



Environment, Food and Rural Affairs Committee

Oral evidence: [Departmental Annual Report 2012–13](#), HC741

Tuesday 22 October 2013

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Members present: Miss Anne McIntosh (Chair); Richard Drax; Iain McKenzie; Sheryll Murray; Neil Parish; Ms Margaret Ritchie

Questions 1-65

Witnesses: **Bronwyn Hill CBE**, Permanent Secretary, **Peter Unwin**, Director General, Policy Delivery Group, **Ian Trenholm**, Chief Operating Officer, and **Gurdip Juty**, Acting Finance Director, Department for Environment, Food and Rural Affairs, gave evidence.

Q1 Chair: Good afternoon and welcome. Just at the outset, may I welcome you, Permanent Secretary? You might just want to introduce yourself and your team for the record, if that is agreeable.

Bronwyn Hill: I am Bronwyn Hill, Permanent Secretary at Defra. On my right is Peter Unwin, the Chief of Policy Delivery; on my left is Ian Trenholm, DG, Chief Operating Officer; and on my far left is Gurdip Juty, who is our acting Finance Director.

Q2 Chair: A few general questions to begin with: why was it thought necessary to introduce a new and changed set of departmental priorities in this year's business plan? What was the thinking and background behind that?

Bronwyn Hill: I assume you are referring to the four priorities for this Parliament that the Secretary of State set out shortly after he joined last year. It is fair to say that all new Ministers come with a fresh look at what their Department should be doing, and he was very keen to be quite clear about what his priorities should be. You can obviously ask him yourself next week why he set them but, for us they in particular reinforce the emphasis on the Government contributing to improving growth in the country, particularly for Defra with a focus on the rural economy, and we are doing a lot on that. He also wanted to re-emphasise and underline his commitment to improving the environment, which he believes firmly goes hand in hand with improving the economy. The final two priorities reflect very much our key role on safeguarding animal health and on plant health disease risks.

Those are the key priorities that we have been set, and they have been very helpful for the Department in looking at our priorities in the light of increasing reductions in budgets—not just in SR10, but obviously in preparing for spending review 2013, which has just concluded.

Q3 Chair: I understand that performance indicators have not been set for every part of the Department's activities. Where there are no performance indicators, for example, for fisheries, climate change and forestry? How do you and your Chief Operating Officer measure performance on those policy areas?

Bronwyn Hill: Just on the indicators, we are at pains to try to look at both input indicators and impact indicators for a lot of our key subject areas, but for those where there are no formal indicators set, we are very clear to have key objectives, which we set through our business planning programme. We delegate them to directors or chief executives of agencies, and we use those to assess performance. So, for example, for the Common Fisheries Policy—you mentioned fisheries—there would have been a key objective around delivering Common Fisheries Policy reform, which I am glad to say has been actually pretty successful, and we are now into the implementation of that policy. For each key objective, there will be a set of business plan aims, against which we manage performance in the Department.

Q4 Sheryll Murray: I do not think the new regulation has come into force yet on the Common Fisheries Policy, so how can you start implementing something that has not been entirely agreed?

Bronwyn Hill: As with all EU regulations, we have to start preparing to implement as we are going through the final negotiations. You are quite correct that there are still some details to go through with the European Parliament in trilogue. But, in parallel with that, we are having to do the work with stakeholders and other member states—for example around how we will implement the ban on fish discards, and also on how we will exercise, when we get them, the new powers that have been decentralised to member states to look at fishing stocks on a regional basis. I understand they have recently been looking at the North Sea as a model of where we might go to. We tend to do those things in parallel.

Q5 Chair: Obviously, I personally welcome the emphasis on the rural economy, but when the coalition Government were formed, the mantra was, “We want to be the greenest Government yet.” The Committee would therefore just be interested to know why the green economy has been dropped from the priorities list in this year's business plan.

Bronwyn Hill: I think you need to speak to the Secretary of State about that as well.

Chair: I am sure we will.

Bronwyn Hill: He wanted to focus us on four clear priorities. It would be wrong to imply, though, that that means we are not doing anything on greening government. You will see, particularly at the back of the annual report and accounts, the work that we have done within the Department and its bodies to make sure the way we run our operations and estates is on track to meet targets around carbon emissions, waste, water, and domestic travel, for example. Also, Defra continues to lead work to help other Departments and to ensure that they are doing likewise. We can come on to other issues around Defra's

responsibilities for the environment, biodiversity, etc. We are still doing those things and, in many cases, they will come under the heading of improving the environment.

Q6 Sheryll Murray: As far as I am aware, Defra was the lead Department on the green economy, and I just wondered whether that role had perhaps been passed on to somebody else.

Bronwyn Hill: We certainly lead on greening Government estate indicators, which are the things to do with how we run our own businesses and our own bodies. We have always had a joint role with other Departments, such as DECC, where clearly it has a really important role in terms of new technology around waste and reducing carbon. It has to be a joint role across Departments in terms of the wider green economy.

Q7 Neil Parish: On ministerial changes and responsibilities, why has the Department lost its Minister of State for agriculture? Does that reflect a change in the Government's priorities? One minute we had a Ministry of Agriculture, Fisheries and Food; then we had a Department for Environment, Food and Rural Affairs; and now we do not appear to have an agricultural Minister. Where are we on it?

Bronwyn Hill: My answer to that is that we have not changed the absolute priority that the Government and, indeed, the Department give to ensuring we have a competitive agriculture, and to our work on key reforms such as the Common Agricultural Policy. I have to say that decisions on ministerial appointments are for the Prime Minister and the Deputy Prime Minister, and you might like to address those questions to them.

Q8 Neil Parish: The trouble is that, to date, none of the new Ministers has a clear responsibility for agriculture. George Eustice is responsible for soil management, Lord de Mauley for GM, and the Secretary of State for the CAP. But there is a bit more to agriculture, even though all those things are all very important. It just does not seem to be terribly joined-up.

Bronwyn Hill: It is correct to say that the Secretary of State is taking the lead on CAP reform, particularly because he goes to many of the Agriculture Councils, as you know, given the importance of it to our delivery. Mr Eustice will be supporting him on most of the agricultural issues, and indeed he is taking a very strong role in that. It is not in any way to suggest that we are undermining the importance of those things in the Department.

