Environment, Food and Rural Affairs Committee

Oral evidence: The work of the Rural Payments Agency, HC 1227

Wednesday 30 April 2014

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Watch the meeting

Members present: Miss Anne McIntosh (Chair); Richard Drax; Mrs Mary Glindon; Mrs Emma Lewell-Buck; Iain Mckenzie; Sheryll Murray; Neil Parish; Mr Mark Spencer; Roger Williams

Questions 1-72

Witnesses: **Mark Grimshaw**, Chief Executive Officer, Rural Payments Agency, and **Ian Trenholm**, Director General and Chief Operating Officer, Defra, gave evidence.

Q1 Chair: Good afternoon and welcome. Since we last met, there has been the Lynx helicopter tragedy in Afghanistan, and I would just like to pay tribute to Lance Corporal Oliver Thomas, who worked in our colleague Roger Williams' office. We will be writing formally to record our regrets to Mr Williams, so he can share that with Lance Corporal Thomas' family. I just thought it was appropriate, since it was one of our close number who has been affected, and our thoughts are with his comrades and his family at this time.

We are delighted to be joined today by Mark Grimshaw. Mark, I thought you might introduce yourself, and Mr Trenholm as well, and give your positions, if you would.

Mark Grimshaw: Yes, of course. Good afternoon, everybody. My name is Mark Grimshaw; I am the Chief Executive Officer of the Rural Payments Agency.

Ian Trenholm: Good afternoon, everyone. My name is Ian Trenholm; I am Defra's Chief Operating Officer.

Q2 Chair: Thank you both very much indeed. A little bit of housekeeping: I would like to refer to my declaration of interest on the Register of Members' Financial Interests. I do not know if there are any others who would like to.

Mr Spencer: Chairman, I add my name to that list and draw Members' attention to my record.

Neil Parish: And the same for me, please, Madam Chair.

Richard Drax: I draw attention to my entry in the Register of Members' Financial Interests as well.

Q3 Chair: Thanks very much indeed. This is the first of a number of one-off sessions we are going to have with arm's length bodies, so we are delighted that you are here to join us. In terms of where we are now, as opposed to where we were in 2005, we seem to be in an altogether better position, so I think it is something we probably want to congratulate you on. I do not know if you want to make a general comment at the outset.

Mark Grimshaw: Yes, thank you for the opportunity. Clearly, over the course of the last three years, the Agency has improved immeasurably, and much of that has been down to the input of the Select Committee, the Public Accounts Committee, the work that we have done with the National Audit Office, the Lane review and many of the activities carried out by our internal auditors. As I am sure you will remember, I inherited just over 300 recommendations that had to be dealt with, along with quite a few unhappy customers and a debt load that was quite considerable. With some perseverance and some hard work, we have managed to turn the vast majority of that around, so we are very pleased.

Q4 Chair: I can bear testament to that because, when I went to a farmers' meeting last week, normally I would have been greeted by a number of complaints and issues, and they seem to have reduced greatly. May I just ask on a matter of personal interest, obviously the RPA offices have moved from Northallerton. Has that move gone smoothly?

Mark Grimshaw: Yes, the Northallerton move actually went very smoothly and there is a significant benefit for the taxpayer, because we were able to move people who wanted to move either into existing Defra offices in York or existing Defra offices in Newcastle. From end to end, it was a nine-month process. We moved just short of 200 of our people, but we also took the opportunity to release just over 100 people on a voluntary exit scheme. That was something that we planned in a great deal of detail to make sure it did not have any impact on the SPS 2014 scheme year, so it has worked well for the people who chose to leave us; it has worked incredibly well for those who have moved, because there are much nicer facilities in York. As far as the taxpayer and the Department are concerned, we are continuing to do more with less.

Q5 Chair: When will the lease be up in York?

Mark Grimshaw: I think the lease for York is something like 2025, so there is quite some considerable time there.

Q6 Chair: And Newcastle?

Mark Grimshaw: Newcastle is December 2015, so Newcastle is one of the locations that is going through the Defra estates review currently, but you will probably be aware that there are a number of Defra agencies in the location in Newcastle. My expectation is that we will retain a presence in Newcastle; it may just not be in the location that we are in currently.

Q7 Chair: Obviously, the Committee has done two or three reports on CAP reform. The last one was implementation and the one before that was greening of the CAP. At what stage are you presented with and consulted on the final reform, as you have to implement it?

Mark Grimshaw: We are consulted and involved, which is one of the lessons that we learned from the challenges of 2005. The RPA actually has a seat on all the key decision-making boards in Defra, either myself or my head of external relations, who is responsible for the policy side from an RPA perspective. I do not expect to be presented with a final solution in terms of, "Please go away and implement this," because I have been involved in it all the way through.

That does not mean that it is going to be straightforward, as you can imagine. There are a considerable number of challenges still to be dealt with and we are still waiting for some of the implementation regulations to land as well, and we are also involved in discussions with Ministers and policy colleagues around some of the national options, for example greening, which you mentioned. Those decisions have not been finalised yet and, once they are finalised, we will begin to impact them on the proposed solution.

Q8 Chair: You know the last stage in Brussels, which appears to be done behind closed doors—I forget what they call them, but the national whatever-it-is-called—are you consulted and asked for your views on those?

Mark Grimshaw: Yes, we are. In fact, there are three papers that we are submitting our recommendations on, literally as we speak. The challenge, however, is that the final session does tend to be done behind closed doors and we are never entirely sure what is going to come out of those negotiations.

Q9 Chair: From where we sit, that obviously sets alarm bells ringing, because we have actually done two or three inquiries and taken evidence from across the piece. How can you put our minds at rest that the final negotiations behind closed doors will not be too dissimilar from what had been put before you at an earlier stage?

Mark Grimshaw: To be honest with you, Chair, I am not entirely sure that I can put your minds at rest. This is a process that I have neither control nor influence over, but the way that the recommendations have been submitted, alongside the reviews that this Committee has already carried out, will certainly influence Ministers. The Secretary of State has maintained the position that simplicity and deliverability ought to be the two watch words for this particular programme.

