Rural Payments Agency Annual Report and Accounts 2007/2008

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Foreword

The Rural Payments Agency (RPA) has made good progress during 2007/08 towards our aim of delivering a consistent service to our customers. A key theme for the Agency in 2007/08 has been the move from crisis to stability as we endeavour to meet the needs of our customers. There remains work to remedy issues from the past. This will include further improvements to the data and systems used for the Single Payment Scheme (SPS) and also addressing issues identified by European Commission (EC) Auditors for other schemes administered by the Agency. These historical issues are being tackled and reflect administrative shortcomings in previous years.

We have consolidated the recovery measures put in place following previous difficulties with SPS and we met our Ministerial targets to pay 75% by value of valid 2007 SPS payments by 31 March 2008 and 90% by value by 31 May 2008.

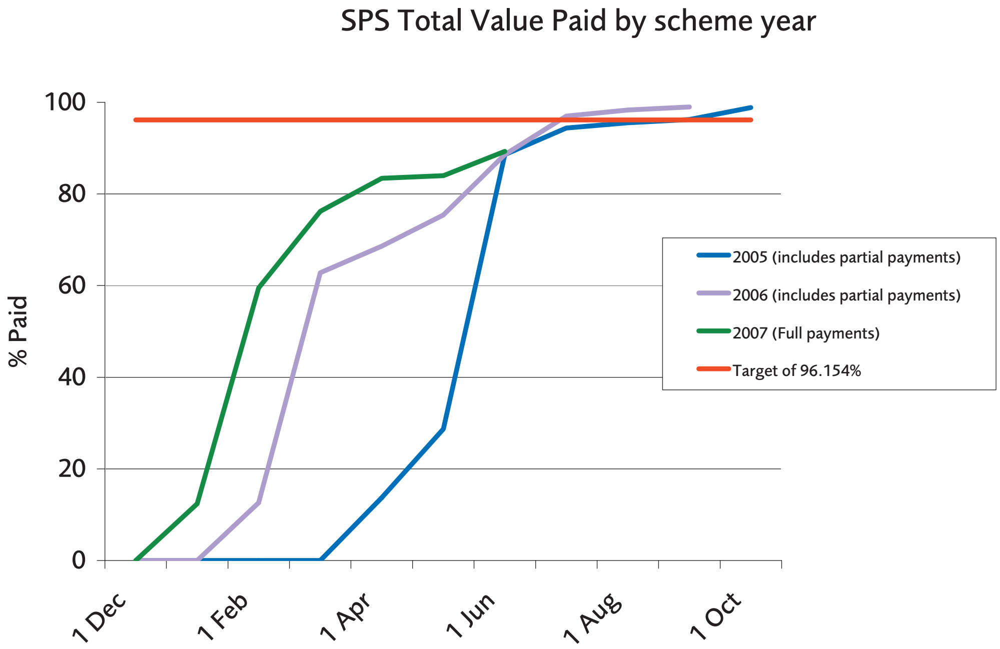
For those unpaid by this date we continue to clear the outstanding validation work as quickly as possible. We have the longer term aim of paying everyone earlier where we can. The need to build on the progress made to improve our services significantly will remain our central focus.

We continue to change the way we work by moving towards whole case working. Two significant Information Technology (IT) system improvements in 2008 will give our case workers access to most of the information they need about a farmer's SPS claim, which will help them to process claims and improve the information we can give customers.

Two years ago about 50% of the people in RPA were temporary workers. Over the last nine months we have been able to reduce this proportion and have invested in permanent staff with a learning and development programme. The move towards a more permanent workforce has, however, caused considerable staff movements and has meant that a farmer's case worker may have changed on more than one occasion over the year. We expect to have fewer staff changes in the future.

In other areas we remain on target to complete our land and livestock inspections to the appropriate time and quality standards. This year saw the introduction of Sheep and Goats (SAG) inspections which were carried out to agreed time and quality targets. We have also made sure that our trader based operations operate effectively.

We have made considerable progress in improving our SPS service over the last three years, as the graph below shows.



Our staff are, of course, crucial to the way our services are delivered. Many have been through a very difficult period and have shown great flexibility and commitment. We have established a set of values for RPA and our people which we will continue to promote and embed. These values help to improve our services and the working environment.

The challenges ahead should rightly cause us to assess and manage the risks. We must demonstrate that we can deliver a reliable and acceptable service while implementing further improvements, upgrading the Rural Land Register (RLR) and implementing the policy changes from the Common Agricultural Policy (CAP) Health Check. Indications are that these will have an impact on almost every part of RPA and our endeavours with the Department for Environment, Food and Rural Affairs (Defra) will be to minimise the impact on our customers and the services we provide.

Tony Cooper
Chief Executive

14 July 2008

Business Review

RPA is a major delivery body for Defra, providing a range of services in support of the Department's objectives. RPA administers a wide range of CAP schemes including SPS, internal market schemes covering dairy products, crops, fruits and vegetables, external trade measures (export refunds, import and export licences), milk quotas and the Older Cattle Disposal Scheme (OCDS).

The overall goal for RPA is to support the delivery of Defra's strategic objectives for sustainable farming and food, including animal health and welfare. This is done by providing services and following the relevant regulations as the Paying Agency for England.

Our Strategic Objectives

We have a number of specific objectives to fulfil this role:

Objective	2007/08 Achievements
To administer effectively SPS payments, progressively reducing the cycle from claim to payment.	In 2007/08 we demonstrated improved performance against tighter targets (see page 16, Performance Against Targets) and saw increased customer satisfaction around payments, in independent surveys.
To minimise disallowance particularly around SPS.	In 2007/08 we began the development of a Disallowance Control Framework. We made partial payments to our customers on 2006 SPS claims in early 2007. These helped to avoid late payment penalties. Controls around SPS processing were reviewed and streamlined. New governance arrangements were established around disallowance. RPA supported Defra in discussions with the EC.
To administer and regulate effectively agricultural subsidy, RD, trade and livestock schemes (including Cattle Tracing System (CTS)).	In 2007/08 we commenced updating work for CTS. We worked with Animal Health (AH) on improvements to livestock tracing, for example the Livestock Partnership. We have continued to make payments under trader and RD schemes while delivering greater efficiencies with reductions in staff.

Objective	2007/08 Achievements
To provide effective services that provide greater direct access for customers and improve our customer service.	Independent 2007/08 surveys of customers indicate improvements in the way we deal with telephone calls, and correspondence. We continue to change our operation towards whole case working for SPS.
To develop leadership and learning so that RPA improves the competence and performance of its people.	In 2007/08 we launched comprehensive training packages throughout RPA.
To work closely and constructively with Defra and the Defra Network including providing accurate and timely delivery input to policy development.	In 2007/08 we worked closely with Defra and our operational partners on a range of programmes and saw improvements in surveys which assess our relationship with Defra.
To increase operating efficiency by managing resources better, utilising technology, and sharing Government services.	In 2007/08 RPA committed to and consolidated its position as a key provider of services within the Defra Network. Our staff numbers reduced from an average during the year of 4,467 to 4,297 (Note 2.2 of the Accounts) in March 2008. Testing of major IT enhancements led to successful delivery of stronger programme and project management arrangements and we have effected better resource and workforce planning.

Scheme Performance

Overview

We deliver around £1.6bn of payments annually to farmers and traders under CAP. Around 60 schemes cover a wide range of products, commodities and land usage such as Butter for Manufacture, Fish, Fruit and Vegetables, Pigmeat, Rice, Whisky, the Hill Farm Allowance (HFA) and SPS. The size of these schemes varies greatly, SPS has approximately 110,000 customers receiving payments of about £1.5bn, whereas some small scale trader schemes may total 10 applications in a year valued at less than £10,000.

We also administer OCDS which is partly EC funded for compensation payments with the operating costs being borne by the Exchequer.

Scheme Rules and Administration

Each EC scheme we operate is supported by a complex set of EC wide regulations. Failure to comply with the regulations can result in a financial correction (disallowance) imposed by the EC which would result in the UK taxpayer being penalised. We have formal processes to administer and deliver each of the schemes in compliance with the regulations and have set up a series of key registers. These record (often changing) key data for over two million land parcels, farm entitlements (both historic and land based) and customers' details.

Our Customers

Our customers are farmers and traders who take part in the schemes we run for Defra. They range from one person businesses through to multi national corporations such as commodity and food processors.

Customer Service

Following the challenges faced by the introduction of SPS we have focused on improving our levels of customer service in 2007/08.

Achievements include:

- Paying claims earlier.

  83% of fully validated SPS claims were paid by 31 March 2008 and 90% by value by 31 May 2008.

- Responding to letters more quickly.

  At the peak of the correspondence backlog in July 2007 there were over 10,000 cases. This reduced to less than 1,000 at 31 March 2008.

- Improving customer satisfaction.

  We use independent quarterly customer surveys to measure farmers' and traders' satisfaction with the service they receive from the Agency. During 2007/08 satisfaction levels rose from 5.9 to 6.5 out of 10.

- Developing a more personal and effective way of working.

  We aim to provide SPS claimants with a named RPA employee who handles all aspects of their claim, from initial receipt through to payment. Further supporting tools and a stabilisation of the workforce should mean more case workers keep the same cases each year.

  We have embedded customer service into RPA's four values (Our Customers and Stakeholders Matter; Our People Matter; Collaboration Matters; Performance Matters).

- Developing enhanced online links between the Agency and farmers.

  During 2007/08 we worked with a small number of farm software providers to pilot an e-enabled claim service for SPS.

Scheme Delivery

Trader Schemes

Throughout 2007/08, we have continued to make payments successfully and implement market management measures under a number of other CAP schemes in line with regulatory and Agency targets.

These schemes include external trade measures (export refunds, import and export licences), milk quotas, production aid for the sugar and starch industries, and a number of internal market schemes covering dairy products, crops and fruit and vegetables.

Rural Development Programme for England (RDPE) and England Rural Development Programme (ERDP) Payments

RDPE and its predecessor ERDP aim to conserve and enhance the rural environment and support a productive and sustainable rural economy. We are the Paying Agency for RDPE and ERDP but the administration of claims is primarily undertaken by other delivery bodies including Natural England (NE) and Regional Development Agencies (RDAs) under delegation arrangements. In 2007/08 we made the last payments under ERDP and the first payments under RDPE.

Hill Farm Allowance

Customer information for HFA is collected via SPS forms. We began making HFA payments in March 2007 (for 2007 scheme year). These payments totalling nearly £26m were made to 9,379 customers and were largely complete by September 2007.

In the wake of the two outbreaks of Foot and Mouth Disease (FMD) in 2007, Defra Ministers agreed an additional £8.5m in hardship payments to the HFA population which was paid by RPA.

We commenced payments for the 2008 HFA scheme year in February, one month earlier than last year. We also made the initial 75% payments (worth £16.4m) on 6,526 eligible applications by 31 March 2008, the remaining 25% is being paid following the satisfactory conclusion of the HFA inspection regime.

Single Payment Scheme

In 2005, SPS replaced 11 schemes which we previously administered. SPS is paid in recognition of claimants stewardship of the land. To receive payment under SPS farmers are required to meet environmental, public health, animal and plant health and animal welfare standards.

During 2007/08, we continued to recover from the problems which we experienced during the introduction of the scheme in 2005/06. We achieved our target for the 2006 scheme of paying 96.154% before the regulatory deadline of 30 June 2007. We made partial payments for the 2006 scheme year in early 2007 and this helped to prevent late payment penalties (for SPS 2005 late payment penalties amounted to £59m). The Secretary of State also agreed to make interest payments on those 2006 claims not paid in full by 30 June 2007.

