Rural Payments Agency

Rural Payments Agency Annual Report and Accounts 2015-2016

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Rural Payments Agency

Annual Report and Accounts 2015-2016

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Contents

Performance Report

Chief Executive Officer's Statement

I said that 2015-16 would present us with both opportunities and challenges in equal measures and that has proved to be the case.

Our main focus of the year was the delivery of the 2015 Basic Payment Scheme. We worked hard to start making payments from the first day of the payment window in December and we continued with our efforts to release important funds to the farming community. In doing this, we relied heavily on our experience of transforming payment performance under the Single Payment Scheme which saw us transform our governance, processes and systems.

In May 2015 I became the Senior Responsible Owner for the CAP Delivery Programme, a decision that was based on the experience and capability that the Rural Payments Agency developed as we successfully delivered the Five Year Plan.

We launched a range of new schemes under the socio-economic elements of the Rural Development Programme for England. The schemes will distribute funding into the rural community over six years with a view to stimulating rural economic growth, with a focus on jobs. We are working with a range of partners across the country, including 37 Local Enterprise Partnerships and 80 LEADER groups reaching more of our rural communities than ever before, enabling us to use local knowledge to achieve local outcomes to make a real difference.

The flooding we experienced not only had a profound impact on the farming community but on those of our people who worked in the Carlisle and York offices. However our people showed their flexibility and commitment by working remotely to continue services to customers. Importantly we also assisted those farmers most severely affected by the flooding with the development and introduction of the Farming Recovery Fund. The fund was designed to help farmers get back on their feet.

Given the particular challenges faced by the dairy industry we were asked to provide additional support to dairy farmers through the European Union Dairy Fund. I was pleased that due to the hard work of our people we were able to make payments two weeks ahead of schedule.

This year has also seen Defra look to transform the way it works. Our HR, Finance and Communication teams are now working more closely with their counterparts across the department, which has provided a good opportunity to share best practice. The Rural Payments Agency plays an important role in both the achievement of the Defra strategy and its transformation and in this respect I now have the pleasure of attending the weekly Executive Committee meetings.

Finally, I am grateful for the hard work and dedication shown by people in all areas of our business, this has been a challenging year and I anticipate 2016-17 to be more of the same.

Mark Grimshaw
Chief Executive Officer

Purpose and Objectives

The Rural Payments Agency (RPA or the agency) is an executive agency of the Department for Environment, Food and Rural Affairs (Defra or the department). Established in October 2001 as an accredited European Union (EU) Paying Agency, the agency operates according to the accreditation requirements set out in Commission Regulation (EU) No 907/2014 and Council Regulation (EU) No 1306/2013. The RPA also acts as the UK Funding Body under the European Commission regulation. As the only accredited paying agency in England, the RPA has responsibility for making direct aid and rural development payments to farmers in England.

The RPA is also the paying agency for market support measures across the United Kingdom under the authority of the Secretary of State for Environment, Food and Rural Affairs and as appropriate in agreement with the Scottish Government, the National Assembly for Wales and the Department for Agriculture and Rural Development in Northern Ireland. The RPA, as a funding body, has responsibility for receiving and administering money from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The agency also has responsibility for livestock identification and traceability services within Great Britain.

Defra strategy

The Defra strategy provides a clear unifying framework for how the Defra bodies will design and deliver goals, track delivery and measure success. At the heart of the strategy is a shared vision for the Defra group; creating a great place for living.

The goals of the strategy are focused on four impact objectives which explain the ambitious long term aims and the positive differences that the department will make to the UK by 2020. There is one delivery objective which describes the high levels of service and value for money for the taxpayer. The strategy sets out two organisational objectives outlining how the Defra group will act together, be simpler, avoid duplication, maximise impact, embrace technology and utilise shared data. Cutting across the strategy are four themes that are critical to achieving objectives and will deliver important outcomes; better use of data, increasing productivity, better regulation and working internationally.

The Defra Strategy sets out a shared vision and set of strategic objectives for the whole of Defra for the period up to 2020. It is intended to provide employees across the whole group of Defra organisations, including non-ministerial departments, executive agencies, non-departmental and other public bodies, with a clear, shared framework. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan.

Key issues and risks to delivery of objectives

Delivery of the Basic Payment Scheme (BPS) and in particular the move to the paper application approach for 2015 brought with it a number of risks and issues. These have been managed through the existing governance framework.

The European Commission may apply financial penalties to any of the paying agencies if they consider there to be infringement of scheme regulations. These penalties, referred to as 'financial corrections' or 'disallowance', are typically deducted retrospectively from reimbursements. The agency is working closely with Defra to ensure the approach to the management of disallowance is robust. A Disallowance Investment Strategy has been created which will focus efforts and resources on the areas which will have the most significant impact on the reduction of future disallowance penalties.

In delivering the priorities across the agency, employee capacity has continued to be a risk that has been closely reviewed. The RPA has ensured that the resources were available to support the priorities throughout the year by utilising a flexible resourcing approach of people from within and outside of the agency.

Going concern statement

The financial statements are prepared on a going concern basis. The agency is the only CAP accredited paying agency in England, as such the agency plays an important role in delivering significant EU funds to the rural economy and enhancing environmental outcomes. The current CAP programme is expected to remain in place while negotiations for the UK to leave the European Union take place. The agency expects to continue to deliver agricultural support payments in line with Defra strategy and Government policy; hence the agency considers the going concern basis to be appropriate.

Performance Summary

Common Agriculture Policy (CAP) Delivery Programme
Following the appointment of the Chief Executive Officer (CEO) as the Senior Responsible Owner of the Defra led CAP Delivery Programme in May 2015 initial efforts focussed on mobilising RPA people, adding the additional functionality, business processes, training and operational resources required to accept predominantly paper based applications for 2015 schemes. This allowed customers to register on the new system and then submit paper applications within the EU defined application window.

Work also began on defining an approach to develop the Rural Payments system to ensure the 2015 service was robust and could be used in future years. The agency identified the additional enhancements and associated investments required to maximise future benefits in terms of operational efficiencies, minimising future disallowance and improving customer service. This was approved by Defra's Executive Committee in June 2015 and an addendum to the original CAP Delivery Programme Full Business Case was submitted to HM Treasury who were content for work to proceed in line with the proposed approach.

Governance and reporting processes were strengthened to ensure that the programme could deliver against the demanding plan and operate within the revised business case funding. Organisational arrangements were changed to begin the process of transition for the programme towards a business as usual operating model. RPA Directors were given responsibility for discrete elements of programme delivery and where appropriate those working on the programme were transferred into the agencies directorates to support delivery and transition.

The programme has delivered the functionality required supported by the necessary business change products, ensuring the components of the solution perform correctly and are reliable, for instance; the new service was used to pay interim legacy Pillar 2 payments from October 2015 as planned and the additional functionality allowed BPS claims to be processed and paid from December 2015.

Applications for the new Countryside Stewardship schemes were also submitted on paper and processed on the new service by Natural England and the Forestry Commission. New Countryside Stewardship agreements were offered to customers with agreements operative from 1 January 2016 in line with regulatory requirements.

The service for 2016 applications went live to customers in March 2016 and is supporting online BPS applications and transactions as well as providing an online options tool to support customers considering Countryside Stewardship applications.

Through an extremely challenging year the revised arrangements for delivering the programme have proven effective and demonstrated RPA's ability to deliver by harnessing the capabilities of the whole organisation and through working closely with other organisations in the Defra Group. Delivery continues into 2016-17 with a focus on completing the delivery of the service for Countryside Stewardship.

Defra organisational reform

The RPA is an active member of the Defra Organisational Reform project which is working on ways to improve services for all of Defra's customers. The project aims to improve the way the Defra Group works by increasing collaboration, sharing corporate functions and simplifying processes. Work continues into 2016-17 to identify improvements and implement the target operating model and Defra Strategy.

Performance Analysis

Key business performance indicator	What RPA did
Payment of the Basic Payment Scheme • Timely payment of the Basic Payment Scheme	• 50.9% of claims were paid by 31 December 2015 • 76.7% of claims were paid by 31 January 2016 • 84.8% of claims were paid by 31 March 2016
Payment of Trader Schemes • To process and pay valid Fruit and Vegetable Scheme claims within 100 calendar days of receipt • To process and pay 96% of valid Trader Scheme claims within 28 calendar days of receipt* • To process and pay 99% of valid Trader Scheme claims within 60 calendar days of receipt*	• 98.8% of claims were paid within 100 calendar days of receipt • 96.3% of claims were paid within 28 calendar days of receipt • 99.9% of claims were paid within 60 calendar days of receipt
Payment of Rural Development Programme for England (RDPE) Schemes • To process and pay 98% of valid Rural Development Schemes within 5 days of receipt	• 100% of claims were paid within 5 working days of receipt
Getting it Right • 99% of Trader customers to receive accurate payments • 99% of Rural Development customers to receive accurate payments	• The agency has maintained a payment accuracy rate of over 99% across Trader and RDPE schemes
Maintain Accurate Records of Cattle In Great Britain • Record 96% of cattle births, deaths and movements notifications within 5 working days of receipt	• Over 99% of cattle births, deaths and movement notifications have been recorded within 5 working days of receipt

** Excluding Fruit and Vegetable Scheme.*

Detailed analysis on performance of RPA

In the first year of BPS the agency's focus was to pay as many claimants as possible from the opening of the payment window in December 2015. The agency paid 33,376 claims on the first day of December, by the end of the month 50.9% of claims were paid over £424 million. This had increased to 76.7% and £1 billion by the end of January 2016 and by the end of March 2016, the totals had increased to 84.8% and £1.2 billion. Bridging payments were made to those claimants that did not receive their BPS payments before the end of April 2016. Hardship payments to the value of £4.7 million were made to 344 claimants who required immediate assistance, prior to the receipt of their full BPS claim being paid.

During 2015-16 the agency made BPS 2015 payments net of certain system calculated reductions. The agency will assess the validity of these reductions as part of the planned reconciliation process commencing in the summer of 2016. A provision for this additional expenditure of £32 million has been recorded in the accounts, along with corresponding accrued income to be reimbursed by the European Commission.

The RPA paid 96.3% of Trader Scheme claims within 28 calendar days of receipt, 99.9% within 60 calendar days of receipt and 100% of Rural Development Programme for England payments within five working days of receipt, again meeting the commitment.

The agency issued 52,209 import licences and 1,424 export licences within five working days of receipt of application (2014-15: 45,564 and 1,286 respectively) and also issued 37,511 Certificates of Free Sale (2014-15: 38,276).

The Milk Quota scheme ceased in March 2015 and had a deadline of 14 May 2015 for final applications. The agency received 205 Milk Quota claims in 2015-16 and processed 346 claims in total. Obligations continue to be met on Meat Technical Schemes, with the agency carrying out 382 Beef Labelling Inspections (2014-15: 685).

The Horticulture and Marketing Inspectors delivered 21,868 inspections (2014-15: 5,087) across the country by 31 March 2016. During the year, 27 traders were moved out of the high risk category and nine traders were referred to the Crown Prosecution Service for failure to comply.

The RPA completed 100% of inspections for all schemes within regulatory deadlines including Land Eligibility and Cross Compliance. The improved inspection toolkit utilised advances in technology, allowing inspectors to update maps during inspections and submit mapping update requests electronically when back in the office.

In order to meet a shortfall of inspector resource, 848 cross compliance inspections, 650 cattle and 1,727 sheep and goat inspections were undertaken by other suppliers. The level of cross compliance inspections remained broadly in line with last year.

The British Cattle Movement Service achieved all key performance indicators with over 99% of cattle birth, death and movement transactions completed within agreed deadlines. The agency has continued to process a significant volume of transactions in this area with 3.0 million passports issued; 2.7 million of these online (2014-15: 2.8 million and 2.5 million respectively). All cattle Identification inspections and sheep and goat inspections were completed within European Union deadlines.

The agency has implemented a new Land Management System (LMS) which will incorporate natural landscape features in the future. At 31 March 2016 there were 108,525 digitisation tasks in LMS, of which 79,693 (73.4%) were completed representing 219,759 published parcels.

In 2015-16 the agency completed delivery of the 2007-13 Rural Development programme; with all projects closed and final payments made in advance of the December 2015 deadline. A total of 83 projects to the value of £11.5 million were closed by the end of 2015.

The RPA has been working on the development and successful launch of three new European Agricultural Fund for Rural Development (EAFRD) Socio-Economic schemes in the new 2014-20 Rural Development Programme. Within the Countryside Productivity Programme, the agency launched the small and large capital grants and the European Innovation Partnership for Agricultural Productivity and Sustainability schemes. The agency also launched the Growth Programme scheme working with 37 of the 39 English Local Enterprise Partnerships and the LEADER Programme working with 80 Local Action Groups.

Since the launch of the Countryside Productivity Programme, which provides support to farmers, woodland owners and forestry contractors to improve productivity and build competitiveness, the agency has contracted almost 300 small grant applications totalling £3.2 million and 52 large grant applicants were invited to submit full applications. In January 2016, the first Integrated Project for Animal Health and Welfare, with investments of up to £7.4 million over 5 years, received approval to procure a supplier. Since the scheme opened in September

2015, 147 Notifications of Interest were received for the European Innovation Partnership and 18 applications were received by the first round deadline at the end of March with a combined grant request of £1.9 million.

The RPA worked with 37 Local Enterprise Partnerships, aligning EAFRD with European funding streams from other Government Departments as part of a European Structural Investment Fund, and promoted calls under the Growth Programme with 207 projects invited to submit full applications representing £22 million of grant funding. Under LEADER, all 80 of the Local Action Groups opened for business to provide funding for projects that create jobs, help business to grow, and benefit the rural economy; the England LEADER programme was one of the first in the EU to commence for 2014-2020. There were 258 LEADER projects endorsed worth £9 million, a further 400 project applications are in the early stages of development.

In response to the severe flooding experienced in the North of England during the winter of 2015-16, that affected over 16,000 properties and vast amounts of farm land, the agency set up and delivered a Farming Recovery Fund to assist farmers and land owners in returning land back to productive use. The fund was established within two weeks and 1,103 applications had been received by the end of March 2016 requesting over £11.4 million in grant funding.

The agency was also asked to develop and deliver in collaboration with Defra and the devolved administrations, a simple EU Dairy Fund scheme which when implemented enabled RPA to make three quarters of UK payments out two weeks ahead of schedule providing just over £19 million of support into the dairy industry, this had risen to £26.6 million to 13,372 farmers across the country receiving support by the end of March 2016.

