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Environment, Food and Rural
Affairs Committee

The Rural Payments Agency and the implementation of the Single Payment Scheme

Third Report of Session 2006–07

Volume II

Oral and written evidence

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Taken before the Environment, Food and Rural Affairs Committee

on Wednesday 11 January 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
Patrick Hall
Lynne Jones
Daniel Kawczynski
David Lepper

Mr Jamie Reed
Mr Dan Rogerson
Sir Peter Soulsby
David Taylor
Mr Roger Williams

Memorandum submitted by the Rural Payments Agency (RPA 04)

BRIEF

1. To follow up the Committee's earlier report on the Rural Payments Agency (Sixth Report of Session 2002–03, *Rural Payments Agency*, HC382) by examining:

- why the RPA is unable to make payments under the Single Payment Scheme at the start of the payment window in December (paragraphs 5–16);
- the issues involved in making an interim payment to farmers, in advance of the new February target (paragraphs 17–19);
- what impact the RPA's own Change Programme has had in the introduction of the new CAP payments and the agri-environment schemes (paragraphs 20–23); and
- the extent to which the RPA's IT systems have failed to evolve to deliver what is required of them (paragraphs 24–25).

INTRODUCTION

Background

2. SPS replaces 11 of the schemes previously administered by RPA and represents the single most significant change in CAP in over 30 years, resulting in the decoupling between subsidy and production volume. Inevitably this has resulted in major change for both RPA and its farming customers.

Single Payment Scheme Implementation

3. In year one of the SPS, RPA is processing around 120,000 claims working towards paying around £1.6 billion to eligible claimants from February 2006 with a target of paying 96% of claims by the end of March. A contingency partial payment system is being developed, should this be required.

RPA Executive Board

4. The RPA Executive Board is:

Johnston McNeill	Chief Executive and Senior Responsible Owner for the RPA Change Programme
Alex Kerr	Deputy Chief Executive; Finance and Resources Director
Ian Hewett	Operations Director
Simon Vry	Business Development Director
Alan McDermott	IS Director
Martin Truran	Legal Director
Gillian Robinson	Head of Internal Audit

Why the RPA is unable to make payments under the Single Payment Scheme at the start of the payment window in December?

5. There are a number of factors involved, notably:
 - the scale and nature of the Single Payment Scheme (SPS) and the eligible population compared with the customer base for predecessor schemes;
 - the impact of the evolving legal and policy framework on IT developments and business processes; and
 - customer related factors.

SCALE AND NATURE OF SPS

Customers

6. The new scheme resulted in an additional 40,000 customers registering both their personal and land details in order to participate in SPS. In addition, the records of a considerable number of existing customers require amendment and in total RPA received some 120,000 SPS claim forms in 2005.

Land

7. There has been an increase of well in excess of 1,000% in the normal annual volume of land registrations and changes relating to SPS and the new Environmental Stewardship schemes. This is as a result of the combination of 40,000 new customers and associated new land and a much higher than anticipated number of land change notifications from the pre-existing customer base, where it had been anticipated, incorrectly as it has transpired, that the bulk of their land had already been registered as required under the previous IACS regime.

Policy Change

8. The original specification of the system was made in 2001 and following the OJEC procurement process the IT supplier (Accenture) was appointed on 31 January 2003 who then began with RPA the process of designing the system. At this point the timing and nature of any CAP Reform had yet to be agreed at EU level. When in mid 2003 the shape (but not the detail) of the Reform was announced RPA and Defra discussed with Accenture how best the likely changes emanating from CAP Reform could be accommodated. It was agreed to concentrate system development on the implementation of CAP Reform and what was to become known as the Single Payment Scheme. RPA and Accenture prioritised the areas where greater levels of certainty existed in the requirements, namely the Rural Land Register and Customer Register, these being built and deployed in September 2004 and February 2005 respectively.

9. Initial indicative dates for the finalisation of the EC implementing regulations (November 2003) and the main SPS policy (December 2003) proved to be untenable given delays in member states agreeing a definitive position. In April 2004 implementing regulations were published and system design continued on the basis of this and final Ministerial decisions on the model of the SPS adopted in England which were also announced in April. In July 2004 the RPA and Accenture sought confirmation of the scheme requirements to enable build and testing to proceed to schedule in order to provide for a fully built and tested system to be deployed ahead of the SPS 2005 scheme cycle year. However, the EU Regulations and our (core Defra and RPA) understanding of them continued to evolve and some detailed policy issues had yet to be resolved with stakeholders and the devolved administrations. It was agreed, therefore, to proceed with building the system on the basis of our knowledge at July 2004, subject to the caveat that any significant changes to the legal and policy framework would inevitably delay the deployment of the IT system.

10. Updated EU Regulations were published at the end of October 2004 and remaining policy decisions were announced shortly thereafter. As a result of these events and additional operational needs, some 60 issues were identified that might impact on the IT system, which had by then been built. Detailed analysis of these issues in December 2004–January 2005, confirmed that they would considerably impact on the schedule as they constituted a major re-design (and resulting rebuild and re-testing) to elements of the system. Each issue was rigorously scrutinised, applying a risk based approach, and allowing in some cases for IT development and for others the use of manual workarounds in order to minimise the delay. This process reduced the list to 23 business critical issues which required a change to RPA's IT system, RITA and these were further consolidated into 12 major Change Requests. The impact of the change requests on the critical path for payments led to RPA announcing on 19 January 2005 that first SPS payments were likely to be made in February 2006, (ie three months through the seven month regulatory payment window, which runs from 1 December 2005 to 30 June 2006).

11. Since January 2005, and as recently as mid October, there have been a number of further changes and clarifications to the EU legal framework, notably the Commission Regulation adopted by the Direct Payments Management Committee on 12 October changing the order of deductions from SPS payments which would have caused further delay had Defra not secured a derogation from this for the SPS 2005 scheme year.

Customer related factors

12. As SPS was a new and unfamiliar scheme RPA and core Defra launched an unprecedented communications campaign aimed at raising awareness, informing and assisting prospective claimants. This included a series of 32 road shows which were attended by over 8,500 farmers, and an advance briefing for over 150 industry advisors. The road shows were supported by CD-Rom, DVD and video including key excerpts of the presentations for those unable to attend. This was supplemented by extensive advertising in the trade press, and comprehensive information including Q&A was published on the RPA and Defra websites. Farmers were provided with advance information on the scheme in a series of six booklets (between July 2004 and April 2005) and a draft version of the new application form to help them familiarise themselves with what would be required.

13. RPA also issued the SPS application forms in batches between 9–23 March 2005, four weeks earlier than the anticipated start date, which provided prospective customers with over two months to complete the form. Stakeholder feedback suggests that all these efforts were welcome and helped to increase awareness of the scheme requirements. However, in practice many farmers have still not provided all information requested. Moreover the overall quality of form completion has been significantly below that of the preceding scheme applications.

14. The early despatch of the SPS application forms and guidance notes in March (referred to in the preceding paragraph) generated an exceptionally high number of calls from farmers seeking guidance and assurance on the completion of their SPS application, and call volumes escalated from 900 per day at go-live to more than 7,000 per day in April and May, peaking at over 12,000 calls daily. Initially the volumes caused accessibility delays, which attracted criticism from the Industry, but RPA responded quickly and effectively by rapidly increasing resources; using the new technology to streamline call answering, extending the Customer Service Centre opening hours and creating capacity to handle up to 20,000 calls per day.

15. The single most significant customer related issues is that of new land registrations and changes in 2005 which is detailed in paragraph 7.

16. In October, as a result of the supporting evidence analysed from around half of the applicants, RPA wrote to all National Reserve applicants asking them to provide additional information or confirm they have no further information to support their application. In November 2005 RPA made a further request to around 13,000 farmers who have not provided maps to support new land listed on their field data sheets. RPA has also made numerous calls to farmers to establish the grounds for their appeal on historic reference amount.

The issues involved in making an interim payment to farmers, in advance of the new February target

17. The RPA remains committed to the target to commence full payments in February 2006 and complete 96% of payments by the end of March. To help ensure RPA remains on track and to allow for notification of final entitlements to be issued as soon as possible in the New Year, Lord Bach announced in October 2005 that farmers will not now be informed of their provisional entitlements in the autumn as was originally envisaged, thus enabling resources to be focussed on finalising definitive entitlements and making full payments at the earliest opportunity. The nature of the SPS scheme is such that it requires definitive entitlements to be established for all valid applicants and the significant volume of claim processing and cross checking required before RPA can commence making full payments. In accordance with the published timetable, a contingency partial payment system is being developed to meet the terms of an EU regulation which was agreed at the Direct Payments Management Committee on 12 October 2005.

18. A contingency partial payment will only be made if it is felt that RPA is unable to meet its commitment to commence full payments in February. Progress is being regularly monitored by Ministers against all key targets relating to SPS processing and the development of the partial payment system to inform this decision.

19. Given that EC agreement to a partial payment was only secured in mid October there remains a short timeframe in which to design, build, test and deploy a contingency partial payment system. In addition to this the demands of extracting data from the RITA (SPS processing) system and training processing staff in the business processes required means that partial payments could not commence before February 2006. This poses a real risk of distracting focus from making full payments in February and this has therefore had to be very closely managed with “ring fenced” resources. Attempting to make partial payments earlier than February 2006 would have another major risk aside from the above, in that the regulatory provisions require claims to be validated before partial payments are made and that the payment rate set at such a level that it does not present a risk of overpayment. Therefore if validation were not undertaken on partial payments this would pose a significant risk of disallowance. Furthermore the earlier these payments are made the less

validated claims would be available for partial payment and the greater the amount of manual validation would be required leading to further deflection of resources from definitive establishment of entitlements, delaying entitlement trading, full payments and creating difficulties in the pre-population of the forms for the 2006 SPS scheme year.

What impact the RPA's own Change Programme has had in the introduction of the new CAP payments and the agri-environment schemes

20. The Single Payment and agri-environment schemes have benefited from the RPA Change Programme. The Programme started in 2001 with the formation of RPA from the predecessor organisations, the MAFF Regional Service Centres and the Intervention Board. The appointment of its IT supplier (Accenture) in January 2003 followed an 18 month procurement exercise. The Change Programme was already in its second year, and the IT Supplier familiar with RPA's business, when legislation was published that enabled work to start on the design of the Single Payment Scheme (SPS). Thus, RPA was well advanced in developing new core systems and infrastructure to support the 11 schemes now replaced by the SPS. The Change Programme has already delivered a new Customer Register, Rural Land Register and Customer Service Centre. The latter went live in February 2005 and was in place at the critical time to handle the challenge provided by an exceptionally high volume of SPS related calls, as detailed in paragraph 14. Thus, the Change Programme has been a positive enabler to the successful launch and delivery of SPS claim processing during year 1. Despite this, the impact of SPS has required the Change Programme to respond to a number of huge challenges.

21. Another major challenge has been the need to handle a 50% increase in RPA's customer base, requiring the registration of approximately 40,000 new customers and their land for SPS and the new Environmental Stewardship schemes.

22. The impact of CAP Reform on the Change Programme has been a de-prioritisation of business enablers, including data capture by scanning using OCR/ICR (Optical Character Recognition/Intelligent Character Recognition), Inspection functionality and external e-Channel (including on-line claim submission). The decision to re-prioritise the latter was taken following consultation with the NFU, recognising that during 2005 farmers would be focussing on the new scheme and that on-line claim submission would not be a particular focus or priority for them.

23. The RPA Change Programme has direct impact on only one of the schemes that comprise the England Rural Development Programme (ERDP), namely the Hill Farm Allowance (HFA). Claims to the 2006 HFA will be processed through RITA concurrently with those for SPS. Claims to the remaining ERDP schemes, including agri-environment schemes, are currently administered by Defra's Rural Development Service (RDS). RPA is the EU accredited paying agency for ERDP scheme expenditure but has delegated claim authorisation responsibility to RDS. Information from RPA's enabling systems, such as the RLR and Customer Register are used by RDS in processing agri-environment claims. A consequence of this has been the need for RPA to register new customers and their land for the new Environmental Stewardship schemes. Additionally, it has also been necessary for RPA to update the Rural Land Register in respect of land changes notified for these schemes.

The extent to which the RPA's IT systems have failed to evolve to deliver what is required of them

24. A significant de-scope of the required functionality was carried out late in 2004 to ensure that all business critical elements of the SPS would be delivered in time for year 1, including those relating to issues that arose following clarification of the legal and policy framework after the system had been built. This compression of the timeframe has contributed to RPA having to operate with a significant number of short term system and manual workarounds as it was judged too high risk to make all but unavoidable and essential changes to the system at such a late stage. Even with this approach, the deployment of the various releases were delayed which in turn impacted upon the time available to the business to process the claims and registration data necessary to definitively establish entitlements and thereby make payments.

25. Whilst the system has been built to be flexible and scaleable a major issue that has had a significant impact is the 50% increase in the number of customers that have been required to register themselves and their land on both the new Customer and Rural Land Registers. These significant volume increases and in particular the land changes in excess of 1,000% up on preceding years has inevitably affected performance of the new system, the major issue being one of capacity and resultant performance and stability issues in the early deployment stages of some of the releases. In order to ease the land registration problem a significant proportion of the IACS 22 land change updates to the Rural Land Register have been outsourced so as to ensure that this critical work is completed prior to establishing definitive entitlements.

November 2005

Witnesses: **Lord Bach**, a Member of the House of Lords, Parliamentary Under-Secretary (Sustainable Farming and Food), Department for Environment, Food and Rural Affairs, **Mr Johnston McNeill**, Chief Executive, Rural Payments Agency, **Mr Ian Hewett**, Operations Director, Rural Payments Agency, and **Mr John O’Gorman**, Head of Defra’s CAP Implementation Unit, gave evidence.

Q1 (11.01.06) Chairman: Welcome, Minister and a very happy new year to you. You are almost bordering on becoming a regular in front of the Committee. I see one or two other faces in the public section who are also regular attenders so a happy new year to you and a happy new to anybody else who feels that they have not had enough of it at the beginning of the year. May I formally welcome Lord Bach, the Minister from Defra, Mr Johnston McNeill, the chief executive of the Rural Payments Agency, supported by Mr Ian Hewett, their operations director, the Rural Payments Agency, and Mr John O’Gorman, who is the head of Defra’s CAP Implementation Team. Gentlemen, you are all very welcome. Minister, you started the new year in fine form at the Oxford Farming Conference when you said that you were taking a close personal interest in the RPA and the question of its payments timetable. Can we go back to when you were first appointed to your job? Could you tell us how many meetings you have had with officials to discuss this whole question and could you give us a commentary on what you discussed with your officials and with the RPA in terms of progress to date?

Lord Bach: I will do my best. I cannot tell you the precise number of meetings but they would be running, I suspect, into tens and twenties. It was of course one of the first subjects that I was briefed on when I became the Minister just eight months ago. From that time on I have had regular meetings both with Defra officials and RPA officials covering RPA matters but particularly covering the matter of the single payment scheme.

Q2 (11.01.06) Chairman: What were the main points of concern that your officials put to you in advising you as Minister about how the RPA were doing?

Lord Bach: Are you asking in relation to the single payment scheme or in general terms?

Q3 (11.01.06) Chairman: You can answer the question on both those items.

Lord Bach: In general terms they told me, as you would expect, that the RPA was doing well. It was going through a change programme. Much the most important thing it had on its agenda was ensuring that the single payment scheme started to be paid in February 2006. That is after all something that we announced we wanted to do on 19 January 2005. A great deal of the discussion since that time has been to work out as best we can how we can meet that February date. That was part of the early discussion and, as time has moved on, it has become even more part of the many discussions that I have had with my officials.

Q4 (11.01.06) Chairman: Let us come to the \$64,000 question. Are you going to meet the deadline?

Lord Bach: The position remains exactly as it has been for the last year which is that we are targeting the commencement of full payments in February. That means, as you know, in practice, definitively

establishing entitlements by the middle of the month—the date we have for that is 14 February—and beginning payments towards the end of the month. We believe that those are realistic targets but I have to tell the Committee that there is still a significant amount of work to do so we are managing the outstanding tasks and undertaking very regular reviews as to whether we remain on track. We had one such review yesterday and the conclusion is that we should continue to focus on the main payments. I am hopeful that we will start the full payments by the end of February 2006.

Q5 (11.01.06) Chairman: You mentioned the date of 14 February. What was that date going to tell us?

Lord Bach: That is to say that the definitive entitlements are established. In other words, it is a precursor to the payments. We need to establish the definitive entitlement of each and every farmer who has claimed under the single payment scheme. We need to do that in order to keep within EU rules. Those farmers need to be told what their entitlement is for two reasons. One, because they want to know what money they are going to get. Secondly, it means they can start trading those entitlements.

Q6 (11.01.06) Chairman: The reason I ask the question about how many meetings you have had is it is clear from what you have said you have had between 10 and 20 meetings since your appointment after the general election in June last year. For the benefit of the Committee when, to the best of your knowledge, did the Rural Payments Agency start work on preparing for the single farm payment scheme to be introduced? When did they say, “Push the button. We are off”?

Lord Bach: I believe they started work on the single farm payment scheme not long following the European Council’s decision of June 2003, which is the great reform decision, to change the whole system. That is when I think they started working on it. That involves IT work and other work. This was a huge change. The government made decisions, as I think you know, in February 2004 as to what model England was going to follow and that was taken on board by the RPA. There were then other amendments that came from Europe, some I believe in April 2004; others in October 2004, that although minor had a considerable effect on work that had been done and meant other work had to be done in its place. Right through that period the RPA has been, as I understand it, extremely conscious of their responsibilities in this matter.

Q7 (11.01.06) Chairman: Let us just deal with the facts at this stage. Mr McNeill, would you like to embroider upon what the Minister has said?

Mr McNeill: The immediate concern for us with the CAP reform was the development of an IT system to enable us to make payments under the new scheme. We were already in contract with Accenture, a major IT supplier. That contract was fixed in January 2003.

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We started discussions with Accenture on the new scheme, as we understood it following the decision taken in June 2003, throughout August and September 2003. We had identified in the original contract that there was to be a mid-term review of CAP. At that time, we had made sure that that was covered in the contract document so that we could vary the contract with that supplier, having gone through a procurement lasting some 18 months. We acknowledged something might well come up but we had not expected something of such significance, I think it is fair to say. We sat down with them in August/September. We started to discuss the best way ahead to meet the requirements of the new scheme from an IT perspective and those discussions continued as more information came forward from the discussions and indeed right through to October 2004 when we were still considering various changes and the impact they would have on the system as developed.

Q8 (11.01.06) Daniel Kawczynski: When the Chairman asked you, Minister, about whether the payments would be made on time or not, forgive me if I misunderstood you but you did not give a definitive yes to that question. Could you tell the Committee what concerns you have as to why the timetable will not be met? Is it a question of resources and manpower? What is it exactly?

Lord Bach: You are quite right. I did not give a definitive answer because it would be foolish for me to do so. It is our intention and our great desire to start full payments by the end of February 2006. If we were not to do so and we were to put in an interim payment instead, that will not be—I emphasise this—for lack of resources. Mr Chairman, with your permission, I think it would be helpful for officials from the RPA to describe to the Committee what are the dangers of not having the full payments started by the end of February.

Chairman: We will come on that because you will be unsurprised to learn that we have a lot of detailed questions to ask and they will cover that. At this stage, we are trying to establish some key parameters and important background to where we are. We will come to address those points of detail but I want to bring Mr Hall in.

Q9 (11.01.06) Patrick Hall: Following the announcement of CAP reform in June 2003, how many separate details have come out of Europe on how that is to be implemented? I believe it is a large number. When was the last one received? An approximate answer will do. I am not trying to be awkward. If it is 59 or 41 it just gives a general impression of when the last one was. I think it is rather important.

Lord Bach: It certainly is.

Mr O’Gorman: The main council tax was agreed in September 2003. There were three¹ key, additional regulations. They came in March 2004. Since then there have been a number of amendments to those

regulations. I put those somewhere between six and 10 amendments. The last one I think was published just before² Christmas.

Q10 (11.01.06) Patrick Hall: 2005?

Mr O’Gorman: Correct, but that one did not have a specific impact on system design although it could have done had we not arranged for it to say something a little different.

Q11 (11.01.06) Patrick Hall: Enough had happened by February 2005 for RPA to announce that it would not be able to start making payments—?

Lord Bach: The date was 19 January 2005.

Q12 (11.01.06) Patrick Hall: Enough had already happened in terms of the detail that was coming out regarding the new scheme to enable you to make that definitive statement?

Lord Bach: I should probably answer this although I was not there at the time. I do not think it was put as a definitive statement. Farmers wanted to know—and they had every right to know—when it was that we thought we would be able to pay the full payments. We were in a position in January 2005 to say that we believed we would pay³ the payments in February 2006 rather than it being something definitive. It was by way of trying to be helpful.

Q13 (11.01.06) Chairman: One thing that everybody is concerned about is that here we are on 11 January, 20 days from the beginning of the month in which you hope, using your best endeavours trying hard, to be able to say that by the middle of February you will have established definitively the entitlements. Bearing in mind you started work on this project as long ago as January 2003, within a period of 24 days of you wanting to announce some definitive information, you are before this Committee unable to give us a clear yes or no. We are still in the realm of best endeavours. When did it become clear to you, when you took over, that you were not going to meet these deadlines?

Lord Bach: I expect as I speak to you this afternoon that we will meet the deadlines that we set in January 2005.

Q14 (11.01.06) Chairman: The word “expect” harbours with it an element of uncertainty. I had hoped that you might be able to surprise the Committee by telling us that you were going to meet the deadlines. The word “expect” has an element of ministerial wriggle room. I want to know why it is that you are not able on 11 January 2006 to give us a definitive answer, yes or no, as to whether you will meet the timetable which you enunciated earlier in your replies.

Lord Bach: Because there are technical factors at play here which may—we do not think they will—result in the fact that we cannot meet the full

¹ Note by witness: this should be “two”.

² Note by witness: this should be “after”.

³ The Rural Payment Agency Press Notice 03/05 of 19 January 2006 confirms that “most probable date for payments to start is February 2006”.

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payments by the end of February. If you will allow me to, I will ask the technical experts to explain what they are in precise terms.

Chairman: Obviously we want to go into that level of detail. I am going to hand over to my colleague Mr Taylor because, as you know, the Committee unusually asked two of its colleagues to carry out a more detailed analysis with the RPA on a number of the issues which I am sure will touch upon what Mr McNeill will say.

Q15 (11.01.06) David Taylor: Prior to the system that is being introduced at the moment, the great majority of British farmers that were in receipt of payments of this kind would have received them in or by November of any one calendar year. That is correct, is it not?

Lord Bach: No, I do not think it is. There would have been about 11, if not more, different possible subsidies they might have received. You are quite right that some would have started in October/November of the year before, as I understand it; some might not even have been paid by this time in the new year.

Q16 (11.01.06) David Taylor: The majority of the sums payable would have been paid in or by November?

Lord Bach: I cannot answer that. I am sure someone else can. Some money would have been paid.

Mr Hewett: There is a range of 11 schemes being replaced by the single payment scheme: the sheep annual premium, a range of four major and some minor bovine schemes behind it, and an arable scheme. The majority of the arable claims were paid between the middle of November and the end of January each year. The regulatory target for paying the arable claims was the end of January each year. As the arable scheme represented the single, largest tranche of subsidy under the old IACS, Integrated Administration Control System, suite of schemes—

Q17 (11.01.06) David Taylor: I am sorry to interrupt you. You were very helpful to us when we visited Reading but the point I am making, I hope, is that the majority of funds that would be paid to English farmers would have been paid to them by the end of November or thereabouts.

Mr Hewett: January is the correct answer.

Q18 (11.01.06) David Taylor: I stand corrected on that. One of the reasons why the English farmer eventually accepted the pattern of payments that was painted for them by the government was that the payment window started in early December. We have heard today from the Minister that we seem to be sliding from a position where we were going to start paying 1.6 billion to eligible claimants from early February 2006. Now we seem to be struggling even to make definitive payments to them by the end of that month, which is three months into the window that was defined. I wonder what the Minister thinks, with the wonderful benefit of hindsight, could have been done to avoid British farmers being in this parlous position?

Lord Bach: I am disappointed too. I would have liked us to have been able to pay the money on 1 December of course. I should point out in fairness though that the window that the EU allows is from 1 December to 31 May. That is a seven month period.

Q19 (11.01.06) David Taylor: It is a six month period.

Mr Hewett: Seven months.

Lord Bach: I think it is seven. It is the start of December—

Mr Hewett: To 30 June.

Lord Bach: Forgive me. It is three out of seven really. The reasons why are quite complicated and complex but let me deal with one or two of the simple ones.

Q20 (11.01.06) David Taylor: We shall be examining them in some detail. Give us the headings.

Lord Bach: The headings are, fairly simply, the number of customers—farmers—who claimed went up from 80,000 to 120,000, a 50% increase.

Q21 (11.01.06) Chairman: You did not know that was coming?

Lord Bach: We knew that there was going to be an increase. I think it is more doubtful that we estimated it would be 50%. I do not suppose we saw this coming completely either but we also had a 1,000% increase in the annual numbers as far as land registration and land registration changes were concerned. Those are headline figures: 80,000 to 120,000 customers and a 1,000% increase in land registration change requests. One of the reasons for that was that the land change notifications came not just of course from new customers, the extra 40,000 I have mentioned, but from many existing customers.

Q22 (11.01.06) David Taylor: I want to restate the question because it is not being answered.

Lord Bach: It is existing customers who had already put in claims for previous subsidies on certain land and maps which were considered to be correct but added land, as they were entitled to do, because the single payment scheme is based on hectares of land.

Q23 (11.01.06) David Taylor: The question was: with hindsight what could you have done, very briefly indeed, to ensure that payments could have been made earlier in that window, not to be slip sliding almost imperceptibly out of February into March and so on?

Lord Bach: I do not accept I am afraid, with respect, that it is slip sliding. It certainly moved from December, which would have been the ideal, to February but that was in January last year. Since that time, I believe the RPA have done everything within their power and have been given, I think they will agree, considerable resources to try and get over the many technical difficulties that there are in establishing a scheme like that. What we have to be aware of all the time is that if we get it wrong and we do not do it in the proper way there will be disallowance from the European Union. That disallowance will cost farmers as well as costing the taxpayer.

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Q24 (11.01.06) David Taylor: There is nothing you could have done—that is what you are saying in short—with hindsight, to have avoided the present position?

Lord Bach: I cannot think of anything I could have done although others may well think of things I could have done.

David Taylor: We have not heard about interim payments yet and what the process for that might be but we will later.

Q25 (11.01.06) Chairman: Can I pursue this question of the size and volume of work that you had to do which came as something of a surprise to you. Mr McNeill, when you were talking to Accenture, they being experts in the field of complex system operation would no doubt have pressed you very hard on size and scale of task. When you outlined to them what was involved, did you have any inkling that you were going to see the kind of volume of work which has subsequently emerged?

Mr McNeill: Yes. There had been some work to identify the size of the new customer base but that was perhaps of less interest to Accenture than their requirement for us to clearly define what we wanted them to build. In systems development terms—

Q26 (11.01.06) Chairman: The Minister has just cited this additional volume of activity as a contributory factor to the slowing down of the timetable that you would ideally have liked to have followed. Therefore, I take it, because it was in the Minister’s high level answer to our questioning, that he identified this additional volume as an important feature. If you are going to design a system, there have been many government IT systems that have not correctly anticipated the volume of work which they were then subsequently going to have to cope with and failed as a result. I can remember this Committee probing on some of these issues when we conducted our original inquiry into the RPA and the IT changes. Why were you not able more accurately to specify the volume which clearly has had an impact on your ability to deliver?

Mr McNeill: As the Minister mentioned, the volumes related to areas such as the Rural Land Register. We have constructed a new digitised Rural Land Register in line with EU requirements to have that in place by 2005 as part of the original change programme and contract with Accenture. We would normally have expected about 10,000 IACS 22s, notifications of additional land or changes to land and, as we have mentioned, we are at 100,000 plus. That was as a result of 40,000 new customers telling us about land that they wished to claim on under the new scheme and it was also about existing customers telling us about land which we were not aware of previously. That was a very considerable demand. Under the IACS regime we certainly were of the view—and I suspect the Commission would be of the view—that we should have been aware of all that land in that the declaration signed on the application forms states that we are being told about all of the land on the farm. That was a major shock to us, to be perfectly frank. Had we known that there was

going to be that volume, we could have looked at the volumes that the system could handle; whereas we could only look at the normal requirements. When we specified this system in 2003⁴, when we were talking to Accenture, we had had a lengthy contract procurement and specification. We were specifying without any understanding of SPS requirements. We were specifying on our normal business requirements.

Q27 (11.01.06) Chairman: With respect, ministers in the United Kingdom Government agreed to the model for the introduction of the single farm payments into the United Kingdom. You are quite right. There were new people who could claim who were not previously able to—for example, those in the field of horticulture. Given that you as a government would have had to have thought through carefully what you were agreeing to, I am surprised that it has come as a surprise to you that there is this volume of new people. I appreciate the point you make about existing customers but you have not explained how you scoped the size of what you were trying to do in terms of the system and the workload. Did you carry out any kind of analysis to see what the impact of the policy that ministers had agreed was going to be?

Mr McNeill: When we first scoped the work as part of the procurement, we obviously looked at normal day to day business requirements and scaled them up to specify what we required. We were not aware that the mid-term review would have such a significant change or that we would have so many new customers. Once we sat down with Accenture in the summer of 2004⁵ and we started to look at requirements, it became clear they were of the view that we should be able to scale up the system which they had developed. Indeed, we had built a new land registry with 1.6 million parcels of land already on it, a significant piece of work. They were of the view at that time that we should be able to scale up but the IACS 22s did not arrive in one block. As we started to run the scheme, so customers increasingly made us aware that they had particular requirements. As it became clear that we were not going to be able to deal with that, we had to consider other mechanisms and have done so. The remaining mapping of land is not an issue in terms of SPS payments because some time ago we took the decision to outsource that work to a major contractor—in fact, the contractor who built the first land registry—and it is no longer in the critical path for payments.

Q28 (11.01.06) Lynne Jones: In view of the change in the way that the payments were going to be distributed from activity to a land based distribution, should you not have anticipated that land holders would have been scouring, making sure that every last bit of land that they held was going to be registered? Should you not have anticipated that there might have been a big increase in land registrations?

⁴ Note by witness: this should be “2003”.

⁵ Note by witness: this should be “2003”.

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Mr McNeill: Our advice was that it was a requirement of the IACS regime, that has run for some considerable length of time, that we were supposed to be notified of all land on holdings, even if perhaps particular claims were not being made on those.

Q29 (11.01.06) Lynne Jones: There was no incentive for people to do that, was there?

Mr McNeill: Apart from the declaration they signed on the form that says they have told us that. I accept that there is no financial incentive for them but as I understand it our advice at the time was that we were supposed to be aware of their holdings.

Q30 (11.01.06) Mr Williams: I hope the Minister would agree with me that the purpose of having the seven month window that the EU Commission set up is not that national governments can delay payments to farmers; it is that the difficult cases that always arise here can be accommodated within the seven month window. Surely it must be the intention of the EU Commission and national governments to make the payment at the beginning of the window rather than half-way through it. As a result, English farmers have a collective £1.6 billion hole in their bank accounts. Barclays Bank tell us that that is probably going to cost them about £25 million in interest rates and arrangement fees and all that goes with added debt. Does that figure ring true to you?

