1.16.

1.10 Modulation

Modulation is a vehicle for redirecting into rural development a proportion of support payments to farmers and other SPS claimants. This process is supported by EC and national legislation. Under these arrangements there are two types of modulation – voluntary national modulation and compulsory EC modulation.

Voluntary national modulation

The payments to which national modulation applies are reclaimed on a gross basis from the EC, but the net amounts are paid to traders or farmers. The modulation amounts applicable to England are retained by RPA and accounted for as deferred income to fund future rural development expenditure. If the funds are not employed on the prescribed rural development measures within four years of the end of the EAGGF year in which they were retained, then they must be repaid to EAGGF.

Compulsory EC modulation

EC modulation reduces the net amounts paid to traders and farmers, but unlike national modulation the funds are retained in the first instance by the EC. The EC has committed a minimum of 80% of these funds to be available to cover rural development expenditure in the UK.

1.11 Value added tax (VAT)

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the underlying transactions are brought to account net of VAT.

1.12 EC funding of schemes administered by RPA

With the exception of intervention income, which is described in Note 1.6, EC income is accrued where the related expenditure has been accrued and is deferred where the related expenditure has been prepaid.

1.13 Capital charge

A notional charge, reflecting the cost of capital utilised, is included in the Operating Cost Statement. The charge is calculated by the application of HM Treasury's real rate of 3.5% (2004–05: 3.5%) on the average capital employed. In accordance with the FReM (paragraph 4.5.12), the charge is calculated monthly, as the assets are not volatile on a daily basis and the monthly calculation produces a reasonable basis for calculation of the capital charge, except for the average EAGGF debtor, which is weighted on an average daily basis to take into account the timing of funding receipts as this item is large and variable.

1.14 Foreign exchange

Transactions that are denominated in a foreign currency are converted into sterling at the exchange rate ruling on the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are converted at the exchange rate applicable at that date (see Note 20). In line with HM Treasury guidance, gains are treated as Consolidated Fund Extra Receipts (CFER) and losses are treated as scheme costs.

1.15 Pensions

Present and past employees of RPA are covered by the provisions of four separate Civil Service pension schemes under the overarching PCSPS, which are described in Note 2. The defined benefit schemes are unfunded and are non-contributory, except in respect of dependants' benefits. RPA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, RPA recognises the contributions payable for the year. RPA does not make contributions to any other pension scheme.

1.16 EC clearance decisions

RPA has accrued for liabilities arising from clearance decisions covered by formal proposals for disallowance under Article 8.1 of Commission Regulation (EC) No 1663/95, and for late payments known at 31 March 2006 in accordance with the formulae in Commission Regulation (EC) No 296/96 (see Note 17). See also 1.20 below.

1.17 Provisions

RPA provides for obligations arising from past events where it is probable that it will be required to settle the obligation and a reliable estimate can be made. This is in accordance with FRS 12. Future costs have not been discounted unless they are significant.

1.18 Contingent assets and liabilities

Contingent assets and liabilities are disclosed in accordance with FRS 12.

1.19 Early departure costs

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

1.20 Disallowance

Any provisions or acknowledgement of contingent liabilities that relate to the risk of disallowances are reported in the accounts of the Agency's parent department Defra.

2. Staff numbers and costs

2.1 Staff costs consist of:

OFFICIALS	2005–06 £000 Total	2005–06 £000 Permanently employed staff	2005–06 £000 *Short term contract staff	2005–06 £000 Agency staff	2004–05 £000 Total
Wages and salaries	**68,523**	**60,083**	**8,440**	**0**	70,260
Social security costs	**5,280**	**4,558**	**722**	**0**	5,156
Other pension costs	**9,721**	**9,681**	**40**	**0**	8,116
Early retirement costs and early severance costs	**1,729**	**1,729**	**0**	**0**	32,285
	85,253	**76,051**	**9,202**	**0**	115,817
Agency staff	**21,080**	**0**	**0**	**21,080**	4,473
	106,333	**76,051**	**9,202**	**21,080**	120,290

* Short term contract staff are those individuals employed on a week-by-week basis, up to a maximum of two years.

The Principal Civil Service Pension Scheme (PCSPS) is mainly an unfunded multi-employer defined benefit scheme, but RPA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005–06 employer contributions of £9.7 million (2004–05: £8.1 million) were payable to the PCSPS at one of four rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands (the rates in 2004–05 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006–07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%.

The contribution rates are set to meet the cost of benefits accruing during 2005–06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £82,000 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £5,000 (estimate) – 0.8% of pensionable pay – were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were nil (2004–05: nil). There were no prepaid contributions at that date.

Early retirement costs relate to the costs associated with the Change Programme.

No staff costs have been capitalised.

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

Officials	**2005–06**				2004–05
	Total	**Permanently employed staff**	**Short term contract staff**	**Consultants, contractors and agency staff**	Total
Directly employed	**3,091**	**2,555**	**536**	**0**	3,596
Consultants, contractors and agency staff	**1,413**	**0**	**0**	**1,413**	296
	4,504	**2,555**	**536**	**1,413**	3,892

Consultants' and contractors' costs are reflected in Note 3.

Pension benefits are provided through four Civil Service pension schemes. The three schemes in Table 1 are on a 'final salary' basis, and the normal retirement age is 60. The fourth scheme is a stakeholder pension and is shown in Table 2. No contributions are made in respect of any other pension scheme.

Table 1

Pension arrangement	Employee contribution	Employee benefits
Classic (closed to new members from 1 October 2002)	1.5% of pensionable earnings	Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.
Premium (new scheme from 1 October 2002 for new entrants)	3.5% of pensionable earnings	Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic scheme, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times the pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure, the tables assume maximum commutation. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths of the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times the pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.
Classic Plus (combined scheme counting service both before and after 1 October 2002)	3.5% of pensionable earnings	This is essentially a variation of the Premium scheme but with benefits in respect of service before 1 October 2002 calculated broadly as per the Classic scheme.

