Environment, Food and Rural Affairs Committee

Oral evidence: Common Agricultural Policy, HC 405

Wednesday 23 March 2016

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Watch the meeting

Members present: Neil Parish (Chair); Chris Davies; Jim Fitzpatrick; Simon Hart; Dr Paul Monaghan; Ms Margaret Ritchie; Angela Smith; Rishi Sunak; Valerie Vaz

Questions 162 - 225

Examination of Witnesses

Witnesses: **George Eustice MP**, Minister of State for Farming, Food and the Marine Environment, Department for Environment, Food and Rural Affairs, and **Mike Rowe**, Deputy Director, Common Agricultural Policy, Department for Environment, Food and Rural Affairs, gave evidence.

Q162 Chair: Minister, thank you very much for coming in. You came in at short notice, which is very much appreciated. We had Mark Grimshaw in about a fortnight ago and we took some very good evidence. The whole idea was to ask you in today so that we can put your evidence together, and then we are going to put a small report together—just to check that everything that is said will happen, of course. I know that for certain it will, but it is just to make sure that it does. Anyway, you are very much welcome. Mike Rowe, I take it you are the expert on CAP, are you?

George Eustice: Mike Rowe is one of our lead officials on CAP and has been involved in CAP-D from various perspectives. He has dealt with the Pillar 2 and currently has overall responsibility on CAP.

Q163 Chair: I have just been out—there are a lot of Farmers for Action outside, and they have delivered a letter to No. 10. There are huge problems with farm prices, and the one thing that the Government can do is deliver the single farm payment on time. My first question to you is: are you content with the RPA's performance in delivering the basic payment scheme so far this year?

George Eustice: Yes, from the starting point we had. Clearly, the issue that we had about a year ago, where we realised that we were not going to be able to make the computer work in time for the opening of the application window and therefore had to switch to a paper-based approach, was quite a setback. Since that time Mark Grimshaw and his team have worked around the clock. We have had around 1,000 people on this project: they have been working weekends, and I think we have done well. If you compare this particularly with, for instance, what has happened in Scotland, where they have had even greater problems than we have, from the difficult start we had we have done well to get the payments out as quickly as we can, particularly given the background to this, which is the most complicated CAP ever.

Q164 Chair: The Rural Payments Agency says that we only have a few thousand left at the end of this month. What is "almost all" and what is "a few thousand"? It means an awful lot to those individuals that have not been paid. It seems a little bit of a slightly blasé remark, if I could be so bold.

George Eustice: I think the point that Mark was making is that in any normal year, so 2014 or 2013, you would typically have several thousand cases that the RPA term the "super complex cases", and these are typically quite large organisations, including people like the National Trust, with very complex claims. They always in any year take longer to process. There will be those few thousand left certainly. We are now well under way in terms of paying people with common land, and we are also putting in the final changes needed to ensure we can pay those outstanding people who had inspections.

Therefore, the two key groups that have had a delay are predominantly people—around 9,000—who had to have an inspection, and it took time to get those inspection results in. We could not pay them until they were processed. Secondly, there were around 4,000 or so claims where there was common land involved, and you will be familiar with the complications caused by the Minchinhampton commons challenge, which forced us to change the way we deal with commons allocations.

Q165 Chair: I will move on to the commons land, but what is the real problem with the inspections? I have a case here where a lady rang, and she had had an inspection but she had not changed her entitlements: nothing had changed from the previous application other than the new system, and yet still she waits for payment. When you had an inspection, why did that slow everything? I can understand if it was complex when they went there, but surely if it was not complex when they got there, why has that taken so long?

George Eustice: My understanding is that quite a lot of the people who did not have penalties—so, where there were no problems highlighted through the inspection—were then able to be paid. There are two reasons why it has been a bit more complicated this year. First of all we have had the greening requirements, so there is another whole tier of rules and regulations that they need to inspect against.

The second thing is when we were prioritising how we would approach payment of claims, we said, "Let's adopt an approach that enables us to pay as many people as quickly as possible." That meant prioritising the various software drops so we could get payments out in the first place. It meant that the final software drops that dealt with processing inspection results were left until later in the process to enable us to get more payments out the door early. That was the reason that those who have had an inspection have faced delays. I know that is frustrating for them, and in some cases they will not even realise that they have had an inspection because they would have been remote-sensing inspections. It was not necessarily just where an RPA inspector turned up.

Q166 Chair: As far as they are concerned, they think that it is a double whammy, don't they? They have had an inspection, they passed the inspection and yet they have had to wait till very last, whereas if you were lucky enough not to be picked out of the bag and have an inspection, you have got your payment a lot quicker. It does not seem entirely fair.

George Eustice: I can understand how they would see it that way, but I would make two points. The first is the reason we did it that way is it enabled us to ensure we got the vast majority of payments out as quickly as possible, and we wanted to get as many payments out as fast as we could. The second thing I would say is now that element of the software is completely finalised and completed for this year's application, it will be much easier because it is already there, and the inspection results can be processed expeditiously, just as they are in a normal year.

Q167 Chair: I am conscious of your time. I will bring Chris in in just a moment. One final part of this first question from me is that we started off paying 33,373 at the start of December, and then the few thousand that are left now at the end of March is some 4,355. It is still in my view, and that of the farmers out there who are desperate for cash because of farm-gate prices, far too many. Do you think you are going to be able to do better than the 4,000 left, or is it going to be worse than that? We have not got much longer in March, have we? We have got Easter as well. What is happening over Easter?

George Eustice: There are two more batches due to go out this month. There is one, correct me if I am wrong, that goes out at the end of this week, and then a final one just before the end of the month, so there are two more batches. We are working as hard as we can to get as many people in those batches as we can. The second batch in particular, we hope, is going to be a large one, where we will get a lot of people through.