Q9 Neil Parish: I suppose, as you quite rightly say, that the principle of not having a Minister of State is one that relates to when a number of ministerial positions moved across Government. Would that be correct? If Defra loses a Minister of State, someone else probably gains one, do they?

Bronwyn Hill: Yes. My understanding is that because the position of Minister of State was occupied by a Liberal Democrat, David Heath, it was for the Deputy Prime Minister, Nick Clegg, to decide whether he wanted to retain that post or to use it in another part of Government.

Neil Parish: That is a very interesting answer. Thank you very much.

Q10 Sheryll Murray: Could I turn to non-executive directors? How do you use your non-executive directors, and could you give us some examples of where they have added value to the Department's work, or challenged an important decision?

Bronwyn Hill: We have a lead NED and three other NEDs, who are obviously a key part of our board, which currently meets about six times a year. They provide a very effective challenge to us on how we are managing the Department. In particular, from last year, there has been a focus on how we are doing our financial management, and really challenging us on budget forecasts and delivery against those forecasts. That has been very effective at the board.

We have also used them, where they have relevant skills and expertise, on some of our important major projects. Two of them are currently on the CAP delivery programme board, which I chair, with the senior responsible owner. And, again, they bring their wider commercial expertise to bear in challenging us as to how we are going about delivering that programme. Those are just two examples.

Peter Unwin: We also use them with our network bodies. For the major network bodies, like the Environment Agency and Natural England, they will have a non-executive assigned to that body, and they will support us and the Secretary of State when he meets those bodies for their six-monthly performance reviews.

Q11 Sheryll Murray: So with the creation of the Executive Committee, could you give me some more examples of how you intend to use the NEDs more strategically?

Bronwyn Hill: We have had a very recent example of that. We had an away day with them with the Executive Committee—the Director Generals and myself—to look at a number of challenges that we are facing, including, for example, looking at how we are managing risks in the Department, and considering how we are developing how we are going to run the Department in the future under our strategic alignment programme. Again, that just gives us an opportunity to bring their wider expertise and skills to bear on some of our key strategic issues.

Q12 Chair: I understand you are going to be looking at pooling the finance resources and the way in which invoices are paid generally. Will that lead you to review the role of non-executive directors when that kicks in next year?

Bronwyn Hill: Are you thinking about the shared services project? The name it has got is ISSC2, which is looking at our back-office functions around finance, procurement, etc. It is not really directly an issue with our non-execs, but if you want to know more about that project, Ian is leading it for us in the Department.

Ian Trenholm: The way the project or company is being constructed is so that it will be 75% owned by a third-party bidder and 25% owned by Government. The Government will have two non-executive directors on the board of this new company, which is Shared Services Connected Ltd. That is due to go live on 1 November. As Bronwyn said, I do not expect it will make any difference to the responsibilities of our non-executive directors, but there will be non-executive directors on the company board.

Q13 Ms Ritchie: Little detail has been published about how Defra and its agencies will manage with the decreased budget announced in June for this year's spending round. Where

will the savings required to fund a 10% annual budget reduction be found in the next two financial years?

Bronwyn Hill: We have not published the details of that spending review outcome, although there are some headlines out there, including the increased capital allocation to flood defences, which is going to be very important for us. The reason for that is we have been doing a detailed exercise over the summer, working with our arm's length bodies—the Environment Agency, Natural England and our agencies—to work out what the options are in detail, and we will be presenting those to Ministers very shortly so that they can make the decisions on the allocations and set budgets for 2014-15 and into 2015-16. I would expect a further announcement to be made later in the autumn.

Q14 Ms Ritchie: As part of those savings, you have not referred to anything like back-office functions. Are you using those as part of your savings plan?

Bronwyn Hill: It is probably worth me going back to Spending Review 2010, where we put a lot of effort into identifying ways of saving money without affecting the front line. One of the best examples is probably estates, where we have just moved away from three sites in London down to one. We have done a lot on shared services. As we were saying, the new joint venture should help us to reduce our costs of shared services as well very significantly over the next two years.

That is what we have done to date. Clearly, the Spending Round 2013 outcome means we have to go further. One of the things we are looking at is where we can do more across the whole of what we call our network. Most of Defra's money—over 80% of it—is spent in our arm's length bodies. The phrase we have for it is the “one business programme”, or strategic alignment, whereby we say, “Where are there other areas where we can reduce duplication and look for more efficient and more innovative ways of spending money?” Some of the areas that we will be looking at are, for example, the evidence budget, which includes very significant monitoring in statistical series, where we are just looking for better ways to get value for that.

On the CAP reform delivery, there will also be opportunities to invest to save—so to install the right computer systems that will enable us to improve the way we serve customers, but also to save money on transactions. Those are the kind of areas that we are looking at.

Q15 Ms Ritchie: Are those areas that you are looking at, in terms of savings, peculiar to Defra, or are they replicated across other Government Departments in Whitehall?

Bronwyn Hill: Certainly all Government Departments are looking at estates, back office, shared services and, indeed, in some cases, we are working on cross-Whitehall initiatives. For example, our lawyers are now employed by the Treasury Solicitors Department, which enables us to get the service we want, but in terms of a bigger pool of lawyers and at a cost that is reducing. I think most Departments will be doing similar things. Obviously, CAP reform is pretty unique to Defra, but they will have equivalent reforms that they are doing in their own business areas.

Q16 Ms Ritchie: You mentioned, Ms Hill, CAP reform. Have you reached—or has the Secretary of State, along with officials, reached—a determination in relation to the breakdown of the budget for England and for the devolved regions?

Bronwyn Hill: Clearly this is a really important topic, and we have been having long discussions with the devolved Administrations. I hope we will be able to make an announcement. I think we need to decide before Christmas, because that is the date at which we have to notify the Commission for all four countries whether there is to be any modulation between Pillar 1 and Pillar 2. That process is still going on, but we recognise how important it is for CAP reform implementation in Northern Ireland, Scotland, Wales and England. It is right at the top of the agenda.

Q17 Iain McKenzie: On shared services, how will you commit to your level of service? Is it the same as the other partners and their shared service? What about your degree of control over the staff who were previously under your direct control?