Table 2

Pension arrangement	Employee contribution	Employee benefits
Partnership	Optional. If an employee decides to contribute a percentage of their pensionable earnings, it can be between 11.5% and 24.5% of their gross taxable earnings, depending on their age.	This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. Employees' contributions will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

3. Other running costs

Note		2005–06 £000	2005–06 £000	2004–05 restated £000*
	RENTALS UNDER OPERATING LEASES			
	Rent on buildings		**5,310**	6,415
	NON-CASH ITEMS (INCLUDING NOTIONAL CHARGES)			
28	Audit fee (notional)	**300**		312
28	Defra capital charges – buildings (notional)	**845**		733
28	Defra central overhead charges (notional)	**846**		2,351
28	(Profit)/loss on disposal of fixed assets	**(4,200)**		305
28	Depreciation/amortisation	**15,644**		14,470
28	Cost of capital charge (notional)	**767**		1,449
			14,202	19,620
	OTHER EXPENDITURE			
	Accommodation	**6,457**		6,938
	IT costs*	**12,382**		10,743
	Running costs	**2,505**		2,459
	Non-payroll staff costs	**4,311**		4,019
	Consultancy and contract staff costs*	**61,830**		52,638
	Communications costs	**7,754**		7,837
	Agents' fees	**13,279**		16,434
	Miscellaneous scheme costs	**2,145**		1,815
			110,663	102,883
			130,175	128,918

*The allocation of expenditure between IT costs and consultancy and contract staff costs for 2004–05 has been amended to be consistent with a more accurate allocation adopted in 2005–06. The combined expenditure for 2004–05 for both account headings taken together has not changed.

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

	2005–06 £000	2004–05 £000
Payroll costs	**428**	385
Other costs	**25**	9
EAGGF audit fee	**1,166**	665
	1,619	1,059

4. Schemes administered by RPA

RPA is responsible for:

- the payment of SPS and farm-based schemes in England, trader-based schemes (both internal market and external trade), milk quotas, OTMS and OCDS throughout the UK;
- the payment of ERDP schemes*;
- the payment of Structural Funds schemes (England)*;
- intervention buying and selling in the UK;
- funding CAP schemes administered by all the UK Paying Agencies; and
- receipt and administration of monies received from EAGGF for the UK.

Note		**2005–06 £000**	2004–05 £000
5a	Single Payment Scheme	**1,675,255**	412,886
5a	Pillar 1 and England Rural Development Scheme (excluding SPS)	**345,343**	1,703,672
5b	BSE related	**272,981**	323,330
6	Trader based – Internal Market	**106,486**	97,870
7	Trader based – External Trade	**207,178**	208,511
8	Intervention buying and selling	**20,605**	61,874
	Structural Funds**	**31,969**	32,397
	School milk	**7,946**	5,517
	Milk supplementary levy	**2,585**	0
	Livestock Welfare Disposal Scheme	**346**	285
	Nitrate Vulnerable Zones	**368**	0
29	Scheme related losses	**728**	0
29	Special payments	**20**	0
	Other scheme costs	**50**	89
		2,671,860	2,846,431
	Charge to bad debts provision	**824**	4,427
28	Cost of capital charge	**3,666**	7,285
		2,676,350	2,858,143

*For both of these schemes, budget management has been retained by Defra.

**RPA was appointed Paying Authority for Structural Funds from 1 January 2004. The Paying Authority was formerly Defra (which remains the Managing Authority).

5. Farm based schemes

5a Pillar 1/England Rural Development Programme

Note		2005–06 Expenditure £000	2005–06 Income £000	2005–06 Net £000	2004–05 Expenditure £000	2004–05 Income £000	2004–05 Net £000
	Pillar 1*						
	Single Payment Scheme	1,675,255	(1,675,255)	**0**	412,886	(412,886)	0
	Arable Area Payments	0	0	**0**	927,482	(927,011)	471
	Beef Special Premium**	(6,679)	6,679	**0**	141,453	(140,274)	1,179
	Extensification Payment	17,003	(17,003)	**0**	64,170	(64,248)	(78)
	Sheep Annual Premium	0	0	**0**	129,844	(129,650)	194
	Slaughter Premium	0	0	**0**	73,201	(72,420)	781
	Suckler Cow Premium	61,282	(61,282)	**0**	119,329	(119,164)	165
		1,746,861	**(1,746,861)**	**0**	1,868,365	(1,865,653)	2,712
	England Rural Development Programme						
	Countryside Stewardship***	117,444	(44,600)	**72,844**	103,257	(38,350)	64,907
	Environmentally Sensitive Areas***	69,780	(30,750)	**39,030**	64,474	(28,997)	35,477
	Farm Woodland Premium	11,120	(4,096)	**7,024**	10,383	(3,839)	6,544
	Hill Farm Allowance	27,569	(13,866)	**13,703**	28,214	(13,707)	14,507
	Organic Farming***	4,576	(2,774)	**1,802**	6,465	(2,323)	4,142
	Processing and marketing grants	7,019	(3,504)	**3,515**	6,834	(3,417)	3,417
	Rural Enterprise	30,814	(15,484)	**15,330**	26,589	(13,192)	13,397
	Vocational training	4,274	(2,130)	**2,144**	3,500	(1,731)	1,769
	Entry Level Scheme Pilot	812	0	**812**	918	0	918
	Other	1,122	(99)	**1,023**	491	(245)	246
		274,530	**(117,303)**	**157,227**	251,125	(105,801)	145,324
17	EAGGF financial correction	107	0	**107**	(2,932)	0	(2,932)
	Other schemes	(900)	861	**(39)**	0	(1,151)	(1,151)
	TOTAL SCHEME EXPENDITURE	**2,020,598**	**(1,863,303)**	**157,295**	2,116,558	(1,972,605)	143,953

*Pillar 1 schemes are those schemes that concentrate on providing basic income support to farmers. All of these schemes are subject to modulation (see Note 9).

**Beef Special Premium expenditure and income reflect the impact of an over-accrual of £21.3 million in 2004–05 arising from an inaccurate estimate of the number of small claims to be adjusted for the effect of national ceiling scaleback.

