Rural Payments Agency
Annual Report and Accounts 2008/2009

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Foreword by the Chief Executive

The Rural Payments Agency has made good progress this year, meeting all of our externally published targets.

I believe we have achieved this by sticking to our strategy of putting customers at the heart of what we do.

We have focused on making our services more consistent and reliable, with improvements in most parts of the business alongside reduced costs and, as planned, a fall in the number of people working in the organisation.

We strive to deliver all the schemes we administer in an effective and efficient manner and our greatest challenge remains the accurate and timely payment of the Single Payment Scheme to some 106,000 customers. There are still claims that cause us difficulty and, although the number is falling, I am conscious this is of no consolation to those receiving payment, sometimes several months later than the majority of farmers. We are endeavouring to find solutions to as many of these difficult claims as possible in order to improve the service we provide to all customers.

I am also aware that delays can occur when dealing with enquiries and we are committed to finding better ways of providing information to satisfy all customer queries.

This year we have seen the first Single Payment Scheme applications submitted electronically, in a limited trial. I am very pleased by how well it has been received by those customers using it and we will be extending this service.

We have continued to provide training for our teams and management, making changes to how we are organised and the systems and processes we employ.

During this year we have trialled the processes for updating the maps we hold for farmers in England amongst a number of customers. This is important work and we are rolling out the process to all customers in a phased way so as to manage any unforseen problems, and expect to complete it next year. We have also made a good start on implementing the Common Agricultural Policy Health Check policy changes and plan to maintain progress.

This year, in advance of the introduction of International Financial Reporting Standards in government next year, UK Generally Accepted Accounting Practices has incorporated a number of International Financial Reporting Standards relating to financial instruments to be applied from 2008/09. In particular the Agency has applied Financial Reporting Standard 23 to this year in accordance with its existing accounting policies and with comparative figures for 2007/08. The National Audit Office do not agree with this interpretation and the Comptroller and Auditor General is qualifying his opinion on the grounds of disagreement on this matter. However, it is quite clear that restating the accounts in accordance with Financial Reporting Standard 23 will not be straight forward but will require a fundamental review of the Agency's existing accounting principals and the accounting records which will require detailed discussions with Defra, NAO and HM Treasury.

We intend to continue the improvement in our services as well as tackling more of the issues identified by European Commission auditors.

Tony Cooper
Chief Executive
17 July 2009

Business Review

Introduction

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

The Agency is a major delivery body for Defra, providing a range of services in support of Defra's objectives of encouraging a thriving farming and food sector and strong rural communities. We manage a wide range of Common Agricultural Policy schemes including the Single Payment Scheme, internal market schemes covering dairy products, crops, fruits and vegetables, external trade measures (export refunds, import and export licences), and milk quotas. We also carry out a wide range of inspections on farms and in abattoirs, factories, ports, airports and markets to ensure Common Agricultural Policy scheme rules are met and that claims for payment are valid.

Each year we make approximately £2 billion worth of payments to farmers and traders under Common Agricultural Policy related schemes. There are approximately 60 schemes, varying greatly in size. The Single Payment Scheme receives applications from approximately 106,000 farmers each year receiving payments of about £1.63 billion (estimated fund value for 2008), while some small scale trader schemes may receive a total of 10 applications in a year valued at less than £10,000. The Agency manages these 60 schemes directly but we are also the Paying Agency for a further 30 additional schemes delivered by other organisations.

We have also managed the Older Cattle Disposal Scheme which is partly European Commission-funded for compensation payments with the operating costs being borne by the Exchequer. The scheme closed to new applications on 31 December 2008 although there will be ongoing work on the disposal operation.

Each European Commission scheme we operate is supported by a complex set of European Community-wide regulations. If we do not comply with the regulations the European Commission can impose a financial correction (disallowance), resulting in the United Kingdom taxpayer being penalised. We have formal processes to manage and deliver each of the schemes to comply with the regulations and have set up a series of key registers. These record key data for over two million land parcels, farm entitlements (both historic and land based) and customers' details.

Agency Objectives and Performance

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

Objective 1

To make Single Payment Scheme payments accurately and to progressively reduce the time from claim to payment.

What we set out to achieve in 2008/09:

Improve our business processes and enhance our information technology leading to more case working and improved management reporting. Commence upgrading the Rural Land Register and complete our inspections on time.

2008/09 Performance:

For the Single Payment Scheme 2008 scheme year we exceeded targets of paying 75% of the fund by 31 January 2009 and 90% of the fund by 31 March 2009. As at 31 May 2009 nearly 103,400 customers have received a total of nearly £1.6 billion (98.04%) of the estimated £1.63 billion fund.

We have started a major programme of updating all mapping information in the Rural Land Register to support the Single Payment Scheme and other subsidy schemes managed by the Agency and other Defra network partners.

Our Inspectorate has completed inspections within the target dates.

Objective 2

To provide services allowing greater direct access for customers and improve our customer satisfaction results.

What we set out to achieve in 2008/09:

Provide an increased choice of communication channels including an electronic Single Payment Scheme channel and the introduction of simplification measures to reduce the administrative burden on customers. Listen to the views of our customers to help us improve our customer communications. Maintain regular communications with stakeholders.

2008/09 Performance:

In 2008 we introduced the ability to claim Single Payment Scheme through an online farm software pilot for agents and farmers. Between February and May 2008, 675 Single Payment Scheme applications were submitted successfully. The successful pilot meant that we made this service available to all farmers and agents for the 2009 Single Payment Scheme year.

This year we are piloting online applications over the internet. Initial feedback has been extremely positive, with customers confirming that the service is easy to use, saves time and gives greater confidence that their application has been correctly completed and received by the Agency.

We are redeveloping the Cattle Tracing System Online website to provide easier viewing and allow customers to correct their cattle records on the central database. We have upgraded the existing site to make it compatible with the latest browsers and operating systems.

Independent surveys of customers in 2008/09 record improvements in customers' opinion of us with satisfaction exceeding our target during the year.

Liaison with our customers has resulted in a focus on shorter correspondence turnaround times and a better quality communication. Customer feedback has made it possible for us to review our inspections process which has resulted in drafting guidance for both case workers and farmers explaining inspections and the processes we carry out.

We have regular meetings with our stakeholders.

Objective 3

To administer and regulate agricultural subsidy, Rural Development, trader and livestock schemes.

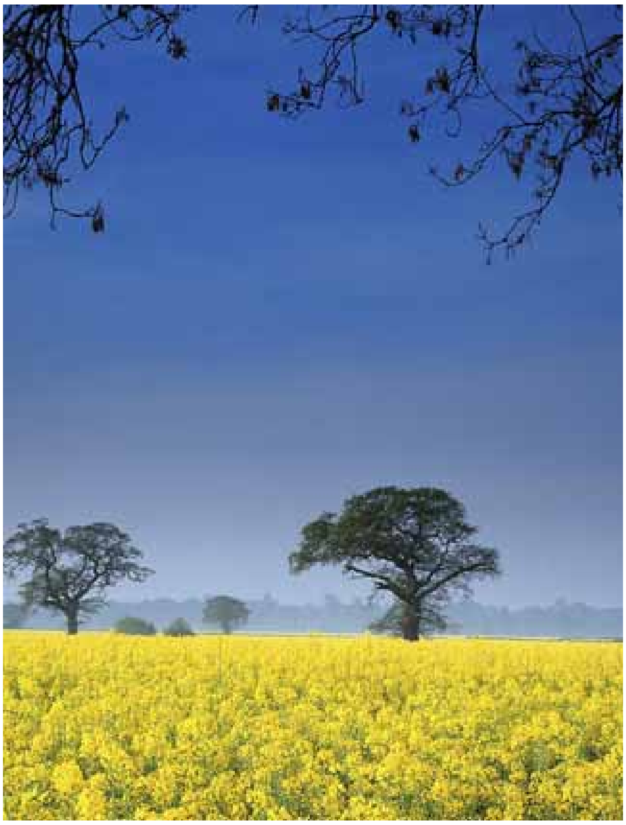
What we set out to achieve in 2008/09:

Review and implement a new service level agreement for the Rural Development Programme for England, and introduce changes to the Hill Farm Allowance scheme. Agree the future of the Rural Payments Agency livestock tracing activities with Defra, improve the electronic cattle tracing system, and prepare for the electronic identification of sheep. Maintain performance on trader schemes and complete inspections on time.

2008/09 Performance:

The Service Level Agreement for the Rural Development Programme for England has been reviewed and redrafted to form part of a wider suite of rural development governance documentation. This is intended to be introduced in the next year. We have exceeded our target by making 98.16% of our payments within the timings set out within the Service Level Agreement.

We have continued to make payments to customers under the trader and Rural Development schemes to tighter timescales. Hill Farm Allowance payments for the 2008 scheme year started in February 2008. Payments of nearly £24 million were made to approximately 7,000 applicants and were largely complete by September 2008. Payments for Hill Farm Allowance 2009 commenced in February 2009.



We continued work on the programmes to maintain the Cattle Tracing System and support the Animal Movements Licensing System database which underpins the tracking of sheep, pig and goat movements by local authorities.

All land, commodity and livestock inspections, including those conducted on behalf of Natural England and the Forestry Commission, were completed on time.

Objective 4

To work closely and constructively with Defra and the Defra Network, including providing accurate and timely delivery input into policy development.

What we set out to achieve in 2008/09:

Joint working with Defra to agree and implement Common Agricultural Policy Health Check changes. Identify opportunities for greater collaboration with Defra and partners on projects, programmes and initiatives.

2008/09 Performance:

We have worked with Defra to provide recommendations on implementation of the Common Agricultural Policy Health Check taking account of administrative effectiveness while meeting policy priorities.

We worked closely with Defra to make sure that the cross compliance information and guidance, including the Common Agricultural Policy Health Check changes, were updated on the Rural Payments Agency website before the start of the 2009 scheme year, and have since sent printed copies to all customers.

We continue to work closely with Defra and operational partners on a range of programmes including the Common Agricultural Policy Health Check, the review of livestock traceability and the sharing of updated information as a result of improving our customer land data.

The Rural Payments Agency is a key partner in data sharing across Defra and has worked with Defra and delivery partners on new projects concerning methods to improve responses to emergency disease outbreak situations and potential use of a national envelope scheme.

Objective 5

To develop leadership and learning so that the Rural Payments Agency improves the competence and performance of its people.

What we set out to achieve in 2008/09:

Senior managers will undertake leadership and development training and all scheme processors will participate in continuous learning and development. We will have a higher ratio of permanent staff and develop a scheme to identify and manage talent.

2008/09 Performance:

All senior leaders have had the opportunity of a leadership development programme which is aimed to improve their ability to deliver services to customers more effectively and efficiently through improved performance, collaboration, and employee engagement. We have also begun leadership training for middle managers, team leaders and team members.

During 2008/09 we have continued to develop the skills of staff who deal directly with customers to deliver the Single Payment and other schemes more effectively. Examples include introducing farm visits to help our staff to better understand farmers and their needs.

Work has continued to increase the ratio of permanent staff within the Agency. The overall percentage of permanent staff has been raised from 72% to 76% during the 2008/09 financial year.

A scheme has been designed and is being implemented to allow the Agency to identify, develop and manage talent from within the senior leader population.

Objective 6

To minimise disallowance, particularly around the Single Payment Scheme.

What we set out to achieve in 2008/09:

Identify and reduce the risk of disallowance using a Disallowance Control Framework. Improve data quality which will lead to fewer claim errors and quality control failures. Improve training and guidance for employees and ensure the schedule of audits is based on identified risk.

2008/09 Performance:

Arrangements are in place to manage and monitor our disallowance risks with an increasing emphasis on the identification of emerging disallowance risks. The Disallowance and Accreditation Committee provides an oversight of disallowance risk within the Agency.

We have initiated the development of training modules for risk management, including elements of disallowance control and will put this training in place within the 2009/10 year. Improvements to our methods for the planning and selection of our schedule of audits are being made. The process is focused on the use of risk-based information to schedule and prioritise audit activity.

Objective 7

To increase operating efficiency by managing resources better, utilising technology, and sharing Government services.

What we set out to achieve in 2008/09:

Provide better financial management information within the Agency, and implement some information technology enhancements. Work with Defra on options for shared corporate services. Improve processes, information services and data quality. Embed an improved risk management process throughout the Agency.

2008/09 Performance:

We have initiated work to introduce a new financial management information system within the Agency. This work will improve the budgeting and forecasting activities undertaken within the Agency.

Testing and the subsequent implementation of several major information technology enhancements has been delivered through stronger programme and project management arrangements.

The Rural Payments Agency continued its consolidation as a key provider of services within the Defra Network. The Agency has worked closely with Defra and other agencies in the development of a Sustainable Workplace Management Programme which was launched on 1 April 2009. All of the Agency's workplace support is now provided by an external supplier.

Progress has been made to develop the maturity of risk management practices within the Agency through clarification and improvements to the process for managing risk, increased learning of risk management concepts and improved levels of reporting on key risks.

Basis of Funding and Accounts

The United Kingdom Exchequer initially funds payments made by the Agency. Funding from the European Commission is provided through the European Agriculture Guarantee Fund and the European Agriculture Fund for Rural Development.

Financial Results

Key financial results for 2008/09:

	2008/09		2007/08 Restated	
	£m	**£m**	£m	£m
Running Costs		240.8		241.7
Cost of Common Agricultural Payment market support	2,878.3		2,649.1	
Less European Commission contributions and other receipts	(2,812.4)		(2,638.6)	
Net Scheme costs		65.9		10.5
Net Operating costs		306.7		252.2

Going concern

The Rural Payments Agency is a supply financed Agency of Defra.

The balance sheet at 31 March 2009 shows negative taxpayers' equity of £137.1 million. This reflects the inclusion of liabilities falling due in future years, which are financed, mainly, by drawings from the United Kingdom Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament to meet the Rural Payments Agency's net cash requirement, received through Defra. Funding for 2009/10 has already been agreed.

Performance Against Targets

	Target	Achievement
1	To have paid 75% by value of valid 2008 Single Payment Scheme claims by 31 January 2009 and 90% by value of valid 2008 Scheme claims by 31 March 2009.	Met.
2	To process and pay at least 90% of valid claims, by volume, for trader and Rural Development Implementation Schemes within Ministerial guidelines and 99% within the set European Commission deadlines or in their absence 60 days of receipt of the claim.	Met.
3	To record 98% of notifications of births, deaths and movements of cattle on the Cattle Tracing System within 14 days of their receipt.	Met.
4	To make 98% of all Rural Development Programme for England payments in accordance with agreed Service Level Agreement targets.	Met.
5	To demonstrate an improving trend in customer satisfaction by achieving an annual average customer satisfaction score of 6.5 as measured through surveys of external customers and demonstrating a reduction in complaints.	Met.
6 *	To administer a 10% reduction from the 2007/08 year in the cost of administering the Agency without compromising service delivery.	Met.
7	To minimise disallowance risks and make payments accurate to within 2% materiality for all subsidy schemes under the Agency's direct management.	Met.
8	To demonstrate improved capacity and capability to deliver services and implement change.	Met.