Q10 Chair: In terms of simplicity and cross-compliance, do you think we are going to be in a position where it will not disadvantage the English farmer and that it will not push the costs up of delivering the farm policy under the reform in England?

Mark Grimshaw: It is very difficult to say, because a number of the final decisions have not been reached, but the Commission itself has suggested that the final cost to nation states will be between 15% and 40% higher than it has been in previous schemes. We see that through some of the challenges on, for example, the audit requirements that we are being instructed to put in place for the future scheme, which essentially is twice the cost of the current audit activity. The increase in the number of inspections that are likely to take place will also drive the cost up, as will some of the challenges, depending on which decisions are taken around ecological focus areas and greening. My honest interpretation is that this is not going to be any less expensive, and is probably going to be noticeably more expensive than the previous scheme, and that is because of the complexity from source, rather than what is taking place in England.

Q11 Chair: Is that not rather shocking, since the whole thrust was to reduce the cost of applying? I am not laying the blame at your door, you will be pleased to hear, but the whole point was to make it simpler to reduce the cost of cross-compliance and also to reduce the number of inspections. I thought that was the whole thrust of the Macdonald report and the review.

Mark Grimshaw: Certainly from a Macdonald perspective, there is work going on in the Department at the moment looking at consolidation of inspections, but one of the derogations that we have been granted, which is that we may not have to map all the ecological focus areas until 2017-18, came with a little bit of a sting in the tail, which was a doubling in the number of inspections that we would have to do. It was a reduction in the burden on farmers to do mapping, but an increase in the cost to the Agency, and subsequently the taxpayer, to maintain the assurance to the Commission that their money is being spent in an appropriate manner.

Q12 Chair: We will be at 1 May tomorrow, and you do not have a date for when the final regulations will reach you. Are you honestly going to have enough time to have the services of the RPA ready to roll by 1 January?

Mark Grimshaw: We are certainly working very closely with colleagues in the CAP Delivery Programme from a system perspective, and the way that the system is being configured certainly helps us. The core to the new system is a product that has been acquired from an Italian company called Abaco, which has been working very closely with the Commission in terms of the way that the rules are being developed. The Abaco product is live in Italy and Malta, so it is in their interest to make sure that it is fit for purpose for the 2015 scheme. Currently we are on track. It very much depends what comes out in the implementing regulations and the final decisions that Ministers take on England's options.

Q13 Chair: What are you able to do at the moment to prepare your inspectorate for new aspects of the CAP package, given some of the issues looking at the negative list and the active farmers list?

Mark Grimshaw: It is much wider than just the inspectors so, once we know what the inspectors are required to go away and inspect, we will build the necessary training packages. That will be reasonably straightforward. During the course of the last 18 months, as part of the strategic improvement plan, which you will remember, we have dramatically increased the technology that is available to our inspectors as well, so they can do much more with some handheld devices by a company called Lyca, which we can link into the new system as well.

The challenge really comes with the activity that we have to get involved in through the preparation for applications. At the NFU conference back in February, Ian and I launched the countdown to CAP, and one of the key drivers now is that customers have to be far more engaged with the Agency through the life of their application. It is not a fire-and-forget process anymore; you have to maintain all of your personal details, your business details, your land information, your entitlement information and your financial status in order for the actual application process itself to go as smoothly as it can. My big message to customers would be: please take heed of all the communications that we share. We sent a copy of our most recent communications to the panel last week. You will be please to know that is the first of six paper and electronic documents that we are sending out to all our customers.

Q14 Chair: Last question on this: you are saying it is 15% to 40% higher than the previous schemes. Do you think the extra costs will be reflected in the other member states as well—your opposite numbers?

Mark Grimshaw: Sorry, I did not catch the end of that.

Chair: You are forecasting an increase of about 15% to 40% higher costs for implementing this scheme. Do you think those costs will be reflected across other member states' Administrations as well?

Mark Grimshaw: Absolutely. That is not a forecast that I am personally making; I am simply relaying to you what the Commission has said, in terms of their expectation of the additional burden on member states.

Q15 Sheryll Murray: Could I just turn to the progress on the development of the new IT system please? I am happy to hear from both of you. What is your assessment of the progress in the development of the new IT system for delivery of both direct payments and the agri-environment scheme payments from 2015?

Mark Grimshaw: Ian is the senior responsible officer for the programme, so it makes more sense for him to answer in the first instance.

Ian Trenholm: We have deliberately designed the initial rollout of the system to have a series of releases. Our first release will be at the end of July. We are currently on track to go live with that first release. We will open the system up to a relatively small number of customers, and then we will increase the number of customers between July and the beginning of January so that, by the beginning of January, everyone will have been given the opportunity to log on to the system, do some basic tasks, check their land, check their personal details and so forth. If they are choosing to use an agent, they will be able to set the agent up on the system. Our expectation is, by that point, everyone will be familiar with the system. That is currently on track.

There is a back-office finance system that is part of the project. Again, that has just gone into final user acceptance testing, again a couple of weeks earlier than we had originally planned. That is on track and then we have two further releases—one in October and one at the beginning of January. The beginning of January is when farmers will start to actually make applications again for the BPS.

Q16 Sheryll Murray: What size is your group of farmers, land managers, advisers and agents? What size of group are you testing and what have the results shown so far?

Ian Trenholm: Every couple of weeks, we go out to small groups of farmers. We have gone all around the country to different types of farmers, those who have broadband access and those who have not.

Q17 Sheryll Murray: Forgive me; how many are in each group? Is it a large group or are they just individual farmers?

Ian Trenholm: It varies. It is usually individual farmers, but we have gone to small groups as well.

Q18 Sheryll Murray: What have the results shown so far? Is it an improvement?

Ian Trenholm: Yes, because we take what we have built and we show them what we have built. They make suggestions; we make changes, and then we keep iterating in that way.