Ian Trenholm: In a number of different ways. We have a very comprehensive service level agreement, which looks at a general service level for all of the partners within the company, but we also have some specific indicators for Defra and its arm's length bodies, where we need particular things. For example, project accounting is something that we would need in Defra, which perhaps colleagues in the Department for Work and Pensions would not need so much, so we have a set of specific indicators.

We then have a customer board, which has representatives from all the partners on it. Again, the company reports on a monthly basis to that customer board, so it is all the things you would normally expect in this sort of relationship. We, ourselves, are setting up an intelligent customer function within Defra to help us manage all of the above.

Q18 Chair: May I just ask you about any projected savings you are looking at in your buildings portfolio?

Bronwyn Hill: The target we set ourselves over the four years of the spending review period was around about £57 million—I will correct that if it is not quite right—and I think we are well on track with those savings, largely through a programme of reviewing lease break options and looking to get better value for the office space we have, so reducing the number of desks and making better use of the space. It has not been published yet, but the National Audit Office has been doing a review of how well we and other Departments are doing on our estates rationalisation. The early indications of the first phase of that work suggest that we are progressing well against that target, but they were saying we have more work to do to deliver savings in Spending Review 2013.

Q19 Chair: Pleading a constituency case, a neighbouring constituency is closing the RPA office, and the staff are being moved to two potential sites, one of which is going to have a lease break, so they may have to move again. Are they going to be well looked after when the second lease break comes?

Ian Trenholm: The Cabinet Office is very clear that where a lease break comes up, we should look at it, and look at the business case for either retaining the building or not. As you are aware, in the recent RPA case, we chose not to retain the building. However, we are looking at our locations across the country as part of the strategic alignment

programme, and what that is showing us is that there are a number of locations that we need to have a presence in, Newcastle being one of them. I would expect that we would continue to have an RPA presence in Newcastle for the foreseeable future. Whether it is in that particular building is not something we have considered in any depth yet, but we are aware of that lease break, obviously.

Q20 Iain McKenzie: On the staffing, what can you tell us are the reasons for the significant increase in permanent staff? I am reading it is 476 at the Environment Agency over the last year.

Bronwyn Hill: One of the key causes of that were two elements of flood defences. One is that, because we are gradually increasing the amount of capital that is available, we are having to increase people who can spend that wisely and well. Also, it is because, as you may remember, there was very significant and extensive flooding in 2012, and they did have to take on some temporary staff to make sure that they had the operational capability to respond to that flooding.

Q21 Iain McKenzie: Of that £30 million increase in the flood defences emergency response in 2012, how much was put into your extra staff costs?

Bronwyn Hill: I do not have the exact figures on that.

Chair: If you could write to us with the figures, it would be helpful.

Q22 Iain McKenzie: What type of costs are included within the Environment Agency's £5 million other staff-related costs?

Bronwyn Hill: That is a good question, to which I do not know the answer.

Chair: You are allowed to confer. I do not know if you would like to nominate anyone to answer; it is like *University Challenge*.

Peter Unwin: This is the £5 million costs on what?

Bronwyn Hill: What page of the accounts are you looking at?

Chair: Environment Agency staff-related costs.

Peter Unwin: I am looking at the table of staff in post, but that does not give the £5 million cost. Do you know where the £5 million cost is referred to?

Iain McKenzie: Do you know where the £5 million cost is referred to?

Chair: Basically, the Environment Agency, which falls under Defra, has increased its temporary staff numbers. There are apparently 476 new permanent employees, but I do not know whether I can find the figure.

Q23 Iain McKenzie: What would you say are, first of all, other staff-related costs? Perhaps start from that position. What are other staff-related costs?

Peter Unwin: It could be anything from pensions to travel, to other associated overheads. The Environment Agency generally has its money in three broad sources. One is money from us for floods—both for flood maintenance and for new capital schemes on floods.

Secondly, it has money from us for what we call its grant in aid for other environmental issues, covering everything from waste to air quality, to fishing oversight. Thirdly, then, it has what it calls regulated income, which is where it regulates industry and charges industry for that regulation it undertakes.

So, overall, it has a budget of about £1 billion, of which from us it might get only about £600 million or £700 million. Our budgets to it have been falling. Certainly, its non-floods budget has fallen significantly since 2010, and that has been reflected in a reduction in its work force. It is not as big a percentage reduction as you might think because the other parts—the flood part and the regulated business part—have reduced by less.

If you look on page 64 of the Annual Report, you will see that, going back to March 2010, it was at nearly 13,200 total staff. That fell, over the three years to 2013, to 12,500. On the way, it fell by more, and then came up a bit towards the end, partially because of the funding challenges it faced in that final year. Overall, there has been a reduction in its staff over the Spending Review 2010 period.

Q24 Iain McKenzie: Would that be reflected in redundancy payments? Would that be encompassed in this?

Peter Unwin: They have had a number of exits, both compulsory and voluntary.

Bronwyn Hill: I do not know whether Gurdip has the answer.

Gurdip Juty: In terms of the other staff-related costs, there are elements in there where you have agency staff wages and salaries, and exit packages, as Peter was just mentioning, but there are other various special contributions towards these deficits. This is putting an increase within the closed pension scheme. It is made up of various components.

Q25 Iain McKenzie: Lastly, Chair, may I ask about the question of bonuses? What is your position? Are there still bonuses being allocated?

Bronwyn Hill: The position for Defra and its agencies—we are talking about the Civil Service here—is that, for senior staff in the SCS, we follow the Cabinet Office guidance, which is that the top 25% of performers in any year are eligible for a bonus. Then, within Defra, we set the amounts. I think, from memory, they were £10,000 and £12,000, depending on gradation within that.

For other staff, it is more delegated. We have two elements of performance-related pay, one of which is an end-of-year payment, again, based on performance, and it only goes to the top box of people—not strictly 25%, but somewhere around that. Then we also have an in-year scheme—it is restricted by percentage of pay bill—where we can give small bonuses, which might be £500 or £600, either to individuals or members of a team who have done a particularly good project or a particularly challenging task.

