rural payments agency

Annual Report and Accounts 2006 – 2007

Rural Payments Agency
Annual Report and Accounts 2006 – 2007

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Foreword by the Chief Executive

The last year has been turbulent. Managing the legacy of problems from the 2005 Single Payment Scheme (SPS), delivering SPS 2006, restructuring, maintaining existing services and preparing for SPS 2007 and 2008 has been immensely challenging.

Our customers have the right to expect a consistent level of service from the RPA. We did not achieve this in the first year of the SPS.

At the beginning of the financial year, the Agency had serious problems in dealing with SPS. We did not have the stable information technology and business systems that we needed and it quickly became clear that we could not expect to achieve stability until SPS 2008. There remain a legacy of data problems from implementation of SPS 2005 which will affect every year of SPS until we are able to tackle the deep-rooted underlying issues.

During the year I put in place measures to help us make SPS payments as quickly as possible and to help the Agency recover. A new senior management team has been appointed and is responsible for delivering our objectives. Day to day running of the Agency is overseen by an operations management team. Site heads of our 6 operational sites help to ensure consistent performance throughout the Agency.

Despite our difficulties, this year also included some significant achievements.

The 80% partial payments made to address the crisis of SPS 2005 were followed by planned 50% partial payments in February 2007 for the second year of the Scheme (SPS 2006). The RPA Inspectorate completed on time the inspections to check compliance with SPS rules and inspections for Natural England under the England Rural Development Programme. We also continued to operate effectively the trader and subsidy schemes, livestock registers and other services that we provide.

Inevitably, the focus of much of the year has been on SPS. In the early part of the year, the Agency concentrated on making payments under SPS 2005. From November 2006 the bulk of our efforts were focused on processing claims under SPS 2006. We made good progress in the early part of 2007 in making full and partial payments which resulted in the achievement of our target of paying 96.14% of claim value of SPS 2006 payments by 30 June 2007. A significant residue of corrective activity will be carried over into the 2007 Scheme year.

There has also been considerable public scrutiny this year of the RPA's handling of SPS. This has included a report by the National Audit Office, a case study by the Office of Government Commerce, inquiries by the Public Accounts Committee and the Efra Select Committee. In March 2007 the Hunter Review reported to Defra on the future of the RPA. In particular it recommended that RPA should remain as a Defra agency, concentrating on its core business as a paying agency. The review advised against major changes in the structure or responsibilities of the agency in the immediate future while SPS was being stabilised and said BCMS should remain with the Agency. It recognised the risks and difficulties in maintaining Cattle Tracing Services with the current systems. We will as recommended support the Animal Health and Livestock replacement system but our priority will focus on how best to maintain the current service. The recommendations from all these reports and our own internal work will lead to further changes for the Agency.

Finally I should like to thank all the people working in the RPA. Despite the difficulties they face, our staff continue to work hard to provide a good service to our customers. Their expertise and continued commitment is vital in taking the Agency forward.

Business Review

The Rural Payments Agency is an Executive Agency of the Department for Environment, Food and Rural Affairs. RPA was formed in October 2001. We aim to be a customer-focused organisation delivering high quality services to government and the rural community, which includes processing payments and receipts, conducting inspections and recording animal identification.

Our Strategic Objectives

The Agency's strategic objectives are to:

- administer effectively Single Payment Scheme (SPS) payments;
- administer and regulate effectively agricultural subsidy, rural development, trade and livestock schemes including the Cattle Tracing System;
- provide efficient services that provide a high quality of customer service;
- develop leadership and learning so that the RPA continuously improves the competence and performance of its people;
- work closely and constructively with Defra and the Defra Network including providing accurate and timely delivery input to policy development;
- minimise the risk of EU penalties (disallowance) arising from RPA's management of agricultural subsidies; and
- increase operating efficiency by managing resources, using technology and sharing government service where appropriate.

Single Payment Scheme

The Single Payment Scheme (SPS) replaces 11 schemes previously administered by the Agency. In the past, payment under the Common Agricultural Policy was directly linked to the quantity of crops produced or number of animals kept. However payment under SPS depends on meeting environmental, public health, animal and plant health and animal welfare standards. This allows farmers to farm for the market rather than for the subsidy and rewards farmers for their stewardship of the land.

During 2006 we began to recover from the problems we experienced in the previous year in dealing with SPS 2005 claims. The Secretary of State announced that the RPA would, from the beginning of May, make partial payments to the majority of SPS 2005 applicants with claims above 1,000 euros. As a result we were able to pay £1.438 billion by 30 June 2006 (more than 90% of the amount due - the EU target was to pay 96.14% by 30 June). Almost all 2005 SPS claims have now been paid but RPA continues to review cases where adjustments to entitlement numbers and/or values may identify a further payment to be made by RPA or an overpayment to be repaid by a claimant.

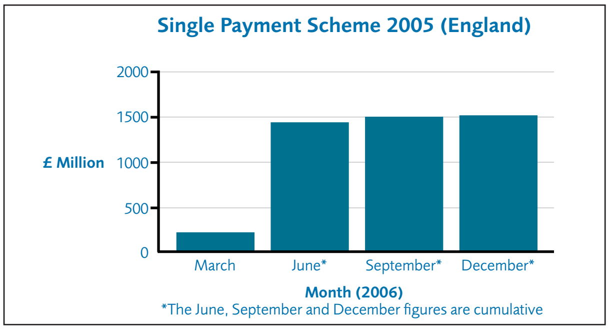

Figure 1: Payment of SPS 2005 claims in 2006

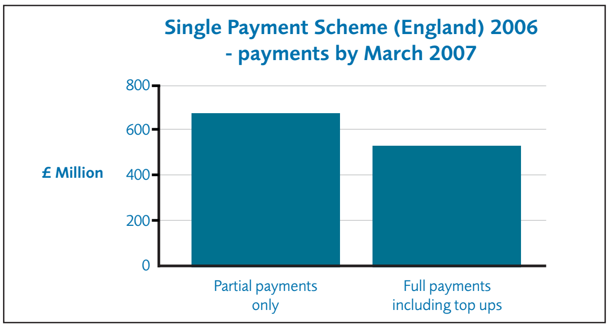

Figure 2: Progress on SPS 2006 claims

Recognising the problems that late payment causes for farmers, the Secretary of State also agreed to make interest payments on claims not paid in full by 30 June 2006. The RPA developed a system for making these payments and implemented it in the autumn. By the end of March 2007, the Agency had paid out £986,782 in interest payments in respect of late SPS 2005 payments.

The start of processing SPS 2006 claims was delayed because of the problems with the previous year. However, in November 2006 the majority of our processing capacity was transferred to processing SPS 2006 claims. Also in November 2006, the Secretary of State announced that, where payments had not been made in full by early 2007, the RPA would from mid-February onwards make partial payments of at least 50% on claims with a value of more than 1,000 euros.

By the end of March 2007, 70% of claim value had been paid including partial payments (with a target of paying 96.14% by 30 June 2007).

During the year we have:

- Begun the change over from task-based working to a case-working approach where one person or processing team is responsible for all tasks associated with a claim. It will take up to two years to implement this change fully.
- Improved our systems to provide better information to managers about the processing of SPS claims. Further improvements are planned for 2007–08.
- Planned for the 2007 SPS. Information from SPS 2006 claims has been extracted and carried over to the SPS 2007 forms sent to customers.

Reform of the EU's sugar support regime has made extra subsidies available to farmers. To avoid disrupting the main SPS processing, the RPA is paying the sugar element separately from the main SPS payments. By the end of March 2007, the processing of these extra payments was still at an early stage; by 31 March about £2.6m of an estimated £43m had been paid.

Since 2005-06 Defra has provided for possible late SPS payments and other flaws in implementing SPS - details are given in the Defra Resource accounts (see Note 30).

During the year the National Audit Office completed a value for money report on 'Delays in Administering the 2005 Single Payment Scheme in England' (HC 1631, 18 October 2006) which made recommendations to the RPA, Defra and the Office of Government Commerce. We are implementing the recommendations directed towards the RPA.

Other schemes

The Agency has continued to make payments and implement market management measures under a number of other CAP schemes. These include external trade measures (export refunds, import and export licences), milk quotas, Older Cattle Disposal Scheme (OCDS), production aid for the sugar and starch industry, and an array of internal market schemes covering dairy products, crops and fruit and vegetables.

The England Rural Development Programme (ERDP) aims to conserve and enhance the rural environment and create a productive and sustainable rural economy. The RPA is the Paying Agency for ERDP but the administration of claims was mostly carried out by other delivery bodies under delegation arrangements. (The one exception is the Hill Farm Allowance where RPA does process claims.) As from 1 April 2006 the budget for ERDP payments is held by Defra.

In March 2007, the Secretary of State announced funding of £3.9 billion for the Rural Development Programme for England for the years from 2007 to 2013. The programme will be funded partly by EAFRD and partly by the UK.

Defra announced that the Hill Farm Allowance will continue for a further three years, although from 2008 it will only support upland farms in the most disadvantaged areas. We have developed a new system for processing claims from 2007 onwards. However, information for the Hill Farm Allowance is still collected through the SPS forms. We began making payments for the 2007 Hill Farm Allowance scheme in March 2007.

Registers

The Customer Register is the single repository of our customer information. As a first stage in improving the quality of our data, the Agency carried out a check on the accuracy of the customer data and identified several ways of improving it, which we are implementing.

The Rural Land Register, developed by RPA, is essential to delivering the SPS and holds digital maps of registered land parcels. It is also used in the delivery of Environmental Stewardship Schemes and is made available to other Defra agencies for various control and analysis activities. The number of mapping changes required in the first year of SPS as farmers registered new parcels of land caused severe difficulties for RPA. The volume of requests for changes in the Register has very much reduced in the second year. The RPA is carrying out a pilot project on updating the Ordnance Survey information used as independent reference data in the Register. No decision to implement the 2006 Master Map will be taken until we are clear the implementation will be manageable and we are convinced the upgrade will improve the accuracy of the Register.

The British Cattle Movement Service (BCMS) continues to carry out cattle identification and movements tracing using the cattle tracing system in England, Wales and Scotland. Electronic reporting to the cattle tracing system has continued to increase. During March 2007 reporting of 70% of birth registrations and 70% of movement notifications was attained. Confidence in traceability was a major factor in achieving the lifting of the beef export ban and the resumption of live cattle exports. Over 100,000 animals have been exported since May 2006.

BCMS also supports the Animal Movements Licensing System database which underpins the tracking of sheep and goat movements by local authorities. We are assisting Defra and the Animal Health agency (formerly the State Veterinary Service) who are responsible for the development and introduction of a Livestock Register to replace both the cattle tracing and animal movements licensing system.

Inspections

The RPA Inspectorate plays an important part in ensuring that the benefits of CAP reform are delivered. The Inspectorate is responsible for undertaking compliance monitoring activity on behalf of RPA across all areas of its business. Over the year the Inspectorate successfully completed all the inspections required for SPS, Cross Compliance, Trader and ERDP schemes by the required deadlines, and it is also on track to complete all Cattle Identification inspections by the target date.

During the year, the Inspectorate also played a leading role in successfully developing and launching the new Sheep and Goats Identification regime which RPA administers on behalf of Defra.

The Horticultural Marketing Inspectorate merged with our inspections team on 1 April 2006. Through the use of a risk-based approach to enforcement visits they ensure that the fresh produce industry in England and Wales conforms to EC marketing standards. They continue to work with HM Revenue and Customs and other government departments and agencies involved in the regulation of international trade to reduce the administration burden on industry as part of the "International Trade Single Window" project. For instance, the paper licences/certificates previously required for imports are being replaced by an electronic checking and licensing system.