Q19 Sheryll Murray: Will the newly developed IT system allow farmers to apply for funding online under the new CAP, even if they have relatively old equipment?

Ian Trenholm: They will need an up-to-date browser. We will insist on that because it means their application will be secure. Browsers, however, are free to download, so there will be no cost to them. Beyond that, we are testing the system on a range of different browsers and a range of different pieces of equipment.

Q20 Sheryll Murray: What about operating systems?

Ian Trenholm: Again, all the major operating systems are covered.

Q21 Sheryll Murray: If the newly integrated online payment system for CAP schemes is being delivered by a range of smaller companies providing specialist services, instead of "monolithic suppliers" of integrated IT services, what challenges does this present and how are those challenges going to be addressed?

Ian Trenholm: The challenge that obviously presents is integrating that group of suppliers. Some of them are big names that you will have heard of. Others are much smaller companies, Abaco being an example of a relatively small company. One of the main build partners is a company called Kainos. They employ about 400 people; they are based in Belfast. There is a range of other suppliers. We will have to build that integration capability. We have started doing that on the programme and we will be working with the core Defra IT team and Mark's existing IT team to make sure that we can manage that fairly complex set of relationships. We think, on balance, it is probably a better way of building than having a single supplier.

Q22 Roger Williams: Perhaps I could ask Mr Grimshaw what input the RPA had in reaching the decision that access to CAP funding would be digital by default.

Mark Grimshaw: We had a reasonable input, because we have been able to look at the number of digital applicants and the amount of digital activity that takes place across the range of services that we offer. We know that in late 2014 almost 93% of our customers were able to engage with us electronically, whether that was making applications for the Single Farm Payment Scheme or using the British Cattle Movement Service. The benefit to the taxpayer medium term of getting all our applicants online is quite considerable. There is, of course, the challenge around those who are what we would term the hardest to help, in respect of their access to the technology, the broadband, or even their particular interest in using computers. That is a service that we have to build with the Department, called assisted digital, to actually help them get online.

Q23 Roger Williams: There is a slight difference between accessing the British Cattle Movement Service and making your Single Farm Payment application. It is a pretty massive thing for a farmer. It is probably one of the biggest income streams he has during the year. Do you think there is a little bit of caution in the farming community about engaging in digital, which perhaps they do not have quite so much confidence in, to make such an important application?

Mark Grimshaw: To be honest with you, I do not. Sharing the most up-to-date figures for SPS 2014 applications with you might help. As of this morning, we have had 47,800 applications for SPS 2014, and the application window closes in mid-May. Of those 47,000, 33,459 had come in electronically, so that is actually 70% of applications that are now coming in electronically. Interestingly enough, of that 33,000, 8,125 of them applied by paper only last year, so the campaign that we ran around Get Online Week 2014 has had very impressive results.

Q24 Roger Williams: I have to make a confession: I went to an NFU meeting on Monday night to help me fill my form in, not to you but the Welsh version, digitally. I reverted to paper in the end, but I am going to try to do better. What challenges do you face?

There will be some who obviously have difficulties. What are the challenges you face in rolling out the assisted digital service to those who are having difficulties?

Mark Grimshaw: One of the challenges is actually identifying the customer groups who are going to be most impacted. Over a year ago, we started the research on this and we have the breakdown into essentially what we refer to as the "can'ts" and the "won'ts"—the can'ts being those people who do not have the technology; they do not have the broadband; they do not have the intuition or the interest. Maybe they are elderly or infirm. The won'ts are simply those people who are perhaps a little bit stuck in their ways and do not see the benefit of going down that particular route.

By categorising them, we can actually cross-reference with the distribution of claimants, so we know typically where they are likely to be. That gives us the opportunity to think about different interventions, which may well be persuading people to engage with an agent or another trusted intermediary, perhaps the NFU, the CLA or the TFA. We are also looking at the possibility of standing up a number of drop-in centres that will be manned by RPA and Defra people, so that customers who are having challenges can come and sit down with us, and go through the process that you need to go through to get online.

Q25 Roger Williams: Are you going to have difficulty in distinguishing between those who won't and those who can't?

Mark Grimshaw: In the end, yes, we are. We are simply going to have people who have not. Of course, the challenge is on the customer. There is a significant amount of public money available to be claimed, and the communications process that we kicked off at the NFU conference in February includes a detailed roadmap that tells people what they need to do and when. On the recommendation of this Committee, we have also followed up all the electronic communications with either a postcard or a letter, and we will even follow those comms methods up with a telephone call, if we are not getting the reaction that we need.

Q26 Roger Williams: There have been some concerns about the Rural Community Broadband Fund. If that runs out and there are still farmers in hard-to-reach areas who cannot receive superfast broadband, will they automatically get assisted digital support?

Mark Grimshaw: They will certainly be entitled to come to one of our drop-in centres or go and engage with a trusted intermediary. Depending on the size of the farm and the interests of the farmer, the most ubiquitous method of actually getting broadband into the home is satellite broadband. It is typically between £25 and £50 a month for superfast broadband to anywhere in the country, so it is achievable. We will also be looking at encouraging people to go to libraries and places of that nature.

Q27 Roger Williams: If you still had those farmers, would there be a financial penalty for anybody who couldn't/wouldn't, but did submit a paper form?

Mark Grimshaw: It is not actually possible to submit by paper to the new scheme, because of the way that it is structured. Ian might want to give a little bit of detail on that, but you actually need to be able to validate all the land and you cannot do that through the use of a map. You really need to be able to see it, which is why you need to either sit in front of a PC or sit next to somebody who is quite able to drive one.

Q28 Chair: We were told quite categorically by the Minister, in our evidence session, that they would be able to apply by paper.