Lord Bach: I do not know what figure is there but quite clearly if farmers are not paid on 1 December but are paid in late February or March there will be a cost to them. That is why we would have like to have paid on 1 December. I may not have been in this job long but I do not understand always what the Commission intends when it, for example, gives a seven month window for payment. I have spoken to the banks. I have had a meeting with the banks and, as I understand it from what they have told me—Barclays of course was included among those I saw—the banking representatives suggest that no viable business will fall because of the sums involved. The total interest bill, as I understand it, for UK agriculture is over £500 million, £0.5 billion per year. That £25 million, although regrettable—any extra interest is regrettable—is about 2% set against an annual average change in income that there has been over the course of a number of years in farmers’ incomes, which you will know very well, Mr Williams, from your constituents.

Q31 (11.01.06) Mr Williams: We were all a little disturbed to hear you say that although it is your intention to make full and final payments you are also considering possible interim payments. Have you a system set up so that those interim payments can be paid if full and final payments are not made, because obviously the cash situation of English farmers is going to deteriorate very significantly.

Lord Bach: Yes. We have such a system set up and we hope that is a responsible thing to have done. We have been developing on a contingency basis a system to make those partial payments. I can tell the Committee if you want me to the rather long and

tortuous route that we have had to take in discussions with Brussels in order to get ourselves into a position where we can make partial payments. We are ready to make partial payments if we have to but we think there are disadvantages in partial payments against full payments, obvious disadvantages. Farmers deserve the full amount. The other issue involved here is this whole business of not being able to trade entitlements. We are keen—I am pushing as hard as I am able to—that we should start to make full payments at the end of February.

Q32 (11.01.06) Mr Williams: Perhaps you could tell us a definitive date on which you could make interim payments if full payments were not possible?

Lord Bach: That would be by the end of February. I can give you a percentage, if I may. It is something which I do not think we have announced before. At the moment our intention would be—of course we do not want to do this—60%, but that is not set in stone.

Q33 (11.01.06) Chairman: 60% of what?

Lord Bach: Of the total amount that we estimate each farmer would be entitled to.

Q34 (11.01.06) Chairman: If you are telling us that you hope by 14 February to know the definitive sum, it will be 60% of a number you will have worked out by 14 February.

Lord Bach: No. We will have worked it out in a number of cases but we will be making some sort of estimate as far as that is concerned. There are some cases that are very simple and others that are more complex.

Q35 (11.01.06) Chairman: What is the 60% going to be of?

Mr Hewett: The regulation that was adopted by the EU on 12 October last year and published at the end of November facilitating partial payments said that a partial payment could be made on claims which were fully validated and where the payment made no risk to the European fund. There are two elements there. If we were to invoke partial payments, it is likely to be because we have not completed the validation on all claims which means that some claims will be partly validated. There will be a proportion of claims which are fully validated and on which we could pay 60% of the full entitlement to that individual beneficiary. For those claims which were not fully validated, we would either be able to pay an element of the 60%, so 60% on whatever proportion of the claim was validated, or we would take a view that the partial payment would come under a *de minimis* threshold if, for example, there was a payment of less than 100 euros involved as a partial payment. There is a considerable number of claims which would come under that *de minimis* threshold based on some data that we ran on the partial payments development system back in November.

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Q36 (11.01.06) Chairman: If you had to go down the interim payment route, when would all final payments be made?

Mr Hewett: That is one of the difficulties of invoking partial payments. It would have an impact on the determination of definitive entitlement for the whole population and on the payment of either the balance or full payments, full payments in the case of those customers who do not receive full payment.

Q37 (11.01.06) David Lepper: Could I clarify something that the Minister said about the UK being subject to a disallowance from Europe if particular deadlines were not met? What would be the scale of that disallowance and at what point would we and therefore English farmers be subject to it?

Lord Bach: I was not talking about the context of when the money is paid. However, if we went over the seven month period—that is 30 June—we might be subject to disallowance. That is 30 June. When we would also be subject to the disallowance if we claimed that we knew exactly what each farmer was owed under the single payment scheme and then an audit afterwards turned out to show that we had those figures wrong. The EU would, as they do I think across the board, at least have the right to disallow some of the expenditure. I believe the matrix runs between about five⁶ and 25%, but I have an expert on disallowance.

Mr Hewett: Mr O’Gorman is the policy expert. I am at the implementation end. There is a regulatory framework for key and ancillary controls which we have to adhere to such as undertaking a compliance monitoring inspection on a proportion of our claim population and, for the first time with the single payment scheme, a cross compliance inspection on a proportion of our claim population as well as validating claims against this framework of key and ancillary controls. If, when we are subject to audits either through the National Audit Office that acts on behalf of the European Commission or the European Commission itself or indeed the European Court of Auditors, those audits decree that we have not abided by those key and ancillary controls all of the money which has been reimbursed from Europe can be subject to a flat rate disallowance ranging from two to 25%. There is also a sliding scale of disallowance should we fail to meet the payment window of 1 December to 30 June.

Q38 (11.01.06) David Lepper: You are confident that we will not become subject to that disallowance?

Mr Hewett: That is part of the discussions we have regularly with the Minister, to update him on where we are against both timeliness and also our ability to adhere to key and ancillary controls.

Q39 (11.01.06) David Lepper: 60% was the figure in terms of interim payments.

Mr Hewett: That is the figure that the Minister mentioned but he did say it is not yet cast in tablets of stone.

Q40 (11.01.06) David Lepper: Should it become necessary to make interim payments, I have in mind what has happened to some of my constituents in relation to child tax credit. We are not likely to have a situation, are we—I am assuming not—where a farmer might be told at some future date, “Sorry, we have paid you too much and we want some back, please”?

Mr Hewett: That is one of the reasons why we are suggesting a cautious approach to the rate of payment so that if there is any over-calculation in the whole population we would be able to recover that in the balance payments.

Q41 (11.01.06) Daniel Kawczynski: I would like to raise again with the Minister this point about the £25 million interest charges which my colleague, the Member from Brecon, raised with him. You have said that no businesses will fold as a result of these charges. If either you or I submitted our tax payments to the government late, we would be charged interest and the government would make sure they got that money out of us. Who is going to fund this £25 million interest? Why should it be only the farmers who have to fund it? Will the government not give any assistance for them to fund it, because it is the fault of government ultimately for the lateness of the payments.

Lord Bach: I said that no viable business would fall on the basis that that is what the banks were telling me in the discussions that I have had with them. I do not know from my own knowledge whether businesses will fall or not but that was the banks’ view a couple of months ago when I went through the discussion that we are having today. As far as the interest payment is concerned, I am afraid it will fall onto the farmers.

Q42 (11.01.06) Mr Williams: Delay in payments does not just have an effect on the cash situation in the bank for English farmers; it can have other complications as well. Will that delayed payment have any effect on the administration of the 2006 scheme?

Lord Bach: One of the reasons why we are so keen to start making full payments is because an interim payment, of whatever proportion, is bound to have some effect on the 2006 scheme. It is one of the main reasons, apart from the justice of the case anyway, for wanting to make the full payments. If there is a partial payment and we then have to make the final payment by the end of June, that is bound to take resources away from dealing with what we have to deal with now, which is the 2006 payment. That is a long way of saying yes.

Q43 (11.01.06) Mr Williams: The Minister has also mentioned a complication with the trading of entitlements. I am very concerned about farmers who, for whatever reason, may not be able to exercise those entitlements in 2006 and yet are unable to trade them. Is there any compensation scheme contemplated for helping those people out?

⁶ Note by witness: should read “two”.

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Mr McNeill: Yes. Our current planning is that if we define entitlements in the middle of February we will advise customers how to register with us that they wish to trade entitlements. Having defined entitlements, we will also be putting in place a system for them to do that. They have until 16 May⁷ to notify us of those trades.

Q44 (11.01.06) Mr Williams: I understood that entitlements were not entirely definitive in terms of the Commission until the money had been paid.

Mr Hewett: No. This is one of the major differences between the previous set of schemes and the current scheme. When Mr Taylor was talking about the previous schemes and the money getting out earlier, we could validate and clear claims iteratively. With this scheme you have to put everybody in the pot, determine the entitlement for the whole population and pay those valid claims individually. Once we have determined entitlement, we would issue notifications to all of the eligible customers, “This is your entitlement in Euros.” That is not a payment notification because we will then be paying our customers in batches once we have determined that they are eligible and confirmed everything is in order. We have talked very closely with our stakeholders and industry representatives about how we expedite the process of allowing them to trade entitlements and notify us of those trades in entitlements. What we are doing is setting up a pre-registration system for those customers who wish to trade entitlements so that we can send them a partly populated notification form in advance or at the same time as they are receiving their entitlement statements so that they can notify us at the earliest opportunity.

Q45 (11.01.06) Mr Reed: I am interested in the concept of viability and I accept that it is a definition which has been brought about by the banks. Clearly for any business viability and cash flow over time are related concepts. Has any thought been given at all to the earliest payments possible being made to those businesses which are perhaps on the borderline of being viable and non-viable?

Lord Bach: One of the reasons I saw the banks was to find out what they thought was the likelihood of good businesses collapsing as a result of delay. If they would say that there really was a chance that this was likely to happen to any scale at all, obvious government would have to think if it had a role to play in that. From what they told me—many leading banks that do lend to farmers were involved—they did not believe that it would lead to large or even small scale closures of business. If there were to be large closures of business as a consequence, we would obviously as a government have to look to see if there was anything we could or should do but I cannot say more than that. I do not anticipate that there will be any.

Q46 (11.01.06) David Taylor: We have just about done interim partial payments to death but one of the things that surprised Mr Williams and me when we went to Reading was to hear that no real planning or resources were allocated to the possibility of developing an interim partial payment system until the regulation had been agreed on 12 October 2005. That is broadly the case, is it not?

Mr McNeill: We made it clear to our supplier that we would require a partial payment contingency system in place. They were of the view in discussions that it would be much wiser for us to be clear as to what the requirements were before we went through a similar process of starting and having to rebuild the system. As a consequence, we needed that clarity from the discussions with the Commission as to what would be acceptable to them.

Q47 (11.01.06) David Taylor: That formal approval was just seven weeks from the start of the payment window when any rational system, one is tempted to say, that was going to allow for the possibility of interim payments would have had those interim payments right at the start of the payment window.

Mr Hewett: We did have a contingency in place all the time, running in parallel with our primary solution. Once we got into the validation part of our primary solution, we felt that was not an appropriate contingency and it was at that point that we approached ministers and policy colleagues about having a different type of contingency around partial payments. As the Minister said, he could offer you a long and tortuous history of partial payments. When we first approached the European Commission, the type of partial payment system that they were mooting would not have been something that we could have lived with and would not have been of any significant benefit to the farming population because it would have required a security to be put up equal to the level of partial payment given. It was only very late in the day that we had sight of a form of payment which we thought we could develop. Bearing in mind what we found with the main solution, late changes in policy impacting on system delivery, we did not want to learn that lesson again.

David Taylor: RPA senior staff made great play of the fact that they need to have all of the information from all farmers before they can pay accurately a single payment to any one farmer. That is seriously misleading. The vast bulk of the year one payment is based on historic entitlements which will not have changed and will not be influenced by the aggregate of all farmers. I am not particularly attracted by the merits of that argument.

Q48 (11.01.06) Mr Williams: Can I ask the Minister when Defra decided to adopt the dynamic hybrid solution to the single farm payment? Did it take into account the complexity and the fact that it is the most complex system in the UK?

Lord Bach: When ministers made that decision in February 2004, it was done deliberately. We were very much in the forefront of the CAP reform process. I think we had general agreement across party for this. A new decoupling scheme was

⁷ Note by witness: should read “19 March with transfers of land, and 2 April without transfers of land”.

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essential. We wanted to bring it in as soon as we could so that industry could benefit from decoupling as soon as possible and settle on a model which would in principle apply to 2012 the best bits of the objectives that the Curry Commission, and subsequently the sustainable farming and food strategy, had set out. Yes, ministers did know that it was more challenging to choose a system like this rather than one just based, for example, solely on historic criteria. We thought there should be a flat rate element and of course that historic element tapers off to 2012. From where I am, I have to say that even though there were extra risks involved—and that is part of what we are discussing and indeed something which was pointed out, if I may say so with respect, by your Committee’s last report on this in April 2004—we took the decision for what I believe were perfectly sound reasons. I do not think there is any need to make apologies for it. If we look back on this or people look back on this in a few years’ time, most people will say, I hope, that an extra three or four months in receipt of payments in the first year of this major scheme was an acceptable price to pay for the model of the payment we have introduced. History may prove us wrong on that but that is my firm belief.

Q49 (11.01.06) Mr Williams: Nevertheless, it was available to Defra to postpone the introduction of the single farm payment for one year and to carry on the old schemes. In light of the very complex nature of this scheme and the difficulty of introducing it, in retrospect, would you not have thought that that would have been a better solution?

Lord Bach: No. I have thought about this and I do not. We were in the forefront for wanting change to the CAP in Europe in 2003. We were one of those leading the way. Although a number of countries who were more reluctant to see change in the CAP opted to start the new scheme a year later, it would have looked very peculiar if the United Kingdom had done that.

Q50 (11.01.06) Chairman: The language you used a moment ago almost implied that it was farmers who chose the model. It was ministers who chose the model. In the 2004 report which you referred to, I remember the phrase “The UK’s initial negotiating position was drawn up in close consultation with our delivery bodies, principally the RPA, who were involved at every subsequent stage.” With such close consultation it does now draw into question just how good the advice was at the beginning of the process, given the problems we are now facing at the end of it.

Lord Bach: I am not suggesting for a moment it was the farmers’ model. It was ministers who decided on that model but it has been a model that has been accepted and supported, I believe it is fair to say, by farming organisations.

Chairman: The point underlying my remarks was that you chose a very complex route. I am concerned that some of the things that have emerged as you have travelled that route were not anticipated for reasons which perhaps we might be able to establish.

Q51 (11.01.06) Patrick Hall: When ministers were advised to go for the particular model that England has and made that decision in February 2004, it must have been on the basis of advice. Was it then the case that officials thought that Brussels was not going to issue further documents and amendments *vis-à-vis* the detail of the scheme? Was it thought then by officials that the bulk of the detail was then known; therefore, officials were in a strong position to give advice to ministers and for ministers to make a decision? Was the further detail a surprise?

Mr O’Gorman: Lord Bach was not there at the time. I can confirm a considerable volume of advice was given to ministers over a period of time because this was a very significant decision that they took. We certainly knew that there was a risk that, whatever the model that was initially devised, it would evolve and it would be practically impossible to believe that you would have a regulation which would be perfect first time and would never need change. We knew that there would be risks. What we did not know was where were the imperfections at that point and what would need to be changed. We did not know if that would be in an area which was relatively insignificant in delivery terms, as many of the changes have been, or were there bits which would prove to be significant. As it has turned out, there were some in the latter of 2004.

Q52 (11.01.06) David Taylor: One of the stated attractions of the single farm payment was that it was simpler and less costly both for farmers and government in relation to the cost of administering the new schemes that it replaced. That is correct, is it not?

Lord Bach: Yes.

Q53 (11.01.06) David Taylor: What do you estimate the revenue cost of the single farm payment to be in the first year of implementation—ie, in the year 2006? How does it contrast or compare with the CAP last year of 2004?

Lord Bach: You are quite right. We do think this scheme is a much better scheme in terms of costs over a period of time. The old subsidy schemes were extremely costly and extremely inefficient. There was a huge amount of over-regulation involved with them and they had been there for years and years.

Q54 (11.01.06) David Taylor: What was the cost of these hugely cumbersome schemes in the 2004 administration? What will be the cost of this scheme in 2006? I am sure you have those figures.

Lord Bach: I think I have. Are you talking about the administrative costs in the single payment scheme?

Q55 (11.01.06) David Taylor: Yes, of course.

Lord Bach: On the basis of the best estimate, the cost of processing the £1.6 billion of the single payment scheme for English claims will be 5.4 pence per pound.

Q56 (11.01.06) David Taylor: What was the administrative cost of the old CAP scheme that you have been very critical of?

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Lord Bach: I am afraid I do not have that figure. Of course I will write to you with that figure. Even if it is a lesser figure this year compared to the 2005 figure, I honestly think you have to judge the new scheme on the years ahead as much as on this year. To bring in a new scheme is bound to be costly.

Q57 (11.01.06) David Taylor: I was careful to say that we were talking about the revenue costs, not set-up costs. Systems do bed in and they may become less costly. I will accept that. I am disappointed that the 2004 figures were not available.

Lord Bach: I am sorry and I will make sure the Committee is written to.

Q58 (11.01.06) David Taylor: When we visited the RPA—I place on record our thanks for the welcome and the investment in time that we had from the people who were there, people were very frank and we are grateful for that—it was made clear that some of the investment in labour saving devices—optical reading technology, would be an example—had been postponed so that you could get on with implementing the main system. As a result there had been various manual work-arounds introduced to allow completion in advance of the new technology coming in at a later time. Do you have any estimate, I am sure you do, of the total cost of these manual work-arounds that you had to introduce because I guess they would be part of the reduced revenue costs to which the Minister just referred in future years?

Mr McNeill: I think it would be best if we were to write with that information, it is not as easily abstracted as you might think. We are very happy to supply it in some detail. We do not have it to hand at this time.

Q59 (11.01.06) Chairman: Why did you end up with manual work-arounds if you planned this thing so carefully?

Mr McNeill: Chairman, the difficulty arose that in order to meet the timetable in working with our supplier they made it clear that it would not be possible to complete the development work required to deliver this other functionality, the character recognition, optical character recognition, et cetera. The view was taken that to push on and to make the payments it would be wiser, indeed prudent, for us from a project programme management point of view to defer that. In fact, a lot of that functionality will now be part of the delivery from Accenture in the next year. We would hope to use large parts of that for the 2006 year. Also, of course, the more we introduce new technology the more risk we run of having teething troubles, et cetera. We felt that we had quite a challenge, to be frank, in getting the scheme in with the Rural Land Register and Customer Service Centre and the use of a lot of the functionality we had already developed and it was probably wiser not to go a bridge too far and too costly to do so.

Q60 (11.01.06) David Taylor: Moving on to the relationship between the RPA and Defra particularly in terms of the resourcing of the development of the systems. When we went to Reading we were told fairly clearly, by Mr McNeill I think, that Defra had always accepted that the first year and the period leading up to the new system would be more costly in terms of financial resources and when additional funding had been requested largely it had been granted reasonably promptly. Is that a fair summary of what you told me?

Mr McNeill: Yes, Chairman, it is.

Q61 (11.01.06) David Taylor: That is fine. However, a fair number of the written submissions that we have received suggest that the RPA totally misjudged the resources that you were going to need, that you realised rather late in the day that there were problems on the horizon and they, the people submitting these observations, would have liked the opportunity to lobby for a greater number of resources rather earlier than you managed to do. They say this, at least in part, resulted from RPA and Defra being very secretive about aspects of the Single Payment Scheme and because you did not disclose this information the industry were not able to apply pressure to get resources in. In other words, it was very much a last minute crisis driven scenario that they observed from the outside. Is that a fair description of what was happening, Mr McNeill?

Mr McNeill: I am not sure it is, to be fair. The challenge that faces one is how to get over these problems in the most effective way. We have problems with our Rural Land Register, the volume of applicants putting in IACS 22s telling us about new land change, et cetera, are much higher than we expected, and we have discussed that. One difficulty was we had a piece of technology which meant that we were able to make those adjustments and our staff were engaged in that work. For a number of reasons, difficulty with new systems, time available for the new systems when they had to be taken down and work done to them, maintenance work et cetera, and all the normal bedding in difficulties one experiences with systems, we could not get the productivity. We were reluctant to outsource that work because we were then left with a significant technical problem where somebody else does it in their system and puts on a lot of additional information and then we come to try to patch the systems together again, and that was considered quite a high risk strategy where you have got different platforms, different technology, trying to bring that information across and basically patching it back into our own Land Register. As I mentioned, we are talking now of a Land Register that has over two million parcels of land and very, very significant investment. The balance was not just, “Let us get some additional funding from Defra and go to the market and find ourselves a supplier”, the assessment was, “Which is the less risky option” and once we had decided that because of productivity and because of difficulties we had we were not going to get there—this was then a pretty critical path—we went to the Department, they supplied additional

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funding and we did outsource the work. Thankfully the technical problems were well understood and could well have happened. We were advised by our consultants and Accenture, “This is a dangerous, risky strategy” but at the end of the day it was the best of the two choices and it enabled us to continue the work. The decisions sometimes had to be weighed and that took time to see what our performance was in getting the systems improved. It was not so much that we were indecisive, it was that we were trying to make sure that we took the right decisions.

Q62 (11.01.06) David Taylor: Earlier on I asked the Minister with hindsight whether or not there was anything that he or his predecessors would have done otherwise to avoid the situation where we are now. You seem to be saying the same thing that Norman Lamont and Edith Piaf both said, you *regret rien* even in the light of the position that we face at the moment. Is that a fair summary that with this 20/20 hindsight there is nothing significantly you would have done differently?

Mr McNeill: I regret much in terms of what has gone on. When I took this job on it mentioned IT enabled changes. It has been a salutary experience in bringing about a massive change of this nature and relying on technology. In fact, I was with some colleagues in Holland recently from the paying agency there who are going down the same road next year, perhaps with a slightly less complicated system, who are already very, very concerned that despite the fact they have had an additional year they are going to run into very much the same problems. It is not just government experience, our advice from our consultants and others is it is much the case everywhere and we have seen some recent high profile incidents about food not being on shelves in supermarkets, et cetera, because of technology difficulties. The fact of the matter is when you introduce a new system it is a risk and you need to consider very carefully how you best manage it. I think we have best managed it. We have a number of OGC reports where we have independent reviews by teams of core experts separate from Accenture and ourselves who have come and reviewed us on a number of occasions. Whilst they accept this programme as high risk, they have repeatedly identified it is under excellent programme and project management and have identified that it is a good piece of work. It is a high risk strategy but they do still believe it is deliverable.

Q63 (11.01.06) Lynne Jones: You acknowledge that there came a point when you needed additional resources to implement the scheme. Could you say exactly when that was or at what point in the implementation programme that was? We have had some written evidence which suggests that the RPA was warning ministers about the complexity of the scheme. What do you say, that you were pressurised into implementing this model a year earlier than you needed to in the name of political expedience, the kind of pressures that Lord Bach referred to earlier about the fact that we had been negotiating hard on

this change in the way the subsidies were administered and, therefore, we had to plunge into the deep end before anybody else?

Mr McNeill: There have been a number of occasions when we have become aware of increased costs. We sat down with Accenture, having negotiated a contract through an 18 month procurement exercise, and started to talk of very significant changes. Obviously they pointed to the fact that it was going to take more time, it was going to require additional funding, so we identified that and discussed it with the Department. With our Customer Service Centre experiences, which I am sure we will touch on in the course of today’s discussions, we identified that we had not sufficient capacity there and identified the need to increase that by contracting upward.

Q64 (11.01.06) Lynne Jones: I want to know when.

Mr McNeill: There were a number of phases. I can go through the different particular times, if you wish, or I am happy to write and document the various stages.

Q65 (11.01.06) Lynne Jones: It would be useful to have a list of all the times at which you identified additional resources and presumably immediately put in requests.

Mr McNeill: If I could say, the Permanent Secretary of Defra has chaired a board which has looked at this work—I can supply the dates of all the meetings—at least on a monthly basis and I myself had bilaterals certainly with the previous Permanent Secretary, Sir Brian Bender, on a monthly basis. He has also been very close to meetings with Accenture. At those formal meetings of those boards we have produced reports explaining the pressures on us in terms of increased costs because of the time frame, because of the change in requirements, and those have been regular features. Those meetings were also attended by Defra’s Director of Finance, Andrew Burchell, the Director General responsible for policy in this area, Andy Lebrecht and indeed Mark Addison, another Director General of Defra. We had very, very high level consideration of the pressures upon the organisation to deliver this and the cost implications.

Q66 (11.01.06) Chairman: With this impressive list of people who have been scrutinising this on a monthly basis ever since the project was inception, with all of this looking, I come back to the question I asked at the beginning: we are 20 days away from the end of January and the beginning of the month in which something definitive is supposed to be happening and in spite of this intensity of effort you cannot tell us an answer to a simple question, when will the payments be made. Why?

Mr McNeill: We are continuing the work which has been under tight project and programme management control since January 2004 where we projected February payments. At this moment in time we have a significant number of outstanding issues to address in regard to a number of claims.

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Q67 (11.01.06) Chairman: Mr McNeill and Minister, can we stop beating about the bush with all this, “We hope to do it but we have still got significant this, that and the other things”. Can you just put us all out of our misery and tell us what is going to happen. If it has all been so well managed and peer reviewed as a great project and you have got the risks under control, and I am sitting here thinking within 20 days we are going to get into the month of action and you are telling me that there are still significant this, that and the other things, surely you must by now have got an idea in such a well managed project whether you are going to make these time deadlines or not. Are you?

Mr McNeill: At this moment in time we are still projecting—

Q68 (11.01.06) Chairman: No, Mr McNeill, I do not want to know about what you are still projecting. Let us have some straight talking. Are you or are you not going to be in a position by February to make full payments, yes or no?

Lord Bach: Chairman, I know your question is addressed to Mr McNeill—

Q69 (11.01.06) Chairman: You can answer it simply yes or no, Minister.

Lord Bach: I am not sure I can. It is very tempting and if I were to answer it now, today, I would say yes, yes, yes, but it would be a mistake to say that because there are technical reasons still, and I did mention them earlier and you kindly said you would come back to them and ask my experts on them, why it may not happen as we think it will that full payments will still be paid by the end of February. If there are technical reasons that mean that it might not be paid then we have to tell the Committee that is the position.

Q70 (11.01.06) Chairman: Minister, when I was a minister I was responsible for the introduction of self-assessment to the UK tax system and I knew it was going to happen because I had an enormous amount of definitive information from those who were managing the project. I can remember the detailed timelines, breakdowns, deadlines. It was all there, because that is the way complex IT projects are managed. I would think Mr McNeill now knows the answer to the yes or no question because if it is such a well managed project he would be able to give you the assessment. Mr McNeill, are you technically in a position to give the Minister that assessment if he asks you the question?

Mr McNeill: We report on progress on this piece of work to ministers and I have mentioned the various other committees that we report to. The position is that we are on a daily basis monitoring how quickly our staff—it is not at this time a systems issue—are dealing with the significant number of queries relating to claims. The clearance of those is a matter for some fixes which we have requested from

Accenture going in place and working, it is to do with the productivity of our staff who are working 15 hours a day and Sundays.⁸

Q71 (11.01.06) Chairman: You have been telling us that they are working their socks off, they have been at it very hard, you have talked about the additional work-arounds, the additional resources, but are you telling me as a manager with an enviable reputation in a well managed IT project that has been peer reviewed that 20 days from the end of this month you cannot at this juncture tell me yes or no if these payments are going to be made in full in February. I cannot believe that the project is as well managed as you suggest if you are not able to answer this simple question.

Mr McNeill: The 20 days productivity will result in us assessing at the end of the month how we performed—obviously we are doing it daily at this time—and taking stock not just in terms of how many claims have we now cleared and what is outstanding but also in terms of potential disallowance.

Q72 (11.01.06) Chairman: How many have you got outstanding? Come on, Mr McNeill, this is dancing on the head of a pin. I cannot believe that you or the Minister cannot tell this Committee now what is going to happen in the future. For the sake of the farming industry, can you not put them out of their misery and tell them definitively what is going to happen. I really cannot believe if you have got such fingertip control, productivity measurement and all of these insights into what is happening, that in such a well managed project you cannot tell us if within a month’s time, because the 14th is the deadline of definitive identity, you are going to make it or not. If not, why not?

Mr McNeill: As I have explained, we are monitoring this on a daily basis. We want to be assured that we are in a position where we can defend the payments both from a disallowance perspective and—

Q73 (11.01.06) Chairman: So when will you know on this daily monitoring? At what point will you wake up in the morning and say, “I have monitored it sufficiently I can answer Mr Jack’s Committee’s question”?

Mr McNeill: The next checkpoint meeting will be at the end of the month.

Q74 (11.01.06) Chairman: So you are going to wait until the end of the month before you can make your mind up?

Mr McNeill: Of course, in the interim if we have a major problem, a major systems failure, then we will be able to approach ministers, explain our difficulties and reflect on what is the best way ahead.

Lord Bach: Chairman, I ought to say that I made it clear right from the start that I wanted to give the RPA every chance to make the full payments at the start at the end of February. I did not want to pull back from doing that because of some difficulty that

⁸ Note by witness: should be “weekends”.

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might arise. I was prepared, and still am, to give the Rural Payments Agency as long as they require in order to be able to say they can make the full payments. If at any time they say they cannot make the full payments I will announce publicly that we cannot do it and we will make partial payments in February. Because we are trying to do these full entitlements, and it is crucial to get these full entitlements done, once we can establish these full entitlements we can say that we will⁹ meet the end of February payment date. If we cannot get the full entitlements done then we are not committed to say that we will start full payments by the end of February. I think it is appropriate and right to give us every chance of making the full payments at the end of February. I only wish I could answer your question because I would very much like to and, indeed, I have been quite strong in asking my officials whether there is an answer I can give you yes or no today because this was an obvious question the Committee would press on. Being as fair and proper as I can be, I cannot give you that answer today. I tell you again, I expect us to start making full payments by the end of February 2006.

Q75 (11.01.06) Daniel Kawczynski: Just a very quick question to Mr McNeill. Are any of your staff or you paid any bonuses for making these payments on time, or do you just have a flat salary?

Mr McNeill: No, I am paid a bonus providing we make start payments in February and complete 96% by the end of March.

Q76 (11.01.06) Daniel Kawczynski: So you receive a bonus if 96% of these payments are paid on time?

Mr McNeill: Yes. It is a performance target for the Agency and for myself as Chief Executive.

Q77 (11.01.06) Patrick Hall: It may have come up already and certainly my colleagues, Mr Williams and Mr Taylor, may have already discovered this. The 120,000 claimants, much larger than expected, had to be in by last May, was it?

Mr Hewett: 16 May was the claim deadline for full payment. 10 June was the final deadline established. From 16 May to 10 June there was a sliding scale of penalties on payment.

Q78 (11.01.06) Patrick Hall: You have known since then what the situation is. In fact, several months before that you had already said that you were unlikely to make the ideal window of payments, which was December. You said in February of last year that it would be not before February 2006 but these claims were coming in because the deadline was after your announcement that you would not be able to make it. When all the claims are in is there further communication to check them out? Is that why it is taking so long? Not only the volume but the detail on each.

Mr McNeill: The reason, despite the volumes, and as you say after January 2005 people were submitting their claims, working on our understanding of what

the likely numbers were going to be, working with our suppliers, looking at the project and the programme planning, it was clear to us, and Accenture made it clear, that they could deliver the releases, the IT we needed for different phases of the processing of claims. It was that to a large extent that put us on the timescale that we were on. We realised that despite our best efforts that was the soonest they felt they could build, test and deliver the systems that we needed to process the claims. That was the critical path through that. With the volumes we could well have put more staff on had there been an issue and taken different approaches, but it was largely to do with the systems development.

Patrick Hall: Maybe Mr Taylor is going to pick up on that.

Q79 (11.01.06) David Taylor: In May 1967 I entered the world of public sector IT where I worked happily for 30 years prior to becoming an MP in May 1997 three decades later. Some of the story that I am hearing today, and I was working on design, development, implementation and operation of public sector systems, seems horribly familiar. I put to you in Reading the phrase, and I know you rebutted it vigorously but I am going to put it to you again, that you are over a barrel to Accenture, are you not? Both you, the Minister, and you, the RPA. They are rubbing their hands, are they not, with the profitability from all the extra work and changes and indecision and the delays that we are seeing? The Government, the taxpayers and the farmers are over a barrel, are they not?