Business planning

As well as measures to recover from the immediate problems caused by SPS 2005, the Agency has been developing its strategies to deliver sustained improvements in our performance in the medium term. This will help us focus our resources on delivering our key objectives. During 2007–08 the RPA will publish a three-year strategy for the 2008–11 period.

Performance Against Targets

The RPA's operating business plan for 2006–07 includes 12 targets which the Secretary of State has set for the Agency. The targets have been audited by Defra internal audit with help from RPA internal audit.

	Target	Achievement
Customers	Provide decisions by 15 January 2007 on at least 95% of representations relating to SPS 2005 received by 30 September 2006 from claimants with claim value greater than €1,000, assuming a volume no greater than 5%.	Partly Met.*
	To have paid 96.14% of valid SPS 2006 claims by 30 June 2007.	Met.
	Process and pay at least 85% of valid claims, by volume, under Pillar 1 schemes other than SPS within ministerial guidelines and 99% within the set EU Commission deadlines or, in their absence, 60 days of the claim.	Met.
	Process and pay valid claims with a higher level of accuracy than that achieved for SPS 2005.	Unable to assess due to insufficient information.**
	Record 98% of valid and complete notifications of births, deaths and movements of cattle on CTS within 14 days of their receipt.	Met.
	Measure customer satisfaction on a rolling quarterly basis and act on the findings.	Met.
Finance	Operate within the financial resources made available by Defra (adjusted as appropriate during the year).	Met.
	Ensure that the risk of disallowance is appropriately factored into all relevant operational decisions. Any decisions taking the cumulative risk above 2% of the value of CAP payments made by the Agency and within the control of RPA to be escalated to the appropriate Defra-led body.	Met.
Business processes	Issue SPS 2007 claim forms, pre-populated in at least 80% of cases, to all known potential claimants by 15 April 2007.	Met.
	Complete the agreed inspection programme for CAP schemes in accordance with EU regulatory requirements, taking into account any approved derogations.	Met.
	Demonstrate effective joint working with Defra and the Defra family across all relevant interfaces, as measured by feedback from key partners.	Met.
People	Put in place suitable arrangements to train and develop RPA staff in order to maximize efficiency and deliver results.	Met.

* The proportion of representations in respect of claims greater than €1000 was lower than 5% and therefore the target is applicable. Actual performance was 92.57%. This falls within the 90-95% agreed definition of partially met.

** RPA put in place an error rate monitoring system for SPS in May 2007 but the results were not available for this assessment.

Public Interest

Stakeholder engagement

Throughout the year, RPA has been working with stakeholders, especially on improving the service that we provide to farmers claiming under the Single Payments Scheme. This has been reflected in the change to case working and improvements in the information we send to farmers on SPS. The RPA has met fortnightly with farmers' representatives.

RPA has contributed to Defra's Better Regulation Delivery Plan through simplification initiatives and risk-based enforcement. We are a key partner in the Whole Farm Approach (WFA) Programme.

Appeals

RPA administers an appeals process which allows customers to appeal against a decision we make under any of the schemes we run. This is a two stage process. Stage 1 is an internal review of the case by RPA's Customer Relations Unit. If customer's are dissatisfied with the outcome, they can take the case to Stage 2 where an independent panel reviews the case and makes recommendations to Ministers. Ministers take the final decision. Each panel hearing has three panel members who are paid £168 per hearing plus a preparation fee. During the year 31 panel hearings have been held.

Stage 1 Appeals	Number of appeals (withdrawn appeals)	Resolved	Successful	Partially Successful	Unsuccessful
SPS	608 (14)	443	148	6	275
IACS	14 (0)	3	1	0	2
Other Schemes	6 (0)	4	1	0	3

Stage 2 Appeals	Number of appeals (withdrawn appeals)	Resolved	Successful	Partially Successful	Unsuccessful
SPS	108 (7)	51	3	0	41
IACS	8 (0)	4	0	0	4
Other Schemes	2 (0)	1	0	0	1

Freedom of Information Act

The Freedom of Information Act came into force in January 2005. The RPA is committed to promoting, internally and externally, a culture of openness, transparency and customer focus to help ensure our information is readily available and easily accessible by everyone. Full details of how to access our information can be found on our website www.rpa.gov.uk. There are also details of our publication scheme as required by the Act. In 2006–07 we responded to 185 requests for information.

Environmental Policy

The RPA has established an Environmental Management System to manage our environmental impacts and give continuous improvement to our environmental performance. We have achieved BS EN 14001:2004 Certification for our Environmental Management System at all sites. We have also developed and published a Sustainable Development Action Plan.

Equal Opportunities and Diversity

The Equal Opportunities and Diversity Unit helped set up the Salary Sacrifice Scheme which allows staff to receive part of their salary in childcare vouchers. About 35 staff have taken advantage of the scheme.

RPA is proud to hold the 'Two Ticks Symbol – Positive About Disabled People' accreditation. This recognises employers who have agreed to take action on the employment, retention, training and career development of disabled employees. One commitment is that an employer will interview all applicants with a disability who meet the minimum criteria for a job vacancy and consider them on their abilities. RPA has worked closely with Defra on the Joint Race and Disability Equality Scheme which now incorporates gender equality and will shortly reflect forthcoming legislation on faith and sexual orientation.

Policy on payment of suppliers

In accordance with the Confederation of British Industry's (CBI) 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 conditions exist, within 30 days. During 2006–07, 85% of all invoices relating to Running Costs were paid within 30 days (2005–06: 83%).

Preparation of Annual Report and Accounts

The Annual Report and Accounts had 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.

Auditor

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

A notional cost of £400k (2005–06: £300k) was incurred for the audit of these RPA accounts.

The Comptroller and Auditor General is also the auditor for the EAGGF Guarantee accounts which had a financial year ending on 15 October. The costs incurred in relation to this audit amounts to £1,479k (2005–06: costs £1,166k). In addition he is also auditor of EAGF and EAFRD for the purposes of reporting to the Commission.

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

Management Structure

Directors

The current members of RPA's Management Board are:-

Tony Cooper	Interim Chief Executive from May 2006
Simon Vry	Chief Operating Officer
Robert Kendall	Finance Director from June 2007
Dave Halsey	E-Business Director from July 2006
Andrew Good	Human Resources Director from September 2006
Georges Selim	Professor of Internal Auditing, CASS Business School (non executive)
Karen Jordan	National Grid Gas Energy Transformation Manager (non executive)

The following were Directors during part of the period of this report:-

Mark Addison	Acting Chief Executive until May 2006
Alan McDermott	Information Services Director until July 2006
Alex Kerr	Deputy Chief Executive and Finance and Resources Director until September 2006
Michael Cooper	Finance and Corporate Services Director from September 2006 to June 2007

The following were members of the Board until July 2006 and continue to provide support to the Board:-

Ian Hewett	Operations Director
Martin Truran	Legal Services Director

RPA Audit Committee

Membership of the RPA Audit Committee for the reporting period was:

Georges Selim	Professor of Internal Auditing, Cass Business School (non executive)
Christine Tacon, CBE	General Manager, Farmcare, part of the Co-operative Group (non executive)
John Mills	Director of Rural Policy, Defra from September 2006 (independent)
Mark Addison	Acting RPA Chief Executive until May 2006
Tony Cooper	Interim Chief Executive from May 2006

Directors' interests

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

RPA Ownership Board/Strategic Advisory Board

For the first 7 months of this reporting period, the RPA Ownership Board provided a forum for the RPA management team to be advised and supported by Defra and others with a major interest in RPA. The Ownership Board met on a quarterly basis.

Membership of the Ownership Board for the reporting period was:

Andy Lebrecht	Director General – Sustainable farming and Food, Defra (Chairman)
Mark Addison	Acting Chief Executive until May 2006
Tony Cooper	Interim Chief Executive from May 2006
Mike Segal	Director – Farming for the future, Animal Welfare
Ian Grattidge	Finance Director, Defra
Georges Selim	Professor of Internal Auditing, Cass Business School (non executive)
Christine Tacon, CBE	General Manager, Farmcare, part of the Co-operative Group (non-executive)
Katie Davis	Head of e-Government, Cabinet Office (non executive)
Gordon Meek, OBE	Farmer representative (non executive)
Andrew Burchell	Director General – Service Transformation Group
Malcolm Hunt	Head of Portfolio – Delivery Assurance
Sue Armitage	Head of CAP Management Division, National Assembly for Wales Agricultural Department
George O'Doherty	Head of Grants and Subsidies, Department of Agriculture and Rural Development, Northern Ireland
Ian Stewart	Head of CAP Management Division, the Scottish Executive Environment and Rural Affairs Department

In November 2006, the RPA Ownership Board was restructured as the RPA Strategic Advisory Board. The Board advises Defra sponsor/owner of the RPA in his capacity as Corporate Owner. The Board will normally meet four times a year but members also advise the RPA and Defra on strategic aspects of the RPA's work where they have specific expertise to offer.

Members of the Strategic Advisory Board are:

Andy Lebrecht	Director General – Sustainable Farming and Food, Defra (Chairman and Corporate Owner)
Tony Cooper	RPA Interim Chief Executive
Andrew Burchell	Director General – Service Transformation Group
Ian Grattidge	Finance Director, Defra (until June 2007)
Mike Segal	Director – Farming for the future, Animal Welfare
Georges Selim	Chair of RPA Audit Committee and Non Executive Director of RPA Agency Management Board
Katie Davis	Non Executive Director – expertise in MIS and change
Philip Nunnerley	Non Executive Director – expertise in retail finance and change

Management Commentary

The Rural Payments Agency is a major delivery body for Defra, providing a range of services in support of the Department's objectives. The Agency's Strategic Objectives are listed within the Business Review section of this report (Page 6). RPA administers a wide range of Common Agricultural Policy (CAP) Schemes including the Single Payment Scheme, internal market schemes covering dairy products, crops, and fruit and vegetables, external trade measures (export refunds, import and export licences), milk quotas and the Older Cattle Disposal Scheme. RPA also holds responsibility for making payments under the England Rural Development Programme (ERDP) and its successor, with the budget and accountability for this expenditure in 2006–07 being held by Defra. The Agency is the operational delivery body for the Livestock ID Programme, our Customer Register and the Rural Land Register. RPA carries out inspections and compliance monitoring activity for schemes, as well as ensuring cattle identification inspections are completed in accordance with EU regulatory requirements.

At the end of the 2006–07 year, the Agency continued to be focused on delivery of the Single Payment Scheme. Going forward the Agency's priorities for 2007–08 are to:

- Improve SPS performance and stabilise the payment process;
- Improve Data Quality;
- Perform essential maintenance on other schemes; and
- Establish a business strategy for the 2008–11 period.

Further reform of the Common Agricultural Policy including the "health check" in 2008, policy reviews of livestock tracing and implementation of the new Rural Development Programme for England will all affect the development of the RPA. The additional £21.9m of Defra funding for 2007/08 includes £6m for mandatory changes. Internal Defra initiatives such as the Renew Defra programme and Government-wide initiatives including service transformation will have implications for the RPA. These will be considered in the 2008–11 strategy.

Further information on all aspects of the RPA's work as well as assessment of the agency's performance against its 2006–07 targets are in the Business Review section of the report.

Basis of funding and accounts

The UK Exchequer initially funds payments made by Rural Payments Agency. For the period from 1 April 2006 through to 15 October 2006 EAGGF reimbursed the element that was funded by the European Commission (EC). From 16 October 2006 funding from the EC has been provided through two streams - the European Agriculture Guarantee Fund (EAGF - formerly Pillar 1 of EAGGF) and European Agriculture Guarantee Funding for Rural Development (EAFRD - formerly Pillar 2 of EAGGF).