* The cost savings target was based on a technical note which excludes certain items in both years, principally non-cash costs, Single Payment Scheme interest costs, fixed asset additions and disposals and Defra funded capital items. The 2008/09 outturn was adjusted for the effect of inflation by 3%. Under this comparison the costs were over £27 million lower in 2008/09 (£215 million) than in 2007/08 (£242 million) representing a 11% reduction.

Public Interest

Stakeholder and Customer Engagement

Our Stakeholders

We have been working with our farming stakeholder organisations to improve the service we provide to farmers. We held fortnightly meetings with farmer and agent representative groups, such as National Farmers Union, Country Land and Business Association, British Institute of Agricultural Consultants, Central Association of Agricultural Valuers, Tenant Farmers Association and the Institute of Agricultural Secretaries and Administrators, and have introduced a number of regional stakeholder meetings to widen the communication process. We have consulted farmers and stakeholders specifically this year on the design of the new electronic channel routes to claiming Single Payment Scheme payments, and in the upgrade of the Rural Land Register. We also hold regular meetings with stakeholder groups which represent our trader customers.

We have begun to review our communications to our customers to make them clearer and easier to understand. This has included improving our letters to customers and the Single Payment Scheme forms and guidance. We are a key contributor to Defra's Better Regulation Programme and Simplification Plans.

Working effectively with Defra stakeholders on a wide range of customer issues is an important factor in achieving the Agency's objectives. We are a key operational partner within the Defra Network and have worked with core Defra, Natural England, Animal Health, the Forestry Commission, Local Authorities, Government Offices and Regional Development Agencies this year. This collaboration enables delivery of payments, livestock tracing, inspections and supports rural development.

Our Customers

We have a broad range of customers and our aim is to make their experience of dealing with the Agency as effective and efficient as possible.

Customer Strategy

Our customer strategy has five key steps:

1. Developing and communicating a clear customer vision.
2. Understanding our customers better.
3. Improving the contacts we have with our customers.
4. Increasing our online services available to customers.
5. Decision making with the customer in mind.

Customer Complaints

As we improve our customer focus, we expect a reduction in the number of customers contacting us to complain. We monitor the number of formal complaints received by our Customer Relations Unit from customers, their agents and their Members of Parliament.

	2008/09	2007/08	Reduction
Number of complaints	**942**	1,149	18%

We achieved our target to demonstrate a reduction in complaints, with the Customer Relations Unit receiving 18% fewer complaints than last year.

Appeals

The formal appeals process enables customers to challenge decisions under any of the schemes we manage. This is a two stage process. Stage 1 is an internal review of the case by the Customer Relations Unit. 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 Ministers. Ministers take the final decision to uphold or reject the appeal.

During 2008/09 the Agency received 437 Stage 1 appeals and 147 Stage 2 appeals. The majority of the appeals received were in connection with the Single Payment Scheme.

Freedom of Information

In 2008/09 we responded to 292 requests for information, the majority of which were dealt with under the terms of the Environmental Information Regulations.

Social and community issues

The Common Agricultural Policy schemes that the Agency administers clearly have an impact on both the farming and wider trader communities. The Rural Payments Agency is aware of these impacts and seeks to make them as positive as possible through our focus on improving the customer services we provide. In seeking to increase our efficiency and effectiveness we aim to support the efficiency and effectiveness of the individual businesses to which we provide services. An example of the way in which we seek to do this is through encouraging our people to review how they work in order to improve their impact on our customers' businesses. The starting point for improving our services is to understand our customers and how the Agency's operations have the potential to impact on them.

Stage 1 Appeals	Number of Appeals (withdrawn)	Unresolved	Resolved	Successful	Partially Successful	Unsuccessful
Single Payment Scheme	432(10)	131	291	46	17	228
Other schemes	5	1	4	1	0	3

Stage 2 Appeals	Number of Appeals (withdrawn)	Unresolved	Resolved	Successful	Partially Successful	Unsuccessful
Single Payment Scheme	145(1)	76	68	4	0	64
Other schemes	2	1	1	0	0	1

As part of our ongoing Leadership Training we have one and two day training workshops focused on our customers and their needs. These all include videos of farmers talking about their businesses and how the payments they receive from the Rural Payments Agency form a vital contribution to their income. They also highlight how the way in which we deal with our farming customers can affect their lives and businesses in areas such as the time spent completing forms, writing letters or making telephone calls.

In another example, our customer satisfaction survey highlighted that farmers felt that not all the Agency staff understood their agricultural business issues. In response, the Agency has developed a Farm Visits programme to enable case workers and other front line staff to spend a day on a farm learning about a typical day and the role of the Single Payment Scheme payment in the farm's viability.

The Agency maintains close links with all stakeholders who represent the interests of our farming and trader customers. For example, the British Cattle Movement Service management team in Workington have a bi-annual Bovine Industry Group meeting with representatives of the whole livestock and meat industry including the Association of Meat Suppliers and the Livestock Auctioneers Association. In Exeter, the milk quota management team meets every six months with representatives of the milk industry at the Milk Quotas Experts Group, including the Dairy Industry Association and the Royal Institute of Chartered Surveyors, to ensure that we maintain a current understanding of all their issues and our impact on them.

The Rural Payments Agency is a national employer with sites in Reading, Carlisle, Exeter, Newcastle upon Tyne, Northallerton and Workington. We have a workforce of around 3,500 people in England and are a key employer in areas such as West Cumbria and North Yorkshire and many of our workforce have personal connection with farming communities. The Rural Payments Agency Inspectorate has a further 43 offices located across England with one office in Wales and one in Scotland. The drop-in centres were open between March and June in 2008 and during that time a total of 30,856 documents were delivered by customers.

In 2009 a drop-in service is being operated at the following offices: Bristol, Carlisle, Crewe, Exeter, Newcastle upon Tyne, Newmarket, Northallerton, Nottingham, Reading, Worcester and Workington enabling customers to hand deliver their application forms and supporting documents for the Single Payment Scheme.

Risk Management

Our Agency risk management process is driven by a combination of top-down and bottom-up risk identification, assessment and management. From the top, Directors and senior leaders within the Agency set the strategy and direction for the management of risk as well as identifying the strategic risks the Agency is facing. The bottom-up process allows for risks to be identified at any level and within any area of the Agency, these can then be delegated or escalated to appropriate management levels for consideration and management. Throughout this year, key risks we faced have been managed in order to further improve the Agency's position and become increasingly effective and efficient. A regular review and challenge on mitigation plans has been conducted by the Agency Management Board and Audit Committee. Management action has focused on a number of key risks which include:

- Our capability and capacity to manage our change portfolio. This includes the delivery of regulatory policy changes, changes arising from the Common Agricultural Policy Health Check and upgrading our baseline map data, all of which will have an effect on our ability to meet our aim to reduce financial correction applied by the European Commission.
- The security of future funding and investment and the need to improve our quality, cost and financial management.
- Making improvements to our operational and information technology processes, including the quality of our data and our controls over commercially sensitive and personal data.
- The quality of the workforce, including training and the development of core skills across the business, stronger workforce planning and increased engagement and commitment of the workforce.

European Commission Audit Findings

The Agency has supported external bodies to enable them to complete their obligations under the European Commission clearance of accounts procedures. We have taken corrective action to enhance our systems and, where considered appropriate, have challenged the audit findings through bi-lateral discussions and conciliation.

We have successfully reduced the financial correction applied in the area of Export Refunds by making changes to risk analysis and giving assurance about the approach taken to control the exit of goods from the Community.

We have responded to European Commission audit findings about the introduction of the Single Payment Scheme. The European Commission has focused its concerns on the Rural Land Register, inspections, entitlements and accuracy of payments. A number of corrective measures are being implemented, notably a new system of risk analysis to enhance the 2009 inspection regime and the Rural Land Register mapping update project. We continue to discuss other concerns with the European Commission with the aim of gaining acceptance to the adequacy of the controls that have been applied and achieving a subsequent reduction to financial correction.

The European Commission carried out an audit on Rural Development (concentrating on agri-environment measures) in June 2008. Issues were raised relating to our inspection regime. The Scheme Management Unit and the Inspectorate have since improved a number of their procedures to address the auditors' findings.

Sustainable Development

We have again met the requirements of the Environmental Management System International Organisation for Standardisation ISO14001:2004.

The Rural Payments Agency is externally assessed by a certification body on a six monthly basis to ensure that we conform to the standard and are fulfilling our policies, objectives and targets - ensuring continual improvement in environmental performance. All of the Rural Payments Agency main sites have met all the requirements of the standard and have therefore maintained certification.

The Rural Payments Agency has also made progress in calculating its carbon footprint and for the year 2008/09 our output (in tonnes of CO_2) was:

	2008/09
Buildings	5,128
Travel and Accommodation	1,600
Total	**6,728**

The Rural Payments Agency has worked closely with Defra in the development of Sustainable Workplace Management and this is expected to produce a significant reduction in our carbon outputs in future years. In the meantime we have continued to reduce our environmental impact by estate rationalisation and improvement, and by the implementation of a new lease car scheme.

Equal Opportunities and Diversity

We have continued to work in close partnership with Defra, increasing the number of employees who are trained to carry out Equality Impact Assessments to support the Disability, Gender and Race Equality Schemes. We are represented on Defra's Diversity Champions Group and are currently developing an Agency Diversity Strategy for 2009/10. This includes plans to develop outreach work to engage with the local communities in which our offices are based.

We have completed and published eleven Equality Impact Assessments on our new HR policies, a feasibility study on Shared Services and office relocations.

The Rural Payments Agency publishes a commitment to equality of opportunity in all recruitment exercises and follows the Civil Service Code of Practice on the Employment of Disabled People. We continue to maintain the Two Ticks, Positive about Disabled People scheme which guarantees interviews to internal and external job applicants with disabilities provided they meet the minimum requirement for that job. Disabled staff are actively supported through reasonable adjustments where a need is identified to ensure they progress in their employment.

In the past year we have trained 30 members of staff in key areas in the Equality Impact Assessment process.

Information Handling

The Agency has a Senior Information Risk Owner at Board level. He advises the Agency on the approach to be taken to security and for handling high level security risks. The Senior Information Risk Owner is also responsible for arbitrating where there are differences of opinion on security risks. We recognise 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 who specifically target information security management.

We are also reviewing our systems and processes to adopt both the Hannigan Data Handling and Security Policy Framework requirements. These are mandatory security requirements and management arrangements that all Government Departments and Agencies must follow.

Incidents, the disclosure of which would in themselves create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other United Kingdom information legislation.

There were no protected personal data related incidents formally reported to the Information Commissioner's Office in 2008/09.

Summary of other protected personal data related incidents in 2008/09

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office but recorded centrally within Defra are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Wider Security

An ongoing programme of work is looking at ways to improve security within the requirements laid down in the Manual of Protective Security (which also covers International Organisation for Standardisation ISO27002), the Baseline Personnel Security Standard; Counter Terrorism Protective Security Manual; and Communications Electronic Security Group standards 1 to 5 which we have now incorporated into the Security Policy Framework.

Health and Safety

We recognised the importance of Health and Safety and the need to refresh and enhance

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	3
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	0
V	Other	0

There is no certainty that the lost items from these three incidents held any personal data and there is no evidence that protected personal data was compromised as a result of any of these equipment losses. The incidents were raised following hardware asset audits, which revealed that a number of personal computers and laptops had been lost over the course of two to three years. Possible reasons for this include the lack of an adequate asset register/tracking process, which has since been addressed, and the disposal records kept when the Agency's personal computers were replaced by Ultra Thin Clients.

Health and Safety aspects throughout the organisation. The Agency has put into place effective management arrangements to maximise the Health and Safety of our staff, increase visibility of Health and Safety leadership and improve our Health and Safety culture. The Agency Executive Group leads on improving Health and Safety and monitors progress regularly.

The Health and Safety management system was audited using the Health and Safety Executive's Corporate Health and Safety Performance Indicator. We achieved a score of seven for 2008/09 exceeding our target for this area. The Corporate Health and Safety

Performance Indicator tool will be used to set future targets for continuous improvement.

All work related incidents, including 'near misses', ill health and verbal abuse/threatening behaviour are reported centrally to the Health and Safety Unit. During 2008/09, there were no fatalities as defined under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1996. The Agency did not receive any Health and Safety enforcement notices and was not convicted of any breach of Health and Safety law. A breakdown of reported incidents is set above.

Health and Safety incidents Reported

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations	Number
Fatal injuries	0
Major injuries	5
Dangerous occurrences	0
Over 3-day injuries	3
Total	**8**

Incident by Type	Number
Animal related	15
Ill health (including musculo-skeletal)	32
Minor/other	64
Near misses	30
Road traffic accidents	24
Slip, trip, fall	53
Violence/aggression/verbal abuse	20
Total	**238**

Human Resources Policies

In November 2008 we released the first set of revised policies including Grievance, Probation, Sickness Absence Management, Discipline and Capability. These are due to be revised based on feedback from staff during June/July 2009. This will include additional revisions to Annual and Special leave, Anti-violence and Abuse, Flexible working, Career Breaks, Conduct and Propriety, E-Mail and Internet, Family Leave and Homeworking.

The third and final release of policies under this current review is scheduled for launch later this year and will include Health and Wellbeing, Occupational Health, Respect and Dignity at Work, Whistleblowing and a long term pay and reward strategy for the Agency that will help us to recruit, retain, motivate and develop staff of the right calibre to enable the Agency to meet its business objectives by more closely aligning individual and collective performance with reward.

Throughout the policy review the Human Resources Directorate has consulted with the business areas via the Human Resources Business Partners and also with the Trade Unions. The policies that have been produced are clearer, more concise and easier to follow.

During 2008 the Agency introduced, on a live trial basis, a new Performance Management System designed to embed our values into everyday life at work through the Living the Values Framework. Throughout 2008 we continued to work closely with colleagues and our Trade Union representatives to refine and modify the system and formal implementation is planned for the 2009/10 performance period.