Mr McNeill: I will accept that it weakens one’s position having to go into the market, having specified a certain requirement, then to change that. That does leave you in a difficult position, a more challenging position, in terms of the commercials of the deal. I think that is the same no matter what one does: if you want an extension on your house and decide to change it halfway through it is going to cost you some more, it is going to take longer, there is nugatory work, et cetera. All I can say to you is we have an excellent commercial team. We are fully supported by Bird & Bird, which is one of the top legal firms in the City, and recommended highly by OGC. We have an excellent contract drafted by Bird & Bird. We have had some very frank discussions and, I have to say, those discussions with Accenture have involved the secretary of state, ministers, the permanent secretary and others where we have had frank discussions about performance and, indeed, discussions about future performance and costs.

Q80 (11.01.06) David Taylor: You have not got any real leverage, have you? You are stuck with Accenture. They were engaged 36 months ago and we are now one month away from a very crucial stage of the project. 97% of that period has elapsed and here we are still unable to say with conviction, commitment and certainty that accurate payments will be made in the month of February, or will start to be made, to English farmers.

⁹ Note by witness: insert “or will not”.

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Mr McNeill: To be perfectly fair to Accenture, we were talking of the commercial aspects and the cost of that. Accenture have delivered the functionality that we needed, those various releases they have delivered. We have had our fair share of problems with them, we have had testing issues, performance issues, stability issues, the system being able to stay up for 15 hours a day for us to work. We have had those and one has those with system developments to a greater or lesser extent no matter what you do. The fact of the matter is they have delivered that and I can assure you from any discussion I have had with Accenture, or indeed ministers have had, they have repeatedly reaffirmed their commitment to make this work. They want to have a longer term future of working in government. Sir Brian Bender in particular has made it clear to Accenture on a number of occasions that government is watching Accenture on this piece of work. It is a very high profile, high risk piece of work. This is mission critical to Defra and he has made it clear on a number of occasions that he expected it to be delivered and Accenture have fully signed up to that and delivered what we asked. Whether we got it at the best price or not I would accept is a debatable point.

Q81 (11.01.06) David Taylor: In the upper reaches of government and, indeed, in the upper reaches of the Civil Service there are large numbers of individuals who are particularly susceptible to the blandishments of the snake oil salesmen who can be found in the computer package industry and that is absolute fact. The evidence is all around us in government, local government, the NHS and elsewhere. Why do you think that the RPA have been able to break that sorry sequence of failure that we have seen in public sector large systems? It is not a fixed price that Accenture is working to, is it?

Mr McNeill: Initially it was a fixed price arrangement but, of course, once one moves off that original arrangement then one is open to negotiation for what does it mean to them and the extended time, et cetera.

Q82 (11.01.06) David Taylor: They are making money hand over fist on those changes, are they not?

Mr McNeill: On the contrary, I would say Accenture have found this contract very challenging. Certainly we have open book accounting with Accenture. We are not of the view that Accenture are taking advantage of us in terms of super normal profits or whatever. They have to make a profit, they make that quite clear. We do have open book accounting and forensic accountants available, whatever we require, to assess what level of profit they are making on the contract.

Q83 (11.01.06) Mr Drew: Have there been any claw backs at all in terms of monies back from Accenture or payments not made?

Mr McNeill: Yes, there have been. As I say, we have a particularly robust contract management team who manage the commercials of this and we have had a situation where either because of failure to

deliver what we expected or, indeed, particular delays on their part that has been the subject of negotiation as to recompense and what that means in terms of settling any other claims they might have to continue with the work. We have also recently negotiated with them where we have taken the view that we do not wish to extend the programme in regard to a number of small trader schemes that we have which were part of the original vision. We have taken the view that when we looked at the cost of that we would rather not continue with that work and have negotiated a discount and settlement for that with Accenture.

Q84 (11.01.06) Mr Drew: So is the contract as was still in existence with the modifications? When does that contract come to an end?

Mr McNeill: We would hope to finish the Change Programme and the programme office shut down probably by May this year. The contract with Accenture continues for some years with the maintenance aspect. Having built the system, they are also contractually tied into us to maintain the system for, I believe it is, seven years.

Mr Hewett: Delivery is until the current year and support is until 2009.

Mr McNeill: So when we placed the contract it was initially seven years.

Q85 (11.01.06) Chairman: Minister, for the record, at the outset of this project what was its cost and what is the current estimate?

Lord Bach: I have these figures, Chairman. The contract for developing the Change Programme system, which was the one awarded to Accenture, the original contract cost of acquisition was estimated at £34.1 million broken up as follows: 18.1 million revenue and 16 million capital. The forecast cost against that original is now expected to be 54.3 million broken down between revenue of 37.4 million and capital of 16.9 million.

Q86 (11.01.06) Chairman: The revenue costs have doubled?

Lord Bach: Virtually. 18.1 million to 37.4 million.

Q87 (11.01.06) Chairman: Is that a reflection of the combination of growing complexity and growing volume?

Lord Bach: I suspect it is. I suspect that explains it to some extent, and also, harking back to Mr McNeill’s recent replies, it is to do with Accenture being asked to do other things than they were originally asked to do in the original contract which meant that the fixed price element of the contract altered. Mr McNeill can answer that better than me.

Mr McNeill: It is largely to do with the fact that Accenture were engaged in developing systems for the legacy CAP schemes which were done away with, the CAP reform, so a substantial amount of nugatory work had already been done in designing the schemes and specifying them, preparing for build. That was nugatory. Obviously then there was the whole issue of designing, building and testing the new scheme. There was also the issue of the extended

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time frame. They would have hoped to have delivered the solutions for the legacy schemes much earlier had we not had to produce the new Single Payment Scheme.

Mr Hewett: Can I just embellish that slightly? The original contract was to deliver four prime releases over a period up to and including 2004. Because of the implementation of the CAP and the introduction of the Single Payment Scheme we had to substantially modify the scope of the various releases and, indeed, change some of them. One of them became a prototype rather than a live delivery. Those deliveries will run on until 2006. As Mr McNeill has already explained, we have had to change quite considerably the approach and quite a lot of the initial work will not be developed into final solutions because those schemes are no longer around.

Q88 (11.01.06) Lynne Jones: In your submission you mention a significant “de-scope” of the required functionality. I am not sure what that means. Does it mean that you are doing fewer things, that you have had to go to the absolute essential and you are doing fewer of the fringe or icing on the cake type areas? What is the long-term impact of that? In view of the additional costs that you have just identified of the IT scheme, are you still on target to make your 39.9 million per annum savings as a result of the Change Programme?

Mr McNeill: I mentioned earlier, Chairman, that in order to reduce the risk to delivery of SPS for this year we had to decide not to proceed with the delivery of certain things, and a particular question was asked earlier about character recognition which is where forms come in and the information is literally scanned into the computers as opposed to what we have had to do this year where we have had hundreds of people double-keying high volume data capture, punching the information on keyboards into the system. That would produce a substantial saving in terms of the number of staff required and the input. As a consequence, to improve our chances of successful delivery of the 2005 scheme year we had to decide to defer some of that work to the next year. The consequence for the 2005 year, going back to the Department’s support when that was discussed, meant we have had to have more staff than we originally planned and as a consequence there was more cost. Likewise, next year we would hope to have that piece of functionality, that piece of kit delivered by Accenture, so that we can use that next year and deliver the benefits that we had planned to do at an earlier stage.

Q89 (11.01.06) Lynne Jones: So the answer to the question about savings is yes?

Mr McNeill: The answer is that savings are deferred because we did not deliver the system that would enable us to produce the savings.

Q90 (11.01.06) Lynne Jones: Deferred to when?

Mr McNeill: Starting in 2006–07.

Q91 (11.01.06) Lynne Jones: It says from April 2007 anyway.

Mr McNeill: What we will be doing is installing that equipment and we will have the full year value in the 2007–08 financial year.

Q92 (11.01.06) David Taylor: I think we will move on to staffing, we could spend hours on the IT side and there is not the time to do that, Chairman. Is it the case, Lord Bach, that the original workforce within the RPA totalled some 3,500 of whom around 1,600 will lose their jobs during the Change Programme? Those are the figures that we are working to, is that correct?

Lord Bach: I am sorry; I am not in a position to answer that. Mr McNeill, who runs the organisation itself, will be able to answer that.

Q93 (11.01.06) David Taylor: Mr McNeill, do those figures seem recognisable, that almost 50% of the original workforce of the RPA is due to lose their jobs by the end of this year? That was the original plan between 2001 and 2006, was it not?

Mr McNeill: Yes, that was part of the business case, the initial projection. I have the exact figures if I can confirm them. Yes, approximately in that area. The intention was that the investment would produce that level of savings, yes.

Q94 (11.01.06) David Taylor: It is not likely to be a factor, is it, that is going to boost staff morale or their attitude to their employers, although I did not detect any serious problems in some of the people I talked to? That is a backdrop which is not a very encouraging one for the Department overall, is it?

Mr McNeill: Chairman, I made a point of personally spending quite a lot of time around the various sites within the RPA, in particular those offices that are closing, the latest being Nottingham and Crewe. I have been sorely impressed with the commitment that staff have shown up until, to be frank, the last day of work before they have departed the organisation. Of course, these staff, if they have long service with the Civil Service, have received redundancy packages. Many have gone on to second careers and, indeed, have looked upon this as an opportunity to do something different as a result of receiving that funding. In actual fact, as I say, I was very impressed with the commitment that continued to be demonstrated by those staff.

Q95 (11.01.06) David Taylor: You have already referred to the amount of pressure of working around the clock seven days a week for a considerable amount of time, and I understand that, but the trade union, PCS, told us both in written submission and in conversation that in their view a bullying culture exists within the organisation which pressurises staff to work extraordinarily long hours. How do you respond to that?

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Mr McNeill: I can only say that we would not accept bullying within the RPA, as indeed it is unacceptable within the wider Civil Service. There is no doubt that all of the staff within the RPA have shown tremendous commitment. They are working very long hours, and have done for many months now. We had staff in the organisation working on Christmas Day who volunteered to do that work. The fact of the matter is that there are times, I have no doubt, when staff are under pressure and feel that because of the combination of long hours and the pressure to deliver, but I can assure you we will not accept bullying within the organisation.

Mr Hewett: A lot of those staff actually work for me. We are very clear that whilst we are looking to make the best use and most optimal use of the IT system, recognising that there need to be modifications overnight, we will try and utilise that system from 6am to 9pm. We have early shifts, late shifts, double-day shifts, but we recognise that staff require some time out to recuperate, to recover, before they move on. It was a level of their commitment that people, particularly at the Reading office, actually came to me and said, “We want to work Christmas Day, Boxing Day” and so on, “to see if we can make better use of it over that period”.

Q96 (11.01.06) David Taylor: Why would PCS describe the atmosphere and ethos in that way, with that phrase, “bullying culture”?

Mr Hewett: We have daily conferences, as you can imagine, to monitor progress. This is a completely different culture in terms of trying to deliver the Single Payment Scheme than its predecessors. I used to manage one of our offices in Exeter. I had a geographic locus and I was responsible for the farm subsidy claims in Devon, Cornwall and the Isles of Scilly. Now the Exeter office deals with a proportion of claims from the whole country and there is not that discretion. We have calls involving the managers at each site and we discuss progress against the various competing priorities that we are working on at the moment. We are very keen to make sure that we stick to the productivity levels that we require to ensure that we can determine entitlement.

Q97 (11.01.06) David Taylor: So you deny all knowledge of any such culture existing?

Mr Hewett: We are challenging in terms of making sure that we stick to what we are intending to achieve in terms of productivity.

Mr McNeill: If I could just come in there, Chairman. The relationship the organisation has with the trade union is quite excellent. We have worked very hard. Bar the issue of pay and industrial action, which is the one issue on which I am afraid we just cannot agree. Bar that, which I know is important, we have trade union representatives at our executive board sitting with directors, fully involved in discussions on the programme. I can say with my hand on my heart I have no recollection of the issue of bullying being raised at those meetings. As I recollect, there have been one or two instances when concern has been expressed to me personally and I recollect we

addressed those, but I am not aware that they expressed formally any particular concern about the level of bullying in the organisation.

Q98 (11.01.06) David Taylor: The assertion that there has been something over 1,500 casual, fixed term and agency staff, the bulk of which are agency workers “paid the minimum wage to work unsociable hours”, is an incorrect assertion, is it?

Mr McNeill: That is a separate issue, Chairman. There is no doubt that the union is particularly unhappy about the use of agency staff. Indeed, it is part of the PCS’s national campaign, having sat in their head office just before Christmas where they explained to me that they were very unhappy with government in general using agency staff and where the agencies, in their view, are paying minimum wage and these staff are sitting beside permanent civil servants who are receiving much better in the way of packages and pension and support. As they made clear, that is part of a national campaign that they are putting in place to bring about changes in that approach. I accept they have concerns about that. Our particular concern in regard to business is our site at Workington where until recently we had a significant number of agency staff but, following some discussions with the union, we have moved to employing another 100 new permanent staff directly.

Q99 (11.01.06) David Taylor: To an extent you have accepted the summarised description of the numbers of people who are churning through this organisation, the numbers who are feeling vulnerable to the loss of their jobs or, indeed, who have already gone. This is not exactly the best type of environment in which to design, develop and implement a hugely important computer system, is it? Is that the reason why the one thing I noticed above all others at Reading was the paucity of experienced IT and other staff at the very sharp end where Accenture were designing and building a system which they themselves are going to support on your behalf into the medium term? I noticed that RPA staff and the predecessor organisation for which they might have worked were almost invisible at that level and that really did disappoint and surprise me.

Mr McNeill: I was unaware that you had that concern following your visit. We do have a significant number of agency staff. We mentioned earlier the business case, which we are still obliged to work towards achieving, of reducing the numbers and we have been looking to agency staff to help us complete the work between now and when we get our full systems in place so that we can more easily reduce as opposed to engage in another significant round of redundancy. That is why we have gone down the road of agency staff. Having met a large number of agency staff in the organisation, I have to say they are very committed, they are very pleased to have the job, albeit at a lesser wage or lesser package than, indeed, some of the people they are sitting beside, the permanent civil servants. To answer your question about the IT, there is no doubt that a problem that we face, which I suggest is a problem

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across government, is that it is extremely difficult to get IT people to come and work at Civil Service wages and assist us through this and, indeed, retain our own IT staff at Civil Service pay bands when they can literally make a phone call and move to an IT company, a consultancy, whatever. This is a growing concern and pressure for us and we have to look at how we can do our best to keep the staff on board. I accept your point that we have had to rely on expertise from outside largely because at the pay scales which we can offer it is extremely difficult to recruit or, indeed, retain staff.

Q100 (11.01.06) David Taylor: It is not a soft cop-out management option just to outsource IT?

Mr McNeill: No.

Q101 (11.01.06) Lynne Jones: I have got two points. Why have you made hundreds of staff redundant and then you have to employ lots of temporary people and at the same time you said a lot of your remaining staff are having to do a lot of overtime? Secondly, is all the extra work and overtime voluntary?

Mr McNeill: We have had a clear plan in terms of reducing staff. What we have done is trawl the organisation, in agreement with the trade unions, and given the staff the opportunity to identify whether they wish to leave with a package. A number have applied.

Q102 (11.01.06) Lynne Jones: Should you not have kept them on a bit longer?

Mr McNeill: I was just going to come to that. What we have done is considered those who have applied. We have been very fortunate that the number who have applied have met our needs, so we are not looking at compulsory redundancy. What we have then had to do is look at the particular skills and experience those staff have. Some staff have left on retirement over this period as well and we cannot stop that happening, they have done their service and they are entitled to go. What we do is look at the particular skills and experience of those staff who are saying, “I would quite like to leave” and where they have skills we think we can use, we have said—for a significant number it is the case—“We cannot afford to let you go until we finish certainly the first round of this scheme” and a number have expectations that by this summer we should then be in a position to release them, but in many cases we still have not committed to that. What we have accepted is that when possible we will release them. We have let other staff go, I accept that, but often in areas not directly related to processing SPS: support services, facilities management, we have let some human resource staff go, things of that nature. There is a consideration of each and every case.

Q103 (11.01.06) Lynne Jones: How many staff have you “let go” as you put it? Are you saying that none of those could have been kept on longer and contributed to the work that is being done by the temporary staff and staff doing overtime?

Mr Hewett: Can I answer that question? Since the start of the Change Programme 300¹⁰ staff have left the organisation and a further 100, bringing the total to 400, are planned under part of the Change Programme. A significant number of those have been released from the two sites at Crewe and Nottingham which were not part of our Change Programme and, therefore, were not part of the IT development which we are now using to deliver the Single Payment Scheme. Those staff were predominantly there to deal with the farm-based schemes in those geographic regions. I visited both of those offices shortly before their closure to thank the staff for their efforts in dealing with the close down of what we now call legacy farm-based schemes, the bovines and sheep schemes, et cetera. Some staff outside of those two offices have left for the reasons Mr McNeill has already explained as part of that programme in corporate areas or, in a few cases, from some of the other areas. For example, at Reading now the number of frontline operational staff who will be left at Reading at the end of the Change Programme is very small, so consequently some of those staff have disappeared during the course of the programme and perhaps that was what Mr Taylor was referring to.

Q104 (11.01.06) Lynne Jones: I am not sure you have answered my question on overtime being voluntary.

Mr Hewett: Sorry. In terms of overtime being voluntary, absolutely. We do seek volunteers for overtime on a regular basis but since the advent of bringing agency workers into the organisation, primarily for specific jobs such as data capture and more recently validation, we have tried to target those individuals at specific parts of the day to make best use of the system. We want an early shift, we want a late shift and in some cases we have a double-day shift. Where we give overtime over that, particularly weekend working, we do seek volunteers.

Q105 (11.01.06) Mr Rogerson: On this business of redundancies and, therefore, temporary staff coming in, some of my constituents contacted me in relation to the implementation of this system and one of the frustrations they claim to have had is that the people they speak to do not seem equipped to answer the questions which they have or, indeed, capable of taking on board the corrections they are making in terms of letters they have had that have raised issues. When they have tried to explain those issues and explain the answers in order to move their assessment forward they have had a letter back which has carried on with exactly the same situation as before. Indeed, the Minister and I have exchanged letters. We seem to have the same problems over and over again. Is there an element where some of the temporary staff and so on may have added to your problems in terms of being able to meet the deadlines you have got because issues which could have been settled simply have rolled on and on through repeated exchanges of correspondence?

¹⁰ Note by witness: 299 left by 31 December, 117 in 2006, total 416.

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Mr Hewett: If I can try and answer that question. First-off, administering the Single Payment Scheme is not like administering previous schemes where we had more like a claims management type approach and I would have one of my processors looking after a particular claim and perhaps liaising with the customer where appropriate. With the Single Payment Scheme and the system that we are implementing it through, the claim goes through a number of stages and a number of different individual members of staff might be involved in processing aspects of that claim. As I have already mentioned to one of your colleagues, we have employed a number of staff on a short-term basis, either agency or casual, to do specific jobs, to capture data, to do certain aspects of validation. We know them in the trade as level one or level two primary or more detailed validation. The primary validation was about errors or omissions, so in certain cases some of our staff would have been on the telephone to customers saying, “There appears to be an issue around certain aspects of your claim, could you explain to us”. They would not necessarily know certain other aspects of the process, for example if there was a dual claim or an over-claim, they would not have been trained in that, they would have been trained in looking for errors and omissions in the claim. Perhaps that is part of the issue. The other point is in terms of putting right problems when they are found, certainly we have had issues in relation to land registration. Mr McNeill has already explained the scope and the extent of the land registration changes that we have seen in the last 12–18 months. That came on the back of a two year digitisation exercise and I have to say not all of our customers were very keen to talk to us about that digitisation process at that time. They now are because they want to make sure their Single Payment Scheme and Entry Level Scheme claims are accurate. We are now getting into a situation where we have involved an outsourced supplier and we are fielding calls around some of the work associated with that outsourced supplier. We have also established a Customer Service Centre at Newcastle, and now at Workington, that was introduced just before the Single Payment claims went out, and we might touch on that at some point. We knew there were issues around that in terms of making sure that our staff were fully equipped with knowledge around SPS. That is what we are trying to do. We are trying to make sure that in dealing with the 2006 scheme inquiries we are better placed to handle that by making available technology which allows calls to be filtered out of the call centre into sites where the expertise in processing claims for 2005 took place.

*The Committee suspended from 5.03pm to 5.16pm
for a division in the House.*

Q106 (11.01.06) David Lepper: This is a postscript to what Dan Rogerson was asking about just now. Mr Hewett, you have explained what I think is probably called the task-based system for dealing with claims of rather than one person following the claim through to the very end different people work

different aspects of it, and you have explained the reasons for that. This relates to the staffing issue as well. The Country Land and Business Association in their evidence to us talk about what they see as a decline in customer service and they feel the way that manifests itself is the personal contacts which did exist, which they felt were valuable, at regional offices are replaced by voices at distant call centres, as they put it, and the service suffers because of that. I guess collectively you would argue the change is necessary not just because perhaps some of those regional offices are no longer there, I am not sure about that fact,—

Mr Hewett: They are not.

Q107 (11.01.06) David Lepper:—but because the nature of the system requires a different way of dealing with it. Would that be the argument?

Mr Hewett: I think that would be absolutely the case in terms of we took the decision as part of the Change Programme to move from a regional-based solution to a national-based operation and the Single Payment Scheme effectively embellishes that, if you like, by moving this from the 11 farm-based subsidy schemes to a single farm-based subsidy scheme which in the first year is predominantly based around historic entitlement and reference data and over time moves into a scheme that is based predominantly around land. We have a Land Registration Unit, we have a Customer Registration Unit, and the functionality that supports that was delivered at the end of 2004 and early 2005. We do still, and did during the application window for 2005, operate a system where our customers can make contact with us at our sites where we are processing, and at the moment we have six sites in operation. Predecessor organisations occupied 11 sites, so you can see there is a downsizing process there. Those contact centres are still there if customers wish to deposit anything with us, however our primary intention is to move to a situation where we have a Customer Call Centre that is capable of dealing with telephone and email inquiries and we hope over time, although this is not yet proven, electronic communications.

Q108 (11.01.06) David Lepper: So the regional office is a thing of the past?

Mr Hewett: That was part of the Change Programme ethos.

Q109 (11.01.06) Chairman: I want to move on to ask some questions about mapping but, just following on from the last points that we heard about customer service, I am going to leave with you a letter which one of my parliamentary colleagues sent to me from a farmer in Gloucestershire. He sent a detailed log of some 55 contacts or activities between 25 March 2004, when he received from the RPA in Exeter a list of field numbers and sizes in his efforts to get himself properly and accurately registered, to the final event on 5 January this year when he finally received maps from the RPA in Reading and they were still wrong. I do not know whether this is an isolated example, I suspect it is not. I suspect it reflects an awful lot of

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angst as far as landowners are concerned. It would be helpful to have a detailed response to the issues there on what you have done to prevent this kind of thing happening in the future. As far as the mapping is concerned, one of the things that surprised me in terms of the evidence you have given so far is why you did not anticipate the extra volume of work that occurred. Did you do any kind of sampling exercise on farms to assess right at the beginning some of the practical problems that were encountered? In the context of the people who were new to making a claim, when the policy was determined, was no exercise undertaken to estimate the numbers of new people who would be eligible under the policy which you had agreed?

Lord Bach: The RPA representatives can answer the factual question about whether exercises were conducted. I think the 40,000 increase in claimants, in other words 50%, did take us by surprise to some extent. Whether it should have or not, I do not know, but I suspect it was rather more than thought. In addition to the number of claimants was the number of changes to be made or additions to be made to the land registration and the mapping that follows from that. There I want to emphasise, if I may, something I said a little earlier. It was not just those who were new claimants who were putting forward changes to their maps, it was those who had claimed for years who were legitimately, in a sense, putting forward land they could now claim for as part of the Single Payment Scheme. As I think Mr McNeill has said on more than one occasion, frankly those people should have mentioned that land when they were claiming for previous subsidies but they did not, and it is human not to sometimes, I accept that. I think the number of existing claimants who put in claims for new land did surprise us.

Q110 (11.01.06) Chairman: Minister, could you answer the question that I asked. The question that I asked was did you, once you had agreed the policy, not go out and visit a few farms and say, “We know roughly the kind of information that will be required, now let us do a little sampling”, to get some idea in the real world what kind of problems you would encounter? Did any of that get done?

Lord Bach: That is a factual question I cannot answer.

Mr McNeill: In terms of the existing customer base in the summer of 2004, having built the new Land Register and put on the circa 1.6¹¹ million parcels of land, we sent to each of our known customers, the circa 80,000 customers that we dealt with, a copy of the maps and asked them to let us know whether those maps were right. We realised that it was going to be important for legacy schemes and, indeed, for SPS as it happened to have as good a Rural Land Register as possible. We sent them out and a significant number came back and somewhere between 20,000 and 30,000—I can confirm that in writing—did not respond despite repeated reminders and us chasing them up. What we then found was that at the same time as we had to

introduce SPS and once our existing customers became aware that there was going to be an area element to the new Single Payment Scheme we had the new Stewardship Scheme, the Entry Level Scheme, introduced by RDS and in some cases the same customers, in other cases new customers, realised that they would also require land to be mapped to make application for that. That was additional work that resulted from that other scheme being introduced. In terms of the 40,000 customers the answer is no, to my recollection we did not sample.

Q111 (11.01.06) Chairman: That is what I thought you were going to say.

Mr McNeill: We had an understanding about the possible magnitude of the number of customers but who they were and how much land they might hold we did not know. With the introduction of people who kept horses and so on—

Q112 (11.01.06) Chairman: Very simply, Mr McNeill, you knew the policy but you were flying blind when it came to trying to work out the volume and the volume only became apparent once the paperwork started to come in. In other words, when you started you had not got a clue.

Mr McNeill: We had a system which at that time we felt was scaleable and we would be able to deal with the volumes if all 40,000 decided to submit IACS 22s.

Q113 (11.01.06) Mr Drew: Could I just check, was the satellite monitoring, which is presumably how you built up the knowledge of the field boundaries, included as part of the software management system so that you could compare the bits that were coming in with the acreages or the hectarages that were being claimed for?

Mr Hewett: The original Rural Land Register project, which was to map 1.7 million land parcels, on which the old IACS system was based, was derived from Ordnance Survey boundaries. That is comparable and allows us to do remote sensing inspections on a proportion of our customer base. We did that under the old IACS regime for arable claimants and we do so for the Single Payment Scheme. A proportion of the customers who were selected for inspection from the 2005 SPS population were subject to remote sensing checks.

Q114 (11.01.06) Mr Drew: So it was never thought either feasible or sensible that there would be a comprehensive pictorial representation of what people were claiming for?

Mr Hewett: We were already producing that for our own purposes, if you like, in terms of monitoring, checking from remote sensing inspections.

Q115 (11.01.06) Mr Drew: That is for everyone then, regardless. You say you trial, test some people just to get a feel for how accurate the information is, but—

Mr Hewett: This is for compliance purposes. We are required under one of the key controls that I mentioned some time earlier, Chairman, to inspect a

¹¹ Note by witness: should be 1.6 million.

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proportion of our claimant base each year. Some of those inspections are physical inspections on the ground with our inspectors actually measuring the area; other inspections are undertaken by remote sensing, by satellite imagery, et cetera, to check the claimed area against the area found by satellite imagery. We use it for compliance purposes. My colleagues in the Rural Development Service, who are responsible for the administration of the Environmental Stewardship Scheme, take as the basis the land area and they are also very keen to make use of the Rural Land Register data as part of the application pack which then goes to customers and forms part of the agreement for that Environmental Stewardship claim.

Q116 (11.01.06) Mr Rogerson: This is a mapping question but it also relates back to what I was talking about before we had to go to vote on people’s experience and the complicated nature perhaps arising from having to speak to a different person each time you contact the Agency. This is a gentleman who was applying under the National Reserve as a new entrant into the industry and he tells me that having completed and returned the information he was required to do, others—the figure he gave me was 18,000, I do not know whether that is true or not in terms of the number of people applying for the National Reserve—a smaller proportion of those had not responded with the details necessary but, because there was no way of telling from your system which were the ones who had responded and who had not, all 18,000 had to be written to again prompting a further response. I imagine that would have generated a lot of confused inquiries from people saying, “I have responded, why have you contacted me, is there something missing?” Has that added to your workload significantly?

Mr Hewett: I can give you a bit of factual information. The 18,000 National Reserve applications is a correct figure. By the time that we completed the assessment of around half of that number, and the assessments have been undertaken off of our main system and then we load the data on afterwards, we determined that around half were in a category known as “insufficient information to make a judgment”. On that basis we decided rather than take the time to trawl through the remainder to find out if a comparable proportion were in that “cannot make an assessment” category we would write to everyone to give them a checklist against which to tell us, “Have you given us all the information on this checklist that is relevant to your case? If so, thanks. If not, please provide that and any further information”. Subsequently, we discussed that with stakeholders, who we meet on a regular basis, one of whom is sitting behind me, to explain that if any customer believed that they had already provided the information we did not want it a second time, thank you very much, we just needed confirmation that we were going to get everything we wanted. As a consequence of that process and part of our on-going assessment, a considerable number of applicants have actually withdrawn their

application, whether they felt they did not have sufficient information to justify eligibility or for whatever reason they decided to withdraw.

Q117 (11.01.06) Mr Rogerson: Inevitably some, who may not have been contacted through your various consultation means, may well have felt, “Does this apply to me? Have I been sent what I need?” and that would trigger off another round of communications with the Agency?

Mr Hewett: Absolutely. Our stakeholder representatives cover a significant proportion of the industry now, it would be very helpful to us in selling key messages to their members or customers if they helped us to work with this. They recognise that, unlike previous schemes where we could say, “That claim is eligible, pay it”, you are putting everything in the pot and working to some of the lowest common denominators here.

Q118 (11.01.06) Mr Williams: If I understand you correctly, mapping is no longer impeding the processing of the calculation of the entitlement?

Mr McNeill: My earlier comments were about the fact that we have outsourced the processing of the backlog of IACS 22, the applications to have changes made to land, we have brought in the contractor who built the original database, as I mentioned, and as a consequence there are a number remaining, which I can give you, but it is relatively small and planned to be finished in the very near future. So as such the actual mapping process is not going to interfere with the payments. We have had a concern which perhaps I can touch on, and that is about the accuracy of the maps. We have had some system glitches where the land is available on the screen, as our staff look at the screens and the database, but unfortunately when printed the maps have excluded certain parcels of land, and that is a fix which Accenture are sorting for us and will be put in place shortly, but we are aware of the land and who owns it. Unfortunately, when we have sent out the maps, it appears we have missed something, and that has been the problem. Another issue is that we do send out maps and, indeed, we do get it wrong, but also we find that customers often for the first time for sometime actually look at the map in considerable detail and recognise that perhaps they have missed things themselves and identify additional issues they want to raise with us, which is understandable. So we have those cases and so maps can go to and fro. Yes, we have made errors with it. We closely monitor the quality of both our own staff’s performance on this and the contractors’ and there is a certain 2%, 3%, quality issue which we have been addressing with the supplier and indeed our own staff. So there will be cases when the maps are wrong, and it is unfortunate, and we are aware it has happened, but we would be pleased if customers could send them back and we will sort it out.