RPA is in the process of completing a major review of 2005 and 2006 payment cases where entitlement values have been identified for possible adjustment (upwards or downwards). Where appropriate we are making additional payments on the reviewed cases and we are working to recover overpayments made on those scheme years.

In response to the improvements in delivery of the 2006 scheme, the Secretary of State set more challenging payment targets for the Agency:

- Paying 75% by value of valid 2007 SPS claims by 31 March 2008; and
- Paying 90% by value of valid 2007 SPS claims by 31 May 2008.

Both these targets were met with a total of 99,437 customers paid in full by 31 May 2008.

Inspections

Our inspectors conduct a wide range of inspections on farms and in abattoirs, factories, ports, airports and markets to ensure that CAP scheme rules are met, and that claims for payments are valid. We also provide guidance on compliance issues.

Inspectors visit a diverse range of customers, from large agri-businesses and supermarket chains to small family farms.

During 2007/08, our inspectors met SPS and Cross Compliance inspection deadlines, helping to ensure that SPS payments to farmers could be made within target. All other inspections were also completed to time, cost and quality requirements. This included the cattle and sheep identification inspections which are essential for traceability, and the stewardship and 'green' scheme inspections, conducted on behalf of NE.

Our Horticultural Marketing inspectors ensure that the fresh produce industry in England and Wales conforms to EC marketing standards. In 2007/08 we continued to work with HM Revenue and Customs and other Government departments and agencies involved in the regulation of international trade, to reduce the administrative burden on industry as part of the International Trade Single Window (ITSW).

Registers

Customer Register

The Customer Register is the central repository of our customer information. This is also used by the Defra Network. A number of system enhancements have been made to the Register during 2007/08 to improve the quality of the data. This includes improved systems to record addresses which have been checked and matched against postcodes. The Customer Registration team continued to review and improve its forms during the year, including introducing some tailored forms for use by customers of the Forestry Commission (FC) and RDAs. Following an EC regulation which no longer allows us to make payments by cheque from 16 October 2008, work has begun to gather bank account details from around 40,000 customers.

Rural Land Register

The RLR holds digital maps of registered land parcels. It is made up of several different layers linked to provide an overall view of rural land and is essential for delivering SPS. It is also used in the delivery of environmental stewardship schemes and is made available to other Defra agencies. The volume of requests for changes in the Register has declined in both the second and third years of SPS from the high level recorded in the first year.

Animal Tracing

Cattle identification and movement tracing in England, Wales and Scotland uses the CTS.

CTS records the identification and death of cattle, the movements from birth to death of cattle issued with passports from 28 September 1998 and, since 29 January 2001, the movements of older cattle.

Many of the systems that make up CTS are now 10 years old and need to be replaced or updated. During 2007/08, we began projects with AH to replace those systems and provide operational support.

In 2007/08 we recorded 2.6m births, nearly 13.3m cattle movements and over 2.6m deaths.

Electronic reporting to CTS has continued to increase and during October 2007 e-reporting of birth registrations and movement notifications reached 84.4% of our total transactions. We have recorded the export of 76,899 animals since April 2007.

Our services also support the Animal Movements Licensing System (AMLS) database which underpins the tracking of SAG movements by local authorities.

Basis of Funding and Accounts

The UK Exchequer initially funds payments made by RPA. Funding from the EC is provided through the European Agriculture Guarantee Fund (EAGF) and European Agriculture Fund for Rural Development (EAFRD).

Financial Results

Key financial results for 2007/08:

	2007/08		2006/07	
	£m	£m	£m	£m
Running Costs		**241.7**		228.3
Cost of CAP market support	**2,669.8**		3,050.5	
Less EC contributions and other receipts	**(2,649.4)**		(2,945.1)	
Net Scheme costs		**20.4**		105.4
Net Operating costs		**262.1**		333.7

Expenditure and Investment in new IT systems and processes for SPS

In order to improve our SPS delivery, we undertook a major improvement programme during 2007/08 at a cost of £47.1m (£25m Near Cash and £22.1m Capital). The programme moved us towards a whole case working system which allows individual processors and teams to take responsibility for a case. This is supported by an improved management information system that will allow better management of progress and risks. We have also put essential testing facilities in place.

Going concern

The balance sheet at 31 March 2008 shows negative taxpayers equity of £47.8m. 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, received through Defra. Funding for 2008/09 has already been agreed.

Performance Against Targets

RPA's Strategy and Business Plan for 2007/08 includes eight targets which the Secretary of State has set for the Agency. The targets have been independently reviewed by Defra.

Target	Achievement
To have paid 75% by value of valid 2007 SPS claims by 31 March 2008 and 90% by value of valid 2007 SPS claims by 31 May 2008.	Met.
To process and pay SPS claims within 2% materiality threshold and put in place other arrangements (with associated measures) to improve data quality.	Met.
Process and pay at least 85% of valid claims, by volume, for all non-SPS schemes within Ministerial guidelines and 99% within EC deadlines or in their absence, 60 days of receipt of the claim.	Met.
Record 98% of notifications of births, deaths and movements of cattle on the CTS within 14 days of their receipt.	Met.
Demonstrate a continually improving trend in customer satisfaction compared with the results of the February 2007 survey as measured for the year through our quarterly customer surveys and a reduction in customer complaints.	Met.
Provide training and development to enhance leadership skills to all RPA's senior staff in order to maximise efficiency and deliver results.	Met.
Demonstrate a material improvement in effective joint working with Defra and the Defra Network across all relevant interfaces compared with the February 2007 survey, as measured by feedback from key partners.	Met.
Successful delivery of improvements covered by Defra investment whilst maintaining performance across RPA's core business activities.	Met.

Public Interest

Stakeholder Engagement and Customers

We have been working with our stakeholders to improve the service that we provide to farmers. We hold fortnightly meetings with farmer and agent representative groups, such as National Farmers Union (NFU), Country Land and Business Association (CLA), British Institute of Agricultural Consultants (BIAC), Central Association of Agricultural Valuers (CAAV), and Tenant Farmers Association (TFA), and have introduced regional stakeholder meetings to widen the consultation process.

We have focused our efforts on improving our customer service by making our standard letters to customers clearer. We have also begun the process of making improvements to SPS forms and guidance. We are a key contributor to Defra's Better Regulation Programme and Simplification Plans.

This year we again provided drop in centres for farmers and agents who delivered SPS claims by hand.

We are committed to continuous improvement to benefit our customers and stakeholders.

Satisfaction with Service

We are committed to improving our service. We treat all challenges to our decision making and complaints about our service very seriously. We receive Official Correspondence from Members of Parliament (MPs) and key stakeholders that is addressed to Defra Ministers or the Chief Executive. Customers may also complain directly to our Customer Relations Unit (CRU).

Complaints Process

The CRU handles and closely monitors every complaint it receives. It seeks appropriate information from the relevant business area of the Agency to make a decision as to whether the complaint is justified, and if so what action we should take to resolve it.

We improved this process during 2007 with the introduction of Customer Champions based in each of our sites. They take responsibility for investigating fully the cause of the complaint and report their findings to the CRU. The CRU ensures we provide a suitable response and will address any issues about our quality of service. Our target is to provide a reply to a complaint within 15 working days of receipt, and we are working to improve response times.

Performance

The number of complaints handled by the CRU decreased significantly from 2,569 in 2006/07 to 1,149 in 2007/08. This reduction reflects the improvement in our overall SPS performance. The following table shows the quarterly breakdown of these complaints this year compared with 2006/07.

Quarterly complaints volumes:

Quarter	2007/08	2006/07	Reduction
April to June	444	904	51%
July to September	283	550	49%
October to December	212	612	65%
January to March	210	503	58%
Total for the year	1,149	2,569	55%

Causes of Complaints

During 2007/08 the majority of our complaints related to SPS and included aspects of poor customer service. The most frequent causes of complaints were:

- Payments.

  Farmers complained that they had received an incorrect payment, or that they had not received either their scheme payments or interest relating to late payment.

- Penalties.

  Farmers or their agents challenged the penalties that were applied to their claim. For example, complaints cover wrongly applied penalties or where accepted corrections have not been made.

Appeals

We provide a formal appeals process which enables our customers to challenge a decision under any of the schemes we run. This is a two stage process. Stage 1 is an internal review of the case by the CRU. If a customer is not satisfied with the outcome they can take the case to Stage 2 where an independent panel (of three members) reviews the case and makes a recommendation to Defra Ministers. Ministers take the final decision to uphold or reject the appeal. During 2007/08 RPA received 517 appeal cases and held 49 panel hearings (hearings could consider more than one case).

SPS appeal cases covered a wide range of decisions under the scheme. The most common issues concerned problems with the receipt of applications, activation of entitlements, dual claims and Set Aside. Together these accounted for 60% of the Stage 1 appeal cases.

Stage 1 Appeals	Number of Appeals (withdrawn)	Unresolved	Resolved	Successful	Partially Successful	Unsuccessful
SPS	505(20)	255	230	89	8	133
IACS	6(1)	0	5	1	0	4
Other Schemes	6	1	5	2	1	2

Stage 2 Appeals	Number of Appeals (withdrawn)	Unresolved	Resolved	Successful	Partially Successful	Unsuccessful
SPS	119(5)	52	62	3	0	59
IACS	7	1	6	0	0	6
Other Schemes	5	1	4	0	0	4

Freedom of Information

In 2007/08 we responded to 146 requests for information, the majority of which were dealt with under the terms of the Environmental Information Regulations.

Sustainable Development

We meet the requirements of the Environmental Management System (EMS) ISO14001:2004. Continual monitoring and evaluation of all areas associated with the EMS resulted in us implementing new targets and initiatives Agency wide. These include reducing carbon emissions across our sites by the installation of Power Perfectors (used to regulate the level of voltage entering a building) and making changes to heating profiles at Reading, and lighting at Carlisle.

Equal Opportunities and Diversity

We have worked in partnership with Defra to produce a 'Disability Equality Scheme'. The scheme sets the standard for how people can expect to be treated and describes how, with the involvement of disabled people and deaf people, we aim to make RPA a fully inclusive and accessible organisation. We are also working with Defra to revise the 'Race Equality Scheme'.

We hold the Two Ticks Symbol, 'Positive about Disabled People'. This recognises employers who have agreed to take action on the employment, retention, training and career development of disabled employees.

We are embedding Equal Opportunity and Diversity principles throughout Human Resources (HR) Policy Development, Learning and Development and the way we manage people.

Information Handling

We recognised that customers rely on us to keep personal information they supply to the Agency secure. This is reinforced by the need to meet legal, contractual, duty of care and best practice requirements.

We are subject to annual audits by our own Internal Audit and security teams and various external auditors that specifically target information security management. We take this matter seriously because the implications of not handling data in an acceptable way are potential loss and inconvenience to customers, reputational damage and the potential loss to the UK taxpayer of millions of pounds through disallowance fines imposed by the EC.

All directors and appropriate unit heads have signed an Annual Assurance Statement on information handling in their area of responsibility. We are now in the process of applying this approach to partner and supplier organisations.

We responded with solutions, to the ban in late January 2008, by the Cabinet Office Secretary on unencrypted laptops containing personal data being taken from secured premises. We have also appointed a Senior Information Risk Officer (SIRO) at Management Board level.