Sickness absences

In 2008/09 an average of 11.2 working days were lost per staff year. A new Sickness Absence Policy was introduced in November 2008 and the roll out was supported by a programme of training and briefing sessions.

Policy on Payment of Suppliers

In accordance with the Confederation of British Industry's Prompt Payment Code and the Government's commitment to the prompt payment of bills, we aim to pay all invoices according to agreed contractual conditions or, where no such conditions exist, within 30 days. The Rural Payments Agency has a No Purchase Order No Pay policy with its continuous development of the Procurement 2 Pay process. Implementation of this policy during 2008/09, we paid 98% of all invoices relating to running costs within 30 days (2007/08: 88%). In November 2008 the Government introduced a new target to make payments within 10 days and since we have been monitoring this new target we have made 98% of payments within the 10 day target.

Awards

The Rural Payments Agency was given an Award of Excellence by the British Association of Communicators in Business, for the September 2008 edition of its in-house colleague magazine *RPA Matters*.

Preparation of the Annual Report and Accounts

The Annual Report and Accounts have been prepared and published by the Agency. 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 the Agency's auditor in accordance with the Government Resources and Accounts Act 2000. A notional cost of £425 thousand (2007/08: £400 thousand) was incurred for the audit of these accounts. The Comptroller and Auditor General is also the auditor for the European Agriculture Guarantee Fund and European Agriculture Fund for Rural Development accounts which had a financial year ending on 15 October. The costs incurred in relation to these audits, which cover all UK Paying Agencies, amounts to £1,182 thousand (2007/08: £1,482 thousand).

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

Management Structure

Directors

The current members of the Agency's Management Board are:

Tony Cooper*	Chief Executive
Dave Halsey	Chief Information Officer and Senior Information Risk Officer
Steve Pearce	Chief Operating Officer
Robin Moulson**	Finance Director
Jacqui Marshall**	Human Resources Director
Chris Swinson, OBE***	(non-executive)
Steve Betteridge	(non-executive)
Nicola Bastin	(non-executive)

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

Hugh Taylor	Chief Operating Officer until April 2008
William Burton	Chief Operating Officer from May 2008 until October 2008
Robert Kendall	Finance Director until June 2008
Andrew Good	Human Resources Director until December 2008

Rural Payments Agency Audit Committee

Members of the Rural Payments Agency Audit Committee for the reporting period were:

Chris Swinson, OBE***	(non-executive)
Christine Tacon, CBE	(non-executive)
Will Lifford	(non-executive)
David Prince, CBE	(non-executive)

* Tony Cooper was formally appointed Chief Executive from July 2008 having held the post of interim Chief Executive from May 2006.
** Robin Moulson was appointed Finance Director from June 2008 and Jacqui Marshall as Human Resources Director from December 2008.
*** Chris Swinson was appointed as Chair of the Audit Committee from April 2008. Chris is also a non executive Director on the Agency Management Board and sits on the Defra led Strategic Advisory Board.

Directors' interests - All related parties and Directors' interests can be found in Note 26, Related party transactions.

Defra's Strategic Advisory Board for the Rural Payments Agency

The Strategic Advisory Board 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 the Agency and Defra on strategic aspects of our work where they have specific expertise.

Members of the Strategic Advisory Board:

Katrina Williams	Director General – Farming and Food, Defra (Chairman and Corporate Owner)
Tony Cooper	Chief Executive, Rural Payments Agency
Stephen Park	Interim Finance Director General, Defra until May 2008
Ian Watt	Director General – Finance and Commercial Group, Defra from May 2008 until January 2009
Ian Walker	Interim Finance Director, Defra from January 2009 to April 2009
Anne Marie Millar	Finance Director, Defra from April 2009
Mike Segal	Director – Defra Farming for the Future (Corporate Customer)
Chris Swinson OBE	(non-executive) Chair of Rural Payments Agency Audit Committee from April 2008
Philip Nunnerley	(non-executive)

Remuneration Report

Remuneration Committee

The Departmental Remuneration Committee provides group guidance and policy on remuneration for the whole of the departmental network. Policy on remuneration, and recommendations (for senior managers of the Agency) relevant to the current and future financial years, is determined by this Committee, and the Agency 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 pay strategy within the Cabinet Office framework and has contained individual awards within the set range, ensuring that the overall pay awards for the Senior Civil Service are within the cost ceiling allowed.

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

Individual performance for the majority in the Senior Civil Service 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.

Agency Management Board

The Agency 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 24).

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioner's Recruitment Code, which requires appointment be made on merit and 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 Department Senior Civil Servants salary costs are available to be allocated on this basis. Bonus payments are approved by the Defra Remuneration Committee. A percentage of the total Department Senior Civil Servants' salary costs are available on this basis. For 2008/09 this percentage was 8.6% (2007/08: 8.6%).

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 and non cash benefits (audited information)

Name and Title	2008/09		2007/08	
	Salary and Allowances paid# £000	Non Cash Benefits Received £	Salary and Allowances paid# £000	Non Cash Benefits Received £
Tony Cooper Chief Executive	140–145	–	130–135	–
Simon Vry ^ Chief Operating Officer (until 1 July 2007)	–	–	95-100 (85–90)	2,500
Hugh Taylor * Chief Operating Officer (from 11 June 2007 until 30 April 2008)	70-75 (80–85)	–	60–65 (80–85)	–
William Burton ** Chief Operating Officer (from 19 May 2008 until 31 October 2008)	90-95 (240–245)	–	–	–
Steve Pearce *** Chief Operating Officer (from 16 October 2008)	115–120 (255-260)	–	–	–
Michael Cooper Finance and Corporate Service Director (until 29 June 2007)	–	–	15–20 (65–70)	–
Robert Kendall** Finance Director (from 4 June 2007 until 6 June 2008)	65-70 (175–180)	–	140–145 (170–175)	–
Robin Moulson Finance Director (from 9 June 2008)	75–80 (95–100)	–	–	–
David Halsey Chief Information Officer	130–135	–	130–135	–
Andrew Good ** Human Resources Director (until 19 December 2008)	140–145 (185–190)	–	185–190	–
Jacqui Marshall ^^ Human Resources Director (from 1 December 2008)	20–25 (75–80)	–	–	–
Steve Betteridge (non executive) Director	5–10	–	5–10	–
Nicola Bastin (non executive) Director (from 1 November 2007)	5–10	–	0–5 (5–10)	–
Chris Swinson (non executive) Director (from 1 April 2008)	10–15	–	–	–
George Selim (non executive) Director (until 31 January 2008)	–	–	10–15	–

Reporting period equivalents of basic salary shown in brackets for those Directors that have started or left during the year. Salary includes gross pay, performance pay or bonuses, overtime, reserved rights, recruitment and retention allowances and any other allowances subject to UK taxation.

* Hugh Taylor continued to be employed by the Agency until 5 February 2009. His salary and allowances was £74,892 up to the end of this date. In addition to this, he also received £63,000.00 termination fees.

** Andrew Good, Robert Kendall, William Burton were employed on a temporary basis through recruitment agencies. The amounts disclosed above comprise of amounts paid by the respective recruitment agencies to these individuals or companies controlled by them, for their services. Details of the costs to the Rural Payments Agency are Andrew Good £195,987 (2007/08: £263,812), William Burton £148,050 (2007/08: £0) and Robert Kendall £103,106 (2007/08: £249,651). Robert Kendall continued to be employed by the Agency until 31 July 2008.

*** Steve Pearce is employed on a temporary basis. All payments include VAT and were directly made to his company.

^ Simon Vry continued to be employed by the Agency until 31 December 2007. His salary comprises of payment up to this date and 4 months pay in lieu of notice. In addition Simon Vry also received £95,652 under the terms of an Approved Compensation Scheme.

^^ Jacqui Marshall is on loan from MoD for 2 years.

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 2009 and related lump sum	Cash Equivalent Transfer Value at 31 March 2008 #	Cash Equivalent Transfer Value at 31 March 2009	Real increase in Cash Equivalent Transfer Value at 31 March 2009
	£000	£000	£000	£000	£000
Tony Cooper Chief Executive	2.5-5 plus 12.5-15 lump sum	55-60 plus 170-175 lump sum	1,039	1,218	94
Hugh Taylor Chief Operating Officer (from 11 June 2007 until 30 April 2008)	0-2.5 plus Nil lump sum	0-5 plus Nil lump sum	15	36	15
William Burton Chief Operating Officer (from 19 May 2008 until 31 October 2008)	–	–	–	–	–
Steve Pearce Chief Operating Officer (from 16 October 2008)	–	–	–	–	–
Robert Kendall Finance Director (from 4 June 2007 until 6 June 2008)	–	–	–	–	–
Robin Moulson Finance Director (from 9 June 2008)	0-2.5 plus Nil lump sum	0-5 plus Nil lump sum	–	27	24
David Halsey Chief Information Officer	0-2.5 plus Nil lump sum	0-5 plus Nil lump sum	57	95	29
Andrew Good Human Resources Director (until 19 December 2008)	–	–	–	–	–
Jacqui Marshall Human Resources Director (from 1 December 2008)	0-2.5 plus 2.5-5.0 lump sum	20-25 plus 40-45 lump sum	278*	320	30
Steve Betteridge (non executive) Director	–	–	–	–	–
Nicola Bastin (non executive) Director (from 1 November 2007)	–	–	–	–	–
Chris Swinson (non executive) Director (from 1 April 2008)	–	–	–	–	–

These figures may be different from the closing figures in last year's accounts. This is due to the CETV factors being updated to comply with the occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

* Jacqui Marshall's Cash Equivalent Transfer Value (CETV) is shown as at 1 December 2008.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants can 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. 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/her pensionable earnings during his/her 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 aligned with Retail Price Index. 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

A Cash Equivalent Transfer Value 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 Cash Equivalent Transfer Value 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. Cash Equivalent Transfer Values are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in Cash Equivalent Transfer Value

This reflects the increase in Cash Equivalent Transfer Values 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
17 July 2009

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 the Agency, the net operating costs, recognised gains and losses and cash flows for the financial year.

HM Treasury has appointed the Chief Executive of the Rural Payments Agency as Accounting Officer with responsibility for preparing our accounts which are required to comply with the requirements of the Government Financial Reporting Manual 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 Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the financial statements on the going concern basis.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding our assets, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in *Managing Public Money*.

Statement on Internal Control

Scope of Responsibility

As Accounting Officer, I am responsible for maintaining a system of internal control that supports the achievement of the Agency's policies, aims and objectives set out by Defra's Ministers, while safeguarding the public funds and the Agency's assets, for which I am personally responsible. This is in accordance with the responsibilities assigned to me in HM Treasury publication, *Managing Public Money*.

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

I ensure that we engage with our operational partners across the Defra Network including Animal Health (our livestock tracing provides public health safeguards) and Natural England (on the Rural Development Programme for England) and organisations such as Regional Development Agencies to ensure effective scheme management and collaboration.

I ensure we work with industry groups which represent our farmers and traders, and examine the results of our customer surveys to focus business improvements. I have been in the capacity of Chief Executive throughout the reporting period.

Governance

I am in regular contact with Defra's Food and Farming Ministers and Permanent Secretary and engage with the Secretary of State on risks to the Agency.

The Agency is overseen by Defra led Strategic Advisory Board.

The Agency Management Board provides our strategic direction. It maintains an overview of operational performance and delivery against business plans. Non executive members add skills and experience to the Board.

The Agency Executive Group makes tactical day to day decisions on business delivery.

In my capacity as Paying Agency Director, I furnish a Statement of Assurance to the European Commission in respect of the European Agricultural Guarantee Fund and for the European Agriculture Fund for Rural Development. This responsibility covers Natural England, Regional Development Agencies and the Forestry Commission.

Assurance

A new Chair was appointed to the Agency Audit Committee 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 is also a non executive member of the Agency Management Board and has attended the Strategic Advisory Board. I attend Audit Committee meetings and receive advice from this body.

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.

- 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.
- Has been in place for the period of this report.

Capacity to Handle Risk

Our Risk Management Strategy has been determined and endorsed by me and my Management Board, all of whom are involved in the ongoing development of the risk management process.

Our strategy sets out our approach to risk and defines roles and responsibilities throughout the organisation.

The Board and the Audit Committee regularly monitor and review the strategic risk register including actions to mitigate and manage each risk. Executive Directors regularly assess risk against performance and escalate risks or issues upwards to the Agency Executive Group as appropriate. I continue to place great importance on developing a culture of risk management in decision making in operational processes within the Agency. As part of this we introduced the Disallowance and Accreditation Committee with representation from the Agency, and Defra and the Audit Liaison and Accreditation Team.

Continuing self assessments of the maturity of risk management within the Agency has indicated an improvement.

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 Agency Business Plan. Progress against these targets is widely disseminated and reported to the governing committees.

We have some areas where skills are in short supply. We continue to recognise the need to develop our people and have a comprehensive package of training to improve skills within the Agency.

In June 2008 we launched a three year Corporate Strategy covering the period 2008/09 to 2010/11 and this has been cascaded throughout the Agency.

Review of Effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors, the executive managers reporting to me who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

My Internal Audit Team, supported by KPMG, have provided an opinion which confirms it has encountered no fundamental issue which would cause it to qualify its opinion or which it believes could have a material impact on the ability of the Agency to achieve its objectives. There are a number of matters requiring improvements which I accept. These are:

- Internal Control Framework: Our internal control framework will be reviewed to ensure it is organisation wide and communicated effectively. We will ensure it clearly aligns its corporate and key risks to the control processes currently in place. This will improve the assurance provided to senior management, help identify control gaps and improvement requirements and provide a valuable feed to the effectiveness review process and production of the Statement on Internal Control.

- Core Financial Controls and Resource: Improvements are needed around control account, bank reconciliations and debt balances. My Finance Director is taking action to strengthen the existing arrangements.
- Scheme Management and Compliance: There are further improvements required around scheme control plans, monitoring of control activities and data quality management. We have work in hand to review and strengthen these functions as part of an ongoing improvement effort.
- Fraud Risk Management: More emphasis is needed to raise awareness of potential fraud. The Fraud Risk Management Steering Group currently being set up will drive this forward.
- Information Security: Further improvements to data handling and associated compliance audits are needed. An online training module is now available and will raise information security awareness for all staff.
- Procurement: Procurement is a known area of risk in the Agency and we plan to strengthen the function with the recruitment of a commercial deputy director.