***These ERDP schemes are part-funded by modulation deductions.

5b BSE related schemes

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

Note		2005–06 Expenditure £000	2005–06 Income £000	2005–06 Net £000	2004–05 Expenditure £000	2004–05 Income £000	2004–05 Net £000
	Older Cattle Disposal Scheme (OCDS)						
	Premium payments	5,807	(1,294)	**4,513**	0	0	0
	Costs of operations						
	Slaughter	1,367	0	**1,367**	0	0	0
	Transport	390	0	**390**	0	0	0
	Rendering	1,975	0	**1,975**	0	0	0
	Incineration	1,315	0	**1,315**	0	0	0
	Storage	10,520	0	**10,520**	0	0	0
		21,374	**(1,294)**	**20,080**	0	0	0
	Over Thirty Month Slaughter Scheme (OTMS)						
	Premium payments	154,840	(188,625)	**(33,785)**	197,833	(151,020)	46,813
	Costs of operations						
	Slaughter	17,272	0	**17,272**	17,764	0	17,764
	Transport	7,505	(16)	**7,489**	9,917	0	9,917
	Rendering	21,883	0	**21,883**	26,098	0	26,098
	Incineration	15,144	(45)	**15,099**	25,328	0	25,328
	Storage	10,548	0	**10,548**	30,919	0	30,919
		227,192	**(188,686)**	**38,506**	307,859	(151,020)	156,839
	TSE* surveillance	22,010	(1,692)	**20,318**	14,144	0	14,144
	TSE agents' services	2,405	0	**2,405**	1,390	0	1,390
	Tallow sales	0	(3,736)	**(3,736)**	0	(4,957)	(4,957)
17	EAGGF financial correction	0	0	**0**	(63)	0	(63)
	TOTAL SCHEME EXPENDITURE	**272,981**	**(195,408)**	**77,573**	323,330	(155,977)	167,353

*TSE – Transmissible Spongiform Encephalopathies

The above analysis excludes the administration costs of BSE schemes.

OTMS compensation payments are co-financed by the EC, while the costs of operation are borne by the UK Exchequer and remain with RPA. EC funding is claimed in full for cattle that are directly incinerated. In respect of OTMS cattle that are rendered (the majority), EC funding is in two elements: 80% on the rendering of the carcass and 20% on destruction of the MBM and tallow produced from the rendering process. For 2005–06 the value of this 20% retention is estimated at £4.4 million (2004–05: £84.3 million). This retention is a contingent asset (see Note 26a).

At the balance sheet date, RPA had yet to raise a claim on EAGGF for 7,946 animals (2004–05: 28,523) with a calculated value of £1.0 million (2004–05: £3.9 million) slaughtered under the OTMS.

The OTMS was replaced by the OCDS from 23 January 2006 following changes to the Over Thirty Months rule. Compensation payments are co-financed by the EC, while the costs of operation are borne by the UK Exchequer and remain with RPA. EC funding arrangements are equivalent to that of the OTMS.

MBM stocks

At 31 March 2006 there were 70,565 tonnes (2004–05: 66,642 tonnes) of OTMS MBM and 184 tonnes (2004–05: 0 tonnes) of OCDS MBM in store.

Waste Incineration Directive 76/2000/EC

This Directive requires additional safety requirements during the incineration of tallow. Incineration has temporarily stopped until the renderers have complied with the Directive's requirements resulting in a slow increase in tallow stocks.

Tallow stocks

Tallow continues to be produced, and arisings are incinerated at a number of rendering plants throughout the UK. At 31 March 2006, 504,200 tonnes of tallow had been destroyed and 6,388 tonnes remained in store.

As these stocks have no value to the business, both MBM and tallow stocks have been valued at nil in these accounts.

6. Trader based – Internal Market

Note		2005–06 Expenditure £000	2005–06 Income £000	2005–06 Net £000	2004–05 Expenditure £000	2004–05 Income £000	2004–05 Net £000
	Horticulture	25,373	(25,379)	**(6)**	29,407	(29,384)	23
	Milk and Milk products	19,426	(19,067)	**359**	29,669	(27,979)	1,690
	Protein and Textile plants	1,166	(1,166)	**0**	2,260	(2,259)	1
	School milk	395	(374)	**21**	379	(380)	(1)
	Seeds*	893	(892)	**1**	2,106	(2,106)	0
	Sugar and Isoglucose	37,931	(37,931)	**0**	30,787	(31,207)	(420)
	Other	2,802	(2,649)	**153**	1,584	(1,258)	326
		87,986	**(87,458)**	**528**	96,192	(94,573)	1,619
17	EAGGF financial correction	18,500	0	**18,500**	1,678	0	1,678
	TOTAL SCHEME EXPENDITURE	**106,486**	**(87,458)**	**19,028**	97,870	(94,573)	3,297

*Subject to modulation (see Note 9).

7. Trader based – External Trade

RPA is responsible for paying export refunds in respect of trade with non-member countries.

Note		2005–06 Expenditure £000	2005–06 Income £000	2005–06 Net £000	2004–05 Expenditure £000	2004–05 Income £000	2004–05 Net £000
	Milk and Milk products	37,625	(37,276)	**349**	60,452	(61,121)	(669)
	Processed goods	16,721	(16,642)	**79**	19,788	(20,152)	(364)
	Sugar and Isoglucose	153,148	(153,150)	**(2)**	122,348	(122,031)	317
	Other	2,350	(2,324)	**26**	2,999	(2,747)	252
		209,844	**(209,392)**	**452**	205,587	(206,051)	(464)
17	EAGGF financial correction	(2,666)	0	**(2,666)**	2,924	0	2,924
	TOTAL SCHEME EXPENDITURE	**207,178**	**(209,392)**	**(2,214)**	208,511	(206,051)	2,460

8. Intervention buying and selling

Note		2005–06 £000	2005–06 £000	2004–05 £000
	Cost of intervention sales	**19,784**		39,471
	Stock depreciation	**255**		374
			20,039	39,845
28	Fixed asset depreciation		**212**	220
	Intervention operating costs		**366**	2,674
	SUB TOTAL		**20,617**	42,739
	Other costs			
	Net profits surrenderable		**0**	19,102
	Other		**(12)**	33
	TOTAL COSTS		**20,605**	61,874
11	Intervention income		**(18,443)**	(58,212)
	TOTAL INTERVENTION BUYING AND SELLING		**2,162**	3,662

9. Modulation

Modulation up to and including 2004 EAGGF scheme year

Council Regulation (EC) No. 1259/99 provided that member states may, for certain schemes, reduce the amount of payment that would otherwise have been made to farmers and traders on claims by an amount known as modulation. Member states claim EAGGF guarantee funding as if no modulation had taken place.

The differences between the claims and the actual payments constitute the modulation amounts and were used by member states to fund rural development measures in the EAGGF year of modulation and/or the next four years, provided that the modulation funds are matched 100% by the member states. If modulated amounts remain unspent after that time, the member state must return them to EAGGF.

Schemes that were modulated are:

- Arable Area Payments Scheme;
- Agrimonetary Aid;
- Beef Special Premium Scheme;
- Dairy Premium Scheme;
- Extensification Payment Scheme;
- Grain Legumes;
- Hops;
- Seeds;
- Sheep Annual Premium Scheme;
- Slaughter Premium Scheme – Under Thirty Month and Veal Calf; and
- Suckler Cow Premium Scheme.