Q119 (11.01.06) Mr Williams: So if it is not the mapping that is the problem in making your payments on time, what is the problem?

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Mr McNeill: As I mentioned earlier, the problem we face is that there are a significant number of outstanding issues which we need to address in regard to a significant number of claims. We have gone through various parts of the process and many parts are well nigh completed—level one validations bar a handful are pretty much complete—so large parts of the process are complete, but we are at the stage where there are a number of issues which we still need to resolve. We are also, as I mentioned earlier, awaiting some additional fixes. These are not released as big pieces of functionality from the supplier, but they are fixes which we think may well address large numbers of these.

Q120 (11.01.06) Chairman: Can you put a number on this?

Mr McNeill: A number on?

Q121 (11.01.06) Chairman: You keep saying there are a large number—how many?

Mr McNeill: Of outstanding issues?

Q122 (11.01.06) Chairman: Yes.

Mr McNeill: Because it is a task-based system, there is the issue of the number of the tasks, and then obviously how many claims that affects.

Q123 (11.01.06) Chairman: Well, how many? You keep telling us there are a lot of them.

Mr McNeill: Currently, 400,000 tasks remain to be resolved.

Q124 (11.01.06) Mr Williams: How many claims do you think that covers?

Mr McNeill: It is related to 70% of claims. On the level two validations there are 400,000 tasks relating to 70%—

Q125 (11.01.06) Chairman: So only 30% of all the claims currently are “tick in the box”, fully okay?

Mr McNeill: Through all the stages of the process.

Q126 (11.01.06) Chairman: But 70% of all the claims still have to be worked on in some way or another?

Mr McNeill: Certain issues and tasks have to be resolved. Some will be resolved by system fixes and in some cases that could be a very substantial number as in tens of thousands; others have to be resolved by contact with customers; others have to be resolved by scrutiny by our staff.

Q127 (11.01.06) Chairman: Let’s explore for a second the numbers which are going to have to be resolved by customer contact. Are you yet in a position to be able to say how many there are which will be needing, if you like, conversations with the landowner?

Mr Hewett: Could I try and explain the process?

Q128 (11.01.06) Chairman: You can try and explain it, but it sounds to me like you have a lot of work and a lot of phone calls to make.

Mr Hewett: Not all, in fact a very small minority of that number, would require customer contact. Mr Williams talked about the mapping of land being pretty much behind, and that is correct, but a lot of the tasks—and that is what they are called in the system—which are left to be resolved derive from land where there is a mismatch between the land on the claim and the land we have found on the register. We have outsourced all the registration work and the vast majority of that has now been completed. Some of it still has to be up-loaded into the system, and it has been explained there are risks around that and we have managed those down, but until that land is back into the system there are mismatches. Some of those are very straightforward and indeed the Minister saw examples of that when he visited Reading just before Christmas, where the system is saying, “Claim says X, system says Y”, but we now know, thanks to the up-load, “System says X”. That is straightforward and we have to just correct that and it is, to use your phrase, Chairman, a “tick in the box”. In other cases, it is more of a detailed issue. Where the land has been digitised, there still appears to be an issue between X and Y, the land claimed and the land on the system. That may be because the customer was seeking to digitise a completely different piece of land and we still have an issue, or it may be that the boundaries of the parcel which has been digitised overlaps with other parcels, or a number of other reasons. So there are a number of land tasks in the system. We also find that some tasks are coming through the system because more than one customer has claimed on it—dual claims—or there is an over-claim. “Claimed area says five hectares, found area four hectares.” We need to identify that and there may be very good reasons for that. I mentioned earlier that one of the key controls is to inspect a proportion of our claims population. As we up-load that data into the system, we may find an issue on that and there is a whole gamut of reasons why we might find issues on that, some of them very straightforward, some resolved through system fixes or some where we require contact with the customer.

Q129 (11.01.06) Mr Williams: I can understand why this is quite complicated, from personal experience, but you are never going to get this perfect, so is there a margin of error that the Commission would be happy with so you could make this system work? It does seem to me that if you are going to hang on forever to get it perfect, then the farmers are not going to get their money at all.

Mr Hewett: This is exactly the argument we have been exploring with our colleagues and ministers on a regular basis. We need to make sure at the point of determination we can be satisfied and ministers are satisfied that we have got to a level of accuracy which allows us to make that determination and the claims are accurate.

Q130 (11.01.06) Chairman: You have been exploring it with ministers? When did this voyage of exploration begin?

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Mr Hewett: Apologies for the language. We have been keeping ministers informed as we progress, and this is the position we are proposing now.

Q131 (11.01.06) Chairman: But surely there must come a point at which Lord Bach, as the responsible minister, will have to make a decision? If, at the end of the day, you are not yet decided, Minister, what is an acceptable level of accuracy, you could be informing each other until the cows come home?

Lord Bach: We know what the acceptable level is.

Mr McNeill: Chairman, what we have done is analyse the various groupings of these tasks and we have taken a view as to the consequences of proceeding with outstanding tasks in various categories. Some we must clear up because the Commission will take a very dim view if we were to proceed and make payments in that situation. We have also considered what level of outstanding tasks would have what impact when we actually take the view or define the tasks, which of course is the next crucial step in this process, and the clearing up of the issues relating to particular claims will continue. It might mean that some claims will not be paid as quickly as others and there will be outstanding tasks on those particular claims. So the major issue for us is, at what stage are we confident, considering disallowance, the view of the Commission and indeed the information we receive on a daily basis—

Q132 (11.01.06) Chairman: What I am slightly unclear about in this exercise of defining what is accurate is, is the decision a United Kingdom Government one or has it been laid down by the European Union?

Mr McNeill: The European Union lay down a clear raft of requirements to ensure that funds are protected and expect us to make sure that certain controls are in place, then we are paying out those funds on the basis of those controls, and we are then subject, as has been mentioned, to intense audit by the NAO, the European Court of Auditors and—

Q133 (11.01.06) Chairman: So you know by virtue of what the European Union say, the degree of accuracy that you should be achieving?

Mr McNeill: We understand what the Commission and others would require of us and are looking at our position in the light of that to take a view as to whether or not we can proceed to define entitlement and to start payments.

Q134 (11.01.06) Chairman: So when are you going to be able to give a definitive judgment on this matter accurately to the Minister?

Mr McNeill: The next check point on that is at the end of the month. We are still within sight of defining the targets by 14 February and commencing payments in February. If we are not in a suitable position because we think we are at risk of disallowance, that will have to be considered as part of the complete risk assessment and the Minister’s options would be, is it worth another few days’ or weeks’ effort to get full payments out—and we know a number of stakeholders have said that may well be

the case—or do we go for partial payments with the resulting risk in delay to potentially other payments as well and the fact that could well impact on next year’s payments. That is the assessment which has been adduced for ministers and others to consider.

Q135 (11.01.06) Chairman: So that is what you are going to be able to give the Minister a definitive assessment of by the end of the month?

Mr McNeill: We will provide the latest up-date on our performance, where we stand and the assessment of the level of risk in terms of disallowance, countered with the need to get these payments made in February, and that will enable the Minister to take a view.

Q136 (11.01.06) David Lepper: I wonder if you could set my mind at rest on one point, in view of the use of the word “validation”, which I know can mean a number of different things. There is no suspicion that a significant number of people are trying to fiddle the system, is there?

Mr Hewett: No, but we are required under the EU regulations to make sure that everything is in order, and that starts with the amount of land on which customers claim right through to, in a small proportion of cases, physically inspecting the whole thing to make sure everything is order. As you will know, the Single Payment Scheme is predicated around good agricultural and environmental conditions which require a cross-compliance inspection to be undertaken. But it is entirely possible, and I can tell you now, there are some tasks which suggest more than one customer has claimed on a land parcel. We need to investigate if that is the case. I think in certain extreme circumstances that is just about technically possible because of the complexity of the scheme rules, but in the majority of cases we would find that is not right and that only one of those potential beneficiaries is the right claimant.

Q137 (11.01.06) David Lepper: But the suspicion is that that arises more from a mistake on the part of supplying information or in the mapping rather than a deliberate attempt to mislead?

Lord Bach: One hopes so.

David Lepper: We hope a lot of things, Lord Bach! Thank you.

Q138 (11.01.06) Mr Drew: Following on directly from David Lepper’s point, should you not have been more rigorous in defining who is eligible to claim? I have some real worries that amongst those 40,000 people we will be paying money to some of the richest people in the country who, with the best will in the world, are not farmers, are not defined in terms of agricultural land, they just may keep a few horses on a piece of suitable land. I have raised this before, and this is about defining what we mean by farming activity and we are still far too loose in this country on how we define it. I suppose the Minister ought to answer that.

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Lord Bach: This subsidy, this Single Payment Scheme, is based, as I understand it, on use of land and what needs to be shown by the claimant is that he or she has some claim over this land and uses it at least to the extent of making sure it satisfies cross-compliance principles including elementary environmental principles. That would be the basis of the number of entitlements and then of course there would be a historic element which has to be shown by the claimant that in the years 2000–02 that he was able to claim subsidy on, whether it be livestock, wheat or whatever it was. That is the way the calculation works.

Q139 (11.01.06) Mr Drew: All I am saying is, if we had been more robust from the outset, those who are existing and genuinely agricultural in what they are doing—and maybe new claimants who come into the scheme—stand to gain. So in a sense, because we have opened the door, a can of worms has been seen in the corner.

Lord Bach: I am not sure that is exactly fair.

Mr McNeill: Chairman, the robustness is what happens as part of this process of assessing where we get two claimants. Whilst we will not engage in arbitration, where it is apparent to us that one of the claimants has had previous claims with the Agency and has farmed that land and had that land at his or her disposal, we will be able to point to that and will be able to take the view that that is the claimant. This is a particular issue of concern to the Tenants Farmers’ Association which they have indicated to us. What we have said though is that where there is a more complex discussion and debate to take place, we do not see the RPA engaging in arbitration. What we can do is ask colleagues to resolve the issue but the fund will not be at risk because we will not pay either until we resolve where they stand.

Q140 (11.01.06) Chairman: There was an announcement, Minister, by your Department in July that you were going to prioritise the mapping work for the Single Payment Scheme ahead of that for the Environmental Stewardship Scheme. Given you have had a long run into the point at which you made this announcement, it must have become very clear to you that your real problems lay with the volume of basic farmland applications for the single farm payment, so why did it take you until July to change the priority?

Lord Bach: We gave priority for a couple of months to the ELS scheme.

Q141 (11.01.06) Chairman: Let’s go back a second. You started off with a priority which was agricultural land for the scheme and then you changed it for two months to the stewardship scheme and then you changed it back again.

Lord Bach: As a priority.

Q142 (11.01.06) Chairman: Is that what you did?

Lord Bach: It is what we did, yes.

Q143 (11.01.06) Chairman: Why? Why did you decide to make the change?

Lord Bach: We did it because we were committed to implementing the recommendations of the Curry Commission, which very much included ELS, and the decision had been made we were going to introduce that and not delay it, because it is such an important part of the future. The agri-environment scheme had already been taken up by a large number of farmers, and the huge additional environmental benefits offered by the environmental scheme were such that it was appropriate to press ahead with that rather than delay it whilst working on the SPS.

Q144 (11.01.06) Chairman: You took that judgment on the basis of the advice that was given to you that you could also deliver against your original payment timetable for the single farm payment scheme, yet two months later you are trumpeting you have changed your priorities.

Lord Bach: It was not an easy decision to put that priority there for two months because both had a lot of claim on our attention. One was a direct result of the Curry Report and the other the need to get the Single Payment Scheme paid in time. I am delighted to say the ELS has taken off in that there are a large number of farmers, to all of whom we will effectively pay a special payment scheme¹², who are now part of the agri-environment scheme as well. We did realise two months later that we ought to change that. We started with the priority—

Q145 (11.01.06) Chairman: But, with respect, you must have received a piece of advice that changing from the single farm payment as the top priority issue to the environmental stewardship scheme was not going to damage your chances of hitting the targets for the single farm payment, yet two months later you change back in terms of priorities. Does that not raise some issues about the quality of advice you had?

Lord Bach: I do not think it does because the first piece of advice we took, because it was important to get the ELS, the entry level scheme, off the ground, was it was absolutely vital to do so. When, a couple of months later, it seemed that the Single Payment Scheme might be put at some risk as a consequence of that, we then removed the priority. It seems to me, Mr Chairman, that is the way one can quite properly do things.

Q146 (11.01.06) Chairman: Refresh my memory, how much money is involved in the ELS scheme and how much in the single farm payment?

Lord Bach: £1.6 billion on the single farm payment.

Q147 (11.01.06) Chairman: And the entry level scheme?

Mr Hewett: I am not responsible for it but the base payment is £30 a hectare. It depends how many applicants come in.

Q148 (11.01.06) Chairman: I think it is probably about £200 million as a figure.

¹² *Note by witness:* should be “most of whom will also be paid under the special payment scheme”.

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Lord Bach: I am sorry not to have that figure in front of me. Of course in terms of money there is no doubt. We thought, when we decided to give the priority for those couple of months to the ELS, it would not have any adverse effect on the Single Payment Scheme. When, after two months, it seemed it might, we then changed the priority. But I think Mr McNeill will argue, as he already has, the fact that giving priority for two months to the ELS has not, as it turns out, made any difference at all as to whether we meet the February date or not.

Q149 (11.01.06) Chairman: Then why did you change back?

Lord Bach: Because at the time we changed back we thought it might.

Q150 (11.01.06) Chairman: You thought it might?

Lord Bach: Yes. Mr Chairman, it is only fair to me to listen to my response. After that, we realised that we should outsource the Single Payment Scheme element¹³, and that is what we have done, and therefore it has had no ill effect.

Mr McNeill: There was tremendous pressure coming through to the RPA’s customer service centre from farmers who were very frustrated that because they did not have their land information they could not make applications under the stewardship scheme. That was quite a growing voice of concern on the part of farmers, that they could not get on to that scheme which, after all, was at the stage of application and could be processed much quicker than the longer term SPS. As a consequence, the Department and ministers were aware that was a growing area of concern. The decision to prioritise was the subject of discussion and it was felt it was important that that scheme was up and running, given it was a Government achievement and priority, they wanted to get it in place, so we did prioritise that and we were able to relieve a lot of that pressure by giving them priority. That was a very hot issue at that time and there was a lot of concern that it should be dealt with, and once that decision was taken we were able to move to the SPS situation. As I mentioned earlier, we had considered that we could scale up our existing Rural Payments Agency and get our own staff to deal with the SPS backlog, which was growing—we were writing out to farmers, it was not just a one-off understanding of it, asking farmers for more maps, asking them to explain why they had more parcels of land, and so more and more

information came in—then we were able to say, “This is a very major task and that prioritisation, if we are to succeed, will have to come to an end”, and that was the decision taken. As it happened, the volume of claims continued to grow as we worked our way through the claims and had a better understanding of what both existing and new claims were put in place, and we had to take the decision, with the risk involved, that we would outsource the work because it was not going to be done in-house, and that was a series of events.

Q151 (11.01.06) Chairman: Let’s try and draw matters to a conclusion. We have explored in some detail the rocky road you have traversed and where you are at the moment. You are not able to tell this Committee definitively whether the deadlines you aspire to are going to be met. You hope by the end of the month the Minister will have some advice so he can make a decision. Minister, are you able to give us any hint as to when you will be able to say something on the record and in public as to what the fate of this project is going to be?

Lord Bach: I can say this definitively, there will be a payment by the end of February, whether or not it is a full payment or the first part of a partial payment.

Q152 (11.01.06) Chairman: Bearing in mind Parliament will have its week off in the middle of February, are you hoping before then you will be able to say definitively and in public what kind of a payment it is going to be?

Lord Bach: I hope very much to be able to say that by the end of this month.

Q153 (11.01.06) Chairman: Fine. Minister and members of the RPA, can I on behalf of my two colleagues who are the rapporteurs again reiterate their thanks for the candour and the quality of the assistance they received. They have asked me to say that because they were truly impressed with what you did to aid them in their inquiry. Can I thank you all for answering our questions today. For those who have found this an interesting experience, you will within the next few days be able to re-read all the words that people have said on this matter on the Committee’s website, and the Committee will in due course be considering how best to present this evidence, whether it be on its own or with some additional comments by way of a report. Thank you all very much indeed for your contributions and that brings the session to a conclusion.

Lord Bach: Thank you very much indeed, Chairman.

¹³ Minister refers to the digitised mapping work related to the SPS.

Letter from the Rt Hon Michael Jack MP, Chairman, Environment, Food and Rural Affairs Select Committee to Lord Bach, Minister for Sustainable Farming and Food (RPA 12)

1. Thank you for appearing before the Committee last week and for your responses to our numerous questions. We are grateful to you and to Johnston McNeill for your contribution to our inquiry. You may like to know that the Committee has agreed to publish a brief interim report, based on your evidence, next week, followed by a more detailed report in due course.

2. Committee staff are in touch with your officials and the RPA about various points on which witnesses promised follow-up information. We look forward to receiving this additional written evidence. But there are some separate issues about which, given their importance, I wanted to write to you myself.

3. At various points in the hearing, I and my colleagues pressed you on the information Ministers had received from the RPA about the implementation method to be chosen for the Single Farm Payment, and about progress towards achieving the February 2006 target date for starting payment of the SFP. We have had written evidence from the Tenant Farmers' Association suggesting that the RPA supported the historic basis for paying the SFP, and warned Defra about the workload that delivering the dynamic hybrid approach would incur. (A copy of their written submission is enclosed.) Can you confirm that the RPA supported the historic payment basis?

4. The Committee would also be grateful if you could supply us with copies of the updates and assessments on progress towards meeting the February payment target provided by the RPA to Ministers from January 2005 onwards. Access to such information—on a confidential basis, if necessary—would help ensure the Committee is able to reach properly informed conclusions about the reasons why work on preparing for implementing the SFP has developed in the way that it has.

5. Finally, the Committee would also be interested in some more information about the contract agreed between the RPA and Accenture. It is clear that one of the main causes of the doubling of the revenue cost of the programme was the number of changes to the specification arising from the reform of the CAP in 2003, which also resulted in a great deal of nugatory work on the previous payment systems. The contract was signed in January 2003, when reform of the CAP, notably the idea of introducing decoupling, was very much in the air. Can you tell the Committee to what extent the RPA sought to include some “elbow room” to allow for likely changes to the payment systems to be taken account of in the contract? Alternatively, were any steps taken to include a “break clause” in the contract that would have allowed the RPA to re-negotiate it on the basis of a significant reform of the CAP, and thus of the payment system to be implemented?

I look forward to hearing from you.

Rt Hon Michael Jack MP

18 January 2006

Further letter from the Rt Hon Michael Jack MP, Chairman, Environment, Food and Rural Affairs Select Committee to Lord Bach, Minister for Sustainable Farming and Food (RPA 12)

1. At its meeting on 25 January, the Committee discussed your comments on “Farming Today” and the “Today” programme on 24 January, and your letter to the *Financial Times* of 25 January, about the Committee’s interim report on the Rural Payments Agency. Committee colleagues asked me to write to you, on their behalf, about your comments.

2. You stated in the media that several of our conclusions were “utter nonsense”, citing in particular the report’s comments on timing of payments, financial impact on farmers and the apparent “complacency” of Ministers. On the first point, our report noted that the RPA had indicated in January 2004 that payments would commence in February 2006, and expressed our shock that, so close to this date, no definitive date on which payments would be made had been announced, and that it was still not clear to farmers whether they would receive a full or partial payment (paragraphs 1, 3 and 13). The Committee does not believe this is an unreasonable conclusion.

3. On your second point, about the financial impact on farmers, in your Farming Today interview you denied that you had referred to an “average farm”. The Committee noted in its report that you referred to the fact that £25 million of extra interest was only about 2% set against “an annual average change in [farmers’] income” (Q 30). The Committee’s point was that, while this sum is a small percentage of the total income, as you noted, for individual businesses on the margins of viability the impact of late payment of SFP could be too much to bear (Paragraph 8).

4. Thirdly, you have argued that to accuse you of complacency is “utter nonsense” (*Financial Times*) and “offensive” (*Farming Today*). Our comment was mainly based on your statement to the Committee, in response to a question about whether, with hindsight, there was anything you could have done differently: “I cannot think of anything I could have done although others may well think of things I could have done” (Q 24). Hence our conclusion—which, once again, we do not think unreasonable—that we were “dismayed at the complacency of the Minister, who refused to admit that any mistakes had been made or that anything could have been done differently to avoid the problems” (Paragraph 12).

5. You have also said, on *Farming Today*, that the timing of the report “could create unfounded alarm and uncertainty in the farming community”. Given that the impetus for our inquiry, and this interim report, was the huge degree of uncertainty, frustration and indeed anger among farmers, we hardly feel that our report—which has been welcomed by farmers’ representatives—can be said to have “created” alarm and uncertainty.

6. Finally, in the course of your interview on the *Today* programme, it was put to you that this was a report from a cross-party committee. You replied that “very strongly chaired, in my view, by the Conservative chairman”, apparently implying that party political considerations had played a part in the report’s findings. While the Committee accepts that Ministers will not always like the conclusions it reaches, we were very disappointed to hear this comment about the way the Committee works. Like other select committees, we seek to work by consensus, reaching conclusions on the basis of evidence presented, as on this occasion. As you know, the inquiry into the RPA was led by two of my colleagues, David Taylor and Roger Williams, and members of all parties took part in the oral evidence session on 13 January. Colleagues have asked me to emphasize that the report, for which they take full responsibility, was agreed for publication without the need for a formal division.

7. We would welcome any further comments you might have on the points I have set out above. We look forward to the additional written information which we requested at the oral evidence session and subsequently by letter, and will take this into account in preparing our final report on the RPA. As we consider this further information, the Committee will also wish to determine the need for a further oral evidence session with Defra and the RPA prior to the completion of our final report.

Rt Hon Michael Jack MP

30 January 2006

Letter submitted by Lord Bach, Minister for Sustainable Farming and Food, Department for Environment, Food and Rural Affairs (RPA 12)

1. I am writing in response to your letters on 18 and 30 January, which followed my appearance before the Committee on 11 January. I am also taking this opportunity to enclose the supplementary memorandum that the clerk of the Committee requested in his separate letters of 18 January to Defra and the RPA.

2. First, in respect of the substance of progress in implementing the Single Payments Scheme (SPS), you may recall that I sent you, under cover of my letter of 31 January, a copy of my written statement confirming that full payments would begin in February. I am pleased to say that the first payments reached farmers on 20 February and the RPA remains on course to make the bulk of them by the end of March.

3. Turning to the question raised in your letters on 18 January, I note the evidence submitted to you by the Tenant Farmers Association, which was a strong and consistent advocate of the historical model of the SPS. As explained in response to question 51 during oral evidence submitted on 11 January, consultation responses from all external bodies, along with a considerable volume of advice from officials, including those in the RPA, were considered very carefully before Ministers reached a decision to adopt the flat rate model of the SPS in England, with a transitional phase to 2012. As I indicated myself in response to question 48, having taken that advice from the RPA and others, nobody was under any illusions as to the magnitude of the challenge presented by the chosen SPS model, but the consistent advice was that it could successfully be met, as has been borne out by being able to start payments in line with our forecasts and well within the EU regulatory window. Ministers could have chosen the simpler “historical” model, but that would have done nothing to further our objective of promoting a truly sustainable English agricultural industry. Instead, they focused on securing the best long term future for English farmers. Nothing that has happened since would undermine my conviction that that was the right decision.

4. As for your request for “copies of updates and assessment on progress towards meeting the February payment target”, I do not think that the balance of public interest lies in blanket disclosure of these internal communications. However, I am happy to provide a list of dates on which advice was submitted and meetings held and consider any requests for specific information if that would be helpful to the Committee.

5. You also asked for some more information about the contract between RPA and Accenture. During his evidence, Johnston McNeill recorded that the Contract with Accenture was signed in January 2003. It was identified in the original Contract that there was to be a Mid-Term Review of CAP, although at this time the details were not known, the Commission’s original proposals only being published that month. The Contract was therefore drafted to provide a certain degree of flexibility and allowed RPA to cancel Phases 3, 4 or 5, which related to legacy schemes. In addition the following principal Clause was also included:

- 3.2.6 If the AUTHORITY wishes to change the CAP Reform Requirements in the relevant Requirement Log and the change is:
 - 3.2.6.1 within the scope of Schedule 2 but not in the Requirements Log;
 - 3.2.6.2 a change to the CAP Reform Requirements or a change to other Requirements which are affected by the CAP Reform Requirements;
 - 3.2.6.3 made after 16 April 2004 but before 18 June 2004;

the change shall be agreed through the Contract Change Control Procedure with the following amendments:

- 3.2.6.4 the CONTRACTOR shall only be entitled to charge for any rework and nugatory costs and effort incurred up to the date of agreement of the relevant CCN (including any subcontractor costs, at the rates permitted under this Agreement), unless the AUTHORITY instructs the CONTRACTOR in writing on thirty (30) days' notice to cease work on specified CAP Reform Requirements, in which case the CONTRACTOR shall cease work upon expiry of the notice and shall be entitled to charge for any re-work, nugatory costs and effort (including subcontractor costs, at the rates permitted under this Agreement) incurred up to the date of expiry of the notice;
- 3.2.6.5 subject to Clause 3.2.6.6, the CONTRACTOR shall not be entitled to refuse the request; and
- 3.2.6.6 it is acknowledged that, if the AUTHORITY requests addition of any requirements to the Requirement Log from Schedule 2, the CONTRACTOR and the AUTHORITY shall endeavour to meet the dates in Schedule 10 (Implementation and Migration Plan) but that where this is not possible the parties shall agree reasonable changes to such dates and, with respect to the CONTRACTOR, any reasonable costs directly incurred as a result of the delay.

6. Following the CAP reform agreement, RPA entered into a re-negotiation of the Contract with Accenture, with the discussions focussing on the need to capture the requirements of the then new SPS (which remained unspecified and were subject to ongoing discussion and negotiation at EU, UK and England levels). These negotiations concluded with all of the anticipated high level requirements being incorporated into a revised Contract.

7. It should also be noted that RPA considered delaying the original procurement process until the true picture of the 2003 CAP reform agreement was available. It concluded that this was not feasible or appropriate—the legacy systems needed replacement urgently and the view taken was that the impact of reform would not be significant on the overall IT solution. A “break clause” was also considered as part of the procurement, although it was concluded that it would not offer best value for money, since it would have affected the bidders' cost model and their commitment to the project.

8. Finally, I turn to your letter of 30 January. You evidently feel that the timing and content of the Committee's interim report was justified. I stand by my view that it was, at least in part, misleading and created unnecessary concern and uncertainty for the farming community. I do, of course, stand ready to provide further written or oral evidence should the Committee request it.

Lord Bach

4 March 2006

Further supplementary memorandum submitted by Defra (RPA 12a)

COVERING POINTS RAISED AT THE ORAL EVIDENCE SESSION ON 11 JANUARY 2006

1. Account of the process by which permission was obtained to make a partial payment (referred to in Q31)

Defra officials made initial contract with the European Commission shortly after the announcement in January 2005 that payments would start in February 2006. The Secretary of State also raised the issue when she met with Commissioner Fischer-Boel during the latter's visit to England in February 2005 and this paved the way for a meeting between Commission and both Defra and RPA officials in March 2005. At that meeting, various options for making interim payments in England and the devolved administrations were discussed and the Commission agreed to reflect on what might be possible under existing or amended legislation.

Defra received a response from the Commission in May 2005 advising that interim payments would be possible where all controls had not been completed, but only if secured by bank guarantee. Our view then was that this was an unreasonable requirement, not least because obtaining such a guarantee would itself come at a cost and those most in need would be the most unlikely to obtain one. Further discussions with the Commission in the following months, including at Director General level, and with other Member States who expressed an interest in the possibility of interim payments (Germany, Belgium and Luxembourg), eventually resulted in the Commission promising (in September 2005) to propose an amendment to the relevant EU legislation which would allow for interim payments without guarantees, but with safeguards to ensure EU funds were protected. A proposal was seen at the beginning of October 2005 and adopted at the Direct Payments Management Committee on 12 October 2005.

2. *Cost of administering CAP payments in 2004. (Qq 53–57)*

The cost of administering CAP payments in 2004–05 was £136.9 million; this excludes any associated set up costs for CAP Reform. This represented a cost per pound of 5.7 pence.

3. *Figures detailing the cost of various manual “work-arounds” that had been used in 2005, after the introduction of labour saving technologies was postponed (Q 58)*

All of the elements of the new IT systems required to complete 2005 claim processing and payment were put into live usage during 2005.

A significant re-scope of the required functionality was carried out late in 2004 to ensure that the critical elements of the system would be delivered in time for the first year of the Single Payment Scheme. The decision to focus systems developments to enable the 2005 scheme year payment required a number of manual workarounds. The cost of these workarounds is based on estimates of the additional staff resource required to deliver a range of activities under the following three main categories:

- One off costs to introduce the Single Payment Scheme—£1.2 million.
- Costs in 2005–06 only, which principally include the cost of manual data capture and entry—£3.6 million.
- Ongoing costs that are likely to extend beyond the current financial year—£0.7 million.

4. *A list of the dates of each of the occasions that the RPA found it necessary to approach Defra for additional resources (Qq 64–65)*

Additional funding to meet the costs of implementation of the reforms to the EU Common Agricultural Policy was sought by the RPA in a series of meetings subsequent to June 2003 when the EU Council of Agricultural Ministers agreed to the reforms.

During that period the costs of implementation evolved as the scope and methodology of payments under the Single Payment Scheme became clear.

- Additional funding was sought for 2003–04 in that year’s Mid-Year Review on 6 October 2003.
- On 23 October 2003 a formal request was raised with Defra as part of the budget process for the 2004–05 financial year to meet the additional costs of CAP Reform.
- This addition was subsequently reflected in a revised business case which incorporated the cost of implementing SPS. This business case was presented to Defra Senior management on 27 November 2003.
- A further submission on the funding of the implementation of CAP reform was made as part of the process for setting budgets for 2005–06 with a further revised business case presented on 20 January 2005.
- The budget process extended over the period between October 2004 and January 2005 and included further changes to the costs, as the impact of updated legal and policy requirements were confirmed.
- The RPA has also sought extra funding during the current financial year. This was at the time of the First Quarter Review to ensure the successful delivery of SPS.
- RPA is also seeking further funding for 2006–07.

The Department has fully supported these requests.

5. *A detailed response to the issues raised in a letter, handed to Mr Hewett at the end of the meeting, from a farmer working for J J Mann & Co, in Gloucestershire (Q 109)*

We are in the process of carrying out a detailed investigation of the Mann case, which will entail further discussions with, amongst others, Mr Mann this week. However, it is clear from an initial view of the case that Mr Mann had been in correspondence with different parts of RPA responsible for land registration and Single Payment Scheme (SPS) claim processing; and colleagues in the Rural Development Service, responsible for administering the Environmental Stewardship (ES) scheme. A detailed response will be sent to Mr Mann and Mr James Paice MP following completion of the investigation.

2005 was an exceptional year for land registration given the huge volume of notifications received and the introduction of two new schemes, only one of which is administered by RPA. Consequently there have been occasions when farmers have had to liaise with RPA and RDS over their notifications and the impact these have on the SPS and ES. The involvement of a third party has enabled RPA to increase the throughput of notifications, such that only 3% of notifications received to date in support of 2005 SPS claims have yet to be digitised.