Over the course of the year we have made progress towards the embedding of risk management practices within the Agency. Our strategy for managing risks has been redefined and is in place. We have implemented methods to continually assess the effectiveness of risk management within the Agency in respect of the identification, assessment and management of risks affecting the achievement of our objectives. We aim to continue to refine these processes and ensure they are embedded consistently across our business in order to enhance effectiveness over the coming year.

Our three year Corporate Strategy, including corporate objectives, has been communicated throughout the Agency. We need to ensure these objectives clearly align with all individual business area objectives. For 2009/10 all business areas are being asked to create a team plan which clearly shows how their activities are going to contribute to the Agency's objectives. We will also be considering improvements in the way we monitor the resources, both financial and human, this will assist the Agency in ensuring sufficient staff with the right skills are deployed in the achievement of all objectives, targets and deliverables.

A review of all governance arrangements will be undertaken in 2009/10 and going forward we will ensure the Management Board carries out a formal annual review of its performance and at least every two years formally reconsider its remit, constitution and operational procedures.

The Agency continues to introduce measures based on recommendations made in the National Audit Office report published in October 2006 and the further review, *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*.

I am fully aware of the safeguards that need to apply to information assets including personal and other sensitive data submitted by our customers. European Commission requirements demand that our security controls be set at a high level. We conduct an Agency self assessment against the accreditation criteria set out by the European Commission and this informs our scheme control and risk reviews.

Significant Internal Control Problems

In advance of the introduction of International Financial Reporting Standards (IFRS) in government departments next year, UK Generally Accepted Accounting Practice has incorporated a number of IFRS standards covering financial instruments. The Agency has interpreted Financial Reporting Standard 23 "The effects of changes in foreign exchange rates" in accordance with its existing accounting policies. In particular, this has impacted on the agency's recognition of the European Commission reimbursement of payments to farmers under the Single Payment Scheme (treating as income under the standard) which under the current accounting policy is accrued equally over the scheme year in parallel with the accrual of the liability to pay farmers. This reflects the nature of the scheme which is fully funded by the EC ensuring that each pound paid to farmers is repaid by the EC, albeit at a fixed exchange rate set for each scheme year. RPA does have an exposure on the final translation of the receipt from the EC which it mitigates through a hedging arrangement.

NAO has disagreed with RPA's interpretation setting out that the Agency has not applied the appropriate spot rate on recognition of foreign currency transactions in respect of Agency reimbursement from the EC, instead applying an average rate across the year for the SPS. The resulting non-compliance will affect the mix of income and exchange gains and losses within the OCS but not the net impact, since debtor balances have been revalued using month end spot rates in compliance with the standard. While application of this standard should not have a material impact on the Operating Cost Statement, NAO consider that it would have a material impact on the valuation of the EC Debtor, recognised foreign exchange gains and losses in scheme expenditure and scheme income, and gains arising on revaluation of the EC Debtor.

I have consulted with my Audit and Risk Committee who have reviewed these accounts and concluded that on balance the Agency has not complied in full with FRS 23. However, it is quite clear that restating the accounts in accordance with FRS 23 will not be straightforward but will require a fundamental review of the Agency accounting principles and the accounting records which will require detailed discussions with Defra, NAO and Treasury together with liaison with the auditors of the EC accounts and potentially with the European Court of Auditors. In these circumstances the ARC has agreed that I should sign the accounts on the basis (with the exception of the limitation of scope on debtors and the financial effects of not implementing FRS 23 as described in the previous paragraph) that they otherwise provide a true and fair view.

The Comptroller and Auditor General is qualifying his opinion on the grounds of disagreement on this matter.

The Agency, is committed to delivering better value for money. A list of the principal issues affecting the Agency during 2008/09 and mitigating action follows:

Disallowance (Financial Correction)

The European Commission has raised criticisms in relation to the control framework of some schemes for earlier years which have, or may result in, a financial correction being imposed. Further financial corrections may be proposed for subsequent years until such time as the European Commission is satisfied that the issues have been or are being addressed. Defra is in discussion with HM Treasury over the level of disallowance and how this should be provided for in future years. The Rural Payments Agency supports this process. I recognise that I have no direct control over the level of financial correction proposed by the European Commission where control weaknesses are identified.

The European Commission confirmed a significant correction in respect of the Arable Area Payments Scheme 2004 (£55 million) but there are no ongoing risks associated with this correction. A further significant correction of £22.3 million followed their audits on the

Fruit and Vegetable schemes during 2005 and 2006. Defra has decided to challenge aspects of this decision. Scheme controls have been extensively overhauled. This has been noted by the European Commission, although the Agency has been the subject of criticism from the farming industry and appeals against decisions predicated on tighter controls have been received.

The European Commission has proposed a financial correction on the basis of weaknesses in the overall operation of the administration and control system for the Single Payment Scheme in 2005 and 2006. The value of this proposed correction is being challenged and may be pursued through Conciliation. Significant resource has been invested in improving the controls around the scheme in response to criticisms that have been raised. For 2008/09 better planning, reporting, risk management and quality/process checks have improved the overall delivery of the scheme and action is underway to update the reference components of the Rural Land Register which has received particular criticism from the European Commission for being out of date.

The European Commission has proposed a financial correction for Export Refunds of £9.3 million.

Subject to available funding, I do have control over the data and application of procedures within the Agency and I have taken and am taking further action to strengthen these arrangements. I have also strengthened the Disallowance management processes to ensure that the risks of financial correction are fully taken into account in business decisions and that the issues identified during external audits are given consideration at the appropriate level.

The National Audit Office has advised they intend to classify the Fruit and Vegetable financial correction incurred in 2005 and 2006 and confirmed in 2008/09 as irregular expenditure. The National Audit Office applies the same approach across Government.

Overpayments

Our focus on making payments to farmers and the corrective work required following the implementation of the Single Payment Scheme was sufficiently advanced to enable the Agency to devote significant resource effort to overpayment recovery work during the year. Overpayments had been given a low priority because of our aim to make payments in a timely manner due to the difficulties experienced by farmers in previous years from Foot and Mouth Disease and the impact of widespread flooding. At 31 March some £25 million had been recovered by utilising a variety of repayment options including direct payment, agreement of an individual repayment plan over a number of months and interception from a future payment. Overpayments have been difficult to identify and calculate accurately and have therefore consumed considerable resource effort at both senior and case worker level. The effort and complexity associated with scheme rules, multiple years and the effects of corrective work were underestimated.

The National Audit Office has advised they have been unable to form an opinion on the amount of debt estimated in the accounts. This confirms our view that the debt must be confirmed before farmers are asked to repay. The amount in our accounts is estimated at £22 million which represents 0.05 % of the fund value in the period 2005/07 scheme years.

Structural Funds

The Structural Funds 2000/2006 programme closure exercise takes place this year. The exercise is likely to raise instances where there are insufficient records held by Government Offices to demonstrate the application of correct controls, particularly during the early years of the programme prior to the Agency becoming the paying authority. There is likely to be a level of disallowance associated with this although this has been significantly mitigated by a substantial back data capture exercise initiated by the Agency. Liaison with Government Offices and Defra for Environment Food and Rural Affairs is ongoing.

Information Assurance

Following the publication of the Data Handling Review and more recently Security Policy Framework the Agency has made a committed effort to comply with the Information Assurance Maturity Framework and attain level 1 achievement against the Information Assurance Security Model across all key areas by the end of March 2009.

The Agency Management Board ratified the agreed action plan to achieve that level of attainment in October 2008 and the Agency is on track to meet the agreed target deadlines.

On specific information technology technical information assurance compliance matters, the risk of usage of unauthorised Universal Series Bus memory sticks on the Ultra Thin Client devices, desktop personal computers and laptops and the risk of laptops containing Agency data being lost has been of significant concern.

We have restricted the use of unauthorised Universal Series Bus memory sticks, by implementing a technology lockdown on all Universal Series Bus sockets on Ultra Thin Clients, desktops and laptops. To improve security further, we have rolled out encryption on Agency laptops.

We are currently in the process of assessing and confirming our action plans to address the new Security Policy Framework mandatory compliance requirements.

Contingencies

Business continuity site level plans have been exercised at all major sites except Reading, where recent real events assured resilience. Further work is being undertaken with all Directorates to develop their Business Continuity Plans and liaise with the Chief Information Officer's Directorate and Operations to ensure Disaster Recovery plans are 'fit for purpose'. Work is being undertaken with the Delegated Bodies and the Agency's supply chain to seek assurance with regard to their business continuity arrangements.

Mitigating the impact of exchange rate fluctuations

Currency hedging arrangements are in place with the Royal Bank of Scotland for all European Commission funded schemes in order to mitigate the risk effects of Sterling/Euro exchange rate fluctuations. We are working to further ensure that the Rural Payments Agency is not exposed to significant exchange rate differentials and that our hedging arrangements are both fit for purpose and competitive. Our policy in accounting for exchange rate fluctuations is outlined in Note 19.

Tony Cooper
Chief Executive
17 July 2009

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

I certify that I have audited the financial statements of the Rural Payments Agency for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, Accounting Officer and Auditor

The Agency and the 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 thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with 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', 'Basis of Funding and Accounts', 'Performance Against Targets', '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 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, 'Agency objectives and performance' 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 opinions

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 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. However, with respect to the Single Payment Scheme overpayments debtors balance of £22 million at 31 March 2009, included within trade debtors, owing to the nature of the agency's debtor records the Agency was unable to provide sufficient assurance that the debtors are accurately stated. I was unable to obtain sufficient appropriate audit evidence regarding the debtor value by using other audit procedures.

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.

Qualified opinion arising from disagreement about accounting treatment and qualified opinion due to limitation of scope.

The Rural Payments Agency has not applied Financial Reporting Standard (FRS) 23 'The effects of changes in foreign exchange rates' as stipulated in the accounting standard. The Agency has not applied the spot exchange rate on recognition of foreign currency transactions in respect of Agency reimbursement from the European Commission (EC), instead applying effectively an average rate across the year for the Single Payment Scheme and the rate inherent within the other scheme arrangements. This non-compliance has the effect of omitting the full impact of exchange rate movements from the financial statements.

The full application of FRS 23 would have a material impact on the valuation of debtors, recognised foreign exchange gains and losses in scheme expenditure and scheme income, and gains arising on the revaluation of the EC debtor.

Except for the financial effects of such adjustments, if any, that might have been necessary had I been able to satisfy myself regarding the Single Payment Scheme overpayments debtors balance, and except for the financial effects of not applying the appropriate exchange rates in accordance with FRS 23, 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 2009 and of its net operating cost, total recognised gains and losses and cash flows for the year then ended; and
- 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.

In my opinion, information, which comprises the 'Business Review', 'Basis of Funding and Accounts', 'Performance Against Targets', 'Public Interest' and 'Management Structure' sections, included within the Annual Report, is consistent with the financial statements.

In respect solely of the limitation on our work relating to the Single Payment Scheme overpayments debtors balance:

- I have not obtained all the information and explanations that I considered necessary for the purpose of our audit; and
- I was unable to determine whether proper accounting records had been maintained for SPS overpayments debtors.

Qualified opinion on regularity arising due to funding of EC schemes by the UK Exchequer

As disclosed in the Notes to the accounts, the Rural Payments Agency have incurred the cost of £22.2 million of disallowance penalties on fruit and vegetable grant schemes relating to 2003 to 2006. The European Commission has imposed these disallowance penalties due to identified weaknesses in the Agency's control systems.

The £22.2 million disallowance penalties represent a material loss to the UK Exchequer. I consider that this loss falls outside of Parliament's intentions in relation to the proper administration of European funding. I have therefore concluded that this expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities which govern it.

In my opinion, except for confirmed disallowance penalties of £22.2 million, 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 report on these financial statements is on pages 41 to 43.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS
20 July 2009

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

Administration of the Common Agricultural Policy in England

The Single Payment Scheme (SPS) was introduced by the European Union as part of the 2003 Common Agricultural Policy (CAP) reforms which replaced 11 separate crop and livestock based production subsidies with a single payment based on land area.

The Rural Payments Agency (RPA) experienced considerable difficulties in capturing and processing the data required to process payments for the first two years of the scheme and is working to quantify the value of overpayments made to farmers as a result of these difficulties.

The Agency's difficulties, in particular in the first two years of the scheme, have resulted in the European Commission proposing financial penalties. Where the European Commission takes the view that the detailed European Regulations have not been applied correctly in processing European Union (EU) Scheme transactions there is a risk of disallowance of expenditure under the Scheme. In anticipation of these penalties Defra retains a provision in its accounts in respect of SPS 2005 and 2006. The Department has also been carrying provisions in its accounts in anticipation of financial penalties for a number of SPS predecessor schemes and for some smaller on-going schemes. The total provision held at the 31 March 2009 is £246.4 million.

In addition to these amounts, the RPA held a liability for disallowance in respect of Fruit and Vegetable Producer Groups and Operational Funds which was recognised prior to the responsibility for disallowance transferring to Defra.

Disallowance Penalties

The European Commission confirmed on 8 December 2008 a decision on disallowance relating to the Fruit and Vegetable Producer Groups and Operational Funds. The Fruit and Vegetable Regime was introduced in April 1997 throughout the EU as a scheme to help the fruit and vegetable industry become more efficient, more competitive in the supply chain and more environmentally friendly. Penalties have been applied as a result of weaknesses in the Agency's controls systems surrounding the recognition of producer organisations in 2003–2006. The penalties amount to £22.2 million and these have been paid by deduction from subsequent scheme claims made to the European Commission by the RPA.

I have accordingly qualified my audit opinion on this account on the grounds of regularity due to confirmed disallowance penalties of £22.2 million. This loss falls outside of parliament's intentions in relation to the proper administration of European funding.

Additional disallowance penalties of £70.0 million have been imposed and are accounted for in the Defra 2008-09 resource accounts. The most significant penalty relates to the Arable Area Payment Scheme. This was the largest of the SPS predecessor schemes in England with payments of £1.1 billion each year to some 47,000 farmers. Farmers claimed area based payments for growing certain arable crops – cereal, oil seeds, linseed and protein crops – on eligible land. The Commission has determined that the RPA had not accurately determined the area eligible for payments and had not undertaken the required field visits at appropriate times. The penalty amounts to £55 million and has been paid by deduction from subsequent scheme claims made to the Commission by the RPA.

The residual penalties total £15.06 million and relate to Export Funds (£9.3 million), Cross Compliance 2006 (£4.8 million), Exceptional Measures (£0.9 million) and Livestock Premiums, Bovines and Ovines 2003 and 2004 (£0.06 million).