Modulation was applied to all payments made under the above schemes, with the gross amounts being claimed from the EC and the net amounts being paid to traders or farmers. The modulation amounts collected by RPA for schemes applied in the UK but outside England were paid to the agriculture departments in Scotland (SEERAD), Wales (NAWDEPC) and Northern Ireland (DARDNI) which administer their own rural development schemes. Modulation amounts applicable to England were then retained by RPA and utilised against rural development scheme payments.

Modulation from 2005

The SPS was introduced in the UK as a result of the CAP reform package agreed in June 2003 and replaces all of the schemes detailed above. It runs on a calendar year basis, with applications being submitted during the period April/May of each year.

There are two elements to SPS modulation – compulsory EU modulation and voluntary national modulation:

EU modulation

EU (or compulsory) modulation is governed by Council Regulation (EC) No. 1782/03. The rate increases progressively from 3% of direct payments in 2005 to 5% from 2007 onwards. The same rate will apply throughout the whole of the UK. Up to €5,000 of each claim will effectively be exempt from such modulation, and an additional payment will be made to farmers who are refunding this element of the modulation. The UK will receive a minimum of 80% of the funds generated by the UK for redistribution.

EU modulation rates are set in the legislation as follows:

Scheme year	2005	2006	2007	2008	2009	2010	2011	2012
Modulation deduction percentage	3%	4%	5%	5%	5%	5%	5%	5%

All direct payments are modulated (i.e. SPS, Nut Scheme, Energy Crop Aid, Protein Premium). A small part of the modulation deduction will be repaid to farmers via an 'additional payment', provided for by the EU Council Regulation. This enables an amount equal to the modulation deduction to be refunded to producers up to €5,000 worth of direct payments each scheme year. The operation of this additional payment system is subject to an additional UK ceiling of €17.7 million for 2006 EAGGF year (2007 EAGGF year: €23.6 million).

National modulation

National (or voluntary) modulation is governed by Council Regulations (EC) No. 1782/03 and No. 1655/04. This modulation can be applied at different rates by England, Scotland, Wales and Northern Ireland. For voluntary modulation, the €5,000 dispensation will not apply, and the UK will retain 100% of the funds it generates.

For England, the following national modulation rates have been announced:

Scheme year	2005	2006
Modulation deduction percentage	2%	6%

The English national rates for 2007 and beyond have not yet been set.

The total modulation position at 31 March 2006 was as follows.

	2005–06 £ million	2004–05 £ million
Brought forward at 1 April	**84**	67
Modulation deducted from scheme costs	**107**	69
Funding of ERDP schemes	**(63)**	(52)
Balance at 31 March	**128**	84

The expenditure on ERDP schemes funded by modulation is matched by equivalent UK Exchequer funding.
The unused modulation balance held at 31 March 2006 has been treated as deferred income for use in future years (see Note 17).

10. CAP – funding other Paying Agencies

As the UK Funding Body, RPA funds payments made to the other UK Paying Agencies. These are analysed below.

Note		2005–06 Expenditure £000	2005–06 Income £000	2005–06 Net £000	2004–05 Expenditure £000	2004–05 Income £000	2004–05 Net £000
	SEERAD*	507,897	(507,893)	**4**	412,348	(412,343)	5
	NAWDEPC*	257,153	(256,538)	**615**	186,965	(186,966)	(1)
	DARDNI*	275,940	(275,979)	**(39)**	175,004	(175,004)	0
	FC	9,707	(9,707)	**0**	11,822	(11,822)	0
	CCW	1,887	(1,887)	**0**	4,039	(4,039)	0
		1,052,584	**(1,052,004)**	**580**	790,178	(790,174)	4
17	EAGGF financial correction	3,434	0	**3,434**	9,482	0	9,482
28	Cost of capital charge	4,821	0	**4,821**	3,736	0	3,736
	TOTAL FUNDING	**1,060,839**	**(1,052,004)**	**8,835**	803,396	(790,174)	13,222

SEERAD – Scottish Executive, Environment and Rural Affairs Department
NAWDEPC – National Assembly for Wales, Department for Environment, Planning and Countryside
DARDNI – Department of Agriculture and Rural Development, Northern Ireland
FC – Forestry Commission
CCW – Countryside Council for Wales

*Includes SPS income accounted as CFER.

11. Operating income

Operating income analysed by classification and activity is as follows:

Note		2005–06 £000	2004–05 £000
	SCHEME INCOME		
	CAP – RPA schemes		
5a	Pillar 1 and ERDP	**1,863,303**	1,972,605
5b	BSE related	**195,408**	155,977
6	Trader based – Internal Market	**87,458**	94,573
7	Trader based – External Trade	**209,392**	206,051
8	Intervention buying and selling	**18,443**	58,212
	Structural funds	**17,824**	18,141
	Other	**8,258**	6,222
		2,400,086	2,511,781
	CAP – Other Paying Agencies		
10	EC contributions	**1,052,004**	790,174
	Other trade receipts		
	Sugar levies	**22,802**	25,754
	Exchange rate gains	**248**	30,007
	Other	**2,723**	4,371
		25,773	60,132
	TOTAL SCHEME INCOME	**3,477,863**	3,362,087
	RUNNING COSTS INCOME	**785**	146
	TOTAL INCOME	**3,478,648**	3,362,233

Income, except funding of SPS and other trade receipts, is classified as appropriations-in-aid, which are items of income authorised by Parliament to be appropriated in aid of expenditure included in the total resource outturn.

EU funding of SPS and other trade receipts represent income that RPA is not allowed to retain. This income is paid directly to HM Treasury and is treated as Consolidated Fund Extra Receipts.