So the overall position if you look at the non-SCS—below senior management—is that the percentage of people who earned a bonus of some sort in 2012-13 in core Defra was about 38%. In the Senior Civil Service, it is strictly limited to 25% of the top performers.

Q26 Chair: So our understanding that there was a blanket disapproval of bonuses does not apply to individual departmental or agency staff?

Bronwyn Hill: No. What has happened is, until this year, there has been a pay freeze, apart from staff earning £21,000 or below, where there was a very modest payment. We call the bonus system non-consolidated performance-related pay, because that is not consolidated for pension reasons. But the Government pay policy has always been to have some form of recognition and reward scheme targeted to incentivise top performers.

Q27 Richard Drax: I want to move on to the use of contractors and agency staff now. Contractor costs at the Rural Payments Agency have increased by £7.8 million in 2012-13, with a related increase of 42 contractors. This equates to each new contractor being paid an average of £186,000 over the course of a year. Why is that?

Bronwyn Hill: Most of the contractors who were used in the last financial year at the Rural Payments Agency were brought in to help to deliver a series of projects that formed part of its strategic improvement plan, which was effectively a five-year plan with two elements—a three-year part and then a further two years—designed significantly to improve performance.

If you remember, the delivery of CAP reform in 2005 left a big legacy of challenges around performance in paying farmers SPS and other payments. Where it has used external contractors, it has been to supplement its ability to do things like business analysis and project management to ensure that those projects delivered on time. I am pleased to say that they have had a really noticeable effect on performance. If you look at the performance of the RPA, it had its best year ever in 2012 in terms of getting payments out to farmers in England in December and, indeed, by the end of the scheme in June. I would expect many of those to begin to unwind in future years—not all of them—as they go through those projects. It delivered a significant number out of 45 projects designed to help improve performance.

Q28 Richard Drax: So it has cost £8 million to improve the RPA's performance. Is that right?

Bronwyn Hill: I think it has cost more than £8 million.

Q29 Richard Drax: That is part of it. It probably did, but it is £8 million that we are referring to here—the contractors.

Bronwyn Hill: That is an element of it, but it is not the total cost.

Q30 Richard Drax: How does the Department ensure that it gets good value for money from these contractors and consultants?

Bronwyn Hill: Ian might want to add to this, but our general approach is not to use them unless we absolutely have to, to use them for peak periods and when we have skills gaps or shortages within the agency, and then to set very clear targets and indicators for performance. The way we have done that with the strategic improvement project is that I think there were 45 projects to be delivered, most of which have now been delivered or adjusted in the light of the work that was done, and my view is we got good value out of those people, if you look at performance turnaround and also at stabilising the improvement in the performance, so when we do the CAP reform in 2014-15, we will have a much more solid baseline from which to do it.

Q31 Chair: How do you define good value, because the cost of administration almost outweighs the money that has been paid out by the RPA?

Bronwyn Hill: The value is in improving the performance of the agency in a number of different ways: one of them is simply getting more efficient and effective at getting the payments to the farmers, but the second is reducing the cost per payment over time. Last year, the cost per SPS payment was £727. I think, in the summer, the RPA confirmed that that had reduced to about £621.¹ There are definitely measurable indicators and, as we discussed last year, we have a corporate plan for the agency, against which we measure performance, and there are a number of performance indicators, all of which I think it delivered last year.

Ian Trenholm: In terms of consultants in particular, the strategic improvement plan was run as a programme of projects, and was very, very tightly managed. On a very practical level, we did not allow contractors to be managed by contractors; they had to be managed by full-time civil servants. So there were a number of very practical things to ensure that we got value for money. As Bronwyn said, given the many billions of pounds that are paid out by the RPA in a given year and over a time period, it does feel like it is good value for money.

Q32 Richard Drax: Continuing with the RPA, if I may, how is the Department ensuring that all this information, knowledge and expertise that consultants bring is being kept in-house when they all ultimately go?

Ian Trenholm: What we have sought to do is to transfer that knowledge to full-time civil servants. As programmes finish and as consultants leave, they are being replaced by full-time teams. We are moving from a project-type approach to a business-as-usual-type approach. There is a change team within the RPA that is responsible for change in the longer term. We are making less and less use of consultants over time.

Q33 Richard Drax: Except for, of course, the finance team, where I believe consultants are being kept on. How do you plan to address that lack of capacity within the finance division?

Ian Trenholm: In terms of the lack of capacity within the finance team, as part of the CAP delivery programme, we are putting in a new HR and a new finance system. As a consequence of that, we will be reviewing the staffing levels and the types of skill mixes we need for the new system, which will be profoundly different from the current system. Once we have the new system in place, which should be by the middle part of next year, we will look at the skill mixes.

Q34 Richard Drax: May I ask one final question? It seems to be a very expensive way of running the RPA, which is meant to be doing all these things and getting money out to farmers, but you are paying millions of pounds to advise it how to do it. Yes, the cost is going down, but is it satisfactory that a Department that is meant to be doing its job is spending so much money to get someone else to help it do that, if you see my logic?

Bronwyn Hill: You have to see this in the context of the RPA being responsible for approximately £3 billion per year in EU payments through the CAP scheme. In proportion, if this were a private sector business, this is investment well spent, particularly

¹ Note by witness: this figure should be £691.

since a lot of these programmes have two purposes. One purpose is to improve the efficiency and effectiveness of the payments we are currently making. However, the second purpose, which is just as important, is to do a lot of data-cleansing and preparation for the transition to the new schemes. Believe me: if we could find an easier and cheaper way of doing that, we would do it. However, we would not be thanked for underinvesting in what has always been a very high-risk area for the Department.

Ian Trenholm: It is also worth pointing out that there are a very complex set of rules that underpin the CAP scheme, and those rules are audited to a much greater extent than you would see in a domestic setting. What we do find is that, while it may appear expensive at a superficial level, we must have a very low appetite for risk, because if we do not have a low appetite for risk and we do not have a very strong control environment, we will be fined by the European Union.

I would see it as we are running a bank with a very, very aggressive auditor. In that context, this does feel like value for money.

Q35 Richard Drax: If I can touch on remuneration—you have touched on it a little bit before—the remuneration of most directors within the Department has been unchanged from 2011-2012 and 2012-2013. However, Mr Tom Taylor has done rather well. He has received a salary increase of £30,000. Why has he received an increase while no other director has?