Wider Security Management

We apply the requirements laid down in the Manual of Protective Security (which also covers ISO270020), the Baseline Personnel Security Standard; Counter Terrorism Protective Security Manual; and Communications Electronic Security Group (CESG) standards 1 to 5.

Health and Safety

We maintain a Health and Safety Unit, which is supported by a network of health and safety contacts across sites. This ensures that the Agency remains compliant with all relevant health and safety legislation.

The schedule of lone working training (primarily for Inspectorate staff who face the greatest risk) continued throughout the year.

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, we aim to pay all invoices according to agreed contractual conditions or, where no such conditions exist, within 30 days. During 2007/08, we paid 88% of all invoices relating to running costs within 30 days (2006/07: 85%).

Preparation of the Annual Report and Accounts

The Annual Report and Accounts have been prepared and published by RPA. The Accounts have been prepared under a direction issued by HM Treasury in accordance with Section 7(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 (2006/07: £400k) was incurred for the audit of these accounts. The Comptroller and Auditor General is also the auditor for the EAGF and EAFRD accounts which had a financial year ending on 15 October. The costs incurred in relation to these audits, which covers all UK Paying Agencies, amounts to £1,482k (2006/07: £1,479k).

The Accounting Officer (AO) 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

Agency Management Board (AMB) Directors

Tony Cooper	Interim Chief Executive
Hugh Taylor	Chief Operating Officer from July 2007
Robert Kendall	Finance Director from June 2007
Dave Halsey	E-Business Director and Senior Information Risk Officer
Andrew Good	Human Resources Director
Steve Betteridge	(non executive)
Nicola Bastin	(non executive) from November 2007

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

Georges Selim	(non executive) until January 2008
Karen Jordan	(non executive) until October 2007
Simon Vry	Chief Operating Officer until July 2007
Michael Cooper	Finance and Corporate Services Director until June 2007

RPA Audit Committee

Members of the RPA Audit Committee for the reporting period were:

Georges Selim	(non executive) until January 2008
Christine Tacon, CBE	(non executive)
John Mills	(non executive Defra representative) until September 2007
Will Lifford	(non executive) from September 2007
David Prince	(non executive) from September 2007

Tony Cooper was formally appointed Chief Executive from July 2008, and held the post of Interim Chief Executive from May 2006.

William Burton was appointed Chief Operating Officer from May 2008 and Robin Moulson was appointed Finance Director from June 2008.

Chris Swinson was appointed as Chair of the Audit Committee from April 2008. Chris will also be a non executive Director on the RPA AMB and sit on the Defra led Strategic Advisory Board (SAB).

Directors' interests - All related parties and Directors' interests can be found in Note 27 to the accounts.

Defra's Strategic Advisory Board (SAB) for RPA

The SAB advises Defra's Director General Food and Farming Group in their capacity as Corporate Owner. The Board will normally meet four times a year but members also advise RPA and Defra on strategic aspects of RPA's work where they have specific expertise.

Members of the SAB:

Andy Lebrecht	Director General – Sustainable Farming and Food, Defra (Chairman and Corporate Owner) until December 2007
Brian Harding	Director General – Sustainable Farming and Food, Defra (Chairman and Corporate Owner) from December 2007 to February 2008
Katrina Williams	Director General – Sustainable Farming and Food, Defra (Chairman and Corporate Owner) from March 2008
Tony Cooper	RPA Interim Chief Executive
Andrew Burchell	Director General – Defra Service Transformation Group until March 2008
Ian Grattidge	Finance Director General, Defra until May 2007
Stephen Park	Interim Finance Director General, Defra from May 2007
Mike Segal	Director – Defra Farming for the Future, Animal Welfare
Georges Selim	(non executive) until January 2008
Katie Davis	(non executive) until November 2007
Philip Nunnerley	(non executive)

Remuneration Report

Remuneration Committee

The Defra Remuneration Committee provides group guidance and policy on remuneration for the whole of the Defra Network including RPA. Policy on remuneration, and recommendations (for senior managers of RPA) relevant to the current and future financial years, is determined by this Committee, and RPA complies with these policies and recommendations at all times.

The Cabinet Office advises Defra in March or April each year of the Government's response to the Senior Salaries Review Body's recommendations and produces guidance for departments to follow. Defra 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.

RPA 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 (see Management Structure, page 21).

Service Contracts

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

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. Bonus payments are approved by the Defra Remuneration Committee. A percentage of the total Defra Senior Civil Servants' salary costs is available on this basis. For 2007/08 this percentage was 8.6% (2006/07: 7.6%).

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.

Salary, Pension and non cash benefits (audited information)

Salary and non cash benefits	2007/08		2006/07	
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 May 2006)	–	–	35–40 (135–140)	0
Tony Cooper Interim Chief Executive (from May 2006)	130–135	0	90–95 (110–115)	0
Alex Kerr* Deputy Chief Executive and Finance and Resources Director (until September 2006)	–	–	55–60 (75–80)	1,900
Hugh Taylor Chief Operating Officer (from July 2007)	60–65 (80–85)	0	–	–
Ian Hewett Operations Director (Member of RPA's Executive Board until July 2006)	–	–	25–30 (55–60)	4,300
Martin Truran Legal Director (Member of RPA's Executive Board until July 2006)	–	–	20–25 (65–70)	0
Simon Vry* Chief Operating Officer (until July 2007)	20–25 (75–80)	2,500	95–100	9,100
Robert Kendall** Finance Director (from June 2007)	140–145 (170–175)	0	–	–
Michael Cooper* Finance and Corporate Services Director (from September 2006 until June 2007)	15–20 (65–70)	0	35–40 (65–70)	0
David Halsey E-Business Director (from July 2006)	130–135	0	80–85 (110–115)	0
Alan McDermott* Information Services Director (until July 2006)	–	–	95–100 (225–230)	0
Andrew Good** Human Resources Director (from September 2006)	185–190	0	115–120 (185–190)	0
Steve Betteridge (non executive) Director	5–10	0	–	–
Georges Selim* (non executive) Director (from August 2006 until January 2008)	10–15 (10–15)	0	10–15 (10–15)	0
Nicola Bastin (non executive) Director (from November 2007)	0–5 (5–10)	0	–	–
Karen Jordan*** (non executive) Director (until October 2007)	–	–	–	–

Full year equivalent of basic salary shown in brackets for those Directors that have started or left during a year.

* Salary includes gross pay, performance pay or bonuses, overtime, reserved rights, recruitment and retention allowances and any other allowances subject to UK taxation. Mark Addison, Alex Kerr, Simon Vry, Alan McDermott, Georges Selim and Michael Cooper have all left the Agency.

** Andrew Good and Robert Kendall have been employed on a temporary basis through recruitment agencies. The amounts disclosed above comprise the amounts paid by the respective recruitment agencies to these individuals or companies controlled by them, for their services. Andrew Good and Robert Kendall do not receive any non cash or pension benefits from the RPA. Details of the costs to the RPA are Andrew Good £263,812 (2006/07: £116,418) and Robert Kendall £249,651 (2006/07: £0).

*** Karen Jordan was paid by the Cabinet Office for her role as non executive Director of RPA until October 2007.

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 2008 and related lump sum	Cash Equivalent Transfer Value at 31 March 2007	Cash Equivalent Transfer Value at 31 March 2008	Real Increase in Cash Equivalent Transfer Value at 31 March 2008
	£000	£000	£000	£000	£000
Tony Cooper Interim Chief Executive (from May 2006)	0–2.5 plus 5–7.5 lump sum	50–55 plus 150–155 lump sum	921	1,093	40
Hugh Taylor Chief Operating Officer (from July 2007)	0–2.5 plus 0–2.5 lump sum	0–5 plus 0–5 lump sum	0	16	14
Simon Vry Chief Operating Officer (until July 2007)	–	–	88	–	–
Michael Cooper Finance and Corporate Services Director (from September 2006 until June 2007)	0–2.5 plus 0–2.5 lump sum	10–15 plus 35–40 lump sum	177	159	3
Robert Kendall Finance Director (from June 2007)	–	–	–	–	–
David Halsey E-Business Director (from July 2006)	0–2.5 plus 0–2.5 lump sum	0–5 plus 0–5 lump sum	23	61	31
Andrew Good Human Resources Director (from September 2006)	–	–	–	–	–
Steve Betteridge (non executive) Director	–	–	–	–	–
Georges Selim (non executive) Director (from August 2006 until January 2008)	–	–	–	–	–
Nicola Bastin (non executive) Director (from November 2007)	–	–	–	–	–
Karen Jordan (non executive) Director (until October 2007)	–	–	–	–	–

During the year Simon Vry left the Agency and received £95,652 under the terms of an Approved Compensation Scheme.

Information within the Remuneration Report subject to audit includes salary, pension and non cash benefits for Directors and details of amounts payable to third parties for services of senior managers.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (Classic, Premium or Classic Plus); or a 'whole career' scheme (Nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension 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, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 calculated as in Premium. In Nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

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 particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Tony Cooper
Chief Executive

14 July 2008

Statement of Accounting Officer's Responsibilities

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

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

HM Treasury has appointed the Chief Executive of RPA as Accounting Officer (AO) with responsibility for preparing our 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 we 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 AO, including responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding our assets, are set out in the AO's Memorandum, issued by HM Treasury and published in 'Managing Public Money' (TSO).

Statement on Internal Control

Scope of Responsibility

As AO, I am responsible for maintaining a system of internal control that supports the achievement of the RPA's policies, aims and objectives, set by Defra's Ministers, while safeguarding the public funds and RPA's assets, for which I am personally responsible. This is in accordance with the responsibilities assigned to me in Managing Public Money (MPM).

I am responsible for the day to day management of RPA, including the production of the Agency's accounts and accounting returns and to the Secretary of State for Environment, Food and Rural Affairs for RPA's performance and operation.

I ensure that we engage with our operational partners across the Defra Network including AH (our livestock tracing provides public health safeguards) and NE and organisations such as RDAs to ensure effective scheme management and collaboration.

By working with industry groups, representing our farmers and traders, and examining the results of our customer surveys, I am aware of which concerns need to be addressed through our business improvement initiatives.

I have been RPA's Interim Chief Executive throughout the reporting period.

Governance

I have regular contact with Defra's Food and Farming Ministers and Permanent Secretary and maintain a dialogue with the Defra Secretary of State concerning risks to RPA, especially those which could affect our customers.

RPA is overseen by the Defra led SAB which includes non executive representation. The Board focuses on strategic risks and issues with day to day performance being overseen by the Defra led Delivery Review Board.

The AMB, established in 2006, provides our strategic direction. It maintains an overview of RPA's operational performance and delivery against business plans. Non executive members add skills and experience to the Board which helps us to improve our service.

I changed our internal governance structure in November 2007, creating a new Agency Executive Group (AEG). This Group provides tactical decision making to maximise our return on investments and deliver benefits. Their leadership provides a foundation for stability and continuous improvement across the business.

RPA is the single Paying Agency for the European Agricultural Fund for the RDPE. RPA has formal working arrangements with our delegated agents – NE, RDAs and FC to help ensure that Paying Agency control requirements under EC legislation are met.

In my capacity as Paying Agency Director, I furnish a Statement of Assurance to the EC in respect of the EAGF and EAFRD. This responsibility covers NE, RDAs and FC. Following EC approval in December 2007, RDAs began launching their regional programmes in January 2008.