It is too early to say exactly what number we are going to get to, but we are working to get as many through as we can. I know at the beginning of the window there was a lot of concern about how many we could get paid quickly in December and how many we could get done in January. Now that we are down to the final few, we can split hairs over whether we are 2% here or 2% there, but the truth is we are working as hard as we can to pay everyone as quickly as we can.

Q168 Chair: It is not splitting hairs if you are waiting for that payment, is it? That is what you have got to realise. It is all very well that you have got problems, and we accept that, but it is not acceptable for those farmers that are waiting. "Splitting hairs" will not go down very well with them.

George Eustice: I know. The point that I am making, though, is that we should be spending our time and effort paying people, not analysing figures and worrying whether it is 80, 90 or 92.

Chair: Okay. Well, I just pick you up on "splitting hairs".

Q169 Chris Davies: Again, picking the Minister up on something he has said, I have heard you say twice today already, Minister—and your words have been carefully thought out and right on the nail—the phrase “they have done very well” about the Rural Payments Agency. Following on from the Chairman’s comments, there are many people that have not been paid still and there are some people who have just been paid. Now, they would not say that the Rural Payments Agency have done very well at all, so what would you say to those people?

George Eustice: I think I made the point they have done very well from the position that we had a year ago, when we suddenly had the difficulty with the computer, and they have worked incredibly hard to do that.

Q170 Chair: Who caused that problem? Was it Government that caused the problem? It was not the farmers that caused the problem; it was the Government. It is the farmers that are waiting, you see.

George Eustice: My honest view is the European Union has made the CAP more complicated than ever, and this has caused everyone lots of problems. Indeed, regulations and the threat of disallowance mean we are not able to expedite payments in a way we otherwise would.

Chris Davies: I agree fully with what the Minister just said.
Chair: Just because he is on your side on Brexit, do not start flattering him too much.

Q171 Chris Davies: You made the decision in your Department, Minister, to pay not part payments but full payments and full payments only. In some of the devolved nations, they have decided to pay part payments. Looking back now, when some people have not received any money at all, was it right or wrong to purely pay full payments?

George Eustice: It was the right thing to do because Scotland did part payments and they diverted resources into working out how to do part payments. As a result, although I am not sure what their latest figure is, they have only paid around 50% of farmers a part payment. They have two problems.

First of all, they have to pay the other 50% their part payment for this year, and then they have to be very quickly reconciling that part payment with what the full payment should have been and doing a second payment, all of which will take time and effort. The window for this current year’s application has opened and we are already taking applications. If you had diverted resources into getting in a muddle over part payments, you might have ended up paying fewer people a part payment than we have been able to pay a full payment, and you would have also diverted crucial resources away from getting back on an even keel for this forthcoming year.

Q172 Chair: You have got no muddle at the moment.

George Eustice: No. We have received so far around 800 completed applications, and we have had around 2,000 applications that have started for the year of 2016. We have sent out 10,000 prepopulated forms already this week and another 10,000 will be posted during the course of today and tomorrow. We are in a good starting position for this year. The application window only opened at the end of last weekend, and we are seeing good results already, as I said, with, I think, 865 farmers having already completed successfully their application for this year.

Q173 Chair: Thank you. That is very good. We will put that down in evidence and we will make sure that it is all delivered. Second question: are you confident that the majority of commoners will be paid by the end of March? Also, are you going to contact these commoners? I think they really feel left out. What is happening to them?

George Eustice: As I said, we started paying some of the commoners just at the very end of February, so we are in the process now of paying some of those. I am going to have to ask whether, Mike Rowe, we expect to be able to pay most of them by the end of March.

Mike Rowe: I am not sure I would want to speculate on whether we could pay the majority of them by the end of March, but certainly they are now in that segment of customers who, as a result of the functionality drops—

Chair: Sorry, I did not catch what you said. The majority?

Mike Rowe: I am not going to speculate on just how many will be paid by the end of March, but that category of customers is in a bracket such that we can begin to make those payments, as the Minister has said, because the functionality is in the system and is working.

Q174 Chair: Are they being contacted at all? We are getting to a stage now where you are well through the window. I know you have technically got the window right until June but these people have waited a long time. What contact is the Rural Payments Agency making with people who are still waiting for those payments?

Mike Rowe: The Rural Payments Agency has written to individuals on a number of occasions and there is also a helpline number that individuals can phone if they have additional queries. They are doing everything they can to make contact with those customers who are still awaiting their payments.

Q175 Chair: You say "on a number of occasions". When was that? Is that this month or when was it?

George Eustice: Those with common land initially would have been contacted in November last year to inform them that they were very unlikely to get their payment before the end of January. There was a subsequent email that went out in February to inform people what the current state of play was and how we were approaching it. There is an issue here. The RPA have emailed people and tried to inform people about what is going on. There is a simple fact here, and it is a frustration that I entirely understand: people are frustrated because they have not received their money. They will quite often then say, "We have not had any communication," when actually they have had the communication; it is just it is not the communication they want. What they really want is a cheque in the bank, and I completely get that and understand that, and that is why we have been working so hard to try to get those out as quickly as we are able to.

Mike Rowe: If I could just add to that, Minister, there is a cohort of about 450 customers who we are still trying to persuade to register on the system so that they can be paid as well.

Q176 Chair: I understand that, but you can understand also, quite rightly, as you have said, Minister, the frustration for farmers: when they want to try to pay some bills, they want that cheque. They are just worried that they do not know where they are in the system, because they are not being paid and they are not really being contacted. I would like to see them at least contacted so that they have got some hope that the money is coming, because some of them are very desperate at this stage.

George Eustice: No, we appreciate that. The next contact we really want with all these farmers is just to get them their payment.