Transparency of data and access to information

The agency responded to 621 requests for information in 2015-16, of which 89.1% were within the agreed deadlines (2014-15: 937 and 97.5%). All government procurement card spend, expenditure with all suppliers greater than £25,000 per transaction and a complete procurement spend analysis is reported on the central government website. Procurement opportunities over £10,000 are recorded on the Contracts Finder website, the agency's supplier payment statistics are detailed below.

Supplier payment statistics	**2015-16**	2014-15
Payment within 5 days	**90.5%**	98.4%
Payment within 10 days	**97.3%**	99.5%

Complaints and appeals

The agency records complaints both to ensure that they are properly monitored and responded to and as an important means of feedback which might lead to improvements. There is a three-stage internal complaint handling process, with 71% of complaints received having been resolved at the first stage (2014-15: 72%).

Overall, the number of complaints received by the agency fell to 1,364 (2014-15: 2,143). Early in 2015-16 many complaints related to the registration and application process for BPS, towards the end of the year the majority of complaints were about BPS payment issues, particularly payment reductions. The agency also received several complaints against cross compliance breaches found at inspection. In response to complaints and other feedback, the agency has sought to improve guidance for BPS 2016.

Complaints handled by RPA	**2015-16**	2014-15
Prior year complaints unresolved	**402**	551
New complaints received	**1,364**	2,143
Complaints resolved	**1,415**	2,292
Complaints unresolved at 31 March	**351**	402

Some 32 cases could not be resolved through internal processes and were referred to the Independent Agricultural Appeals Panel who made recommendations to the Minister of State for Farming, Food and the Marine Environment, who makes the final decision on appeals.

Independent Agricultural Appeals Panel appeals handled	2015-16	2014-15
Prior year appeals unresolved	**25**	40
Appeals received	**32**	42
of which:		
• customer complaint upheld	**6**	11
• customer complaint partially upheld	**12**	18
• RPA decision upheld	**12**	27
• appeals withdrawn	**6**	1
Appeals resolved	**36**	57
Appeals unresolved at 31 March	**21**	25

Financial Review

Preparation of the Annual Report and Accounts

The Statement of Accounts reports the financial results for the year from 1 April 2015 to 31 March 2016. It is prepared in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, the Accounts Direction issued by HM Treasury and the Financial Reporting Manual (FReM) published by HM Treasury.

Auditor

The annual accounts have been audited by the Comptroller and Auditor General who was appointed under the Government Resources and Accounts Act 2000. A notional cost of £270,000 was incurred for the audit of the agency's accounts (2014-15: £270,000).

The Comptroller and Auditor General is also the auditor of the Statement of Accounts for the European Agriculture Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) which have a financial year ending 15 October. The cash cost for the audit of these funds, for transactions for England, was £2.2 million (2014-15: £2.5 million).

The Accounting Officer has taken all the steps necessary to familiarise himself with any relevant audit information and to establish that the agency's auditor is aware of that information. As far as he is aware, there is no relevant audit information of which the agency's auditor has no knowledge.

Financial performance

The RPA normally considers its financial performance in two categories; running costs representing monies needed to provide the service required of the agency by Defra and scheme costs related to the funds administered.

The running costs are funded by Defra. Payments under the EAGF and EAFRD schemes are initially funded by the UK Exchequer, with subsequent reimbursement sought from the European Commission (EC). When the reimbursement is received by the agency, it is repaid to the UK Exchequer, net of short-term funding requirements.

Gross running costs this year of £149 million were 2% down on the previous year (2014-15: £152 million). This is primarily due to a significant reduction in depreciation and amortisation, offset by additional costs associated with the implementation of the BPS, as well as a voluntary exit scheme under which 77 people left the agency.

Net running costs, allowing for income were £134 million (2014-15: £147 million). The decrease is mainly due to receipts from the Rural Development Programme for England Technical Assistance (RDPE TA) of £10.3 million being considerably higher than in the previous year (2014-15: £4.5 million). The agency also gained from work on the British Cattle Movement Service on behalf of Defra of £3.8 million (2014-15: £nil).

Payments made, and reimbursements claimed, under the schemes administered have reduced to £1.3 billion (2014-15: £1.6 billion). An initial reduction in payments made by the financial year end is typical when new schemes (in this case BPS) are introduced. This factor is also the main reason that funds provided to Scotland, Wales, Northern Ireland and the Forestry Commission for Scotland and Wales were lower at £0.6 billion (2014-15: £1.1 billion).

Overall net scheme expenditure for the year is £8 million; this is compared to a net expenditure in 2014-15 of £24 million. The movement here is due in part to less scheme provisions being booked in the year.

Financial position

Non-current assets of the agency (excluding derivatives) have continued to reduce in year, by £2.3 million (39%) to reflect expected replacement under the CAP Delivery Programme in 2016-17.

Trade receivables have grown significantly by £448.8 million (100%) compared to 31 March 2015. This is due to increases in monies due from the EC related to the Basic Payment Scheme. Consequently there is minimal risk in this short-term increase in receivables.

Trade payables have increased overall by £82.1 million (86%) mainly due to a £60.4m increase in expected repayments against advances received from the EC in relation to Rural Development programmes.

The overall impact of these movements was to increase the cash balance of the agency by £474.3 million at 31 March 2016 to £554.6 million, compared to £80.3 million at 31 March 2015.

Financial risk

The agency is exposed to two significant financial risks inherent in the process of administering scheme payments.

The first is a foreign exchange risk since scheme payments are predominantly made in sterling while reimbursements from the EC are received in euros. Consequently, any differential between the prevailing exchange rate when reimbursement is received and the scheme exchange rates fixed by the EC will result in an exchange gain or loss for the agency.

To mitigate this risk, the RPA enters into derivative contracts for the Basic Payment Scheme, the Single Payment Scheme and for the Rural Development Programme for England. No such arrangements are entered into for Trader schemes due to their lower values relative to the cost of hedging.

As at 31 March 2016, these derivative contracts have decreased in value, representing a net liability of approximately £96.1 million to the agency, compared to an asset of £22.8 million in 2014-15. This decrease in value is consistent with foreign exchange movements in 2015-16 and is mirrored by an equal and opposite gain in value on the euros receivable from the EC, thereby resulting in a neutral position for the agency as intended.

The second significant risk relates to the potential that the EC may retrospectively choose not to reimburse the agency for payments the agency makes should there have deemed to be any infringements in scheme regulations. Such disallowances represent a high risk to the agency due to the complexity and extent of scheme regulations. Management of this risk is described in the Governance Statement.

Sustainability Report

Total greenhouse gas emissions have reduced to a new low of 2,223.6 tonnes of carbon dioxide, a reduction of 65.4% from the baseline data in 2009-10. The agency has also reduced energy usage, particularly non-renewable electricity which has reduced by 91.5% in the last twelve months. The amount of waste that the agency creates has increased, however the percentage that has been reused or recycled has increased to 88.8%. The total water consumption by the RPA has decreased by 15.1% to a new low of 11,283 cubic meters.

The RPA is committed to continuous improvement against sustainability targets.

Greenhouse Gas Emissions		**2015-16**	2014-15	2013-14	2012-13	2009-10 Baseline
Non-financial indicators (tonnes CO^2)	Scope 1 emissions (direct)	**822.4**	412.6	351.1	356.0	1,020.2
	Scope 2 emissions (indirect)	**1,192.8**	1,331.8	1,409.0	2,014.9	3,981.9
	Scope 3 emissions (direct travel)	**208.4**	950.8	1,147.1	1,115.0	1,419.3
	Total emissions	**2,223.6**	2,695.2	2,907.2	3,485.9	6,421.4
Related energy consumption (KWh)	Electricity non-renewable	**1,012**	11,979	96,914	548,219	7,590,268
	Electricity renewable	**2,382,964**	2,466,375	2,816,421	3,816,556	
	Gas	**1,222,420**	1,259,333	1,902,166	2,087,218	5,556,447
Financial indicators (£)	Expenditure in energy	**442,398**	416,738	414,159	555,658	1,174,738
	Carbon Reduction Commitment (CRC) licence expenditure*	**31,822**	31,822	22,950	37,000	*
	Expenditure on official business travel	**2,630,055**	2,016,398	2,418,960	2,134,454	2,268,130

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

Waste Management		**2015-16**	2014-15	2013-14	2012-13	2009-10 Baseline
Recovered or recycled (tonnes)	Reused or recycled	**111.50**	95.36	147.14	234.98	428.10
	Composted	**6.53**	3.30	2.21	2.04	1.98
	Incinerated with energy recovery	**51.94**	29.45	1.78	13.96	28.26
	Total recovered or reused	**169.97**	128.11	151.13	250.98	458.34
Not recovered or recycled (tonnes)	Incinerated without energy recovery	**-**	0.02	-	-	0.04
	Landfill	**21.47**	26.24	28.53	34.90	159.82
Total waste (tonnes)		**191.44**	154.37	179.66	285.88	618.20
% recovered or reused		**88.79%**	82.99%	84.12%	87.79%	74.14%

Finite Resource Consumption	**2015-16**	2014-15	2013-14	2012-13	2009-10 Baseline
Water consumption (m^3)	**11,823**	13,929	17,982	15,899	16,248
Water supply costs (£)	**79,405**	27,081	80,916	46,015	77,490

Mark Grimshaw
Chief Executive Officer

18 July 2016

Accountability Report

Corporate Governance

Director's report

Governance framework
Defra's Secretary of State has overall responsibility for RPA and is accountable to Parliament for all matters concerning the agency. Ministerial responsibility for RPA has been assigned to the Minister of State for Farming, Food and the Marine Environment.

Clare Moriarty, Defra's Permanent Secretary, is the Principal Accounting Officer and principal adviser to the Secretary of State on matters affecting Defra as a whole, including resource allocations across the department and is responsible for ensuring a high standard of financial management.

The CEO, Mark Grimshaw, is designated the agency's Accounting Officer by the Principal Accounting Officer. He must be satisfied that the agency has adequate risk management, financial systems and procedures in place to support the efficient and economical conduct of its business, safeguards financial propriety, regularity and reputation and ensures business continuity. The CEO is line managed by the Permanent Secretary.

The Executive Team
The RPA is headed by the CEO and a team of Executive Directors that span eleven directorates, these individuals form the Executive Team (ET) that sets the direction for the agency and has the overall authority to run the agency on a day-to-day basis. ET membership is listed below:

- Mark Grimshaw - Chief Executive Officer (ET Chair)
- Emma Appleby - Design Director
- Nicola Bettesworth - Human Resources Director
- Jo Broomfield - CAP Delivery Director
- Paul Caldwell - Operations Director
- John Carter - Planning and Performance Director
- Justin Chamberlain - Customer Director
- Arik Dondi - External Relations Director
- Ian Hewett - Change Director
- Anne Marie Millar - Finance, Assurance and Commercial Director
- Ed Schofield - Information and Technology Director
- Alison Webster - Rural Development Director

The Audit and Risk Assurance Committee
The Audit and Risk Assurance Committee (ARAC) is responsible for advising both the Agency Management Board and CEO as Accounting Officer on all matters relating to strategic processes for risk and control, the governance statement, accounting policies, the annual report and accounts, assurance of internal and external audits (including work conducted on behalf of the Certification Body) and anti-fraud policies. In January 2016, the ARAC Chair joined the Defra Audit and Risk Committee.

Key business at ARAC meetings in 2015-16 included:

- approval of the Annual Report and Accounts for 2014-15, as audited by the National Audit Office, in which the RPA received an unqualified opinion
- approval of the 2015 EU Accounts, as audited by the National Audit Office
- regular reviews of the agency's approach to risk and fraud risk management
- consideration of continuing improvements relating to the assurance and governance framework
- review all Internal Audit reports

The Agency Management Board

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

Key business at AMB meetings in 2015-16 included:

- monthly review of the CAP Delivery Programme, agency performance reports and committee updates
- monitoring of the agency's delivery of its statutory, corporate and business responsibilities
- strategic planning and discussion of Defra's 'One Business' approach to developing a more flexible and resilient business model for the Defra Network
- reviews of the agency's risk register
- deep dive reviews of initiatives impacting the agency

Membership and attendance	ARAC		AMB	
Name and title	**Attendee**	**Meetings attended**	**Attendee**	**Meetings attended**
John Carter - Planning and Performance Director	-	-	Member	9 of 10
Sarah Church - Defra Director, Food and Farming*	-	-	Member	4 of 8
Peter Conway - Non-Executive Director	Chair	4 of 4	Member	10 of 10
David Cotton - Non-Executive Director	Member	4 of 4	Member	10 of 10
Arik Dondi - External Relations Director	-	-	Member	9 of 10
Angela Gillibrand - Non-Executive Director	Member	3 of 4	Member	9 of 10
Mark Grimshaw - Chief Executive Officer	-	-	Member	8 of 10
Anne Marie Millar - Finance, Assurance and Commercial Director	-	-	Member	10 of 10
Julie Pierce - Defra Chief Information Officer*	-	-	Member	2 of 2
Arthur Reeves - Independent Member of the Audit and Risk Assurance Committee	Member	4 of 4	-	-
Trevor Spires - Non-Executive Director	-	-	Chair	10 of 10
Radbourne Thomas - Non-Executive Director	-	-	Member	10 of 10

** Sarah Church replaced Julie Pierce in June 2015.*

Relationship with Defra

The Defra Executive Committee, formally the Defra Network Executive Committee, is chaired by the Permanent Secretary and the RPA CEO attends along with the CEO's from the Environment Agency, Natural England and the Animal and Plant Health Agency. The committee provides a strategic steer for the department and makes decisions where appropriate on cross-group issues. It is also the forum for the RPA's Executive Team to escalate operational issues for discussion.

Security, information risk and fraud

The alignment to Information security ISO/IEC 27002:2013 is audited annually by the NAO. This is a requirement under Commission Regulation 885/2006. The Agency Security Unit conducts compliance reviews of the agency, suppliers and delegated bodies to ensure alignment to the ISO/IEC 27002:2013. A favourable 2015 Certifying Body report for information security management was received. Under Commission Regulation 907/2014 there is a new requirement to be certified to ISO/IEC 27001:2013 from 16 October 2016. The agency achieved ISO/IEC 27001:2013 Certification in August 2015.

In 2015-16, due to increased checking a total of 425 potential incidents were reported, following investigation 10 of these incidents related to personal data (2014-15: 54 and 7 respectively).