Ian Trenholm: There is a practical difficulty around applying by paper, in the way that Mark described. With things like greening and so forth, you actually have to calculate the size of a field or a feature in real time. You cannot do that accurately on a piece of paper, which you draw around, particularly if that is not a straightforward geometric shape. The system will make those calculations for you in real time. Particularly when you start to get into conversations around three-crop rules and some of the more complex areas of the policy, it just cannot be done on a piece of paper. That is what we are learning.

I am not familiar with exactly what the Minister said when he spoke to you last, but certainly the view we have taken more recently is that the system actually helps farmers in terms of making their application. It was something that Mark and I discussed with farmers at the NFU conference, and people did understand the point that the system was there to help the application, rather than as something that was a barrier. That does not stop us from sending farmers paper copies of communications, guidance and so forth, which Mark has referenced, but that last step of submitting a form is just not practical on a piece of paper.

Mr Spencer: It is just again a comment about how you are going to distinguish between can'ts and won'ts. In Nottinghamshire, we have farmers who are actually within the zone where they are going to get broadband but, because of the position of their farm, they will not receive broadband to any degree at all, frankly. They cannot even get on to basic websites, never mind stream movies or look at maps. You need to give a lot of thought to how you are going to deal with those people who find themselves in that circumstance, because taking their personal data to a public library will give them quite a lot of trauma, as to how much of their personal data will be on that system in future.

Q29 Sheryll Murray: I represent South East Cornwall. We have a massive amount of not-spots. Could you give me a reassurance that the fact that these areas are not covered by broadband is not going to create a whole set of new turmoil, like we saw with the introduction of the last scheme? Have you looked at how many farmers are living in not-spots? Have you looked at how many farmers are not able to access public libraries, because I need a reassurance that you have looked at this and you can overcome that problem?

Chair: Certainly in my own area, 22% have no cover whatsoever, so they physically cannot access it, because there is no broadband.

Ian Trenholm: There are several remarks to make in relation to that. As Mark said, there are a number of farmers who today use satellite broadband to get over those problems.

Sheryll Murray: Some cannot afford that.

Richard Drax: It does not always work either.

Q30 Chair: I know it is not your position, but this Rural Community Broadband Fund can only be used where there are exchanges in place already. I have finally got NYnet locally to show the map. Even for farmers to club together and go on a satellite is very prohibitive. They are only getting small incomes in the course of one year and, effectively, if they are not allowed for the first year or two to submit paper forms, they are actually going to be excluded from quite an important income strand.

Ian Trenholm: It is not a question of not being allowed. In practical terms, it will not be in the farmer's interest to submit an application form in the conventional sense. As Mark describes, the RPA will be setting up opportunities for farmers to sit alongside an RPA employee and fill their form in. You also need to remember that farmers will not have to fill the form in, in the way that they do now, because all their current personal information and all their land data, which they have spent many years working with the RPA to create, will be automatically uploaded into the new system. That will be the starting position.

Chair: They only have to load the land on once?

Ian Trenholm: The land will be pre-loaded. Whatever records the RPA currently has of their land will be pre-loaded. If the farmer has made a change to their land, then of course they will have to explain what that is.

Q31 Chair: This advice will be provided by the RPA at no cost?

Ian Trenholm: In the short term for some people, yes.

Q32 Chair: I am sorry, that is not very good. We were told, again by the Minister, that this advice would be given. We can go back and rehearse it when we come, if we do, to do any follow-up to this, but we were told that the advice would be given free at the point of delivery to the farmers.

Ian Trenholm: Yes but, as we talked about, for the people who are entitled to some sort of support. We are looking to have a reasonably broad definition of that, particularly in the first year, but we need to recognise that many farmers will simply choose to just go and complete their forms themselves, with their own existing connection. That is a very large group of farmers. There is then a group of farmers who are in, as Mark described, the choose-not-to-at-the-moment category. We need to take a fairly common-sense view of that group.

Q33 Chair: There are farmers in each constituency—it is the rural parts of my constituency—who have no connection. They will have no connection in 2015-16. How are they going to be able to register?

Ian Trenholm: I understand that. I am about to explain. There are equally farmers who have no direct connection. Obviously, from our point of view, we will want to support those farmers. If you have no connection, of course we would look to help you, but I think we need to be clear that we cannot make general statements about all farmers when there are specific parts of the country that have particular issues with broadband. We know that there are plans to put additional funding in to put additional broadband in. There are a number of different ways to access broadband but, actually, our experience from having—

Q34 Chair: Can you just take it from us, who are paid to represent these people who have not got a voice—we are their voice—they are being told that the Rural Community Broadband Fund does not apply to them; the BBC money that is coming into the broadband scheme does not apply to them. All this money is going to the areas that already have a broadband connection to give them a faster broadband connection. 78% will be the maximum coverage I get in the constituency of Thirsk, Malton and Filey. The people who do not have a connection are your customers for this purpose.

Mark Grimshaw: In terms of perhaps trying to put your mind at rest around South East Cornwall, we are going to be looking at drop-in centres in Truro and St Austell.

Sheryll Murray: Truro and St Austell are miles away from my hill farmers. That is not good enough.

Mark Grimshaw: One of the challenges that we are clearly going to have to take on board is looking at where the majority of these customers are likely to be.

Q35 Sheryll Murray: The not-spots are in North and South East Cornwall. To be quite honest, I cannot believe that I am hearing my hill farmers being told that they are in an area where they cannot have the broadband connection and your scheme is saying, "Well, they'll have to sort it." I cannot believe that you have not been listening to these farmers.

Mark Grimshaw: I am not saying that. I do not think either of us is saying that.

Q36 Neil Parish: Naturally farmers, by their very nature, are in the hard spots to get. I have the Blackdown Hills and part of Exmoor; a lot of that will not be covered, even with the new scheme. It is essential that you have an office that is not too far away that those people can go into. It is no good sending them into the libraries, because they are not going to want to take all their fairly sensitive materials about their farm into a library. Not many farmers will want to do that; they are very private people. The plea is to make sure that happens. The question to you really is: are you actually going to use the same area maps? We have the seriously disadvantaged and non-seriously disadvantaged areas. We might amalgamate some of those, but are you going to leave them the same in the new system? That is what caused all the grief in the last reform, drawing up all these maps. Where are you on the actual area maps?