Q177 Ms Ritchie: Minister, having had time to examine all of this and talk to Mr Grimshaw, and having taken evidence from Mr Grimshaw, do you believe enough support has been given to farmers facing cash-flow issues as a result of the delayed basic payment scheme?

George Eustice: I suppose the first thing to recognise is that, while we have had a very good track record in recent years of paying almost all farmers during the month of December—in fact in 2014 we paid 95% on day one of banking—the payment window does run from December through to June. That is important to acknowledge. We obviously always try to pay people as quickly as we can, but the payment window runs for that period.

In terms of what we have done to help, I have been having regular conversations with all of the banks to keep them apprised of where we were: who we expected to pay and when. We alerted the banks that there could be delays for some people with common land and that there could be delays for people who had had inspections.

We sent the letter to those farmers in November—and we warned the banks of this—because we wanted them to have a letter they could take to their bank to give the bank the reassurance that they had successfully submitted a claim and it was being processed, so the banks would be able to extend credit during that time. We have also had since Christmas a hardship fund for those farmers who are in really serious situations to be able to go to the FCN. The FCN and the Prince's Countryside Trust offered to help us put this together so that where you had real hardship cases we could expedite a part payment from Treasury rather than the EU fund. There will be several hundred who have gone that route and have done that application, and we have turned around those applications very quickly in those cases.

Q178 Ms Ritchie: Bearing that in mind, are you aware of any farmers or any farms that have gone out of business over the last year due to any delayed payments?

George Eustice: No, I am not aware of any that have gone out of business due to delayed payments, and I suspect it would not be the right reason for them to go out of business. If a bank were going to foreclose, they would not want to do that prior to somebody receiving money to which they are entitled. Most importantly it has caused cash flow problems for farms and it has meant that farms have had to ask their bank for an extension of overdraft facilities. Because we are in a difficult situation, in a way, sometimes they will ask for repayment holidays on loans, for instance. That type of thing has been going on, but I am not aware of anybody who has gone out of business specifically or exclusively because they have not had their payment.

Q179 Ms Ritchie: Recognising that farmers and farms are facing difficulties, can you clarify that your discussions are still ongoing and will be ongoing with the banking institutions in relation to this issue?

George Eustice: That is right. I hold a typically quarterly, and sometimes more frequent than that, meeting with all of the heads of agriculture and all the major high street banks.

Q180 Ms Ritchie: If I may move on to the next question, it is to do with preparing for the 2016 payments. Farmers need to validate their payments received before making claims for this year. What is the Department doing to make sure that they have the information they need?

George Eustice: We are sending out the statements now. Mike might give you the latest details.

Mike Rowe: Yes. RPA has now sent out 31,000 claim statements, 29,000 more will be sent next week, and we expect the balance to follow in the week after that.

Q181 Ms Ritchie: Are you doing everything to ensure fairness for farmers?

George Eustice: Yes. As I said, I have been encouraged that in week one we have had 2,200 people that have started doing their application for this forthcoming year online; 845 of those have been successfully concluded as of yesterday, but this is growing. It is already up 200 or 300 in the last two days, and, as I said, we will by the end of tomorrow have sent out 20,000 prepopulated forms. I do not think it is essential that people necessarily have their statement from last year to be able to complete this year's application. I know some have said that they need it. It would certainly in some cases help perhaps, but it is not an essential prerequisite, but, that said, we are also getting the statements out as fast as we can.

Q182 Ms Ritchie: Do you, as Minister, and the Department accept that information delays are not the fault of farmers and, therefore, farmers impacted ought not to be penalised for consequential application delays?

George Eustice: Look, we take the most generous approach we can when it comes to what we call obvious errors. That is where there is a problem in an application that is an obvious error and can be corrected without penalty before it is finally completed. We do go through a process, particularly when we got the new CAP that we have now, of trying to take a very sensible approach on that. If people end up with minor errors on their application and it does not tally with something that they would otherwise have known about because of their statement, obviously we would be doing all we can to alert them to that and correcting it.

Q183 Ms Ritchie: Further to that, during Mr Grimshaw's evidence, Minister, he indicated that, whilst the penalty deadline for submitting an application was 16 May, application forms could be edited in the weeks after this. Is this something that Government is aware of and is publicising to farmers?

George Eustice: I am very well aware of it because I deal frequently with appeal cases where people have difficulties and miss deadlines, and/or want to change things in the few weeks after. You are right; there is a period of several weeks after it closes where, provided they have made a submission, they can make those amendments. We do publicise that. In 2014, when we had a less serious problem with our old computer system, there were a couple of glitches that happened there, and we did make sure that we contacted farmers who might have been affected and made them aware that they could, if necessary, get a submission in and make minor amendments in the weeks after the deadline.

Q184 Rishi Sunak: Thank you both for being here. When Mark Grimshaw was here he made a number of commitments, and one very welcome commitment was his expectation that this year, in 2016, he is planning to pay more than 90% of claimants by the end of the month, which obviously we have received warmly. I would like to get your thoughts on whether you think that is a feasible goal, and secondly whether you set him any particular targets that he has to meet?

George Eustice: Do you mean by the end of December for this year's application?

Rishi Sunak: Yes.

George Eustice: I am encouraged, as I said, by the strong start that we have had in just week one. It was always the case that the core of the system worked, as we have said; it was the interface that caused us the problems, but once we had resolved some of those difficulties and got people's year-one data on the new system, it became much easier thereafter. In many cases they do not have any change to their landscape features and they do not have any real change to their holding. They just have to change whatever information they are providing on the three-crop rule, and they can resubmit.

It is the case that it is going to be much simpler this time, because we also hope that we will get back to at least 70% of people completing their application online. We want to at least get back to the position we were in back in 2014, where over 70% to 80% were submitting online. It will be easier, and I am encouraged by Mark Grimshaw's confidence that he will be able to get us back to normal business this year.