I am pleased to report that the input of interim managers has been helpful for the management of the organisation and posed no risks in the reporting year.

Assurance

Two new non executives were appointed to the Audit Committee in September 2007 and a new Chair was appointed in April 2008. The Committee meets at least quarterly and advises the Agency on our accounts, internal control systems, risk management processes and internal audit practices. The Chairman of the Committee reports to AMB on issues raised at the Audit Committee and attends the SAB. I attend Audit Committee meetings and receive advice from it.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in RPA for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to Handle Risk

As AO, I have responsibility for managing the risk of failing to achieve our objectives. Our procedures are designed to identify, evaluate, review and manage the principal risks efficiently, effectively and economically. My aim has been to deliver improvements in risk management. The new governance structure and the re-launch of risk management throughout the Agency is leading to greater stability.

Events in early 2006 revealed that risk management was not operating effectively within RPA. The most recent annual Risk Maturity Review provides evidence of improvement and I believe that we have made progress towards overcoming the significant shortcomings of risk management that took place in earlier years.

I have initiated improvements to our risk management tool (Magique) which now provides a facility to have a single risk register across the whole Agency. Guidance and support on risk and issue management is regularly reviewed and is available to all staff through our Intranet and the Agency Risk Management Team. I review the effectiveness of our risk management and I am committed to continuous improvement.

Regular risk review meetings take place. These involve the directors, who complete a monthly review of their risks, informed by their managers' own reviews. Significant new risks are escalated to both director and AMB levels. The key staff including board members and risk co-ordinators have undertaken a programme of risk management refresher training.

I decided at the beginning of 2007 that the Agency's strategic priorities should be directed to SPS process improvements to ensure better accuracy and timeliness of payments to customers. An updated SPS Control Plan is now being implemented in order to allow better scheme management.

The entire RPA project process has been re-engineered to improve the selection of projects, impact assessments, risk management and benefits realisation. We established a Model Office environment to test applications and prepare the business for implementation. This helps mitigate against risks in the roll out of new technical solutions. The Business Readiness Team engages fully with internal customers through a pilot group to test developments.

I introduced new supporting systems for customer facing SPS staff. Customer relationships with us were previously impaired by multiple points of contact and difficulties with the supporting business process. Our new way of working follows the successful introduction of significant IT improvements. Our aim is for each SPS claimant to have a single point of contact with the Agency.

We are introducing a Disallowance Control Framework (supported by Scheme Control Plans) to help manage and minimise the risk of EC financial corrections.

Our Internal Audit has undertaken a strategic review of our fraud risk handling and the RPA Finance Director is sponsoring improved measures in the Agency.

Performance and Business Planning

The Secretary of State for the Environment, Food and Rural Affairs sets our annual performance targets which are published in the Operating Business Plan. We monitor progress against these targets using a corporate dashboard approach.

I have put in place improved arrangements for performance management. A central Operations Performance Team (OPT) collects and analyses progress and activity reports from RPA Operations, manages performance against corporate targets and reports on these to AEG and AMB every month.

My new Senior Leaders Group (SLG) brings all senior managers and directors together in a single forum to promote constructive engagement across business areas. The forum helps to make our strategic direction and objectives stronger through a process of test and challenge. Managers subsequently involve their teams to help ensure that the whole Agency is working towards common goals.

The Learning and Development Unit has established a comprehensive programme to develop management and leadership skills across the organisation. This covers Personal Effectiveness for team members through to the Leadership Development Programme for our 90 senior leaders.

We have developed a three year Corporate Strategy covering the period 2008/09 to 2010/11 and I have ensured that my senior managers are aware of our medium term strategic direction.

Review of Effectiveness

As AO, I have responsibility for reviewing the effectiveness of the system of internal control. We have introduced a new process to review effectiveness. Each senior manager completes a questionnaire and comments on the areas they have identified for improvement. My review of effectiveness is informed by the work of the internal auditors.

The Head of Internal Audit has advised me that the overall Internal Audit opinion for 2007/08 is satisfactory. Although we have resolved many legacy issues, there is still scope for us to further improve data quality in our corporate registers and scheme management processes. These issues are still causing additional work for us.

RPA is implementing all of the recommendations in the first NAO report, published in October 2006.

In December 2007, the National Audit Office (NAO) undertook a further review of RPA, 'A progress update in resolving the difficulties in administering the Single Payment Scheme in England', and we are awaiting a report from the Public Accounts Committee (PAC) which I attended in January 2008.

I am fully aware of the safeguards that need to apply to information assets including personal and other sensitive data submitted by our customers. EC requirements demand that our security controls be set at a high level. I initiated a full review in this area which identified additional measures which we are now putting in place to meet revised Cabinet Office requirements. I have confirmed an AMB Director as our SIRO.

We have conducted an Agency self assessment against the accreditation criteria set out by the EC and this has informed our scheme control and risk reviews.

Significant Internal Control Problems

The Agency has now overcome many of the problems associated with the initial implementation of SPS. There are individual claimants who have received poor service and there are still aspects requiring further improvement before we can be considered to be consistently delivering services to a reasonable standard.

In addition, we have identified a number of longer term issues that could jeopardise our customer service improvement plans and their impact on customers. These include the forthcoming implementation of CAP Health Check measures and essential changes to our systems and processes. We are giving due consideration to how changes might affect our customers before we introduce them.

This year our workload was greater than anticipated, leading to the carryover of outstanding corrections work and this will be reflected in future forward planning.

A list of the principal issues affecting the Agency during 2007/08 and mitigating action follows:

Data Quality issues

Data quality and accuracy issues affecting base information held within the RLR, Customer Register (CREG) and Entitlements Databases continue to impede our business recovery.

I have put in place a 'route map' for improving the underlying land data over the longer term. This may have some impact on a small number of already defined entitlements and our intention is to consider the effect on our customers before introducing system changes.

I have initiated a review of a significant proportion of SPS cases to ensure that customer entitlements are correct. This follows issues relating to the 2005 scheme year during which entitlements were established. Good progress is being made although a small proportion of cases where entitlements are at risk of being incorrect are being carried forward for further action during the next scheme year. Difficulties experienced in 2006 have also led to some overpayments which we were unable to recover until they were fully checked. The checking and recovery processes are underway with customers being notified wherever there are overpayments to be recovered. There is however a backlog of overpayments.

We are working to identify and rectify missing details in the CREG to improve accuracy. This includes an exercise to capture bank details from customers by 16 October 2008 in order to comply with EC legislation.

An improvement strategy based on risk assessment has been in place throughout the period. The process is managed by a dedicated team providing progress reports on a regular basis to the AMB.

Disallowance

We are aware that there are a number of control areas which could cause disallowance, including SPS, Fruit and Vegetable Producer Scheme, Export Refunds.

The Disallowance and Accreditation Committee has been established this year to identify and advise me on the significance of potential disallowance and to consider options to address the risk. These include taking remedial action, contesting EC findings or following EC conciliation procedures, as appropriate. We are also supporting Defra with the work it is taking forward to deal with potential historic disallowance risk and in particular those that arise from SPS 2005 and 2006 scheme years.

An issue arose regarding the amount of time taken to amend the RLR when discrepancies have been identified during inspections. We have made improvements to the management and processing of corrections to the RLR.

A trial closure exercise managed by the Rural Development Scheme Management Unit, with our Internal Audit support, has identified that Government Offices need to carry out substantial work to prepare the full closure pack required under the Structural Funds Programme. This pack must be submitted to the EC to obtain funding from them. A detailed action plan has been put in place to address the issues. This is being monitored by us and the Defra Managing Authority to help ensure necessary work is undertaken.

IT Asset Control

We have identified and addressed historic issues in asset management. We have started improvements in controls, and a follow up review by Internal Audit has concluded that improvements to the processes over asset controls are effective.

Contingencies – Business Continuity and Disaster Recovery (DR) testing

The Agency and site level Business Continuity Plans have been updated. An exercise to assess the current state of Process and Function plans has been undertaken with areas of weakness being reviewed and addressed with plan owners. We have instituted a full DR test of all business critical systems with only CTS not yet tested. Local site contingency plans are being tested under a rolling programme.

Mitigating the impact of exchange rate fluctuations

The Agency is reimbursed by the EC in Euros for expenditure under the CAP payment schemes. Since 2006 we have implemented hedging arrangements to protect against the risk of exchange rate fluctuations for our own payments and for those of the devolved Paying Agencies. Some risks remain principally because the hedging cover in respect of SPS payments needs to be established when the Euro – Sterling conversion rate for the scheme is established by regulation, based on an estimate of the payment fund in advance of the commencement of payments. We have acknowledged the need to review the level of outstanding cover with reference to the fund value on a continuous basis to take into account potential changes. The impact of reductions is currently greater than previously experienced because of the movement of the Euro against Sterling in the second half of 2007/08.

Tony Cooper

Tony Cooper
Chief Executive

14 July 2008

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

I certify that I have audited the financial statements of the RPA for the year ended 31 March 2008 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 Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made there under 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 Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the 'Business Review', 'Public Interest' and 'Management Structure' sections, included in the Annual Report 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. This other information comprises the 'Foreword', the 'Performance Against Targets' section, and the unaudited parts of the 'Remuneration Report', included within the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Accounting Officer 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 there under by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of its net operating costs, total 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 the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder; and
- information which comprises the 'Business Review', 'Public Interest' and 'Management Structure' sections, included within the Annual Report, is consistent with the financial statements.

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 observation on the financial statements follow on pages 39 to 40.

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

16 July 2008

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

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

The Single Payment Scheme (SPS) was implemented by Member States of the European Union in 2005 as part of the Common Agricultural Policy reforms which replaced 11 separate crop and livestock based production subsidies with a single payment based on land area.

SPS payments are made in respect of calendar years, in a payment window that runs from December in the calendar year to the following June. Under EC regulations paying agencies are required to have paid 96.154% of funds in respect of any year by the end of June deadline in order to avoid non reimbursement (determined on a sliding scale) of subsequent expenditure.

For the first year of the SPS (2005) the Agency experienced considerable difficulties in completing payments and as a result incurred losses due to non reimbursable late payments. For the 2006 SPS year the Agency made the necessary level of payments by the deadline of the 30 June 2007 and did not incur late payment losses.

We reported to Parliament on 18 October 2006, on the Delays in Administering the 2005 SPS in England (HC 1631/2005/06) and on 12 December 2007, a progress update in resolving the difficulties in administering the SPS in England (HC 10/2006/07).

The Agency's payment performance in respect of the 2007 scheme has improved and, in addition to making the necessary level of payments to achieve the EC deadline of 30 June 2008, it also achieved additional targets set by Ministers of paying 75% of claims by value by 31 March and 90% by the end of May 2008.

Provision for Disallowance

Where the EC takes the view that the detailed European regulations have not been applied correctly in processing EU Scheme transactions, there is a risk of disallowance of expenditure under the Scheme. The Agency's accounting policy indicates that disallowance and the non reimbursement of late payments are provided for in the accounts of the Agency's parent Department, Defra.

The EC has now confirmed a disallowance relating to the Arable Area Payment Scheme (AAPS), which existed before the current SPS. It was the largest EU CAP scheme in England with payments of £1.1bn each year to some 47,000 farmers. Farmers claimed area based payments for growing certain arable crops - cereals, oil seeds, linseed and protein crops - on eligible land. The Commission has determined that the Agency had not accurately determined the area eligible for payments and had undertaken required field visits at inappropriate times.