I have accordingly also qualified my audit opinion on the Defra 2008/09 resource accounts on the grounds of regularity due to total confirmed disallowance penalties of £92.260 million arising from a number of SPS predecessor schemes and for some smaller on-going schemes. I have reported separately in respect of Defra's 2008/09 Resource Accounts (HC 453).

Administration of the Single Payment Scheme

The difficulties experienced by the Rural Payments Agency have led to two value for money reports by the National Audit Office. Our first report[1] in October 2006 was critical of the implementation of the Single Payment Scheme, but it noted that the Agency's management team instigated recovery action which the Agency expected to be fully implemented by April 2008. Our second report[2] in December 2007 noted that the new management team had instilled a clearer sense of direction and drive amongst the staff to improve performance. The errors in the first year of the scheme (the 2005 scheme) were, however, largely repeated in the second year (the 2006 scheme) and the Agency had not yet recovered the sums from those farmers who were overpaid.

The Agency's 2008/09 financial statements include £26.6 million in debtors against which a bad debt provision of £4.6 million is set. The balance of £22 million is considered by the Agency to reflect the likely overpayments from the single payment scheme and is reflected within the trade debtors balance.

Our testing found indicative error rates of 79% in uninvoiced debts and error rates of 9% in respect of amounts which had already been invoiced to farmers. An internal review of invoiced debt by the Agency, targeted at those cases viewed as a risk of being incorrect, indicated potential error rates of 30% in amounts invoiced to farmers. The Agency does not however consider this exercise to be reliable. As a result of our audit findings, the Agency reviewed a further sample of 50 uninvoiced debts and identified an indicative error rate of 40%, where the records available allowed the debt to be re-calculated.

The Agency is undertaking further work to establish accurate records of the amounts owed by individual farmers and will subsequently invoice for the amounts due. The significant uncertainty over debtor balances means that I have been unable to obtain assurance over this balance and the scope of my audit opinion has been limited in this respect. I have qualified my opinion on the Agency's accounts accordingly.

I intend to report in more detail in the autumn on the actions of the Rural Payments Agency since my predecessor's report of December 2007.

Application of Financial Reporting Standard 23 'The effects of changes in foreign exchange rates'

The Agency is required to produce accounts in accordance with HM Treasury's 'Financial Reporting Manual'. The Financial Reporting Manual interprets General Accepted Accounting Practice for use in the public sector. The Financial Reporting Manual requires entities to apply Financial Reporting Standard 23 'The effects of changes in foreign exchange rate' and the financial standards 25, 26 and 29 relating to financial instruments in full from 2008/09 onwards. HM Treasury wrote to all central government bodies and instructed them to consider the potential impact of these standards by 31 December 2008.

The Agency has significant exposure to exchange rate risk as it pays out European Union scheme funds (the most significant of which is the Single Payment Scheme) to English farmers in sterling - but has the cash reimbursed in euros. The Agency operates a foreign exchange contract which mitigates the exposure of the Agency to foreign exchange gains and losses. As a result of the potentially significant impact which the application of these Standards may have on the Agency the NAO recommended that the new standards be addressed as early as possible. The agency should have addressed this in the autumn of 2008 and submitted their final consideration of these standards by 31 December 2008 in line with the HM Treasury timetable.

The Agency relies on a small number of key staff within the finance function and was not able to address these issues in a timely manner. The Agency provided an initial consideration of the standards in April and subsequently presented their proposed detailed approach to implementing FRS 23 in June 2009, some six months after the HM Treasury deadline.

I do not consider that the Agency's application of FRS 23 conforms to the standard. In particular, the Agency has not applied the spot exchange rate on recognition of foreign currency transactions in respect of Agency reimbursement from the European Commission (EC). The approach adopted by the Agency does not reflect the full volatility of rates experienced in 2009. The effect of the Agency's treatment is to omit the full gains/losses arising on retranslation of claims during the year. The full application of FRS 23 would have a material impact on the valuation of debtors, recognised foreign exchange gains and losses in scheme expenditure and scheme income, and gains arising on the revaluation of the EC debtor. This does not impact on the amounts which are paid to farmers.

The Agency has agreed that the accounts do not comply in full with FRS 23. It considers that restating the accounts in accordance with FRS 23 would require a fundamental review of the Agency accounting principles and accounting records and work will be undertaken during 2009/10 in order to resolve this issue. I have therefore qualified my opinion on the basis of a disagreement on the application of FRS 23 in the accounts.

In addition, the Department for Environment, Food and Rural Affairs has informed me that they are due to commission an external review of the financial management of the Agency imminently. This will consider the capacity and capability of the finance function within the Agency.

1 The Delays in Administering 2005 Single Payment Scheme in England, HC1631 Session 2005/06 18 October 2006.

2 A progress update in resolving the difficulties in administering the Single Payment Scheme in England, HC10 Session 2007/08 12 December 2007.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS
20 July 2009

Accounts

Operating Cost Statement for the year ended 31 March 2009

	Note	2008/09		2007/08 Restated
		£000	£000	£000
Programme Costs				
Running Costs				
Staff costs	2	117,773		123,851
Other running costs	3	124,130		118,950
Gross Running Costs		241,903		242,801
Income	11	(1,111)		(1,085)
Net Running Costs			240,792	241,716
Scheme Costs				
Rural Payments Agency				
Costs	4	1,830,176		1,648,350
Less Income	11	(1,751,225)		(1,581,818)
			78,951	66,532
Other Departments				
Costs	10	1,048,125		1,000,772
Less Income	10	(1,049,739)		(1,002,349)
			(1,614)	(1,577)
Other income	11	(11,386)	(11,386)	(54,479)
Net Scheme Costs			65,951	10,476
Net Operating Cost			306,743	252,192

The Notes on pages 48 to 83 form part of these accounts.

All income and expenditure is derived from continuing operations.

The prior year has been restated to reflect the impact of implementing Financial Reporting Standard 23 (the effects of changes in exchange rates), and Financial Reporting Standards 25,26 and 29 (financial instruments, disclosures and presentation, recognition and measurement), as required by the 2008/09 Government Financial Reporting Manual. Additionally the costs of contractors working on non-project work have been transferred to staff costs from other running costs.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2009

	2008/09	2007/08 Restated
	£000	£000
Net Operating Cost	**(306,743)**	(252,192)
Net (loss)/gain on revaluation of tangible fixed assets	**(771)**	1,562
Total recognised losses for the financial year	**(307,514)**	(250,630)

The Notes on pages 48 to 83 form part of these accounts.

Effect of restatement on year 31 March 2008

Prior year as previously reported		2007/08
Net Operating Cost		(262,111)
Net gain on revaluation of tangible fixed assets		1,562
Total recognised losses for the financial year		(260,549)
Effect of restatement on Total Recognised Gains and Losses for year ended 31 March 2008		9,919

Restated Operating Cost Statement		2007/08
Staff Cost		10,429
Other Running Costs		(10,429)
Scheme Cost		
Rural Payments Agency		(20,962)
Other Departments		290
Scheme Income		
Rural Payments Agency		18,082
Other Departments		(7,329)
Effect of restatement on Operating Cost Statement for year ended 31 March 2008		(9,919)

Restated Balance Sheet		2007/08
Debtors		80,787
Creditors		14,032
Derivative liability		(84,610)
		10,209

Restated Taxpayers' Equity		2007/08
General Fund		
Movement in Net Operating Costs		9,919
Movement in Notional Charges		290
		10,209

Balance Sheet as at 31 March 2009

Fixed Assets	**Note**	**2008/09**		2007/08 Restated	
		£000	**£000**	£000	£000
Tangible Assets	12a	67,278		71,661	
Intangible Assets	12b	3,371		2,140	
			70,649		73,801
Current Assets					
Stocks	13	13,118		0	
Debtors	14	1,047,697		1,243,416	
Cash at bank and in hand	15	365,655		691,792	
		1,426,470		1,935,208	
Creditors (due within one year)	16	(1,440,440)		(1,904,749)	
Derivative liability	19	(75,828)		(84,610)	
Net current liabilities			(89,798)		(54,151)
Total assets less current liabilities			(19,149)		19,650
Creditors (due after more than one year)	17		(103,336)		(36,252)
Provisions for liabilities and charges	18		(14,666)		(20,999)
			(137,151)		(37,601)
Taxpayers' Equity					
General fund	20		(138,594)		(40,732)
Revaluation reserve	20		1,443		3,131
			(137,151)		(37,601)

The notes on pages 48 to 83 form part of these accounts.

Tony Cooper
Chief Executive and Accounting Officer
17 July 2009

Cash Flow Statement for the year ended 31 March 2009

	Note	2008/09	2007/08
		£000	£000
Net cash (outflow)/inflow from operating activities	21a	**(76,540)**	598,140
Capital expenditure and financial investment	21b	**(22,828)**	(24,856)
Payments to the Consolidated Fund	20/21a	**(1,889,119)**	(2,379,357)
Financing	21c	**1,662,350**	2,369,344
(Decrease)/increase in cash in the period	15	(326,137)	563,271

The notes on pages 48 to 83 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in compliance with the 2008/09 Government Financial Reporting Manual 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 Financial Reporting Manual follow UK Generally Accepted Accounting Practice for companies to the extent that it is meaningful and appropriate to the public sector. Where the Financial Reporting Manual permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Rural Payments Agency 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 Stocks

Intervention Stocks

Stocks comprised agricultural commodities purchased into intervention under terms specified by the European Agricultural Guarantee Fund (see Note 1.7) 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 European Commission. The basis of valuation departs from Statement of Standard Accounting Practice 9, as specifically approved in the Financial Reporting Manual (paragraph 6.3.9).

Other Stocks

Other stocks comprise Meat and Bone Meal and Tallow which arise as by-products of the cattle rendering process associated with the Bovine Spongiform Encephalopathy schemes and are valued in accordance with Statement of Standard Accounting Practice 9.

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 and treated as capital expenditure (but not depreciated or revalued until the software is fully developed and brought into use). The Rural Payments Agency has set a capitalisation threshold for software projects of £100,000.

Fixed assets are revalued annually using appropriate price indices issued by UK Statistics. The unrealised element is credited to the Revaluation Reserve as analysed at Note 20 to these accounts. Items with zero net book value are not revalued. All assets are assessed for impairment.

As freehold land and buildings is comprised entirely of assets which are held for sale, professional, external valuations are no longer carried out and the assets are stated at the lower of carrying value and fair value less costs to sell.

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.

Principal asset lives are as follows:

Freehold buildings	20 years
Leasehold 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 Statement of Standard Accounting Practice 21. Rental costs arising under operating leases are charged to the Operating Cost Statement in the year in which they are incurred .The Rural Payments Agency does not have any finance leases.

1.6 Programme costs

All the activities of the Rural Payments Agency 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 the Rural Payments Agency and other Paying Agencies of grants and subsidies direct to claimants, operating costs of the Older Cattle Disposal Scheme, and Intervention.

1.7 Intervention buying and selling

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

When Intervention occurs, the Rural Payments Agency receives a contribution towards its financing and technical costs, at the standard rates of reimbursement, from the European Commission based on the average monthly value of stock held.

1.8 Rural Payments Agency scheme income and expenditure

Single Payment Scheme expenditure is accrued evenly over each calendar year to which it applies. For other schemes administered by the Rural Payments Agency 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 European Commission 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, the Rural Payments Agency accrued for liabilities arising from clearance decisions covered by formal proposals for disallowance under Article 8.1 of European Commission Regulation (EC) No 1663/1995, and for late payments in accordance with the formulae in European Commission Regulation (EC) No 296/1996 (see Note 16).

During 2008/09 the European Commission confirmed a significant correction of £22.3 millon in relation to the Fruit and Vegetable Producer Groups and operational Funds. This disallowance has been borne by the Rural Payments Agency. Future liabilities will be funded by Defra. 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 of the Rural Payments Agency's scheme expenditure is pre-funded by the UK Exchequer. Subsequent receipts reclaimed from the European Commission budget (subject to retentions for National Modulation – see 1.10) are surrendered to HM Treasury as 'Consolidated Fund Extra Receipts' when received. The financial impact of late payments and agreed disallowances is to reduce the level of funding received by the Agency. To the extent that European Commission 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 HM Treasury. This shortfall is funded by Defra taking into account any related provision for disallowance.

In accordance with European Commission regulations the Rural Payments Agency 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 Consolidated Fund Extra Receipts liability and these funds are remitted to the European Commission via HM Treasury. Sugar restructuring receipts are remitted directly to the European Commission 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 make payments to claimants under both the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. As these payments are made they are funded by the Rural Payments Agency and subsequently recovered from the European Commission.

1.10 Modulation

Modulation is a vehicle for redirecting into Rural Development a proportion of support payments to farmers and other claimants. This process is supported by the European Commission and national legislation. Under these arrangements there are two types of Modulation – National (or Voluntary) Modulation and European Commission (or Compulsory) Modulation.

National Modulation

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

From Single Payment Scheme 2007 onwards scheme payments are reclaimed net of all Modulation. National Modulation funds for the UK are reclaimed from the European Commission when Rural Development expenditure is incurred.

European Commission Modulation

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

Within these accounts the Single Payment Scheme is reported net of National Modulation and European Commission Modulation for the Single Payment Scheme 2007 and subsequent years.

1.11 European Commission funding of schemes administered by the Rural Payments Agency

With the exception of Intervention income, which is described in Note 1.7, European Commission income is accrued where the related expenditure has been accrued and is deferred where the related expenditure has been prepaid. Funding of Rural Development expenditure under the Rural Development Programme for England is managed by the Rural Payments Agency on behalf of Defra. Scheme income and expenditure is reported in Defra's resource account with the transfers reported as an inter-group transfer and as a movement through General Fund respectively. The European Commission debtor for European Commission funded Rural Development expenditure is recognised by the Rural Payments Agency when expenditure is incurred.

1.12 Value Added Tax

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.

1.13 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% (2007/08: 3.5%) on the average capital employed. In accordance with the Financial Reporting Manual (paragraph 4.5.12) the charge is calculated monthly as the assets are not volatile and the monthly calculation produces a reasonable basis for calculation of the capital charge. Within this calculation the average debtor due from the European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development 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 currency transactions

In advance of the introduction of International Financial Reporting Standards in government next year, UK Generally Accepted Accounting Practices has incorporated a number of International Financial Reporting Standards relating to financial instruments to be applied from 2008/09. In particular the Agency has applied Financial Reporting Standard 23 to this year in accordance with its accounting policies and with comparative figures for 2007/08. The Agency recognises the debtor in respect of reimbursement from the EC at an exchange rate comparable with that used to recognise the income for individual schemes. In regard to the Single Payment Scheme this means an average rate across the year.