Q185 Chair: Do you have that same confidence and do you believe that 90% of farmers will be paid by the end of December? I want to know what your views are.

George Eustice: We have had a lot of figures and a lot of targets. Having had a lot of experience of how IT works or sometimes does not work in the last two years, all I can say is I have got a huge amount of confidence in Mark Grimshaw. He has turned around a very difficult situation over the last 12 months and he has got a good team around him.

Q186 Chair: You do not want to put on record that you are confident that 90% of the payments will be paid by the end of December.

George Eustice: I am confident we will be back to normal business by December, but I am not going to put any hard figures on it.

Q187 Chair: You are not going to, so therefore you have not got full confidence, have you? If you did, you would be able to say so.

George Eustice: In any year you are not able to say exactly what you are going to do.

Q188 Chair: He stuck his neck out and he manages the RPA on behalf of the Government and on behalf of Defra, and you are the Defra agricultural Minister, so I would expect you to have that confidence in him and his figures.

George Eustice: I have got confidence in him, yes. If he believes he can do over 90% in December again, of course I have got confidence in that. As I said, it is year two. It is much easier. The data is already on there.

Chair: You have made that point, so I am going to bring Simon Hart in, please.

Q189 Simon Hart: On that point, when we interviewed or took evidence from Mr Grimshaw before, I might be misquoting other members of the Committee but I got the impression that he thought 70% or 80% was somehow an indicator of success, whereas if you were one of the 30%, 20% or 10% who were not in that figure and you were customer of the Department, that was an indication of massive failure. In your discussions with Mark Grimshaw, is there a figure that you both agree is acceptable to reach by certain dates, or are you both determined that anything less than 100% is an abject failure on the part of the Government and that you need to do better?

George Eustice: The discussions I have with Mark on a weekly basis on this are "Where are the glitches? Where are the problems? What are the things we could do to expedite things and make things happen faster?" I guess from the point of the view of the RPA, I know how hard they have worked on it. I know how very frustrating it is if you are one of the 30% of farmers who has not been paid. I absolutely get that. I suppose from the point of view of Mark Grimshaw and his team, they are working very hard on this, and they were making progress to get these payments out, and they have. They have done well from where we started, but I completely agree that does not take away from the fact that, if you are one of the farmers who had not been paid by the end of January, you would not feel very happy about it.

Q190 Simon Hart: I can understand why you do not want to put on the record what the Chairman was pushing you to.

Chair: Even though Mark Grimshaw has.

Simon Hart: Dealing with the target and the objectives and the ambitions, can you put on the record that your shared ambition with Mr Grimshaw is to get 100% of the payments done on time, that is the only measurement of success that there is, and is that something that the Department and Mr Grimshaw have a shared view on?

George Eustice: Technically on time, as I said earlier, means by June, when the payment window closes, but we have had a very strong track record in recent years. It was not always the case, but we have had a very strong track record of paying in the high 90s in percentage terms during the first month of the payment window opening, and of course, yes, we want to get back to that kind of level. We want to be paying as many people as we can during the first day of banking—as early as possible.

Q191 Chair: Finally, will the majority of CAP payments be made on 1 December—that is, over 50% on 1 December? Are you confident of that?

George Eustice: I cannot say that at this stage. We have got 2,000 applications started and 20,000 prepopulated forms in the post, or at least half of those are about to go into the post, and we only have at the moment—and it is a welcome start—845 applications completed. I will be able to give you a clearer indication probably in the autumn about what we are likely to be able to achieve in December, but we have got confidence in our system.

Q192 Chair: You are offering to come back again in the autumn, are you, to fulfil our ambitions?

George Eustice: I am more than happy to come back again in the autumn.

Q193 Chair: As Mr Hart has said, you have got to drive more and more of those payments to be made, because anything else is considered by the farmers to be a failure, however difficult. One final point on this: of the prepopulated forms that have gone out, have the farmers all had their validation for last year? If there is a problem from the validation of last year, it could be compounded in the new form. That is certainly what we had with the old system, and if it is not teased out in the first year, it carries on and becomes even more complicated afterwards.

George Eustice: I am going to ask Mike to come in on that.

Mike Rowe: If customers have received their payments, their payments should have been validated and verified, and some will have received their payments but not their claim statements.

Q194 Chair: That is right. It is the claim statement that a lot of them have not received.

Mike Rowe: The claim statements will be going out, as I said.

Q195 Chair: I am asking whether the people who have received their prepopulated forms have had their statements.

Mike Rowe: Some will not have done, because those statements have only just started going out in bulk. The key thing is you do not need your statement from 2015 to prepare your 2016 application.

Q196 Chair: You do not in theory, but in practice you need to check. If you received the cheque for your single farm payment, you have no idea how exactly it has been calculated. The trouble is if it has been calculated in the wrong way and it is on the prepopulated form for 2016, you will not get that right. That is the problem.

Mike Rowe: With the plan we have for sending out those claim statements, there should still be adequate time between all customers receiving them and the 15 May deadline, because they are due to go out in the next couple of weeks.

Q197 Chair: They should follow together, otherwise there is no point in sending out prepopulated forms. If farmers have not got the right information, they will not be confident in filling them out. It is all very well to claim that number of forms have gone out, but if you have not got the statements out as well, it is premature.

George Eustice: I just want to make a point on this. The claim itself is: "What is the area? What are your entitlements? Have you satisfied the greening rules?" Those criteria are matters of public record. They are in the guidance. The claim statement tends to deal with issues such as: "Was there a financial discipline that meant the overall payment was done a bit? Has there been a change in the exchange rate that means your payment this year is probably a bit less than you would have expected?" because exchange rates have gone against us. It is those kinds of effectively EU-wide alterations to the global budget that affect people's statement rather than individually. There are some issues around if they have got a penalty, for instance; that would be a factor, but they do not necessarily need that statement in order to start their application.