Following the involvement of a third party, RPA will start the 2006 campaign with little or no backlog in land registration, and will thus be much better placed to keep pace with demand. This will reduce the need for farmers to contact us; and better enable us to complete registrations in tandem with the SPS claim processing window. The introduction of the RLE1 form, including a pre-registration exercise, has been part of the approach in 2006.

6. *What proportion of the total “tasks” involved in processing the SPS claims is represented by the 400,000 that remained outstanding, when you gave evidence last week (Q 123)*

Around 50% of primary and detailed validation tasks, excluding customer and land registration activity.

7. *Confirmation of the exact date of the trigger point for payment of the bonuses, (referred to in questions 75 and 76.)*

The Chief Executive's bonus payments are based on the Agency's performance against key performance targets. These are subject to an end of financial year external validation exercise by NAO which should be completed by the end of May. The recommendations from this validation exercise are provided to the Permanent Secretary for approval in June. This generally leads to any bonus payment being made at the end of July or August.

Memorandum submitted by NFU Cymru (RPA 01)

1. Thank you for your emailed letter of 3 November 2005 inviting NFU Cymru to submit written evidence to the follow up of Committee's earlier report on the RPA (sixth report of session 2002–03 Rural Payments Agency HC382).

2. As you are aware the CAP Reform agreement has been implemented very largely on a devolved basis with the result that in Wales the Assembly's Rural Payments Division has been responsible for the issues being examined by the rapporteurs David Taylor MP and Roger Williams MP. Under these circumstances, we feel it is more appropriate for NFU Cymru to submit a response separate to that of our colleagues in England on the terms of reference outlined in your letter.

3. *Why the RPA is unable to make payments under the SPS at the start of the payment window in December.*

4. It is anticipated that in Wales, payments will be made by the Rural Payments Division in respect of all validated claims during December 2005. The Welsh Assembly have understood the importance to farmers of issuing payment promptly given the adverse cash flow implications of switching from the “old” commodity payment regimes to the “new” Single Farm Payment scheme.

5. It was envisaged initially that the full payment would be issued to farmers in Wales in December 2005 as the National Reserve has to be calculated and determined on a UK basis the delay in completing this part of the Single Payment exercise in any region of the UK has direct consequences for the remaining parts even though they may have completed the exercise. The RPA's delay in completing the National Reserve exercise has thus prevented the Assembly who will complete the National Reserve exercise in November from making full payments to farmers in Wales in December.

6. *The issues involved in making an interim payment to farmers, in advance of the now February target.*

7. The target date for making interim payments in Wales is December 2005. The key issue for the Rural Payments Division in Wales is that any interim payments should not compromise the global ceiling prescribed for Wales given that the National Reserve assessment is being conducted on a UK basis. The Minister for the Environment, Planning and the Countryside has recently announced that in Wales the interim payment will thus be pitched at 80% less deductions for modulation and any penalties.

8. *What impact the RPA's own change programme has had in the introduction of the new CAP payments and the agri-environment schemes.*

9. In 2001–02 a new computer and software programmes were installed to handle payments by the Assembly's Rural Payments Division. Whilst in 2002 this severely disrupted payment schedules and payments to the industry were in some instances significantly delayed, since then payments, where validated, have been issued promptly in the specified payment window. NFU Cymru has received assurances that the new IT system is sufficiently robust to make residual SPS payments to farmers in Wales as soon as the UK element of the calculation is confirmed.

10. Whilst data for Wales' entry-level environment scheme, Tir Cynnal, was captured on the Single Application Form completed by farmers by 16 May 2005 the scheme was not approved by the EC until the end of September 2005. Agreements are now being entered into payments to producers under the Tir Cynnal scheme are not expected to start issuing until April 2006.

11. *The extent to which the RPA's IT systems have failed to evolve to deliver what is required of them.*

12. Our colleagues in England are better placed to comment on the deficiencies and failings of the RPA's IT systems.

13. Farmers in Wales have largely been shielded from the shortcomings of the RPA's handling of the Single Premium Scheme because responsibilities have been devolved to the Assembly's Rural Payments Division. It is only those issues which have to be determined on a UK basis that are likely to impinge on the Rural Payments Division's ability to make prompt and full payment in December 2005.

Mary James
Deputy Director/Head of Policy

November 2005

Memorandum submitted by HSBC Bank plc (RPA 02)

RURAL PAYMENTS AGENCY: INVITATION TO COMMENT

Further to your letter of 3 November requesting information to support an investigation being undertaken by David Taylor MP and Roger Williams MP, I am pleased to provide the following comment.

- While we are aware that the RPA is unable to make payments under the Single Payment Scheme at the start of the payment window we are not able to comment on the reasons for this, the technical and IT issues involved or the impact the RPA's own change programme may have had.
- We can confirm that the delay in making the payments will have an effect on farmer cash flow patterns. In the expectation that all eligible farmers will receive their payments by the end of June 2006 we would expect to provide virtually all our customers with the necessary additional banking facilities to bridge this gap.
- We would not expect to see any marked change in the levels of bankruptcy as a result in the delay in making the payments for our own customers. At worst we would be able to count the number of likely cases on the fingers of one hand.
- We do not have the data necessary to make a precise calculation but would estimate the delay in making the payments will cost UK farmers approximately £10 million for every month after December 2005 until the SFP is received. This is based on the interest value on a total payment of £3 billion.

Steve Ellwood
Head of Agriculture

November 2005

Memorandum submitted by Barclays PLC (RPA 03)

1. Barclays PLC is a UK-based international financial services group engaged primarily in banking, investment banking and investment management. In terms of assets employed, Barclays is one of the largest financial services groups in the United Kingdom. Barclays has been involved in banking for over 300 years and operates in over 60 countries, including Ireland, Spain, Portugal, France, Italy and Germany. It has 76,200 employees and over 2,900 branches world-wide.

INTRODUCTION

2. Barclays is the largest single lending brand in UK agriculture, with over £2 billion lent to the farming industry. Its teams of rural and agricultural managers provide banking facilities to farming businesses throughout England and Wales, and parts of Scotland.

3. This submission addresses two specific issues on which we were invited to comment regarding the impact of the delays in making payments to farmers in England under the Single Payment Scheme:

- (a) cost to the agricultural industry in England incurred by additional and extended borrowing; and
- (b) possibility of farm bankruptcies resulting from the delays.

BACKGROUND

4. The Mid-term review of the Common Agricultural Policy, implemented in January 2005, marks a fundamental change in the public support provided to farming businesses. Prior to reform, farming businesses received a range of payments associated with a variety of specific support measures, such as the Arable Area Payment Scheme (AAPS), Sheep Annual Premium Scheme (SAPS), Suckler Cow Premium Scheme (SCPS), Beef Special Premium Scheme (BSPS) etc. Payments were received at various times of the

year, with the majority, including AAPS and SAPS, received in the autumn. Beef payments were typically received in two instalments: an advance payment in the autumn, followed by a final payment in the spring of the following year.

5. In 2005 all CAP direct payments were superseded by the Single Payment Scheme, which is to be paid during a payment window from December 2005 to June 2006.

COST TO THE AGRICULTURAL INDUSTRY INCURRED BY ADDITIONAL AND EXTENDED BORROWING

6. The cost to the agricultural industry of the delayed Single Payment is two-fold: for borrowers it will lead to higher interest charges as a result of increased borrowing, and for farmers with interest bearing cash deposits, their income will be reduced due to reduced credit balances. In practice, interest charged on lending will be higher than interest paid on deposits, but for the purpose of this exercise, an interest rate of 6.0% has been used as a basis of estimating the combined cost of the delay for the farming industry in England.

7. It is understood that the total payments under the Single Payments Scheme is to be £1.7 billion (€2.5 billion) in England for 2005.

8. The following estimates of the additional cost to the industry are based on three scenarios:

- (a) Single Payment received in March 2006.
- (b) Single Payment received in June 2006.
- (c) 50% interim payment received in March 2006, with balance paid in June 2006.

Table 1

ESTIMATED TOTAL COST OF DELAYED PAYMENTS IN 2005–06 (ENGLAND)

	<i>£ million</i>
Single Payment received in March 2006	25
Single Payment received in June 2006	50
50% interim payment received in March 2006, with balance received in June 2006	38

9. To put these costs in context, total interest charges on all lending to farmers in the UK during 2004 was £526 million; at an average rate of interest of 6.6%. Total income from farming in the United Kingdom was £3.0 billion (DEFRA; Agriculture in the UK2004).

10. Table 2 provides a broad estimate of the additional interest charges incurred on additional borrowed money for three farm types:

Table 2

ESTIMATED COST OF ADDITIONAL BORROWING FOR THREE FARM TYPES

	<i>Three-month delay</i>	<i>Six-month delay</i>
	<i>£</i>	<i>£</i>
1,000 acre cereals farm	1,500	3,000
100 cow dairy farm	200	400
1,000 ewe upland sheep farm	300	600

11. The estimates, in both tables, are based on the delay from the beginning of the Single Payment Scheme payment window in December 2005. It should be borne in mind however that even if payments had been made in December 2005, additional interest costs would have been incurred, compared to previous years, since payments for most old schemes were received before December eg SAPS (£294 million in 2004) received in October; AAPS (£900 million in 2004) received in November.

POSSIBILITY OF FARM BANKRUPTCIES RESULTING FROM PAYMENT DELAYS

12. Barclays rural and agricultural managers are well aware of the impact that delayed payments will have on their farming customers' cash-flows and have been discussing how they can best provide additional facilities as the payments are awaited. Overdraft facilities have already been increased for a high proportion

of livestock and arable farming customers. Barclays has also provided farming customers with a specific Single Payment Loan, where the bank considers lending up to 100% of the subsidy payment, with the repayment arranged to coincide with receipt of the Single Payment.

13. Barclays has repeatedly assured customers of support while awaiting a Single Payment. In Barclays view a late cheque will not turn a good business into a bad one. It is vital that farming businesses are able to continue to trade without having to resort to selling crops and livestock early, or having to seek additional credit from suppliers. There is every reason for the banks to be as supportive as possible within the usual canons of good lending by providing facilities at times like this.

14. As the largest single lending brand in UK agriculture, Barclays has a long established relationship with, and strong commitment to, the UK's farming sector. The response outlined above is consistent with the support, service and products we have provided during several periods of difficulty for UK Agriculture, including outbreaks of Foot and Mouth disease and Classical Swine Fever.

15. Fortunately bankruptcies are rare in farming business, and we do not expect any significant increase in the probability of bankruptcies as a result of payment delays. Nevertheless, the delay in payments is not welcomed; it incurs additional interest charges for farming business, many of whom can ill afford any additional costs to their business.

Euryn M Jones

Agricultural Policy Director

November 2005

Memorandum submitted by the Tenant Farmers Association (RPA 05)

INTRODUCTION

1. The Tenant Farmers Association (TFA) welcomes the opportunity of responding to the EFRA Committee's terms of reference for its examination into aspects of the Rural Payments Agency (RPA). The TFA exists to support and promote the interests of tenant farmers in England and Wales nearly all of whom will have some contact with the RPA, particularly in relation to the Single Payment Scheme (SPS). This paper focuses on the implementation of the SPS in England.

THE DECISION ON HOW TO IMPLEMENT THE SPS

2. The TFA wholeheartedly and passionately supported the implementation of the SPS through the historic basis. We saw this as the most transparent, logical and workable system of all the various forms on offer. It was also clear to us that DEFRA's own officials and those within the RPA, were supporting the historic route until the end of 2003 when DEFRA Ministers stated that their preferred route was the dynamic hybrid subsequently announced in February 2004.

3. DEFRA has been keen to point the finger of blame at the RPA for the major shortcomings in the processing of SPS applications. DEFRA Secretary of State Margaret Beckett declared in February of this year that she was "bloody livid" following the RPA's announcement that it would be unable to start making SPS payments until at least February 2006. Whilst the TFA is no apologist for the RPA, it is clear to us that the RPA's warnings about the workload involved in delivering the dynamic hybrid system were ignored by DEFRA.

4. The TFA was a member of a DEFRA stakeholder group on the implementation of the SPS which was also attended by senior RPA officials. Prior to the announcement of the system for implementing the SPS in England, the RPA was keen to point out that if DEFRA chose to implement the SPS on any basis other than the historic basis that it would be a nightmare to administer. It said the worst of all worlds would be a dynamic hybrid. When, at a future meeting, it became clear that DEFRA was to use a dynamic hybrid, the TFA asked the RPA for its reaction. No response was received from the RPA representative, however, a senior DEFRA official explained that "the RPA would do what it was told to do". In the view of the TFA, practical considerations had been sacrificed in the name of political expedience and we knew from that point on that we all faced a mammoth task and that the RPA would be made the scapegoat for any failings. Serious questions need to be asked as to why Ministers in DEFRA ignored the advice from its own officials and those within the RPA.

CHANGE PROGRAMME

5. To be foisted with a system it did not want was one thing but add to that the complexities of a major, DEFRA inspired, change programme, the development of a new computer system, the closure of regional offices and the loss of thousands of staff and you have a recipe which, to say the least, did not provide the ideal environment from which to deliver on a major new policy front. TFA and other stakeholder

organisations had been warning DEFRA that the dynamic model would be expensive to deliver and that significant, extra resources would be required to keep it on track. Until recently DEFRA appeared deaf to those concerns.

ADVICE FROM THE RPA

6. One area where the RPA rightly deserves to be criticised is in relation to the way its telephone advice to potential SPS applicants was delivered. Given the complexities of the system it was inevitable that the RPA was going to be deluged with callers to its helpline. The RPA was completely unprepared for this and many callers experienced frustration as they were constantly faced with an engaged tone when trying to access the help desk. Some farmers literally had to make hundreds of calls before they were able to speak to someone.

7. Even when the RPA did manage to upgrade the helpline to cope with the volume of callers, the quality of advice being delivered was in many cases poor. When speaking to TFA members who had previously spoken to the RPA helpdesk, TFA staff were quite often in the position of having to tell the member to forget everything the RPA had said and then to begin again. Part of the problem related to the expectations of those calling. Often they had very specific, highly complex questions not addressed in the general scripts used by the helpdesk which appeared only to replicate the information contained in booklets which callers would have already seen.

LANDLORD TENANT ISSUES

8. On 24 June 2005 the TFA wrote to the Chief Executive of the RPA to request that the RPA carried out a thorough investigation into the status of claims made under the Single Payment Scheme. Despite chasing, the RPA has yet to respond. We set below why such a review is needed.

9. Whilst the vast majority of SPS claims will be from *bona fide* producers, the TFA is concerned that a significant number of claims have been submitted by individuals who would traditionally have let land and are using various devices to claim that they are in occupation of land in order to claim under the SPS themselves.

10. The Committee may be aware of the annual survey of tenanted holdings carried out by the Central Association of Agricultural Valuers. In the 10-years since 1995, this survey has shown an average net increase in the amount of land let of some 30,000 acres. However in 2004, the survey showed a decrease of some 3,000 acres. The CAAV state the reason for this as landlords seeking to be in occupation to claim Single Farm Payment.

11. The TFA is concerned that whilst landlords may have drawn up legal agreements with third parties which appear to give them occupation, little has changed in a practical sense in terms of the management of and responsibility for the holding. In such circumstances, two questions arise:

- (a) Does the land rightly form part of the applicant's holding for the purpose of establishing SPS entitlements and;
- (b) Does the applicant properly have the land at his disposal for the relevant ten-month period required by the SPS?

12. The TFA is concerned that there are a large number of agreements of convenience which owners are using to have the appearance of being in occupation and having land at their disposal, when in actuality the land is used and occupied by another individual who is required not to claim under the SPS.

13. The SPS is intended to provide transitional help to producers for reductions in support and support prices. The TFA does not believe that landowners who have made arrangements as described above should have access to the entitlements or payments offered under the Scheme.

14. Such individuals could be found by trawling through those applicants who have registered new holdings or new businesses in 2005 for the first time or those individuals who have significantly increased the amount of land forming part of their claim through the submission of IACS 22 forms. The TFA does not believe that all such individuals are undeserving of payments, only those situations where agreements of convenience have been put into place. The TFA believes strongly that this should be investigated whilst not holding up the payment process for this year. If it is found by this process that some SPS applications are ineligible, then the entitlement that would have been allocated in relation to those applications could be placed in the National Reserve for allocation to deserving cases in future years.

15. The TFA is also concerned about possible double claims where a tenant or grazier (ie the rightful claimant) has made a claim and the owner of the ground is also seeking to make a claim. The TFA has given the RPA an example of how this can occur. Again we are waiting for a response from the RPA as to how it will take matters forward. It is clear to us that unless there are very special circumstances, the first claim described here should be accepted and the second rejected.

16. These are important issues, which the TFA believes should be taken extremely seriously. There are points of public policy at stake as well as ensuring proper use of taxpayers' money under the auspices of the SPS.

Memorandum submitted by Accenture (RPA 06)

1. In April 2001, the Rural Payments Agency (RPA) embarked on an ambitious IT-enabled business change programme aimed at improving its services to customers, reducing its cost base and opening new channels for serving rural communities.

2. To help deliver this change programme, Accenture was engaged in January 2003 to develop, maintain and support the RPA's IT system (known as RITA). This system is a key part of the IT required to deliver EU Common Agricultural Policy (CAP) payments.

3. As has been widely acknowledged by numerous commentators and experts, significant IT-enabled business change programmes can be difficult to manage. There have been many examples of problem projects in the public and private sectors in recent years with difficulties attributed to poorly defined requirements, changing business needs and lack of business preparedness that can lead to delivery difficulties.

4. The challenges presented by this particular change programme increased significantly as a result of the substantial reform in June 2003 of CAP schemes, including the introduction of the Single Payment Scheme (SPS) for 2005. It was expected that the rules for the reformed payment scheme would be finalised before the end of the calendar year 2003, but in fact this did not happen until late 2004. To deliver the RITA system, development had to continue in parallel with the finalisation of these rules.

5. As a result, Accenture and the RPA agreed to vary the original contractual deliverables. Accordingly, revised releases of the RITA system required to meet the needs of the Single Payment Scheme 2005 payments were agreed and have now all been delivered. These deliveries took place as follows:

- Release 1a—the Rural Land Register went live in September 2004.
- Release 1b—the Customer Register went live in February 2005.
- Release 3a0—the High Volume Data Capture functions went live in May 2005.
- Release 3a1—the core online functions for SPS went live in July 2005.
- Release 3a2—the core batch functions required to establish entitlements and make payments went live on 3 October 2005.

6. As stated, the dates of these deliveries were not those originally envisaged for RITA at the time the contract was signed, but were revised as the requirements of the Single Payment Scheme evolved.

7. In dealing with payments for 2005, both the RITA system and RPA business users have had to be flexible enough to accommodate volumes of work that were higher than anticipated. As a result, enhancement both of hardware and software has been necessary in order to respond to changing business needs. For example, in the area of IACS land forms, 10 times the expected number of forms have been received.

8. The RITA system is now in operation and continues to be stable. There is an Accenture team working with the RPA, responsible for resolving service issues, correcting faults and delivering changes on an on-going basis.

9. At present, RITA is being developed further by Accenture, at the RPA's request, to meet the needs of the 2006 year and to provide further elements of the RPA change programme such as an external e-Channel and enhanced support for inspectors.

10. There are other elements of IT required to support payments under the Single Payments Scheme which are not delivered by Accenture. These are not commented upon in this response.

11. Accenture remains committed to supporting DEFRA and the RPA to help them to ensure that farmers are paid on time.

December 2005

Memorandum submitted by the National Farmers' Union (NFU) (RPA 07)

1. Thank you for your emailed letter of 3 November 2005 to my colleague Barney Holbeche which invited the NFU to submit written evidence to follow up of Committee's earlier report on the Rural Payments Agency (RPA) (sixth report of session 2002–03 *Rural Payment Agency*: HC382).

2. The NFU welcomes this follow up enquiry into the ongoing progress of the RPA with reference to the payment of the Single Payment Scheme (SPS) and their Change Programme. The state of the RPA continues to be of major interest to farmers in both England and Wales.

3. The NFU welcomed the creation of the RPA as a more open better-focused service provider for farmers and growers. As time has gone on, we have been concerned that the continuing external factors, lead by the 2003 CAP Reform, and continual internal developments through the Change Programme have lead to the RPA losing sight of its key mission statement of being a "customer focused organisation". There is a concern that the organisation is not helping farmers as it should be.

4. The 2003 CAP reform demanded a massive commitment from farmers and huge changes to the way they manage their operations. Farmers were up for the challenge, but this process has not been helped by the problems at the RPA. At the NFU Council meetings in both April and October of this year our members raised their concerns to senior RPA management relating to a wide range of issues which included the following:

- Rural Land Register (RLR) Mapping Problems and delays and knock on affect on the Environmental Stewardship Scheme.
- Conflicting/Bad Advice from the RPA—Farmers unable to contact the RPA by phone, examples of conflicting advice given on such subjects as set-aside leading to a lack of confidence in the new RPA Callcentre as a result.
- Concerns that farmers could not accurately register themselves and their land for SPS in time in the spring.

5. These problems have seriously damaged farmers' confidence in the RPA and its systems. This will take time to rebuild.

6. In response to rapporteurs David Taylor MP and Roger Williams MP terms of reference we have set out our comments below under the headings contained in your aforementioned letter.

7. *Why the RPA is unable to make payments under the SPS at the start of the payment window in December?*

GENERAL AND IMPLEMENTATION OF SPS IN ENGLAND

8. We accept that the RPA functions in a framework set out in European legislation and that a key responsibility of the organisation is to implement and administer the regulations in place. There is a concern that in justifying the implementation model in England, the RPA/DEFRA seem to be more concerned that the Commission accepts it, rather than meeting the industry needs of swift payment.

9. The NFU has been concerned about the implementation of the SPS in England since the announcement on 12 February 2004 that government had chosen to use a "dynamic hybrid model". Whilst it may appear to produce a simple compensation system for farmers in the future when payments are decoupled from production and historic compensation, it has so far been far from simple to set up and implement. Added to this was the decision to implement the reform at the first opportunity in 2005. These two fundamental decisions have been instrumental in the problems that have been encountered by farmers since 2004 with SPS.

10. We have been concerned that the implementation of the new compensation system has involved a number of fundamental changes to the rules, for example changes to the definition of who is eligible, what is eligible and what you have to do to be eligible for payment. These issues coupled to the transition from the previous compensation schemes to the new payment structure; adjustments for hardship and national reserve cases (due to the changing nature of farming in recent years) have meant a very complicated scheme has been created. In addition to these issues the RPA has had to address amongst other things the following along the way:

- (a) Moorland line appeals;
- (b) treatment of Common land;
- (c) fruit, vegetable and potato authorisations; and
- (d) set-aside.

11. These scheme changes have taken place at a time when the RPA has closed two offices (Crewe and Nottingham), reduced staff numbers, employed more temporary staff and contractors to carry on with work and has restructured the handling of incoming calls and documents.

12. If one looks at the regulatory requirements of SPS it states clearly that a number of tasks have to be met by certain dates to ensure payment is made on time.

13. By 15 April 2005, all farmers should have received their application forms, a significant number seemed have been posted out right up to this date.

14. By 1 August 2005, the RPA/DEFRA should have notified farmers if their set-aside required for 2006 was to change. We are still awaiting the outcome of RPA work on this area.

15. By 31 December 2005, the RPA/DEFRA should have by this date determined the definitive value and number of payment entitlements that farmers will receive. The RPA/DEFRA have now stated that they are not going to fulfil this requirement until January 2006 at the earliest.

16. As a result of these issues the RPA are not in a position to made payment at the start of the SPS payment window (1 December 2005).

EFFECTS OF DELAYED PAYMENTS ON FARMERS

17. What farmers want from the RPA is a swift payment of SPS monies at the start of the payment window. The long payment window under SPS which runs from 1 December to 30 June will not help the industry this year or in future years. Cashflow as you will be aware is critical. With the industry already weakened by low commodity prices and high input costs, producers are at the mercy of the buyers, traders and financial institutions. Producers are being forced to bear the brunt of the financial costs of extra interest, arrangement fees and then being forced to accept lower commodity prices as traders see an opportunity to “cash in” on cashflow problems.

18. The NFU welcomed the announcement on the 18 May 2005 by the Secretary of State that payment of SPS monies would take place early in the payment window, *via* the target set for the RPA to achieve of “commence payments under the single payment scheme by February 2006 and to process and pay 96% of valid SPS claims by value by 31 March 2006”. This was reiterated in Lord Bach’s statement of 5 October 2005. The government, RPA and DEFRA would appear to understand the importance to farmers of issuing payment promptly, given the adverse cash flow implications of switching from the “old” commodity payment regimes to the “new” Single Farm Payment scheme, but payment will critically be late in this first year. As we near this payment target, the NFU and farmers are concerned that this will be missed, given the current progress of work involved in getting to the stage of payment. The period immediately before and after Christmas 2005 will determine whether the RPA payment targets will be met.

19. The farming industry in England at the moment cannot compete on equal terms with other areas of the United Kingdom and Europe because of these payment delays. The industry is suffering real financial hardship and as a result leading to strained relationships between financial institutions and the supply industry. There is a real possibility of failure of viable businesses as a result.

20. The NFU continues to be supportive of the efforts taken by the RPA and its staff and want it to succeed achieving its targets and plans. We understand that this year has been difficult and they are operating in a pressurised situation, but they will be judged by external performance figures, payment of the SPS being number one.

21. We are concerned there is no further slippage in the payment timescale set by the Secretary of State. The majority of applicants would appear to be receiving their payment by the end of March 2006. As has happened in the past, there is a real concern for those who are not paid in the first wave, *circa* 2–4% of the 120,000 applicants. Some farmers and growers will not have payment until June 2006.

22. If swift determination of SPS payment entitlement values and payments is critical to the process and if this is not achieved by the RPA, then there will be problems in the rollout of the 2006 SPS scheme (application packs/data) and ability of farmers to comply with the rules and timescales set next year. The fundamental cause of this situation is that the payment window for SPS runs “into, through and past” the following years application period, we are concerned that farmers will be put at a disadvantage because of this.

23. The effect on 2006 scheme year is particular critical to two groups of farmers:

- (a) A significant number of farmers as a result of the impact of the introduction of SPS, will have to adjust their arrangements for 2006 which were put in place in 2005. Swift determination of payments entitlements is key to allow farmers to trade these payment entitlements so to allow them and others to unravel the administrative mess created in spring 2005 and be in a position to submit a claim before 15 May 2006.
- (b) Farmers who farm in England and Wales or England and Scotland for example, have to contend with dealing with only one government administration, but have to supply two sets of SPS applications forms, one for each country. These farmers have to date been extremely concerned with the progress of their applications and the interaction between different administrations who are implementing the SPS using different models.

THE RURAL LAND REGISTER

24. We must question the RPA's planning for the introduction of the Rural Land Register. It is clear that inadequate management and funding has led to the wholly unacceptable delays in the digitisation of field parcels under the Rural Land Register (RLR) with knock on implications for delivery of the single payment and introduction of the Environmental Stewardship Scheme. That the RPA still has a large backlog of IACS 22s is testament to the scale of land registration and change within the industry. We have seen therefore widespread concern, anger and bemusement at the problems reported by the agency through its slowness to appreciate the scale of the task in hand and how this has had severe impact on the Rural Development Service managed Environmental Stewardship schemes (ES) and particularly the Entry Level Scheme option, which is a key element of government policy.

25. The processing of IACS 22 forms (which contain the field areas that need to be digitalised by the RPA for the RLR) has been our biggest concern and threat to payments of SPS. The RLR process has led to the RPA fire fighting without what it seems a plan to follow. Initially there was denial there was a problem, then realisation that resources were not going to be able to deal with the problem, then various changes in policy from using internal staff to external contractors have occurred.

26. Given that we have an area based SPS system and the new Environmental Stewardship Scheme is fundamental part of Defra's new sustainable land management approach, it is extremely disappointing that the processing of land registration has not been cleared up well before the SPS payment window. The industry pointed out to the Government and the RPA some 18 months ago that changing the SPS land eligibility criteria, coupled with ability to include areas of non-traditional IACS land for Environmental Stewardship, would create a huge increase in work if this land had to be entered onto the RLR as a pre-requisite to SPS and ES. The delay in this registration has meant that farmers wanting to enter ES have been delayed from doing so, environmental benefits that may have been gained have been postponed and cashflow problems as the associated conservation payments have not reached farmers.

27. The biggest problem and frustration to farmers has been the profound instability of the IT software used by the RPA to digitalise and capture field parcels on the RLR. It would appear to be unstable when (1) interacting with printer software, (2) retrieval of data and (3) transfer of data to the RDS for ES (who use a different IT application, which has inevitably created further delays). This is leading to instances of farmers submitting having a full set of RLR maps with all their fields on and then wanting to make a number of new changes, when farmers eventually receive back their RLR maps, the changes may have been added on, but previously highlighted fields attached to the farmers holding are now missing. Also when the farmer goes to the RDS and asks for the relevant paperwork and associated illustrated maps for ES showing the farm these fields are again also missing, leading to the application being delayed or not being possible to proceed with an application.

PROBLEMS IN APPLYING FOR SPS AND RPA FOLLOW-UP ACTION

28. We have already highlighted at the beginning of this letter that there were problems even before the RPA received SPS application forms back from farmers and growers. This did not set the processing of application forms off to a good start and the RPA have never really recovered. When there is change to application forms, there needs to be help at hand to guide applicants through the paperwork, as with any change applicants are anxious to get things right and understand the changes and not make errors. Unfortunately the guidance booklets supplied to applicants with the application form in certain key areas did not assist, but hindered them, this was particular concern given that the RPA (and MAFF beforehand) had produced a range of pre SPS guidance to a high standard. The result of omissions and vague instructions lead the RPA to hastily issue further supplementary guidance to all farmers from the beginning of April, some applicants by then had already submitted their application forms. Communication of changes and clarification of rules were posted on the RPA and DEFRA websites during the spring also, but many farmers and growers simply failed to be aware of them or more importantly did not have access to the internet.

29. The combination of a new scheme, new rules, poor guidance, increased numbers of applicants lead the RPA's helpline to be simply overrun with calls, leading to further concerns from applicants. This had a number of affects, the RPA had to take on more staff or shift resource internally to cope, thereby taking staff away from other SPS work and with poor/rushed training lead to poor, wrong or bad advice being given when callers got through. Because of these delays, application forms were no doubt have been submitted incorrectly and for the vast majority gone in late, thereby preventing the RPA from starting their work to validate the claims early. A further consequence of poor initial instructions to applicants was the slowing of processing caused by applications received and then enquires having to be made to applicants.

The issues involved in making an interim payment to farmers, in advance of the new February target

30. Recently further help has been forthcoming from the EU Commission allowing for an interim SPS payment to be made, this option has been taken up by other territories within the United Kingdom. Unfortunately due to the complexity of the implementation model introduced in England the impact of this development will be minimal at best. The reason for this is the RPA simply did not have a plan B, ie to pay some compensation at the start of the payment window. The RPA/DEFRA have stated to the NFU and

others that software had not been developed to cater for such a payment and now belatedly it would appear they are developing software to deal with a two part payment. The problem is that we are told that even this interim payment will not start before February 2006, with the balance following before June, so no different to the current envisaged payment of all monies due to the farmer. This interim payment will not be effective in England for this reason and therefore leading to the financial hardship already mentioned.

What impact the RPA's own change programme has had in the introduction of the new CAP payments and the agri-environment schemes

31. The RPA set out on the road to complete modernisation through its ambitious change programme but whilst cost savings will no doubt come, improved customer service has not been felt by farmers to date. The RPA change programme has yet to pass back benefits to farmers that have been promised such as easier access to quality information, on-line submission and interaction.