Category	Nature of incident	2015-16	2014-15
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	**-**	-
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	**4**	-
III	Insecure disposal or inadequately protected electronic equipment, devices or paper documents	**-**	-
IV	Unauthorised disclosure	**6**	3
V	Other	**-**	4

The category II incidents refer to employee pay, customer inspection and licence related items being misplaced by Royal Mail and customer forms being lost on route to the scanning company. Reviews were undertaken and the type of postage delivery was correctly applied in all cases. Royal Mail were contacted on each occasion and asked to investigate the losses. The category IV incidents refer to the release of personal data to third parties, a letter of complaint being forwarded to another customer, ability of customers to access details of other customers of the same name online, customer details incorrectly secured on agency servers and block guarantee details left unsecured within an RPA office. In all cases a review of process has been undertaken and where appropriate management checks or system fixes have been introduced.

There were no personal data incidents that fell within the criteria for reporting to the Information Commissioner's Office.

RPA external fraud	2015-16	2014-15
Number of new external fraud referrals in year	**170**	158
Number of external fraud referrals closed	**159**	153
Value of:		
• detected fraud value	**£180,373**	£175,877
• detected fraud number of cases	**9**	17
• prevented fraud value	**£18,139**	£50,864
• prevented fraud number of cases	**15**	24
Number of external fraud cases outstanding	**82**	71

External fraud referrals are assessed by the RPA Fraud Referral Team to consider whether a potential fraud has occurred. The agency takes appropriate recovery action on cases where the recommendation is made to recover funds.

Statement of Accounting Officer’s responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the RPA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the RPA and of its net resource outturn, application of resources, changes in taxpayers’ equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by RPA, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed
- disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis
- to be aware of all relevant information and to ensure that there is no relevant audit information of which the entity’s auditors are unaware

The Permanent Secretary, Clare Moriarty has appointed Mark Grimshaw, the agency Chief Executive Officer, as Accounting Officer of the RPA. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the RPA’s assets, are set out in Managing Public Money published by the HM Treasury.

Governance Statement

As Accounting Officer, I am responsible for maintaining a robust system of internal control that supports the achievement of the agency's policies, aims and objectives, while safeguarding public funds and departmental assets. This is in accordance with the responsibilities assigned in the HM Treasury publication; Managing Public Money.

Governance Framework

Defra's Executive Committee is chaired by the Permanent Secretary and comprises the Defra Directors General and Defra's Chief Finance Officer, along with four network CEO's from the Environment Agency, Natural England, the RPA and the Animal and Plant Health Agency. The committee provides a strategic steer and makes decisions where appropriate on cross-network issues.

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

The Audit and Risk Assurance Committee is responsible for advising both the AMB and CEO as Accounting Officer on all matters relating to strategic processes for risk and control, the governance statement, accounting policies, the annual report and accounts, anti-fraud policies and assurance of internal and external audits (including work conducted on behalf of the Certification Body).

The RPA is headed by the CEO and a team of executive directors that span eleven directorates, these individuals form the Executive Team that sets the direction for the agency and has the overall authority to run the agency on a day-to-day basis.

Internal controls

Risk overview

The agency operates in a highly regulated environment which requires appropriate controls and governance across all of the forty schemes that we administered.

Significant risks during the year have been associated with the introduction of the Basic Payment Scheme for 2015, budget impacts as a result of the Spending Review and demands on people capacity and capability. These risks are being addressed through the robust agency governance framework.

Fraud and error risk management

The Fraud and Error Risk Management Steering Group, chaired by Anne Marie Millar the Finance, Assurance and Commercial Director has acted in an advisory committee capacity to ET and the CEO in his role as Accounting Officer. The Steering Group has representatives from Operations, Information and Technology, Human Resources (HR) and the Rural Development directorates alongside other heads of services who have met five times to consider detection and awareness of fraud in the RPA. Our approach for 2015-16 has provided an appropriate level of assurance.

Disallowance risk management
Disallowance remains a risk for the agency largely stemming from the new requirements of the new CAP. The agency monitors the level of exposure reflected from external audit activity through our Executive Team meetings on a monthly basis. Quarterly reports on the risk of disallowance are also presented to the Audit and Risk Assurance Committee and Agency Management Board.

The introduction of the cross Defra Disallowance Steering Group and the Disallowance Working Group has allowed an enhanced focus and is working well. These governance arrangements will operate within a wider Disallowance Management Strategy that outlines the approach to mitigating disallowance to meet commitments made within the 2015 Spending Review settlement.

Internal Audit's review of disallowance management recognised that the current approach was effective. Work has progressed well to build a disallowance control framework around the new CAP scheme regulations that will contribute towards pulling all the strands of disallowance risk management together.

The EU reporting and Compliance Director has been required to provide assurance statements for all significant off system operational solutions identifying any compliance risks that need to be mitigated.

Effectiveness of risk management
The Executive Team continues to take responsibility for the routine identification and management of the most significant risks. The Agency Management Board provides a strategic and external view on those risks and the Audit and Risk Assurance Committee seek assurance over the effectiveness of risk management. Discussions on risks are held regularly and risks are managed through the robust agency governance framework. We are reviewing our approach to risk management to ensure our model remains effective and is aligned to the needs of the agency and the changing departmental organisational structure.

Quality assurance of analytical models
The agency has a quality assurance framework for its business critical analytical models. Regular internal and external review of the model calculates the exchange rate impact of scheme reimbursement.

Information governance
The Information and Technology Director is the agency's Senior Information Risk Owner (SIRO). As an Executive Director he provides board-level accountability and assurance that information risks are addressed. There have been no significant breaches.

Effectiveness of internal controls
Through the agency's existing governance framework coupled with documented discussions with Executive Directors we have informally assessed the effectiveness of controls as well as highlighting significant issues for the agency. The Internal Audit team reviewed and provided assurance. The Agency Management Board and the Audit and Risk Assurance Committee have reviewed and contributed to this governance statement.

The system of internal control is designed to manage risk to an acceptable level rather than to eliminate all risk in relation to achieving its policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

Effectiveness of whistleblowing arrangements
The Whistleblowing and Raising a Concern policy outlines our expectations of RPA people and provides a clear process to follow for the reporting and control of whistleblowing. The agency has processes in place to handle cases in line with the current Defra policy. There have been no reports raised.

Internal Audit opinion
Internal Audit's body of work across RPA in 2015-16 confirms that governance and controls were maintained at levels comparable to last year. This, in the context of the complexities and pressures of BPS delivery where RPA has also implemented a new finance system effectively, introduced two new farm support schemes and stood up three new rural development programmes whilst keeping its other EU schemes on track. Management is addressing outstanding control weaknesses. Overall we consider this to be positive progress in an extremely challenging and high risk period.

The overriding focus of the year has been to deliver the BPS using new IT systems and business processes, against a backdrop of shortcomings in expected IT functionality. There has been stability at director level and a strong control culture, with the governance emphasis on tactical decision-making and a focus on performance and achievement of public commitments. For BPS 2015 these commitments were met up to January 2016, but delivery remained challenging at the year-end due to the complexity of outstanding claims. For many other established schemes and the new socio-economic schemes, overall operational performance was sound and kept under review. Internal Audit found adequate controls in operation across core activities in most directorates, including notably the implementation of core financial controls using the new payment and accounting system.

During 2015-16 Internal Audit presented a view on the residual risk to the CEO for areas reviewed. Residual risk to the CEO remains high in terms of the successful implementation of change into delivery for 2016-17. The ability to complete remedial action where required on BPS 2015 data will be key to achieving accurate future payments and confidence in RPA. There will be a need to consider continuity and capability risk should key people leave as the CAP Delivery Programme transitions into business as usual and the risk of fatigue from a promulgation of change. There will also be a continuity and capability risk associated with the impacts of Defra organisation reform and resourcing to operate the new socio-economic schemes. Elements of RPA governance will need to be thought through afresh where impacted by Defra's reforms and there is a risk of ambiguity in accountabilities and responsibilities during the coming year. Amongst these, accountability for managing disallowance risk between the core Department and RPA remains to be clarified.

The Head of Internal Audit overall opinion is that moderate assurance can be given that there is a sound system of internal control, designed to meet RPA's objectives and that controls are being applied consistently. Some improvements are required to enhance the effectiveness of risk management, control and governance.

Compliance with governance codes
An informal review carried out against the National Audit Office (NAO) 'Corporate Governance in Central Government Departments: Code of Good Practice 2011 Compliance Checklist' indicated that RPA complies with the code's principles for an agency of our size, status and legal framework.

Effectiveness of governance arrangements
The governance framework within the agency remains robust and continues to work well.

Effectiveness of Board performance
I have regular meetings with the chair of the Agency Management Board to keep him informed of what is happening across the agency and to discuss the effectiveness of the Board. Both the Agency Management Board and the Audit and Risk Assurance Committee completed assessments of their effectiveness in the last quarter of the year for discussion at their April 2016 meetings. These assessments indicated that both committees were operating effectively.

Significant issues 2015-16

Basic Payment Scheme
The implementation of the Basic Payment Scheme in 2015 has been a challenge for the agency. Despite this we were able to start making payments for the 2015 scheme from the opening day of the payment window.

In April 2016 we made the decision to introduce bridging payments to those who would not receive a claim payment in April 2016, while we continued to complete their claim. We have commenced payment reconciliation of 2015 payments.

In parallel we have been working on improving the Rural Payments service to provide more online functionality for the 2016 scheme. We have provided an online and paper application process and provided support to help applicants successfully submit their applications by the deadline. We received over 86,000 applications for BPS 2016 with over 80% applying online.

CAP Delivery Programme
The NAO published their review into the CAP Delivery Programme on 1 December 2015. The Public Accounts Committee issued their report on 2 March 2016. The issues raised in the reports are well documented. Working with Defra we have either already addressed the recommendations or are in the process of implementing them. A formal response to the Public Accounts Committee was published on 25 April 2016.

Disallowance
Disallowance results from control weaknesses identified in EU audits. This is often calculated as a flat-rate percentage of the total value of the particular scheme. Disallowance is reported in the Defra annual accounts, in 2015-16 the Department has accepted and accrued £65.8 million (gross) of disallowance penalties.

European Union referendum
RPA implements and delivers policy relating to the European Union Common Agricultural Policy payments, whilst Defra is responsible for negotiating European agricultural and rural policy and related funding for the United Kingdom. More details on the agency's financial interaction with the EU can be found in the Performance Analysis section of the Annual Report and in Note 5 and 6 of the Financial Statements.

On 23 June 2016 the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister, to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

Mark Grimshaw
Chief Executive Officer

18 July 2016

Remuneration and Staff

Remuneration report

Although costs for the CEO and the members of ET are included in the agency's annual accounts, they are formally employed by Defra. The framework for remunerating the CEO and ET, as for all Senior Civil Servants (SCS), is set by the Prime Minister following independent advice from the Senior Salaries Review Body. Further details about this body can be found at www.ome.uk.com. The Cabinet Office advises Defra in March or April each year of the Government's response to the Senior Salaries Review Body's recommendations and produces guidance for departments to follow. Defra develops its SCS Pay Strategy within this Cabinet Office framework, ensuring that the overall pay awards are within the cost ceiling allowed.

Consolidated pay and non-pensionable, performance related pay awards for members of ET are based on their performance assessed relative to all others in their peer group within Defra.

Consolidated awards generally differ depending on the level of performance and the relative position of each person in their pay range. Member of the SCS are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP). NCVP is performance related and is paid in arrears in the financial year after that in which it was earned. During 2015-16, NCVP for 2014-15 performance was paid to approximately 25% of the SCS and was capped at £11,000, £13,000 and £15,000 per individual depending on grade. NCVP values, informed by each individual's appraisal grade were paid within Cabinet Office guidelines. The table of salary and non-cash benefits shown in this report includes NCVP paid to the CEO, ET and Non-Executive Directors.

Service contracts

The Constitutional Reform and Governance Act 2010 requires that Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

The CEO and ET are permanent civil servants. The Executive Directors are required to give three months' notice under the terms of their contracts. Our Non-Executive Directors are appointed on fixed term contracts with a notice period of one month.

The employment of the CEO and members of ET may be terminated in accordance with normal Civil Service procedures. Early termination, other than for misconduct, could result in compensation being payable as set out in the Civil Service Compensation Scheme.

No compensation amounts were paid to Executive Directors during the year. Compensation for unpaid leave, where appropriate, is included within the salary figures in the remuneration table.

Salary

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the agency and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. In both 2014-15 and 2015-16 John Carter and Ian Hewett had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Pay multiples

The banded remuneration of the highest-paid Director in the agency compared to the median remuneration of the workforce is shown in the table below. No agency employee was paid more than the highest paid Director.

	2015-16	2014-15
Annualised Band of Highest Paid Director Remuneration (£'000)*	**160-165**	160-165
Median Total Remuneration (£)	**26,060**	25,644
Ratio	**6.2**	6.3

** The remuneration of the highest paid Director includes bonus payments and benefits in kind, but excludes severance payments, employer pension contributions, and the cash equivalent transfer value of pensions.*

The banded remuneration for employees in the agency ranges from £10,000-£15,000 to £160,000-£165,000 (2014-15: £10,000-£15,000 to £160,000-£165,000). These figures exclude the Non-Executive Directors.