Financial results

Key financial results for 2006–07 are:

	2006–07 £ million	**£ million**	2005–06 £ million	£ million
Running Costs		**228**		239
Cost of CAP market support	**3,049**		3,340	
Less EC contributions and other receipts	**(2,943)**		(3,275)	
Net Scheme Costs		**106**		65
Net Operating Costs		**334**		304

Management Commentary

Change programme

The RPA Change Programme was officially established in April 2001 to deliver the new business and IT systems and processes required to achieve administration cost savings and improved service to customers. In 2003 the planned reforms to the Common Agricultural Policy (CAP) were integrated into the Change Programme. Investment costs increased over the life of the programme and the expected benefits have not materialised. The Change Programme was formally closed on 31 May 2006.

The Change Programme spent £6.7m in 2006–07 bringing the total spent so far to £241.9m.

RPA has been working together 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 re-negotiated in May 2004 and again in January 2006. In 2006–07 expenditure against the supplier amounted to £4.4m (£3.6m operating costs and £0.8m capital). The total spend with Accenture is £50.4m.

An Office for Government Commerce (OGC) Gateway 5 Post Programme Review of the Change Programme was undertaken in October 2006.

Programme and Projects Directorate

A Programme and Projects Directorate has now been established to manage and control projects. The Directorate will seek to standardise methods and apply a consistent approach to deliver successful projects and realise the intended benefits. A governance structure is in place to ensure that projects and investments are aligned to support Agency priorities.

Going Concern

The balance sheet at 31 March 2007 shows negative tax payers equity of £568 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 £26.1m (2005–06: £14.5m). Major additions comprised Information Technology hardware/software and transfer of software from Defra. Major disposals related to the sales of grain stores in Tangmere and Driffield.

Research and development

RPA has no research and development expenditure.

EAGGF accounts

RPA's annual EAGGF Accounts for the year ended 15 October 2006 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.

Signed

Tony Cooper
Interim Chief Executive

23 July 2007

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a system of internal control that supports the achievement of the Rural Payments Agency (RPA) policies, aims and objectives, set by Defra's Ministers, while safeguarding the public funds and departmental assets, for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

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. I am responsible for securing efficiency and the economical conduct of the business, and propriety and regularity in the use of the public funds.

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 2006. For the brief period before I joined I have relied on information from the Deputy Chief Executive, who was in post during that period and had been throughout the previous financial year.

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 31st March 2007 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk

Delays in meeting our objectives for making Single Payment Scheme (SPS) 2005 payments highlighted that improvements were needed in the capacity of the Agency to manage risks. Our internal audit work also identified that the handling of risks and process to escalate risks to senior management level are areas that we need to strengthen. I have introduced measures to assess our risk-handling capacity against Treasury guidance, change the RPA structure to streamline controls, and review the adequacy of governance.

Measures have also been taken to embed risk management throughout the Agency although I recognise there is more to do. The widespread use of project management processes within the RPA has increased the awareness of staff of risk management and helped to promote good practice. Guidance on risk management in general and the RPA's approach has been made available to all staff via a dedicated site on our Intranet. This site sets out the procedures through which risk management is integrated into the RPA's operating practices and business planning. These measures are directed towards ensuring a common understanding of the terminology used in relation to the management of risk as well as describing the procedures that have been put in place to manage risk within the Agency.

Governance

As indicated in the Statement on Internal Control in last year's accounts, the early stages of the Hunter Review identified ways in which the Agency could improve its processes, organisational design and handling of management information. In August 2006 I have established an Agency Management Board which supports me in my responsibilities for providing direction and governance of the Agency's activities and managing risk. The Board consists of the Chief Executive, the Chief Operating Officer, E-Business Director, HR Director, Finance Director and three non-Executive Directors. The Board's main functions include ensuring effective corporate governance arrangements and internal controls are in place and overseeing strategic Agency risks.

I have also put in place an Operations Management Team responsible for managing RPA's day-to-day business operations, project and programmes. It monitors and agrees actions relating to our performance targets; agrees mitigating actions relating to key risks and manages/controls the allocation of resources against Agency priorities.

RPA remains designated as the single Paying Agency for the European Agricultural Fund for Rural Development. RPA is working with its delegated agents (Natural England, the Regional Development Agencies and the Forestry Commission) to ensure that Paying Agency control requirements under EU legislation are met.

There have been governance changes this year concerning rural development schemes. In the past CAP funding came through a single stream, the European Agriculture Guidance and Guarantee Fund. This year a separate stream for rural development funding, the European Agriculture Fund for Rural Development (EAFRD) was introduced and the new Rural Development Regulation adopted. Within England, the Regional Development Agencies will be responsible for socio-economic projects under EAFRD, Natural England for agri-environment projects and the Forestry Commission for forestry ones. Defra holds the budget for EAFRD schemes and RPA no longer accounts for such payments.

Risk management: framework and control

As Accounting Officer, I have responsibility for reviewing the effectiveness of the systems for internal control for managing risk. The previous section outlined the changes that I have introduced to improve the RPA's capacity to manage risks. Our procedures are designed to ensure regular review of the risks which could undermine achievement of our objectives and to manage those risks to ensure that the residual risk is at an acceptable level. The Agency Management Board has responsibility for reviewing the strategic risks to the Agency's high level objectives and the processes by which the Agency manages risks.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of effectiveness is informed by the work of the internal auditors and is set out under "Assurance" in this statement. In 2006–07, 71 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 the external auditors' management letters and other reports. The Agency has also been advised on the control issues by the Audit Committee, whose role is set out in the Assurance section of this statement. Other significant control measures include project and programme boards which are overseen by the Operations Management Team and OGC review.

Assurance

The RPA Audit Committee meets quarterly and advises the Agency in respect of RPA's accounts, internal control systems and internal audit practices. The Audit Committee operates in accordance with Treasury guidance other than that I was a member of the Audit Committee until March 2007. I continue to attend Audit Committee meetings and am advised by them accordingly. The Finance Director and the Head of Internal Audit attend meetings, together with individuals from the National Audit Office and Defra Internal Audit. The RPA legal team has continued to ensure that the Agency receives the level of legal support and assurance it needs.

In addition, assurance on the system of internal control is provided by a review of Directors' assurance statements. 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.

Business planning and performance

The Secretary of State sets the RPA performance targets which are published in our Operating Business Plan. The RPA monitors progress against these targets using a balanced scorecard approach. The Agency Management Board has responsibility for reviewing progress against the targets.

During the current year I have introduced a new Business Strategy team to ensure we focus on our key priorities and the needs of our customers. A medium term strategy is being developed which will help to provide focus throughout the Agency on the need to improve performance on our key priorities and thereby assist the management of key agency risks.

Significant internal control problems

In last year's statement of internal control I reported on the problems of implementing SPS 2005 and associated governance and controls issues. I identified a number of continuing risks to the achievement of our corporate objectives. These included the impact of issues arising from the SPS 2005 scheme, in particular in relation to mapping and the Rural Land Register, the impact of reform of sugar subsidies, management, budget and training issues around the expansion of staff to cope with SPS and delays in checking land in relation to SPS 2005.

Last year's statement was preceded by an audit assessment for 2005–06 that overall control within the Agency remained satisfactory although with a qualification in relation to the new processes for SPS. The structural changes implemented following the SPS crisis have impacted on the entire internal control framework during the year while new governance, policies and procedures were being put in place. Internal audit reviews during the year have plotted the destabilising effect and recognise the extent to which new control systems are being implemented. In consequence, the audit opinion for the 2006–07 year is rated as 'weak'. In addition my Head of Internal Audit has appraised our forward plans and has given commentary on where further risk mitigation might be considered.

This statement outlines the measures I have taken to rebuild our governance capacity and to recover the Agency. The Annual Report reflects progress that has been made in terms of moving the Agency's operations towards a more stable basis, with the Agency meeting its target to pay 96.14% of SPS 2006 payments by 30 June 2007, SPS inspections completed on time, reduced volume of mapping changes and delivery of additional sugar support.

Defra has agreed to provide additional funding (£21.9m in 2007–08) for investment in IT and business support. A new Programme and Projects Director was appointed in March 2007 to drive improvements in the Agency's ability to forecast and monitor project expenditure. These strategic responses are expected to provide a good platform for dealing with SPS.

Progress is being made in improving the Agency's processes for handling SPS claims – including improved testing of payment processes - but we have not yet achieved stability in our IT systems or business processes. This represents a significant challenge for the Agency in managing these systems and ensuring that non-SPS systems are adequately maintained.

As a result of the SPS crisis during 2006, the Agency continues to have a substantial number of contractors and temporary staff which creates issues for the Agency in terms of staff knowledge, training and familiarity with Agency systems. Since December 2006 we have transferred about 700 staff from casual or agency status to fixed term appointments to help improve retention of staff. A broader human resources strategy is also being developed.

Defra and the Agency established a working group – chaired by Defra – to monitor and plan for the risk of disallowance, ie penalties applied by the European Commission as a result of failures to implement SPS and other schemes correctly or failure to make payments within the regulatory timescale.

I recognise that other areas need improvement, as reflected for example in various reviews and recommendations by Internal Audit. In particular, there is scope to develop improved risk management arrangements and I plan to take this forward in the coming year by ensuring that the Agency's recovery measures are regularly reviewed and adapted to meet risks.

Signed

Tony Cooper
Interim Chief Executive and Accounting Officer 23 July 2007

Remuneration Report

Remuneration Committee

The Defra Remuneration Committee provides group guidance and policy with regards 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 which 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 an individual's achievements. A member's consolidated pay award depends upon their position within the pay range, and their level of performance.

RPA Agency Management Board

The RPA Management Board is accountable for the overall performance of the Agency and specifically its strategic direction in line with Defra's strategic positioning.

Members of the Agency Management Board include Tony Cooper (Interim Chief Executive – Chair), Andrew Good (HR Director), David Halsey (E-Business Director), Michael Cooper (Finance and Corporate Services Director), Simon Vry (Chief Operating Officer), Georges Selim (Non Executive Director) and Karen Jordan (Non Executive Director).

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioner's 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 which 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.

Alan McDermott (Information Services Director) was appointed in August 2001 on a six month recurring contract under a fee paid appointment. Fee paid appointments are not pensionable under the Principal Civil Service Scheme. Alan McDermott left RPA on 7 July 2006.

Andrew Good (HR Director) has been appointed on a temporary basis, under an 18 month contract through a Third Party Recruitment Agency, Michael Page Limited.

Salary, Pension and non-cash benefits (audited information)

Salary and non cash benefits	2006–07		2005–06	
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 (until 31 May 2006)	35-40	0	0-5	0
Tony Cooper Interim Chief Executive (from 15 May 2006)	90-95	0	0	0
Alex Kerr Deputy Chief Executive and Finance and Resources Director (until Sept 2006)	55-60	1,900	95-100	2,000
Simon Vry Chief Operating Officer	95-100	9,100	80-85	0
Michael Cooper Finance and Corporate Services Director (from Sept 2006)	35-40	0	0	0
David Halsey E-Business Director (from July 2006)	80-85	0	0	0
Alan McDermott Information Sevices Director (until July 2006)	95-100	0	225-230	0
Andrew Good * HR Director (from Sept 2006)	115-120	0	0	0
Ian Hewett Operations Director (Member of RPA Executive Board until July 2006)	25-30	4,300	55-60	17,100
Martin Truran Legal Services Director (Member of RPA Executive Board until July 2006)	20-25	0	50-55	0
Georges Selim Non Executive Director (from Aug 2006)	10-15	0	0	0
Karen Jordan Non Executive Director (from Aug 2006)	0	0	0	0
Johnston McNeill ** Former Chief Executive (until 15 March 2006)	0	0	140-145	1,500

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

Comparative salary information for Tony Cooper, Dave Halsey, Michael Cooper and Andrew Good have not been disclosed for 2005–06 as they did not hold their postions at that time.