Bronwyn Hill: I am assuming that must be because he changed jobs and was promoted from one level in the Senior Civil Service to another one. If you are looking at the historic figures, that was probably pre and post promotion, because he was our Finance Director.

Richard Drax: It is an increase in his salary. Thank you.

Q36 Chair: If the responsibilities are being sent out-house, will it be reviewed again?

Bronwyn Hill: No, I need to correct what might be a misunderstanding, for which I apologise. What we are putting into the joint venture are the transactional services around finance systems and procurement. It is not the role of the Finance Director to run those services on a day-to-day basis. What the Finance Director does, among many other things, is actually to prepare the Annual Report and Accounts that you see before you, advise the board and Ministers on strategic reviews of our finances, and improve the financial management functions that we need to retain in house. It is the transactional services that are being put into the joint venture, not the strategic planning, reporting and accountability, of which there is still a lot to do.

Q37 Chair: What was the previous position that Mr Taylor occupied before he became Finance Director?

Gurdip Juty: If I can just come in at this point, in terms of the Annual Report and Accounts, the amount put in there for Tom Taylor, the previous Finance Director, was for the time that he was there as Finance Director. That is not his annualised salary. There is a note below on that page, which shows that the annualised salary is the same.

Peter Unwin: The table you are referring to on page 41 shows him as having had between £90,000 and £95,000 in 2012-13; it shows him as having £60,000 to £65,000 in 2011-12. As you say, it looks as though there is a rather large increase. In fact, that £60,000 to

£65,000 was for only part of the year. There is a footnote at the bottom of the page, which gives his full year for 2011-12, which was £90,000 to £95,000—i.e. the same. So he received no pay rise between the two years; he was in the same bracket. It is just that he was on the supervisory board for only part of the first year, and it was only that part of the year that his salary was reflected from.

Q38 Chair: What was his previous position, just out of interest?

Bronwyn Hill: Sorry; I have just remembered what this is. Previously, Anne-Marie Millar was the Finance Director on the board. The rules on the accounts are that we show only board-level people on that page. Anne-Marie Millar became the Finance Director at the Rural Payments Agency in that year. Following her move to the Rural Payments Agency, Tom was moved on to the board as Finance Director for Defra.

Gurdip Juty: Tom's previous job was a director, but of strategy. He was involved in doing the SR10 business-planning process.

Q39 Iain McKenzie: I am just wondering whether part of his job now has moved on elsewhere, with the shared services?

Ian Trenholm: No.

Q40 Iain McKenzie: Has the job specification stayed the same, or has it changed?

Ian Trenholm: It has not changed. Tom Taylor has left Defra. He has gone to work for another organisation. In terms of the job specification itself, the job specification remains the same. The way we had organised ourselves within Defra was to have a shared services team just within Defra that did payroll, transactional finance and transactional HR. That has been in place for a number of years, and we had a director who led that particular group. As we are now moving that shared services team into the Government shared services unit, that director post has been deleted. In fact, it was deleted some months ago, as that particular individual left. It is a completely different post, and the job responsibilities of the FD have not changed.

Q41 Chair: Out of interest, did he go of his own volition to this new position?

Bronwyn Hill: He did, yes.

Ian Trenholm: He did. It was very much a promotion and it was very well earned.

Q42 Iain McKenzie: This leads on nicely to the section on off-payroll staff. Defra has submitted the details of 146 members who are off-payroll appointees to the Treasury's review. Of these, more than 100 have been in post for longer than six months. Can you tell us how many are still off the payroll?

Bronwyn Hill: While my colleague looks for the actual figure, what happened last year, as you may recall, was that the Treasury introduced new guidance on off-payroll staff to deal with both actual and perceived problems of potential tax avoidance.

What Departments were asked to do was to go through all those off-payroll staff and either terminate the contract or assure themselves—either directly, via discussions with the individual, or through the agency through which they were employed—that the

appropriate tax arrangements were being made. Basically, Defra and all our agencies and arm's length bodies have gone through an audit process to ensure that we are complying with the new rules. It is not that we cannot employ off-payroll staff—we do still have some—but we have gone through them to ensure that—

Iain McKenzie: Your contracts have been changed to take the Treasury's—

Bronwyn Hill: Exactly, yes. To take account of the Treasury's guidance.

Q43 Iain McKenzie: How many of those contracts did you have to change? Do you have any idea of that?

Bronwyn Hill: As of 21 March, we had 20 off-payroll employees in core Defra and its agencies. Those are in the Civil Service. I had better just check that figure. We still have them.

Iain McKenzie: You still have them, but it has reduced to 20 now.

Bronwyn Hill: It has reduced. There is a table in the Annual Report and Accounts.

Ian Trenholm: Whereabouts in the Annual Report and Accounts is the reference to 143 staff?

Q44 Iain McKenzie: We have the report about the Treasury's direction on off-payroll staff. It is telling us about the measures that were implemented and the direction that the Treasury gave for changing contracts, etc., for those who would be engaged for over six months. What we want, which you have probably already answered, is the number who are still engaged and off-payroll staff.

Peter Unwin: Those are the numbers still engaged above a certain salary. We do not have the total number.

Gurdip Juty: If you look at page 37 in the Annual Report and Accounts, it looks at the 117 staff, but it does break that 117 down in terms of the end of March 2013. We have input clauses into various contractors that were there to ensure they can show they are in line with the tax arrangements. Out of those, there were only three that we had not got to yet, where we were still going through their contracts.

Q45 Iain McKenzie: Would those three be over six months?

Gurdip Juty: They would be by now. We may have to come back to you to give you the detail on what happened to those three.

Chair: If you could do that before next Tuesday, it would be very helpful.

Q46 Richard Drax: The people survey is rather interesting. I am always a bit dubious of surveys but, for what it's worth, your staff are not happy, apparently. Only 27% of staff feel they have an opportunity to develop their careers at Defra and the staff-engagement index puts Defra towards the bottom of all Government Departments. What is the problem? Is there low morale? What is going on?