12. Analysis of capital expenditure, financial investment and associated appropriations-in-aid

	2005–06				2004–05			
	Capital expenditure £000	Loans etc. £000	A-in-A £000	Net total £000	Capital expenditure £000	Loans etc. £000	A-in-A £000	Net total £000
Defra Request for Resource	**13,833**	**0**	**(7,731)**	**6,102**	12,962	0	(2,182)	10,780
	13,833	**0**	**(7,731)**	**6,102**	12,962	0	(2,182)	10,780

13. Fixed assets

13a Tangible fixed assets

	Freehold land and buildings	Short leasehold land and buildings	Information technology	Furniture and fittings	Vehicles, plant and machinery	Office equipment	Construction in progress	Total
	£000	£000	£000	£000	£000	£000	£000	**£000**
REPLACEMENT COST BASIS								
COST:								
At 1 April 2005	10,085	6,875	96,698	2,842	3,849	4,520	16,173	**141,042**
Reclassification	0	43	15,198	0	0	1	(16,821)	**(1,579)**
Revaluation	(2,139)	173	(2,923)	174	(4)	(19)	0	**(4,738)**
Additions	0	1,967	4,008	72	0	3,384	3,498	**12,929**
Disposals	(2,265)	(752)	(2,065)	(17)	(2,889)	(215)	0	**(8,203)**
AT 31 MARCH 2006	**5,681**	**8,306**	**110,916**	**3,071**	**956**	**7,671**	**2,850**	**139,451**
DEPRECIATION:								
At 1 April 2005	2,620	2,449	64,681	2,460	1,583	3,078	0	**76,871**
Reclassification	0	42	(90)	0	0	0	0	**(48)**
Revaluation	(577)	(7)	(2,811)	175	(10)	(15)	0	**(3,245)**
Charge for year	160	1,190	11,253	144	83	508	0	**13,338**
Disposals	(656)	(753)	(2,024)	(16)	(1,106)	(190)	0	**(4,745)**
AT 31 MARCH 2006	**1,547**	**2,921**	**71,009**	**2,763**	**550**	**3,381**	**0**	**82,171**
NET BOOK VALUE:								
At 1 April 2005	7,465	4,426	32,017	382	2,266	1,442	16,173	**64,171**
AT 31 MARCH 2006	**4,134**	**5,385**	**39,907**	**308**	**406**	**4,290**	**2,850**	**57,280**

Tangible and intangible asset additions are reconciliable to the cash flow statement Note 22b by the adjustment for accruals shown in Note 22a.

13b Intangible fixed assets

	2005–06 £000	2004–05 £000
HISTORIC COST BASIS		
COST:		
At 1 April	**8,261**	7,079
Reclassification	**1,579**	19
Additions	**1,545**	1,454
Disposals	**(581)**	(291)
AT 31 MARCH	**10,804**	8,261
AMORTISATION:		
At 1 April	**3,718**	2,460
Reclassification	**49**	20
Charge for year	**2,454**	1,505
Disposals	**(507)**	(267)
AT 31 MARCH	**5,714**	3,718
NET BOOK VALUE:		
At 1 April	**4,543**	4,619
AT 31 MARCH	**5,090**	4,543

14. Stocks

	2005–06			
	Butter £000	**Cereals £000**	**Milk powder £000**	**Total £000**
Stocks at 1 April	2,338	514	17,562	**20,414**
Movement	(2,268)	1,248	(17,558)	**(18,578)**
AT 31 MARCH	70	1,762	4	**1,836**

15. Debtors

Note		2005–06 £000	2005–06 £000	2004–05 £000
	Amounts falling due within one year			
	Trade debtors	**30,823**		30,730
	Less provision for bad debts	**(27,292)**		(26,468)
			3,531	4,262
	Balance due from EAGGF		**2,053,986**	496,423
	Due from Defra and its agencies		**11,481**	15,234
	Other government departments including other Paying Agencies		**8,616**	7,711
	Scheme prepayments and accrued income		**64,386**	95,999
	Prepayments and accrued income		**1,978**	2,187
	VAT		**4,413**	24
	Other debtors		**148**	617
22a			**2,148,539**	622,457
	Amounts falling due after more than one year			
22a	Balance due from EAGGF		**434,441**	412,886
	TOTAL DEBTORS AT 31 MARCH		**2,582,980**	1,035,343

A total of £1,956,489k of the above, once received, will be paid over to the Consolidated Fund (2004–05 £21,011k).

15a Intra-government balances

	Debtors: Amounts falling due within one year 2005–06 £000	Debtors: Amounts falling due within one year 2004–05 £000	Debtors: Amounts falling due after more than one year 2005–06 £000	Debtors: Amounts falling due after more than one year 2004–05 £000
Balances with other central government bodies	**20,097**	22,867	**0**	0
Balances with local authorities	**183**	2	**0**	0
Balances with NHS trusts	**0**	0	**0**	0
Balances with public corporations and trading funds	**0**	0	**0**	0
Total intra-government balances	**20,280**	22,869	**0**	0
Balances with bodies external to government	**2,128,259**	599,588	**434,441**	412,886
TOTAL DEBTORS AT 31 MARCH	**2,148,539**	622,457	**434,441**	412,886

16. Cash at bank and in hand

	2005–06 £000	2004–05 £000
Balances held at 1 April	**131,279**	67,308
Net cash inflow	**1,567,231**	63,971
BALANCES HELD AT 31 MARCH*	**1,698,510**	131,279

The Office of HM Paymaster General (OPG) provides a current account banking service and holds the main bank account for RPA. The following balances were held at 31 March:

Balances at OPG	**1,697,780**	130,919
Commercial banks/cash in hand**	**730**	360
BALANCES HELD AT 31 MARCH	**1,698,510**	131,279

The balance at 31 March comprises:

Modulation	**(15,140)**	42,563
EAGGF advance funding	**6,929**	7,444
Exchange rate gains (CFER)	**248**	32,054
Other CFER	**439,306**	1,832
Cash securities	**2,290**	2,127
Amounts issued but not spent at year end***	**1,264,877**	45,259
	1,698,510	131,279

* The large balance held at the OPG at 31 March 2006 was held in anticipation of SPS payments to be made after April 2006.

** Direct payments from trade debtors cannot be made into the OPG account, therefore a commercial bank account is held for this purpose. Any funds received are then transferred to the OPG current account.

*** This relates to unspent funding received from Defra.

17. Creditors: Amounts falling due within one year

Note		2005–06 £000	2004–05 £000
	Trade creditors	**91,231**	9,206
	Due to Defra and its agencies	**6,514**	10,141
	Other government departments including other Paying Agencies	**2,221**	2,962
	Amounts due to the Consolidated Fund	**2,385,592**	54,898
	Cash securities*	**2,290**	2,127
	EAGGF financial corrections**	**23,570**	19,917
	Deferred income including modulation	**128,138**	85,107
	EAGGF deferred income	**2,981**	39,156
	Scheme accruals (excluding SPS)	**122,745**	246,160
	SPS accrual	**1,664,649**	392,241
	Accruals (includes invoices received but not yet approved)	**19,813**	24,026
	Payroll and social security costs	**2,743**	2,758
	Other creditors	**237**	302
22a		**4,452,724**	889,001

* Traders wishing to undertake certain transactions under EC Regulations are required to guarantee completion of the transaction by lodging a security with RPA. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. This figure represents cash deposited with RPA.