Rural Payment Agency adjustment in respect of SPS

The Rural Payments Agency accrue Single Payment Scheme income evenly across the scheme year. To account for this one twelfth of the regulatory ceiling, or a percentage thereof, is accrued each month through the calendar year.

In order to meet the requirements of Financial Reporting Standard 23 income relating to the Single Payment Scheme has been assessed by making reference to the individual monthly spot rates.

Other Paying Agencies

In regard to the Other Paying Agencies, the Rural Payments Agency manages their indent submissions and needs to account for exchange differences on these. Income is therefore valued at the point of indent. Gains or losses are recognised at the point of indent settlement as compared with the rate at the date of submission.

The European Commission debtor at the year-end has been restated to the European Central Bank rate applying at the balance sheet date.

In agreement with HM Treasury, the Rural Payments Agency uses structured contract-for-difference contracts to hedge against its economic exposure to foreign currency movements associated with the European Commission reimbursement process.

1.15 Derivative financial instruments

Following HM Treasury guidance regarding the adoption of financial instrument standards in central Government for 2008/09, the Rural Payments Agency has revised its accounting policy to comply with Financial Reporting Standard 25, 26 and 29 as applicable to the Agency.

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date.

The gain or loss resulting from derivatives is included in Operating Cost Statement and recognised in the Operating Cost Statement immediately unless the derivative is designated and effective as a hedging instrument. The designation of contracts as hedging instruments has not been made in these accounts and hedge accounting has not been applied.

1.16 Debtors

The Rural Payments Agency seeks to recover all overpayments where it is cost effective to do so unless it will cause unreasonable hardship to the customer.

Overpayments are principally recovered through interception. Before an interception can be effected the Rural Payments Agency's policy is to net creditor and debtor balances for a particular scheme year. Interception is the process of offsetting a customer's debt against a future scheme year payment. Where this is not possible overpayments are referred to the Customer Management team for collection using recovery procedures in accordance with the Debt Recovery Policy. This policy sets out the Rural Payments Agency's principles in recovering overpayments.

Overpayments are recognised in the accounts as they are transferred into the Rural Payments Agency's financial systems from the relevant scheme processing systems. An invoice is only sent to the customer once the overpayment has been confirmed by the scheme operating unit. The Rural Payments Agency regards this invoice as sufficient and appropriate evidence and valuation of an overpayment.

Overpayments are assessed at the end of each accounting period. At the end of the financial year the recoverable amount is reviewed, where the analysis indicates that an overpayment is irrecoverable a bad debt is recognised. Once the overpayment has been confirmed as irrecoverable the debt will be written off.

1.17 Pensions

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

1.18 Provisions

The Rural Payments Agency 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 Financial Reporting Standard 12. Future costs have been discounted where significant.

1.19 Early departure costs

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

1.20 Contingent assets and liabilities

Contingent assets and liabilities are disclosed in accordance with Financial Reporting Standard 12.

1.21 Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty: Fair value of derivatives.

The Rural Payments Agency Chief Executive Officer, in his capacity as Accounting Officer, uses judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation is based on the forward spot exchange rate in force at the date of settlement, discounted where necessary to reflect the time value of money.

2. Staff numbers and costs

2.1 Staff costs

Officials	**2008/09**				2007/08 Restated
	£000				£000
	Total	**Permanently employed staff**	**Short term/ fixed term appointments**	**Casual staff**	Total
Wages and salaries	80,028	70,381	9,329	318	80,719
Social security costs	5,952	5,232	693	27	5,951
Other pension costs	13,425	11,830	1,567	28	12,997
Early retirement and early severance costs	2,014	2,014			1,062
	101,419	89,457	11,589	373	100,729
Agency Staff	5,625				12,693
Contractors	10,729				10,429
	117,773				123,851

Principal Civil Service Pension Schemes is mainly an unfunded multi employer defined benefit scheme but the Rural Payments Agency 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 2008/09 employer's contributions of £13.4 million (2007/08: £12.8 million) were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 17.1% to 25.5% 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 2008/09 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 £188 thousand 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 £15 thousand, 0.8% of pensionable pay, were payable to the Principal Civil Service Pension Schemes 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 £15,216 (2007/08: £ nil). There were no prepaid contributions at that date.

No staff costs have been capitalised.

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

Objective: Ensure a thriving farming sector and a sustainable, healthy and secure food supply						
2008/09						2007/08 Restated
Total	Permanently employed staff	Short term/ fixed term Contract staff	Casuals	Contractors	Agency Staff	Total
3,700	2,829	496	14	61	300	4,250

The costs of contractors engaged in normal business as usual roles within the Rural Payments Agency are reflected in Note 2.1. Those contractors engaged in project work are reflected in Note 3.

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

Table 1

Pension Arrangement	Employee contribution	Employee Benefits
Classic (closed to new members from 1/10/02)	1.5% of pensionable earnings	Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.
Premium (New scheme from 1/10/02 for new entrants)	3.5% of pensionable earnings	Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic scheme, there is no automatic lump sum but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension entitlement if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.
Classic Plus (Combined scheme counting service both before and after 1/10/02)	3.5% of pensionable earnings	This is essentially a variation of Premium but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

Table 2

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

3. Other running costs

	Note	**2008/09**		2007/08 Restated
		£000	**£000**	£000
Rentals under operating leases				
Rent on buildings			5,251	5,118
Non cash items (including notional charges)				
Audit fee (notional)	27	425		400
IFRS audit fee (notional)	27	23		0
Defra capital charges – buildings (notional)	27	0		782
Defra central overhead charges (notional)	27	0		631
Loss on disposal of fixed assets	27	855		350
Depreciation and impairment*	27	24,137		20,864
Cost of capital charge (notional)	27	1,471		1,318
			26,911	24,345
Other Expenditure				
Accommodation		9,766		8,189
Information Technology costs		43,876		45,814
Other running costs		5,563		2,705
Non payroll staff costs		5,911		5,117
Contractor staff costs		12,488		12,979
Communications costs		7,175		6,458
Agents fees		5,473		6,049
Miscellaneous scheme costs		1,716		2,176
			91,968	89,487
			124,130	118,950

* Depreciation and Impairment of £24.137 million includes £0.25 million impairment (2007/08 £20.864 million comprised entirely of depreciation).

Charging arrangements between Defra and the Rural Payments Agency for Defra capital charges and central overhead charges changed in 2008/09.

In 2007/08 these items were notional and appear in the comparatives under Non-cash items. the Rural Payments Agency has been charged for these in 2008/09, and costs are reflected in Accommodation and Other Running Cost categories within Other Expenditure.

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

	2008/09	2007/08
	£000	£000
Payroll costs	493	465
Other costs	32	29
Certifying Body audit fee*	1,182	1,482
	1,707	1,976

* The Certifying Body audit fee is a hard charge to the Rural Payments Agency.

4. Schemes administered by the Rural Payments Agency

The Rural Payments Agency is responsible for the administration of:

- The Single Payment Scheme; internal market schemes (covering dairy products, crops and fruit and vegetables); external trade measures (export refunds, import and export licences); milk quotas; Hill Farm Allowance and the Older Cattle Disposal Scheme, throughout the UK.
- Intervention buying and selling in the UK.
- Funding Common Agricultural Policy schemes administered by all the UK Paying Agencies.
- Receipt and administration of monies received from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development for the UK.

	Note	**2008/09**	2007/08 Restated
		£000	£000
Single Payment Scheme	5a	**1,661,514**	1,508,010
Pillar 1 (excluding Single Payment Scheme)	5a	**53**	(444)
Bovine Spongiform Encephalopathy related	5b	**62,856**	60,826
Trader based – Internal Market	6	**23,372**	91,889
Trader based – External Trade	7	**23,055**	(30,904)
Intervention buying and selling	8	**87**	387
School Milk		**5,536**	4,325
Scheme related losses	28	**1,882**	11,492
20% retention of irregularities*	5a	**(379)**	(274)
Other scheme costs		**(1,790)**	13
		1,776,186	1,645,320
Charge to/(release from) bad debts provision		**9,075**	(8,447)
Cost of capital charge	27	**4,331**	8,991
Exchange loss - realised **		**28,435**	9,417
Net (gain)/loss on movement in fair value of derivative		**(8,782)**	84,610
Net loss/(gain) on restatement of debtor due from EAGF	19	**20,931**	(91,541)
Total Scheme Expenditure		**1,830,176**	1,648,350

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

** The Rural Payments Agency has hedging contracts in place with the Royal Bank of Scotland, to mitigate the risk of currency fluctuations in relation to scheme income which is received from the European Commission in Euros. The Rural Payments Agency retains a residual risk as a result of having to estimate in advance Single Payment Scheme payments that it will make and recover from the European Commission.

5. Farm based schemes

5a. Single Payment Scheme

The Single Payment Scheme, introduced by EC Council Regulation 1782/2003, replaced most existing crop and livestock payments from 1 January 2005.

	Note	**2008/09**			2007/08 Restated		
		Expenditure	**Income**	**Net**	Expenditure	Income	Net
		£000	**£000**	**£000**	£000	£000	£000
Single Payment Scheme		1,661,514	(1,692,595)	(31,081)	1,508,010	(1,496,438)	11,572
Exchange loss/ (gain)*		0	18,589	18,589	0	(7,522)	(7,522)
Late payment penalty		0	0	0	0	61,752	61,752
Utilisation of Defra accrual		0	0	0	0	(61,752)	(61,752)
		1,661,514	(1,674,006)	(12,492)	1,508,010	(1,503,960)	4,050
European Commission financial correction	16	53	(9,857)	(9,804)	(444)	(794)	(1,238)
Other schemes		(379)	1,338	959	(274)	64	(210)
Total Scheme Expenditure/ (Income)		1,661,188	(1,682,525)	(21,337)	1,507,292	(1,504,690)	2,602

* The exchange loss (2007/08 gain) reflects the impact of Financial Reporting Standard 23, whereby scheme income is valued at monthly spot rates throughout the year.

5b. Bovine Spongiform Encephalopathy Related

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

The Rural Payments Agency has administered schemes designed to remove older animals from the food chain.

	2008/09			2007/08		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Older Cattle Disposal Scheme						
Premium Payments	**25,600**	**(14,223)**	**11,377**	24,195	(16,258)	7,937
Costs of operations						
Slaughter	**10,168**	**0**	**10,168**	11,604	0	11,604
Transport	**2,816**	**0**	**2,816**	2,730	0	2,730
Rendering	**8,494**	**0**	**8,494**	10,733	0	10,733
Incineration	**5,852**	**0**	**5,852**	2,772	0	2,772
Storage	**2,374**	**0**	**2,374**	435	0	435
	55,304	**(14,223)**	**41,081**	52,469	(16,258)	36,211
Over Thirty Months Slaughter Scheme						
Premium Payments	**(23)**	**4,335**	**4,312**	17	2,796	2,813
Costs of operations						
Incineration	**0**	**0**	**0**	915	0	915
Storage	**7,538**	**0**	**7,538**	7,425	0	7,425
	7,515	**4,335**	**11,850**	8,357	2,796	11,153
TSE Agents Services	**37**	**0**	**37**	0	0	0
Sale of tallow and hides	**0**	**(963)**	**(963)**	0	(2,584)	(2,584)
Total Scheme Expenditure/(Income)	**62,856**	**(10,851)**	**52,005**	60,826	(16,046)	44,780

The above analysis excludes the administration costs of Bovine Spongiform Encephalopathy schemes.

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

Older Cattle Disposal Scheme replaced Over Thirty Month Slaughter Scheme from 23 January 2006 following changes to the Over Thirty Month rules. Compensation payments are co-financed by the European Commission, while the costs of operation are borne by the UK Exchequer and remain with the Rural Payments Agency.

Older Cattle Disposal Scheme closed on 31 December 2008.

The Waste Incineration Directive 76/2000/EC and Stock

The directive imposes additional safety measures for the incineration of tallow and requires plant modification. Tallow incineration has been restricted to those renderers compliant with the act and as a result tallow stocks are held. At 31 March 2009 9,207 tonnes remained in store (2007/08 14,568 tonnes).

At 31 March 2009 there was no Over Thirty Month Slaughter Scheme waste material (2007/08: 1,192 tonnes) or Older Cattle Disposal Scheme (2007/08: 843 tonnes) in store.

6. Trader based - Internal Market

		2008/09			2007/08		
	Note	**Expenditure**	**Income**	**Net**	Expenditure	Income	Net
		£000	**£000**	**£000**	£000	£000	£000
Horticulture		**19,650**	**(21,152)**	**(1,502)**	17,469	(16,677)	792
Milk and Milk Products		**547**	**(365)**	**182**	2,120	(2,182)	(62)
Protein and Textile plants		**1,128**	**(1,213)**	**(85)**	1,099	(1,124)	(25)
School Milk		**849**	**(891)**	**(42)**	519	(552)	(33)
Sugar and Isoglucose		**(29)**	**33**	**4**	63,931	(63,998)	(67)
Other		**1,398**	**(1,405)**	**(7)**	1,836	(1,679)	157
		23,543	**(24,993)**	**(1,450)**	86,974	(86,212)	762
European Commission financial correction	16	**(171)**	**0**	**(171)**	4,915	0	4,915
Total Scheme Expenditure/(Income)		**23,372**	**(24,993)**	**(1,621)**	91,889	(86,212)	5,677

7. Trader based - External Trade

The Rural Payments Agency is responsible for paying export refunds in respect of trade with non-European Union member countries.

	2008/09			2007/08		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Milk and Milk Products	346	(341)	5	1,288	(1,318)	(30)
Processed Goods	2,766	(2,789)	(23)	6,321	(7,251)	(930)
Sugar and Isoglucose*	18,979	(19,140)	(161)	(39,022)	38,825	(197)
Other	964	(901)	63	509	(628)	(119)
Total Scheme Expenditure/ (Income)	23,055	(23,171)	(116)	(30,904)	29,628	(1,276)

* Sugar and Isoglucose external trade expenditure and income, for 2007/08, both reflect the impact of an over-accrual of £43 million arising from an inaccurate estimate of the value of outstanding claims from a major claimant in the previous year.

8. Intervention Buying and Selling

Intervention supports the market price by purchasing eligible surplus product into public intervention storage. Product may also be sold out of intervention for specified end uses when prices are high or there is a shortage on the open market. Schemes may be seasonal or in response to exceptional market conditions.