32. In retrospect there appears to have been a tension between internal modernisation goals for the RPA and that of retaining local contact and its knowledge base.

33. The delivery of reduced bureaucracy under SPS has not yet been felt by our members. A key element of the change programme apart from the RLR already mentioned has been the new database of customer information held by the RPA. However, the initial way the Customer Registration Form (Creg01) and accompanying guide was introduced is an illustration of poor customer focus. The form and guidance are just too long and confusing for the vast majority of recipients and as result caused numerous problems to applicants. First the form had to be completed by new SPS claimants in the spring of this year before they could obtain an SPS application form and guidance, this requirement was soon dropped due to delay in getting application forms out. The form then had to be completed by those who had what it would appear minor business changes to their details causing further paperwork. The number of new applicants coupled with applications being received from existing farmers and growers has led to a delay to SPS application processing, this has been a resource hungry activity undertaken by the RPA.

The extent to which the RPA's IT systems have failed to evolve to deliver what is required of them

34. We are told by the RPA that their software is up to the job, we are concerned that new IT could be the final nail in the payment target coffin. We have heard reports to date that the software already installed and being used, whilst it works in principle when used in anger by a large number of operators has broken down with faults occurring and delays to progress of work, our concern is that it simply has to perform, as there appears to be no plan B.

35. The key element that has yet to be used in anger is the payment calculation function of the operating system. Because of complicated method of determination of payments we will not know how it will work until early next year.

36. We hope that the new software being use will not disrupt payments as was the case in Wales when they introduced similar changes in 2002. The proof will come from payment performance.

Richard Wordsworth
Single Payment Scheme Adviser

December 2005

Memorandum submitted by the Country Land and Business Association (CLA) (RPA 08)

1. The CLA represents the interests of 40,000 members in England and Wales who together manage over half the agricultural land of those countries. Most of our landowning members are applicants for the Single Payment, many of our professional members are also acting on behalf of many other farmers, both landowners and tenants. We therefore have a very strong interest in the smooth functioning of the Single Payment System (SPS). We are glad that the EFRA committee has decided to look into this matter which is of great concern to our members.

2. Our overall view is that from the outset RPA massively, and negligently, underestimated the work involved in the new payments system. The introduction of a wholly new payment regime was combined with a project to digitally map the whole of the two countries, and at the same time introduce a new environmental stewardship scheme covering 80% of holdings. CLA questioned senior RPA staff at the start of the project, seeking assurances that sufficient resources were to be allocated to the task. Clearly, despite what we were told at the time, they were not.

3. RPA has failed in delivery on processing the SPS applications, and particularly the land mapping required for the Rural Land Register. They, and DEFRA, have been excessively secretive about many aspects of the SPS particularly the progress they were making from the closing date for applications (16 May) until the first progress data was made available in late October. This denied the chance for the

industry to apply pressure earlier to help RPA get the resources it needed. In turn this now means that RPA are planning, unlawfully, not to comply with the requirement specified in the regulation that entitlements should be definitively established by 31 December 2005.

4. The present expectation is that entitlements will not be established until late February thereby reducing the window for transferring entitlements from three months to just over one month. This potentially has serious implications for transferees' ability to make their 2006 applications. CLA members are affronted that the regulations affecting the administrators are wilfully ignored whereas they are applied ferociously, to the letter, on applicants.

5. We would make two other general remarks. First, the problems are not solely of RPA's making, to get fully to the bottom of the poor decision making requires detailed knowledge of the DEFRA-RPA decision process. No doubt DEFRA in turn will seek to shift blame to the EU Commission who have indeed been slow in producing decisions at a number of points. However, the fact that SPS processing in England has been slower and more painful than in other regions of Europe indicates clearly that much of the responsibility lies in London and Reading.

6. Second, we wish to record that RPA operational staff in the regional offices dealing with our members, and operational staff in Reading who interact with stakeholders, have tried at all times to be helpful. Whilst there have been cases reported of inexperienced staff, and frustrations from time to time, we have had many members praise the helpfulness of the staff. The most usual comment has been that it is the system they are working with that has been at fault. Thus the principal problems we refer to arise from DEFRA/RPA management decisions not operational staff performance. We have, however, encountered unnecessary obstruction in providing information about the guidance used to make decisions about hardship and cross compliance.

7. Your inquiry is confined to four points so we will address them directly.

Why is the RPA unable to make payments under the SPS at the start of the payment window in December?

8. The major reasons are:

- (a) that DEFRA Ministers chose the most complicated implementation scheme imaginable allowed by Regulation 1782/03 (this description is, almost verbatim, a quotation from a very senior DEFRA official at a Stakeholder meeting in October 2003);
- (b) the computer software systems used both for mapping and processing seems not to have been fit for purpose; and
- (c) this already daunting task was further complicated, and confused, by the decision to implement a complete overhaul of the Environmental Stewardship schemes the same year.

9. A key explanatory factor in the slow processing is the land mapping involved in these schemes. We do not criticise the ambition to have a comprehensive, detailed, digitised mapping of the whole of rural England. In the long run this will be an aid to more precise land management for those operating the land too. We do criticise the complete misjudgement of the size of the task and the resources required to accomplish it. We also suggest that if there was a real partnership and information-sharing approach between DEFRA and its agencies and those on the ground who know the lie of the land, then this could have been avoided. We have repeatedly asked DEFRA and RPA for factual information which has not been provided.

10. We understand that the SPS has involved mapping in the order of half a million additional parcels of agricultural land. Because Stewardship involves hedges, woodland and other environmental features this has added hundreds of thousands more such parcels to be mapped. (Note: we cannot be exact about these statistics because RPA and DEFRA treat this information as state secrets and do not publish clear information, this is an example of the secrecy culture endemic in these organisations.) As this gigantic mapping process involves new custom built computer software and interactions by mail and telephone with 120,000 farmers, it seems highly predictable that it would be a very difficult task.

11. Furthermore throughout autumn 2004 and spring 2005 there was a complete lack of clarity, and confusion out in the countryside, about what land should be mapped for which scheme. It only transpired in July 2005 that RPA decided to prioritise the mapping work for SPS. It had never dawned on us that they could possibly have decided otherwise. It seemed a complete no-brainer that as the SPS scheme provides an income stream critical for the survival of many farms, it had a once-for-ever deadline, and involved in the region of £1.7 billion it should take precedence over a scheme with a continuous open-ended application period and involved circa £200 million. It might be forgivable that there was confusion amongst applicants about which land should be mapped and where the priorities lie; it is unforgivable that there was confusion about priorities about this in the RPA.

12. Our main criticism is that, despite warnings, the magnitude of the task did not seem to be appreciated until as late as July 2005. CLA staff repeatedly asked RPA through the Autumn of 2004 if they had sufficient resources. The response was a calm (we now know, complacent) reassurance that everything was fine. We were told last autumn that the reallocation of RPA staff from the final processing of livestock claims to deal with SPS work would provide the required resources. We do not know enough about the skills possessed

by staff and skills required for RLR mapping versus livestock claim processing to comment on these detailed staff management issues. However, it eventually became apparent that the resources required for the mapping work were just not available.

13. There were good contacts between RPA and stakeholders throughout the whole SPS design period and up until the closing date for applications, 16 May 2005. Then two strange things happened. First, the stakeholders meetings were diverted entirely to consideration of the 2006 SPS application forms. This was useful and necessary work, but we could not understand why it completely displaced any comment on the 2005 processing. Second, the meetings stopped in July and, despite our agitation, did not resume until October. Despite many requests for statistics on the progress of processing, as were being circulated by the Welsh Assembly Government, none were provided by RPA until late October and these only after we had written in strong terms to the CEO of the RPA copied to DEFRA explaining that we had lost confidence in the RPA's ability to perform its one and only task—to make Rural Payments.

14. It is staggering to us that the decision to outsource the RLR mapping for all but seven counties (even now we have not been told which these counties are—more needless secrecy) was evidently not taken until autumn 2005. We do not know the precise date, nor the details of the decision process to outsource the mapping. We urge the Committee to probe this in detail. When did RPA first decide they could not cope with the mapping? When did they first request the resources to do this? Presumably the financial consequences were an important consideration in all this. There was evidently a huge under-budgeting of the implementation costs of the scheme chosen by DEFRA Ministers. It would be worth looking back at the Regulatory impact assessment of DEFRA's decision to see if any consideration was given to this mapping aspect. There is also some doubt about the process of re-integrating the outsourced mapping work back into the main system. It is worth probing the potential for this to go wrong, and delays it might cause.

15. RPA will doubtless point to the huge expansion in their number of “customers” as they like to call us. They often quote the comparison of 120,000 SPS applicants compared to 70,000 IACS customers (ie the old arable, beef and sheep schemes). They really should add the number of specialist milk and sheep producers who they were aware of even if they did not have all their land mapped, this was probably another 20,000 farmers, thus the genuinely new customers number about 30,000. This was predictable given the, correct in the view of the CLA, decision to take a wide definition of agricultural land including such areas as grazed woodlands, orchards and land grazed by horses. More sharing of data and detailed discussion with stakeholders could have enabled us to anticipate these magnitudes.

16. There are many other complicating factors which make the initial set-up and processing of the SPS a genuinely complex and highly demanding task. These include:

- Checking set-aside.
- Dealing with the cross boundary farms (across the three English regions as well as Wales and Scotland).
- Hardship processing (16,000 cases).
- National Reserve applications (18,000 cases).
- Fruit, Vegetable and Potato Authorisation applications (numbers not revealed).
- Common Land applicants (numbers not revealed), as well as the eligibility checks and cross compliance checks.

We perfectly appreciate that it is not a simple matter to process these issues as they require individual attention and judgements. However, the processing of these has been inhibited by poor initial design of the application forms and the explanatory booklet so that to resolve two of these tasks (National Reserve and FVP authorisations) it has been necessary to go back to applicants for more information in November.

17. In short, the delayed payment in England is mostly a result of a massive, and in our view avoidable, misjudgement (underestimate) of the scale of the task, particularly of the land mapping. The whole SPS processing task was not only massive, but also extremely complex, however RPA cannot claim that the complexity of the task was not realised, it was chosen. The difficulties the RPA then ran into were then not helped by the failure to share information and to come clean early enough as detailed above.

The issues involved in making interim payments in advance of the target payment date of February

18. CLA members would be delighted if it was possible to make interim payments in advance of February, for example right now as in Wales and Scotland.

19. The reason this cannot be done is that for all the reasons explained above, RPA have only processed 31% of applications to the Level II validation stage (this figure relates to RPA statistics revealed to Stakeholders on 1 December 2005). Thus even if this stage is sufficient validation to make an interim payment eg a fraction of the historic reference amount, only a minority of farmers could possibly benefit. But it is far from clear what proportion of this 31% are also involved in National Reserve applications (of which only 2/3rds are “in progress”) or unresolved hardship cases (600) or involved in FVPs or cross border claims.

20. It not sufficiently clear what degree of validation is necessary to make any payment at all to applicants in a country implementing the regional payment system. Does it require progress on all applications to have some estimate of the regional element, or can interim payments be made based on historic reference amounts? The RPA story to Stakeholders is that they are working on a parallel processing scheme which could enable interim payments in February. They assert that it is impossible to make interim payments before this date as they will not have sufficiently validated claims, and they cannot make payment if claims have not been sufficiently validated. The Committee is urged to press RPA to explain clearly why those claimants who have reference amounts which have been validated, eg by 7 January, could not receive an interim payment of, eg 80% of this historic reference amount, soon after that date. We simply do not have the full explanation of this.

21. In fact, given that RPA announced the February/March period during which they still say they will make full payments to 95% of applicants, many months ago, this has been factored into most English farmers' cash flow expectations and planning. Our principal concern now is that they may not achieve this target. If they have to revert to interim payments in February/March not only is there a cash flow consequence of this, but if farmers do not know definitively what their total entitlements are then (a) they cannot transfer them, and (b) depending how late in April or even May, the final settlement comes, there is a danger this will interfere with their ability to make their full claims in 2006.

22. We therefore urge the committee to probe the RPA about the decision process, the timing and the detailed nature of the RPA's contingency plan for partial payments in February/March—which part of the payments, to which classes of applicants? Also it would help farmers to know if this contingency has to be invoked, and our assessment is that the odds are not far short of evens that it will, then when will definitive establishment be achieved, and when will the balance of payments be made?

What impact has the RPA's own change management programme had for the introduction of the SPS and the new Environmental Stewardship schemes

23. The CLA is not in a position to answer this and we are very much looking forward to seeing the answers from RPA and the DEFRA ex-Permanent Secretary who was presumably behind these changes.

24. From a customer point of view there has definitely been a loss in customer service, and coupled with the problems detailed above a loss of customer confidence in the RPA. Previously there was a chance that a farmer could know the person to contact in a regional office. Now there is only the anonymous, first name only, voice at a call centre, or reference to a staff member in a distant office. After requests by stakeholders that all letters be clearly signed and staff give more than first names, RPA only yesterday (1 December) agreed that letters should be signed and staff may give surnames, although individual staff have the right to decline this.

25. Members have commented on the frequency with which they have been referred from one RPA office to another, and sometimes back to the one they started at. This has meant that just as an applicant is getting to know the staff member dealing with his case, the staffer is moved and all continuity lost.

The extent to which the RPA's IT systems have failed to evolve to deliver what is required

26. This is again a matter on which outsiders do not have the information to answer. We are given to believe that the IT system designed and delivered by Oracle and Accenture (we understand) has been a failure. The system was unstable right through until the new release at the beginning of October. We understand that it simply could not cope with the number of people working on the system at once. Even the latest release has continued to have problems. It would be good for the Committee to probe the design characteristics of the system. What numbers of applicants was it designed to process? What number of operatives were expected to be working at the same time? It would be helpful to pinpoint if the problem was inadequate specification of the system capacity required or poor IT system design that was not able to deliver the capacity promised.

27. It is clear to us that the IT mapping systems simply could not cope with large estates with maybe a few hundred fields. There are instances where whole blocks of land of regular, previously mapped, fields have just disappeared from the system causing hours of work to discover why and retrieve them. The software seems to have been designed in the absence of knowledge that such large holdings existed. But we also understand that a high proportion of the problems concern quite small slithers of land, and strips (on the maps) the width of a pencil. One wonders if an unnecessary degree of accuracy is being pursued. Many members have told us of land appearing on their maps which relate to other counties, this is removed yet reappears—another indication of unstable software. Another indication of the poor quality of the software systems are tales we have heard where the system simply goes down when the scale is changed (as the operative is talking to our member) and all concerned drum their fingers whilst the system is restored. It would be useful if your committee could talk to operators of the RLR computer mapping system to gather first hand information.

FINAL REMARKS

28. A regionally based SPS with fully digitised maps was always a mightily ambitious undertaking. If, as we sincerely hope is the case, RPA do manage to overcome their difficulties and misjudgements, and make 96% of payments by the end of March 2006, then this will be a good achievement. It is in the interests of all English farmers that this is the case, so we urge the committee to focus its efforts constructively to help identify whatever is needed to bring about this result. The time for post-mortems is when the body is dead, right now we want it to be brought to full health and vigour.

29. The CLA will happily provide more information if required and meet the rapporteurs if this would be helpful.

Allan Buckwell

Chief Economist and Head of Land Use

December 2005

Memorandum submitted by the Public and Commercial Services Union (PCS) (RPA 09)

1. Thank you for your letter of 2 November in which you have asked PCS to respond to the EFRA Select Committee terms of reference.

2. As the dominant trade union representing staff in the Rural Payments Agency it is difficult for us to respond directly to each of the questions you raise. We are well aware of the magnitude and scale of the change programme and the requirements to make payments under SPS. We are also well aware of the issues that this raises for staff in RPA who have been working under immense pressure working round the clock seven days a week for a considerable amount of time. This and the other issues raised in this submission undoubtedly impact on delivery and we believe that this is an equally important line of enquiry.

3. You will no doubt be aware of the background to the change programme and the subsequent creation of RPA. The key objective being to significantly reduce the running costs of CAP Administration by investing in a new computer system. This meant the closure of a number of front line offices and the threat of well over a thousand redundancies.¹ At the very outset we registered serious concerns about proposals which would lead to so many job losses. And whilst we recognised the need for change there was a collective view that such a significant reduction in the workforce would have lasting implications on service delivery.

4. The past five years have been very unsettling for staff. Efforts were initially made to establish RPA's future organisational structure and in turn provide staff with some certainty. Unfortunately the announcement of CAP Reform shifted the direction of the programme meaning a complete rewrite of how RPA would look. The fallout of this was that uncertainty was prolonged and in some instances offices earmarked for closure were kept open longer. A finite structure is still not known although this has not stopped the staff from applying for jobs where they are available. This process, however, has been a long and painful one.

5. As time passed it became clearer that the original objectives would not be met and that the new IT would not deliver the expected savings further exacerbating the feelings of staff. Today RPA still has staff in receipt of redundancy notices (we understand RPA were the only Civil Service department to issue such notices despite the Cabinet Office Protocols on Redundancy and Redeployment) and staff are still threatened by redundancy.

6. The scale of the change generally and the shift to SPS has meant that RPA is heavily reliant on temporary and contingent workers. Presently RPA has some 900 staff temporarily promoted into higher grades, including entire management chains. This has meant that during times of crisis inexperienced managers found themselves in authority. This was evident in the Customer Service Centre emergency earlier this year. Whilst we do not doubt the volumes of calls the centre was receiving it was staffed by untrained managers and staff brought in off the streets.

7. It is also important to point out that we have seen the influx of well over 1,500 casual, fixed term and agency workers in RPA. The bulk of these are agency workers who are paid the minimum wage to work unsociable hours. This area has been of grave concern to PCS and we have campaigned vigorously against their use and abuse. (PQs have been asked). RPA continues to exploit these workers today.

8. It is not unusual for a contractor or consultant also to occupy a civil service post. We do not have definitive figures but parts of the organisation are being flooded with consultants some costing as much as £2,000 per day. Others have been constant in RPA for well over five years. The culture is one of outsource too. When Accenture were brought in to build the new IT system existing IT areas hived off to IBM at the same time. During the Customer Call Centre crisis BT were also brought in at the drop of a hat without the apparent need for a tender process.

¹ Projected reduction in staff from 3,500 to 1,900.

9. It is also worth mentioning that for the second year running PCS has been in dispute with RPA over pay. For the last six weeks there has been continued industrial action over pay gaps that have further widened between RPA and its parent department DEFRA. The background to this is that when RPA was set up it mirrored the higher pay rates in DEFRA. In 2003 however RPA exercised its right as an Executive Agency to pay delegation. This subsequently saw a worsening of rates (the gulf is now as much as £3,000 in some pay bands) in RPA, since they did not keep pace with DEFRA. Needless to say this has had a detrimental effect on staff in RPA who despite being told that SPS is DEFRA's number one priority do not earn DEFRA pay rates.

10. We appreciate that the issues raised within this submission are not areas that you would be necessarily expecting to see however on behalf of PCS members in RPA we believe that they need to be brought to your attention. We think that they raise all kinds of questions about leadership and about accountability at the time of great change. We have seen time and again how it can be mismanaged in the Civil Service and from what we can see is happening in RPA is no different.

11. I understand that the rapporteurs are due to meet RPA trade union representatives next week. They will be able to provide you with more background to these issues.

John Coote
PCS Negotiations Officer

December 2005

Memorandum submitted by the Central Association of Agricultural Valuers (CAAV) (RPA 10)

EXECUTIVE SUMMARY

The work of the CAAV and its members has meant that it has been closely engaged with the implementation of the Single Payment Scheme in the England. A complex reform has been made more complex by the policy options taken by DEFRA, the evolving nature of the reform, the co-incidence of the introduction of the Environmental Stewardship Scheme and the changed RPA IT systems. It was foreseeable that this situation would add to the burden of initial implementation both directly and by encouraging natural reactions among farmers and landowners to optimise their positions under the new regime using the opportunities available under the English approach. However, this does not seem to have been generally recognised by either DEFRA or RPA management in providing for the delivery of those chosen policy goals. Not only was a major programme of IT reform underway simultaneously but early IT decisions on forms sometimes further complicated matters.

1. The Central Association of Agricultural Valuers (CAAV) is the specialist body representing over 2,000 members practising in agricultural and rural valuations and related advisory and professional work throughout England and Wales. They provide professional advice and valuation expertise on issues affecting the countryside to all who require these services whether current or prospective owner occupiers, tenants, landlords, public authorities or lenders and whether farmers, estate owners, conservation bodies, public organisations or those with other interests.

2. The operation of CAP schemes and the changes made to them are thus of great practical importance to members and their clients. The impact of these schemes not only concerns direct applications for payment but also the many, varied and often complex interactions between them and changes in land occupation and ownership, specialist farming systems and the flexible business structures being used by owners and farmers.

3. The CAAV, accordingly, closely monitored the development and the implementation of the present reform from the point when the first papers were tabled by the Commission in 2002. As well as meeting Commission officials then, the CAAV has liaised closely with the DEFRA and RPA officials responsible for developing and administering the implementation of the reform. The CAAV has been a member of both of the DEFRA stakeholder groups covering implementation and policy and is a member of the RPA stakeholder group.

4. As a professional association, it is not usually the CAAV's position to lobby for particular policies. Rather, it takes an intense interest in the practicalities of what is proposed—how it will work on the ground. The diversity of members' client bases means that the CAAV holds no brief for any particular interest in the rural world but has to consider how any measure will work and how it will affect existing businesses, new businesses, transactions, landlord/tenant relationships, business contracts, taxation and many other factors.

5. The fundamental importance, scale and complexity of the reform has meant that the CAAV has run three major rounds of national conferences since September 2003, produced two substantial texts providing guidance to members on the evolving position and handled an enormous number of queries from members throughout this period. While the reform officially took effect at the beginning of 2005, there is much that is still unclear and is emerging. Throughout this process, we have sought to present practical issues to the policy and administrative processes so that this reform can be implemented as sensibly as possible.

6. Members will have advised on or drafted a very large fraction of the SP5 application forms as well as reviewing the initial SP1 statements, working on forms SP2 to SP4, SP5e and SP10 and making appeals as well as the many business and property issues that have arisen.

7. In reviewing the experience of the last three and a half years of intense activity, and before outlining its critique of the handling of the implementation of the Single Payment Scheme in England, the CAAV would like to record for the Committee its considerable appreciation of the work of the limited number of officials in both DEFRA and the RPA who have headed up the operational implementation and negotiation of these reforms. Just as the CAAV has sought to be as helpful as possible, these officials have generally been co-operative and understanding and, within the limits of the regime, often practical in the approaches they have tried to take (though sometimes constrained by internal legal advice). In the context of this submission, we believe that the small team in Reading headed by Bill Duncan has striven manfully and positively with an enormous task.

8. In summary, the CAAV submits that DEFRA elected for broader reasons for a complex policy on implementation which brought with it entirely foreseeable consequences. This was compounded by the implementation of other major schemes at the same time. Having taken those decisions, it was then the RPA's role to administer them. The CAAV does not believe that the RPA's senior management in planning for this appreciated (or perhaps were free to appreciate) the scale of what they had taken on, both in terms of numbers of claimants and the complexity of the issues. Finally, it appeared that they were often as much the prisoners as the beneficiaries of their out-sourced IT systems.

9. Before enlarging this analysis, it must be stressed how fundamental it was to farmers to ensure their applications were right. The 2005 SP5 forms (with associated options in revising SP1 Forms, and applying on SP2, SP3 and SP4 forms) were the one opportunity they had to protect their position for the future. Many had also to judge their approach to landholding and tenancy issues. Value lost in May 2005 was value lost forever while the point of the reform was to expose them to more open (and so less secure) product markets. Not only was the process of crucial importance to their economics (with particular options initially affecting some expanding beef farmers, for example, by over £100,000 a year) but, amid the detail, it was a demanding system for many to understand the practical implications for them and then to complete the forms in an optimal way. Particular complications arose in the previously commercial world of horticultural cropping where the additional issue of authorisations has now seen two years of specialist cropping arrangements negotiated without knowing whether or not they will attract Single Payment. Not only was this general difficulty compounded by confused or conflicting advice from official helplines but also by developing policy as, say, towards motor sports (and so whether some land was eligible or not) which only crystallised at the end of the week prior to 15 May while the forms could still be revised in December for long-term energy crops.

10. Area based implementation—It was entirely foreseeable (and the CAAV said so in its submissions ahead of the decision) that the adoption of an area basis for implementing the reform would bring considerable complication. This was not merely because of the blend of two payment bases but more fundamentally because:

- By offering to pay people on the basis of the area they submitted in spring 2005, a profound incentive was created for farmers to find additional area.
- As the regional option was (necessarily under the regulation) based on the area a claimant could hold in 2005 and considerable forewarning was given of this, it enormously distorted the land and business structures being used as all potential claimants sought to maximise their opportunities under the new system whether by retaining land which would ordinarily be let or surrendered, or by adapting or freezing their business structures.

This latter factor was compounded by the time taken to implement the reform given the normal pace of changes in land occupation and to farmers' businesses in a sector dominated by small family businesses. The draft Council Regulation was published in January 2003 with an immediate effect on the land market; entitlements will not be established and become transferable until spring 2006.

11. Whether or not DEFRA and the RPA believed their own statistics on land occupation, most of which confuse more than illuminate, they do not seem to have taken account of the extent to which the English are a commercial people with flexible and sophisticated land tenure and business structures available. Not only did the area choice create an incentive to find area that had not been previously needed for earlier subsidy systems but so did the promise of Entry Level Stewardship (ELS) resulting from the Curry report, also offering an area-based payment. While understanding the broader political imperatives for this coincidence, its administrative consequences do not seem to have been foreseen.

12. Implementation by RPA—From that policy decision, it appeared until perhaps autumn 2005 that the RPA were several weeks or more behind events in understanding what they had taken on. Throughout the summer of 2004, the RPA helplines presented a major problem with conflicting and often inaccurate guidance being given to desperate farmers and advisers by staff with much good will but little knowledge or training. In one instance, one helpline was giving advice to Yorkshire farmers by reading from the Welsh guidance based on a different system.

13. The natural pressure on the Rural Land Register (RLR) with ten times the normal volume of IACS 22 land registration forms being submitted in the year from September 2004 was again not fully foreseen. Despite repeated expressions of concern by the CAAV and others, this pressure appears to have resulted in an emphasis on productivity in handling numbers rather than competence in accurately improving the record. Where farmers have submitted corrections, many maps have been returned several times either uncorrected or with previous errors restored. Some errors, including some raised freshly this month with farmers offered six days' notice to respond, simply arise from RPA mistranscription of Ordnance Survey grid squares or sheets—apparently unchecked for seven months. Common errors are the persistent addition of fields not belonging to the farmer and the “stacking” of different farmers' fields on the same reference. Sometimes there is no explanation, sometimes the papers are said to have been lost. It appears that some corrections made can be seen on screens in some RPA centres but not in others working from the same record. There seem to be poor linkages between the digital register and the printed maps so that fields believed to be on the RLR did not appear on the issued maps. Some members are now receiving maps which show only fields that have been added but not the whole map, making it impossible to check if fields have been correctly deleted. The pressure of the present position has seen letters sent to farmers requiring answers before the date of the letter.

14. This situation is a problem not only for the Mid Term Review but also for farmers' early hopes of entry into ELS. It has been profoundly difficult for farmers and their advisers—farmers are having the same work done several times and may not always understand why their advisers appear to be ineffective. Members suggest that the RPA should compensate farmers for the extras fees incurred by farmers for work repeated without effect where the system has not processed the forms. Handling the RLR in 2005 is a substantial task but for those trying to ensure their records are correct for spring 2005 it is often chaotic, frustrating and burdensome—points which the RPA is reluctant to recognise.

15. While the CAAV had been assured beforehand that the administration had been tested for its capacity to handle 120,000 applicants, it would seem that the RPA had never really expected there to be more than the previous numbers of 85–90,000. Yet between new businesses, changing businesses, previously unsubsidised businesses newly allowed into the system, the wider range of uses allowed and farmers' own reactions to the reform, there was no reason to make this limited assumption. To the outside observer, these processes coincided with the pressure from government for the swift implementation of full-scale new computer systems. In the background, there appears to be an urgency to bring whole farm appraisal systems into use much earlier than had been originally planned. This meant that the RPA was trying to introduce new registration systems (such as Single Business Identifier (SBI) and Personal Identifier (PI) numbers) to replace earlier systems at the same time as it was supervising a major reform. Many claimants received CReg01 forms to assist this process—a lengthy and, in places, confusing additional form covering all those dealing with the RPA, whether farmers or whisky exporters.

16. It was pleasing that the SP5 application forms went to known farmers during March (in advance of Wales) but there were then enormous problems as many advisers and farmers needed spare and continuation forms to make valid applications by new or larger claimants. The RPA was very keen that all forms should be pre-printed with appropriate barcodes so that they could be handled mechanically. It does not appear to have appreciated the nature of and pressures in the world that they were dealing with. It would appear that the RPA had planned that spare forms should only be released in early May which would have left only a few days for the correct completion of these forms. This completely ignored the enormous pressure that CAAV members, other advisers and farmers were under in completing the forms. Indeed, not all forms for existing farmers went out promptly—one farmer with 197 fields for the part d of the form did not receive his form until just before the close of applications despite repeated requests. Others were in a similar position.

17. The pressure for such blank and continuation forms was so great that the CAAV was able to agree with the RPA a process by which the CAAV would collate members' needs into a consolidated order. Within 48 hours of posting the notice on our website, the CAAV needed to request 6,000 forms on behalf of members. Again, it appeared that the RPA was four to five weeks behind the actual pressure of events.

18. We wonder if there is a more structural issue arising from the outsourcing of the IT provision in that the contractors are driven by the obligations, timescales and incentives of their contracts rather than the larger RPA obligation to the system. In times of difficulty that difference of perspective may add to the inflexibility of the IT support.

19. It is not clear to the CAAV how much the providers of the computer systems actually understood of the RPA's work but we noticed a tendency for design of forms to be set early in the system. That meant that when those forms were available for discussion it often seemed to be too late for practical recommendations to be taken on board—doing so would carry a cost. As an example of this, the SP5 form was the vehicle whereby English applicants asked for allocations from the National Reserve. It made no request on the form for supporting papers nor did the section on supporting documents include anywhere for farmers to show that they had included papers supporting an application to the national reserve. The CAAV pointed this out on seeing a draft in late 2004 but it appeared to be too late, even then, for that change to be made. The result was that, as many farmers did not submit supporting information, the RPA had to circulate a new SP5e form in October 2005 to seek out this information.

20. We have already raised practical concerns that the early draft of the RLE1 form for handling land and entitlement transfers will cause operational difficulties partly through ignorance of how transactions are actually undertaken and partially because it is trying to do too many things at once. We fear a repeat problem in spring 2006 over access to blank forms given the very tight time window in which effect can be given to transfers of entitlements between their definitive establishment and the closing date for Single Payment applications. The risk is that there may be many who have leased or bought farms for 2006 who may not be able to use their entitlements in 2006.

21. Resolving all these issues within England was never going to be swift, never minding the additional post-devolution issues of the UK-wide nature of the national reserve and those farmers with land in more than one country. It is not yet evident that Wales or Scotland would on their own have established entitlements in early December though they are clearly delayed by matters in England. Welsh national reserve allocations have only recently been started. It may always have been the inevitable consequence of the English approach to policy that payments would not start until March 2006—the CAAV was certainly advising members and farmers in 2004 to budget on receiving payment around Easter 2006, so that any earlier payment would be a bonus.