****EAGGF financial corrections**

EAGGF operates a clearance process for the validation of expenditure chargeable by member states.

This is split between:

- Financial clearance on the basis of certified accounts on an annual basis.
- Ad hoc scheme compliance clearance based on EC audits of scheme control and administration.

RPA has accrued for financial clearance disallowance based on an EC proposal which is made by 31 March following the close of the EAGGF year (15 October):

- Further to the EC audit in November 2004 of expenditure declared for EAGGF years 2002 and 2003, a net payment to the EC of £0.472 million was required relating to the Rural Development Programme.
- The second decision on the clearance of accounts for the 2003 financial year was made in September 2005 and resulted in a payment by the EC of £0.219 million.
- The 2004 clearance decision was made in May 2005, and resulted in a net payment to the EC of £1.584 million.

RPA has also accrued for liabilities which have been included in ad hoc scheme compliance clearance decisions when the EC has made formal proposals for disallowance under Article 8-1 of Commission Regulation (EC) No. 1663/95 stating a monetary value.

The following ad hoc clearance decisions have been made:

- Ad hoc clearance 18 decision was made in April 2005 and resulted in a net payment to the EC of £7.421 million. Some £7.390 million related to flat-rate livestock premium corrections and £0.031 million to miscellaneous minor adjustments.
- Ad hoc clearance 19 decision was made in July 2005 and resulted in a payment to the EC of £0.523 million.
- Ad hoc clearance 20 decision was made in August 2005 to rectify ad hoc clearance 18 and resulted in a payment by the EC of £0.499 million.

Also EAGGF make financial corrections to reflect late payment penalties which are charged in accordance with Commission Regulation (EC) No. 296/96. An accrual is made for these where a monetary value has been notified by EAGGF.

For any risks of disallowance that had not been resolved definitively by 31 March 2006, appropriate provision or acknowledgement of contingent liabilities has been made in the accounts of the Agency's parent department Defra.

EAGGF financial corrections by Paying Agency – position at 31 March 2006

	RPA £000	SEERAD £000	NAWDEPC £000	DARDNI £000	Total £000
ACCRUAL AT 31 MARCH 2005	**8,651**	**5,335**	**3,284**	**2,647**	**19,917**
Ad hoc clearance 18	(1,034)	(3,006)	(2,326)	(1,055)	(7,421)
Ad hoc clearance 19	(523)	0	0	0	(523)
Bovine late payments	(2,226)	(2,329)	(781)	(1,592)	(6,928)
UTILISED IN YEAR	**(3,783)**	**(5,335)**	**(3,107)**	**(2,647)**	**(14,872)**
Prior year accrual released	**(4,868)**	**0**	**(177)**	**0**	**(5,045)**
Bovine late payments	650	2,465	0	0	3,115
In-year refusals	969	0	0	0	969
Arable Area Payments Scheme	(373)	314	106	0	47
Sheep Annual Premium Scheme	(1,785)	0	0	0	(1,785)
Butter for manufacturing	1,406	0	0	0	1,406
External Trade irregularities	258	0	0	0	258
Rural Development Programme	0	0	177	0	177
Milk quotas	1,384	0	0	0	1,384
Fruit and vegetable operational programmes	17,460	0	0	0	17,460
Financial clearance 2002	0	0	51	0	51
Financial clearance 2003	(219)	0	0	0	(219)
Financial clearance 2004	1,086	498	0	0	1,584
Rural Development Programme	472	0	0	0	472
Ad hoc clearance 20	(499)	0	0	0	(499)
CHARGE TO OPERATING COST STATEMENT	**15,941**	**3,277**	**157**	**0**	**19,375**
ACCRUAL AT 31 MARCH 2006					
Bovine late payments	0	2,465	0	0	2,465
Butter for manufacturing	1,406	0	0	0	1,406
External Trade irregularities	258	0	0	0	258
Rural Development Programme	0	0	177	0	177
Arable Area Payments Scheme	0	314	106	0	420
Milk quotas	1,384	0	0	0	1,384
Fruit and vegetable operational programmes	17,460	0	0	0	17,460
TOTAL ACCRUAL AT 31 MARCH 2006	**20,508**	**2,779**	**283**	**0**	**23,570**

The charges to the Operating cost statement due to financial corrections are reported in Notes 5a, 5b, 6, 7 and 10.

17a Intra-government balances

	Creditors: Amounts falling due within one year		Creditors: Amounts falling due after more than one year	
	2005–06 £000	2004–05 £000	**2005–06 £000**	2004–05 £000
Balances with other central government bodies	**2,394,327**	84,519	**0**	0
Balances with local authorities	**55**	44	**0**	0
Balances with NHS trusts	**0**	0	**0**	0
Balances with public corporations and trading funds	**0**	0	**0**	0
Total intra-government balances	**2,394,382**	84,563	**0**	0
Balances with bodies external to government	**2,058,342**	804,438	**6,929**	14,374
TOTAL CREDITORS AT 31 MARCH	**4,452,724**	889,001	**6,929**	14,374

18. Creditors: Amounts falling due after more than one year

Note		**2005–06 £000**	2004–05 £000
22a	Structural Fund EC Advance	**6,929**	6,929
22a	ERDP EC Advance	–	7,445
		6,929	14,374

This other creditor amount relates to a transfer from Defra relating to the ERDP.

19. Provisions for liabilities and charges

	Pensions and related costs* (a) £000	**OTMS and OCDS disposal (b) £000**	**Total £000**
Balance at 1 April 2005	33,039	27,456	60,495
Amounts utilised	(16,321)	(14,624)	(30,945)
Amounts released	(2,780)	(5,060)	(7,840)
New provisions	4,522	15,783	20,305
AT 31 MARCH 2006	**18,460**	**23,555**	**42,015**

*Includes early severance costs.

(a) Pensions and related costs

RPA reimburses the Meat and Livestock Commission in respect of certain agreed redundancy costs following the demise of the Sheep Variable Premium Scheme in January 1992. Payments made in year have been offset against the provision made in previous years. These payments are due until June 2013 when the last recipient reaches pensionable age. The provision at 31 March 2006 is £0.6 million (2004–05: £0.9 million).

RPA has a liability for early retirement and severance costs of its former employees. Those employees that were in receipt of a formal notification by 31 March 2006 have been provided for in these accounts. The provision allows for the pension payments that are payable up to November 2015 when the last recipient reaches pensionable age. The provision at 31 March 2006 is £17.9 million (2004–05: £32.1 million).