Alex Kerr moved to CEFAS in September 2006 and salary and allowances paid reflected in the table above relate to the six month period April to September 06. Ian Hewett and Martin Truran's costs are only disclosed for the period to July 2006 when they were members of the Executive Board.

Mark Addison was on loan to RPA from Defra for the first two months of 2006–07. Karen Jordan is paid by the Cabinet office for her role as Non Executive Director of the RPA.

* See Third Party payments (overleaf).

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

Third Party payments

Andrew Good (HR Director) has been employed on an 18 month temporary basis through a Recruitment Agency, Michael Page Limited. The cost to the agency to the end of March 07 for services provided by Andrew Good amounted to £116,418.

Pension Benefits (audited information)

Name and Title	Real increase during the reporting year in pension and related lump sum at age 60	Total value of accrued pension at age 60 at 31 March 2007 and related lump sum	Cash Equivalent Transfer Value at 31 March 2006	Cash Equivalent Transfer Value at 31 March 2007	Real Increase in Cash Equivalent Transfer Value at 31 March 2007
	£000	£000	£000	£000	£000
Mark Addison Acting Chief Executive (until 31 May 2006)	0	0	0	0	0
Tony Cooper Chief Executive (from 15 May 2006)	5-7.5 plus 15-20 lump sum	45-50 plus 140-145 lump sum	736	920	102
Alex Kerr * Deputy Chief Executive and Finance and Resources Director (until Sept 2006)	-2.5-0 plus -2.5 -0 lump sum	25-30 plus 85-90 lump sum	521	532	0
Simon Vry Chief Operating Officer	0-2.5 plus 0-2.5 lump sum	5-10 plus 0-5 lump sum	66	88	17
Michael Cooper Finance and Corporate Services Director (from Sept 2006)	0-2.5 plus 0-2.5 lump sum	10-15 plus 35-40 lump sum	162	171	6
David Halsey E-Business Director (from July 2006)	0-2.5 plus 0-2.5 lump sum	0-5 plus 0-5 lump sum	0	23	19
Alan McDermott Information Sevices Director (until July 2006)	0	0	0	0	0
Andrew Good HR Director (from Sept 2006)	0	0	0	0	0
Ian Hewett ** Operations Director (Member of PRA Executive Board until July 2006)	0-2.5 plus 0-2.5 lump sum	15-20 plus 55-60 lump sum	290	308	3
Martin Truran ** Legal Director (Member of PRA Executive Board until July 2006)	0-2.5 plus 0-2.5 lump sum	15-20 plus 45-50 lump sum	273	250	9
Georges Selim Non Executive Director (from Aug 2006)	0	0	0	0	0
Karen Jordan Non Executive Director (from Aug 2006)	0	0	0	0	0

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 2006–07 this percentage was 7.6%. (2005–06 6.2%). 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 15% of pensionable salary. All bonuses are paid in arrears in the financial year after that in which they were earned.

* Pension benefits for Alex Kerr calculated as at 30 September 2006.

** Pension benefits for Ian Hewett and Martin Truran calculated as at 31 July 2006.

Johnston McNeill's Cash Equivalent Transfer Value of Pension benefits at 31 March 2006 amounted to £351k.

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 Retail Price 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 the 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 Cash Equivalent Transfer Value (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 CS 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. CETVs 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 figures for 31 March 2006 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2007.

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.

Signed

Tony Cooper
Interim Chief Executive and Accounting Officer 23 July 2007

Statement of Accounting Officer 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 the 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 Interim 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 Financial Reporting Manual (FReM) and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts RPA and the Interim Chief Executive are required to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the 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 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 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Total Recognised Gains and Losses, the Balance Sheet, Cash Flow Statement and related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, Accounting Officer and auditor

The Agency and Interim Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration 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 and the part of the remuneration report to be audited 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 report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Business Review, Public Interest, Management Structure and Management Commentary, is consistent with the financial statements. 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.

In addition, I report to you 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers 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. I consider the implications for my certificate 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 Interim 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

Audit Opinion

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 2007, and of the net operating cost, recognised gains and losses and cash flows 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
- information given within the Annual Report, which comprises the Business Review, Public Interest, Management Structure and Management Commentary, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, 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.

Report

My observations on the financial statements follow on page 29.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

23 July 2007

The Report of the Comptroller and Auditor General

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

1. During 2006–07, the Rural Payments Agency experienced considerable problems in completing payments to discharge the £1.4 billion liability in respect of unpaid 2005 Single Payment Scheme claims accrued for at 31 March 2006. The results of my separate examination, carried out under section 6 of the National Audit Act 1983 and presented to Parliament under section 9 of that Act, were published as HC 1631/2005-06, *The Delays in Administering the 2005 Single Payment Scheme in England*, on 18 October 2006.

2. The Agency has continued to experience problems in achieving timely payment of claims relating to the 2006 Single Payment Scheme, although I note it has been able to make the necessary level of payments by the European Commission (EC) deadline of 30 June 2007. I will report in due course (under section 6 of the National Audit Act 1983) on the completion of the arrangements for the 2005 Scheme and the administration of the 2006 Scheme.

Disallowance and non-reimbursement of late payments

3. As the Agency's accounting policy indicates, the risks of disallowance (where the Commission takes the view that the European Regulations have not been applied correctly in processing European Union (EU) Scheme transactions) and of non-reimbursement of late payments are provided for in the accounts of the parent department, Defra.

4. With regard to late payments, the EC Regulation concerning the arrangements for funding the Single Payment Scheme stipulates that EC reimbursement shall be reduced on a sliding scale for payments made after the payment deadline set out in the Scheme Regulation. The Rural Payments Agency was unable to make all the 2005 Scheme payments by the EC deadline of 30 June 2006, due to the problems arising with the Scheme referred to in my 2006 Report. Between July 2006 and June 2007, non-reimbursable late payments of some £63 million in relation to SPS 2005 had been made, and appropriate adjustments have therefore been reflected in the 2006–07 accounts for the amounts that are not recoverable from the EC. The Agency acknowledges that some further £7 million of payments have still to be made for the 2005 Scheme, but this total is not yet certain pending the final assessment of amounts for some claimants.

5. This non-reimbursement results in losses to Exchequer funds because Single Payment Scheme transactions that could have been eligible to be funded by EU monies have in effect been funded by Parliamentary Supply. As shown in Note 30, these amounts have been funded in 2006–07 by Defra. In addition, as and when the residual further payments for the 2005 Scheme are confirmed, they will also have to be met from UK Exchequer funds.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

23 July 2007

Operating Cost Statement for the year ended 31 March 2007

	Note	2006–07		2005–06
		£000	**£000**	£000
Programme Costs				
Running Costs				
Staff costs	2	**112,353**		109,255
Other running costs	3	**117,460**		130,764
Gross Running Costs		**229,813**		240,019
Income	11	**(1,476)**		(810)
Net Running Costs			**228,337**	239,209
Scheme Costs				
RPA				
Costs	4	**1,997,757**		2,279,155
Less Income *	11	**(1,899,176)**		(2,196,986)
			98,581	82,169
Other Departments				
Costs	10	**1,051,530**		1,060,839
Less Income *	10	**(1,047,532)**		(1,052,004)
			3,998	8,835
Other income	11		**2,768**	(25,773)
Net Scheme Costs			**105,347**	65,231
Net Operating Cost			**333,684**	304,440
Net Resource Outturn *			**2,319,056**	2,702,058

All income and expenditure is derived from continuing operations.

Comparatives have been restated to reflect the merger of the Horticultural Marketing Inspectorate, and the transfer to Defra of the English Rural Development Programme, Structural funds and Transmissible Spongiform Encephalopathies (TSE) as reflected in Notes 31 and 32.

* The Net Resource Outturn reflects the position that all of RPA's EU income is paid over to the Treasury after being initially received by RPA. The total scheme income included England SPS income of £1,658.2m.

Reconciliation of Net Resource Outturn to Net Operating Cost

	2006–07	2005–06 Restated
	£000	£000
Net Resource Outturn	**2,319,056**	2,702,058
Non-supply income (CFERs)	**(1,985,372)**	(2,397,618)
Net Operating Cost	**333,684**	304,440

The notes on pages 34 to 66 form part of these accounts.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2007

	2006–07	2005–06 Restated
	£000	£000
Net Operating Cost	**(333,684)**	(304,440)
Net gain/(loss) on revaluation of tangible fixed assets	**521**	(1,430)
Total recognised losses for the financial year	**(333,163)**	(305,870)

The notes on pages 34 to 66 form part of these accounts.

Balance Sheet as at 31 March 2007

Fixed Assets	Note	2006–07		2005–06 Restated	
		£000	**£000**	£000	£000
Tangible Assets	13a	**65,553**		58,821	
Intangible Assets	13b	**3,933**		5,090	
			69,486		63,911
Debtors due after more than one year	15		**0**		434,451
Current Assets					
Stocks	14	**11**		1,836	
Debtors	15	**2,107,786**		1,999,148	
Cash at bank and in hand	16	**128,521**		1,698,510	
		2,236,318		3,699,494	
Creditors (due within one year)	17	**(2,844,702)**		(4,281,312)	
Net current liabilities			**(608,384)**		(581,818)
Total assets less current liabilities			**(538,898)**		(83,456)
Provisions for liabilities and charges	19		**(29,457)**		(42,015)
			(568,355)		(125,471)
Taxpayers' Equity					
General fund	21		**(571,164)**		(128,480)
Revaluation reserve	21		**2,809**		3,009
			(568,355)		(125,471)

Comparatives have been restated to reflect the merger of the Horticultural Marketing Inspectorate, and the transfer to Defra of the English Rural Development Programme, Structural Funds and Transmissible Spongiform Encephalopathies (TSE) as reflected in Notes 31 and 32.

The notes on pages 34 to 66 form part of these accounts.

Signed

Tony Cooper
Interim Chief Executive and Accounting Officer

23 July 2007

Cash Flow Statement for the year ended 31 March 2007

	Note	**2006–07**	2005–06 Restated
		£000	£000
Net cash outflow from operating activities	22a	**(794,122)**	(628,083)
Capital expenditure and financial investment	22b	**(10,699)**	(7,643)
Payments to the Consolidated Fund	21/22a	**(2,453,531)**	(66,923)
Financing	22c	**1,688,363**	2,269,880
(Decrease) / increase in cash in the period	16	**(1,569,989)**	1,567,231

Comparatives have been restated to reflect the merger of the Horticultural Marketing Inspectorate, and the transfer to Defra of the English Rural Development Programme, Structural Funds and Transmissible Spongiform Encephalopathies (TSE) as reflected in Notes 31 and 32.

The notes on pages 34 to 66 form part of these accounts.

Notes to the Resource Accounts

1. Statement of accounting policies

The financial statements have been prepared in compliance with the 2006–07 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury in accordance with Section 7 (2) of the Government Resources and Accounts Act 2000. The accounting policies contained in the FReM 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 which has been judged to be most appropriate to the particular circumstances of the RPA for the purpose of giving a true and fair view has been selected. They 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 Meat and Bone Meal (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 are charged directly to the Operating Cost Statement. At 31 March 2007 the capitalisation threshold at RPA has been set at £2,000, consistent with Defra.

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 treated as capital expenditure (but not depreciated) until the software is fully developed and brought into use. CIP is not revalued.

1.3.1 Depreciation

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 to licences and packages 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 .The 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 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 the activities of RPA relate to scheme administration. Therefore all costs are classified as Programme costs.

Scheme costs are described in Notes 4 to 8 and 10. These include expenditure by RPA and other Paying Agencies of grants and subsidies directly to claimants, operating costs of the Older Cattle Disposal Scheme (OCDS), Over Thirty Months Scheme (OTMS) and Intervention.

1.8 RPA scheme income and expenditure

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.