Chair: No. It is just that farmers need the confidence to believe that they were paid in the right way, because you are quite right: deductions have been made, but if you just receive a payment you have got no idea why those deductions were made. I am conscious of time. Can I bring in Jim now, please?

Q198 Jim Fitzpatrick: Minister, Mr Rowe, good afternoon. Thanks for being here. This all feels very familiar, Minister, because I sat in that position answering very similar questions back in 2009-10, and although we are talking about different systems and different IT systems, it was about volumes of payments and mistakes being made etc. I recognise that which you are describing: daily conference calls to the RPA, weekly meetings, close collaboration and supervision. It was not perfect then and it is clearly not perfect now. The RPA has got two different challenges: ones is to avoid disallowance penalties and the other is to make as many payments as possible. Do those two come into conflict at any time? Do you have to give advice or advise on which is the priority: avoiding the penalties or making the payments, or can they deliver both?

George Eustice: Yes, there is a conflict there, and indeed one of the reasons why we cannot get on and pay people, as some would say, is you have to validate the claim and complete the inspection. You cannot just pay people out of the EU fund. It is why the hardship fund is something that we are paying out of Treasury funds and then ultimately reimbursing it out of the EU fund. There is a conflict, and we did have a conversation last year in August/September time about whether we could expedite things, make more payments earlier and avoid some of that inspection verification validation process. We went as far as we could.

There were a few tweaks that they could make and changes they could make whilst staying on the right side of disallowance risk, which they did where they were able to.

But it is an expensive business getting disallowance. You had hundreds of millions of pounds of disallowance after the introduction of the last scheme. We regularly get disallowance now. It is the bane of our lives. It is a very difficult thing. Any Minister, and you will recall this, hears "disallowance risk" every day of their working life. It is a constant threat, so yes, there is a tension, but where we were able to push the boundaries we did.

Q199 Jim Fitzpatrick: Are you ever asked by the RPA which is the top priority: payments or avoiding penalties?

George Eustice: We want to make payments as quickly as possible while avoiding penalties, and that has been our approach.

Q200 Angela Smith: Bear with me a moment. I do apologise.

Chair: We had to bid for these—but I know you had another meeting before this, hadn't you?

Angela Smith: Yes, I always do—it proves I have read the brief, as I know which questions I wanted to ask. Minister, will the new system keep disallowance penalties below your target of 2% of total CAP payment?

George Eustice: A lot of the disallowance we have had historically, both after the 2005 scheme was introduced and more recently, comes down to some mapping issues. Sometimes there are claims where there is woodland but more trees per hectare than technically allowed, and the mapping we have does not enable us to distinguish that adequately, so we get a disallowance fine. Sometimes we use imagery where you get a little bit of cloud cover and the Commission argue that you cannot perfectly verify what is there or not there, and we get disallowance fines for that. We are investing around £45 million—Mike, correct me if I am wrong—in a new land-parcel information system, which is to try to get better and more accurate mapping, which is probably the single most important thing we can do to reduce some of that disallowance risk.

Q201 Angela Smith: Do you think, Minister, that that is the key means of bringing the cost down below the target of 2%? You think that will deliver that target.

George Eustice: I certainly hope it will. The disallowance scene at the moment is quite difficult, because there is a countervailing change that has gone on. In 2013, when the CAP was negotiated, the horizontal regulation, which is the part of the basic CAP regulations that governs penalties, was changed by the Commission, and member states like us were unable to block that change. They increased the level of penalty that you get in disallowance from 2% for an ancillary control failure to 3%, and they changed the system so it is more likely that fines will be aggregated together, rather than taking the highest fine. Therefore, if you get multiple fines, you could have that ratcheted up more quickly.

We do not yet know how that is going to play out through the system as fines. You do not have to be a rocket scientist to realise it is going to create probably an upward pressure on penalties, but that is why it is all the more important that we get things right to reduce our exposure to disallowance.

Q202 Angela Smith: What else are you doing to reduce your exposure? That was the question.

Mike Rowe: The Department has a disallowance strategy in place that includes the £45 million investment in mapping data that the Minister mentioned. The decision to centralise Pillar 1 and Pillar 2, if I can use that jargon, in terms of the basic payments and agri-environment payments on the same system is in-built insulation against disallowance, because it means you do not have to have system interfaces and crosschecking between systems. It is driving both schemes off the same land and customer data.

It is fair to say that disallowance features centrally in all of the submissions we have put to Ministers over decisions where there is discretion about how to implement various aspects of the schemes. It is absolutely front and centre in our thinking on individual decisions, but we are also looking at other causes of disallowance. We have tried to pinpoint every cause of disallowance that we have incurred since 2005, when we had the big problems, to take proactive steps to manage that down.

Q203 Angela Smith: You must make regular comparisons with the performances on this by other member states, and indeed we have got data on previous years. How are we measuring up?

George Eustice: On disallowance, Germany does particularly well because they have very accurate mapping and we are keen to learn from them. Ireland does reasonably well in terms of having low levels of disallowance. The countries that do badly are France and Italy. At the bottom there is France; France last year had something like €1.6 billion of disallowance. We are by no means the worst; we are near the top, but there is another issue with disallowance. There is a point where, if you want to drive out disallowance in its entirety, you are driven down a path of adopting a very inflexible and very unfair approach to farmers. Innocent errors and innocent mistakes get ruthlessly punished if you are serious about removing all disallowance risk. There is a hazard. The last Government faced this. One of my predecessors—it might have been Mr Fitzpatrick—I know looked at taking a more relaxed approach to errors and negligence that were not intentional, and at that point I think we were fined around £15 million for showing that leniency, so it is difficult.