Mark Grimshaw: The point that Ian made earlier is that the new system will be pre-loaded with the existing mapping information that sits on the Rural Land Register, so there ought not to be the challenge around the mapping problems that were encountered in 2005-06. We simply have to move the data. We have been spending a lot of time in the RPA updating the data using information from satellite imagery, from aerial photography and also from the Ordnance Survey MasterMap to make sure that the maps are as accurate as we can possibly make them.

One of the challenges, and it is clearly coming through very strongly, is that we have to look far more closely at the intermediary strategy that we have been developing, which may well be an agent; it might be an NFU office; it might be a CAAV office; it might be a visiting farm secretary. There are lots of options for us and the challenge for us is to make sure that everybody who is entitled to claim is able to claim. By developing a digital service, we want them to claim digitally. If in the first year or two we have to reach out in order to facilitate that, then that is exactly what we will have to do.

Neil Parish: Can I make the final point? If you spend a little bit more money to have offices where people can come to get their claims right, you will spend less money on disallowances from Europe and fines from Europe. Hundreds of millions—I think it was something like £600 or £700 million—was paid in fines and that is what we have to be aware of, otherwise we will go back down that route. Not only will the farmers lose out, but taxpayers will lose out.

Chair: Just to conclude this part of the discussion, it really is incumbent on you to go to Defra and say that you cannot deliver this. I know for a fact that the farmers are in the 22% where they do not have access. Okay, there might not be a problem if the land is already registered but we need you, if you would, to use your good offices and feed this back into Defra, because they should not be disadvantaged in this way. Thank you.

Neil Parish: We will support you through to the Minister as well.

Q37 Mrs Lewell-Buck: This one is for you, Ian. It cost the Government £691 to process each Single Payment Scheme claim in 2012-13. Although this was a reduction from the figure in the previous year, which was £727, I am sure you will agree that that still remains quite a staggering amount of money. I am wondering if you can tell us what accounted for that reduction and what you are going to do to further reduce that cost.

Ian Trenholm: That is a very difficult number to talk specifically about, simply because there are a relatively small number of transactions and the number of claimants in future will probably come down. Some of that will be to do with savings that Mark and his team have made but, conversely, the number of claims will also come down. Therefore, we would expect that number probably to go up, but the overall cost of delivery to come down slightly. That then needs to be netted off, as Mark described at the beginning, by more inspections. That unfortunately is a fairly complex composite number, and I would be rash to try to predict what it would come down to.

Q38 Mrs Lewell-Buck: You think it will come down simply because there will be fewer claims. Is that what you are saying?

Ian Trenholm: No, it will go up, because there will be fewer claims—the cost per claim.

Mrs Lewell-Buck: It will go up because there are fewer claims?

Ian Trenholm: The cost per claim, yes. There will also be an increased inspection overhead.

Mrs Lewell-Buck: It will not reduce?

Ian Trenholm: I do not think the cost per claim will reduce, no, or not by any significant amount.

Mark Grimshaw: The cost per claim is obviously something that I am managed and monitored against. You will be pleased to know that, for 2013-14, it is down to £676. The challenge with cost per claim, and this is something that this Committee raised with me three years ago, is that it is not based on the most reliable data, because it takes into account the sunk cost of all of the IT. It is very difficult to reduce it dramatically. With that said, of course we have brought it down from £1,142 to the current level.

The point that Ian is making, which is absolutely right, is that because we are reducing the number of potential applicants for the future scheme, you are not able to divide the main number by as big a number. Therefore, you get a higher individual cost per claim, but the actual cost of running the service will be lower. That is the IT service. You then have to add on all the additional costs such as the inspections. It is not worth trying to compare the cost of the Single Farm Payment claim to the cost of applying for a driving licence, because you do not have all the costs of associated management of a driving licence, whereas you do have all of the costs of running the Land Registry and all of the cost of the inspections built into the cost per claim.

Q39 Mrs Lewell-Buck: As you probably know, the Ombudsman's office believes that the RPA has room to improve and that compliance with the Ombudsman's remedies seems to be their particular concern. I am just curious: what are you going to do about that?

Mark Grimshaw: We do an awful lot actually. In the Ombudsman's most recent report, which came out last week, we were feted as one of the most improved agencies in the country. In fact, I have sat in a room not dissimilar to this as a witness for one of the Committees looking at how you use complaints to improve the performance of your business. We actually take the Ombudsman's six core principles and we have embedded them in our complaints and appeals process. We have been recognised as leading the way, in terms of the application of said principles.

You will also be aware that complaint volumes have dramatically reduced over the course of the last three years and we have introduced an in-house complaints management and monitoring system, which allows us to take the data from the cause of the complaint and impact it against the services that we offer. If we notice an increase in complaints about, for example, our telephone handling we can go straight to our contact centre and assess why performance in telephone handling has dropped.

Q40 Mrs Lewell-Buck: If you are saying things have improved, why are they saying compliance remains a concern?

Mark Grimshaw: I do not think they are actually saying compliance remains a concern.

Mrs Lewell-Buck: In the most recent report, according to the information I have here, they did. I am just curious about why, if things have improved, they are saying that.

Mark Grimshaw: I think it depends which piece of the report you read, to be perfectly frank. We have very good relationships with the Ombudsman. We were actually feted as an improving agency in their report that came out last week, and we spend a lot of time with the Ombudsman's investigators making sure that we are actually putting right the problems of the past.

One of our big challenges is that so many of our cases are historic and come from the relatively dark period of 2005 to 2007. That is clearly a challenge for us. If you look at all the remedies that we have put in place recently, and I sign every letter, we agree with the vast majority of recommendations that the Ombudsman makes.