The penalty amounts to £55m, which will be deducted from future payments of claims submitted by the Agency for the SPS in England. The Department is currently considering its legal position on this matter, as it considers that the penalty is disproportionate.

I have reported separately in respect of Defra's 2007/08 Resource Accounts (HC 862, 2007/2008).

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS 16 July 2008

Operating Cost Statement for the year ended 31 March 2008

	Note	2007/08		2006/07
		£000	£000	£000
Programme Costs				
Running Costs				
Staff costs	2	113,422		112,353
Other running costs	3	129,379		117,460
Gross Running Costs		242,801		229,813
Income	11	(1,085)		(1,476)
Net Running Costs			241,716	228,337
Scheme Costs				
RPA				
Costs	4	1,669,312		1,998,943
Less Income*	11	(1,599,900)		(1,899,176)
			69,412	99,767
Other Departments				
Costs	10	1,000,482		1,051,530
Less Income*	10	(995,020)		(1,047,532)
			5,462	3,998
Other income	11		(54,479)	1,582
Net Scheme Costs			20,395	105,347
Net Operating Cost			262,111	333,684

* All income and expenditure is derived from continuing operations.

The notes on pages 45 to 81 form part of these accounts.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2008

	2007/08	2006/07
	£000	£000
Net Operating Cost	(262,111)	(333,684)
Net gain on revaluation of tangible fixed assets	1,562	521
Total recognised losses for the financial year	(260,549)	(333,163)

The notes on pages 45 to 81 form part of these accounts.

Balance Sheet as at 31 March 2008

Fixed Assets	Note	2007/08		2006/07	
		£000	£000	£000	£000
Tangible Assets	13a	71,661		65,553	
Intangible Assets	13b	2,140		3,933	
			73,801		69,486
Current Assets					
Stocks	14	0		11	
Debtors	15	1,162,629		2,107,786	
Cash at bank and in hand	16	691,792		128,521	
		1,854,421		2,236,318	
Creditors (due within one year)	17	(1,918,781)		(2,844,702)	
Net current liabilities			(64,360)		(608,384)
Total assets less current liabilities			9,441		(538,898)
Creditors (due after more than one year)	18		(36,252)		0
Provisions for liabilities and charges	19		(20,999)		(29,457)
			(47,810)		(568,355)
Taxpayers' Equity					
General fund	21		(50,941)		(571,164)
Revaluation reserve	21		3,131		2,809
			(47,810)		(568,355)

The notes on pages 45 to 81 form part of these accounts.

Tony Cooper
Chief Executive and Accounting Officer

14 July 2008

Cash flow Statement for the year ended 31 March 2008

	Note	2007/08	2006/07
		£000	£000
Net cash inflow/(outflow) from operating activities	22a	**598,140**	(794,122)
Capital expenditure and financial investment	22b	**(24,856)**	(10,699)
Payments to the Consolidated Fund	21/22a	**(2,379,357)**	(2,453,531)
Financing	22c	**2,369,344**	1,688,363
Increase/(decrease) in cash in the period	16	**563,271**	(1,569,989)

The notes on pages 45 to 81 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in compliance with the 2007/08 Government 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

Stocks comprised agricultural commodities purchased into intervention under terms specified by EAGF (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 Statement of Standard Accounting Practice (SSAP) 9, as specifically approved in the FReM (paragraph 6.3.9).

Other Stocks

Other stocks comprise Meat and Bone Meal (MBM) and Tallow which have no value to the business, so are valued at £nil in these accounts.

1.3 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. The minimum level of capitalisation is £2,000. Below this threshold costs are charged directly to the Operating Cost Statement. Software projects being developed are recognised as Construction in Progress (CIP) and treated as capital expenditure (but not depreciated or revalued until the software is fully developed and brought into use). RPA has set a capitalisation threshold for software projects of £100,000.

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. All assets are assessed for impairment.

Freehold land and buildings is comprised entirely of assets which are held for sale and are measured at the lower of carrying value and fair value less costs to sell. Previously this category was 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.

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:

Freehold land and buildings	20 years
Leasehold land and buildings	5 years
Plant and machinery	10 – 25 years
Furniture and fittings	5 years
Vehicles	4 years
Office machinery	5 years

IT hardware:	
Laptops, printers, etc	3 years
Servers	5 years
Communications	5 years
IT software	5 years

1.4 Intangible fixed assets

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

1.5 Leased assets

All leases are assessed using the criteria as laid down in SSAP 21. Rental costs arising under operating leases are charged to the Operating Cost Statement 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).

When Intervention occurs, 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

All 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 OCDS 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 a payment 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. Where corrections to amounts previously paid were identified, these are recorded as creditors or debtors, to the extent they have not been settled at the balance sheet date. In the case of debtor balances they are reviewed and verified prior to invoices being issued.

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 (see Note 17).

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 EC budget (subject to retentions for National Modulation – see Note 1.10) are surrendered to the Treasury as 'Consolidated Fund Extra Receipts' (CFER) 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 EC 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.

In accordance with Commission regulations RPA collects and surrenders both Sugar and Isoglucose production charges, and charges to fund the restructuring of the sugar regime. Production charges are recognised as income with the associated CFER liability and these funds are remitted to the EC via HM Treasury. Sugar restructuring receipts are remitted directly to the EC through the monthly reimbursement process and are not reported as income in these accounts.

1.9 Other Paying Agencies' income and costs

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

1.10 Modulation

Modulation is a vehicle for redirecting into RD a proportion of support payments to farmers and other claimants. This process is supported by EC and national legislation. Under these arrangements there are two types of modulation - National (or Voluntary) Modulation and EC (or Compulsory) Modulation.

National (or Voluntary) Modulation

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 RD measures within four years of the end of the EAGF year in which they were retained, then they must be repaid to the EAGF.

The National Modulation is managed on Defra's behalf with the cash retained in the RPA bank account. The funds are accounted for as deferred income to fund future RD expenditure in Defra's account.

From SPS 2007 onwards payments are reclaimed net of all modulation, National Modulation funds for the UK are reclaimed from the EC when the RD expenditure is incurred.

EC (or Compulsory) Modulation

EC Modulation reduces the net amounts paid to traders and farmers, with the funds retained in the first instance by the EC. However, the EC has committed at least 80% of these funds to be available to cover RD expenditure in the UK. EC Modulation will be reclaimed from the EC when the RD expenditure is incurred.

Within these accounts SPS is reported net of EC Modulation and National Modulation for SPS 2007 and subsequent years.

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. Funding of RD expenditure under the RDPE is managed by RPA on behalf of Defra. Scheme income and expenditure is reported in Defra's resource account with the transfer reported as a movement through General Fund. The EC debtor for Commission funded RD expenditure is recognised by RPA when expenditure is incurred.

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% (2006/07: 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. For this calculation, the average EC debtor 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) except where they are subject to a standard rate, in which case the standard rate applies. In line with HM Treasury guidance gains are treated as CFER and losses are treated as Scheme Costs.

In agreement with HM Treasury, RPA hedges against currency movements associated with the EC reimbursement process. Reporting and disclosure is in line with Financial Reporting Statement (FRS) 25 and 26.

1.15 Pensions

Present and past employees of RPA are covered by the provisions of five separate Civil Service Pension Schemes (PCSPS), which are described in the Remuneration Report. 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

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 severance retirement schemes. RPA provides for this when a formal letter has been issued to the employee giving a leaving date and severance terms.

2. Staff numbers and costs

2.1 Staff costs

Officials	2007/08 £000				2006/07 £000
	Total	Permanently employed staff	Casual staff	Agency staff	Total
Wages and salaries	80,719	78,418	2,301	0	71,612
Social security costs	5,951	5,759	192	0	5,496
Other pension costs	12,997	12,954	43	0	10,985
Early retirement and early severance costs/(release)	1,062	1,062	0	0	(74)
	100,729	98,193	2,536	0	88,019
Agency Staff	12,693	0	0	12,693	24,334
	113,422	98,193	2,536	12,693	112,353

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 2007. Details can be found in the resource accounts of the Cabinet Office Civil Superannuation:

- www.civilservice-pensions.gov.uk

For 2007/08 employer's contributions of £12.8m (2006/07: £11m) were payable to the PCSPS at one of four rates in the range 17.10% to 25.50% of pensionable pay, based on salary bands. 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 2007/08 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 £197k 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, 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 (2006/07: £nil). There were no prepaid contributions at that date.

No staff costs have been capitalised.

2.2 Staff numbers

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

Officials	2007/08			2006/07
	Total	Permanently employed staff	Short term/fixed term Contract staff	Restated Total
Directly Employed	**3,540**	**2,344**	**1,196**	3,087
Contractors	**101**	**0**	**101**	141
Agency Staff	**656**	**0**	**656**	1,239
Total	**4,297**	**2,344**	**1,953**	4,467

Contractors' costs are reflected in Note 3.

2006/07 staff numbers have been restated to split out Agency and Contract staff.

3. Other running costs

	Note	2007/08		2006/07
		£000	£000	£000
Rentals under operating leases				
Rent on buildings			**5,118**	5,357
Non cash items (including notional charges)				
Audit fee (notional)	28	**400**		400
Defra capital charges – buildings (notional)	28	**782**		781
Defra central overhead charges (notional)	28	**631**		769
Loss/(gain) on disposal of fixed assets	28	**350**		(3,666)
Depreciation and impairment*	28	**20,864**		18,556
Cost of capital charge (notional)	28	**1,318**		381
			24,345	17,221
Other Expenditure				
Accommodation		**8,189**		6,126
IT costs		**44,230**		35,303
Running costs		**3,038**		2,235
Non payroll staff costs		**5,117**		4,707
Contractor staff costs		**24,659**		27,865
Communications costs		**6,458**		8,739
Agents fees		**6,049**		6,979
Miscellaneous scheme costs		**2,176**		2,928
			99,916	94,882
			129,379	117,460

* Depreciation and impairment £20.864m entirely comprises depreciation (2006/07: £18.505m and impairment of £0.051m).

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

	2007/08	2006/07
	£000	£000
Payroll costs	**465**	462
Other costs	**29**	26
EAGF/EAFRD audit fee	**1,482**	1,479
	1,976	1,967

4. Schemes administered by RPA

RPA is responsible for the administration of:

- SPS, internal market schemes covering dairy products, crops and fruit and vegetables, external trade measures (export refunds, import and export licences), milk quotas and the OCDS, throughout the UK.
- Intervention buying and selling in the UK.
- Funding CAP schemes administered by all the UK Paying Agencies.
- Receipt and administration of monies received from EAGF and EAFRD for the UK.

	Note	2007/08	2006/07
		£000	£000
SPS	5a	**1,522,042**	1,658,174
Pillar 1 (excluding SPS)	5a	**(444)**	451
BSE related	5b	**60,826**	86,647
Trader based – Internal Market	6	**91,889**	43,013
Trader based – External Trade	7	**(30,904)**	177,382
Intervention buying and selling	8	**387**	8,121
School Milk		**4,325**	6,551
Scheme related losses	29	**11,492**	3,019
20% retention of irregularities*	5a	**(274)**	(541)
Other scheme costs		**13**	14
		1,659,352	1,982,831
(Release from)/charge to bad debts provision		**(8,447)**	2,328
Cost of capital charge	28	**8,991**	12,598
Exchange loss**		**9,416**	1,186
		1,669,312	1,998,943

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

** RPA has hedging contracts in place with Royal Bank of Scotland (RBS), to mitigate the risk of currency fluctuations in relation to scheme income which is received from the EC in Euros. The RPA retains a residual risk as a result of having to estimate in advance SPS payments that it will make and recover from the EC. A loss was incurred in the year but this was partially offset by recoveries from RBS on the placing of the hedging contracts.