22. As payment can only be made to claimants accepted as eligible, interim payments seem to be less of a panacea than they might first appear. Even Wales, with its historic system, believes it can only make interim payments to some 75% of farmers. In England, that fraction might be markedly lower. The risk, now the RPA appears seriously engaged with the real work, is rather that diverting effort to interim payments could prolong the agony in England.

23. In conclusion:

- we fear that to an extent the RPA offers a readily visible whipping boy for the industry's grievances when the original source of its problems lies with policy decisions taken elsewhere;
- that having been set the task of implementing those policy decisions, those responsible for allocating resources did not foresee what would be needed and so management of key issues (such as the RLR, quality of helplines or the availability of forms) became reactive to overwhelming pressure rather than pro-active in handling foreseeable circumstances; and
- we sense that the complications were enhanced by the overlap with other computer system reforms and by the timetabling requirements of those providing the software.

The CAAV is happy to enlarge on any of these points or respond to other points the committee may wish to pose.

December 2005

**Memorandum submitted by Dr J Jones, Head of Farm Management at the
Royal Agricultural College, Cirencester (RPA 11)**

BACKGROUND

1. I have been closely involved with the process of reform of the Common Agricultural Policy (CAP) both as a researcher and as a stakeholder representative of the Royal Institution of Chartered Surveyors (RICS). It was in the latter role that I gave written and oral evidence to the EFRA Committee inquiry into CAP reform implementation in 2003–04. My involvement has largely been at a policy level rather than with detailed implementation and has thus mostly been with DEFRA rather than the RPA. Although the type of activity I have been involved with has gone as far as the planning for implementation and even the scheme documentation. In particular I have been particularly involved with cross compliance and attended the workshops arranged by DEFRA and IEEP to refine the cross compliance requirements and documentation.

2. I attended most of the stakeholder meetings with DEFRA chaired by David Hunter which took place between 2002 and 2004. The last of these meetings took place in the spring of 2005. Latterly stakeholder engagement has been with the RPA and meetings have taken place at their offices in Reading rather than in Nobel House, Westminster. I attended the first of these meetings on 9 September 2005. But RICS representation since then has been by a staff member, Mr Peter Fane and (since Mr Fane's departure from the RICS in October) by an RICS member from Northumberland, Mr Louis Fell. I have not been directly connected with the mechanics of the implementation of the Single Payment Scheme (SPS). However, I attended the DEFRA/RPA roadshow presentation to farmers and professionals at the De Vere Hotel, Swindon in January 2005. I sit on the RAC Farms Board and have many points of contact with those in the farming and the surveying profession that have been directly involved in applying to enter the SPS.

3. I have canvassed for feedback from various contacts including members of the RICS Countryside Policy Panel. I am very grateful to the Earl of Lytton for providing me with a detailed account of his own experiences of the SPS introduction and the service provided by the RPA. I have included this as an annex to my evidence as an illustration of the deep frustration that in his case led to deciding not to enter his two farms into the Scheme. This is exceptional but I know that there are also aware of very strong feelings by a

large number of RICS members who have been involved in the process. It is for that reason that I have suggested to the RICS that they make their own separate evidence to the Committee as I am not really in a position to base my own evidence on enough first hand experience.

4. *The questions on which the Committee seek evidence.*

These were given to me as:

- why the RPA is unable to make payments under the Single Payment Scheme at the start of the payment window in December;
- the issues involved in making an interim payment to farmers, in advance of the new February target;
- what impact the RPA's own Change Programme has had in the introduction of the new CAP payments and the agri-environment schemes; and
- the extent to which the RPA's IT systems have failed to evolve to deliver what is required of them.

5. I propose to answer these by giving an over view as I see it of the circumstances. Others will be better placed to comment on specific logistical and delivery issues.

6. *Problems created by the policy formation and implementation process.*

The policy formation process has been exceptionally complex. The reasons for this in brief are:

- (a) The unusual amount of discretion provided by the June 2003 Luxembourg agreement to Member States in how they wish to apply the SPS.
- (b) The UK decision to regionalise providing further scope for separate rules and subsidy allocation in England, Scotland, Wales and Northern Ireland.
- (c) The delays and difficulty the Commission experienced in providing the full legal text and implementing regulations within which the Member States could exercise their discretion.
- (d) The novelty of the concept.

THE UNUSUAL NATURE, CONTRADICTIONS AND COMPLICATIONS OF THE SINGLE PAYMENT (SP) AS A FORM OF SUBSIDY

7. The SP is decoupled from production but nevertheless occupation of "agricultural" land is the basis of claim. The subsidy itself is not linked to any specific land parcels (as with Arable Area Aid Payment registration). But land occupation in 2005 is the basis of establishment of entitlement. Previous Pillar 1 agricultural subsidies had links with production. Even most of the Pillar 2 subsidies have specific links with some kind of production—business diversification, reduced intensity farming for environmental benefit, food processing and marketing etc. So having a subsidy with no production link at all seems very odd both to government officials and recipients.

8. The SPS has land use and other conditions most of which are an indirect consequence of production (although some have no link with production at all). This has been highly confusing conceptually even at the highest levels of those responsible for creating the scheme rules at EU, Member State and regional level.

9. Most of the difficulties experienced in implementing the SPS stem back to internal contradictions that arise because:

- (a) Entitlement is based on past occupation of specific parcels of agricultural land but is then not linked to that land.
- (b) Payment is related to occupation of "agricultural land" but does not require agricultural production.
- (c) Most of the cross compliance and other conditions relate to production but the SP is not a production-based subsidy.

THE NATURE OF THE BASIS OF PAYMENT FOR THE SPS IN ENGLAND AND WHY IT IS HAS CREATED EXTRA DIFFICULTIES

10. The choice of a transitional hybrid as the basis of payment made the establishment of appropriate levels of payment about as complex as it could conceivably have been.

11. A system based purely on "historic" subsidy receipts has the complexities of force majeure claims (special cases of those disadvantaged by the choice of reference period) as well as both voluntary and compulsory categories of national reserve claims. But by focusing payments on just those who have been in the system in the past it avoids the complexities of spreading payments to all occupiers of land defined as "agricultural". This contains the numbers as well as sticking to those on whom there are some established records. There are still plenty of complications because not all of the past subsidy schemes were based on defined areas of land but simply on head of stock. In the case of dairy based subsidy it gets even more complicated because it relates to milk quota either leased or owned on 31 March 2004 and not to either cows or land.

12. A system based on spreading payment out and allocating the total funds available on an area basis has some advantage over the “historic” system in that it avoids the complications of going back into past subsidy claims. But it has the disadvantage of potentially bringing in every occupier of more than 0.3 hectares of “agricultural” land. This is made particularly difficult if a broad definition of what is “agricultural” is adopted ie by including land not in production or receiving any kind of agricultural support payments. In England the definition used has included land used for grazing horses for instance which is not “agriculture”—at least in terms of various other forms of legislation. So there are vastly more potential applicants in total and many have been previously outside the subsidy system. It would seem that the numbers are roughly double what they would have been under a pure “historic” system and there are naturally plenty of oddities. It is inevitable when the definition of what qualifies is rather open to interpretation that land occupiers may “try it on” to see if their park, polo ground, nature reserve, firing range or what ever can qualify. Especially as there was only one opportunity for all time to latch on to the subsidy. But spreading the subsidy net in this way is bound to bring in a lot of difficult and unusual cases. This makes the job of validating claims much harder.

13. The regional average basis also brings with it some additional technical complications that are not shared by a history-based system. It would be difficult to explain all of these. But I can offer two examples:

- (a) The set-aside requirement, which can simply be attached to the amount of AAAP based subsidy under the historic system, has to spread out across all land that could be in arable. In the English lowland this reduces the rate from 10% to 8% and applies it more widely on land where no set-aside has been used in the past. However, because the subsidy is not linked to any specific parcels of land a rule has to be created about identifying a separate category of “set-aside” entitlement. The set aside rate under the history system is fixed. But under the regional average system rates cannot be established until it is known how much land has been entered and of what type. This has only become more complicated because there are three separate sub-regions each one of which has its own set aside entitlement rate.
- (b) Common land creates difficulties under both systems but this becomes greater and more contentious when the land acquires a value for subsidy purposes even though those who are entitled to occupy it have no stock on the common. Under the historic system only commoners who have had stock on the land in the past will be in consideration. Under the regional average system all those who have rights to graze the common generally have a right to apply for the subsidy.

14. A transitional hybrid that starts with a strong emphasis on “historic” and moves during a period to the Regional Average Area Payment (RAAP) basis suffers the difficulties of both systems in its establishment. But without having any of the advantages of each system operating independently of either restricting it to past claimants only or being able to ignore payments “history”. However, even this level of complication has been added to by basing the RAAP element on three separate areas. The third area of which was a sub-division of what the Government originally proposed as just one area having been split only after lobbying from the industry.

ADDED COMPLICATIONS DUE TO THE CONCURRENT ROLL-OUT OF ENTRY LEVEL ENVIRONMENTAL STEWARDSHIP (ELS)

15. The roll-out of the ELS targeted at 70% of farmers has certainly added to the demands for maps and on the RPA for data. Given the complexities of the SPS it might have been better, with the benefit of hindsight, to have delayed the process. But the introduction of SPS alters farm economics pretty fundamentally making it advisable to close existing schemes. So there was an argument for making the changes simultaneously in order not to have to go through an interim phase with existing schemes or to arrest the process of increasing agri-environment participation as envisaged in the England Rural Development Plan (ERDP).

16. *What are the implications of the circumstances under which the SPS has been introduced for the RPA as the administering authority?*

- (a) A much higher volume of applications as a result of moving to the RAAP.
- (b) A much larger number of cross-border issues as a result of adopting the three-region model in England and choosing a different system to that adopted in Wales and Scotland.
- (c) A large number of new applicants not already on the system requiring additional set up and vetting.
- (d) More applicants who are outside of mainstream agriculture as a result of adopting the RAAP and a loose definition of what qualifies as “agricultural”.
- (e) Both EU and DEFRA were behind schedule in providing regulations, definitions and categorisation.
- (f) A greater tendency to have to deal with unusual, spurious or marginal claims compared with a pure historic system that only deals with those who have claimed agricultural subsidies or owned milk quota in the past.

- (g) The amount of the RAAP and the required rate of set-aside cannot be determined until all claims to entitlement are lodged and validated.
- (h) Confusion for farmers and advisors as a result of the novelty and complexity of the concept and the scheme rules plus late changes or clarifications. This in turn has created more errors, queries, duplications and other such problems.
- (i) The time scale has been compressed by the nature of the process at EU, UK and regional level. But also by the delay over choosing what system to go for in England then opting for almost the most complex model conceivable and later altering the sub-regional structure of this.
- (j) The demand for maps and data was increased by the roll out of ELS and made worse by the initial approach of setting quarterly deadlines for submission (later relaxed to monthly to smooth out the workload and lessen the urgency).
- (k) New audit requirements requiring co-ordination with more bodies than was the case under the old production-based schemes. So for example breaches of the cross compliance condition GAEC 8 on rights of way is through Local Authorities. These are not only more numerous than dealing with the centralised operations of DEFRA or the Environment Agency but it is an arm of government that the RPA has not had to deal with before.

COULD THE RPA HAVE PERFORMED BETTER?

17. The RPA have come in for a great deal of criticism from farmers, landowners and their professional advisers and representatives. I don't think I know of a single farmer that has not provided me with several examples of frustration over agreeing the forms, the information that should be on them, receiving maps and forms on time, etc. So it would certainly appear that the task could have been performed much better to achieve a more acceptable level of customer satisfaction.

18. I do, however, feel considerable sympathy for the RPA because of the circumstances I have outlined. They were given an immensely difficult task. Clearly bringing in external resources and additional casual labour has been necessary to keep the task anything like on schedule. But this in itself must have created problems. There is no doubt that their work would have been more likely to run smoothly had the Government taken decisions earlier and opted for a more straight forward system. I also feel given the extra resources that have been required to smooth out the problems later on that much more resources should have gone in at an early stage in getting clarity from Brussels and the regions as to how to proceed. Having dealt quite closely with the process through the stakeholder groups I am rather horrified at just how much reliance has been placed on certain individuals to do this work. It may be part of the reason for the need to send out additional documents and revised rulings. This has made the applicants confused and annoyed with the RPA as the organisation at the sharp end of the application process. It has also made it harder for the RPA to train their staff, create the forms, do audit work, etc in a timely fashion.

19. The specific questions to which the Committee seeks answers relate mostly to making interim payments and to delays. It may seem as though I have gone a long way about providing an answer to these. But I think it relates to the whole background. It is not hard to see why there might be performance issues once the nature of the task is appreciated more fully.

20. Frankly I can't really see why an interim payment cannot be made to those with undisputed historic entitlement not subject to appeal. Other than the fact that it would create another layer of complication in what is already a complex picture for an organisation struggling to deliver what is required of it.

21. But the bigger question is not so much whether an interim payment could be made but whether the final payment can be made by the end of March. If this deadline is not met it means that transfers of SPS entitlement, which are a significant issue for most tenancies and sales involving agricultural land, will be held up badly and possibly for another whole year. This is because entitlement cannot be traded until "activated" by receiving the first payment. Once this has been received the RPA requires six weeks notice for a transfer. Therefore any application that comes in less than six weeks before 15 May will not be transferred in time to allow the new holder to apply before the IACS submission deadline. In order to make the final payments the RPA must have processed all (or nearly all) the claims because until this takes place the amount of the payment cannot be established. So it is really vital that the processing is complete by the middle to end of March. That has to be the RPA's priority and failure to meet that deadline will create even bigger problems.

December 2005

APPENDIX

Memorandum of personal experiences of the RPA Implementation of the Single Payment Scheme by John Peter Michael Scawen, Earl of Lytton BSc FRICS

22. My experiences are related to two holdings No 36/110/0054 in West Somerset District and another 42/083/0152 in Horsham District, West Sussex. The former is described hereafter as the Somerset property and the latter, the Sussex property.

23. The Somerset property is an upland (SLFA) livestock farm and shooting estate totalling some 360Ha and has been the subject of an IACS return for as long as that system has been going. I have always completed the IACS return myself and therefore have become familiar with the system. Over the years we had simplified a number of the parcel areas for purposes of the IACS return because the precise positions of land use for forage crops and game cover crops would vary year on year whilst the total forage area would vary less dramatically. In order to simplify matters, parcels were often quite large blocks of land so that the precise subdivision within the block for forage, grassland and non-palatable game cover crops (these latter were always excluded from the claim area) could be dealt with whilst avoiding the need for re-measuring and agreeing annually year on year changes in the disposition of land uses. We had even got as far as having a visit from the Surveyor from the Rural Payments Agency in Exeter who met with me on site (spring 2003 as I recall) to check the acreages included in the claim and which were found to be within normal allowable limits. Beyond confirming those acreages, no other action by the RPA had ensued.

24. The Sussex property which is a lowland grassland and woodland holding, was never for or included in an IACS claim. As the grassland was of value as much for its amenity as for its grazing and totalled some 17Ha, this was of no great consequence.

25. My first encounter with the new Single Payments Scheme was in respect of the Somerset property and in particular the supply by RPA of new digital maps of the holding as part of the Rural Data Capture exercise leading up to the compilation of the Rural Land Register. The first two sets of maps supplied during the latter part of 2004, were substantially incorrect. Some of the parcel boundary lines seemed to follow sheep tracks and there were material inaccuracies. I replied, sending a map of my own but the new system appeared to have no regard to the way in which the land had previously been mapped by Ordnance Survey, to the facts on the ground or to the maps submitted from time to time in support of IACS claims. It appeared that all the systems built up over many years of IACS would count for nothing. Eventually I received a set of plans that was more or less correct except that it omitted one or more significant parcels in the middle of the holding and when I made representations about this, I was told to fill in an IACS 22 form for the allocation of a field number for the missing area, notwithstanding the missing land was already IACS registered. Eventually I did receive a substantially correct set (but see below for the sequel).

26. With regard to the Sussex property, I applied on form IACS 22, for the issue of new parcel numbers for a previously unregistered holding. When I had heard nothing by the early part of 2005, I made an enquiry and was sent without any other comment, a further form IACS 22. Rather than complete a new form, I photocopied the old one and sent it back complete with its accompanying maps.

27. I took the view, however, that with the growing rumours about the disarray at the RPA, such maps as I had received on the Somerset property were probably going to be as good as it would get. I was CLA Sussex Committee Chairman at the time and was therefore following fairly closely the efforts by the CLA to obtain additional information on behalf of members submitted.

28. All the while, I was receiving a plethora of documents relating to the implementation of the Single Payments Scheme and advice on what farmers had to do. Some of these were re-issued with further amendments after a gap of only a few weeks and it all became very confusing. From the standpoint of the Somerset property which is also run as a sporting estate, I became increasingly concerned about the status of game cover crops and what was or was not qualifying land when used for this purpose. Although I had all the records going back for a long time under IACS but it was quite difficult to make the connection between the parcels shown under the RPA's new digital maps and the divisions of the farm used for the purposes of the previous IACS claims. In a number of significant areas, the two simply didn't match. At one stage I tried to see if someone would meet with me to discuss the ongoing errors being generated in the RLR mapping exercise but was told that the consultants did not come to site.

29. In the weeks immediately preceding the 16 May 2005 deadline, I contacted the help-line (Newcastle on Tyne) in order to try and get clarification about the treatment of cover crops and whether this would trigger a requirement for set-aside. I freely admit that I had not anticipated that there would be a requirement to meet a set-aside requirement on a hill farm used for extensive livestock raising with game cover crops having a dual use as fodder crops for winter feed. Suffice to say that the help-line was unable to clarify the position and the gentleman I spoke to did not know what a game cover crop was; he thought it might be a catch crop. My follow up email confirming the query was not answered. Certainly it would have been very difficult to have found land on which to provide set aside, even given the small amount of set aside land that would actually have been needed. Indeed, the set aside arrangements would have had to have been put in place some months earlier, well before I had come to the realisation that there was a set-aside issue at all.

30. During the early part of May 2005 I received a round-robin letter from the Chief Executive of the Rural Payments Agency effectively saying that all the information had been provided by the RPA and that it was up to farmers and land managers to make use of all the information provided. As this was manifestly untrue, I wrote to say that inadequate information had been available and that I was still waiting for information which had so far not been provided. This produced a telephone call from somebody in the Chief Executive's office which happened when I was out; I returned the call and left a voicemail message but did not thereafter receive any further communication.

31. I concluded that there was too little information available and too much uncertainty about the whole system and in the event, did not submit a Single Payment Scheme application form in respect of either property. This decision was not taken lightly; there were probably £12–15,000 of historically-based payments at stake for the 2005 year alone.

32. In August 2005, a further set of maps in connection with the Somerset property was sent to me. These were fundamentally wrong and incorporated errors not seen in previous versions of the maps (in fact each successive set of maps had errors that were not in the previous set and this was a recurring theme). I wrote in response to this latest set of maps in early September to say that they were wrong, that I was not prepared to devote any more time and energy to the matter and that as far as I was concerned, correspondence with the RPA over this matter would cease with immediate effect.

33. I have just received (today, 8 December 2005) for the first time, some maps of the Sussex property. They are substantially incorrect and miss out large parts of the grazing land. They are not in accordance with the details or plans previously provided. I am in the process of writing a letter pointing out the delays and inefficiencies and that the entire SPS is, so far as I can ascertain, a waste of time.

34. That is where matters now rest.

35. My opinion is that the whole exercise has been incompetently organised; there were too many things going on at one time with the digitisation of the OS maps, the creation of the Rural Land Register, the mismatch between the body of established mapping data from the IACS system and the new RLR requirements. Coupled with a new SPS regime administered by inadequately trained staff (whether in the consultancy office or the RPA itself, I do not know) and an inability to answer queries, the process became a nightmare. A guidance video issued by DEFRA in about April 2005 made no attempt to demystify the whole process. The published and printed guidance made no attempt to identify changes from earlier versions and in the end it seemed one had to cross refer to several different documents at once to get a cohesive picture of the requirements and even then there were inconsistencies and a great lack of clarity.

36. Clearly DEFRA was in overall control of this exercise and seems to have chosen the most complicated and Byzantine approach possible. On a simple holding this should have been straightforward but was not. On a complex holding it has proved impossible to find a way through. I resorted to asking my neighbouring farmers for advice and the CLA were inundated with enquiries from members. All this occurred despite my many years of experience with IACS and a professional knowledge of mapping procedures.

John Lytton

December 2005

Monday 24 April 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
James Duddridge
Daniel Kawczynski

Lynne Jones
David Taylor
Mr Roger Williams

Memorandum submitted by National Farmers' Union (NFU) (RPA Sub 09)

EXECUTIVE SUMMARY

The latest SPS payment figures and the Secretary of State's decision—late in the day—to sanction partial payments to farmers speak for themselves. In the NFU's view it is too early to formulate views about the future of the RPA and its relationship with DEFRA. But it is clear that, in this instance, the combination of policy-making by DEFRA and delivery by its arms-length paying agency has not proved a successful partnership.

The pressures of the ongoing RPA Change Programme, the complexity of the SPS model chosen by DEFRA and the launch of the Entry Level Scheme at a critical point in 2005 combined to make failure a very strong possibility, to the detriment—in the end—of the farmers the agency was set up to serve.

INTRODUCTION

1. The NFU welcomes this opportunity to submit evidence to the HoC Efra Committee in connection with its extended inquiry into the RPA. The NFU submitted evidence as part of the initial inquiry. We have tried to avoid duplication, mindful that this phase of the inquiry asks questions of a more fundamental nature about the decision-making process, with a view to examining the wider lessons that the implementation of the SPS has for the relationship between “core DEFRA” and its agencies.

2. The NFU is privileged in having regular high level access to DEFRA, at ministerial and staff level. In addition, NFU advisers are active members of the RPA's technical stakeholder group and its higher level industry forum.

3. We are all too aware that judgements made at this stage may be premature. While it is clear that something has gone seriously awry, we remain hopeful that the government will manage to get payments—even if partial—out by the end of June. So, while we have preliminary observations to make, we would not wish to see resources within DEFRA or the RPA diverted from the task in hand.

DECISIONS AT THE START OF THE PROCESS

Policy

4. The 2003 CAP reforms allowed member states considerable leeway in deciding how de-coupled support payments were to be implemented. The critical question facing the government was whether a “regional average” rather than an “individual historic” approach should be adopted. There is no pretending that this was an easy policy decision for the NFU; it was not. But the NFU's final submission to the government on implementation models gave a clear message¹. The NFU had based its proposal on four criteria, against which any option had to be analysed. The criteria were:

- A Simplicity
 - B Minimising redistribution of existing support
 - C Ensuring that the payment goes to the working farmer
 - D Market focus.
-

¹ NFU's CAP Reform Submission, 29 October 2003.

5. Bearing those in mind, the NFU's view was that the individual historic option was the right way forward. Our submission raised concerns about the administrative complexity of a hybrid approach. Any such complicated system would be likely to lead to appeals, expense and delay.

6. It is also worth pointing out that all through the CAP Reform discussions and negotiations DEFRA, at all levels, gave the consistent impression that they favoured the historic approach. The first serious indication that there had been a change of mind did not emerge until Lord Whitty spoke to the Oxford Conference in January 2004.

7. Notwithstanding the NFU's views, ministers decided to adopt the most complex of schemes, the dynamic hybrid. Although other factors—the RPA Change Programme, introduction of new IT systems, an ambitious new agri-environment programme—compounded the difficulties, the dynamic hybrid model is at the core of the implementation failures. What is worse, the devolved administrations in Scotland and Wales chose a simple model which has not only led to our close neighbours being paid much more promptly and efficiently, but has put all cross border holdings (463 with Wales and 128 with Scotland) in enormous difficulties through no fault of their own. To give some idea of the effect, 95 farmers who fall under the Rural Payments Wales administration have received no payment at all simply because their land areas in England have not yet been validated by the RPA.

8. Once DEFRA had set its face on a regional model, it is true that the NFU, along with eight other stakeholders, made the model more complex in one respect by pressing for three rather than two English regions. We do not believe that this re-working of the model in Spring 2004 amounted to a significant change. It added somewhat to the administration and necessitated some adjustments on the IT side, but these were insignificant in the whole scheme of things, given that a two-region split had already been decided on.

9. In its interim report, the Committee suggested that DEFRA should have considered postponing the implementation until 2006, to allow more time for preparation. The NFU's position was that, subject to assurances from ministers and the RPA that there was enough time to implement the new regime properly, 2005 should be the start date. Our reasoning was twofold: firstly, the reforms were there for all to see—we should get on and implement them, just as other countries would be doing. Secondly, the longer the time lag between the reference period (2000–02) and the start of the scheme, the greater the likelihood of stagnation in the land market and the restructuring of farm businesses (the level of historic support was to be allocated to businesses based on their average payments during the reference period). Our preference for 2005 was stated ahead of the government's decision on regional averaging. But even following that decision, we were assured by ministers, senior DEFRA staff and the RPA that 18 months was more than sufficient for implementation.

10. On a practical point the absolute deadline for a decision to postpone the Reform would have been July 2004. That is both because the government was obliged to inform the Commission of its decision by 1 August and because farmers would have been making decisions on their cropping pattern for the coming season which would have been heavily influenced by whether coupled or decoupled payments would apply in 2005. In the summer of 2004 we were assured by DEFRA and the RPA that payments would start in December 2005; and at that point we had more confidence in those forecasts than was later the case.

11. An inevitable consequence of DEFRA's regional approach in England is the redistribution of support away from traditional claimants to a new claimant base, not just incorporating fruit, vegetable and potato growers, but a wider group of "pony paddock owners" and non-traditional farmers. Some 40,000 new customers applied to the SPS in 2005. Current estimates are that by 2012 approximately 9% of the total SPS pot will be paid to these customers. In 2005, the figure is around 1%. The impact on delivery of incorporating these new customers cannot be overstated. The NFU would question whether the inclusion of this "additional" group was within the spirit of the scheme as originally conceived in 2003. Even if—as is the case—the Regulations do not allow this group to be excluded entirely, the effect could have been mitigated by setting a "de minimis" level for claimants of, say, 5ha.

IT

12. The NFU has little to add to what has already come to light during the Committee's initial inquiry. Suffice to say that the NFU was sufficiently concerned about the ability of Accenture to develop fit for purpose IT processing systems that in the early days IT was the key issue raised with the then Permanent Secretary, Brian Bender by Richard Macdonald (NFU Director-General) during their meetings. There was clear acknowledgment that all was not well in the early stages and that extra resources were being diverted to ensure resolution; and that Accenture was being held to account at a very senior level. But the overriding message as time went on was that the IT would deliver.

DELIVERY

Expectations and Assurances

13. It is clear from DEFRA Management Board papers that in the period following the key policy decisions of February 2004, ministers expected the RPA to be in a position to make payments as from

1 December 2005, the beginning of the payment window². The failure to implement CAP reform effectively was regarded as a “Top Threat” and key milestones were to be included in the “Top Threat action plan”, with reports if they were not met. The then DEFRA Permanent Secretary was to chair an Executive Review Group that had been put in place as part of DEFRA’s comprehensive governance of SPS implementation.

14. During this period, Richard Macdonald met regularly with Brian Bender and, at other times, with Andy Lebrecht, Director General for Sustainable Food, Farming & Fisheries. SPS implementation came up at every meeting, with Richard Macdonald raising concerns about whether the Scheme could be delivered in the timescale DEFRA had set, particularly given the RPA’s ongoing Change Programme. Although there were some concerns about the Accenture contract (see para 11 above), the message given to the NFU about delivery was essentially the same each time, that everything was being done to make it happen. DEFRA had been given categorical pledges by the RPA that targets could and would be met. “Slack” had been built into the implementation timetable to allow for contingencies.

Warning signs

15. Despite DEFRA reassurances, the NFU became increasingly worried that there would be significant slippage in the timetable. The first evident signs started to appear in early 2005, with the announcement by DEFRA that payments were unlikely to start until February 2006, as opposed to at the beginning of the payment window. At the same time, it became clear that the Rural Land Register (RLR) managed by the RPA was under severe strain and that it would not be up to date in time for accurately pre-populated 2005 SPS application forms to be produced³.

16. It is at that point, in our view, that DEFRA made what turned out to be a serious miscalculation, given the warning signals that were there for all to see (and noted in the RPA Ownership Board’s meeting on 3 March 2005). The new Entry Level Scheme (ELS) was launched with great fanfare in March 2005, two months ahead of the critical SPS application deadline.

17. The NFU welcomed the ELS, recommended in the 2002 Curry Report into Sustainable Farming and Food. But the timing of its launch proved disastrous, requiring as it did the pre-registration of new ELS (but not SPS) parcels on the Rural Land Register (RLR) managed by the RPA. In the NFU’s view, it would be unfair to blame DEFRA for pursuing the launch of the ELS at the earliest possible opportunity, although the risk assessments that must have been done were, in hindsight, clearly incorrect. Our members wanted the early introduction of a “broad and shallow” scheme both because we were repeatedly told that “rural development” measures would become progressively more important (and the NFU wanted a scheme that was accessible by as many farmers as possible) and because getting a large part of the land area into schemes offered the best way of meeting new environmental obligations such as those imposed by the Water Framework Directive.

18. Clearly, what was needed was a RLR system that worked, was accessible to its customer base and able to cope with the volume of mapping changes that needed processing. In our view, this was an RPA management and resource issue rather than a policy one. What we can say is that if the NFU had realised then just how disastrous digital mapping was going to prove in practice, we would have pressed for the ELS launch to be postponed. But it is easy to be wise after the event.

19. The Committee is well versed by now on how the saga unfolded, with the “forms” and RPA helpline crisis ahead of May 2005 SPS deadline, the persistent IT difficulties experienced with the RLR and the major decision, announced in October 2005, that the “provisional entitlement” step would be skipped in the interests of getting payments out on time.

THE CURRENT POSITION

20. As at the date of this submission less than 40% of customers have been paid. Crucially, less than 25% of the total SPS funds have been paid out. Given that as late as June 2004, ministers expected the RPA be ready to make payments from 1 December 2005, something has clearly gone seriously wrong on the delivery side.

21. According of the Secretary of State’s statement to the House on 27 March this year, Johnston McNeill was still insisting, on 14 March, that 96% of payments would be made ahead of 30 June 2006⁴. In addition, the Secretary of State stated that it was not until that date that DEFRA ministers were informed that only £60 million had in fact been paid out. We find it very surprising that senior DEFRA staff were not aware until then that payment progress had been so dismal. This was the supposed final stage of the reforms, heralded as a key step in the move towards sustainable farming. If they did not know the true position, we either have to infer that they had simply not asked for the information from their RPA colleagues, or that they had asked but were misinformed by them. Or, even worse, that RPA senior staff had not themselves realised how dire the position was (but we know that the RPA had information about actual payment progress to hand).

² Summary of DEFRA Management Board meeting, 17 June 2004 (para 4.0).

³ See also Minutes of RPA Ownership Board meeting, 3 March 2005.

⁴ HoC Debate, 27 March 2006 (Commons Hansard).

22. In the same 27 March debate, the Secretary of State has said that it was only towards the end of February 2006 that the Scheme began to break down. She has also confirmed that as late as 10 March senior RPA staff were still insisting that 51% of payments would be made by the end of that month. Again, this raises serious questions about communication between the RPA and DEFRA and whether there are structural deficiencies in the current arrangements and relationship. It is all too easy to do the calculations now and say the plan was clearly undeliverable. But, given what we now know, it was clearly undeliverable and RPA senior management must have known that or, even worse, been unwilling to see it. The latest payment figures speak for themselves. And the Secretary of State's decision of 19 April that a part-payment system should be deployed as soon as possible is further testament to the failure of RPA senior staff to acknowledge that targets were unlikely to be achieved as soon as it was clear to them that was the case (in our view that would have been—at the latest—in September 2005). Intervention of the kind made by Mark Addison after 16 March could then have been sanctioned earlier and this crisis while not avoided altogether mitigated to some extent.