Remuneration (including salary) and pension entitlements (audited)

The remuneration and the pension interests of the Non-Executive Directors and the Directors of the agency are detailed in the following tables:

	2015-16					2014-15				
Name and title	Salary	Bonus payments	Benefits in kind	Pension benefits	Total	Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	Nearest £100	Nearest £000	£000	£000	£000	Nearest £100	Nearest £000	£000
Peter Conway Non-Executive Director	**20-25**	**-**	**-**	**-**	**20-25**	20-25	-	-	-	20-25
David Cotton Non-Executive Director	**10-15**	**-**	**-**	**-**	**10-15**	10-15	-	-	-	10-15
Angela Gillibrand Non-Executive Director	**5-10**	**-**	**-**	**-**	**5-10**	5-10	-	-	-	5-10
Arthur Reeves Independent Member of the Audit and Risk Assurance Committee	**0-5**	**-**	**-**	**-**	**0-5**	0-5	-	-	-	0-5
Trevor Spires Non-Executive Director	**20-25**	**-**	**-**	**-**	**20-25**	20-25	-	-	-	20-25
Radbourne Thomas Non-Executive Director	**5-10**	**-**	**-**	**-**	**5-10**	5-10	-	-	-	5-10

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

Name and title	2015-16 Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	Nearest £100	Nearest £000	£000
Emma Appleby **Design Director**	**105-110**	**10-15**	**-**	**36**	**150-155**
Nicola Bettesworth **Human Resources Director**	**75-80**	**-**	**-**	**33**	**110-115**
Jo Broomfield **CAP Delivery Director from 1 May 2015**	**115-120** **(125-130)**	**-**	**-**	**25**	**140-145**
Paul Caldwell **Operations Director**	**60-65**	**-**	**-**	**18**	**80-85**
John Carter **Planning and Performance Director**	**65-70**	**-**	**3,500**	**30**	**100-105**
Justin Chamberlain **Customer Director**	**90-95**	**-**	**-**	**-**	**90-95**
Arik Dondi **External Relations Director**	**65-70**	**-**	**-**	**29**	**90-95**
Mark Grimshaw **Chief Executive Officer**	**160-165**	**-**	**-**	**44**	**205-210**
Ian Hewett **Change Director**	**90-95**	**10-15**	**2,600**	**48**	**150-155**
Anne Marie Millar **Finance, Assurance and Commercial Director**	**130-135**	**-**	**-**	**48**	**175-180**
Ed Schofield **Information and Technology Director**	**100-105**	**-**	**-**	**39**	**140-145**
Alison Webster **Rural Development Director**	**100-105**	**-**	**-**	**32**	**135-140**

Name and title	2014-15 Salary	Bonus payments	Benefits in kind	Pension benefits	Total
	£000	£000	Nearest £100	Nearest £000	£000
Emma Appleby Design Director	105-110	-	-	34	140-145
Nicola Bettesworth Human Resources Director	75-80	-	-	12	85-90
Paul Caldwell Operations Director	60-65	10-15	-	8	80-85
John Carter Planning and Performance Director	60-65	-	3,000	12	75-80
Justin Chamberlain Customer Director	90-95	-	-	-	90-95
Arik Dondi External Relations Director	60-65	-	-	19	80-85
Mark Grimshaw Chief Executive Officer	160-165	-	-	43	200-205
Ian Hewett Change Director	85-90	-	2,800	11	100-105
Anne Marie Millar Finance, Assurance and Commercial Director	135-140	-	-	47	180-185
Ed Schofield Information and Technology Director	100-105	10-15	-	37	145-150
Alison Webster Rural Development Director from 1 December 2014	30-35 (100-105)	-	-	9	40-45

Pension benefits (audited) information

Non-Executive Directors are not entitled to a pension so are not included within the following table.

Name and title	Accrued pension at pension age as at 31 March 2016 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2016	CETV at 31 March 2015	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Emma Appleby **Design Director**	5-10 plus lump sum of nil	0-2.5 plus lump sum of nil	71	47	10	-
Nicola Bettesworth **Human Resources Director**	25-30 plus lump sum of 80-85	0-2.5 plus lump sum of 0-2.5	508	448	16	-
Jo Broomfield **CAP Delivery Director from 1 May 2015**	40-45 plus lump sum of 125-130	0-2.5 plus lump sum of 2.5-5	800	730	20	-
Paul Caldwell **Operations Director**	20-25 plus lump sum of 70-75	0-2.5 plus lump sum of 2.5-5	459	407	13	-
John Carter **Planning and Performance Director**	20-25 plus lump sum of 65-70	0-2.5 plus lump sum of 0-2.5	364	316	13	-
Justin Chamberlain **Customer Director**	-	-	-	-	-	10,300
Arik Dondi **External Relations Director**	10-15 plus lump sum of 30-35	0-2.5 plus lump sum of 0-2.5	155	126	9	-
Mark Grimshaw* **Chief Executive Officer**	25-30 plus lump sum of 75-80	0-2.5 plus lump sum of 5-7.5	540	455	39	-
Ian Hewett **Change Director**	30-35 plus lump sum of 90-95	0-2.5 plus lump sum of 5-7.5	642	553	43	-
Anne Marie Millar **Finance, Assurance and Commercial Director**	40-45 plus lump sum of nil	2.5-5 plus lump sum of nil	885	778	48	-
Ed Schofield **Information and Technology Director**	5-10 plus lump sum of nil	0-2.5 plus lump sum of nil	84	77	-9	-
Alison Webster* **Rural Development Director**	15-20 plus lump sum of nil	0-2.5 plus lump sum of nil	342	284	30	-

** Minor revisions have been made to the CETV as at 31 March 2015 for certain Directors.*

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced; the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections; three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60, and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS remained in the PCSPS after 1 April 2015 if they were within 10 years of their normal pension age on 1 April 2012. Those who on 1 April 2012 were between 10 years and 13 years and 5 months from their normal pension will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3.00% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.60% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3.0% and 12.5% up to 30 September 2015 and 8.00% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

Cash Equivalent Transfer Values
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

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

Staff report

Senior staff by pay-band
The table below provides the number of Senior Civil Servants or equivalent within the agency by pay-band:

Senior Civil Servants by pay-band	2015-16	2014-15
Pay-band 3	**1**	1
Pay-band 2	**2**	1
Pay-band 1	**12**	11

Staff composition
CAP implementation generated a number of short and medium term organisational requirements with implications across the agency which continues to be supported by a highly flexible blended resource approach exemplified by the deployment of colleagues to support customer facing activities for BPS 2015. A balance has been struck between responding to short term resourcing and longer term organisational development.

Workforce profile	As at 31 March 2016	As at 31 March 2015
Permanent	**1,893**	2,104
External Agency	**145**	18
Contractor	**69**	102
Total	**2,107**	2,224

The Operations Task Force which was created in 2014 and the deployment of HMRC apprentices continues to offer the agency a flexible and multi-skilled workforce able to respond to changing demands throughout the year by getting involved in different areas of work as needed.

Gender diversity as at 31 March 2016	Male	Female
Executive Team	**8**	**4**
RPA employees (excluding Executive Team)	**937**	**944**
Non-Executive Directors	**5**	**1**

The RPA is working with the Defra network and wider Civil service to implement the Civil Service Talent Action plan. The agency has continued to work with the Defra Disability Network (DisNet), supporting "removing the barriers" workshops aimed at providing an improved understanding of the benefits to business and individuals of removing barriers for disabled people in the workplace.

Developing the workforce
The Talent Management Scheme is continuing to provide opportunities to develop talent within the agency, with a focus on developing future senior leaders. There are currently 79 members on the scheme across five cohorts. A development programme for EO grade employees will take place in 2016-17.

Celebrating our success
The award scheme has been used throughout the year both by line managers and the Executive Team to recognise and reward in-year achievements of RPA people who have gone above and beyond their normal duties to support successful delivery of business objectives.

Attendance management
The agency's Annual Working Days Lost figure for the 2015-16 year was 6.9, against a target of 6.4 set by the Cabinet Office.

Year to 31 March	**2016**	2015	2014	2013
Annual Working Days Lost	**6.9**	6.7	7.0	9.2

RPA people suffering from long term health issues are referred to the occupational health service, jointly supplied through Health Management Limited and ATOS Healthcare, to ensure that necessary support is provided and any reasonable adjustments recommended.

Employee engagement
The agency's engagement index in 2015 was 43%. The engagement index for the Defra Network has decreased to 49% (2014: 51%), the Civil Service engagement index has also decreased to 58% (2014: 59%).

Engagement index	**2015**	2014
RPA engagement index	**43%**	44%
Civil Service engagement index	**58%**	59%

RPA remains committed to a range of programmes to address issues highlighted in the survey and improve communication to its people, including the use of roadshows, adopt-a-site initiatives and improvement action plans.

Employee relations and tribunals

There were no employment tribunals between 1 April 2015 and 31 March 2016. The Trade Union engagement framework which was introduced in April 2014 is now embedded within the agency. Facility time used by the Trade Union representatives has been within the maximum introduced by the Cabinet Office in 2013.

Exit packages

In 2015 the RPA undertook a voluntary exit scheme following the Government wide Spending Review's focus on making efficiencies and achieving value for money. The aim of the scheme was to retain those with skills in continuing high demand, those who are essential to business delivery and those who are high performers.

The agency has been able to offer voluntary exit to 77 people within the available budget of £2.45 million, the majority left the agency on 29 February 2016; with all exits completed by 31 March 2016.

Off-payroll appointments

In line with the recommendations of a review of Tax Arrangements of Public Sector Appointees published by HM Treasury in May 2012 the RPA put in place controls to ensure its non-payroll people earning greater than £220 per day are contractually obliged to assure the agency that they are meeting their tax obligations; compliance with this requirement has been good. Monitoring continues to take place with regular reports being supplied to Defra.

Number of new engagements	**2015-16**
Which include contractual clauses giving the department the right to request assurance in relation to income tax and national insurance obligations	**17**
For whom assurance has been requested	**17**
of which:	
• assurance has been received	**17**
• assurance has not been received	**-**
• that have been terminated as a result of assurance not being received or ended before assurance was received	**-**

Number of existing engagements	**2015-16**
Existing engagements as at 31 March 2016	**33**
of which:	
• existed for less than one year at time of reporting	**8**
• existed between one and two years at time of reporting	**16**
• existed between two and three years at time of reporting	**6**
• existed between three and four years at time of reporting	**3**
• existed for four or more years at time of reporting	**-**

Expenditure costs on consultancy in 2015-16 were £1.4 million (2014-15: £3.3 million). These costs are categorised by their nature within IT costs and Non-IT professional services in Note 3 of the accounts.

Parliamentary Accountability and Audit

Regularity of expenditure

The agency reports losses and special payments within the enclosed accounts; see Note 20. All other expenditure is considered to be regular.

Fees and charges

The agency has no material income from fees and charges.

Remote contingent liabilities

The agency has no remote contingent liabilities that are required to be reported to Parliament under Managing Public Money.

Long term expenditure trends

The agency provides a detailed commentary on current and prior year performance within the Performance Analysis section on page 9.

Mark Grimshaw
Chief Executive Officer

18 July 2016

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

I certify that I have audited the financial statements of the Rural Payments Agency for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability disclosures that is described in those reports as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive Officer as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the Rural Payments Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Rural Payments Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Rural Payments Agency's affairs as at 31 March 2016 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

The Rural Payments Agency (the Agency) is an Executive Agency of the Department for Environment, Food and Rural Affairs (the Department). The Agency's results are consolidated into the Department's Annual Report and Accounts.

Financial penalties, known as 'disallowance' penalties, are levied by the European Commission when it considers actions taken by member states to control and administer CAP payments have been non-compliant with regulations. While the Agency is responsible for managing the Common Agricultural Policy (CAP) schemes in the UK, the Department is responsible for paying these penalties, and they are recorded in the financial statements of the Department rather than the Agency. My report on the Department's Annual Report and Accounts (HC 328) explains the disallowance penalties incurred in 2015-16.

There have also been a number of inaccuracies in CAP scheme payments arising from problems with the Department's CAP Delivery Programme. Scheme payments are accounted for by the Agency. These inaccuracies have arisen where there are differences between claim forms and the Agency's systems. The Agency is reviewing the accuracy of 13,000 payments, where claimants may be due a further €100 or more. At the time I certified the Department's accounts the Department and Agency had provided for £25.3 million as an estimate of payments due to farmers in relation to claims initially paid before 31 March 2016. As explained in report on the Department's Annual Report and Accounts (HC 328) further unquantified payments would also be required. The Agency has subsequently assessed that these further payments to farmers are likely to amount to an additional £6.7 million, resulting in a total estimate of £32 million of further payments which are reflected in the Agency's accounts.

Whilst these issues represent challenges the Agency must address, they do not impact on my opinion on the Agency's accounts.

Sir Amyas C E Morse **19 July 2016**

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

Financial Statements

Account Statements

Statement of Comprehensive Net Expenditure for the Year to 31 March 2016

		Year to 31 March 2016		Year to 31 March 2015	
	Note	**£000**	**£000**	£000	£000
Running costs					
Staff	2	**88,197**		79,426	
Others	3	**60,970**		72,421	
		149,167		151,847	
Running costs income	4	**(14,721)**		(5,091)	
Net running costs			**134,446**		146,756
Scheme costs					
Rural Payments Agency					
Costs	5	**1,292,334**		1,598,534	
Income	5	**(1,284,880)**		(1,576,362)	
		7,454		22,172	
Other paying agencies					
Costs	6	**633,092**		1,079,046	
Income	6	**(632,975)**		(1,077,233)	
		117		1,813	
Net scheme expenditure			**7,571**		23,985
Net operating cost			**142,017**		170,741

Other Comprehensive Expenditure

		Year to 31 March 2016	Year to 31 March 2015
	Note	**£000**	£000
Net operating cost		**142,017**	170,741
Net (gain)/loss on revaluation of property, plant and equipment	14	**(9)**	14
Net gain on revaluation of intangible assets	14	**(49)**	(4)
Movement in cash flow hedge reserve		**39,288**	(256)
Total comprehensive expenditure for the period		**181,247**	170,495

The Notes on pages 41 to 70 form part of these accounts.

Statement of Financial Position as at 31 March 2016

		Year to 31 March 2016		Year to 31 March 2015	
	Note	**£000**	**£000**	£000	£000
Non-current assets					
Property, plant and equipment	7	**1,334**		2,159	
Intangible assets	8	**2,360**		3,899	
Derivative assets	13	**-**		2,305	
Total non-current assets			**3,694**		8,363
Current assets					
Inventories		**3,823**		-	
Trade receivables and other current assets	9	**898,059**		449,258	
Derivative asset	13	**3,545**		25,252	
Cash and cash equivalents	10	**554,576**		80,293	
Total current assets			**1,460,003**		554,803
Total assets			**1,463,697**		563,166
Current liabilities					
Trade payables and other current liabilities	11	**(60,898)**		(33,634)	
Derivative liabilities	13	**(99,685)**		(890)	
Provisions for liabilities and charges	12	**(53,143)**		(14,206)	
Total current liabilities			**(213,726)**		(48,730)
Non-current assets plus net current assets			**1,249,971**		514,436
Non-current liabilities					
Trade payables and other liabilities	11	**(116,554)**		(61,758)	
Derivative liability	13	**-**		(3,905)	
Provisions for liabilities and charges	12	**(183)**		(3,495)	
Total non-current liabilities			**(116,737)**		(69,158)
Assets less liabilities			**1,133,234**		445,278
Taxpayers' equity					
General fund			**1,172,218**		444,905
Cash flow hedge reserve			**(39,037)**		251
Revaluation reserve	14		**53**		122
Total taxpayers' equity			**1,133,234**		445,278

The Notes on pages 41 to 70 form part of these accounts.