5. Farm based schemes

5a. SPS

	Note	2007/08			2006/07		
		Expenditure	Income	Net	Expenditure	Income	Net
		£000	£000	£000	£000	£000	£000
SPS		1,522,042	(1,522,042)	0	1,658,174	(1,658,174)	0
Late payment and disallowance penalties		0	61,752	61,752	0	0	0
Utilisation of Defra accrual		0	(61,752)	(61,752)	0	0	0
		1,522,042	(1,522,042)	0	1,658,174	(1,658,174)	0
EC financial correction	17	(444)	(794)	(1,238)	451	0	451
Other schemes		(274)	64	(210)	(541)	5,289	4,748
Total Scheme Expenditure/ (Income)		1,521,324	(1,522,772)	(1,448)	1,658,084	(1,652,885)	5,199

Late payment penalties relate to the non reimbursement from the EC for payments made after the due date and relate to the SPS 2005 scheme year.

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.

	2007/08			2006/07		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
OCDS						
Premium Payments	**24,195**	**(16,258)**	**7,937**	37,806	(12,571)	25,235
Costs of operations						
Slaughter	**11,604**	**0**	**11,604**	12,953	0	12,953
Transport	**2,730**	**0**	**2,730**	3,591	0	3,591
Rendering	**10,733**	**0**	**10,733**	11,217	0	11,217
Incineration	**2,772**	**0**	**2,772**	1,181	0	1,181
Storage	**435**	**0**	**435**	296	0	296
	52,469	**(16,258)**	**36,211**	**67,044**	**(12,571)**	**54,473**
Over Thirty Month Slaughter (OTMS)						
Premium Payments*	**17**	**2,796**	**2,813**	214	(494)	(280)
Costs of operations						
Slaughter	**0**	**0**	**0**	(130)	0	(130)
Transport	**0**	**0**	**0**	217	(4)	213
Rendering	**0**	**0**	**0**	142	0	142
Incineration	**915**	**0**	**915**	500	0	500
Storage	**7,425**	**0**	**7,425**	18,660	0	18,660
Tallow sales	**0**	**(2,584)**	**(2,584)**	0	0	0
	8,357	**212**	**8,569**	**19,603**	**(498)**	**19,105**
Total Scheme Expenditure/(Income)	**60,826**	**(16,046)**	**44,780**	86,647	(13,069)	73,578

* The negative OTMS Premium Payments income (£2,796m) arises from an over accrual in 2006/07.

The above analysis excludes the administration costs of BSE schemes.

EC funding is claimed in full for cattle that are directly incinerated. In respect of cattle that are rendered (the majority), EC funding is in two elements, 80% on the rendering of the carcass and 20% on destruction of the MBM and tallow produced from the rendering process.

OCDS replaced OTMS from 23 January 2006 following changes to the OTMS rules. Compensation payments are co-financed by the EC, while the costs of operation are borne by the UK Exchequer and remain with RPA.

The Waste Incineration Directive 2006/76/EC and Stock

This Directive requires additional safety requirements during the incineration of tallow. Therefore, the incineration of tallow has temporarily stopped until the renderers have complied with the Act's requirements. Consequently tallow stocks are increasing slowly until such time as the necessary work has been completed. At 31 March 2008, 14,568 tonnes remained in store (2006/07: 11,946 tonnes).

At 31 March 2008, there were 1,192 tonnes (2006/07: 22,558 tonnes) of OTMS MBM and 843 tonnes (2006/07: 0.0 tonnes) of OCDS MBM in store.

As these stocks have no value to the business both tallow and MBM stocks have been valued as £nil in these accounts (2006/07: £nil).

6. Trader based – Internal Market

	2007/08			2006/07		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
Horticulture	17,469	(16,677)	792	16,076	(16,308)	(232)
Milk and Milk Products	2,120	(2,182)	(62)	9,600	(9,655)	(55)
Protein and Textile plants	1,099	(1,124)	(25)	914	(863)	51
School Milk	519	(552)	(33)	364	(381)	(17)
Seeds	0	0	0	(8)	8	0
Sugar and Isoglucose	63,931	(63,998)	(67)	13,126	(13,058)	68
Other	1,836	(1,679)	157	2,940	954	3,894
	86,974	(86,212)	762	43,012	(39,303)	3,709
EC financial correction	4,915	0	4,915	1	0	1
Total Scheme Expenditure	91,889	(86,212)	5,677	43,013	(39,303)	3,710

7. Trader based – External Trade

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

	2007/08			2006/07		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Milk and Milk Products	**1,288**	**(1,318)**	**(30)**	23,773	(23,953)	(180)
Processed Goods	**6,321**	**(7,251)**	**(930)**	12,847	(12,948)	(101)
Sugar and Isoglucose	**(39,022)**	**38,825**	**(197)**	139,200	(139,214)	(14)
Other	**509**	**(628)**	**(119)**	1,562	(1,628)	(66)
Total Scheme Expenditure	**(30,904)**	**29,628**	**(1,276)**	177,382	(177,743)	(361)

8. Intervention Buying and Selling

	Note	2007/08		2006/07
		£000	£000	£000
Cost of Intervention sales		12		7,770
Stock movement		0		61
			12	7,831
Fixed asset depreciation*	28		54	95
Intervention operating costs			321	195
Total costs			387	8,121
Intervention Income	11		(10)	(9,741)
Total Intervention buying and selling			377	(1,620)

* Fixed asset depreciation is reported as £0.054m. This is made up of £0.042m depreciation relating to Freehold Land and Buildings and £0.012m (within a total of £0.030m) 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 which is then added to the budget for RD schemes under EAFRD.

It is applied on two bases, EC Modulation and National Modulation:

EC Modulation

EC Modulation is governed by Council Regulation (EC) No 1782/2003. The rate increased progressively from 3% of direct payments in 2005 to 5% from 2007 onwards. The same rate applies throughout the whole of the UK. Up to €5,000 of each claim is effectively exempt from such modulation and an additional payment is made to farmers refunding this element of the modulation. The UK claims on the EAFRD fund in respect of EC Modulation deductions and receives a minimum of 80% of the funds guaranteed for redistribution.

EC Modulation rates up to 2012 are set in the legislation as follows:

	Scheme Year				
	2005	2006	2007	2008	2009/2012
Modulation Deduction Percentage	3%	4%	5%	5%	5%

All SPS payments are modulated. A small part of the modulation deduction will be repaid to farmers via an additional payment provided for by the EC Council Regulation. 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 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 National 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 National Modulation deductions for SPS 2005 and SPS 2006 are claimed from EAGF. SPS 2007 payments are reclaimed net of all modulation and a separate claim is made to EAFRD when the RD 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.

Paying Agencies	Note	2007/08			2006/07		
		Expenditure	Income	Net	Expenditure	Income	Net
		£000	£000	£000	£000	£000	£000
SGRPID (formerly SEERAD)		460,854	(460,854)	0	518,834	(518,868)	(34)
WAG (formerly NAWAD)		249,464	(249,464)	0	238,265	(238,265)	0
DARDNI		273,139	(273,139)	0	276,781	(276,833)	(52)
		983,457	(983,457)	0	1,033,880	(1,033,966)	(86)
EC financial correction	17	(121)	0	(121)	(1,088)	0	(1,088)
Cost of capital charge	28	5,488	0	5,488	5,165	0	5,165
		988,824	(983,457)	5,367	1,037,957	(1,033,966)	3,991
Delegated Authorities							
FC		11,658	(11,696)	(38)	10,845	(10,843)	2
CCW		0	133	133	2,728	(2,723)	5
		11,658	(11,563)	95	13,573	(13,566)	7
Total		1,000,482	(995,020)	5,462	1,051,530	(1,047,532)	3,998

SGRPID Scottish Government Rural Payments and Investigation Directorate
WAG Welsh Assembly Government
DARDNI Department of Agriculture and Rural Development, Northern Ireland
FC Forestry Commission
CCW Countryside Council for Wales

FC and CCW ceased to be Paying Agencies after 16 October 2006. FC continues to make payments and therefore continues to receive funds, but CCW payments and funding now go through WAG.

11. Operating Income

Operating income analysed by classification and activity is as follows:

	Note	2007/08	2006/07
		£000	£000
Running costs Income*		1,085	1,476
Scheme Income			
CAP RPA schemes			
Farm based	5a	1,522,772	1,652,885
BSE related	5b	16,046	13,069
Trader based – Internal Market	6	86,212	39,303
Trader based – External Trade	7	(29,628)	177,743
Intervention buying and selling	8	10	9,741
Other		4,488	6,435
		1,599,900	1,899,176
Other Paying Agencies			
EC Contributions	10	995,020	1,047,532
Other trade receipts			
Sugar Levies/Production Charge**		52,527	(9,647)
Other		1,952	8,065
		54,479	(1,582)
Total Scheme Income		2,649,399	2,945,126
Total Income		2,650,484	2,946,602

* Running Costs Income includes £525k (2006/07: £759k) notional income relating to services provided across Defra by Defra Investigation Services (DIS), which is part of the RPA.

** Historically, Sugar Levies have normally been collected in two stages as directed by the EC. In 2006/07 the monetary value of the first stage as instructed by the EC was greater than the revised EC total amount, giving rise to negative income in 2006/07. For 2007/08 the levy has been replaced by a Production Charge based on quota held for the 2007/08 marketing year.

All scheme income with the exception of Other Paying Agencies income is paid directly to HM Treasury and is treated as CFER.

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

	2007/08				2006/07			
	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	24,876	0	(20)	24,856	16,768	0	(6,069)	10,699
	24,876	0	(20)	24,856	16,768	0	(6,069)	10,699

Tangible and intangible fixed assets purchases in 2007/08 amounted to £24,876k (2006/07: £16,768k). Proceeds from sales of assets amounted to £20k (2006/07: £6,069k).

13. Fixed Assets

13a. Tangible fixed Assets

	Freehold Land and Buildings	Short Leasehold Land and Buildings	Information Technology	Furniture and Fittings	Vehicles, Plant and Machinery	Office Equipment	Construction in Progress	Total
Replacement Cost Basis	£000	£000	£000	£000	£000	£000	£000	£000
Cost								
At 1 April 2007	2,970	11,813	127,880	2,995	657	6,796	2,553	155,664
Reclassification	0	0	5,582	0	0	0	(5,891)	(309)
Revaluation	(468)	387	2,398	17	30	27	0	2,391
Additions	0	1,142	11,338	0	0	(95)	11,660	24,045
Disposals	0	(270)	(2,948)	(92)	(80)	(287)	0	(3,677)
At 31 March 2008	2,502	13,072	144,250	2,920	607	6,441	8,322	178,114
Depreciation								
At 1 April 2007	827	3,854	78,440	2,666	335	3,989	0	90,111
Reclassification	0	0	(309)	0	0	0	0	(309)
Revaluation	(271)	201	772	13	7	(9)	0	713
Charge for year	42	1,273	17,214	107	30	821	0	19,487
Disposals	0	(268)	(2,867)	(92)	(62)	(260)	0	(3,549)
At 31 March 2008	598	5,060	93,250	2,694	310	4,541	0	106,453
Net Book Value								
At 1 April 2007	2,143	7,959	49,440	329	322	2,807	2,553	65,553
At 31 March 2008	1,904	8,012	51,000	226	297	1,900	8,322	71,661

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 2007/08 on tangible and intangible fixed asset additions amounted to £24,517k and £359k respectively, as reflected in Note 22b.