Bronwyn Hill: Clearly I am not happy about those staff survey results. You are probably quoting from the October 2012 survey. There are two or three things here. One is that it is clear that there was a feeling, having gone through a period of restructuring and downsizing, where a number of colleagues went under voluntary—

Q47 Richard Drax: Do you mean redundancies?

Bronwyn Hill: Voluntary-exit schemes. Obviously, people were applying for new jobs within that, so there was a period of uncertainty, and that survey came just at the end of it. We very much listened to what people were saying to us there, particularly about learning and development, where we think the Civil Service has a great offer for its staff and employees. We have had a campaign this year to remind people that they are entitled to up to five days' learning and development a year, and to encourage them to think actively about how best they should use that to improve their skills and further their career options. We will need to see how that goes, because the current survey is happening now. We do not have the results from that but, certainly, one of the most positive things I think we have done over the past year to improve morale is to remind people about the opportunities there are to do that.

We have done a number of other things as well, such as a leadership programme aimed at the Senior Civil Service to encourage them to focus their performance on leadership behaviours and how they lead the teams. Indeed, the director-generals and I have introduced a new series of question times. We go to Bristol, York and London—we have just completed our fourth session—and we invite open questions from staff about any issues that are affecting them. Clearly, it is really important that we have motivated and committed staff to help us deliver.

Q48 Richard Drax: I am a former soldier, and we used to say there are no bad soldiers, only bad officers. Do you feel that is the case with you? Again, another statistic is that only 22% of staff feel that the Management Committee has a clear vision for the future. That is a question of leadership. Would you think there is a problem with leadership amongst your managers, both senior and junior?

Bronwyn Hill: My reflection on this is that there is inconsistency in what people get. We have some very brilliant leaders and managers, who get very high scores. These are obviously average scores. It is patchy and what we are trying to do with this leadership programme is to ensure that all of us—that includes myself, the director-generals and the rest of the Senior Civil Service—are focusing on what we need to do to be better officers, to use your terms.

There is always more we can do to improve that. In terms of vision, in the Civil Service, there is always the challenge of Ministers having their vision about what they want the Department to do and setting their priorities. The Secretary of State's clarity around his four key priorities has helped to give people a clear sense of what he wants from them. We then have to translate that into what that means for teams and staff up and down the countries, which clearly has to go into a lot more detail than the four key priorities.

It is something we can always improve on. I do not want to predict the results of the survey we are doing at the moment, because there were some things I cannot control; for example, although we have come out of the pay freeze, we are capped at 1%, which,

compared with inflation, is not fantastic. However, we are trying to do as much as we can to make sure we have motivated staff.

Q49 Richard Drax: I am not going to go through all of the figures, but the figure for discrimination, harassment and bullying is interesting. This is a staff survey over the preceding 12 months. I do not know what 10% of staff would be; what would 10% of staff be?

Bronwyn Hill: For core Defra, it would be about 200 people.

Richard Drax: And 10% said they had experienced discrimination, while 9% of staff said they had experienced harassment and bullying. Those are quite large figures. Why is that? What is being done about it?

Bronwyn Hill: It is important that we take those figures seriously, because that is how staff feel they are treated. We have done a lot of work to improve what we call our well-being strategy and we have worked with managers to ensure they are treating people fairly. We have zero tolerance of bullying and harassment. Wherever we find out about those things, they are acted on swiftly. The bigger challenge is where, for example, an individual manager is trying to get better performance out of someone, and that person perceives that as bullying, whereas the manager might think, "I am trying to get the best performance out of that individual."

One of the things we have done for all staff, because it is particularly important in dealing with people, is to require everyone who is a manager to complete training on unconscious bias, which is to make sure we are treating everyone fairly whether they are like us or not. That is the kind of thing we are doing to overcome the perception or the reality of people thinking they are badly treated.

Q50 Richard Drax: I have one last point. Interestingly, again, on average, disabled staff receive less favourable performance ratings in Defra. Can you explain that?

Peter Unwin: I am the disability champion for the Department, and in that role I have a lot of conversations with our disability network. The training that Bronwyn has just mentioned on unconscious bias is precisely because of that. We are trying to get underneath the reasons why, particularly for disabled people, but also for BME staff and staff by gender, sometimes, when you look at the performance results, you will find some groups doing better than others. Why is that? Is it due to unconscious bias and the way people operate? It is a deep-rooted problem that goes right across Whitehall. In fact, I sit on a cross-Whitehall group chaired by the Permanent Secretary at HMRC looking at this issue across the piece, but the unconscious bias training is one step we are taking towards addressing that.

Q51 Iain McKenzie: On the morale ratings, if we look across the Civil Service staff survey as a whole, the average positive morale rating was around 58%. Defra is 10% lower than that. Is it not really concerning to you that less than 50% of your staff have that view of the vision for the future? Rather than saying it is possibly staff development that is causing that, do you not think it is uncertainty, first of all, in the reduction in staff and also the transfer of staff to shared services?

Bronwyn Hill: Certainly, there is a lot of uncertainty in terms of how we are going to address spending reductions. Remember these figures go back to October 2012; at that stage, it was not driven, largely, by shared services, because that was quite a long way off.

It is not just about learning and development; I take your point entirely. There is a whole range of factors, some of which we can control and manage, which are the ones we are taking action on, and others, which are Government policies on pay and pensions contributions. What we have done as a leadership team is to focus on the things we can change, act on those and prioritise key actions over the year. I cannot take away all the uncertainty, because in any organisation that faces lower budgets year on year, there is bound to be some uncertainty among the staff who are affected by them.

Peter Unwin: Defra has also gone through several years of downsizing following the settlement in Spending Review 2010. One of the concerns among a lot of staff, as you mentioned, was what they saw as a lack of opportunity. Following the downsizing, in the past year we have had a number of promotions of various grades right across—in the Senior Civil Service, but also in other grades as well.

Obviously, we cannot pre-judge the survey we are going through at the moment. As Bronwyn has said, there are a lot of other factors on people's minds at the moment, but there have been more opportunities in the past year. Of course, when we have promotions, there are always people who think they should be promoted. You get that in any organisation. What was seen by some as a complete lack of opportunity has improved over the past year.

Q52 Ms Ritchie: The cost of fees and commissions has almost doubled from £9 million to £17.4 million in the last year. What are these for and why have they doubled?