Until 31 March 2006, RPA accrued for liabilities arising from clearance decisions covered by formal proposals for disallowance under Article 8.1 of Commission Regulation (EC) No 1663/1995, and for late payments in accordance with the formulae in Commission Regulation (EC) No 296/1996.

Since 31 March 2006, any provisions or acknowledgement of contingent liabilities that relate to the risk of disallowances or late payments are reported in Defra's Resource Account.

All the RPA's scheme expenditure is pre-funded by the UK Exchequer. Subsequent receipts reclaimed from the EU budget (subject to retentions for National Modulation – see 1.10) are surrendered to the Treasury as 'Consolidated Fund Extra Receipts' when received. The financial impact of late payments and agreed disallowances is to reduce the level of funding received by the Agency. To the extent that EU income is not fully matched by subsequent receipts, due to the impact of late payments and agreed disallowances, there is a funding shortfall in relation to the liability to surrender funds to the Treasury. This shortfall is funded by Defra taking into account any related provision for disallowance.

1.9 Other Paying Agencies' income and costs

Other UK Paying Agencies made payments to claimants under EAGGF up to 15 October 2006, then under EAGF or EAFRD from 16 October 2006. As these payments are made they are funded by the RPA and subsequently recovered from the EC.

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 SPS 2005 and SPS 2006 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. 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 the EAGGF.

The National Modulation is managed on Defra's behalf with the cash retained in the RPA bank account and reported as a third party asset. The funds are accounted for as deferred income to fund future Rural Development expenditure in Defra's account.

From SPS 2007 onwards payments will be reclaimed net of all modulation with National Modulation funds generated by the UK reclaimed from the EC when the Rural Development expenditure is incurred.

Compulsory 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. However, the EC has committed at least 80% of these funds to be available to cover Rural Development expenditure in the UK (see Note 33). Compulsory Modulation will be reclaimed from the EC when the Rural Development expenditure is incurred.

Within these accounts SPS is reported net of Compulsory Modulation and SPS 2007 National Modulation.

From 16 October 2006, EAGGF has been split into two separate funds, namely EAGF to cover Pillar 1 expenditure and EAFRD to cover Rural Development expenditure. Separate claims will be made to the two funds with modulation reclaimed from EAFRD.

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. As from 1 April 2006 ERDP funding is managed by RPA on behalf of Defra.

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% (2005–06: 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, which 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 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 (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 Provisions

The 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.

1.17 Contingent assets and liabilities

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

1.18 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 giving a leaving date and severance terms.

1.19 Change in Policy

1.19.1 Accounting for ERDP, Structural Funds and TSE

As from 1 April 2006 the budgets for ERDP, Structural Funds and TSE are administered by core Defra. As a consequence the outturn for these programmes/schemes for 2006–07 is reported as part of core Defra accounts. A Prior Year Adjustment has been made to transfer the 2005-06 outturn from RPA to core Defra. The transfer has been effected as a movement through the General Fund (Note 21) and transactions for 2006–07 and the 2005–06 comparative for ERDP and Structural Funds are detailed in Note 32.

1.19.2 Accounting for SPS and the reporting of modulation income

Compulsory modulation and, from SPS 2007 onwards, voluntary modulation deductions are retained as a European fund to be claimed from EAFRD when rural development expenditure is incurred. SPS income and expenditure is therefore reported net of all compulsory and SPS 2007 voluntary modulation in these accounts. The adjustment from the gross position and the restatement of 2005-06 is detailed in Note 33.

As voluntary modulation for SPS 2006 is reclaimed from EAGF and held as a national fund SPS outturn is reported gross of this amount. This reimbursement is treated as deferred income for recognition when rural development expenditure is incurred. This deferred income has been transferred to core Defra under the revision to ERDP accounting.

1.20 Merger of Function

Comparatives have also been adjusted to reflect the merger of the Horticultural Marketing Inspections Unit from 1 April 2006. Details are at Note 31.

2. Staff numbers and costs

2.1 Staff costs consist of :

	2006–07				2005–06
	£000				£000
Officials	**Total**	**Permanently employed staff**	**Casual staff**	**Agency staff**	Restated Total
Wages and salaries	**71,612**	**64,509**	**7,103**	**0**	70,836
Social security costs	**5,496**	**4,888**	**608**	**0**	5,461
Other pension costs	**10,985**	**10,928**	**57**	**0**	10,144
Early retirement and early severance release	**(74)**	**(74)**	**0**	**0**	1,729
	88,019	**80,251**	**7,768**	**0**	88,170
Agency Staff	**24,334**	**0**	**0**	**24,334**	21,085
	112,353	**80,251**	**7,768**	**24,334**	109,255

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 2006–07 employer's contributions of almost £11.0m (2005–06: £10.1m) were payable to the Principal Civil Service Pension Scheme (PCSPS) at one of four rates in the range 17.10% to 25.50% of pensionable pay, based on salary bands (the rates in 2005–06 were between 16.2% and 24.6%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of benefits accruing during 2006–07 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's contributions of £90k were paid to one or more of a panel of four appointed stakeholder pension providers. Employer's contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer's contributions of £5k (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 (2005–06: £ nil). There were no prepaid contributions at that date.

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

No staff costs have been capitalised.

Comparatives for 2005–06 have been restated to include costs associated with the Horticultural Marketing Inspectorate, which merged with RPA on 1 April 2006. Merger accounting principles have been applied.

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

	2006–07				2005–06
Officials	**Total**	**Permanently employed staff**	**Short term contract staff**	**Consultants, Contractors and Agency staff**	Restated Total
Directly Employed	**3,087**	**2,666**	**421**	**0**	3,179
Consultants, Contractors and Agency Staff	**1,380**	**0**	**0**	**1,380**	1,413
	4,467	**2,666**	**421**	**1,380**	4,592

Consultants and contractors costs are reflected in Note 3.

Staff numbers for 2005–06 have been restated and include staff associated with the Horticultural Marketing Inspectorate, which merged with RPA on 1 April 2006.

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 1/10/02)	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 1/10/02 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 pension entitlement 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 the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times 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 1/10/02)	3.5% of pensionable earnings	This is essentially a variation of Premium but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

Table 2

Pension Arrangement	Employee contribution	Employee Benefits
Partnership	Optional. If the 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 per cent and 12.5 per cent (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 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent 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 per cent of the fund as a lump sum.

3. Other running costs

	Note	2006–07		2005–06 Restated
		£000	£000	£000
Rentals under operating leases				
Rent on buildings			**5,357**	5,318
Non cash items (including notional charges)				
Audit fee (notional)	28	**400**		300
Defra capital charges – buildings (notional)	28	**781**		845
Defra central overhead charges (notional)	28	**769**		846
Gain on disposal of fixed assets	28/31	**(3,666)**		(4,196)
Depreciation and impairment *	28	**18,556**		15,792
Cost of capital charge (notional)	28	**381**		767
			17,221	14,354
Other Expenditure				
Accommodation		**6,126**		6,499
IT costs		**35,303**		44,724
Running costs		**2,235**		2,552
Non payroll staff costs		**4,707**		4,621
Consultancy and contract staff costs		**27,865**		29,518
Communications costs		**8,739**		7,754
Agents fees		**6,979**		13,279
Miscellaneous scheme costs		**2,928**		2,145
			94,882	111,092
			117,460	130,764

* Depreciation and impairment of £18.556m consists of depreciation of £18.505m and impairment of £51k.

Comparatives for 2005/06 have been restated to include costs associated with the Horticultural Marketing Inspectorate, which merged with RPA on 1 April 2006.

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

	2006–07	2005–06
	£000	£000
Payroll costs	**462**	428
Other costs	**26**	25
EAGGF audit fee	**1,479**	1,166
	1,967	1,619

4. Schemes administered by RPA

RPA is responsible for the administration of the following expenditure streams:

- Single Payment Scheme (SPS) and farm based Schemes in England. Trader based schemes both internal market and external trade, Milk Quotas, the Over Thirty Month Slaughter Scheme, and Older Cattle Disposal Scheme, throughout the UK and the Slaughter Premium Scheme in Wales.
- Intervention buying and selling in the UK.
- Funding CAP schemes administered by all the UK paying agencies.
- Receipt and administration of monies received from EAGGF to 15 October 2006 and EAGF from 16 October 2006 for the UK.

	Note	2006–07	2005–06 Restated
		£000	£000
Single Payment Scheme	5a	**1,658,174**	1,608,974
Pillar 1 (excluding SPS)	5a	**451**	71,713
BSE related	5b	**86,647**	248,566
Trader based - Internal Market	6	**43,013**	106,486
Trader based - External Trade	7	**177,382**	207,178
Intervention buying and selling	8	**8,121**	20,605
School Milk		**6,551**	7,946
Milk Supplementary levy		**0**	2,585
Livestock Welfare Disposal Scheme (LWDS)		**0**	346
Nitrate Vulnerable Zones		**0**	368
Scheme related losses	29	**3,019**	728
Special payments	29	**0**	20
20% retention of irregularities *	5a	**(541)**	(900)
Other scheme costs		**14**	50
		1,982,831	2,274,665
Charge to bad debts provision		**2,328**	824
Cost of capital charge	28	**12,598**	3,666
		1,997,757	2,279,155

Comparatives have been restated to reflect the transfer to Defra of the England Rural Development Programme, Structural Funds and Transmissible Spongiform Encephalopathies (TSE) as reflected in Notes 31 and 32.

* Under current EC guidance, the Agency is permitted to retain 20% of penalties it is charged for non-compliance with regulations by claimants.

5. Farm based schemes

5a Pillar 1

	Note	2006–07			2005–06		
		Expenditure	**Income**	**Net**	Expenditure Restated	Income Restated	Net Restated
		£000	**£000**	**£000**	£000	£000	£000
Pillar 1*							
Single Payment Scheme		1,658,174	(1,658,174)	**0**	1,608,974	(1,608,974)	0
Beef Special Premium		0	0	**0**	(6,679)	6,679	0
Extensification Payment		0	0	**0**	17,003	(17,003)	0
Suckler Cow Premium		0	0	**0**	61,282	(61,282)	0
		1,658,174	**(1,658,174)**	**0**	1,680,580	(1,680,580)	0
EAGGF financial correction	17	451	0	**451**	107	0	107
Other schemes		(541)	5,289	**4,748**	(900)	861	(39)
Total Scheme Expenditure		**1,658,084**	**(1,652,885)**	**5,199**	1,679,787	(1,679,719)	68

* 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).

5b BSE Related

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	**2006–07**			2005–06		
		Expenditure	**Income**	**Net**	Expenditure	Income	Net
		£000	**£000**	**£000**	£000	£000	£000
Older Cattle Disposal Scheme (OCDS)							
Premium Payments		37,806	(12,571)	**25,235**	5,807	(1,294)	4,513
Costs of operations							
Slaughter		12,953	0	**12,953**	1,367	0	1,367
Transport		3,591	0	**3,591**	390	0	390
Rendering		11,217	0	**11,217**	1,975	0	1,975
Incineration		1,181	0	**1,181**	1,315	0	1,315
Storage		296	0	**296**	10,520	0	10,520
Over Thirty Month Slaughter (OTMS)							
Premium Payments		214	(494)	**(280)**	154,840	(188,625)	(33,785)
Costs of operations							
Slaughter		(130)	0	**(130)**	17,272	0	17,272
Transport		217	(4)	**213**	7,505	(16)	7,489
Rendering		142	0	**142**	21,883	0	21,883
Incineration		500	0	**500**	15,144	(45)	15,099
Storage		18,660	0	**18,660**	10,548	0	10,548
Tallow sales		0	0	**0**	0	(3,736)	(3,736)
EAGGF financial correction	17	0	0	**0**	0	0	0
Total Scheme Expenditure		**86,647**	**(13,069)**	**73,578**	248,566	(193,716)	54,850

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 meat and bone meal (MBM) and tallow produced from the rendering process.