Freehold Land and Buildings assets are held for sale.

Office equipment additions reflect the impact of an over accrual of £101k in 2006/07. This has resulted in negative additions for 2007/08.

13b. Intangible Fixed Assets

	2007/08	2006/07
Historic Cost Basis	£000	£000
Cost		
At 1 April 2007	11,389	10,804
Reclassification	309	(22)
Additions	(4)	1,029
Disposals	(852)	(422)
At 31 March	**10,842**	11,389

Amortisation		
At 1 April 2007	7,456	5,714
Reclassification	309	3
Charge for year	1,547	2,044
Disposals	(610)	(305)
At 31 March	**8,702**	7,456

Net Book Value		
At 1 April 2007	3,933	5,090
At 31 March	**2,140**	3,933

Additions reflect the impact of an over accrual in 2006/07 this has resulted in negative additions for 2007/08.

14. Stocks

	2007/08			
	Butter	Cereals	Milk Powder	Total
	£000	£000	£000	£000
At 1 April 2007	9	2	0	11
Movement	(9)	(2)	0	(11)
At 31 March 2008	**0**	**0**	**0**	**0**

RPA is not currently actively engaged in the buying and selling of commodities.

15. Debtors

	2007/08		2006/07
	£000	£000	£000
Trade debtors	60,733		48,101
Less Provision for Bad Debts	(21,172)		(29,619)
		39,561	18,482
Balance due from EAGF/EAFRD		1,088,664	1,970,358
Due from Defra and its Agencies		10,476	88,653
Other Government Departments including other Paying Agencies		18,938	23,517
Prepayments and accrued income		1,908	2,292
VAT		2,910	4,417
Other debtors		172	67
Total Debtors		1,162,629	2,107,786

A total of £521,948k of the above, once received, will be paid over to the Consolidated Fund (2006/07: £1,590,624k).

15a. Intra-Government Balances

	2007/08	2006/07
	£000	£000
Balances with other central Government bodies	29,414	112,170
Balances with local authorities	231	12
Balances with NHS Trusts	0	0
Balances with public corporations and trading funds	0	0
Total Intra-Government balances	29,645	112,182
Balances with bodies external to Government	1,132,984	1,995,604
Total Debtors	1,162,629	2,107,786

16. Cash at bank and in hand

	2007/08	2006/07
	£000	£000
Balances held at 1 April	**128,521**	1,698,510
Net cash inflow/(outflow)	**563,271**	(1,569,989)
Balances held at 31 March	**691,792**	128,521
The following balances were held at 31 March:		
Office of HM Paymaster General (OPG)	**690,278**	128,193
Commercial banks/cash in hand	**1,514**	328
Balances held at 31 March	**691,792**	128,521
The balances at 31 March comprise:		
Modulation	**1,197**	7,614
Modulation in respect of Other Paying Agencies	**5,104**	(267)
Structural Funds EC Advance	**0**	6,929
EAFRD Advance	**36,252**	0
Exchange rate loss	**(9,416)**	(1,186)
CFER	**453,510**	158,856
Cash Securities*	**3,261**	2,398
Amounts issued but not spent at year end	**201,884**	(45,823)
	691,792	128,521

* 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 amount represents cash deposited with RPA, the corresponding liability with the trader is included in creditors.

17. Creditors: Amounts falling due within one year

	Note	2007/08 £000	2006/07 Restated £000
Trade creditors		**30,745**	25,985
Due to Defra and its Agencies*		**107,964**	14,265
Other Government Departments including Other Paying Agencies		**1,205**	983
Amounts due to the Consolidated Fund		**975,458**	1,749,480
Cash securities	16	**3,261**	2,398
EC financial corrections**		**22,375**	18,025
Deferred income		**5,104**	(267)
Scheme accruals (excluding SPS)		**20,510**	91,072
SPS accrual		**727,236**	919,999
Accruals (includes invoices received but not yet approved)		**21,442**	19,557
Payroll and social security costs		**3,133**	2,906
Other creditors		**348**	299
Total Creditors		**1,918,781**	2,844,702

* Amounts due to Defra and its Agencies include £94.6m in respect of the transfer of RD and Structural Funds income (see Note 30).

** EC financial corrections.

Note: As from April 2006 new disallowance decisions are reported in the accounts of the Agency's parent department Defra. RPA continues to account for items which arose before this date where a formal decision has not been made by the EC.

17a. Intra-Government Balances

	Creditors: Amounts falling due within one year	
	2007/08 £000	2006/07 £000
Balances with other central Government bodies	**1,084,627**	1,764,728
Balances with local authorities	**27**	36
Balances with NHS Trusts	**0**	0
Balances with public corporations and trading funds	**0**	0
Total Intra-Government balances	**1,084,654**	1,764,764
Balances with bodies external to Government	**834,127**	1,079,938
Total Creditors	**1,918,781**	2,844,702

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

	Creditors: Amounts falling due after more than one year	
	2007/08	2006/07
	£000	£000
Advances received on RDPE programmes for Defra and OGDs	36,252	0
Total Creditors	**36,252**	0

19. Provisions for Liabilities and Charges

	Pensions and related costs* (a)	OTMS and OCDS Disposal (b)	Total
	£000	£000	£000
Balance at 1 April 2007	9,875	19,582	29,457
Amounts utilised	(3,827)	(9,760)	(13,587)
Amounts released	(534)	(4,194)	(4,728)
New provisions	1,617	8,240	9,857
At 31 March 2008	**7,131**	**13,868**	**20,999**

* Includes early severance costs.

(a) Pensions and Related Costs

RPA reimburses the Meat and Livestock Commission (MLC) 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 2008 is £0.2m (2006/07: £0.4m).

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 2008 have been provided for in these accounts. The provision allows for the pension payments that are payable up to October 2016 when the last recipient reaches pensionable age. The provision at 31 March 2008 is £6.9m (2006/07: £9.5m).

(b) Tallow and MBM disposal

Tallow and MBM are produced as by products from the OCDS and OTMS schemes. Provision has been made for the estimated cost of disposal of MBM and tallow produced up to 31 March 2008. 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 risks arising from RPA's financial instruments are liquidity and exchange rate risk. 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. There is no exposure to interest rate risks other than as referred to below. The exchange rate is considered further below.

RPA Exposure to Euro Exchange Rate Risk

Commission Regulation (EC) No 1997/2002

From January 2003, in accordance with EC Regulation (EC) No 1997/2002 (as amended) non-Eurozone member states have been reimbursed in Euros. The timing difference between converting the claim for reimbursement for CAP expenditure from Sterling to Euro and converting back to Sterling when received some three weeks later generates an exchange difference.

In April 2005, HM Treasury confirmed that an appropriate hedging strategy should 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 arising between submission of the indent and the date of the reimbursement from the EC. In March 2006 RPA contracted with RBS to provide a foreign exchange hedging facility to reduce the risk of exchange rate movement between the periods above.

SPS

Under SPS the Euro – Sterling exchange rate is fixed by the EC on the last working day of September in the scheme year. For SPS 2006 a hedge was put in place on 6 October 2006 to cover foreign exchange fluctuations. This cover took the form of a Contract for Differences designed to mitigate the risk of exchange movements between the fixed exchange rate for the scheme, and the rate applying on the date of reimbursement. An equivalent contract was established with RBS for €3.4bn on 28 September 2007 to cover SPS 2007.

The total gain since 2003 split by year is given 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)
2007/08	(9.4)
Total	**31.1**

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 2008 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	1,514	1,514
Balance held with Office of Paymaster General (OPG)	690,278	0	690,278
Total	**690,278**	**1,514**	**691,792**

Cash on deposit at 31 March 2008 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

Each security is provided by certain traders (see Note 16). The interest profile of the related financial liability of the RPA (to the traders) is:

	Fixed rate	Floating rate	Total
	£000	£000	£000
Cash securities	3,261	0	3,261

No interest is paid to traders on cash balances lodged with RPA as security.

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 £493.6m and Euro guarantees totalling €44.6m (£35.6m) were held at 31 March 2008 (£335.2m and €34m at 31 March 2007).

Non cash guarantees	Fixed Rate	Floating rate	Total
	£000	£000	£000
Bank and other guarantees	529,205	0	529,205

The interest rate applicable to these guarantees is nil.

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

21. Reserves

General Fund	Note	2007/08 £000	2006/07 £000
Balance at 1 April		**(571,164)**	(158,981)
Prior Year Adjustment	31	**0**	30,501
General Fund at 1 April		**(571,164)**	(128,480)
In year adjustment relating to prior year:			
Adjustment to CFER		**(12,708)**	0
Revision to CFER Accrual		**43,000**	0
Net operating cost		**(262,111)**	(333,684)
Financing by Defra		**2,805,000**	2,055,000
Transfer from Revaluation Reserve		**1,240**	721
Transfer RDPE to Defra	30	**(352,648)**	(354,789)
Transfer Structural Funds to Defra	30	**(21,258)**	(13,487)
Defra asset transfer	22c	**0**	1,639
Ad hoc disallowance transfer to Defra	22c	**(554)**	0
EAGF 2006 Clearance	22c	**(2,521)**	0
Late Payment refused		**(58,675)**	0
CFER		**(1,635,627)**	(1,817,419)
Notional charges	28	**17,085**	19,335
Balance at 31 March		**(50,941)**	(571,164)

Revaluation Reserve			
Balance at 1 April		**2,809**	3,009
Arising on revaluation during the year (net)		**1,562**	521
Transfer to General Fund		**(1,240)**	(721)
Balance at 31 March		**3,131**	2,809

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	2007/08 £000	2006/07 £000
Net operating cost		**(262,111)**	(333,684)
Adjustments for non cash transactions	28	**43,482**	42,738
Decrease in stock	14	**11**	1,825
Decrease/(increase) in debtors	15	**945,157**	(108,638)
Decrease in debtors > 1 year	15	**0**	434,451
Decrease in creditors	17	**(925,921)**	(1,436,610)
Increase in creditors > 1 year	18	**36,252**	0
Adjustment for movement in CFER creditor	17	**774,022**	636,112
Decrease/(increase) in fixed asset addition accruals	13a/13b	**835**	(9,340)
Utilisation of provisions	19	**(13,587)**	(20,976)
Net cash inflow/(outflow) from operating activities		**598,140**	(794,122)

22b. Analysis of capital expenditure and financial investment

Tangible fixed asset additions	13a	**(24,517)**	(16,152)
Intangible fixed asset additions	13b	**(359)**	(616)
Proceeds of disposal of fixed assets	12	**20**	6,069
Net cash outflow for capital expenditure and financial investment		**(24,856)**	(10,699)

22c. Analysis of financing

Financing by Defra		**2,805,000**	2,055,000
Transfer RDPE to Defra		**(352,648)**	(354,789)
Transfer Structural Funds to Defra		**(21,258)**	(13,487)
Defra asset transfer		**0**	1,639
Ad hoc disallowance transfer to Defra		**(554)**	0
EAGF 2006 Clearance		**(2,521)**	0
Late Payment refused		**(58,675)**	0
Net Financing		**2,369,344**	1,688,363

23. Capital commitments

At 31 March 2008, RPA had £22m capital commitments (2006/07: Nil).