Chair: Sorry, Angela. Rishi is desperate to come in for a supplementary.

Q204 Rishi Sunak: Minister, it seems that the rules are just so inflexible that we have no ability to interpret them in a way that would be helpful. It leads one to the conclusion that inflexibility lies at the EU level. What success have we had at getting the Commission to relax some of those rules?

George Eustice: As Mr Sunak will know, some of us have got plans to get rid of disallowance altogether, but that is not the government position. We have raised this case. We have been making this point, and the Secretary of State, at the European AGRI Council last Monday, had an agenda item pushing just this case. We did get 16 member states to support us on that and a commitment from the Commission that they will have a look. I hope that will amount to something.

Q205 Angela Smith: I take your point, Minister, about not wanting to inadvertently penalise farmers by working to reduce disallowance penalties to the point where you are actually penalised. I get that point entirely, but my question was more about where we stand in the European Union league table. We know where we stood in the league table for 2005 to 2014, but the system has changed since then. All European member states are operating under the new system, so where do we stand at the moment under this new system in relation to the rest of Europe? In other words, are we performing even more badly than we were before or are we performing better than we were before?

George Eustice: We have definitely made huge improvements since 2009-10.

Angela Smith: That is not the question, George; you know that.

George Eustice: Can we predict the future? The trouble with disallowance is that, until the auditor turns up and decides they want to fine you, you do not know what your fines are going to be. It is too early to be able to make comparisons between us and other countries, because we do not know. An auditor might go to Germany and suddenly say they are going to get a €1 billion fine. We do not know that, and we will not know that until the inspection is carried out, so we can only ever make historical comparisons. As I said, we are not the best and we are not the worst. Germany does particularly well. France and Italy do particularly badly.

Q206 Angela Smith: Will you undertake to ensure that the Committee is informed as soon as you have an assessment available? It would be useful for us to know.

George Eustice: Yes.

Mike Rowe: The new rules that the Minister referred to are applying to payments we are making now.

Chair: It will be a year or two down the road, won't it?

Q207 Angela Smith: What pressure is the Department putting on Commissioner Hogan to simplify the scheme rules around disallowance?

Chair: I think that was someone else's question—I think we have two different formats here, but never mind.

George Eustice: I think we have covered the auditors. We are trying to argue that they should adopt an approach that is more akin to what the NAO might do, because the EU audit requirements are onerous and frankly over the top. It makes us do things that we otherwise would not do. It is not that we are lax about these things; it is just that we should be proportionate in the way that we do inspections. There are also things that we are arguing for in terms of cross-compliance—a different approach there and more proportionate penalties. Again, in cross-compliance the fact that farmers should be fined 2% or 5% is hardwired into EU regulations. It would be better if we could adopt a different approach to those penalties, so we are arguing for more proportionality of penalties and for a loosening of the audit requirements.

Chair: Rishi, come in. There are two different briefs, I think, and the questions were different. It is not Angela's fault.

Q208 Rishi Sunak: I very much welcome the Department's drive to simplify farm inspections. I think at last count something like 125,000 inspections were carried out across the country. Do you have a rough sense of how many of those relate to making sure that CAP works? How many of those inspections are there to comply with all the rules that are set down and to avoid disallowance risk? One would imagine it is a large chunk of those 125,000.

George Eustice: We do not do any more inspections than we need to for CAP, but of those 120,000 or so inspections that you mentioned, first of all more than half of those are TB tests, and TB testing is something we are doing for a very good reason and we cannot get rid of. Of the remaining 60,000 or so, we have already made progress in recent years where we can get synergies or do joint visits, or remove and recognise earned recognition, for instance. We have managed to drive that down already to around 40,000 inspections, and we have a Single Farm Inspection Task Force working at the moment, whereby we hope to drive it down further still. We are doing a lot of work to try to reduce farm inspections.

Inspections specific to CAP, though, are set out very explicitly in the EU regulations, and on the BPS side—Mike might correct me on this—at least 1% of the claims need to be inspected. At least 30% of those that you inspect have got to be random and the rest can have a kind of risk model attached to them. On some of the Pillar 2 claims, you need to have a higher inspection level of 5%, and with the greening requirements that have come in there is a higher inspection again, I think, of 5% for this year on many of them. It is complex but precisely the number of inspections you must do is all written in the regulations.

Q209 Rishi Sunak: We do not have the flexibility there to—

George Eustice: There is no flexibility. We do what we can, but there are some regulatory minimums in terms of the number of inspections we should do.

Q210 Chair: Playing devil's advocate, Minister, if you were running a policy outside of CAP and we had Brexit, you would then not have any inspections, would you? The National Audit Office would not want inspections of farms.

George Eustice: We would decide how many inspections we wanted, and we could do what we wanted.

Q211 Chair: You would have a job to get away with less than 1%, Minister, but we will argue about that another day.

George Eustice: If there was not a need for them all; we are trying to reduce it.

Chris Davies: Can we rule the Chair's question out of order?

Chair: No, you definitely cannot.

Q212 Valerie Vaz: In terms of the different types of inspections and the higher level and the lower level, does that mean you have to go back to the farms again for different inspections or is it one streamlined one for the different pillars?

George Eustice: When they do a Pillar 2 inspection, although they are not formally doing a Pillar 1, if they discover something that is a breach of cross-compliance, they are obliged to report it. Yes, in theory you could have two inspections: one for your Pillar 1 claim and one for your Pillar 2 claim.

Mike Rowe: I think the wording in the regulations has required that you check everything that you can reasonably check at the time of the visit. That might require some follow-up back with other expects, for example, if an RPA inspector is inspecting an agri-environment claim.

In terms of how we might be able to bring down CAP inspections, one of the hopes is that improving the mapping data through the investment and improving the currency and detail of the data that we hold will allow us, in tandem with reducing error rates, to reduce BPS inspection requirements down from 5% to 1%, as well as having that positive impact on disallowance.