At the Balance Sheet date there are no animals for which RPA is yet to raise a claim on EAGF for those slaughtered under the OTMS.

OTMS was replaced by the Older Cattle Disposal Scheme (OCDS) from 23 January 2006 following changes to the OTM 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.

Meat and Bone Meal (MBM) Stocks

At 31 March 2007 there were 22,558 tonnes (2005-06: 70,565 tonnes) of OTMS MBM and 0.0 tonnes (2005/06: 184 tonnes) of OCDS MBM in store.

The Waste Incineration Directive 76/2000/EC

This Directive requires additional safety requirements during the incineration of tallow. Therefore, the incineration of tallow has temporarily stopped until the renderers of tallow have complied with the Act's requirements. Therefore, stock is increasing slowly until such time as the necessary work has been completed.

Tallow stocks

Tallow continues to be produced at a number of rendering plants throughout the UK. At 31 March 2007 11,946 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	**2006–07**			2005–06		
		Expenditure	**Income**	**Net**	Expenditure	Income	Net
		£000	**£000**	**£000**	£000	£000	£000
Horticulture		16,076	(16,308)	**(232)**	25,373	(25,379)	(6)
Milk & Milk Products		9,600	(9,655)	**(55)**	19,426	(19,067)	359
Protein & Textile plants		914	(863)	**51**	1,166	(1,166)	0
School Milk		364	(381)	**(17)**	395	(374)	21
Seeds		(8)	8	**0**	893	(892)	1
Sugar and Isoglucose		13,126	(13,058)	**68**	37,931	(37,931)	0
Other		2,940	954	**3,894**	2,802	(2,649)	153
		43,012	**(39,303)**	**3,709**	87,986	(87,458)	528
EAGGF financial correction	17	1	0	**1**	18,500	0	18,500
Total Scheme Expenditure		**43,013**	**(39,303)**	**3,710**	106,486	(87,458)	19,028

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7. Trader based - External Trade

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

	Note	**2006–07**			2005–06		
		Expenditure	**Income**	**Net**	Expenditure	Income	Net
		£000	**£000**	**£000**	£000	£000	£000
Milk & Milk Product		23,773	(23,953)	**(180)**	37,625	(37,276)	349
Processed Goods		12,847	(12,948)	**(101)**	16,721	(16,642)	79
Sugar and Isoglucose		139,200	(139,214)	**(14)**	153,148	(153,150)	(2)
Other		1,562	(1,628)	**(66)**	2,350	(2,324)	26
EAGGF financial correction	17	0	0	**0**	(2,666)	0	(2,666)
Total Scheme Expenditure		**177,382**	**(177,743)**	**(361)**	207,178	(209,392)	(2,214)

2005–06 EAGGF Financial Correction Costs of (£2.666m) arise from an over - accrual in 2004–05.

8. Intervention Buying and Selling

	Note	**2006–07**		2005–06
		£000	**£000**	£000
Cost of Intervention sales		**7,770**		19,784
Stock movement		**61**		255
			7,831	20,039
Fixed asset depreciation	28		**95**	212
Intervention operating costs			**195**	366
Sub total			**8,121**	20,617
Other costs				
Net Profits surrenderable			**0**	0
Other			**0**	(12)
Total costs			**8,121**	20,605
Intervention Income	11		**(9,741)**	(18,443)
Total Intervention buying and selling			**(1,620)**	2,162

In the note above, Fixed Asset depreciation is reported as £0.095m. This is made up of £0.077m depreciation relating to Freehold Land and Buildings and £0.018m (within a total of £0.032m) relating to Vehicles, Plant and Machinery (Note 13a).

9. Modulation

Modulation is applied as a deduction from the budget available for farm - based schemes under EAGF (formerly Pillar 1 of EAGGF) which is then added to the budget for Rural Development schemes under EAFRD (formerly Pillar 2 of EAGGF).

It is applied on two bases, EU Compulsory modulation and National Voluntary modulation:

EU Modulation

EU (or Compulsory) modulation is governed by Council Regulation (EC) No.1782/2003. 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 refunding this element of the modulation. The UK will make a claim on the EAFRD fund in respect of compulsory modulation deductions and will receive a minimum of 80% of the funds guaranteed for redistribution.

EU modulation rates up to 2012 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 (ie, Single Payment, 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 overall UK ceiling of €17.7m for SPS 2005, €23.6m for SPS 2006 and €29.5m for SPS 2007 to 2012.

National Modulation

National (or Voluntary) modulation is governed by Council Regulations (EC) No. 1782/2003, 1655/2004 and 378/2007. 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	2007	2008	2009–2012
Modulation Deduction Percentage	2%	6%	12%	13%	14%

The value of claims paid to farmers plus the voluntary modulation deductions for SPS 2005 and SPS 2006 are claimed from EAGF. SPS 2007 payments will be reclaimed net of all modulation and a separate claim will be made to EAFRD when the Rural Development expenditure is incurred.

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	**2006–07**			2005–06		
		Expenditure	**Income**	**Net**	Expenditure	Income	Net
		£000	**£000**	**£000**	£000	£000	£000
SEERAD		518,834	(518,868)	**(34)**	507,897	(507,893)	4
NAWAD		238,265	(238,265)	**0**	257,153	(256,538)	615
DARDNI		276,781	(276,833)	**(52)**	275,940	(275,979)	(39)
FC		10,845	(10,843)	**2**	9,707	(9,707)	0
CCW		2,728	(2,723)	**5**	1,887	(1,887)	0
		1,047,453	**(1,047,532)**	**(79)**	1,052,584	(1,052,004)	580
EAGGF financial correction	17	(1,088)	0	**(1,088)**	3,434	0	3,434
Cost of capital charge	28	5,165	0	**5,165**	4,821	0	4,821
		1,051,530	**(1,047,532)**	**3,998**	1,060,839	(1,052,004)	8,835

SEERAD - Scottish Executive, Environment & Rural Affairs Department
NAWAD - National Assembly of Wales Agricultural Department
DARDNI - Department of Agriculture and Rural Development, Northern Ireland
FC - Forestry Commission
CCW - Countryside Council for Wales

Forestry Commission and Countryside Council for Wales were no longer paying agencies after 16 October 2006.

11. Operating Income

Operating income analysed by classification and activity is as follows:

	Note	**2006–07**	2005–06 Restated
		£000	£000
Running costs Income		**1,476**	810
Scheme Income			
CAP - RPA schemes			
Pillar 1 and England Rural Development Programme	5a	**1,652,885**	1,679,719
BSE related	5b	**13,069**	193,716
Trader based - Internal Market	6	**39,303**	87,458
Trader based - External Trade	7	**177,743**	209,392
Intervention buying and selling	8	**9,741**	18,443
Other		**6,435**	8,258
		1,899,176	2,196,986
Other Paying Agencies			
EC Contributions	10	**1,047,532**	1,052,004
Other trade receipts			
Sugar Levies**		**(9,647)**	22,802
Exchange rate (loss)/gain***		**(1,186)**	248
Other		**8,065**	2,723
		(2,768)	25,773
Total Scheme Income		**2,943,940**	3,274,763
Total Income		**2,945,416**	3,275,573

* Running Costs Income includes £759k notional income relating to services provided across Defra by Defra Investigation Services (DIS) which is part of the RPA.

** Sugar Levies are normally collected in two stages as directed by the EC. The monetary value of the first stage as instructed by the EC was greater than the revised EC total amount.

*** Although a hedging contract is in place to mitigate the risk of foreign exchange movements, there remains risk giving rise to a loss in 2006–07. For 2006–07 an exchange loss amounting to £18.7m has been offset by the premium received from the Royal Bank of Scotland as part of RPA's foreign exchange hedging facility with them. This premium amounted to £17.5m.

All scheme income with the exception of Other Paying Agencies income is paid directly to HM Treasury and is treated as Consolidated Funds Extra Receipts (CFER).

12. Analysis of capital expenditure, financial investment and associated Appropriations-in-Aid

	2006–07				2005–06			
	Capital Expenditure	**Loans etc.**	**A-in-A**	**Net Total**	Capital Expenditure	Loans etc.	A-in-A	Net Total
	£000	£000	£000	**£000**	£000	£000	£000	£000
Defra RfR1	16,768	0	(6,069)	**10,699**	13,833	0	(7,731)	6,102
	16,768	0	(6,069)	**10,699**	13,833	0	(7,731)	6,102

Tangible and intangible fixed asset purchases in 2006–07 amounted to £16,768k. Proceeds from sales of assets amounted to £6,069k.

13. Fixed Assets

13a Tangible fixed Assets

	Freehold Land and Buildings	Short Leasehold Land and Buildings	Information Technology Restated	Furniture and Fittings	Vehicles, Plant and Machinery Restated	Office Equipment* Restated	Construction In Progress	Total
Replacement Cost Basis	£000	£000	£000	£000	£000	£000	£000	**£000**
Cost:								
At 1 April 2006	5,681	8,306	112,494	3,071	1,120	7,675	2,849	**141,196**
Reclassification	0	0	8,948	0	0	(35)	(8,891)	**22**
Revaluation	(1,190)	141	1,521	(16)	(6)	(41)	0	**409**
Additions	0	3,736	13,006	223	0	(481)	8,595	**25,079**
Disposals	(1,521)	(370)	(8,089)	(283)	(457)	(322)	0	**(11,042)**
At 31 March 2007	**2,970**	**11,813**	**127,880**	**2,995**	**657**	**6,796**	**2,553**	**155,664**
Depreciation:								
At 1 April 2006	1,546	2,922	71,113	2,763	646	3,385	0	**82,375**
Reclassification	0	0	4	0	0	(7)	0	**(3)**
Revaluation	(317)	32	334	(13)	1	(3)	0	**34**
Charge for year	77	1,245	14,128	122	32	857	0	**16,461**
Disposals	(479)	(345)	(7,139)	(206)	(344)	(243)	0	**(8,756)**
At 31 March 2007	**827**	**3,854**	**78,440**	**2,666**	**335**	**3,989**	**0**	**90,111**
Net Book Value:								
At 1 April 2006	4,135	5,384	41,381	308	474	4,290	2,849	**58,821**
At 31 March 2007	**2,143**	**7,959**	**49,440**	**329**	**322**	**2,807**	**2,553**	**65,553**

Tangible and intangible asset additions are reconcilable to the Cash Flow Statement Note 22b by the adjustment for accruals shown in Note 22a.

Cash expenditure in 2006–07 on tangible and intangible fixed asset additions amounted to £16,152k and £616k respectively, as reflected in Note 22b.

* Office Equipment Additions reflect the impact of an over-accrual of £486k in 2005–06. This has resulted in a negative additions figure for 2006–07.

13b Intangible fixed Assets

	2006–07	2005–06
Historic Cost Basis	**£000**	£000
Cost:		
At 1 April 2006	**10,804**	8,261
Reclassification	**(22)**	1,579
Additions	**1,029**	1,545
Disposals	**(422)**	(581)
At 31 March 2007	**11,389**	10,804
Amortisation:		
At 1 April 2006	**5,714**	3,718
Reclassification	**3**	49
Charge for year	**2,044**	2,454
Disposals	**(305)**	(507)
At 31 March 2007	**7,456**	5,714
Net Book Value:		
At 1 April 2006	**5,090**	4,543
At 31 March 2007	**3,933**	5,090

14. Stocks

	2006–07			
	Butter	**Cereals**	**Milk Powder**	**Total**
	£000	**£000**	**£000**	**£000**
Stocks at 1 April 2006	70	1,762	4	**1,836**
Movement	(61)	(1,760)	(4)	**(1,825)**
At 31 March 2007	**9**	**2**	**0**	**11**

15. Debtors

	Note	2006–07		2005–06 Restated
		£000	**£000**	£000
Amounts falling due within one year:				
Trade debtors		**48,101**		30,823
Less Provision for Bad Debts		**(29,619)**		(27,292)
			18,482	3,531
Balance due from EAGGF			**1,970,358**	1,954,684
Due from Defra & its Agencies			**88,653**	11,481
Other Government Departments including Other Paying Agencies			**23,517**	8,616
Scheme prepayments and accrued income			**0**	14,276
Prepayments and accrued income			**2,292**	1,978
VAT			**4,417**	4,412
Other debtors			**67**	170
			2,107,786	1,999,148
Amounts falling due after more than one year:				
Balance due from EAGGF			**0**	434,451
Total Debtors			**2,107,786**	2,433,599

A total of £1,590,624k of the above, once received, will be paid over to the Consolidated Fund (2005–06 £1,946,039k).