24. Commitments under operating leases

At 31 March 2008, RPA was committed to making the following payments during the next financial year in respect of non cancellable operating leases:

Land and Buildings	2007/08	2006/07
	£000	£000
Leases which expire:		
– within one year	73	30
– within two to five years	1,377	119
– in over five years	3,421	3,491
Total	4,871	3,640

Other		
Leases which expire:		
– within one year	79	0
– within two to five years	349	436
– in over five years	0	0
Total	428	436

25. Other financial commitments

RPA is committed to making payments for non cancellable contracts (which are not leases or Private Finance Initiative contracts). At 31 March 2008 these total £59m (2006/07: £76.7m) and relate mainly to IT support services spanning a number of years and accommodation commitments.

26. Contingent assets and contingent liabilities

26a. Contingent assets

There are no contingent assets for 2007/08 (2006/07: nil).

26b. Contingent Liabilities

RPA is in dispute with the owners of certain storage facilities which it has used for the storage of tallow (under OTMS). The disputes relate to alleged tank damage and/or contamination and tank rentals payable. RPA has made provision for the amount for which it believes it is liable, and is continuing to pursue investigations to reach agreed settlement. The owners of the facilities have claimed further amounts of approximately £13m in total, which RPA disputes.

A legal case concerns Milk Supplies Limited regarding a claim issued by MLC in December 2007. The claim is about monies that we intercepted together with interest. The cost to RPA if the case is lost will be £0.1m.

27. Related party transactions

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

- Central Science Laboratory;
- Animal Health (formerly known as the State Veterinary Service).

RPA also had transactions with the following non Departmental Public Bodies which are also linked to Defra:

- Natural England;
- Meat and 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 have been with:

- Scottish Government Rural Payments and Investigations Directorate (formerly Scottish Executive, Environment and Rural Affairs Department);
- Welsh Assembly Government (formerly National Assembly for Wales Agricultural Department);
- Department of Agriculture and Rural Development, Northern Ireland;
- Forestry Commission; and
- Countryside Council for Wales.

Payments for Agents Services as disclosed in Note 3 include material transactions with the following:

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

Disclosure of Employment

Christine Tacon, a member of the Audit Committee, is General Manager of Farmcare (part of the Co-operative Group (CWS) Limited). In 2007/08 Farmcare received £4.209m (2006/07: £4.174m) in scheme payments from RPA. These external interests were known before appointment and were carefully considered by Defra.

Katie Davis, a member of the SAB, 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.

28. Notional charges and non cash items

Notional Charges	Note	2007/08		2006/07	
		£000	£000	£000	£000
Audit fee	3		400		400
Cost of capital charge					
Running costs	3	1,318		381	
RPA Scheme costs	4	8,991		12,598	
Other Paying Agencies	10	5,488		5,165	
			15,797		18,144
Defra charges					
Capital charges – buildings	3	782		781	
Central overhead charges	3	631		769	
DIS Income	11	(525)		(759)	
			888		791
Total Notional Charges			17,085		19,335
Non cash Items					
Depreciation and impairment of assets*	3/8		20,918		18,651
Loss/(gain) on disposal of assets	3		350		(3,666)
New provisions	19		9,857		12,270
Provisions released	19		(4,728)		(3,852)
Total non cash Items			26,397		23,403
Total			43,482		42,738

* The depreciation/impairment in this note comprises of running costs depreciation £20,864k (2006/07: £18,556k) and intervention depreciation of £54k (2006/07: £95k).

29. Losses and special payments

	2007/08		2006/07	
	No of cases	Value £000	No of cases	Value £000
Cash losses	**142**	**674**	111	464
Claims waived or abandoned	**876**	**11,942**	1,358	178
Special payments	**6,501**	**1,939**	4,873	3,123
Total	**7,519**	**14,555**	6,342	3,765

£11,492k of the 2007/08 losses and special payments (2006/07: £3,019k) 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 reduction of costs over 2006/07 relates to SPS 2005 and 2006 interest payments paid, and two large value payments being made in settlement of claims made against RPA.

Losses and Special Payments exceeding £0.25m

Name	£000
C C Meatyard	299
G F and R G Porter (2)	991
Mrs K Telling	990
Sandridge Farms Limited	489
B J and Mrs M H B Philips	300
D R B and E A Thomas	307
E J T and Mrs M E Davies	419

Name	£000
G A John	373
J A and G M Rees Partners	1,300
M/S Morris (Trewern)	343
Penycoed Farming Partners	711
T M and M S Morris	374
W G Parker	317
W R L and F Fletcher	310

All of the above payments relate to the Elm Farms Dairies case and represent repayments to producers. The justification for collection of the wholesale levy direct from producers rather than through the purchaser had been confirmed as acceptable following the Elm Farms European Court of Justice case. The implementation of the judgement was questioned by the Cabinet Office Legal Advisor (COLA), because of implications on other areas of government. The Secretary of State therefore confirmed that all levy collected in this fashion must be repaid to the producers, with interest.

30. Transfer of RDPE and Structural funds

As budgetary responsibility for RDPE and Structural Funds has not been delegated to RPA for 2006/07 onwards, AO responsibility for these transactions falls to Defra.

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

The RDPE transactions transferred from RPA's accounts to those of Defra may be summarised as follows:

Reserves	**2007/08**	2006/07
	£000	£000
Scheme Expenditure	**380,326**	335,083
Scheme Income	**272**	(152,850)
Operating Cost Statement	**380,598**	182,233
Scheme expenditure accruals	**0**	5,551
Scheme expenditure prepayments	**0**	18,215
Scheme income accruals	**0**	(2,685)
Scheme income deferrals	**0**	(16,265)
Scheme creditor	**0**	167,953
Modulation deferred income	**(27,950)**	(213)
Balance sheet	**(27,950)**	172,556
Movement in General Fund	**352,648**	354,789

Intra–group	**2007/08**	2006/07
	£000	£000
Scheme Income	**(145,369)**	0
Operating Cost Statement	**(145,369)**	0
Intra–group transfer	**(145,369)**	0
Defra creditor at 31 March	**(78,505)**	0

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

Reserves	2007/08	2006/07
	£000	£000
Scheme Expenditure	28,574	33,702
Scheme Income	0	(15,103)
Operating Cost Statement	28,574	18,599
Scheme expenditure accruals	0	(30)
Scheme income accruals	(7,316)	(5,082)
Balance sheet	(7,316)	(5,112)
Movement in General Fund	21,258	13,487

Intra–group	2007/08	2006/07
	£000	£000
Scheme Income	(16,095)	0
Operating Cost Statement	(16,095)	0
Intra–group transfer	(16,095)	0
Defra creditor at 31 March	(16,095)	0

31. Post Balance Sheet Events

On 8 July 2008 , the EC confirmed a disallowance of expenditure relating to the AAPS, which existed before the current SPS. The penalty amounts to £55 million, which will be charged against disallowance recorded in Defra's Resource Accounts.

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* require the Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the accounts are certified.

The authorised date for issue is 16 July 2008.

Glossary

AAPS	Arable Area Payment Scheme
AEG	Agency Executive Group
AH	Animal Health
AMB	Agency Management Board
AMLS	Animal Movements Licensing System
AO	Accounting Officer
BCMS	British Cattle Movement Service
BIAC	British Institute of Agricultural Consultants
BSE	Bovine Spongiform Encephalopathy
CAAV	Central Association of Agricultural Valuers
CAP	Common Agricultural Policy
CBI	Confederation of British Industry
CCW	Countryside Council for Wales
CESG	Communications Electronic Security Group
CETV	Cash Equivalent Transfer Value
CFER	Consolidated Funds Extra Receipts
CLA	Country Land and Business Association
CIP	Construction in Progress
COLA	Cabinet Office Legal Advisor
CREG	Customer Register
CRU	Customer Relations Unit
CTS	Cattle Tracing System
DARDNI	Department of Agriculture and Rural Development Northern Ireland
Defra	Department for Environment, Food and Rural Affairs
DIS	Defra Investigation Services
DR	Disaster Recovery
EAFRD	European Agriculture Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EAGGF	European Agriculture Guidance and Guarantee Fund
EC	European Commission
EMS	Environmental Management System
ERDP	England Rural Development Programme
EU	European Union
FC	Forestry Commission
FMD	Foot and Mouth Disease
FReM	Financial Reporting Manual
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Practice
HFA	Hill Farm Allowance
HM Paymaster General	Her Majesty's Paymaster General
HM Treasury	Her Majesty's Treasury
HR	Human Resources
IACS	Integrated Administration Control System

IT	Information Technology
ITSW	International Trade Single Window
MBM	Meat and Bone Meal
MLC	Meat and Livestock Commission
MP	Member of Parliament
MPM	Managing Public Money
NAO	National Audit Office
NAWAD	National Assembly for Wales Agricultural Department
NE	Natural England
NFU	National Farmers Union
NHS Trusts	National Health Service Trusts
OCDS	Older Cattle Disposal Scheme
OGD	Other Government Department
OPG	Office of Paymaster General
OPT	Operations Performance Team
OTMS	Over Thirty Month Slaughter Scheme
PAC	Public Accounts Committee
PCSPS	Principal Civil Service Pension Scheme
RBS	Royal Bank of Scotland
RD	Rural Development
RDAs	Regional Development Agencies
RDPE	Rural Development Programme for England
RLR	Rural Land Register
RPA	Rural Payments Agency
RPI	Retail Price Index
SAB	Strategic Advisory Board
SAG	Sheep and Goats
SCS	Senior Civil Service
SEERAD	Scottish Executive Environment and Rural Affairs Department
SGRPID	Scottish Government Rural Payments and Investigation Directorate
SIRO	Senior Information Risk Officer
SLG	Senior Leaders Group
SPS	Single Payment Scheme
SSAP	Statement of Standard Accounting Practice
SVS	Statement Veterinary Service
TFA	Tenant Farmers Association
TSO	The Stationery Office
UK	United Kingdom
VAT	Value Added Tax
WAG	Welsh Assembly Government

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READING HEADQUARTERS
Kings House
Kings Road
Reading
RG1 3BU
E-mail: enquiries.reading@rpa.gsi.gov.uk

Correspondence Address
Rural Payments Agency
PO Box 1058
Newcastle upon Tyne
NE99 4YQ

NEWCASTLE
Lancaster House
Hampshire Court
Newcastle upon Tyne
NE4 7YH
E-mail: enquiries.newcastle@rpa.gsi.gov.uk

CARLISLE
Eden Bridge House
Lowther Street
Carlisle
CA3 8DX
E-mail: carlisle.enquiries@rpa.gsi.gov.uk

EXETER
Clyst House
Winslade Park
Clyst St Mary
Exeter EX5 1DY
E-mail: enquiries.exeter@rpa.gsi.gov.uk

NORTHALLERTON
Alverton Court
Crosby Road
Northallerton
DL6 1AD
E-mail: enquiries.northallerton@rpa.gsi.gov.uk

WORKINGTON
British Cattle Movement Service (BCMS)
Curwen Road
Workington
Cumbria CA14 2DD
E-mail: enquiries-bcms@defra.gsi.gov.uk

Helpline numbers:

Customer Service Centre	0845 603 7777
Slaughter Schemes	0118 968 7333
Milk Quotas and Dairy Subsides	0139 226 6466
Securities	0118 853 1723
Trader Registration	0118 953 1723

BCMS customer helplines:

English	0845 050 1234
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