Mark Grimshaw
Chief Executive Officer

18 July 2016

Statement of Cash Flows for the Year to 31 March 2016

	Note	**Year to 31 March 2016**	Year to 31 March 2015
	Note	**£000**	£000
Cash flows from operating activities			
Net operating cost		**(142,017)**	(170,741)
Adjustment for non-cash items included in other running costs	3	**20,716**	13,918
Adjustment for non-cash items included in other running costs income	4	**(450)**	(370)
Adjustment for non-cash Rural Development Team costs collected from Defra		**-**	2,935
Adjustment for non-cash Supplier rebate transfer to Defra		**-**	(349)
Adjustment for non-cash hedging costs transfer to Defra		**(11)**	-
Movement in provisions		**35,625**	15,902
Adjustment for derivative financial instruments		**79,614**	(21,174)
Increase in inventories		**(3,823)**	-
Increase in trade receivables and other current assets		**(448,801)**	(113,932)
Increase/(decrease) in trade payables and other current liabilities		**82,484**	(52,815)
Net cash outflow from operating activities		**(376,663)**	(326,626)
Cash flows from investing activities			
Purchase of property plant and equipment		**25**	(774)
Purchase of intangible assets		**(442)**	(1,221)
Proceeds of disposal of non-current assets		**834**	-
Net cash inflow/(outflow) from investing activities		**417**	(1,995)
Cash flows from financing activities			
Financing by Defra		**2,100,000**	2,854,497
Financing to Defra		**(1,125,000)**	(2,560,000)
Payments for Rural Development Programme for England on behalf of Defra		**(414,637)**	(556,904)
Receipts for Rural Development Programme for England on behalf of Defra		**384,018**	518,454
Disallowance transfer to Defra		**(93,576)**	(3,156)
Capital element of payments in respect of finance leases		**(276)**	172
Net cash inflow from financing activities		**850,529**	253,063
Increase/(decrease) in cash and cash equivalents in the period		**474,283**	(75,558)
Cash and cash equivalents at 1 April	10	**80,293**	155,851
Cash and cash equivalents at 31 March	10	**554,576**	80,293

The Notes on pages 41 to 70 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2016

	Note	General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers' equity
		£000	£000	£000	£000
Balance at 1 April 2015		444,905	251	122	445,278
Net operating cost		**(142,017)**	**-**	**-**	**(142,017)**
Transfer from revaluation reserve to General fund:					
- property, plant and equipment	14	**9**	**-**	**(9)**	**-**
- intangible assets	14	**118**	**-**	**(118)**	**-**
Arising on revaluation during the year (net)		**-**	**-**	**58**	**58**
Notional charges		**18,409**	**-**	**-**	**18,409**
Loss on Cash flow hedges		**-**	**(143,876)**	**-**	**(143,876)**
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	13	**-**	**104,588**	**-**	**104,588**
Total recognised expense for period ended 31 March 2016		(123,481)	(39,288)	(69)	(162,838)
Financing by Defra		**2,100,000**	**-**	**-**	**2,100,000**
Financing to Defra		**(1,125,000)**	**-**	**-**	**(1,125,000)**
Payments for Rural Development Programme for England on behalf of Defra		**(414,637)**	**-**	**-**	**(414,637)**
Receipts for Rural Development Programme for England on behalf of Defra		**384,018**	**-**	**-**	**384,018**
Hedging costs transfer to Defra		**(11)**	**-**	**-**	**(11)**
Disallowance transfer to Defra		**(93,576)**	**-**	**-**	**(93,576)**
Balance at 31 March 2016		1,172,218	(39,037)	53	1,133,234

The Notes on pages 41 to 70 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year to 31 March 2015

		General fund	Cash flow hedge reserve	Revaluation reserve	Total taxpayers' equity
	Note	£000	£000	£000	£000
Balance at 1 April 2014		359,225	(5)	1,176	360,396
Net operating cost		(170,741)	-	-	(170,741)
Transfer from revaluation reserve to General fund:					
- property, plant and equipment	14	14	-	(14)	-
- intangible assets	14	1,030	-	(1,030)	-
Arising on revaluation during the year (net)		-	-	(10)	(10)
Notional charges		(100)	-	-	(100)
Gain on Cash flow hedges		-	74,654	-	74,654
Transfer to Statement of Comprehensive Net Expenditure on Cash flow hedges	13	-	(74,398)	-	(74,398)
Total recognised expense for period ended 31 March 2015		(169,797)	256	(1,054)	(170,595)
Financing by Defra		2,854,497	-	-	2,854,497
Financing to Defra		(2,560,000)	-	-	(2,560,000)
Financing by Defra for Rural Development Team non-cash		2,935	-	-	2,935
Financing by Defra for Supplier rebate non-cash		(349)	-	-	(349)
Payments for Rural Development Programme for England on behalf of Defra		(556,904)	-	-	(556,904)
Receipts for Rural Development Programme for England on behalf of Defra		518,454	-	-	518,454
Disallowance transfer to Defra		(3,156)	-	-	(3,156)
Balance at 31 March 2015		444,905	251	122	445,278

The Notes on pages 41 to 70 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury in accordance with the Section 7(2) of the Government Resources and Accounts Act 2000.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS's) as adapted for the public sector. Where the FReM allows a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the agency for the purpose of giving a true and fair view has been selected. They have been applied consistently in the current and preceding year in dealing with items considered material in relation to the accounts.

The financial statements are prepared on a going concern basis.

1.1 Accounting convention
These accounts have been prepared under the historic cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets, inventories and certain financial assets and liabilities where material.

1.2 Property, plant and equipment
Property, plant and equipment is recognised at fair value, with depreciated historic cost as modified by annual revaluations using appropriate price indices issued by UK Office of National Statistics, used as a proxy for fair value for all assets. The unrealised element is credited/debited to the Revaluation Reserve as shown in the Treatment of Change in Taxpayers' Equity. Property, plant and equipment assets are reviewed annually for impairment. The agency has set a capitalisation threshold of £2,000. Below this threshold costs are charged directly to the Statement of Comprehensive Net Expenditure. The recognition of "rights of use assets" is described in Note 1.6.

1.3 Intangible assets
Intangible assets are recognised on the same basis as property, plant and equipment, see Note 1.2. Intangible assets comprise internally developed application and bespoke Information Technology (IT) software projects, licences and packages developed by third parties. Software projects being developed are capitalised as development expenditure and treated as capital expenditure (but not amortised or revalued until the software is fully developed and brought into use). The agency has a capitalisation threshold for software projects of £100,000.

1.4 Depreciation and amortisation
Depreciation and amortisation are provided at rates estimated to write off the valuation of property, plant or equipment and intangibles on a straight line basis, over the estimated useful life of the asset, taking into account residual value (if it applies). Assets are depreciated/amortised from the month after they are available for use.

Estimated useful lives at initial recognition are normally in the following ranges:

Depreciation		Amortisation	
IT hardware • laptops, printers and similar equipment	3 years	IT software IT licences	5 years up to 7 years
• Communications	5 years		
• Servers	up to 7 years		
Office machinery	5 years		
Right of use assets	8 years		
Others	5 - 25 years		

1.5 Impairment

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount.

In line with an adaption in the FReM, any permanent diminution in the value of an asset due to clear consumption of economic benefit or service potential should be recognised in full as an impairment loss in the Statement of Comprehensive Net Expenditure. However, to align the balance in the Revaluation Reserve with that which would have resulted through strict application of IAS 36, an amount up to the value of the impairment is transferred to the General Fund for the individual asset concerned.

Downward revaluations, resulting from changes in market value, only result in an impairment where the asset is revalued bellows its historic cost carrying amount. In these cases the accounting treatment is as for any other impairment, with amounts being first set against any accumulated balance in the revaluation reserve, and any amount in addition to this being recognised and recorded in the Statement of Comprehensive Net Expenditure.

1.6 Right of use assets

The agency benefits from participation in Defra’s contract with IBM for the supply of IT services. The contract is for a term of eight years from February 2010. The contract falls within the scope of IFRIC 12 as interpreted by the FReM and is disclosed within the accounts as a service concession arrangement. Defra has apportioned a share of this arrangement to the agency based on the agency’s usage of the facility. A lease liability has been included to reflect the agency’s share of the capital value of payments to IBM to lease IT infrastructure assets throughout the duration of the eight year contract. A matching asset has been raised to reflect the benefit that the agency will derive from having access to IBM’s IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with Defra’s depreciation policy. These IT infrastructure assets, which consist of laptops, servers and hardware, are classified as right of use assets under property, plant and equipment in Note 7.

1.7 Leased assets

All leases are assessed using the criteria in IAS 17. The determination of a lease is based upon the substance of that arrangement, whether the arrangement is dependent upon the use of a specific asset and conveys the right to use that asset. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the agency. All other leases are classified as operating leases.

Assets funded through finance leases are capitalised as non-current assets and depreciated/amortised over their estimated useful lives or lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the assets or the present value of the minimum lease payments at the inception of the lease. The resulting lease obligations are included in liabilities net of finance costs. Finance costs are charged directly to the Statement of Comprehensive Net Expenditure.

Rental costs arising under operating leases are charged to the Statement of Comprehensive Net Expenditure in the year in which they are incurred.

1.8 Defra properties occupied by the agency

For 2015-16 the full cost of occupation of buildings that are either owned or leased by Defra is reflected within the Statement of Comprehensive Net Expenditure as part of 'Corporate overhead recharge (notional)', see Note 3. The costs are determined by Defra based on proportionate occupation of the properties and include rates, utilities, management overheads and associated capital charges. For Defra leasehold properties this also includes rental costs. These costs in previous years were not notional but were paid to Defra in cash and recorded under Rent on buildings and Accommodation in Note 3.

The Defra Management Committee estates strategy states that the default position is that lease breaks are exercised. Defra undertakes a detailed annual review on the material lease exits to confirm this judgement holds true. This has the implication of recognising the lease commitment (and any depreciation) to the lease break date. If however, the evidence suggests that it is unlikely individual lease breaks will be exercised, the commitment is assumed to be until the end of the lease.

1.9 Agency scheme income and expenditure

Defra core accounts recognise the income and expenditure for schemes over which it acts as Managing Authority, thereby demonstrating control of policy and prioritisation of spend. Payments made by the agency on such schemes (e.g. rural development expenditure under the RDPE) are reported in the agency accounts as movements through the General Fund.

Income and expenditure relating to all other schemes are recognised in the accounts of the agency. All of the agency's scheme expenditure is pre-funded by the UK Exchequer. Following receipt of reclaims from the European Commission, surplus funds are repaid to HM Treasury.

The Basic Payment Scheme and the Single Payment Scheme expenditure for England is recognised by the agency when it has a present obligation to make payments to the claimants as a result of completion of substantive processes to validate each claim against European Commission rules for the scheme and the amount payable to each claimant is considered reliably measureable and probable.

The Basic Payment Scheme and the Single Payment Scheme income for England is recognised by the agency when it is probable that it will receive a reimbursement from the European Commission for scheme expenditure incurred and the amount to be received from the European Commission is considered reliably measureable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised, that is, upon the completion of all substantive processes to validate and reliably measure each claim.

For all other European Agricultural Guarantee Fund schemes administered by the agency an accrual point has been established according to the applicable scheme rules and regulations. Where a present obligation for payment is identified to fall on or before the Statement of Financial Position data, it is shown as a payable in the current year's financial statements with a corresponding European Commission receivable. Similarly, any element paid in advance of these accrual points is treated as a prepayment.

The impacts of any foreign exchange movement between the claim date and the date of actual reimbursement by the European Commission are borne by the agency and accordingly recognised within the Statement of Comprehensive Net Expenditure.

1.10 Accounting for sugar levies

In accordance with European Commission regulations, the agency collects and surrenders both Sugar and Isoglucose production charges and other charges to fund the restructuring of the sugar regime. Sugar restructuring receipts are remitted directly to the European Commission through the monthly reimbursement process.

In accordance with Chapter 10 'Whole of Government Accounts' of the 2015-16 FReM, the agency has excluded revenue collected from sugar production charges from the financial statements. All related expenditure, assets and liabilities have also been excluded. The agency does not consider these amounts to be material to the entity for either the current or prior year accounting period and separate trust statements have not been prepared. The amounts excluded are disclosed in Note 22 of these financial statements.

1.11 Other UK paying agencies income and costs

Other UK paying agencies make payments to claimants under both the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The payments made by the other UK paying agencies are funded by the agency and subsequently recovered by the agency from the European Commission.

Scheme expenditure in relation to funding provided by the agency is recognised when the agency has a present obligation to make payment to the other UK paying agencies and the amount payable is considered reliably measureable and probable. These conditions are deemed to be met upon the receipt of a funding request from the other UK paying agencies, adjusted for amounts unspent by the paying agencies at period end.

Scheme income in relation to funding provided to the other UK paying agencies is recognised by the agency when it is probable that it will receive reimbursement from the European Commission for scheme expenditure incurred and the amount to be received from the European Commission is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised.

The impacts of any foreign exchange movements between the claim date and the date of actual reimbursement by the European Commission are borne by the agency and accordingly recognised within the Statement of Comprehensive Net Expenditure.

1.12 European Commission funding of schemes administered by the agency

Rural Development expenditure under the RDPE is managed by the agency on behalf of Defra. Accordingly, scheme income and expenditure are reported in Defra's resource account with transfers reported as movements through the General Fund.

The impacts of any foreign exchange movements between the claim date and the date of actual reimbursement by the European Commission are borne by the agency and accordingly recognised within the Statement of Comprehensive Net Expenditure.

1.13 Value Added Tax (VAT)

Defra and its executive agencies share a single VAT registration. Most activities relating to the group are outside the scope of VAT.

As a result, input tax cannot generally be recovered. However, under a HM Treasury concession applying to Government departments, limited input VAT recovery may be possible on certain specified contracted out services attributable to those activities. For those limited activities where output VAT is charged directly attributable input VAT can be recovered under the normal rules.

In all instances where output tax is charged, and input tax is recoverable, amounts are stated net of VAT. Where input tax cannot be recovered amounts are stated inclusive of VAT.

1.14 Foreign currency transactions
The functional and presentation currency of the agency is sterling.

The agency receives reimbursement from the European Commission in euros for funds administered by the agency and other UK paying agencies in relation to the Basic Payment Scheme and the Single Payment Scheme, the RDPE and Trader schemes in accordance with the respective scheme rules and regulations.

Furthermore, the agency makes a portion of payments under the Basic Payment Scheme and the Single Payment Scheme in euros to farmers and funds other UK paying agencies in sterling and euros.

These foreign currency transactions are recognised as scheme income and scheme expenditure at the rates of exchange prevailing on the dates of recognition of those transactions as described in Notes 1.9, 1.11 and 1.12. At each Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in the Statement of Comprehensive Net Expenditure in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks, see Note 1.15 and 1.16.