Bronwyn Hill: Do you have a page reference in the accounts that you are referring to?

Chair: It is around page 120.

Ms Ritchie: It is 120, under "Other Administration Costs".

Bronwyn Hill: I do not know whether the Acting Finance Director can help with that question. One of the challenges for the Department is that these are often consolidated following accounting rules. Quite what classifies as a fee or a commission, I do not know.

Q53 Ms Ritchie: Is it possible to get further details that could be provided in writing?

Bronwyn Hill: I am sure we can, if it would be helpful.

Q54 Ms Ritchie: If I may, Chair, I will move onto the next question on special payments. In 2011-12, Defra made a payment of £2.6 million to Nu-Star for damage to facilities used during the BSE crisis. In 2012-13, Defra paid a further £413,000. What is the explanation for this additional payment?

Bronwyn Hill: My understanding is that this relates to a service that Nu-Star provides for the storage of infected materials following the BSE outbreak in the mid-1990s. I am not close to the details of the contract we have, but it would have been carefully looked into. There was a problem with the storage of materials, and my understanding is that the

settlement reflected our view of what it was reasonable to settle at. I do not know the reason for the additional payment the following year, but we could offer you a note.

Ms Ritchie: It would be useful if you could furnish us with those details.

Q55 Chair: If we could possibly have that back before Tuesday so we can digest it, it would be very helpful.

Could I just turn to the disallowance on page 78, which is also referred to on page 45 of the annual report? This is a particular fruit and vegetable scheme. Apparently, it was highlighted by the European Commission that this was not a proper producer organisation. Could you just describe to the Committee the circumstances in which that came to light?

Bronwyn Hill: Yes. We touched on this a bit at last year's discussion. The issue was with the fruit and vegetable producer organisation under which these grants were made. The real issue was a difference of opinion between the Department and the European Commission on what the interpretation of the relevant regulation was. This led to the Commission threatening disallowance on a very large scale—possibly 95% of the actual scheme payments. We challenged that and discussed it with them but, in the end, we decided to accept their view, which was a much stricter interpretation of the nature, purpose and function of a producer organisation. As a result of that, we have carried out a quite comprehensive review of all of the producer organisations for fruit and vegetables, and will face disallowance penalties for that.

I have to say it has not quite ended there, because some of the producer organisations have challenged the Commission's interpretation of the scheme through the British courts, and the British courts have been more sympathetic to them. We still have some way to go in terms of this interpretation risk.

Q56 Chair: Are you able to tell us the total costs of the payments to those you reimbursed that were not found to be non-compliant?

Bronwyn Hill: I do not have the figure in front of me, and I am concerned about giving you the wrong number.

Chair: Could you possibly write to us with that information?

Bronwyn Hill: Yes.

Q57 Chair: What reassurance can you give the Committee that we will not face a similar amount again? That was quite a modest amount compared with the figure we focused on in last year's Annual Report and Accounts. What reassurance can you give us that we will not be in this position again with, perhaps, a higher disallowance next year?

Bronwyn Hill: On fruit and vegetable producer organisations, we have done a very thorough review and, in the light of Commission's interpretation of the regulations, we have put the remaining producer organisations on a footing where we believe we will be robust

The challenge, though, is that the European auditors always come in retrospectively and look at decisions we may have made some years ago. They can come back and look at any scheme year. A lot of the disallowance that we see now—you will note we have had

some £600 million either paid or threatened—relates to decisions that were taken at any time between 2005 and the current date. There is a high risk of disallowance under the CAP schemes.

Q58 Chair: Is that because it is so complicated?

Bronwyn Hill: Because it is very complex and because the audits happen often—

Chair: That was a bit of a spectacular Defra own goal, though.

Bronwyn Hill: What I am trying to say is that some of the legacy relates to those 2005-06 implementation decisions. There are continuing risks, for example, when the auditors come and look at cross-compliance, which is the ongoing compliance with regulations that farmers have to do. They will often find relatively modest errors in the field, such as a piece of field row that has not quite been ploughed to the right place, etc., and they do tend to apply quite strict penalties when they do find those things.

Just to explain what we are doing about it, we have had to make provision for the Spending Review period, and we judge, even with all the effort that we can put into complying as far as we can, that the risk to our schemes is probably about 2% of the total cost. We have made that provision for the whole of the Spending Review period.

That partly goes back to your earlier question about whether the money we are investing in the RPA is worth it. Quite a bit of that money is to try to reduce the risk of disallowance, but I think I am right in saying that almost all member states are subject to disallowance penalties. Indeed, the average to date for England has been about 3.8%; Northern Ireland is slightly higher than that, and Wales and Scotland are lower. However, it is very difficult to predict, because the auditors can come and look at anything at any time. We do put a lot of investment into trying to get the right decisions and making sure we have auditing processes, but I judge that risk still to be with us for the rest of the CAP period.

Peter Unwin: Looking forward to the next CAP period, one of the very key things we will be doing in implementing the CAP regulations this time will be to keep it simple. From both Ministers and officials, there is a very strong focus on keeping things as simple as possible to avoid a repeat of some of the experiences from last time around.

Q59 Chair: You have pre-empted my next question. There is a concern that the CAP was rushed through, particularly the way it was implemented in England in 2005-06. If we are going to be in the situation that we understand we are going to be in, and it being similarly rushed through this time, the Committee is fearful of having similar disallowance in the first two years of the new CAP reform.

Ian Trenholm: That is a very fair challenge. However, it would be worth pointing out that we have certainly started planning much earlier, both in terms of our appreciation of the policy choices to be made and, probably more importantly, the technical system we are building to manage the new scheme. We are starting much earlier than before. Technology has moved on a great deal, which means that we are able to build a system that will be largely built as we are finalising the scheme itself, and we will be able to make changes to the system very easily, whereas the current system is hard coded and much more difficult to change, which has been one of the great difficulties.

Certainly, we are using suppliers who have some experience in this environment and have supplied to other countries, which will significantly decrease the risk of disallowance from the technology we are using.

Q60 Chair: Moving on to the new digital strategy, which is going to be rolled out to more complex services that Defra is delivering, how can you assure the Committee that you will, as a Department, manage the transition to a digital service for the implementation of the CAP delivery programme?