Q41 Mrs Lewell-Buck: Concerns were expressed last year regarding the use of high-cost telephone lines by Government Departments and their agencies. Can you tell me how much money the RPA currently makes from operating high-cost telephone lines for farmers and their customers?

Mark Grimshaw: I can and it is nothing. We do not have any high-rate telephone lines.

Q42 Chair: Did you have in the past?

Mark Grimshaw: We had some old 0845 numbers for a specific part of our operation but, when the rules were changed, we got rid of them, as you would expect.

Q43 Neil Parish: The result of the 2013 Civil Service People Survey showed that the employee engagement index score for the RPA was at 41%. While it has gone up from what it was, it is still significantly below the civil service benchmark score of 58%. What are the main reasons for this and what can be done to raise the level of employee engagement at the RPA? I suspect some of this is historic.

Mark Grimshaw: I think a considerable amount of this is historic. I remember three years ago having a conversation with you about what you refer to as “barnacle employees”. Many of those individuals have subsequently left the organisation, you will be pleased to know. We set out with a five-year plan that was created in such a way that it dealt with—and in this order—task, team and individuals. The original requirement was to sort out the Agency and sort out the service that we give our customers. I think you would agree that we are well on track to doing that. We spent a lot of time last year investing in our teams, so making sure that we were developing our people through the way that we run things like our leadership and talent management programme. We have seen improvements, year on year since I took over, going from 36% to 38% to 41% which, by any measure, is a trend and I expect that trend to continue.

Q44 Neil Parish: How do you see morale in the RPA generally? I know it was very low at one stage, because of the fact that everybody was “at” the RPA for one reason or another. Is that getting a lot better or what?

Mark Grimshaw: I think morale is considerably higher than it was three years ago and you can see that just by looking at people when you visit the various locations. It is a heads-up environment now; people are interested. They challenge me on whether we are rebutting some of the comments that are made in the press. As you know, our press coverage is far more positive now than it has ever been.

Chair: I can see that from the parties that they used to have in the Newcastle office that were widely reported.

Mark Grimshaw: That is very true: we have gone for the low-lying chest of drawers these days. Things have moved on dramatically. Morale is a function of many different things and, in a civil service organisation, there are challenges around things like the pay freeze. That is not an RPA-specific issue and our people will use the survey to record their concerns.

Q45 Neil Parish: I know it is not always entirely in your power to be able to engage as much with the farmers as the farmers would like you to engage with them, for legal reasons. If, through this new reform, you are able to engage as much as possible with farmers to advise them, that could make life a lot easier, both for the farmer and for yourselves. I do not know how far you can go, because I know there are legal commitments.

Mark Grimshaw: Again, you are absolutely right. One of the things that we have taken on board this year is we are actually attending 37 different shows and exhibitions during 2014, both as the RPA, the CAP Delivery Programme and broader Defra, making sure that our customers can see the technology and engage with us around the challenges.

As I mentioned earlier, we have taken on board this Committee’s recommendation that we use both paper and electronic communications, so we are driving considerable amounts of advice and guidance into our customers’ homes. We have a very good website. We have a first-class contact centre, and we engage with technical stakeholders on a fortnightly basis. Of course, our reputation with the trade press is much improved, so we get an awful lot of complementary support from them, in terms of getting our messages out there. There is always more that we can do though. I accept that.

Q46 Neil Parish: Last couple of questions: in its last annual report, the RPA describes the introduction of a new performance management system. How has this affected the level of employee engagement?

Mark Grimshaw: I think it has probably had a slightly depressing impact on employee engagement, and that is because we are actually looking at the contribution that individual employees make. We manage our people far more intensely than we did as an organisation four years ago and that means that people are given objectives; they are subject to mid-year and end-year reviews. Those who perform well are rewarded in terms of performance bonuses; those who do not are put on a performance improvement plan. That is part of the commitment I made to you three years ago.

Q47 Neil Parish: It is probably a good job they do not do that to MPs. Joking apart, for the year ending 31 March 2013, the average number of working days lost to the RPA was 9.2. This is an increase on the equivalent figure in the previous year and 1.5 days above the Cabinet Office target. What are the reasons for this and what steps are you taking to try to reduce the absence across the Agency?

Mark Grimshaw: Again, this is a very good question. It was 10.5 in the year that I took over. At the end of the financial year 2013-14, it will be 6.5, so we are below the Cabinet Office threshold of 7 and we will continue to drive that down. I expect it to be at 6 by Christmas. That is a direct result of the voluntary exit schemes that we have run, where one of the criteria for consideration was the level of sickness absence that people had taken previously.

Q48 Neil Parish: The level of absence probably does reflect the level of stress sometimes, so hopefully the situation is getting better. Therefore, that is reducing the amount of absence.

Mark Grimshaw: I agree with you, and I think people are far more engaged with the work that we are asking them to do as well.

Q49 Richard Drax: Mr Grimshaw, the RPA forecasting depends upon accurate assumptions being made about what will be delivered by the CAP Delivery Programme and when it will be delivered. To what extent have you received sufficient clarity over the timing and content of the final CAP system and interim releases?

Mark Grimshaw: Again, you are absolutely right that that is how we would do our medium- and long-term forecasting and how we would look at our organisational design. We have been working literally hand in glove with the CAP Delivery Programme from before the days it was referred to as the CAP Delivery Programme. You may recall that it was originally called the Future Options Programme, which was actually a programme that was run by me as the SRO. It became the CAP Delivery Programme back in November two years ago, when Ian took over and created a pan-Defra activity. We have been engaged with the Programme for all that time. We run a very detailed set of relationships. We have over 70 of our people embedded in the Programme. We have a transition business.

Q50 Richard Drax: Forgive me, Mr Grimshaw; I am very impressed by everything you are saying, but the question really is: have you had sufficient clarity? Do you know where you are and where you are going? That is really what I am seeking.

Mark Grimshaw: Absolutely. We are aware of the six releases that Ian referred to earlier. We are working very closely with the Programme on release one, which is July, and also finance release one, which improves the Agency's Exchequer finances and HR systems. In order for us to implement, we have to be working hand in glove with the Programme, so that we know what is coming down the track. It could always be better. I think we would both accept that.