	Note	**2008/09**		2007/08
		£000	**£000**	£000
Cost of Intervention sales		0		12
Stock movement		0		0
			0	12
Fixed asset depreciation*	27		1	54
Intervention operating costs			86	321
Total costs			87	387
Intervention Income	11		(58)	(10)
Total Intervention buying and selling			29	377

* Fixed Asset depreciation of £1 thousand relates to Plant and Machinery.

9. Modulation

Modulation is applied as a deduction from the budget available for farm based schemes under the European Agricultural Guarantee Fund which is then added to the budget for Rural Development schemes under the European Agricultural Fund for the Rural Development.

It is applied on two bases, European Commission Modulation and National Modulation:

European Commission Modulation

European Commission Modulation is governed by Council Regulation (EC) No.1782/2003. The rate has increased progressively from 3% of direct payments in 2005 to 5% from 2007 onwards. The same rate will apply throughout the whole of the UK. Up to €5,000 of each claim will effectively be exempt from such Modulation and an additional payment will be made to farmers refunding this element of the Modulation. The UK will make a claim on the European Agricultural Fund for Rural Development fund in respect of European Commission Modulation deductions and will receive a minimum of 80% of the funds guaranteed for redistribution.

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

Scheme Year	2005	2006	2007	2008	2009	2010	2011	2012
Modulation Deduction Percentage	3%	4%	5%	5%	5%	5%	5%	5%

All direct payments are modulated (i.e. Single Payment, Nut Scheme, Energy Crop Aid, Protein Premium). A small part of the Modulation deduction will be repaid to farmers via an 'additional payment' provided for by the European Commission Council Regulation. The operation of this additional payment system is subject to an overall UK ceiling of €17.7 million for Single Payment Scheme 2005, €23.6 million for Single Payment Scheme 2006 and €29.5 million for Single Payment Scheme 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	2010	2011	2012
Modulation Deduction Percentage	2%	6%	12%	13%	14%	14%	14%	14%

The value of claims paid to farmers plus the National Modulation deductions for Single Payment Scheme 2005 and Single Payment Scheme 2006 are claimed from the European Agricultural Guarantee Fund. Single Payment Scheme 2007 payments are reclaimed net of all Modulation and a separate claim is made to the European Agricultural Fund for Rural Development when Rural Development expenditure is incurred.

10. Common Agricultural Policy - Funding Other Paying Agencies and Delegated Authorities

As the UK Funding Body, the Rural Payments Agency funds payments made to the other UK Paying Agencies and Delegated Authorities.

Paying Agencies	Note	**2008/09**			2007/08 Restated		
		Expenditure	**Income**	**Net**	Expenditure	Income	Net
		£000	**£000**	**£000**	£000	£000	£000
SGRPID		491,334	(550,560)	(59,226)	460,854	(490,708)	(29,854)
Exchange loss *		0	56,934	56,934	0	29,451	29,451
WAG		276,650	(311,630)	(34,980)	249,464	(266,966)	(17,502)
Exchange loss *		0	32,435	32,435	0	13,626	13,626
DARDNI		271,292	(304,781)	(33,489)	273,139	(290,082)	(16,943)
Exchange loss *		0	30,441	30,441	0	13,893	13,893
		1,039,276	(1,047,161)	(7,885)	983,457	(990,786)	(7,329)
EC financial correction		0	0	0	(121)	0	(121)
Cost of capital charge	27	5,154	0	5,154	5,778	0	5,778
		1,044,430	(1,047,161)	(2,731)	989,114	(990,786)	(1,672)
Delegated Authorities							
FC		3,695	(2,578)	1,117	11,658	(11,696)	(38)
CCW		0	0	0	0	133	133
		3,695	(2,578)	1,117	11,658	(11,563)	95
Total		1,048,125	(1,049,739)	(1,614)	1,000,772	(1,002,349)	(1,577)

* The exchange loss reflects the impact of Financial Reporting Standard 23, whereby scheme income is valued at the exchange rate applying when the claims for reimbursement are submitted.

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

The Forestry Commission and the Countryside Council for Wales ceased to be Paying Agencies on 16 October 2006.

The Forestry Commission continues to make payments with the majority of its funding provided directly by Defra. The Rural Payments Agency funds Forestry Commission payments of the Woodland Grant scheme.

The Countryside Council for Wales payments and funding now go through the Welsh Assembly Government.

11. Operating Income

Operating income analysed by classification and activity is as follows:

	Note	**2008/09**	2007/08 Restated
		£000	£000
Running Costs Income *		**1,111**	1,085
Scheme Income			
Common Agricultural Policy - the Rural Payments Agency schemes			
Farm based	5a	**1,682,525**	1,504,690
Bovine Spongiform Encephalopathy related	5b	**10,851**	16,046
Trader based – Internal Market	6	**24,993**	86,212
Trader based – External Trade	7	**23,171**	(29,628)
Intervention buying and selling	8	**58**	10
Other		**9,627**	4,488
		1,751,225	1,581,818
Other Paying Agencies			
EC Contributions	10	**1,049,739**	1,002,349
Other trade receipts			
Sugar Levies/Production Charge		**10,233**	52,527
Other		**1,153**	1,952
		11,386	54,479
Total Scheme Income		**2,812,350**	2,638,646
Total Income		**2,813,461**	2,639,731

* Running Costs Income includes £748 thousand (2007/08: £525 thousand) notional income relating to services provided across Defra by Defra Investigation Services, which is part of the Rural Payments Agency.

All European Commission scheme income with the exception of Other Paying Agencies income is paid directly to HM Treasury and is treated as Consolidated Fund Extra Receipts.

12. Fixed Assets

12a. Tangible Fixed Assets

	Freehold Land and Buildings	Short Leasehold Land and Buildings	Information Technology	Furniture and Fittings	Vehicles, Plant and Machinery	Office Machinery	Construction in Progress	Total
Replacement Cost Basis	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost								
At 1 April 2008	2,502	13,072	144,250	2,920	607	6,441	8,322	178,114
Reclassification	0	0	17,241	0	0	(190)	(17,191)	(140)
Revaluation adjustment to prior year *	0	2	12,355	(319)	(9)	(347)	0	11,682
Revaluation	(701)	169	(1,974)	292	(31)	(74)	0	(2,319)
Impairment	0	0	0	0	0	0	0	0
Additions	0	(2,667)	7,849	0	0	11	16,083	21,276
Disposals	(690)	(1,808)	(7,388)	(2,692)	(447)	(405)	0	(13,430)
At 31 March 2009	**1,111**	**8,768**	**172,333**	**201**	**120**	**5,436**	**7,214**	**195,183**
Depreciation								
At 1 April 2008	598	5,060	93,250	2,694	310	4,541	0	106,453
Reclassification	0	0	29	0	0	(101)	0	(72)
Revaluation adjustment to prior year *	0	2	12,355	(319)	(7)	(347)	0	11,684
Revaluation	(250)	(97)	(1,410)	293	(10)	(76)	0	(1,550)
Impairment	0	0	250	0	0	0	0	250
Charge for year	0	2,560	19,395	79	10	771	0	22,815
Disposals	(199)	(1,649)	(6,729)	(2,546)	(204)	(348)	0	(11,675)
At 31 March 2009	**149**	**5,876**	**117,140**	**201**	**99**	**4,440**	**0**	**127,905**
Net Book Value								
At 1 April 2008	1,904	8,012	51,000	226	297	1,900	8,322	71,661
At 31 March 2009	**962**	**2,892**	**55,193**	**0**	**21**	**996**	**7,214**	**67,278**

* The revaluation adjustment amends the previous year's calculation, i.e. restates the cost and depreciation by adding back revaluation which has been reversed for fully depreciated assets (which are still in service), which effectively restates these assets at current value.

Tangible and intangible asset additions are reconcilable to the Cash Flow Statement Note 21b by the adjustment for accruals shown in Note 21a.

Cash expenditure in 2008/09 on tangible and intangible fixed asset additions amounted to £22,156 thousand and £1,898 thousand respectively, as reflected in Note 21b.

Short Leasehold Land and Buildings additions reflect the impact of an over accrual in 2007/08, this has resulted in negative additions for 2008/09.

Freehold Land and Buildings assets are held for sale.

Disposal costs are high as a result of removing assets that individually cost less than £2 thousand threshold which should have not been capitalised under the Agency's capitalisation accounting policy.

12b. Intangible Fixed Assets

	2008/09	2007/08
Historic Cost Basis	**£000**	£000
Cost		
At 1 April	10,842	11,389
Reclassification	140	309
Additions	2,562	(4)
Disposals	(4,704)	(852)
At 31 March	8,840	10,842
Amortisation		
At 1 April	8,702	7,456
Reclassification	72	309
Charge for year	1,073	1,547
Disposals	(4,378)	(610)
At 31 March	5,469	8,702
Net Book Value		
At 1 April	2,140	3,933
At 31 March	3,371	2,140

12c. Reconciliation with Cash Flow Statement

Tangible and intangible asset additions are reconcilable to the Cash Flow Statement Note 21b by the adjustment for accruals shown in Note 21a.

13. Stocks

	2008/09			
	Butter	**Milk Powder**	**Tallow**	**Total**
	Intervention			
	£000	**£000**	**£000**	**£000**
Stocks at 1 April 2008	0	0	0	0
Movement	5,052	7,099	967	13,118
At 31 March 2009	5,052	7,099	967	13,118

14. Debtors

	Debtors: Amount falling due within one year		
	2008/09		2007/08 Restated
	£000	**£000**	£000
Trade debtors	**57,266**		60,733
Less provision for bad debts	**(30,247)**		(21,172)
		27,019	39,561
Due from European Agricultural Guarantee Fund/European Agricultural Fund for Rural Development*		**978,285**	1,169,451
Due from Defra and its Agencies		**3,671**	10,476
Due from Other Government Departments (including Other Paying Agencies)		**35,235**	18,938
Prepayments and accrued income		**1,045**	1,908
VAT recoverable		**2,133**	2,910
Other debtors		**309**	172
Total Debtors		**1,047,697**	1,243,416

* Debtors held at Single Payment Scheme contract rates have been restated to the European Commission exchange rate at the balance sheet date for 2008/09 (Note 19).

A total of £197,162 thousand has been billed and once received, will be paid over to the Consolidated Fund (2007/08: £521,948 thousand).

14a. Intra-Government Balances

	Debtors: Amounts falling due within one year	
	2008/09	2007/08 Restated
	£000	£000
Balances with other central Government bodies	**40,786**	32,093
Balances with local authorities	**254**	231
Balances with NHS Trusts	**0**	0
Balances with public corporations and trading funds	**0**	0
Total intra-Government balances	**41,040**	32,324
Balances with bodies external to Government	**1,006,657**	1,211,092
Total Debtors	**1,047,697**	1,243,416

15. Cash at Bank and in Hand

	2008/09	2007/08
	£000	£000
Balances held at 1 April	691,792	128,521
Net cash (outflow)/inflow	(326,137)	563,271
Balances held at 31 March	365,655	691,792
The following balances were held at 31 March:		
Office of HM Paymaster General	363,316	690,278
Commercial banks/cash in hand	2,339	1,514
Balances held at 31 March	365,655	691,792

16. Creditors: Amounts falling due within one year

	2008/09	2007/08 Restated
	£000	£000
Trade creditors	71,549	30,745
Due to Defra and its Agencies *	198,739	107,964
Due to Other Government Departments (including Other Paying Agencies)	1,079	1,205
Amounts due to the Consolidated Fund	551,381	975,458
Cash securities **	2,563	3,261
European Commission financial corrections ***	0	22,375
Deferred income	4,663	5,104
Scheme accruals (excluding Single Payment Scheme)	28,887	20,510
Single Payment Scheme accrual	550,448	713,204
Accruals (includes invoices received but not approved)	27,738	21,442
Payroll and social security costs	3,228	3,133
Other creditors	165	348
Total Creditors	1,440,440	1,904,749

* Amounts due to Defra and its Agencies include £193.3 million (2007/08: £94.6 million) in respect of the transfer of Rural Development and Structural Funds scheme income.

** 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.

*** European Commission financial correction

	Note	£000
Accrual at 31 March 2008		
Fruit & Vegetable Operational Programmes		**22,375**
2008/09		
Prior year accrual release	6	(22,375)
Ad-hoc clearance 28		
AAPS 2004 & 2005		54,881
Meat Premiums – Bovines & Ovines 2003 & 2004		58
Charge to Defra provision	20	(54,939)
Ad-hoc clearance 29		
Fruit & Vegetable Operational Programmes	6	22,204
Cross-compliance 2006		4,876
Over Thirty Months Scheme 2003, 2004 & 2005		937
Charge to Defra provision	20	(5,813)
European Agricultural Guarantee Fund 2007 Clearance decision	5a	(9,804)
Charge to Operating Cost Statement		**(9,975)**
Accrual at 31 March 2009		**0**

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

The decision relating to Fruit and Vegetable Operational Programmes represents the final decision accounted for by the Rural Payments Agency.

16a. Intra-Government Balances

	Creditors: Amounts falling due within one year	
	2008/09	2007/08 Restated
	£000	£000
Balances with other central Government bodies	754,291	1,087,733
Balances with local authorities	137	27
Balances with NHS Trusts	0	0
Balances with public corporations and trading funds	0	0
Total Intra-Government balances	754,428	1,087,760
Balances with bodies external to Government	686,012	816,989
Total Creditors	1,440,440	1,904,749

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

	2008/09	2007/08
	£000	£000
Advances received on Rural Development Programmes for Defra and other UK Paying Agencies	103,336	36,252
Total Creditors	103,336	36,252

18. Provisions for Liabilities and Charges

	Pensions and related costs* (a)	**Over Thirty Months Slaughter Scheme and Older Cattle Disposal Scheme (b)**	**Total**
	£000	**£000**	**£000**
Balance at 1 April 2008	7,131	13,868	20,999
Amounts utilised	(2,375)	(10,902)	(13,277)
Amounts released	(13)	0	(13)
New provisions	1,942	5,015	6,957
At 31 March 2009	6,685	7,981	14,666

* Includes early severance costs.

18a. Pensions and Related Costs

The Rural Payments Agency reimburses the Agricultural Horticulture Development Board 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 2009 is £0.1 million (2007/08: £0.2 million).

The Rural Payments Agency 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 2009 have been provided for in these accounts. The provision allows for the pension payments that are payable up to April 2020 when the last recipient reaches pensionable age. The provision at 31 March 2009 is £6.6 million (2007/08: £6.9 million).

18b. Meat and Bone Meal and Tallow disposal

Meat and Bone Meal and Tallow were produced as by products arising from the Older Cattle Disposal Scheme and Over Thirty Month Scheme. Provision has been made for the estimated cost of disposal of Meat and Bone Meal and tallow produced up to 31 March 2009. The amount utilised during the year has been assessed on the tonnage disposed of using the previous year's estimated cost per tonne.