Chair: It would be very good if you can achieve that.

Q213 Ms Ritchie: The National Audit Office report concluded that the Department must establish "a comprehensive understanding of the full costs of delivering the CAP". It also said, "The Department does not know the full cost of the Programme across all the organisations involved. Its current estimates do not include all immediate costs of recovering the Programme, nor longer-term costs of disallowance penalties and ongoing maintenance and support." That is from the NAO report. The question is what work is the Department doing, Minister, to understand the full costs of delivering the CAP following the NAO's recommendation from December last year?

George Eustice: Obviously, there were cost overruns, given the difficulties we had. The cost of the system is expected to be around £216 million. The analysis suggests that there will still be a benefit over time from that, because of the savings and the way that the system works. The analysis that has been done shows there is still a business case that that money comes back. In terms of the disallowance, nobody knows what future disallowance will be because it will all depend on what future inspectors who turn up on farms decide it should be. I do not think it is possible to predict with any degree of accuracy what your future disallowance will be. All you can do is try to minimise it and keep it as low as possible.

Q214 Ms Ritchie: Are you, Minister, and your colleagues in the Department driving that message home about the need to have all possible efficiencies whilst at the same time ensuring that farmers receive their payments in a proper, correct and expeditious manner?

George Eustice: Yes, and as I said, alongside the very important work to get payments out over the last six months, we have been also working very hard to make sure we get the system in a place ready for this year's applications, and that window is already open. We have been putting a lot of work in to get back on an even keel for this current year's application.

Q215 Valerie Vaz: Can I just follow up? What do you mean by an even keel? Could you expand on that slightly?

George Eustice: Back to some normality where we do not have to have everybody sending in their application by paper, as they did last year. We are now back to a position, as I said earlier, where 2,000 people have started to make their application online already for this forthcoming year. We have 845 already completed, and we have 20,000 paper prepopulated forms in the post for those who have not got a track record of applying online, ready for them to start doing their applications. We want to get back to a sense of normality where we can get the vast majority of claims done online in the way that we were able to as recently as 2014.

Q216 Valerie Vaz: Just quickly—before I move to question 12, Chair—I was talking to a farmer today at Shropshire Day, and I said, "What question would you like me to ask the Minister?" He said, "Could there be a window?" because a lot of them have overdrafts and their overdrafts get bigger while they are waiting for the payments. Is that something you could look at—to have a smaller window and then they are paid, rather than have a big overdraft?

George Eustice: Yes. The payment window legally runs from the beginning of December up until June, but we will always try to pay as many farmers as we possibly can, as quickly as we possibly can. In recent years we have done very well. In 2014, we managed to pay 95% on day one and over 97% by the end of December. I would like to get back to that sort of performance. Whether we can do it this year, given the complexity of the CAP, remains to be seen, but we definitely, as Mark Grimshaw said, want to get back to some sense of normality where we are paying up to 90% in that first month.

Q217 Valerie Vaz: Thank you, and can I just start by apologising before we move to the questions, as I was at another meeting? Minister, it is very good that you are here. There are lots of different teams working across different organisations. Could you for the record, and to help me, as obviously I am new to the Committee, say what those organisations are? How does Defra control all the information coming from them? For example, if the information is coming from these different organisations, are you able to respond quickly and effectively to problems that arise?

George Eustice: Do you mean Defra bodies?

Valerie Vaz: Yes.

George Eustice: The RPA obviously lead on this application process, and on the Pillar 2 schemes they have a very close working relationship with Natural England. Natural England are involved in putting together some of the countryside stewardship schemes—the old HLS scheme and now the higher tier of the countryside stewardship in particular—and will have some oversight on the new mid-tier countryside stewardship scheme. After that the vast majority of the work is done by the RPA. They process the claims. They receive the applications. They do the inspections and they make the payments. When it comes to the BPS payments in particular, the RPA is far and away the lead agency on this.

Mike Rowe: I was just going to add that the Forestry Commission are also involved in woodland schemes, and the overarching governance forum that looks across the whole of the CAP, which Mark Grimshaw, as SRO for CAP, chairs, has representatives from Natural England and the Forestry Commission.

Q218 Valerie Vaz: What about Defra's control over all of that? Ultimately you are responsible.

George Eustice: In terms of Defra, I meet Mark Grimshaw regularly. I have been meeting him weekly now for well over a year, probably 18 months, as we have tried to get this situation back to normal. We do meet regularly, but even when things are normal I meet Mark Grimshaw on a regular basis. I visit the offices at Reading on a regular basis to meet the team there.

Mike Rowe: If I may add, the new Permanent Secretary, Clare Moriarty, has also added the chief executive officers of the RPA, Natural England and the Forestry Commission to the weekly executive committee that looks across all departmental business.

Valerie Vaz: That would make it much better.
Mike Rowe: That would be on matters beyond the CAP.

George Eustice: It is part of our agenda to try to bring the arm's length bodies, as they are sometimes called, and the agencies closer together as a single family around the same meeting table at least once a week so that we can make things a little bit more joined up.

Valerie Vaz: They are keeping you busy then. Thank you.

Q219 Chair: We will not leave it quite there, Minister. The National Audit Office said between May 2014 and June 2015 the programme had "four different senior responsible owners", each with their own background, "style, vision and priorities", none of whom had enrolled in or graduated from the Major Projects Leadership Academy, contrary to Cabinet Office guidelines. There was a huge clash between senior responsible owners for delivering the new system and Mark Grimshaw, and we the taxpayer are going to pay for it. Surely the chief executive or the Ministers at the time should have done more to bring everybody together, to knock heads together.