Q51 Richard Drax: What could be better?
Mark Grimshaw: The general communication. We are a floor apart in the same building, so we know what is going on in the Programme and they know what the challenges are on the delivery business.

Q52 Richard Drax: So you are happy, are you?
Mark Grimshaw: I am content.

Richard Drax: Reasonably so?

Mark Grimshaw: I am content.

Q53 Richard Drax: Again to you, what level of contingency have you built into future delivery budgets and are you confident that these are sufficient?
Mark Grimshaw: Do you mean for the delivery of CAP Delivery services or for the Agency as a standalone business?

Richard Drax: I think the question implies the delivery of the budget.

Mark Grimshaw: As far as the Agency is concerned, we have an operating budget controlled by the Department that has come down year on year. It is a very challenging budget settlement for us this year. We do not have the luxury of contingency, so anything that we need to spend on something that was not planned for we are going to have to recover from somewhere else in the budget. Ian will be able to comment on contingency within the CAP Delivery Programme.

Ian Trenholm: We have an overall budget envelope of £154 million to deliver the CAP Delivery Programme and we have an operating revenue contingency of £6 million but, at this point in the Programme, we have made all our major procurements and we have forecast where we will be. We forecast on a monthly basis and we refresh that forecast going forward. We are, at this point in the programme, confident that we will have enough money.

Q54 Richard Drax: The contingency of £6 million, will that be sufficient?
Ian Trenholm: We think that is sufficient based on what we know at the moment. As Mark was describing, there is the finalising of the policy, which will become clear over the next two or three months. That is when we may have an issue but, at this stage, we do not expect there to be too much of an issue.

Q55 Richard Drax: Mr Grimshaw, you said you may have to go to other sources or do something else if you do not have sufficient. What does that mean? Is that redundancies or what are we talking about here?
Mark Grimshaw: It means that we will simply have to reassess where we are going to spend the disposable element of our budget, so the non-people, non-estates, non-IT elements within the Agency. We run a number of other programmes, some of them

running on from the Strategic Improvement Programme. We may decide that we cannot continue that investment and we will have to reassign the funding.

Ian Trenholm: In the event that that is not possible, Mark would come to Defra and we would then review that in the context of broader Defra funding. If there was a need for more funding to go into the RPA, we would make some judgments within the broader Defra budget.

Q56 Richard Drax: Would you be prepared to let the other thing go? If you could just quickly clarify, I am sorry, the other things you might let go; what was that exactly? You almost hinted you would be prepared to let that go, if the situation got to the point you would have to. You are saying, Mr Trenholm, that, if that went, they would come to the Government. What would you have to let go? Would you not go to the Government first before letting it go because, if you are doing it and it is worth doing, why get rid of it, whatever it is?

Mark Grimshaw: If I give you a "for instance", we run the trader schemes for England. We are currently embarking on a review of those schemes. We could stop that review; we could postpone it for 12 months. It will not have an impact on business as usual. It will delay us putting in any further improvements, but that is the sort of judgment that my executive team and I would expect to make on that.

Q57 Richard Drax: What are the trader schemes, briefly?

Mark Grimshaw: That is where people are buying and selling chicken joints, rice, barley, wheat and those sorts of activities.

Q58 Richard Drax: Mr Trenholm, in our inquiry on Defra's annual report last year, you told us that the RPA was "making less and less use of consultants over time". What evidence do you have to confirm that this is a continuing trend?

Ian Trenholm: The RPA or the CAP Delivery Programme?

Richard Drax: I think the RPA. You said the RPA "was making less and less use of consultants". That is the quote we have here.

Ian Trenholm: I am sorry; I do not have it in front of me.

Richard Drax: It is the use of consultants by the RPA.

Ian Trenholm: Yes, I think they are using fewer consultants.

Mark Grimshaw: Yes, absolutely. One of the big challenges was to replace consultants and contractors with permanent civil servants. In terms of consultants, we have fewer than 10 consultants working in the RPA currently.

Q59 Richard Drax: What was it? It is fewer than 10; what was it beforehand? What figure has it gone down from? 100, 50 or—?

Mark Grimshaw: There were 62 consultants when I took over, including three who were actually on the executive team.

Richard Drax: And there are now 11?

Mark Grimshaw: I think there are fewer than 10 actually, but I am more than happy to drop you a note just to confirm what those numbers were at the start of this month.

Q60 Richard Drax: What do those consultants cost? Do you know roughly?

Mark Grimshaw: Consultants typically cost around about £700 a day, depending what work they are actually doing for us. We have been using consultants in our finance environment, because we have moved quite a lot of our existing civil servants into the CAP Delivery Programme to make sure they have subject matter expertise to help improve the delivery of the finance elements of the CAP solution. We are using the people who we are using for a very short time on a very specific piece of work.

Q61 Richard Drax: Will this number reduce once their job is done?

Mark Grimshaw: Absolutely.

Richard Drax: Next time we see you, it could be two consultants?

Mark Grimshaw: It could be two.

Q62 Mrs Glindon: I apologise for having been absent for part of the session. Could I ask what level of disallowance penalties you forecast under the new CAP schemes?

Neil Parish: That is a dangerous one.

Mrs Glindon: It is rather what you would forecast incurring, I should have said.

Neil Parish: I am going to write down the figure.

Mark Grimshaw: Perhaps I will start with a tiny bit of history on this one. Where we are at the moment is that disallowance runs at around about 3.9% of total scheme expenditure, and that is from the start of the scheme back in 2006. To be absolutely precise, we have paid out just over £17.6 billion and the financial correction runs at around about £687 million. 3.89% is 1.89 above the threshold that we are currently working to, so we currently try to maintain disallowance at or around 2%. The challenge from the Permanent Secretary when we began to set up the CAP Delivery Programme was that system-based disallowance ought to be zero and that is one of the challenges that we are still running with. However, it is just worth reminding everybody that customers are one of the biggest sources of disallowance and very difficult to control. I would imagine, given the increase in activity from the European Court of Auditors that we would be doing incredibly well if we can hold disallowance to 2% of future scheme expenditure.