(b) MBM and tallow disposal

As long as the OTMS and the OCDS schemes are in operation, MBM and tallow will continue to be produced as by-products of the rendering process. Provision has been made for the cost of disposal of MBM and tallow produced up to 31 March 2006. The amount utilised in year has been assessed on the tonnage disposed of using the previous year's estimated cost per tonne.

20. Financial instruments

RPA's treasury operations are managed in accordance with the Framework Document agreed with Defra and approved by HM Treasury.

RPA's financial instruments comprise cash deposits and other items such as trade debtors, trade creditors and provisions. The main purpose of these financial instruments is to finance RPA's operations.

The main risk arising from RPA's financial instruments is liquidity. The main driver in relation to liquidity is the successful recovery from the EC of funds paid to CAP claimants and financed by HM Treasury in the first instance. All RPA's operations are funded by HM Treasury and/or the EC; accordingly, there is no exposure to interest rate risks other than as referred to below.

RPA exposure to euro exchange rate risk

From January 2003, in accordance with Commission Regulation (EC) No. 1997/02 (as amended) non-eurozone member states have been reimbursed in euros. The timing difference between converting the indent (the claim for reimbursement for CAP expenditure) from sterling to euro and converting back to sterling when received some three weeks later generates an exchange difference. The total gain since 2003 split by year is indicated below. In line with HM Treasury guidance, gains during 2005–06 are treated as CFER and losses are treated as scheme expenditure.

	Net gain/(loss) £m
2002–03	26.2
2003–04	(14.7)
2004–05	30.0
2005–06	0.2
TOTAL	41.7

RPA is exposed to a funding risk if it does not have budgetary cover for the increased scheme expenditure that may arise from any exchange losses incurred. For 2005–06, HM Treasury had agreed that the budgetary cover was available up to the limit of earlier net exchange gains.

As of April 2005, HM Treasury have confirmed that an appropriate hedging strategy can be put in place to reduce the risk of foreign currency exchange movement. During the year, after consultation with HM Treasury, RPA decided to hedge the foreign currency risk between submission of the indent and the date of the reimbursement from the Commission using an appropriate financial instrument. In March 2006, RPA contracted the Royal Bank of Scotland to provide a foreign exchange hedging facility to reduce the risk of exchange rate movement between the periods above.

Interest rate risk

Sums retained in the business but surplus to immediate requirements are deposited in a short-term interest bearing account with RPA's commercial bankers (Lloyds TSB plc).

Liquidity risk

RPA has maintained short-term liquidity wherever possible throughout the year by timely submission of funding claims to the EC, seeking reimbursement of claims for payments made (and funded initially by HM Treasury). RPA manages this initial funding and its cash requirements for its administrative costs (not paid for by the EC) by obtaining funding from HM Treasury through Defra. RPA does not undertake the borrowing of funds other than from HM Treasury. Such borrowing arising from short-term in-year fluctuations in expenditure is effected by RPA 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 in year.

Short-term debtors and creditors are excluded from the following disclosures.

Interest rate risk profile

The interest rate profile of RPA's financial assets and liabilities at 31 March 2006 is set out below. All balances are held in sterling (see Note 16):

Financial assets	Fixed rate £000	Floating rate £000	Total £000
Cash on deposit	0	730	730
Balance held with OPG	1,697,780	0	1,697,780
TOTAL	1,697,780	730	1,698,510

Cash on deposit at 31 March 2006 consists of monies lodged with Lloyds TSB plc.

The balance held with OPG is not subject to an interest rate charge (effective rate is 0% fixed).

Financial liabilities

Traders wishing to undertake certain transactions under EC Regulations are required to guarantee completion of the transaction in question by lodging a cash security with RPA. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. The figure below represents cash deposited with RPA (see Note 16).

	Fixed rate £000	Floating rate £000	Total £000
Cash securities	2,290	0	2,290

Securities may also be in the form of a guarantee by a bank or an insurance company acceptable to RPA. Sterling guarantees totalling £338.4 million and Euro guarantees totalling €75.2 million (£52.2 million) were held at 31 March 2006 (£338.9 million and €46.8 million at 31 March 2005).

	Fixed rate £000	Floating rate £000	Total £000
Bank and other guarantees	392,912	0	392,912

The fair value of all assets and liabilities in this note approximates to book value.

21. Reserves

General fund

Note		2005–06 £000	2004–05 £000
	General fund at 1 April	**287,027**	298,329
	Net operating cost	**(495,049)**	(548,514)
	Financing by Defra	**2,435,000**	580,000
	Transfer from revaluation reserve	**414**	1,021
28	Assets transferred from Defra	**0**	610
	CFER	**(2,397,618)**	(60,285)
28	Notional charges	**11,245**	15,866
	GENERAL FUND AT 31 MARCH	**(158,981)**	287,027

Revaluation reserve

		2005–06 £000	2004–05 £000
	Balance at 1 April	**4,853**	4,223
	Arising on revaluation during the year (net)	**(1,430)**	1,651
	Transfer to General fund	**(414)**	(1,021)
	BALANCE AT 31 MARCH	**3,009**	4,853

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

22. Notes to the cash flow statement

22a Reconciliation of operating cost to operating cash flows

Note		2005–06 £000	2004–05 £000
	Net operating cost	**(495,049)**	(548,514)
28	Adjustments for non-cash transactions	**35,366**	81,721
14	Decrease in stock	**18,578**	38,322
15	(Increase)/decrease in debtors	**(1,526,082)**	106,013
15	Increase in debtors > one year	**(21,555)**	(403,339)
17	Increase in creditors	**3,563,723**	304,298
18	Decrease in creditors > one year	**(7,445)**	(2,283)
17	Adjustment for movement in CFER creditor	**(2,330,694)**	(33,176)
13a/b	Increase in fixed asset addition accruals	**(641)**	(5,631)
19	Utilisation of provisions	**(30,945)**	(15,552)
	NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(794,744)**	(478,141)

22b Analysis of capital expenditure and financial investment

13a	Tangible fixed asset additions	**(13,317)**	(11,508)
13b	Intangible fixed asset additions	**(516)**	(1,454)
12	Proceeds of disposal of fixed assets	**7,731**	2,182
	NET CASH OUTFLOW FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	**(6,102)**	(10,780)

22c Analysis of financing

	Financing by Defra	**2,435,000**	580,000
	NET FINANCING	**2,435,000**	580,000

23. Capital commitments

At 31 March 2006, RPA had capital commitments for which no provision has been made of £0.05 million (2004–05: £0.683 million).