Ian Trenholm: We are doing a number of things. One of the first things we have done is to look at the customers of the service. We already know that this year over 55% of farmers will apply for their single payments online. That is up from 40% last year, which is a big improvement over the space of a year. We expect that that will increase again in this coming year.

We have segmented our customer groups. In practice, what that means is that we look at the sort of farmers we are dealing with and the particular difficulties they have in terms of access to broadband, literacy skills, age and so forth. We are putting together an assisted digital strategy that will enable us to support those farmers who need it and, at the same time, incentivise those farmers who can use digital whom we would like to move on.

It would be worth saying that there are a number of farmers who use digital services to move their cattle, but do not use digital services to apply for their SPS payments. Again, that is a significant number of people, and we would like to understand why that is. I suspect it is probably because the current systems are not as good as they could be, hence why we are building a new one.

Q61 Chair: What do you say to a farmer in my constituency who has been told he is not going to get even the moderately fast speed by 2015 but is now going to be even more dependent on the digital service to access Defra services?

Ian Trenholm: It depends on the size of the farm. We know there are many farmers who already use land agents and other people to assist them in their business. Again, it might be that that particular farmer can use a land agent, and we may support them in that. We may continue to support them using paper methods. There are a range of options, but it really depends on the farmer. We are starting all this design from the premise of what that particular farmer actually needs.

Q62 Chair: Let us come back to the Defra's core priorities, one of which is to promote thriving rural communities—and, presumably, a rural economy. Given the fact that there are these delays in the roll-out of rural broadband, how is that going to impact on your ability to meet the digital service objective of the Department?

Ian Trenholm: It comes back down to what the particular needs of particular farmers are.

Q63 Chair: I am sorry, but the needs of the farmers will be the same whether they live in the north, the south, the uplands, the lowlands, the west or the east. What is happening is that you are making the services dependent on a digital scheme, mindful of the fact that probably 90% of farmers live five miles away from a cabinet or an exchange from which they can access a fast speed. In a way, you need to go on a course to stop discriminating against those rural farmers.

Bronwyn Hill: One of the things we are trying to say is that we recognise that there will be farmers who cannot access digital services, but we think we need to make the digital services that are available the best they can possibly be. We will be doing a lot of user testing to make them easy to use.

If you look at cattle movements, 90% of farmers—these are probably some of your constituents and those in other remote areas—are able to use the online cattle movements service, and yet only 54% use SPS online.² Why is that? We think some of that is to do with the ease with which they can use it. Clearly, however, for those who cannot use it in 2015, we do need to make sure there is an alternative that is reasonable for them and that they can access. This will require an awful lot of work; this is not an easy thing to solve, as you know.

Q64 Chair: I am sure we will pursue that with the Secretary of State. Before we release you, you said at the beginning that capital expenditure on flood spending has not yet been agreed. Our concern is the low level of money available for the maintenance of flood defences. When we did our flood funding report, we were told in evidence that £20 million is the level of maintenance for water courses in England. If the figures show—as the figures do seem to indicate—that the level of maintenance is on a downward trajectory over the next three, four or five years, how are you going to make good the flood defences that do need to be maintained and the water courses that need to be dredged to prevent the flooding that we have seen in 2001, 2007, 2009 and 2010?

Bronwyn Hill: I have a couple of high-level points, and then Peter may want to add to this. First, the capital spend has been settled. We got a six-year deal, starting in 2015-16, of about £370 million. That was an increase. It will also allow the Environment Agency to plan ahead with that certainty. Secondly, we are looking to increase the maintenance budget this year to enable it to undertake necessary maintenance. Thirdly, the Environment Agency, in response to farmers and other landowners, is looking at a number of pilot schemes that make it easier for those who wish to do so to undertake some of the maintenance themselves. You made some comments about dredging and salt removal, etc. The problem in the past has been that the Environment Agency has quite strict rules around those things to protect the environment and the water courses, but it has some pilots it is going to run to see whether it can enable those farmers and landowners who want to maintain their own water courses, and who are prepared to do so, to get more of a partnership approach.

Peter Unwin: As Bronwyn said, the maintenance budget for 2015-16, for which we only had a one-year settlement in this Spending Review, will go up by £5 million. That will be confirmed when we put our allocations up, but that is our assumption for the moment. For future years, that obviously depends on the Spending Review that will happen after the next election; we do not know what the figures will be for those years.

Maintenance has reduced in recent years but, against that, the Environment Agency has been bearing down very heavily on efficiency. It has made, for example, 33% efficiencies in its back-office work on this, which has helped to leave more money available for the front line. Nevertheless, as you say, we know, particularly with the weather we have had

² Note by witness: 90% of cattle movement transactions are reported online

in the past two years, that there is considerable pressure in this area, and £20 million is the amount it is spending on it.

We are running the pilots that Bronwyn has referred to. The Secretary of State was discussing this only last night with the chairs of both the Environment Agency and Natural England together. We are also looking to make it as easy as possible for farmers to take things into their own hands, when they want to, because some of the perception—and possibly the reality, in the past—has been that some of the environmental rules, not just from the Environment Agency, but from Natural England, prevent farmers themselves from undertaking work that would alleviate this problem.

For example, there are things such as clearing river banks, which has to be restricted at certain times of the year, but only at certain times of the year. In those pilot areas, we are focusing, with the farmers, on what the Environment Agency and they can do between themselves to make this as smooth as possible and to ensure that we do not have unnecessary regulation that prevents them from taking action to deal with the problem. The Secretary of State is very focused on the issue. If you raise it with him next week, he has strong views about it.

Q65 Chair: I am sure we will. One thing you omitted to say, Mr Unwin, is the farmers have been told they now have to maintain the existing flood banks to prevent their land from flooding, unless the Government amend the outcome so that farmland would benefit from flood protection monies.

These are things we can explore. There are a number of questions that we simply have not had time to put to you this afternoon. If we may write to you with those and for clarification on other points, we would be very grateful.

Bronwyn Hill: Of course, yes.

Chair: Thank you very much indeed for being so generous with your time this afternoon and going through the points on the new-look Annual Report and Accounts.