15a Intra-Government Balances

	Debtors: Amounts falling due within one year		Debtors: Amounts falling due after more than one year	
	2006–07	2005–06 Restated	**2006–07**	2005–06
	£000	£000	**£000**	£000
Balances with other central government bodies	**112,170**	20,097	**0**	0
Balances with local authorities	**12**	183	**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	**112,182**	20,280	**0**	0
Balances with bodies external to government	**1,995,604**	1,978,868	**0**	434,451
Total debtors as at 31 March 2007	**2,107,786**	1,999,148	**0**	434,451

16. Cash at Bank and in Hand

	2006–07	2005–06
	£000	£000
Balances held at 1 April	**1,698,510**	131,279
Net cash (outflow)/inflow	**(1,569,989)**	1,567,231
Balances held at 31 March	**128,521**	1,698,510

The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances were held at 31 March:

Balances at OPG	**128,193**	1,697,780
Commercial banks/cash in hand	**328**	730
Balances held at 31 March	**128,521**	1,698,510

The balance at 31 March comprises:

Modulation	**7,614**	(15,140)
Structural Funds EC Advance	**6,929**	6,929
Exchange rate (loss)/gains (CFER)	**(1,186)**	248
Other CFER	**158,856**	439,306
Cash Securities	**2,398**	2,290
Amounts issued but not spent at year end *	**(46,090)**	1,264,877
	128,521	1,698,510

* Additional funding will be sought from Defra to cover CFER payment.

17. Creditors: Amounts falling due within one year

	Note	**2006–07**	2005–06 Restated
		£000	£000
Trade creditors		**25,985**	91,238
Due to Defra & its Agencies		**14,265**	6,514
Other Government Departments including Other Paying Agencies		**983**	2,221
Amounts due to the Consolidated Fund		**1,749,480**	2,385,592
EAGGF financial corrections **		**18,025**	23,570
Cash securities*		**2,398**	2,290
Deferred income		**(267)**	808
EAGF deferred income		**0**	2,981
Scheme accruals (excl SPS)		**91,072**	78,634
SPS accrual		**919,999**	1,664,649
Accruals (includes invoices received but not yet approved)		**19,557**	19,835
Payroll and social security costs		**2,906**	2,743
Other creditors		**299**	237
		2,844,702	4,281,312

* 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**

Note: As from April 2006 new disallowance decisions are reported in the accounts of the Agency's parent department Defra.

Decisions for which an accrual was made in 2005–06 remain in these accounts.

EAGGF Financial Corrections by Paying Agency
Position at 31 March 2007

	RPA	SEERAD	NAWAD	DARDNI	FC	Total
	£000	£000	£000	£000	£000	£000
Accrual at 31 March 2006	**20,508**	**2,779**	**283**	**0**	**0**	**23,570**
Ad Hoc clearance 22	(1,664)	0	0	0	0	(1,664)
Ad Hoc clearance 23	(1,384)	0	0	0	0	(1,384)
Utilised in year	**(3,048)**	**0**	**0**	**0**	**0**	**(3,048)**
Prior year accrual released	**(17,460)**	**(2,779)**	**(283)**	**0**	**0**	**(20,522)**
Fruit & Vegetable Operational Programmes	17,460	0	0	0	0	17,460
2005 Financial clearance	(273)	0	0	0	0	(273)
Rural Development Programme	0	0	121	0	0	121
2004 corrections	0	497	0	0	0	497
Non reimbursement of late payments on non SPS schemes	746	795	353	208	0	2,102
Incorrect classifcation of Irregularities	(23)	0	0	0	0	(23)
Charge to Operating Account	**450**	**(1,487)**	**191**	**208**	**0**	**(638)**
Accrual at 31 March 2007						
Fruit & Vegetable - Operational Programmes, and others	17,904	0	121	0	0	18,025
	17,904	**0**	**121**	**0**	**0**	**18,025**

18 Intra-Government Balances

	Creditors: Amounts falling due within one year		Creditors: Amounts falling due after more than one year	
	2006–07	2005–06 Restated	**2006–07**	2005–06
	£000	£000	**£000**	£000
Balances with other central government bodies	**1,764,728**	2,394,327	**0**	0
Balances with local authorities	**36**	55	**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	**1,764,764**	2,394,382	**0**	0
Balances with bodies external to government	**1,079,938**	1,886,930	**0**	0
Total creditors at 31 March 2007	**2,844,702**	**4,281,312**	**0**	0

19. Provisions for Liabilities and Charges

	Pensions & related costs *(a)	OTMS & OCDS Disposal (b)	Total
	£000	£000	£000
Balance at 1 April 2006	18,460	23,555	42,015
Amounts utilised	(8,431)	(12,545)	(20,976)
Amounts released	(1,224)	(2,628)	(3,852)
New provisions	1,070	11,200	12,270
At 31 March 2007	**9,875**	**19,582**	**29,457**

* 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 2007 is £0.4m (2005–06: £0.6m).

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 2007 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 2007 is £9.5m (2005–06: £17.9m).

(b) Meat and Bone Meal (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. Provision has been made for the cost of disposal of MBM and tallow produced up to 31 March 2007. The amount utilised during the 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

Commission Regulation (EC) No. 1997/2002

From January 2003, in accordance with Commission Regulation (EC) No. 1997/2002 (as amended) non-Eurozone member states have been re-imbursed in Euros. The timing difference between converting the claim for re-imbursement for CAP expenditure from Sterling to Euro and converting back to Sterling when received some 3 weeks later generates an exchange difference. The total gain since 2003 split by year is indicated below.

	Net Gain/(Loss)
	£ m
2002 - 03	26.2
2003 - 04	(14.7)
2004 - 05	30.0
2005 - 06	0.2
2006 - 07	(1.2)
Total	**40.5**

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 2006–07 H M Treasury has agreed to offset the loss in 2006–07 of £18.7m against the premium received as part of the foreign exchange hedging facility with the Royal Bank of Scotland. For the reporting period this amounted to £17.5m.

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. 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. Furthermore, an additional hedge security was put in place on 6th October 2006 to cover foreign exchange fluctuations on the Single Payment Scheme 2006. The cover amounted to €3.8bn.

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 within the 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 2007 is set out below. All balances are held in sterling (see Note 16):

Financial assets	**Fixed rate**	**Floating rate**	**Total**
	£000	**£000**	**£000**
Cash on deposit	0	328	**328**
Balance held with OPG	128,193	0	**128,193**
Total	**128,193**	**328**	**128,521**

Cash on deposit at 31 March 2007 consists of monies lodged with Lloyds TSB plc.

The balance held with OPG is not subject to an interest rate charge.

Financial liabilities

Cash securities

Traders wishing to undertake certain transactions under EC Regulations are required to guarantee completion of the transaction in question by lodging a 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	**Floating rate**	**Total**
	£000	**£000**	**£000**
Cash securities	**2,398**	**0**	**2,398**

Non-cash guarantees

Securities may also be in the form of a guarantee by a bank or an insurance company acceptable to RPA. Sterling guarantees totalling £335.2m and Euro guarantees totalling €34.0m (£23.1m) were held at 31 March 2007 (£338.4m and €75.2m at 31 March 2006).

Non-cash guarantees	**Fixed Rate**	**Floating rate**	**Total**
	£000	**£000**	**£000**
Bank and other guarantees	**358,328**	**0**	**358,328**

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

21. Reserves

General Fund	Note	**2006–07**	2005–06 Restated
		£000	£000
General Fund at 1 April		**(158,981)**	287,027
Prior Year Adjustment	34	**30,501**	5,012
Restated General Fund at 1 April		**(128,480)**	292,039
Net operating cost		**(333,684)**	(304,440)
Financing by Defra		**2,055,000**	2,435,000
Transfer from Revaluation Reserve		**721**	414
Defra asset transfer	22c	**1,639**	0
Transfer ERDP to Defra	32	**(354,789)**	(123,690)
Transfer Structural Funds to Defra	32	**(13,487)**	(18,707)
Transfer of TSE programme expenditure to Defra	22c	**0**	(22,723)
CFER		**(1,817,419)**	(2,397,618)
Notional charges	28	**19,335**	11,245
General Fund at 31 March		**(571,164)**	(128,480)

Included in the amount above is £1.6m that relates to the transfer of IT Infrastructure from Defra.

Revaluation Reserve	Note	**2006–07**	2005–06 Restated
		£000	£000
Balance at 1 April		**3,009**	4,853
Arising on revaluation during the year (net)		**521**	(1,430)
Transfer to General Fund		**(721)**	(414)
Balance at 31 March		**2,809**	3,009

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	2006–07	2005–06 Restated
		£000	£000
Net operating cost		**(333,684)**	(304,440)
Adjustments for non-cash transactions	28	**42,738**	40,378
Decrease in stock	14	**1,825**	18,578
Increase in debtors	15	**(108,638)**	(1,376,691)
Increase/ (decrease) in debtors > 1 year	15	**434,451**	(21,565)
(Decrease)/ increase in creditors	17	**(1,436,610)**	3,392,311
Decrease in creditors > 1 year	18	**0**	(14,374)
Adjustment for movement in CFER creditor	17	**636,112**	(2,330,694)
Increase in fixed asset addition accruals	13a /13b	**(9,340)**	(641)
Utilisation of provisions	19	**(20,976)**	(30,945)
Net cash outflow from operating activities		**(794,122)**	(628,083)

22b Analysis of capital expenditure and financial investment

Tangible fixed asset additions	13a	**(16,152)**	(14,858)
Intangible fixed asset additions	13b	**(616)**	(516)
Proceeds of disposal of fixed assets	12	**6,069**	7,731
Net cash outflow for capital expenditure and financial investment		**(10,699)**	(7,643)

22c Analysis of financing

Financing by Defra		**2,055,000**	2,435,000
Defra asset transfer		**1,639**	0
Transfer ERDP to Defra		**(354,789)**	(123,690)
Transfer Structural Funds to Defra		**(13,487)**	(18,707)
Transfer of TSE to Defra		**0**	(22,723)
Net Financing		**1,688,363**	**2,269,880**

23. Capital commitments

At 31 March 2007, RPA had no capital commitments (2005–06: £0.005m).

24. Commitments under operating leases

At 31 March 2007, RPA was committed to making the following payments during the next financial year in respect of non-cancellable operating leases:

Land and Buildings	2006–07 £000	2005–06 £000
Leases which expire:		
- within one year	**30**	572
- within two to five years	**119**	90
- in over five years	**3,491**	4,682
Total	**3,640**	5,344
Other		
Leases which expire:		
- within one year	**0**	241
- within two to five years	**436**	74
- in over five years	**0**	0
Total	**436**	315

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 £76.7m (2005–06: £77.7m) and relate mainly to IT support services spanning a number of years and accommodation commitments.

26. Contingent assets and contingent liabilities

26a Contingent assets

Ministerial approval has been given to allow stored tallow to be sold to Waste Incineration Directive (WID) compliant customers. Income from sale of tallow has been estimated to be £0.575m.