1.15 Derivative financial instruments
The agency enters into a variety of foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in Note 13.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting period date. The resulting gain or loss is recognised in the Statement of Comprehensive Net Expenditure immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Statement of Comprehensive Net Expenditure depends on the nature of the hedge relationship. The agency designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset or current liability if the remaining maturity of the instrument is less than 12 months, or is greater than 12 months but is expected to be realised or settled within 12 months. The agency does not enter into derivative arrangements for speculative purposes.

1.16 Hedge accounting
In accordance with IAS 39, the agency elected to designate certain foreign currency derivatives as cash flow hedges of the euro denominated receipts from the European Commission in relation to the Basic Payment Scheme and the Single Payment Scheme. At the inception of the hedge relationship the agency documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the agency documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged items as required by the standard.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within Taxpayers’ Equity. The gain or loss relating to the ineffective portion is recognised immediately in income or cost, and is included in the Statement of Comprehensive Net Expenditure.

Amounts previously recognised in the cash flow hedge reserve and accumulated in Taxpayers' Equity are reclassified to the Statement of Comprehensive Net Expenditure in the periods when the hedged item is recognised in the Statement of Comprehensive Net Expenditure, in the same line of the Statement of Comprehensive Net Expenditure as the recognised hedged item.

Hedge accounting is discontinued when the agency revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in the cash flow hedge reserve at that time is accumulated in Taxpayers' Equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Net Expenditure. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in Taxpayers' Equity is recognised immediately in the Statement of Comprehensive Net Expenditure.

1.17 Trade receivables

Trade and other receivables primarily represent amounts expected to be received from the European Commission, other government agencies and customers under the various schemes administered by the agency. Trade and other receivables are classified as 'loans and receivables' and are measured at amortised costs using the effective interest method, less any impairment. Impairment on trade and other receivables are recognised in the Statement of Comprehensive Net Expenditure and measured as the difference between the assets carrying amount and the present value of the estimated future cash flows. The estimated future cash flows are determined after considering, amongst other things, the impact of agreed payment plans with customers, amounts expected to be revered through interception (the process of offsetting a customer's receivable against a future payment) and historic collections data for customers.

1.18 Pensions

Present and past employees of the agency are covered by the provisions of five separate Principal Civil Service Pension Schemes (PCSPS), which are described in Note 2.2. Four of these schemes are defined benefit schemes and one (partnership) is a stakeholder pension with employee contributions. The 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 PCSPS of amounts calculated on an accruing basis. Liability for future benefits is a charge on the PCSPS on an accruing basis. In respect of the defined contribution schemes, the agency recognises the contributions payable for the year. The agency does not make contributions to any other pension scheme.

1.19 Provisions

Provisions are recognised when the agency has a legal or constructive present obligation as a result of a part event, it is probable that the agency will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the reimbursement can be measured reliably.

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

1.21 Contingent assets and liabilities
In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the entity; or a present obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

In addition to contingent liabilities disclosed in accordance with IAS 37, the agency discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefits is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money. Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.22 Operating segments
IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the agency that are regularly reviewed by the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. The agency has identified the CEO as the Chief Operating Decision Maker.

For segmental reporting during 2015-16, Defra uses major areas of spend as reported monthly to the Defra Management Committee. The agency represents one of these discrete areas of spend. As in previous years, the CEO continued to review and monitor the agency’s operational and financial performance at this aggregated level as presented in Defra’s financial statements.

1.23 Critical accounting judgements and key sources of estimation uncertainty
The CEO, in his capacity as Accounting Officer, uses judgement in making estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that the CEO, in his capacity as Accounting Officer, has made in the process of applying the agency’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

a) Recoverability and useful lives of intangible assets
In capitalising internally developed application and bespoke IT software projects, licences and packages developed by third parties, the CEO, in his capacity as Accounting Officer, makes judgements and estimates when assessing whether cost incurred meet the criteria for capitalisation in the accounting standards, whether the

capitalised software will continue to provide sufficient benefit to the agency to support its carrying amount, and whether the useful life of the existing capitalised internally generated intangibles assets remains appropriate.

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

b) Allowances for doubtful debt

The CEO, in his capacity as Accounting Office, periodically assesses the recoverability of trade receivables and recognises an allowance for doubtful debt for those receivables for which partial or full recovery is not probable. In this assessment the factors considered include the credit quality and ageing of the receivables, historical trends on recoverability, the opportunity to recover through interception of future payments, the ability to net settle with the customer and the ability to agree a payment plan with the customer involved.

1.24 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Bank overdraft amounts are included within trade and other payables in the Statement of Financial Position.

1.25 General Fund

The General Fund represents the total assets less liabilities of the agency, to the extent that the total is not represented by other reserves. Financing by Defra is credited to the General Fund. When the agency makes repayments of financing to Defra these are debited to the General Fund.

1.26 Financial penalties

The agency receives income through reimbursement of scheme expenditure from the European Commission. This includes reimbursement of payments made by other UK paying agencies, see Note 1.11.

The European Commission may apply financial penalties to any of the paying agencies if they consider there to be infringement of scheme regulations. These penalties, referred to as ‘financial corrections’ or ‘disallowance’, are typically deducted retrospectively from reimbursements.

Financial penalties attributable to schemes administered by the agency are recognised as a loss in the Statement of Comprehensive Net Expenditure of the department, not within the agency’s accounts. The shortfall in reimbursement is shown as a funding transfer through the agency’s Statement of Changes in Taxpayers’ Equity when the reimbursement takes place.

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

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

1.27 Intervention buying and selling

Intervention buying is a method of supporting market prices for agricultural commodities. The agency is required to buy, at prices determined by the European Commission, produce of defined quality offered in accordance with detailed regulation. This produce is then sold out of intervention for specific end uses, on terms prescribed by the European Commission, when prices are high or there is a shortage on the open market.

The agency inventories comprise solely of milk powder purchased in the year to 31 March 2016, with no sales taking place during the year.

1.28 Adoption of new and revised standards

At the date of authorisation of these financial statements, the following standards and interpretations, relevant to the agency, were issued but not yet effective:

- IFRS 9 Financial Instruments - Classification and Measurement
- IFRS 15 Revenue from Contracts with Customers

The agency plans to adopt these standards once required to do so by the FReM. For IFRS 9 this is unlikely to occur before 1 April 2018 and for IFRS 15 no earlier than 1 April 2017.

The agency does not anticipate material adjustments to the financial statements following the introduction of these standards.

2. Staff numbers and related costs

2.1 Staff costs comprise:

	Permanently employed staff	Short term/ fixed term appointment	Year to 31 March 2016 Total	Permanently employed staff	Short term/ fixed term appointment	Year to 31 March 2015 Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	**59,258**	**633**	**59,891**	58,169	240	58,409
Social security costs	**4,518**	**43**	**4,561**	4,218	16	4,234
Other pension costs	**11,354**	**115**	**11,469**	10,260	31	10,291
Early retirement and early severance costs						
Expensed in the year	**2,621**	**-**	**2,621**	242	-	242
Released	**-**	**-**	**-**	-	-	-
Unwinding of discount	**-**	**-**	**-**	10	-	10
	77,751	**791**	**78,542**	72,899	287	73,186
Less recoveries in respect of secondments			**(2,218)**			(2,844)
Agency staff			**4,916**			565
Contractors*			**6,957**			8,519
Total staff costs			**88,197**			79,426

** Included in contractors costs are remuneration fees for a NAO secondee of £nil (2014-15: £6k).*

No staff costs have been capitalised (2014-15: £nil).

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

	Year to 31 March 2016	Year to 31 March 2015
Permanently employed staff	**1,973**	2,018
Agency	**122**	37
Contractors	**48**	61
Total	**2,143**	2,116

Individual contractors engaged to fill temporary or permanent vacancies, or provide additional resource are included within staff costs in Note 2.1. Where firms have been engaged to provide services, they are not considered to be employees and are excluded from staff costs in Note 2.1, and are reflected within Non-IT professional services in Note 3.

2.2 Pensions schemes
PCSPS provides four pension benefit schemes. These are unfunded multi-employer defined schemes. The agency is unable to identify its share of the underlying assets and liabilities for these defined benefit schemes and they are therefore accounted for as defined contribution schemes.

The contribution rates are set to meet the cost of benefits during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

For 2015-16 employers contributions of £11.3m (2014-15: £9.8m) were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands. The scheme actuary is due to review employer contributions every four years following a full scheme valuation; the last review was in 2007.

Employees joining after 1 October 2002 can also opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2015-16 employers' contributions of £122k were paid to one or more of a panel of three appointed stakeholder providers. Employers' contributions are age related and range from 8.0% to 14.8% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition employers contributions of £4.9k, 0.5% of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits or death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the Statement of Financial Position date were £10.6k (2014-15: £10.2k). There were no prepaid contributions at that date. Further details about Civil Service pension arrangements can be found in the Remuneration Report and on the Civil Service website: www.civilservice.gov.uk/pensions/scheme-guides.

No contributions are made in respect of any other pension scheme.

2.3 Reporting of Civil Service and other compensation schemes – exit package

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the agency has agreed early retirements, the additional costs are met by the agency and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table. During 2015-16 there were nil compulsory redundancies (2014-15: nil).

	Year to 31 March 2016	Year to 31 March 2015	**Year to 31 March 2016**	Year to 31 March 2015
Exit package cost band	Number of other departures agreed		Total value of other departure packages by cost band (total cost) £000	
up to £10,000	**3**	2	**6**	9
£10,001 - £25,000	**31**	2	**495**	41
£25,001 - £50,000	**37**	1	**1,236**	37
£50,001 - £100,000	**12**	-	**846**	-
£100,001 - £150,000	**-**	-	**-**	-
£150,001 - £200,000	**-**	-	**-**	-
Total number of exit packages and costs	**83**	5	**2,583**	87

3. Other running costs

	Note	Year to 31 March 2016	Year to 31 March 2015
	Note	**£000**	£000
Rentals under operating leases			
Rent on buildings		**(16)**	2,879
Non-cash items (including notional charges)			
Auditors remuneration and expenses (notional)		**270**	270
Corporate overhead recharge (notional)*		**18,589**	-
Gain on disposal of non-current assets		**(802)**	-
Depreciation	7	**788**	1,376
Amortisation	8	**1,871**	12,272
		20,716	13,918
Other expenditure			
Accommodation		**(307)**	4,983
IT costs		**18,824**	30,192
IT costs relating to projects		**129**	1,032
Non-payroll staff costs		**4,269**	4,193
Communications costs		**4,946**	4,362
Non-IT professional services		**10,041**	3,370
Finance lease interest		**46**	51
Certification Body (NAO) grant certification fee		**2,234**	2,473
Other running costs		**88**	4,968
		40,270	55,624
Total		**60,970**	72,421

** Services and facilities provided by Defra.*

The agency does not directly meet the costs of certain services that are provided centrally by Defra. These costs include legal services, financial services, HR services, IT services, estates and procurement advice. These services are agreed and managed through service level agreements between the agency and Defra. The agency reports these notional recharges to accurately reflect the true costs of operations, with a matching credit recorded in General Funds.

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

	Year to 31 March 2016	Year to 31 March 2015
	£000	£000
Payroll costs	**618**	502
Other costs	**199**	100
Certification Body (NAO) grant certification fee	**2,234**	2,473
Total	**3,051**	3,075

The Co-ordinating Body is an independent body, whose function is to ensure that all paying agencies maintain their accreditation status and effectively administer CAP.

4. Running costs income

	Year to 31 March 2016	Year to 31 March 2015
	£000	£000
DIS notional	**(450)**	(370)
Other running costs income	**(14,271)**	(4,721)
Total	**(14,721)**	(5,091)

Running costs income includes £0.5m (2014-15: £0.4m) notional income relating to services provided across Defra by the Defra Investigation Services (DIS), which is part of the agency.

A further £10.3m (2014-15: £4.5m) relates to the agency's ability to claim from the 2007-13 RDPE Technical Assistance (RDPE TA) fund. This helps fund activities designed to ensure the transition from the 2007-13 RDPE programming period to the 2014-20 RDPE programming period. The agency also received income for work on the British Cattle Movement Service (BCMS) on behalf of Defra of £3.8m (2014-15: £nil).

5. Schemes administered by the agency

	Year to 31 March 2016			Year to 31 March 2015		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Basic Payment Scheme*	**1,218,566**	**(1,218,756)**	**(190)**	-	-	-
Single Payment Scheme**	**8,553**	**(5,493)**	**3,060**	1,547,934	(1,544,718)	3,216
Internal Trade - Horticulture	**29,817**	**(28,765)**	**1,052**	25,680	(25,625)	55
Internal Trade - other	**3,207**	**(3,209)**	**(2)**	2,494	(2,447)	47
Dairy Fund	**26,632**	**(25,695)**	**937**	-	-	-
Other schemes	**2,437**	**(1,903)**	**534**	2,244	(1,989)	255
	1,289,212	**(1,283,821)**	**5,391**	1,578,352	(1,574,779)	3,573
Other scheme related costs***	**5,061**	**-**	**5,061**	19,902	-	19,902
Cost of hedging contracts	**(3,245)**	**-**	**(3,245)**	(2,720)	-	(2,720)
Realised exchange gain	**(2,271)**	**-**	**(2,271)**	(1,721)	-	(1,721)
Unrealised exchange loss	**3,577**	**-**	**3,577**	4,849	-	4,849
Derivative ineffectiveness	**-**	**-**	**-**	(128)	-	(128)
Other scheme related income	**-**	**(1,059)**	**(1,059)**	-	(1,583)	(1,583)
Total scheme expenditure/(income)	**1,292,334**	**(1,284,880)**	**7,454**	1,598,534	(1,576,362)	22,172

** BPS income includes a reduction of £25.0m resulting from foreign exchange hedging transactions, see Note 13.*

*** SPS income includes an increase of £0.4m (2014-15: reduction of £34.7m) resulting from foreign exchange hedging transactions, see Note 13.*

**** Other scheme related costs include losses, special payments and movements in the allowance for doubtful debts and provisions.*

6. Other paying agencies and delegated authorities

	Year to 31 March 2016			Year to 31 March 2015		
	Expenditure	**Income**	**Net**	Expenditure	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
Other paying agencies*						
Scottish Government Rural Payments and Inspections Directorate	**209,941**	**(210,023)**	**(82)**	522,488	(521,503)	985
Welsh Government	**168,819**	**(169,117)**	**(298)**	252,013	(251,808)	205
Department of Agriculture and Rural Development, Northern Ireland	**253,614**	**(253,409)**	**205**	303,403	(302,629)	774
	632,374	**(632,549)**	**(175)**	1,077,904	(1,075,940)	1,964
Delegated authorities						
Forestry Commission	**718**	**(426)**	**292**	1,142	(1,293)	(151)
Total scheme expenditure/(income)	**633,092**	**(632,975)**	**117**	1,079,046	(1,077,233)	1,813

** OPAs income in 2015-16 includes an increase of £2.7m (2014-15: reduction of £14.0m) resulting from foreign exchange hedging transactions, see Note 13.*

The agency funds the Forestry Commission for payments made in Scotland and Wales. This expenditure and associated income is included above.