24. Commitments under operating leases

At 31 March 2006, RPA was committed to making the following payments during the next financial year in respect of non-cancellable operating leases:

	2005–06 £000	2004–05 £000
LAND AND BUILDINGS		
Leases which expire:		
– within one year	**572**	10
– within two to five years	**90**	60
– in over five years	**4,682**	5,698
Total	**5,344**	5,768
OTHER		
Leases which expire:		
– within one year	**241**	19
– within two to five years	**74**	273
– in over five years	**0**	0
Total	**315**	292

25. Other financial commitments

RPA is committed to making payments for non-cancellable contracts (which are not leases or Private Finance Initiative contracts). These total £77.7 million (2004–05: £20.3 million) and relate mainly to IT support services spanning a number of years.

26. Contingent assets and contingent liabilities

26a Contingent assets

The EC retains funding on OTMS expenditure pending the disposal of MBM and tallow. The value of the retention at the balance sheet date is £4.4 million. (See Note 5b).

Service Credits relating to IT services provided by IBM to RPA might result in additional income of £0.5 million to RPA. This is dependent on successful negotiation between IBM and Defra, then agreement between Defra and RPA on the mechanism for the return of income to RPA.

26b Contingent liabilities

Legal cases

- A company which tendered for an OTMS slaughtering contract in 1999 commenced court proceedings in February 2001 seeking an award of damages arising from alleged unfair treatment in the tendering process. The proceedings are still ongoing and the case has not yet been listed for trial. The claim is for alleged loss of profits from January 2000. The claimant has estimated its loss for the period January 2000 to 31 December 2004 at between £11.5 million and £12.3 million. If the claim is successful, legal costs that would fall to RPA have been estimated to be £0.2 million.
- A further damages claim for unfair treatment in the tendering process by a second company could result in costs of up to £0.4 million.

27. Related party transactions

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

- Central Science Laboratory;
- Veterinary Laboratories Agency; and
- State Veterinary Service.

The following non-departmental public bodies are also linked to Defra:

- English Nature;
- Meat and Livestock Commission; and
- Milk Development Commission.

A significant proportion of CAP expenditure made by other Paying Agencies through the operation of market support schemes is funded by RPA. These funding transactions, as disclosed in Note 10, have been with:

- Scottish Executive, Environment and Rural Affairs Department;
- National Assembly for Wales, Department for Environment, Planning and Countryside;
- Department of Agriculture and Rural Development, Northern Ireland;
- Forestry Commission; and
- Countryside Council for Wales.

Payments for agents' services as disclosed in Note 3 include material transactions with the following:

- Department of Agriculture and Rural Development, Northern Ireland;
- Meat and Livestock Commission; and
- Meat Hygiene Service.

None of the key managerial staff, non-executive directors or other related parties have undertaken any material transactions with RPA during the year, except for the following:

- Christine Tacon is a member of the Ownership Board and General Manager of Farmcare (part of the Co-operative Group (CWS) Ltd). In 2005–06 Farmcare received £0.178 million (2004–05: £2.5 million) in scheme payments from RPA. These external interests were known before appointment and were carefully considered by Defra. Balances payable at 31 March 2006 for the SPS amounted to £2.199 million (subject to final validation).
- Gordon Meek is also a member of the Ownership Board and a Director of GR & SK Meek. In 2005–06 this company received £0.031 million (2004–05: £0.046 million) in scheme payments from RPA. Balances payable at 31 March 2006 for SPS amounted to £0.047 million (subject to final validation).
- The parents and brother of a member of staff, Claire Trafford, received payments totalling £0.028 million from RPA over the year.

28. Notional charges and non-cash items

Note		2005–06 £000	2005–06 £000	2004–05 £000	2004–05 £000
	NOTIONAL CHARGES				
3	Audit fee		**300**		312
	Cost of capital charge				
3	Running costs	**767**		1,449	
4	RPA Scheme costs	**3,666**		7,285	
10	Other Paying Agencies	**4,821**		3,736	
			9,254		12,470
	Defra charges				
3	Capital charges – buildings	**845**		733	
3	Central overhead charges	**846**		2,351	
			1,691		3,084
	TOTAL NOTIONAL CHARGES		**11,245**		15,866
	NON-CASH ITEMS				
3/8	Depreciation and impairment of assets*		**15,856**		14,690
3	(Profit)/loss on disposal of assets		**(4,200)**		305
19	New provisions		**20,305**		50,405
19	Provisions released		**(7,840)**		(155)
21	Assets transferred from Defra		**0**		610
	TOTAL NON-CASH ITEMS		**24,121**		65,855
	TOTAL		**35,366**		81,721

* The depreciation/impairment in this note includes downward revaluation for those asset classes that have no balance remaining in the revaluation reserve. The total depreciation in Notes 13 and 28 differs by this downward revaluation.

29. Losses and special payments

	2005–06		2004–05	
	No. of cases	**Value £000**	No. of cases	Value £000
Cash losses	**97**	**326**	101	383
Store losses	**0**	**0**	1	3
Claims waived or abandoned	**568**	**413**	1,039	536
Special payments	**138**	**213**	1,163	219
	803	**952**	2,304	1,141

There were no losses exceeding £250,000 in 2005–06 (2004–05: F G Machin & Sons Ltd £272,590)

£748k of the 2005–06 losses and special payments are not specific to any one scheme and so are identified separately in Note 4. All other cases are treated as expenditure applicable to the relevant scheme. All losses and special payments for 2004–05 were specific and referenced to a scheme.

30. Subsequent events

The delays in processing payments due under the Single Payment Scheme experienced during the financial year continued thereafter. One of the steps taken as part of the subsequent processing of payments, sanctioned by Ministers, was the making of partial payments, £770 million in total. The European Commission was consulted before these payments were made and Commission officials advised that making these payments could give rise to disallowance of up to 10% of the payments made. In addition the Agency took steps to streamline the controls over processing claims for payment. These steps resulted in 94.9% of payments being made by the regulatory deadline of 30 June 2006. However, this level of payment may still give rise to late payment penalties.

The risks arising from the partial payments, streamlining in controls and late payments have given rise to a material exposure to disallowance which will result in a failure to recover sufficient monies from the EU to fully fund the payments made under the Single Payment Scheme. As described at Note 1.20 the Agency's parent department, Defra, makes appropriate provision, or acknowledges contingent liabilities in relation to the risk of disallowance.

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