19. Financial Instruments

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

The Rural Payments Agency'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 the Rural Payments Agency's operations.

The main risks arising from the Rural Payments Agency's financial instruments are liquidity and exchange rate risk. The main driver in relation to liquidity is the successful recovery from the European Commission of funds paid to Common Agricultural Policy claimants and financed by HM Treasury in the first instance. All of the Rural Payments Agency's operations are funded by HM Treasury and/or the European Commission. There is no exposure to interest rate risks other than as referred to below. The exchange rate risk is considered further below.

Rural Payments Agency Exposure to Euro Exchange Rate Risk

European Commission Regulation (EC) No. 1997/2002

From January 2003, in accordance with European Commission 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 Common Agricultural Policy expenditure from Sterling to Euros and converting back to Sterling when received some three weeks later results in an exposure to exchange rate risk. 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, the Rural Payments Agency decided to hedge the foreign currency risk arising between submission of the indent and the date of the reimbursement from the European Commission. In March 2006 the Rural Payments Agency contracted with the Royal Bank of Scotland to provide a foreign exchange hedging facility to reduce the risk to cash reimbursement of exchange rate movement between the periods above.

Single Payment Scheme

Under the Single Payment Scheme the Euro/Sterling exchange rate is fixed by the European Commission on the last working day of September in the scheme year. 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 has been established with the Royal Bank of Scotland to cover the estimated payable fund for the Single Payment Scheme 2008 of €3.3 billion (Single Payment Scheme 2007 €3.4 billion).

The total gain since 2003 split by year is given below:

	Net Gain/(Loss)
	£m Restated
2002/03	26.2
2003/04	(14.7)
2004/05	30.0
2005/06	0.2
2006/07	(1.2)
2007/08	(9.4)
2008/09	(28.4)
Total	**2.7**

In addition to the realised exchange losses shown in the table above, during 2008/09 the Agency recognised exchange losses of £138.4 million through the implementation of FRS 23 'The effects of changes in foreign exchange rates'. This figure comprises of £119.8 million in respect of the Other Paying Agencies and £18.6 million in respect of Single Payment Scheme income.

Reimbursement of the Single Payment Scheme payments comprises a major component of the reported debtor due from the European Agricultural Guarantee Fund. Where rates are fixed for Single Payment Scheme (i.e. for scheme years up to and including Single Payment Scheme 2008) the value of the debtor, claimed from the European Commission in Euros is recognised at an average rate across the year..

The value of the debtor is subsequently restated using the exchange rate applying at the balance sheet date. Where a Contract for Differences has been established to mitigate the risk of exchange rate movements, as is the case for the Single Payment Scheme 2008 fund, the fair value of the derivative has been established.

The fair value of the derivative is calculated by considering the effect of the exchange rate movement from the individual spot monthly rates to the rate at the appointed determination date (forward rate) on the value of the Contract for Difference in place at 31 March 2009.

The derivative liability has been booked off-setting the unrealised gain on the debtor.

Derivative Financial Instruments	**Contract/ nominal amount**	Contract/ nominal amount	**Fair value assets**	Fair value assets	**Fair value liabilities**	Fair value liabilities
	2008/09	2007/08	**2008/09**	2007/08	**2008/09**	2007/08
	£000	£000	**£000**	£000	**£000**	£000
Contract for difference	470,383	638,746	–	–	(75,828)	(84,610)

The fair value of the derivative at inception is equal to the premium payable to or receivable from the Royal Bank of Scotland.

This and subsequent premium payments are considered when calculating the recognised loss reported in Note 4.

Interest rate risk

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

Liquidity risk

The Rural Payments Agency has maintained short term liquidity wherever possible throughout the year by timely submission of funding claims to the European Commission, seeking reimbursement of claims for payments made (and initial funding from HM Treasury). The Rural Payments Agency manages this initial funding and its cash requirements for its administrative costs (not paid for by the European Commission) by obtaining funding from HM Treasury through Defra. The Rural Payments Agency does not undertake the borrowing of funds other than from HM Treasury. Such borrowing arising from short term in-year fluctuations in expenditure, if required, would be effected by the Rural Payments Agency drawing monies from HM Treasury's Contingencies Fund; this facility is the subject of a formal standing arrangement agreed by HM Treasury. Drawings are normally repayable within the year.

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

Interest rate risk profile

The interest rate profile of the Rural Payments Agency's financial assets and liabilities at 31 March 2009 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	2,339	2,339
Balance held at Office of Paymaster General (OPG)	363,316	0	363,316
Total	363,316	2,339	365,655

Cash on deposit at 31 March 2009 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 Rural Payments Agency (to the traders) is:

	Fixed rate	Floating rate	Total
	£000	£000	£000
Cash securities	2,563	0	2,563

No interest is paid to traders on cash balances lodged with the Rural Payments Agency as security.

Non-cash guarantees

Securities may also be in the form of a guarantee by a bank or an insurance company acceptable to the Rural Payments Agency. Sterling guarantees totalling £400.2 million and Euro guarantees totalling €70.9 million (£66.0 million) were held at 31 March 2009 (£493.6 million and €44.6 million at 31 March 2008).

Non-cash guarantees	Fixed rate	Floating rate	Total
	£000	£000	£000
Bank and other guarantees	466,271	0	466,271

The interest rate applicable to these guarantees is nil.

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

20. Reserves

General Fund	Note	2008/09	2007/08 Restated
		£000	£000
Balance at 1 April		**(40,732)**	(571,164)
In year adjustment relating to prior year:			
Adjustment brought forward to Consolidated Fund Extra Receipts		**217,533**	(12,708)
Revision to Consolidated Fund Extra Receipts Accrual		**0**	43,000
Net operating cost		**(306,743)**	(252,192)
Financing by Defra	21c	**2,135,000**	2,805,000
Transfer from Revaluation Reserve		**917**	1,240
Transfer Rural Development Programme for England to Defra	21c	**(382,685)**	(352,648)
Transfer Structural Funds to Defra	21c	**(16,510)**	(21,258)
Transfer European Commission shortfalls to Defra	21c	**(12,703)**	0
European Agricultural Guarantee Fund 2006 Clearance	21c	**0**	(2,521)
Late Payment refused	21c	**0**	(58,675)
Ad hoc disallowance transfer to Defra	21c	**(60,752)**	(554)
Consolidated Fund Extra Receipts repayable to the Consolidated Fund		**(1,682,575)**	(1,635,627)
Notional charges	27	**10,656**	17,375
Balance at 31 March		**(138,594)**	(40,732)

Revaluation Reserve		2008/09	2007/08
		£000	£000
Balance at 1 April		**3,131**	2,809
Arising on revaluation during the year (net)		**(771)**	1,562
Transfer to General Fund		**(917)**	(1,240)
Balance at 31 March		**1,443**	3,131

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

21. Notes to the cash flow statement

21a. Reconciliation of operating cost to operating cash flows

	Note	**2008/09**	2007/08 Restated
		£000	£000
Net operating cost		**(306,743)**	(252,192)
Adjustments for non cash transactions	27	**33,811**	128,382
(Increase)/decrease in stock	13	**(13,118)**	11
Decrease in debtors	14	**195,719**	864,370
(Decrease) in creditors	16	**(464,309)**	(939,953)
Increase in creditors > 1 year	17	**67,084**	36,252
Adjustment for movement in Consolidated Fund Extra Receipts creditor	16	**424,077**	774,022
Decrease in fixed asset addition accruals	12a/12b	**216**	835
Utilisation of provisions	18	**(13,277)**	(13,587)
Net cash (outflow)/inflow from operating activities		**(76,540)**	**598,140**

21b. Analysis of capital expenditure and financial investment

Tangible fixed asset additions	12a	**(22,156)**	(24,517)
Intangible fixed asset additions	12b	**(1,898)**	(359)
Proceeds of disposal of fixed assets		**1,226**	20
Net cash (outflow) for capital expenditure and financial investment		**(22,828)**	**(24,856)**

21c. Analysis of financing

Financing by Defra	20	**2,135,000**	2,805,000
Transfer Rural Development Programme for England to Defra	20	**(382,685)**	(352,648)
Transfer Structural Funds to Defra	20	**(16,510)**	(21,258)
Transfer European Commission shortfalls to Defra	20	**(12,703)**	0
European Agricultural Guarantee Fund 2006 Clearance	20	**0**	(2,521)
Late Payment refused	20	**0**	(58,675)
Ad hoc disallowance transfer to Defra	20	**(60,752)**	(554)
Net Financing		**1,662,350**	2,369,344

22. Capital commitments

At 31 March 2009, the Rural Payments Agency had capital commitments of £20.9 million (2007/08: £22.0 million).

23. Commitments under operating leases

At 31 March 2009, the Rural Payments Agency was committed to making the following payments during the next financial year in respect of non-cancellable operating leases:

Land and Buildings	**2008/09**	2007/08
	£000	£000
Leases which expire:		
– within one year	84	73
– within two to five years	1,395	1,377
– in over five years	3,593	3,421
Total	5,072	4,871
Other		Restated
Leases which expire:		
– within one year	82	28
– within two to five years	175	349
– in over five years	1,158	1,121
Total	1,415	1,498

The leases which expire within one year for 2007/08 have been restated from £79 thousand to £28 thousand, and leases that expire in over five years have been restated from £0 thousand to £1,121 thousand.

24. Other financial commitments

The Rural Payments Agency is committed to making payments for non-cancellable contracts (which are not leases or Private Finance Initiative contracts). At 31 March 2009 these total £57.9 million (2007/08: £47.9 million) and relate mainly to information technology support services spanning a number of years and accommodation commitments. Last year's figure has been restated from £59 million.

25. Contingent assets and contingent liabilities

25a. Contingent liabilities

The Rural Payments Agency is in dispute with the owners of certain storage facilities which it has used for the storage of tallow (under the Over Thirty Months Scheme). The disputes relate to alleged tank damage and/or contamination and tank rentals payable. The Rural Payments Agency has made provision for the amount for which it believes it is liable, and is continuing to pursue investigations to reach an agreed settlement.

The European Commission has acknowledged that sugar levy rates, advised by regulation, were incorrect leading to overcharged levies during the period 2002 to 2006. European Union Member states have been advised to wait for a revised regulation before refunding levies. The company charged has estimated the level of overpayment at €15 million.

The European Commission can apply financial corrections if Defra (through the Rural Payments Agency) does not comply with European Commission regulations for payments funded by the European Agricultural Fund for Rural Development and the European Agricultural Guarantee Fund. Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent clarification negotiations with the European Commission in accordance with the European Commission's clearance of accounts procedure. There is an ongoing potential liability in respect of financial corrections which is unquantifiable.

The European Commission has established a temporary scheme for the restructuring of the sugar industry in the European Community which requires a payment to be made in the financial year 2009/10. Payment is contingent upon future inspections to confirm the requirements set out in the regulation have been met. The expected value is in the region of £124 million.

25b. Contingent assets

Once correct rates are confirmed by regulation the repayment of overcharged sugar levy will be reimbursed by the European Commission. The above contingent liability of €15 million is matched by an equal contingent asset.

26. Related party transactions

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

- Food and Environment Research Agency (formerly Central Science Laboratory); and
- Animal Health.

The Rural Payments Agency also had transactions with the following Non-Departmental Public Bodies which are also linked to Defra:

- Natural England;
- Regional Development Agencies;
- Agriculture and Horticulture Development Board (formerly known as Meat and Livestock Commission); and
- Milk Development Council.

A significant proportion of Common Agricultural Policy expenditure made by other Paying Agencies through the operation of market support schemes is funded by the Rural Payments Agency. These funding transactions have been with:

- Scottish Government Rural Payments & Investigations Directorate;
- Welsh Assembly Government;
- Department of Agriculture and Rural Development, Northern Ireland; and
- Forestry Commission (as delegated paying agent).

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

- Department of Agriculture and Rural Development, Northern Ireland;
- Agriculture and Horticulture Development Board (formerly known as the 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) Ltd). In 2008/09 Farmcare received £2.764 million (2007/08: £4.209 million) in scheme payments from the Rural Payments Agency. These external interests were known before appointment and were carefully considered by Defra.

27. Notional charges and non-cash items

Notional Charges	Note	**2008/09**		2007/08 Restated	
		£000	**£000**	£000	£000
Audit fee	3		**425**		400
IFRS audit fee	3		**23**		0
Cost of capital charge					
Running costs	3	**1,471**		1,318	
Rural Payments Agency Scheme costs	4	**4,331**		8,991	
Other Paying Agencies	10	**5,154**		5,778	
			10,956		16,087
Defra charges					
Capital charges – buildings	3	**0**		782	
Central overhead charges	3	**0**		631	
DIS Income	11	**(748)**		(525)	
			(748)		888
Total Notional Charges			**10,656**		17,375
Non-cash Items					
Depreciation and impairment of assets*	3/8		**24,138**		20,918
Loss on disposal of assets	3		**855**		350
New provisions	18		**6,957**		9,857
Provisions released	18		**(13)**		(4,728)
Financial derivative	19		**(8,782)**		84,610
Total non-cash Items			**23,155**		111,007
Total			**33,811**		128,382

* The depreciation/impairment in this Note comprises of running costs depreciation £24,137 thousand (2007/08: £20,864 thousand) and intervention depreciation £1 thousand (2007/08: £54 thousand).

28. Losses and special payments

	2008/09		2007/08	
	No of cases	**Value £000**	No of cases	Value £000
Cash losses	89	927	142	674
Claims waived or abandoned	16,273	956	876	11,942
Special payments	2,991	1,070	6,501	1,939
Total	19,353	2,953	7,519	14,555

£1,882 thousand of the 2008/09 losses and special payments (2007/08: £11,492 thousand) 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.

Losses and special payments exceeding £0.25 million

Losses and Special Payments exceeding £0.25m	£000
Creature Comforts Ltd	362

29. Post Balance Sheet Events

The Rural Payments Agency 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 20 July 2009

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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

Customer Service Centres

Single Payment Scheme Customer Registration Bovine Scheme	0845 603 7777
Cattle Tracing (BCMS)	0845 050 1234 (General) 0845 050 3456 (Welsh speaking)

Other help line numbers

Dairy Scheme inc. Milk quotas	01392 226 466
External Trade	0191 226 5050
Freephone fraud line	0800 347 347
Securities and Guarantees	0118 953 1723
Slaughter Schemes	0118 968 7333

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