We had Mark Grimshaw in here and I asked him a question: "When did you know about the problems?" He said, "For anything between a month and a year." I said, "Are you going to get away with that? Certainly not," so he came down to about four months before. All the time Jim, Margaret and I were sitting on the last Committee, we were told the system was going to work and was all very fine. There was good news being poured out all the time until the final moment in March when it was pulled by the Secretary of State, quite rightly, because the system did not work. Nobody really is owning up to who got it wrong. Are you absolutely convinced you have got it right now and there is not going to be another major problem?

George Eustice: As I said, I am confident we have got it right in the sense that we have got people now submitting applications, so that is a sign that things are working.

Q220 Chair: What about the breakdown in the system and the breakdown in communication by the senior people delivering it? It was taken away from the Rural Payments Agency, put together by somebody else and then put back to the Rural Payments Agency, and there was not enough liaison between the senior figures, was there? That is what the National Audit Office has found out, and it is going to cost this country millions of pounds.

George Eustice: The National Audit Office did make criticism, you are right; they made criticisms of some of the tensions that existed between some of the key senior personnel. I know that the former Permanent Secretary, Bronwyn Hill, has given evidence alongside some of those SROs to the Public Accounts Committee, and Clare Moriarty has also given evidence. That has been rehearsed at length.

I will just say this. Stepping back, what they were trying to achieve was, as often is the case in Government, learning the lessons of the past. Mr Fitzpatrick explained the difficulties that we had with the last system. One of the conclusions that was drawn from that—and this was the case on a lot of Government IT systems around that time—was that if you had one single provider who designed something from scratch, you could have teething problems. Then you would be often held to ransom by that one single provider because they would be the only ones who could sort it out.

The Cabinet Office therefore, through the Government Digital Service, has adopted a different approach, which is having often several different suppliers doing different parts of the programme in a more flexible, agile and iterative approach, which has worked well on some systems. What people did not foresee is that, in the case of the CAP, it is so complicated that getting several bits of the system to dovetail together was going to be a challenge.

Q221 Chair: Yes, but it was not only complicated. It was the fact that the key individuals at the top were not communicating with each other, and a lot of the problem was that. That should have been spotted much earlier and dealt with, because people at a very senior level should behave in a different manner. I do not think it was spotted, and that is why there are more lessons to be learnt from this than I think you have learnt already.

George Eustice: The issue we had was the first SRO was Ian Trenholm, who just left to do another job, and the second one was Norma Wood. Around about August/September 2014 Mark Grimshaw did raise some concerns around whether or not you could make these various bits dock together. We did at that point have a meeting, because a concern was raised, and as far as I was concerned I was watching this very carefully. It was an important concern. We pulled all the people together: the Government Digital Service, Ministers from the Cabinet Office and Ministers in Defra, and we had a conversation about what could be done and what the options were. The conclusion from that was that they believed they could still make this work, so we would persevere to make it work, and that was the decision we took at that time.

Q222 Chair: Let's get this right. From August 2014 to March 2015, when suddenly the system could not work or would not work, you were trying to sort it out. That is an awful long time for that to be sorted. Why did it take so long to come to the conclusion that the system was not working?

George Eustice: As one IT person put it to me, whenever you build any computer system you get problems and you get glitches, and you just work your way through them. The Government Digital Service remained confident that they could deliver it. It was only towards the end of February that doubts started to set in. Then when we realised that we were not going to be able to get the adequate speeds to make it work, we took the decision as soon as we were able to say, "We are going to switch to a paper-based option."

Q223 Chair: Every time Government puts a computer system together, for one reason or another, not just in Defra, it does not seem to work. Do you think that after three or four or five of these—of such matters—we are learning any lessons, and are you confident if we used another system we would not go down in the same way?

George Eustice: Yes. The way I put it is we learnt the lessons from the last Labour Government, but we made new mistakes, and sadly that is often the case with IT. It is challenging sometimes to make these things work.

Chair: I am conscious of time and I think we are about to vote.

Q224 Dr Monaghan: Just to develop this theme a little further, this Committee has heard suggestions previously that some of the problems around the delivery of these large IT projects, particularly around the CAP, related to structural inertia, resistance to change and poor communication. The Committee would be interested to know what professional skills and professional development have been provided to senior officials within the Department to ensure that the more flexible iterative system that you talked about just a short while ago will be delivered and all of these mistakes will not happen again.

George Eustice: The NAO report made its criticisms, and both Bronwyn Hill and her successor, Clare Moriarty, have made clear that we will learn the lessons from that, and performance management is very much something that the Permanent Secretary leads on. I would just qualify one thing, and that is with hindsight the complexity of the CAP probably meant that this slightly more iterative approach had its limitations with something so complex. It is a mammoth rule book with endless rules, and it would have to process lots of different bits of information. It is harder to make it work. It may be that, as I said, people underestimated at the beginning the complexity of the CAP. There was a further problem in that some of the regulations in the delegated acts, and some of the guidance, were only still being finalised as recently as January/February 2015.

Q225 Chair: The last Government took nearly 10 years to get the system right. They believed they had also created a complicated system, not only Europe, so everybody was creating a complicated system. I do not buy the idea that you and the people that you brought in to create this system did not realise it was complicated. You have got a moment to answer that.

George Eustice: As I said, with hindsight getting those various bits to come together and communicate in real time lots of pieces of information was just more challenging and slowed the system down more than people foresaw at the time. The core of the Abaco system worked and is working, and indeed although we had a paper-based application process last time, all of that data was entered on to Abaco and is now sitting there, and it will make it easy to do the application this time around.

Chair: We had better leave it there. There are a couple more questions. We will let you have those in writing and you can give us a written answer. We appreciate your time this afternoon, and we are going to put your evidence together with Mark Grimshaw's in the report and see how well they match up. Thank you very much, Minister, and thank you, Mike.