7. Property, plant and equipment

	Information technology hardware and office machinery	Right of use assets	Others	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2015	**10,147**	**1,139**	**-**	**11,286**
Additions	**-**	**(73)**	**-**	**(73)**
Disposals	**(650)**	**-**	**-**	**(650)**
Reclassification	**60**	**-**	**-**	**60**
Revaluations	**2**	**-**	**-**	**2**
At 31 March 2016	**9,559**	**1,066**	**-**	**10,625**
Depreciation				
At 1 April 2015	**8,285**	**842**	**-**	**9,127**
Charged in year	**683**	**105**	**-**	**788**
Disposals	**(617)**	**-**	**-**	**(617)**
Revaluations	**(7)**	**-**	**-**	**(7)**
At 31 March 2016	**8,344**	**947**	**-**	**9,291**
Net Book Value				
At 1 April 2015	**1,862**	**297**	**-**	**2,159**
At 31 March 2016	**1,215**	**119**	**-**	**1,334**
Assets Financing				
Owned	**1,215**	**-**	**-**	**1,215**
Finance leased	**-**	**119**	**-**	**119**
Net Book Value at 31 March 2016	**1,215**	**119**	**-**	**1,334**

Included in property, plant and equipment are assets with historic cost of £6.7m (2014-15: £4.7m) which have been fully depreciated. These assets are still in use by the agency.

7. Property, plant and equipment (continued)

	Information technology hardware and office machinery	Right of use assets	Others	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2014	17,970	1,051	5	19,026
Additions	296	88	-	384
Disposals	(8,278)	-	(5)	(8,283)
Revaluations	159	-	-	159
At 31 March 2015	10,147	1,139	-	11,286
Depreciation				
At 1 April 2014	15,126	730	5	15,861
Charged in year	1,264	112	-	1,376
Disposals	(8,278)	-	(5)	(8,283)
Revaluations	173	-	-	173
At 31 March 2015	8,285	842	-	9,127
Net Book Value				
At 1 April 2014	2,844	321	-	3,165
At 31 March 2015	1,862	297	-	2,159
Assets Financing				
Owned	1,862	-	-	1,862
Finance leased	-	297	-	297
Net Book Value at 31 March 2015	1,862	297	-	2,159

8. Intangible assets

	Information technology	Software licences	Development expenditure	Total
	£000	**£000**	**£000**	**£000**
Valuation				
At 1 April 2015	**141,757**	**4,307**	**52**	**146,116**
Additions	**-**	**-**	**343**	**343**
Disposals	**-**	**-**	**-**	**-**
Reclassifications	**(57)**	**(31)**	**28**	**(60)**
Revaluations	**1,446**	**(28)**	**-**	**1,418**
At 31 March 2016	**143,146**	**4,248**	**423**	**147,817**
Amortisation				
At 1 April 2015	**139,161**	**3,056**	**-**	**142,217**
Charged in year	**1,380**	**491**	**-**	**1,871**
Disposals	**-**	**-**	**-**	**-**
Revaluations	**1,405**	**(36)**	**-**	**1,369**
At 31 March 2016	**141,946**	**3,511**	**-**	**145,457**
Net Book Value				
At 1 April 2015	**2,596**	**1,251**	**52**	**3,899**
At 31 March 2016	**1,200**	**737**	**423**	**2,360**
Assets Financing				
Owned	**1,200**	**737**	**423**	**2,360**
Net Book Value at 31 March 2016	**1,200**	**737**	**423**	**2,360**

During the year to 31 March 2016 there were £nil impairment losses (2014-15: £nil).

Included in the intangible assets table are assets with a historic cost of £121.2m (2014-15: £118.2m) which have been fully amortised. These assets are still in use by the agency.

	Information technology	Software licences	Development expenditure	Total
	£000	£000	£000	£000
Valuation				
At 1 April 2014	154,804	7,670	251	162,725
Additions	57	141	52	250
Disposals	(10,782)	(4,200)	-	(14,982)
Reclassifications	251	-	(251)	-
Revaluations	(2,573)	696	-	(1,877)
At 31 March 2015	141,757	4,307	52	146,116
Amortisation				
At 1 April 2014	140,845	5,963	-	146,808
Charged in year	11,681	591	-	12,272
Disposals	(10,782)	(4,200)	-	(14,982)
Revaluations	(2,583)	702	-	(1,881)
At 31 March 2015	139,161	3,056	-	142,217
Net Book Value				
At 1 April 2014	13,959	1,707	251	15,917
At 31 March 2015	2,596	1,251	52	3,899
Assets Financing				
Owned	2,596	1,251	52	3,899
Net Book Value at 31 March 2015	2,596	1,251	52	3,899

9. Trade receivables

Amounts falling due within one year:

	31 March 2016	31 March 2015
	£000	£000
Due from Defra and its agencies	**5,282**	6,803
Due from other government departments (including OPA's)	**9,706**	10,939
VAT recoverable	**2,138**	2,093
Total Intra-government balances	**17,126**	19,835
Trade receivables	**5,186**	5,167
Less allowance for doubtful debts	**(2,070)**	(1,820)
	3,116	3,347
Due from European Agricultural Guarantee Fund/European Agricultural Fund for Rural Development	**872,990**	424,604
Prepayments and other receivables	**4,827**	1,472
Total other receivables	**880,933**	429,423
Total receivables	**898,059**	449,258

The credit period for trader receivables, once invoiced is generally immediately except in those instances where an agreement is reached between the agency and the customer to allow for recovery through the interception of future payments or extended repayment terms are agreed. The agency has an ability to charge interest on overdue balances.

10. Cash and cash equivalents

	31 March 2016	31 March 2015
	£000	£000
Balances held at 1 April	**80,293**	155,851
Net cash inflow/(outflow)	**474,283**	(75,558)
Total balance	**554,576**	80,293

The following balances are held at 31 March:

	31 March 2016	31 March 2015
	£000	£000
Government Banking Services	**554,568**	80,285
Commercial banks and cash in hand	**8**	8
Total balance	**554,576**	80,293

The closing balance of third party money held as cash securities at 31 March 2016 was £2.3m (2014-15: £2.4m), of this £2.3m (2014-15: £2.4m) was held in a public bank account.

At 31 March 2016 the cash equivalent balance was £nil (2014-15: £nil).

11. Trade payables

Amounts falling due within one year:

	31 March 2016	31 March 2015
	£000	£000
Due to Defra and its agencies	**2,050**	4,520
Due to other government departments (including OPAs)	**15,557**	3,166
Other taxation and social security	**1,248**	1,353
Total Intra-government balances	**18,855**	9,039
Trade payables	**7,556**	9,971
Cash securities*	**2,276**	2,366
Scheme accruals	**17,623**	1,239
Running cost accruals	**7,599**	9,413
Other payables	**1,172**	1,120
Finance leases	**270**	278
Advances on Rural Development Programmes	**5,547**	208
Total other payables	**42,043**	24,595
Total payables	**60,898**	33,634

** Traders wishing to undertake certain transactions under European Commission regulations are required to guarantee completion of the transaction by lodging a security with the agency. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. The security received is included within cash, see Note 10, with the corresponding liability with the trader shown above.*

Amounts falling due after more than one year:

	31 March 2016	31 March 2015
Advances on Rural Development Programmes	**116,337**	61,273
Finance leases	**217**	485
Total	**116,554**	61,758
Total trade payables and other liabilities	**177,452**	95,392

Trade payables principally comprise amounts outstanding for claims to be paid to customers. The agency considers that the carrying amount of trade and other payables approximates to their fair value.

As at 31 March 2016, the agency considers that the fair value of the advances received on Rural Development Programmes for Defra and OPA’s to be £121.9m (2014-15: £61.5m), and the fair value of finance lease liabilities at 31 March 2016 to be £0.5m (2014-15: £0.8m), see Note 16.2.

12. Provisions

	Running cost provisions	Scheme related provisions	Total
	£000	**£000**	**£000**
Balance at 1 April 2015	**551**	**17,150**	**17,701**
Provided in the year	**38**	**35,855**	**35,893**
Released	**-**	**-**	**-**
Utilised	**(268)**	**-**	**(268)**
Unwinding of discount	**-**	**-**	**-**
Balance at 31 March 2016	**321**	**53,005**	**53,326**
Analysed as			
Current	**138**	**53,005**	**53,143**
Non-current	**183**	**-**	**183**
Balance at 31 March 2016	**321**	**53,005**	**53,326**
Analysis of expected timing of discounted flows			
No later than one year	**138**	**53,005**	**53,143**
Later than one year and not later than five years	**183**	**-**	**183**
Later than five years	**-**	**-**	**-**
Balance at 31 March 2016	**321**	**53,005**	**53,326**
Balance at 1 April 2014	999	800	1,799
Provided in the year	198	17,000	17,198
Released	-	-	-
Utilised	(656)	(650)	(1,306)
Unwinding of discount	10	-	10
Balance at 31 March 2015	551	17,150	17,701
Analysed as			
Current	256	13,950	14,206
Non-current	295	3,200	3,495
Balance at 31 March 2015	551	17,150	17,701
Analysis of expected timing of discounted flows			
No later than one year	256	13,950	14,206
Later than one year and not later than five years	294	3,200	3,494
Later than five years	1	-	1
Balance at 31 March 2015	551	17,150	17,701

12.1 Running cost provision

Running cost provisions include the early retirement and severance costs of former employees to be fully paid by April 2020.

12.2 Scheme related provision

The agency has a number of cases where customers have challenged its decisions regarding their claim eligibility for scheme payments. This has been reviewed on a case by case basis, with provisions made where the agency considers payment to be probable and can be measured reliably.

During early 2015, the agency accepted the principles of a customer challenge over the basis on which Single Payment Scheme payments had been calculated for customers claiming on common land. Consequently, the agency has agreed to recalculate and make good any underpayments made between 2009 and 2015. At 31

March 2016, the agency was unable to fully quantify the potential amounts underpaid and had yet to develop the mechanism for allowing customers to make a claim for additional amounts. A provision has been recorded for the estimated value of potential claims which could require settlement after 31 March 2016. The exact timing of these payments is unknown but it is estimated that £17m will be paid in the year ended 31 March 2017.

Scheme provisions include an amount of £32m relating to the Basic Payment Scheme. During 2015-16 the agency made Basic Payments Scheme 2015 payments net of certain system-calculated reductions. The agency will assess the validity of these reductions as part of a planned reconciliation process commencing in the summer of 2016. This provision represents the agency's best estimate of the additional amounts to be paid to customers as a result of this planned reconciliation activity. It is anticipated that all amounts due will be paid during 2016. All amounts which are to be paid to customers as a result of the planned reconciliation activity are expected to be reimbursed by the European Commission hence the agency has recorded accrued income for the same amount (£32m) as at 31 March 2016. This is included within Trade receivables and other current assets in Note 9.

13. Financial instruments

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 1.

Categories of financial instruments:

	31 March 2016	31 March 2015
	£000	£000
Financial Assets		
Trade receivables and other current assets	**893,232**	447,787
Cash and cash equivalents	**554,576**	80,293
Derivative instruments classified as held for trading	**3,545**	24,251
Derivative instruments in designated hedge accounting relationships	**-**	3,306
Sub-total of derivatives assets	**3,545**	27,557
Financial Liabilities		
Trade payables and other liabilities	**174,728**	92,298
Derivative instruments classified as held for trading	**19,985**	4,795
Derivative instruments in designated hedge accounting relationships	**79,700**	-
Sub-total of derivatives liabilities	**99,685**	4,795
Other		
Financial Guarantee Contracts		
Cash securities	**2,276**	2,366
Non-cash guarantees	**2,354,000**	1,427,147

Cash deposited at 31 March 2016 consists of money lodged with Government Banking Services and Commercial Banks. The sterling denominated accounts held within Government Banking Services are not subject to an interest rate charge, while the euro denominated accounts held are subject to an interest rate charge of 0.35%.

Cash securities are provided by certain traders see Note 11. No interest is paid to traders on cash balances lodged with the agency as security. Securities may also be in the form of a non-cash guarantee by a bank or an insurance company acceptable to the agency. Sterling guarantees totalling £658m and euro guarantees totalling €2,143m (£1,696m) were held at 31 March 2016 (31 March 2015: £630.7m and €1,096.2m (£796.4m)).

Financial risk management policies
The agency's treasury operations are managed in accordance with the framework document agreed with Defra. The framework document sets out the governance arrangements in respect of the agency's hedge strategy, the review and selection of hedge service providers, the execution of contracts, hedge accounting, the valuation of derivatives, the process for settlement of derivatives and external reporting.

Market risks
The agency's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The agency enters into forward foreign exchange contracts to manage its exposure to foreign currency risk relating to euro denominated receipts from the European Commission for the Basic Payment Scheme and the Single Payment Scheme and RDPE scheme expenditure (including Scotland, Wales and Northern Ireland). From January 2003, in accordance with Commission Regulation (EC) No. 1997/2002 (as amended), non-eurozone members states, such as the UK, are reimbursed by the European Commission in euros. However, the majority of distributions by the agency are transacted in sterling, which creates an exposure to gains or losses from fluctuations in foreign exchange rate between the euro and sterling. The agency has managed its exposure to this risk through the purchase of forward foreign currency contracts.

Foreign currency denominated monetary assets and monetary liabilities
The carrying amounts of the agency's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	31 March 2016		31 March 2015	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Euro	**1,072,152**	**121,884**	141,230	61,481

Sensitivity analysis
The following table details the agency's sensitivity to a 10% increase and decrease in sterling against euro. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for 10% change in foreign currency rates. For net operating costs a positive number indicates a decrease in net operating costs whereas a negative number indicates an increase in net operating cost. For Taxpayers' Equity a positive number indicates an increase in Taxpayers' equity whereas a negative number indicates a decrease in Taxpayers' Equity.