Q63 Mrs Glindon: What would 2% be in money terms?

Mark Grimshaw: In real money, 2% is probably about maybe £40 million a year or something of that magnitude.

Mrs Glindon: That is roughly what the National Audit Office thinks it will come to.

Q64 Chair: If we could take up your offer of the note on the cost of consultants, that would be great. Could you just share with us what proportion of your budget goes on staff costs in percentage terms?

Mark Grimshaw: It is about 40%.

Q65 Chair: Out of the other 60% then, the disallowance comes out of the money that would be going to—

Mark Grimshaw: No, the disallowance does not come out of the Agency's budget. Disallowance is carried by Defra as a departmental charge.

Q66 Chair: The 60% is what is allocated to—

Mark Grimshaw: IT costs, estates.

Q67 Chair: That is helpful, thank you. We are always interested in bonus payments. Could I just ask you what the policy is now? I thought the Government was trying to reduce bonus payments. What is the policy for senior directors?

Mark Grimshaw: For members of the senior civil service, it breaks down into three different categories—not three different categories of bonus but three different levels of performance. For the sake of the discussion, let us call them level one, level two and level three. Level two, which is the vast majority, are not entitled to a bonus. Level three, which are usually those on an improvement programme, are not entitled to a bonus. Level one are entitled to a bonus, and that, volume-wise, currently stands at 25% of the people in the overall SCS. Potentially in my organisation, two of my directors could be eligible for a bonus, but that is done on a comparative basis with people in the same types of job functions across Defra.

Q68 Chair: I know that the arrangements as regards governance were changed, so you are now on a quarterly performance review, between Mr Trenholm, yourself and Defra, as corporate owner. How do you find that those arrangements are going now?

Mark Grimshaw: It is much better and I think it was a natural development. Three years ago, people wanted to understand what the challenges were. Minister Jim Paice had set up the oversight board and I was attending a governance meeting of some description probably twice a week. You have to earn your way out of that, which we managed to do. We stood down the oversight board just over a year and a quarter ago and went on to the new arrangements. At the same time, we also increased the number of non-executive directors in the Agency, and I took on a non-executive chair of the Agency management board, which was one of the recommendations that the NAO and the Public Accounts Committee had made. I have five non-executive directors, and three of them are all current and active farmers, so we are getting customer input as well.

Q69 Mr Spencer: Can I ask: do you benchmark yourself against equivalent departments in other Governments, as to your performance in terms of costs per hectare or costs per client?

Mark Grimshaw: No, we do not actually. I am happy to take that on and have a look at it.

Neil Parish: This is probably more of a comment than a question. It is just to say that, in the past, we quite rightly have been very critical of the RPA, but probably today we ought to say that we are quite pleased with the way that it has come on. It is no good to keep kicking you all the time when you are actually doing a decent job. We will still turn around and kick you if you come back and have done a bad one, but I just wanted to put that on record.

Q70 Roger Williams: Could I just ask how your relationship with the payment agencies in devolved countries is progressing, particularly when dealing with those farmers who have land both in England and Wales, for instance, especially common land? Commons sometimes go across the border between England and Wales. Is your timeliness in resolving those issues improving or is it still an issue for you?

Mark Grimshaw: It is improving and I do not think it is as big an issue as it was three years ago. I happen to have a breakdown by constituency for you, if you are at all interested. In terms of our relationship with the devolveds, that is something that we take very seriously, because the RPA as the paying agency is actually responsible for the distribution of all CAP funds to all the devolveds, whilst we do not make the individual payments in Scotland, Wales and Northern Ireland. I have a director who is responsible for maintaining good and active relationships with the devolveds.

We are also very active with the other members of the EU, so we attend all the relevant meetings to make sure we understand what is happening in other countries and the challenges that they are facing. As far as cross-border claims are concerned, we agreed, probably two years ago, who would take the lead responsibility for the payment. That has made things an awful lot slicker.

Q71 Roger Williams: Wales is going now from an historic payment to an area payment. Are you going to give them a bit of a hand to learn the lessons that were learned with such great difficulty previously with the RPA?

Mark Grimshaw: If I were being flippant, I would say "good luck". You simply have to go through the period of time. We are fortunate that we have been through it and come out the other end. Moving from headage to land is difficult.

Ian Trenholm: It is also worth saying that, on the CAP Delivery Programme, we have informal relationships with Wales, Scotland and Northern Ireland. They have been to visit us and we have been to visit them.

Q72 Chair: On the basis of the new non-executive directors, you think you have a better relationship with the customer, but how would you rate the relationship with Defra now, under the new governance system?

Mark Grimshaw: I think our relationship with Defra is very good. We are no longer the black sheep of the family, so they have pretty much let us get on and do what we need to do. We have some very challenging targets and, when you show green performance against every one of your KPIs, people tend to trust you to get on with the job. I have my six-weekly review with the Permanent Secretary tomorrow and I know that there will be certain elements that she will want to just remind me of, in terms of, "You need to do just that little bit better."

Chair: On behalf of the Committee, thank you very much, Mr Trenholm and Mr Grimshaw, for coming back to us again. Some of the things you have said are quite surprising in terms of the additional costs of the reform, and also the disallowance. You detected our concerns about digital by default but, if we can give you any support, we stand placed to do so. As I said at the outset, the fact that when I visit my farmers now I am not getting the same flea in my ear that I used to shows that you really have turned the ship around. You have gone from the black sheep to the spotted cow. If you are ever in Malton, I will buy you a cup of coffee in the Spotted Cow. Thank you very much indeed for being with us today and for allowing us to go and do our duty and vote, which accounted for the later start. Thank you very much, both of you.