Approval has been given by the Commission for the onward sale of OCDS hides. Estimated sales income amounts to £6.636m.

26b Contingent Liabilities

A legal case concerns a company which tendered for an OTMS slaughtering contract in 1999 and has commenced court proceedings alleging unfair treatment in the tendering process. Legal costs remain payable and are estimated at £0.4m.

A second legal case concerns a customer who had a very substantial number of failures to provide proper cattle ID. Defra Investigation Services (DIS) served a notice under the relevant regulations in cooperation with Cheshire Trading Standards. The cattle were removed and a number slaughtered immediately. An injunction was applied to restrain the slaughter and for permssion to seek a judicial review of DIS's decision. The judge agreed to the slaughter of the rest of the herd but gave permission for judicial review to continue. The total cost that RPA may be liable to pay has been estimated at £0.1m.

A third legal case concerns a claim for compensation of alleged damages suffered as a result of the operation of the milk quota levy scheme. This legal case is at an early stage.

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 (now Animal Health).

The following Non Departmental Public Bodies are also linked to Defra:

Natural England;

Meat & Livestock Commission; and,

Milk Development Council.

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 & Rural Affairs Department;

National Assembly for Wales, Department for Environment, Planning and Countryside;

Department of Agriculture and Rural Development, Northern Ireland;

Forestry Commission (up to 15 October 2006); 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.

Christine Tacon is General Manager of Farmcare (part of the Co-operative Group (CWS) Ltd) and was a member of the former Ownership Board. She is a member of the RPA Audit Committee. In 2006/07 Farmcare received £4.174m (2005–06: £0.178m) in scheme payments from RPA. These external interests were known before appointment and were carefully considered by Defra. £1.209m was the balance payable at 31 March 2007.

Gordon Meek was also a member of the former Ownership Board and is a Director of GR & SK Meek. In 2006–07 this company received £0.091m (2005–06: £0.031m) in scheme payments from RPA. No balance was payable at 31 March 2007.

Katie Davis, member of the Strategic Advisory Board, holds shares and share options in Accenture. Katie was a former partner in Accenture and her shares must be held until July 2009. Katie's husband is a current employee of Accenture and also holds shares. Accenture provided RPA with new IT systems under the Change Programme.

28. Notional charges and non cash items

Notional Charges	Note	2006–07		2005–06	
		£000	£000	£000	£000
Audit fee	3		**400**		300
Cost of capital charge					
Running costs	3	**381**		767	
RPA Scheme costs	4	**12,598**		3,666	
Other Paying Agencies	10	**5,165**		4,821	
			18,144		9,254
Defra charges					
Capital charges – buildings	3	**781**		845	
Central overhead charges	3	**769**		846	
DIS Income	11	**(759)**		0	
			791		1,691
Total Notional Charges			**19,335**		11,245
Non Cash Items					
Depreciation and impairment of assets *	3 / 8		**18,651**		15,856
Profit on disposal of assets	3		**(3,666)**		(4,200)
New provisions	19		**12,270**		20,305
Provisions released	19		**(3,852)**		(7,840)
Asset transferred from HMI			**0**		5,012
Total Non Cash Items			**23,403**		29,133
Total			**42,738**		40,378

* The depreciation/impairment in this note compromises of running costs depreciation of £18,556k (2005–06 £15,792k) and intervention depreciation of £95k (2005–06 £212k). The prior year amount also includes a downward revaluation of £148k for those asset classes that had no balance remaining in the revaluation reserve.

29. Losses and special payments

	2006–07		2005–06	
	No of cases	Value	No of cases	Value
		£000		£000
Cash losses	**111**	**464**	97	326
Claims waived or abandoned	**1,358**	**178**	568	413
Special payments	**4,873**	**3,123**	138	213
	6,342	**3,765**	803	952

£3,019k of the 2006–07 losses and special payments (2005-06: £748k) 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.

The increase in Special payments cases and costs over 2006–07 relates to SPS 2005 interest payments being paid over the year, and two large value payments being made in settlement of claims being made against RPA.

Losses & Special Payments exceeding £0.25m

WD Meats

A company which tendered for an OTMS slaughtering contract in 1999 commenced court proceedings arising from alleged unfair treatment in the tendering process. The claim was settled in December 2006 by payment of £0.75m.

Burgess Salmon (Feakins)

In accordance with the settlement agreed between Feakins and Defra dated 3rd January 2007 a payment in relation to the case was agreed at £1.25m.

30. Non-Reimbursement of SPS 2005 claim expenditure

The Single Payment Scheme Regulation (Regulation (EC) No 1782/2003) sets a payment deadline of 30 June in the following year. Subject to a 4 per cent tolerance, Regulation (EC) No 883/2006 sets out that European funding is progressively reduced until SPS payments made more than 4 months after the deadline are wholly funded by the UK Exchequer. Applying these rules to the SPS 2005 payments made up to 30 June 2007 gives rise to £63 million claims to be funded by the UK Exchequer. In line with the Agency's accounting policy (Note 1.8) the risk presented by late payments is provided for by Defra. Therefore, in these accounts, £63 million has been deducted from EU Debtors and added to amounts due from Defra.

As at 30 June 2007, not all payments for SPS 2005 have yet been made, and thus further amounts will need to be funded by the UK Exchequer in due course. There are some uncertainties regarding the totals yet to be paid, but the Agency's best estimate is some £7million. In line with the Agency's accounting policy (Note 1.8) this contingent liability is recognised in Defra.

31. Merger of Horticultural Marketing Inspections Unit

On 1 April 2006 the Horticultural Marketing Inspections (HMI) Unit transferred to RPA from Defra. Merger accounting principles have been applied to restate 2005–06 comparatives.

Operating Cost Statement	2005–06
	£000
Salaries	2,923
Other Running Costs	
Rent	7
Loss on disposal of assets	4
Depreciation/Amortisation	148
Accommodation	42
IT Costs	29
Running Costs	85
Non-payroll costs	310
	625
Total Running Costs	3,548
Running Costs Income	(63)

An Inter-Company adjustment of £38k has been applied to Income and Running Costs in the restated comparatives.

Balance Sheet	
Fixed Assets	1,541
Debtors	31
Creditors	(46)
General Fund	1,526

32. Prior Year Adjustment for ERDP and Structural Funds as a result of change in Accounting Policy

As budgetary responsibility for ERDP and Structural Funds has not been delegated to RPA for 2006–07 onwards, Accounting Officer (AO) responsibility for these transactions falls to Defra.

Due to this change in Accounting Policy it has been necessary to restate RPA's 2005–06 comparatives to exclude ERDP and Structural Funds expenditure and income and other material balances.

RPA Accounts remains the Paying Agency for ERDP and Structural Funds under European Regulations, but will not account for ERDP and Structural Funds in its UK accounts.

The ERDP transactions transferred from RPA's Accounts to those of core Defra may be summarised as follows:

	2006–07	2005–06
	£000	£000
Scheme Expenditure	**335,083**	274,530
Scheme income	**(152,850)**	(117,302)
Operating Cost Statement	**182,233**	157,228
Scheme expenditure accruals	**5,551**	(43,205)
Scheme expenditure prepayments	**18,215**	50,110
Scheme income accruals	**(2,685)**	20,623
Scheme income deferrals	**(16,265)**	0
Scheme creditor	**167,953**	0
Modulation deferred income	**(213)**	(61,066)
Balance sheet	**172,556**	(33,538)
Movement in General Fund	**354,789**	123,690

The Structural Funds transferred from RPA's Accounts to those of Defra may be summarised as follows:

	2006–07	2005–06
	£000	£000
Scheme Expenditure	**33,702**	31,968
Scheme income	**(15,103)**	(17,824)
Operating Cost Statement	**18,599**	14,144
Scheme expenditure accruals	**(30)**	(906)
Scheme income accruals	**(5,082)**	12,398
EC advance	**0**	(6,929)
Balance sheet	**(5,112)**	4,563
Movement in General Fund	**13,487**	18,707

33. Restatement of SPS as a result of a change in Accounting Policy

Compulsory modulation and, from SPS 2007 onwards, voluntary modulation deductions are retained as a European fund to be claimed from EAFRD when rural development expenditure is incurred.

To reflect this, SPS income and expenditure is reported net of all compulsory modulation and SPS 2007 voluntary modulation within these accounts.

The following table details the adjustments to the 2006–07 reported position to comply with this revised accounting treatment and the restatement of the 2005–06 balances.

	2006–07	2005–06
	£000	£000
	1,805,451	1,675,255
Compulsory modulation adjustments		
SPS 2005	**(31,564)**	(48,904)
SPS 2006	**(43,430)**	(17,377)
SPS 2007	**(21,260)**	0
Voluntary modulation adjustments		
SPS 2007	**(51,023)**	0
	1,658,174	1,608,974

34. Reconciliation of Prior Year Adjustment in Reserves

	2006–07	2005–06
	£000	£000
Assets transferred from HMI	**5,012**	5,012
Net operating costs	**190,609**	0
Transfer ERDP to Defra	**(123,690)**	0
Transfer Structural funds to Defra	**(18,707)**	0
Transfer TSE to Defra	**(22,723)**	0
	30,501	5,012

35. Post Balance Sheet Events

The RPA Financial Statements are laid before the House of Commons by the Secretary of State for Defra. Financial Reporting Standard 21: *Events after the balance sheet* date requires the Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are dispatched by RPA to the Secretary of State for Defra.

The authorised date for issue is 24 July 2007.

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RPA headquarters and offices

www.rpa.gov.uk

READING HEADQUARTERS
Kings House
Kings Road
Reading RG1 3BU
Tel: 0118 958 3626
Fax: 0118 959 7736
Email: enquiries.reading@rpa.gsi.gov.uk
Reading: (Correspondence address)
PO Box 69
Reading RG1 3YD

CARLISLE
Eden Bridge House
Lowther Street
Carlisle
CA3 8DX
Tel: 01228 523 400
Fax: 01228 640 205
Email: carlisle.enquiries@rpa.gsi.gov.uk

EXETER
Clyst House
Winslade Park
Clyst St. Mary
Exeter
EX5 1DY
Tel: 01392 447 400
Fax: 01392 266 000
Email: enquiries.exeter@rpa.gsi.gov.uk

NEWCASTLE
Lancaster House
Hampshire Court
Newcastle-upon-Tyne
NE4 7YH
Tel: 0191 273 9696
Fax: 0191 226 1839
Email: enquiries.newcastle@rpa.gsi.gov.uk

NORTHALLERTON
Alverton Court
Crosby Road
Northallerton
DL6 1AD
Tel: 01609 773 751
Fax: 01609 780 179
Email: enquiries.northallerton@rpa.gsi.gov.uk

WORKINGTON
(British Cattle Movement Service)
Curwen Road
Workington
Cumbria CA14 2DD
Tel: 01900 702222
Fax: 01900 702051
Email: enquiries-bcms@defra.gsi.gov.uk

Helpline Numbers	
Single Payment Scheme Enquires	0845 603 7777
Slaughter Schemes	0118 968 7333
Milk Quotas & Dairy Subsides	0139 226 6466
Securities	0118 853 1723
Trader Registration	0118 953 1430
Freephone Fraudline	0800 347 347
Entry Level Scheme	01392 266 508
BCMS customer helplines:	
English	0845 050 1234
Welsh	0845 050 3456

Other RPA offices

CREWE
Electra Way
Crewe Business Park
Crewe
Cheshire CW1 6GJ
Tel: 01270 754 000
Fax: 01270 754 280
Email: IACS.crewe@rpa.gsi.gov.uk

NOTTINGHAM
Block 7
Government Buildings
Chalfont Drive
Nottingham NG8 3SN
Tel: 0115 929 1191
Fax: 0115 929 3817
Email: rpa-nottm.enquiries@rpa.gsi.gov.uk

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