	Impact of movement in Euro/Sterling rate Sterling appreciates by 10%		**Impact of movement in Euro/Sterling rate Sterling depreciates by 10%**	
	31 March 2016	31 March 2015	**31 March 2016**	31 March 2015
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost*	**(95,027)**	(44,563)	**95,027**	44,563
Derivative instruments				
(Increase)/decrease in Net operating cost**	**39,733**	41,282	**(38,585)**	(39,792)
Increase/(decrease) in Taxpayers' equity***	**102,507**	2,661	**(101,360)**	(2,661)

** This is attributable to the exposure outstanding on euro receivables and payables in the agency at the Statement of Financial Position date.*
*** This is the result of the changes in fair value of derivatives instrument held for trading.*
**** This is the result of the changes in fair value of derivative instruments designated as cash flow hedges.*

Outstanding foreign currency contracts:

	Average exchange rate 31 March 2016	Foreign currency 31 March 2016	Notional value 31 March 2016	Fair value 31 March 2016
	Euro:Sterling	**€000**	**£000**	**£000**
Current derivative assets to sell euros	**0.74926**	**130,396**	**97,701**	**1,488**
Current derivative assets to buy euros	**0.76088**	**(67,626)**	**(51,455)**	**2,057**
Current derivative liabilities to sell euros	**0.73759**	**1,844,351**	**1,360,370**	**(98,383)**
Current derivative liabilities to buy euros	**0.84532**	**(23,666)**	**(20,005)**	**(1,302)**

During the year the agency entered into forward exchange contracts to hedge the monthly euro denominated receipts in relation to the Basic Payment Scheme and the Single Payment Scheme. As at 31 March 2016, the aggregate amount of gains under forward foreign exchange contracts deferred to the cash flow hedge reserve relating to the exposure on these anticipated future receipts is £45.7m. It is anticipated that the funds will be received during 2016-17, at which time the amount deferred in equity will be reclassified to the Statement of Comprehensive Net Expenditure.

The agency also entered into forward exchange contracts to hedge the quarterly euro denominated receipts in relation to the Rural Development Programmes. As at 31 March 2016, there are no gains or losses deferred to the cash flow hedge reserve in respect of RDPE contracts. In December 2011 the agency entered into forward exchange contracts to hedge the exposure on a repayment of an advance from the EC for a European Fisheries fund held by Defra. As the underlying liability is with Defra an internal hedge has been established to transfer the risk exposure on the contracts back to Defra from the agency with an anticipation that the EC will be repaid in full during September 2017.

There is no deferral of gains or losses under these contracts to the cash flow hedge reserve.

At 31 March 2016 no gains or losses have been recognised in the Statement of Comprehensive Net Expenditure arising from hedge ineffectiveness (2014-15: a gain of £128k), see Note 5.

The fair value of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. They represent level 2 fair value measurements which are those derived from inputs, other than quoted prices, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is , derived from prices).

Own credit risk and counterparty credit risk

As the agency is a UK Government entity, the own credit risk for the agency is not significant. All derivative contacts are with a stable international bank therefore the fair value of the counterparty credit risk is also limited. Net losses on cash flow hedges transferred from Taxpayers' Equity to the Statement of Comprehensive Net Expenditure are as follows:

	Year to 31 March 2016
	£000
Agency - scheme income	**(25,052)**
Other paying agencies - scheme income	**2,776**
Loss - scheme expenditure	**(82,312)**
Total transferred to Statement of Comprehensive Net Expenditure	**(104,588)**

Credit risks

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the agency. As part of its procedures the agency periodically reviews the counterparty credit risk.

Trade receivables consist of a large number of unrelated customers with differing credit qualities, which serves to diversify the agency's credit risk. An ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risks

The agency is funded by HM Treasury through Defra. The agency has maintained liquidity, wherever possible, through timely submission of funding claims to the European Commission. The agency does not undertake the borrowing of funds other than from HM Treasury. Such borrowing, arising from short term in-year fluctuations in expenditure, if required, would be affected by the agency drawing monies from HM Treasury's Contingencies Fund. This facility is the subject of a formal standing arrangement agreed by HM Treasury. Drawings are normally repayable within the year.

Liquidity tables

The following tables detail the agency's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the agency can be required to pay. The table includes both interest and principal cash flows.

	31 March 2016		31 March 2015	
	Non-interest bearing	**Finance lease liability**	Non-interest bearing	Finance lease liability
	£000	**£000**	£000	£000
Zero - three months	**52,357**	**72**	30,054	74
Three - twelve months	**5,547**	**214**	208	222
One - five years	**-**	**244**	61,272	565
Greater than five years	**116,337**	**-**	-	-
Total	**174,241**	**530**	91,534	861

The following table details the agency's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the agency's liquidity risk management as the liquidity is managed on a net asset and liability basis. Non-interest bearing as follows:

	31 March 2016	31 March 2015
	£000	£000
Zero - three months	**706,964**	81,316
Three - twelve months	**186,268**	318,251
One - five years	**-**	48,221
Greater than five years	**-**	-
Total	**893,232**	447,788

Gross settled foreign exchange forward contracts
The following table details the agency's liquidity for its undiscounted derivative financial instruments. All derivatives used for hedging purposes are shown by maturity based on their contractual undiscounted gross cash flows.

	31 March 2016		31 March 2015	
	Derivative liabilities	Derivative assets	Derivative liabilities	Derivative assets
	£000	£000	£000	£000
Zero - three months	96,907	3,161	697	18,284
Three - six months	341	-	-	8,095
Six - twelve months	-	-	-	21
Greater than one year	-	-	4,161	2,436
Total	97,248	3,161	4,858	28,836

14. Revaluation reserve

The revaluation reserve relates to revaluation of Property, plant and equipment (Note 7), and Intangible assets (Note 8) analysed as follows:

	Property, plant and equipment	Intangible assets	Total
	£000	£000	£000
Balance at 31 March 2015	4	118	122
Revaluation during the year	9	49	58
Transfer to General Fund*	(9)	(118)	(127)
Balance at 31 March 2016	4	49	53

** The transfer to the General Fund reflects the difference between the depreciation or amortisation charge based on the revalued carrying amount of the asset and the depreciation or amortisation charge based on the original cost.*

15. Capital commitments

There were no contractual capital commitments at 31 March 2016 (31 March 2015: none).

16. Lease commitments

16.1 Operating leases

Total future minimum lease payments at 31 March 2016 under operating leases are given in the table below for each of the following periods:

	31 March 2016	31 March 2015
	£000	£000
Vehicles		
Not later than one year	401	345
Later than one year and not later than five years	642	836
Total	1,043	1,181

The following commitments relate to the proportion of the occupation of Defra leasehold properties. These arrangements between the agency and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation.

	31 March 2016	31 March 2015
	£000	£000
Land		
Not later than one year	**-**	-
Later than one year and not later than five years	**-**	-
Later than five years	**2**	1
Total	**2**	1
Buildings		
Not later than one year	**6,013**	2,140
Later than one year and not later than five years	**5,534**	6,445
Later than five years	**197**	3,226
Total	**11,744**	11,811

16.2 Finance leases

Total future minimum lease payments under non-cancellable finance leases at 31 March 2016 are given in the table below for each of the following periods:

	31 March 2016	31 March 2015
	£000	£000
Not later than one year	**286**	296
Later than one year and not later than five years	**244**	565
Later than five years	**-**	-
	530	861
Less interest element	**(43)**	(98)
Present value of obligations	**487**	763

The present value of total future minimum lease payments, under non-cancellable finance leases, at 31 March 2016 are given in the table below for each of the following periods:

	31 March 2016	31 March 2015
	£000	£000
Not later than one year	**270**	278
Later than one year and not later than five years	**217**	485
Later than five years	**-**	-
Present value of obligations	**487**	763

17. Other financial commitments

The agency has entered into non-cancellable contracts (which are not leases or Private Finance Initiative contracts). These mainly relate to information technology support and accommodation commitments spanning a number of years. The payments to which the agency is committed are as follows:

	31 March 2016	31 March 2015
	£000	£000
Not later than one year	**15,954**	17,757
Later than one year and not later than five years	**8,648**	20,141
Later than five years	**-**	-
Total	**24,602**	37,898

The following commitments relate to facilities management costs associated with the proportion of occupation of buildings that are either owned or leased by Defra.

	31 March 2016	31 March 2015
	£000	£000
Not later than one year	**2,416**	2,445
Later than one year and not later than five years	**9,666**	9,580
Later than five years	**7,262**	9,580
Total	**19,344**	21,605

The following projected commitments relate to the service element associated with the proportion of usage by the agency of Defra's IBM contract in accordance with IFRIC12 see Note 1.6.

	31 March 2016	31 March 2015
	£000	£000
Not later than one year	**4,748**	4,109
Later than one year and not later than five years	**3,913**	7,386
Later than five years	**-**	-
Total	**8,661**	11,495

Private Finance Initiative (PFI) commitments

An off-Statement of Financial Position PFI contract was signed by Defra in February 2001. The scheme involved the grant of a 129 year ground lease to a PFI partner who constructed an office building for Defra, occupied in 2003, subject to a 30 year lease to 31 March 2033. The building is not an asset of Defra and will not revert to Defra at the end of the lease term. The freehold land subject to the ground lease is a Defra asset. Defra occupies 0.39% of the building and recharges other occupiers for their share of the costs. The amount charged to the Statement of Comprehensive Net Expenditure for the use of the accommodation in 2015-16 is £69k and the agency's total commitment at 31 March 2016 is £1.5m.

Defra freehold properties

The estimated value of non-specialised freehold property owned by Defra but occupied by the agency at 31 March 2016 is £3.8m (31 March 2015: £3.8m). There are no rental costs on Defra freehold properties.

18. Contingent assets and contingent liabilities disclosed under IAS 37

Contingent assets

As described in Note 12.2 the agency expects to make future additional payments to customers in relation to land claimed under the Single Payment Scheme. It is anticipated that some of this will be reclaimable from the European Commission, but the value of the reimbursement is subject to future events and decisions that are not wholly within control of the agency. Accordingly, the agency has established a Contingent Asset of £11m, representing the best estimate of the value which will be recovered from the European Commission in relation to these claims.

Contingent liabilities

The agency has the following contingent liabilities:

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

In addition to the provision described in Note 12.2, the agency is currently in receipt of appeals from scheme claimants against the non-payment of claims covering the Single Payment Scheme and Trader related schemes. If the appeals are successful they could either result in a liability for European Commission or Exchequer funded payments. The amount of any such potential liability is unquantifiable.

19. Related party transactions

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

- Animal and Plant Health Agency
- Food Standards Agency
- Environment Agency

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

- Natural England
- Agriculture and Horticulture Development Board

A significant proportion of CAP expenditure made by other paying agencies through the operation of market support schemes is funded by the agency. These funding transactions have been with:

- Scottish Government Rural Payments and Inspections Directorate
- Welsh Government
- Department of Agriculture and Rural Development, Northern Ireland
- Forestry Commission (as delegated paying agent)

Disclosure of employment

David Cotton is a Non-Executive Director of the agency. He is a partner of HE Cotton & Son whom received scheme payments of £34k in 2015-16. He is also a Director of Kingshill Farming Company Ltd which received scheme payments of £1k and €65k in 2015-16.

Angela Gillibrand is a Non-Executive Director of the agency. She is also a Director of Lotmead Company which received scheme payments of £29k in 2015-16.

Radburne Thomas is a Non-Executive Director of the agency. He is the owner of JB Thomas and Son which received scheme payments of £22k in 2015-16. He also acts as an agent and completes Basic Payment Scheme applications for his clients.

These transactions were undertaken in the normal course of business and all transactions were at arms' length.

These Non-Executive Directors also receive salaries as shown in the Remuneration Report.

20. Losses and special payments

	31 March 2016		31 March 2015	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	**324**	**691**	662	2,972
Claims waived or abandoned	**439**	**(152)**	926	158
Administration losses write-off	**-**	**-**	9	15
Special payments scheme	**223**	**371**	235	1,011
Special payments administration	**3**	**32**	-	-
Total	**989**	**942**	1,832	4,156

Losses exceeding £0.3m
There were no losses or special payments made for over £0.3m in the year to 31 March 2016.

21. Events after the reporting period

These accounts have been authorised for issue by the Accounting Officer on the date the audit certificate and report was signed.

RPA implements and delivers policy relating to the European Union Common Agricultural Policy payments, whilst Defra is responsible for negotiating European agricultural and rural policy and related funding for the United Kingdom. More details on the agency's financial interaction with the EU can be found in the Performance Analysis section of the Annual Report and in Note 5 and 6 of the Financial Statements.

On 23 June 2016 the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister, to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

As discussed in Note 13, the RPA has a very significant level of euro-denominated transactions. There has been a significant movement in foreign exchange rates following the EU referendum result. The agency continues to hedge the vast majority of its foreign exchange exposure and expects to be able to continue to mitigate the associated risks. Note 13 of these accounts includes details of the agency's sensitivity to movements in the exchange rate between sterling and the euro.

22. Sugar production charges

In accordance with section 8.2 of the 2015-16 FReM, sugar production charges collected on behalf of the European Commission, including related income, expenditure, assets and liabilities are excluded from the financial statements of the agency apart from appropriations of net revenue which the agency is entitled to record as revenue in the Statement of Comprehensive Net Expenditure.

Set out below are details of the amounts collected or accrued to be collected in respect of sugar production charges.

	Year to 31 March 2016	Year to 31 March 2015
	£000	£000
Sugar production charges collected in the financial year	**9,363**	9,854
Sugar production charges accrued in the financial year	**36**	-
Total	**9,399**	9,854

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

At 31 March 2016, the agency held no assets and liabilities in relation to sugar production charges, within the financial statements of the agency:

	Year to 31 March 2016	Year to 31 March 2015
	£000	£000
Balance held at the start of the year	**-**	-
Amount collected or accrued in the financial year*	**9,830**	9,854
Payments to HM Treasury in the financial year	**(9,363)**	(9,854)
Liability to pay HM Treasury	**(36)**	-
Appropriation of Net Revenue*	**(431)**	-
Balance held on trust at the end of the year	**-**	-

** In 2015-16 the agency received £431k from British Sugar; the agency will use these funds to pay any subsequent claims from beet growers.*

In addition to the above transactions which had nil net impact, the following gains, which have been excluded from the financial statements of the agency, were incurred in the financial year:

	Year to 31 March 2016	Year to 31 March 2015
	£000	£000
EC reimbursement	**-**	(2,523)
Liability for losses from isoglucose claim for over-charges in previous years	**-**	3
Total gains incurred in year	**-**	(2,520)

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