CORE DEFRA AND THE RPA

23. Once the main policy decisions were made (further decisions on national reserve categories were announced in November 2004), DEFRA's headline role diminished and the focus shifted to the RPA and delivery. The then NFU President Tim Bennett and Alun Michael went to the RPA in Reading in 2004 to be reassured about the Agency's ability to deliver. The NFU had a series of meetings with Johnston McNeill and his colleagues, and Johnston McNeill came to address the NFU Council twice, in April and then in October 2005. On all occasions, the overwhelming impression we were given was that our concerns that payment targets would not be met were unfounded and the RPA would deliver. Apologies for what were clearly viewed as minor inconveniences (inability of the RPA helpline to cope, late supply of application forms, mapping errors) were made. We were repeatedly assured that the task-based system would all come together at the conclusion for successful delivery.

Entitlement Transfer Extension—an example of poor co-ordination and delivery

24. One issue the NFU was particularly worried about was the transferability of entitlements ahead of the 2006 SPS deadline. This was critically important for several thousand of our members. In September 2005, it became clear that further slippage in the timetable was inevitable. DEFRA was proposing that one of the key milestones be dispensed with ie the provisional establishment of entitlements, originally scheduled for Autumn 2005⁵. In the end, the NFU reluctantly agreed to this. The NFU wrote to the RPA Chief Executive in September 2005 to express its disquiet with the way things were progressing. It raised the possibility of a derogation from the six-week notification of transfers being sought by DEFRA from the EU Commission⁶.

25. Further representations were made about the deadline for submitting entitlement transfer requests. The later customers were informed—definitively—of what they had been allocated, the more difficult it would be for transfers to be made ahead of the 2 April deadline. Finally, on 30 February—with one working day to go ahead of the transfer deadline—Lord Bach announced that the deadline had been, in effect, extended by three weeks. Requests for the measure had been made some six months earlier, when it became clear that the RPA would have difficulties establishing entitlements on time. What we cannot understand is why it took so long for the RPA to advise DEFRA of the need for this and/or for DEFRA to secure the derogation.

Conclusions and concerns for the future

26. Left to its own devices, the RPA appears to be process rather than customer driven. It needed careful hands-on monitoring by DEFRA and our view is that such monitoring somehow fell short, particularly once key policy decisions had been taken.

SPS

27. What is clear is that the success of the SPS in England has been seriously jeopardised by the government's failure to implement the Scheme not only promptly but properly. 2006 applications, processing and payments are already, without urgent intervention, likely to involve a similar level of delays. In addition, the failure to build in time and resources to handle appeals against allocations and put right errors that have resulted from the calamitous attempt at definitive establishment and payment mean that,

⁵ See DEFRA news release of 5 October 2005.

⁶ Under the regulations, a transfer request had to be made six weeks ahead of the anticipated transfer date, making 2 April the latest possible date for requests to be received by the RPA if transfers were to be in place for the transferee to claim against the entitlements in his 2006 SPS claim.

in our view, it is open to doubt whether all claimants will actually know what they have and what their exact payment should be until the May 2008 round of applications, just in time for the planned EU review of the 2003 reforms.

28. For the NFU this whole episode has been a tragedy. Many farmers have been placed in a position of genuine anxiety and hardship⁷. What is more, the UK's position in Europe has been undermined. The NFU, uniquely among European farming organisations, advocated and supported decoupling and many farmers approached the reform with real enthusiasm. In England that has been entirely dissipated and in many cases has turned to frustration, suspicion and anger.

Integration of land, customer and livestock registers

29. It is not just SPS that concerns us. The government's vision for the short to medium term includes a three-pillar approach to customer management by the RPA, namely the development and integration of the land, customer and livestock registers. We welcome the vision in principle. But we do not at this stage feel able to support a plan that is destined, in the absence of real change at the heart of the RPA, to turn into another saga of high level vision and low level delivery.

Hunter Review of the RPA

30. The NFU looks forward to contributing to the review of the RPA announced by the Secretary of State on 16 March 2006. Our concerns will centre on whether an arms-length customer delivery agency is the right model; how adequate control and reporting mechanisms can be assured and how the inextricable link between policy decisions and delivery capability is managed.

April 2006

Witnesses: **Mr Richard Macdonald**, Director General, and **Mr Martin Haworth**, Director of Policy, National Farmers Union, **Mr Reg Haydon**, National Chairman, and **Mr George Dunn**, Chief Executive, Tenant Farmers' Association, gave evidence.

Q1 Chairman: Good afternoon, ladies and gentlemen. Those of you who were up early this morning listening to *Farming Today* or the *Today* programme will be left in no doubt as to why we are all here: to start our inquiry into events which have affected the payment of the Single Farm Payment. Can I warmly welcome Richard Macdonald, Director General of the National Farmers' Union, supported by Martin Haworth, Director of Policy, and from the Tenant Farmers' Association, Reg Haydon, their National Chairman, and George Dunn, their Chief Executive. Gentlemen, you are old friends of the Committee, if you do not mind the word "old" being applied to you. Can I thank you for the written evidence that you have provided to us both in terms of the initial inquiry that informed our interim report on this subject and for the supplementary submissions that you have made. Before we go into questioning, I would like to make a short statement to those here today about the future form of this inquiry. As I said on the radio this morning, the Committee is acutely aware that we do not want to do anything that in any way, shape or form could be said to be slowing up the processes of making certain that hard-pressed farmers are receiving their payments at the earliest opportunity. To that end, the Committee received representations from the IT partner of the Rural Payments Agency, Accenture, to postpone their evidence from 8 May because of the work that they are now undertaking with the introduction, through the Secretary of State's announcement last week, of interim

payments. The Committee has readily agreed to that request and in their place next Monday at 4.30 we will be hearing from the Country Land and Business Association. In framing the remaining timetable of our inquiries, we will obviously be minded to take into account this question of doing nothing to upset the work that is going on, quite rightly, to try and speed up the process of payments to farmers. I wanted to make that entirely clear at the outset of this inquiry. If we look at the events which have led up to where we are, one can go back to April 2001 when the RPA Change Programme was established in order to rationalise the structure of their office and introduce their new IT systems. This Committee commented on that matter in a report in October 2003. In looking at this current situation, we are obviously conscious that there is a certain amount of history to what has happened. I have described this inquiry "as forensic as possible" and so I would be grateful if witnesses would not demur in giving us detail because that is exactly what we are after. What we want to get to is fundamentally who, whether organisationally or in the shape of people or both, has caused the present problems to occur, what lessons does that teach us, who is responsible for these matters and what implications does it have for the future operation of Defra. I wonder if I could start with the National Farmers' Union and say to you, have you yet formed a view as to where the present débâcle started, where did it start to go wrong and have you yet formed a view as to who should take a responsibility for what has happened to date?

⁷ The NFU made a "Hardship Report" available for our members to complete. We have received an unprecedented mailbag in response, with well over 1,200 detailed replies in the 10 days ahead of the date of this submission.

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Mr Macdonald: Thank you very much, Chairman. It is a short question and perhaps it requires a fairly detailed answer, and I will try to do that for you. I think, as you say, we need to go back in time. If I can go back to the decisions that were taken in the middle of 2003 concerning the changes to the CAP—I am very happy to go back before that, if you would like to do that—during that time, as you know, the CAP was reformed and we moved to a decoupled payment system. I will shorthand, Chairman, but if you want to pick me up on any of the detail on this, I am very happy to do it. I have been around, as you know, throughout all of that period and was involved in much of this myself. At the time of decoupling, I think we were under the pretty strong impression that the Government was going to implement a historic payment system and that was certainly the background discussion that took place during all of that. We learnt I think in January 2004, when Lord Whitty spoke to the Oxford Farming Conference, that they had in fact decided to move to this regional hybrid model. I have to say, looking back on that, we were surprised at that decision given many of the discussions we had had with ministers and civil servants up to that time. I think it is fairly clear that that was the first decision which was made that added significantly to the complexity of the implementation of all of this. I think the first sort of chronological point in our mind is that decision and the consequences of that decision for implementation. Thereafter, over time, I think there were clearly significant issues and I would describe the period from early-mid 2004 through to recently in two stages. The first stages of that were in relation to the capacity of the IT to deliver all of this and, as I said in our written evidence, certainly I would see the then Permanent Secretary on a very regular basis and other people, and other NFU staff would see other people from Defra on a regular basis, and much of our discussions was, “Is the IT capable of delivering?” You will understand, given the history which you have referred to, why we would ask those questions and things like the cattle database and our reasons why we would be concerned. I would think a summary of that would be Defra at a senior level and downwards realised that that was a significant issue, but we were assured that with a high level of intervention from Accenture and others that ultimately it would deliver. I think the second phase of the period of that was what you might describe as after the assurances of our IT and where we came to the implementation of the policy. Again, a summary of that would be that I think from early last autumn onwards we were asking what we thought were some pretty searching questions based on what we saw as the compilation of the data coming forward or not coming forward, maybe more appropriate at times, as to whether they were still confident of delivery. You will know from your own chronology that the due dates slipped in time. I think one of the things that was fundamentally wrong with this is it was a task-based system and not a customer-based system. Therefore, it was very process-driven rather than outcome-driven. What that means, from the point of view of an outsider—I hope that we would consider

ourselves to be informed outsiders but nevertheless we are outsiders—is that it is difficult to penetrate through the question that is ultimately all of these tasks will come together and hey, presto, payments will be made. That, of course, was very repetitively and constantly what we were informed would be the case. Latterly, of course, there are the issues about where we still are now, and perhaps you may want to come on to that in due course. If you break that down, who is responsible for the complexities, I suppose that must mean that the early decisions were political responsibilities, to go for a hybrid model against some people’s wishes and, certainly, us drawing attention to the fact this was hugely complex. Secondly, the decisions about the IT and, thirdly, I think quite importantly, the interface between Defra and the RPA. I would particularly draw attention to the fact that I think there was significant managerial and administrative interface with the RPA, but I am not totally sure to what extent there was policy interface. In this context, we are implementing hugely complex policy into an IT system with, of course, continuing need to ensure that the rules are being followed.

Q2 Chairman: George or Reg, would you like to answer the same question?

Mr Haydon: I will go first, Chairman. I have got a particular interest in this business because I am the only farmer on the panel this afternoon. I farm as separate businesses, in two places: one is in Sussex in England, where I have received so far no money whatsoever; the other is in a hill farm in the Brecon Beacons, where we were paid, you will be pleased to know, last December with the final partial payment at the end of February. There is a wonderful example of how the historic system really does work. I think you were asking us, Chairman, where we thought this thing went wrong. We have submitted to you a rough chronology of our evidence today which has pinpointed lots of different points and I hope that has been a help to you or will be. We have singled out certain individuals, who perhaps need to be described, and we found that in the early part of the discussions between all the organisations the general consensus of opinion at the time was that we should go down the historic route. We thought this was going along very nicely. The first time when things did not appear to be going quite our way, and I am talking about the TFA now, was on 19 September 2003 when we wrote to Lord Whitty expressing concern there was support for the regional average area payments which were being strongly proposed by the CLA and the RSPB. This negotiation went on from then, not making too much progress, and then roughly around November of that year we, the TFA, George Dunn and the CAAV met Lord Whitty and got the feeling that there had been a veering away from the historic system. We did not know why at the time. Evidence from the staff at the RPA was giving us the feeling that they knew there were going to be complications if anything less than a historic system was implemented, so going down any sort of hybrid system was going to cause them a lot of trouble. The Minister at the time, Lord Whitty,

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spoke at the Oxford Farming Conference early in 2004 and he said he was very much against the implementation of a historic system on its own. We were obviously not pleased with this and had two or three meetings with him to try and see if we could change things, but he seemed fairly set in his ways on the way it was going to be done. Sure enough, very quickly after that, on 5 February, the Secretary of State, Mrs Beckett, spoke to me personally at home and said she felt she ought to warn me that the situation was changing and they were more likely to be going down what we were then told was a dynamic hybrid. This was reinforced about a week later when Lord Whitty again phoned me personally and said, "I am afraid it is bad news from your point of view but we are going to go for the dynamic hybrid." That was it, it was a *fait accompli*. Lots of negotiation had gone on. I think it is fair comment to say the TFA, the NFU and the CAAV were very much altogether on seeking a historic system, whereas the CLA were quite adamant they wanted what they called a static hybrid, which eventually got changed to a dynamic hybrid. Since then it has been downhill all the way, promises which have been made and never kept—there is a whole string of them which I am sure George will be able to tell you about. Now we are in the situation, as you well know, Chairman, where there have been five meetings with the industry, where a very good joint approach has been made by the NFU, the TFA and the CLA in trying to get some sense out of this terrible situation. Many farmers, as you well know, are in very serious financial trouble. We pressed right from the beginning that a partial payment would be a way of ameliorating the situation and I am very pleased to say, as we all know, the Minister saw sense last week and the system has been changed. That basically is what I would say in a nutshell is what has happened so far.

Mr Dunn: The issue of where blame lies in this is a very complex matter. Certainly from my own perspective, 12 February 2004 was a dark day and if you were to speak to any of my staff, friends and family, I was pretty low because I felt I had let my members down by not being able to persuade the Government to go down the historic route. I was concerned what we had ahead of us was going to be a very difficult task, particularly in the light of comments made by an RPA official at a Defra stakeholder meeting when he said that if we went down anything other than a simple historic or a simple regional average system it would be a nightmare for the RPA to administer. Subsequent to that at a further stakeholder meeting, when I asked, "How come the RPA's advice has not been taken on board?" I was told by David Hunter, who was the official chairing that meeting, that the RPA will do what the RPA is told to do. I personally myself felt I could have done more to persuade the Government to go down the simple historic route. Going back in time, it appeared to me to be going swimmingly well until about the summer of 2003 when it appeared to us that every organisation apart from some of the environmental ones and the CLA were pushing for the historic system, civil servants were pushing for

the historic system, and that we were on track heading for historic. Indeed I had a conversation with people who said, "It looks like you have won." Then when we came to September it appeared the ground had shifted considerably and at that time the CLA requested from the Government a list of potential models that the UK could use to implement the Single Payment System and that list started with simple history, went through simple regional average payments and ended up with dynamic hybrids. I remember the meeting where that paper was discussed and the same official, David Hunter, made the comment, "If you really want to make life complicated, if you really want to get into difficulties, let's look at the dynamic hybrids", and that is where we have indeed ended up. Then to complicate that was the decision to open up the system to those people with pony paddocks, with small acreages, to add 40,000 new applicants to an already complicated scheme, and then to allow people, who were not legally occupying land but may be deemed to have it at their disposal by being the landlord of land, into the system overly complicated it. So I think there are a large number of layers where you can say that issue was laid upon issue upon issue to make what was initially going to be a very simple system into something which was completely unmanageable.

Q3 Chairman: When do you think it became clear to the RPA exactly what model ministers wanted to administer? Richard, in your evidence, you said you had been having a lot of discussions with Defra and its officials about this. I would be interested to know whether you picked up any of the beginning debate and dialogue at that time over what the model for payment could be. George and Reg, in your evidence, you mentioned the RPA's misgivings about the dynamic hybrid. Did you get the impression, could you point to the fact that the RPA had effectively evaluated formally to ministers the different options and the implications of those options for their ability to deliver and the practical matters which would be involved?

Mr Dunn: There was, Chairman, a report sent to stakeholders prior to a meeting of 12 September 2003 where obviously the RPA had been asked to provide cost estimates of the various options. There is a reference to a minute from Bill Duncan about the cost of various options, so there was some discussion going on at that stage about how much this was going to cost and some of those figures were astronomical. There must have been some discussion but we were not aware of it.

Mr Haworth: There must have been some advice from RPA to Defra about the various models and the one which was chosen. We have not seen that. The Secretary of State did promise she would release all the correspondence there had been between the RPA and Defra and we would be very interested to see that, but we have not seen that and I am sure the TFA have not.

Q4 Chairman: When did the Secretary of State make that statement?

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Mr Macdonald: At the time Johnston McNeill left RPA, so relatively recently.

Q5 Lynne Jones: You mentioned David Hunter, Mr Dunn. I understand he is the senior responsible officer for delivering the programme.

Mr Dunn: Yes.

Q6 Lynne Jones: What was his relationship to Johnston McNeill? You have said he was quite adamant this was a very complicated system and it would be madness to go down the hybrid route. If he is the senior responsible officer for delivering the programme and he was saying that, is it not reasonable to assume that he must have been saying that to Defra? The Defra official, John O’Gorman, was present at that meeting.

Mr Dunn: Let us be clear, this was an industry stakeholder meeting at which RPA was represented in the shape of Bill Duncan, who has now retired from the RPA. Johnston McNeill, to my knowledge, never attended any of those stakeholder meetings, unless anybody else can correct me. Bill Duncan from the RPA was the one who represented the RPA’s interests at those meetings, and I have to say that Bill was excellent in terms of the advice he was giving to us and to Defra. It was at a meeting that Bill Duncan said that if we chose something other than a simple historic or a simple regional average system it would be a nightmare to administer. Bill was a member of RPA staff. David Hunter is a Defra official but David did have the responsibility for making sure the programme was delivered.

Q7 Lynne Jones: So David Hunter is Defra not RPA?

Mr Dunn: David Hunter is the senior responsible officer within Defra. Bill Duncan was employed by the RPA.

Q8 Lynne Jones: So as far as you are concerned, the senior staff in both the RPA and Defra thought that this dynamic hybrid was a nightmare?

Mr Dunn: What I would say is that what Bill Duncan said at that stakeholder meeting was, “If we choose anything other than simple history or simple regional average payment, we will have a nightmare on our hands.” That was said in the presence of stakeholders and in the presence of senior Defra officials. Whether or not Defra officials shared that view, I cannot say.

Q9 Lynne Jones: Even if they had gone down the dynamic hybrid route, they could have deferred going to that new model for 12 months, is that correct?

Mr Dunn: I think we were already on a rollercoaster that was taking us into the implementation of SPS quickly.

Q10 Lynne Jones: It was possible to have kept to the historic model for another year whilst you worked out how you could implement this more complex model?

Mr Haworth: With respect, that is not possible, because the regulation says you have to choose a model and then implement it. You cannot choose one and then move to another.

Mr Dunn: We could have delayed the whole thing.

Mr Haworth: We could have delayed the whole process. That was possible.

Q11 David Taylor: It is the same thing.

Mr Haworth: It is not the same thing, no, with respect. We could have delayed the whole implementation of the CAP reform for a year and continued with coupled payments for another year, something which we would not have been in favour of, and then moved to the dynamic hybrid. With hindsight, frankly, we would have no more confidence that an extra year would have enabled them to deal with the problems which have been posed by that system. So that was a possibility. What we could not have done is start off with a historic model and then moved to a regional model, because the regulation does not allow it. By the way, that highlights one of the underlying problems here, that ministers seemed to have changed their mind in the middle of the process. They negotiated the CAP reform imagining they were going to introduce a historic model and then introduced a dynamic hybrid, they did not take the steps they should have done to introduce into the regulation various measures which would have made it easier to implement a dynamic hybrid model. They failed to do that.

Q12 Chairman: You have used the collective word “they”. Is that UK ministers or all the Council of Ministers?

Mr Haworth: What I am saying is that the English ministers in this respect had in our view entered the CAP reform negotiations imagining they were going to introduce a historic model. They then subsequently changed their mind. All the regulations which were effectively completed in the autumn of 2003 were basically about implementing a historic model. Had they realised at the time they were going to implement a different kind of model, I am sure ministers and civil servants would have sought to introduce extra flexibility into the regulation which would have made it easier to implement a dynamic hybrid.

Q13 Chairman: Can I press you on that point. The regulation is the creature of the Council of Ministers?

Mr Haworth: Yes.

Q14 Chairman: Are you effectively saying that when this was being negotiated English ministers did not press the case for an inclusion in that regulation-devising process of the elements that would have made a dynamic hybrid model work better?

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Mr Haworth: Precisely.

Q15 Chairman: George, you are disagreeing?

Mr Dunn: No, I shook my head in agreement.

Q16 Chairman: Your head normally goes up and down when you agree!

Mr Dunn: I apologise!

Mr Macdonald: I think, Chairman, that goes back to my original point, and that is in June 2003 when this was being negotiated, all the assumptions and discussions were that in England as well as in the rest of the UK we would be implementing a historic model, and that was the assumption behind all the discussions. I do not think there was a Secretary of State speech saying, "We are going for a historic model", but I do not think any of us had really seriously thought there was any alternative.

Q17 Chairman: Just to conclude this line of inquiry, once it became apparent that English ministers had changed their minds, did they then have to go back to either the Commission or the Council and ask for something that was not there when everybody else had agreed the policy?

Mr Haworth: No, because the opportunity had gone because the regulation was complete. Everyone had agreed that it had been so difficult to get the regulation agreed that it was impossible to unpick it, but the opportunity had been missed by then.

Q18 Lynne Jones: What sorts of changes could they have made, had they been aware that this was an option?

Mr Haworth: There were many different opportunities they would have had to make it more manageable, but I will pick out one single one. One of the consequences of having a regional model, as we know now, was that 40,000 extra claimants came forward because these were people who were not farmers but who now met the new definition of "farmer" and were able to claim the payment. It would have been possible for Defra to argue that there should have been a minimum land area which would make you eligible, that you needed, in order to make a claim. In the Council regulation, that is 0.3 of a hectare. Had they known they were going to do this, I am sure they would have wanted to get that possibility increased to, let us say, five hectares.

Q19 Mr Williams: It seems to me that Defra was instrumental really in going for a radical reform of the Common Agricultural Policy and, as a result, could see the real benefits of decoupling coming from an area system rather than a historic system. Therefore, they were committed to an area system of payment. Presumably, with your organisations making the representations for a historic system, do you see, then, the dynamic hybrid as one of achieving what they wanted in principle and mitigating the redistribution of support that your members were very concerned about?

Mr Dunn: I do not think, Mr Williams, that you can put those thoughts into the heads of ministers at the time that the agreement was put together. The big

prize that we trumpeted in the TFA, which the NFU and the CLA trumpeted, was decoupling. We had got an agreement within Brussels which decoupled the payment. That was the big win, that was the thing that everybody was really excited about, that we had decoupled. From that point on, until the summer of 2003, everybody associated with the implementation was saying, "This is about a historic system". It was not in ministers' minds then to go down a regional route, as you suggested. It was not until the autumn when we were told that ministers had "their own mind" on these matters and wanted to test the waters considerably. I do not think that we can say that ministers had in their heads when they were negotiating the June package that they wanted to go down an area route.

Mr Haworth: Perhaps there is a more fundamental answer to Lynne Jones' previous question here. Had they known they wanted to go eventually to a regional payment system, then the sensible thing to do would have been to go on a historic model until, let us say, 2010 and then introduce a regional model, but by the time it was agreed the regulation did not allow them to do that.

Mr Macdonald: I am absolutely certain that in the summer of 2003 the only aim was decoupling. I was in many of those meetings and discussions around the Council meetings in Luxembourg and so on. Whether that was put in their minds by other people, the CLA and environmental bodies, whether it was a political, philosophical point about redistribution or about the ideology of purity coupling, I am not sure I know that or anybody knows that.

Q20 Mr Williams: The Secretary of State said in Defra Questions last Thursday she believed that her policy of area regional payments is the proper way to establish decoupling. Given those cases, where do you think the idea of the dynamic hybrid came from? What is the source of it?

Mr Dunn: It came from this list.

Q21 Mr Williams: How did it get on the list?

Mr Dunn: It was one of the options that was available within the Council of Ministers' regulation which was pushed and pulled at its last moments to create various options for various Member States to be able to cope with what they wanted to do. I do not think from my perspective—I do not know what the NFU's perspective was—there was any serious consideration given to anything other than straight regional average payments or straight history until we had seen that list produced by Defra in October which said that there were a number of hybrid options that could be used as well. I say again that there was great mirth when we had the meeting on that paper when we looked at the dynamic hybrid options. It was said by officials, "If you really want to get things messy, let us look at these options at the bottom of the paper".

Mr Haworth: If you look at the ideological case for a regional payment, it is clearly a more pure form of decoupling, and you cannot deny that. Defra were certainly at all levels aware that going to a straight average system would cause a great redistribution of

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the current pattern of payments. They had told us that all during the negotiations, so when there came an option which enabled them to combine those two concerns, that is to say to move gradually to a regional payment, I think they latched on to that because it did enable them to square that particular circle or tension between redistribution and ideology, but they did that at the expense of introducing a huge degree of complexity into the system.

Q22 Mr Drew: Are you happy to make available to us the correspondence, lobby materials and notes on meetings relating to this key point of how we go from, obviously, a preference for the historic system to the dynamic hybrid? Because I am completely confused, and I think this is the crux, without going into detail, which is the point I made in a previous briefing in advance of this meeting. I want to be assured who came up with this idea and who did the strategic thinking. There must have been some mechanism whereby somebody took ownership of this and was able, therefore, to propagate it as an answer. It may not have been the best answer; it was a fudge, but it was a fudge that somebody had to have done some work on. Obviously we are asking Defra and the RPA to do likewise, but somebody somewhere has got to be able to track this audit trail to where this idea comes from and how somebody had to then take ownership of it.

Mr Dunn: As you can imagine, David, our files are quite thick on this whole area, but I am sure that we would be perfectly happy to lay them open to you to look at, so you can see from our perspective at least what went on from the TFA.

Mr Haydon: We would appear to have correspondence starting roughly around 19 September 2003 when we wrote to Lord Whitty expressing our concern and there will be subsequent letters which will follow on.

Q23 Lynne Jones: Have you got a copy of the options paper?

Mr Dunn: We can let you have a copy of the options paper.

Q24 Chairman: Your correspondence files are the key ingredients, because clearly for us reading through, not having been party to the meetings that subsequently happened, it would be difficult to pick out the key ingredients. In trying to understand the process, who said what to whom and what decisions were subsequently reached, it would be extremely helpful to have that information in the form of some supplementary evidence to the Committee.

Mr Macdonald: Can I say, Chairman, that of course we are very happy to do that and you can sift through them, but I still think you may find when you see all of that, it will be difficult to nail the precise moment and answer the question as to who did what in terms of analysis because, from our perspective, we were sitting outside that process and we were clearly asking many questions—George and

I, or between us, can go through the chronology of events—as to precisely who did what. This was very ministerially-driven in the end.

Chairman: If I may say, as you rightly said, this is a very public process and, as Defra always sends somebody to observe what happens on these occasions, I am sure they will make a very careful note that this will be an area to which the Committee will wish to return to find out the answers to precisely the questions that you have put forward.

Q25 Daniel Kawczynski: I think all four of you are being extremely professional, polite and diplomatic, but that is not what we are here for. I think Mr Haydon came the closest out of the four of you to expressing a little bit of the frustration and passion that this total failure has caused to farmers and yet the rest of you are seen to be almost apologists for Defra. Personally, I feel very angry, as do my farmers in Shrewsbury, about the way they have been treated and I would like to ask Mr Haydon, what was your reaction when you received the telephone call from Margaret Beckett? Did you feel that Mrs Beckett was on top of her brief and doing her job correctly?

Mr Haydon: I think at the time we still clung to the hope that we were going to go down the historic route but obviously, as the other speakers have said, they were perhaps more involved in the meetings than I was, a lot of it was going on behind closed doors and certainly the farming public were way out of it. I have a feeling that decisions were taken which certainly were wrong for the industry. It is very easy to say that in hindsight because people make mistakes every day, but, unfortunately, what happens in agriculture—and I have seen it many times before having been here a long time—ministers make decisions and then ministers move on, they retire or they go to another job and somebody else comes along has to pick up the mess. I have got some sympathy for the present minister who, let us face it, was not even in office when all of this was decided. Lord Bach had nothing to do with this and he is carrying a bit of flak now that maybe should not be really intended towards him. There are individuals in the past and you can pick them out, if you like. Lord Whitty was a big player in this, so was the Secretary of State, Mrs Beckett, and various leaders in Defra who have been named by my colleagues here. Yes, it has turned out to be a total disaster. Where I feel strongly about it is—I am in a slightly unique position having farms in two countries and therefore combined the system—and you would not believe—I think Mr Williams is from Wales and will know the same as I do—the whole historic system which applies in Wales and Scotland is so simple, it is unbelievable. It is a question of a few maps, which were very quickly sorted out, tick boxes and the whole thing went through on the nod. They said they would pay at certain times; they were absolutely on the nail, they made no mistakes, even at the end of it, the Welsh equivalent of the ELS scheme is terribly simple and much easier to get into than the present one. That has shown itself in England—and this is a little off the subject—where

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only 22% of the ELS scheme applications have been taken up so far. What we have got here is two different systems: one horrendously complicated which has caused us enormous problems, ministers to make promises they cannot keep and a lot of stress in the RPA; there are many people there, and I have some sympathy for them and the people who are in charge, trying to do a job which was not very easy for them to do, but of course it has caused enormous problems in the industry. As George Dunn will tell you, in our case we were receiving up to last week up to 70 or 80 calls a day from farmers who are in great distress, in financial problems and so forth. It is very much akin to what it was in the foot and mouth situation.

Chairman: We will come back to that in due course.

Q26 David Taylor: I will put to Mr Haydon, Chairman, that simplicity has its obvious attractions in terms of cost, certainty and so on, but sophisticated, political and environmental objectives do not necessarily lend themselves to simple systems, do they?

Mr Haydon: No, but what I could say is, why did the devolved administrations in Scotland and Wales take it up? They obviously thought that it was going to be better for their topography. Those two countries are, shall we say, more on a livestock side; there is not a tremendous amount of arable in Wales, there is in Scotland, but they went down that route and it certainly proved the right one for them. There were some costs which George Dunn referred to. One of the Defra people said that the additional cost of running this scheme could be anything between £37 and £63 million over the four years, and after that, when it was taken up, you would still be looking at a possible cost of £1.8 to £8.7 million. These are not my figures, these are figures one of the Defra officials submitted.

Q27 David Taylor: I understand that and your colleague, George Dunn, painted a very vivid word picture of when you thought there were two options on the table, the historic and the regional average model, and then hybrids were suggested by the civil servants who then laughed like the robot in a Smash advert saying that no one would surely want to follow that route. That is what you were saying, is it not, Mr Dunn?

Mr Dunn: There was certainly great mirth at the idea we would go down any of the dynamic hybrid options. But let us be clear, in July, right after the 26 June decision by the Council of Ministers, in response to a question raised by my colleagues in the NFU, Lord Whitty said to us in terms of implementation that simplification was the key; that it had to be simple to implement this. I would ask, what have we gained from the environmental, from the rural economic, from the social aspects, of this system? I think we have lost considerably. I do not recognise the comment that we are apologists for Defra, for the RPA. If you want us to be passionate, we can be passionate about the calls we are taking from our members, about the tears people are crying, about the suicides we have had. I thought this

was a forensic investigation and we are trying to provide the Committee with a blow-by-blow account of where exactly we think issues happened and where they occurred. If you want passion, we can give you that.

Chairman: Your interpretation of what we are after is entirely correct.

Q28 David Taylor: Could Mr Dunn confirm or otherwise that one of the hybrid options would have been to have a dynamic hybrid but in year one to have 0% regional average content to it?

Mr Macdonald: No.

Q29 David Taylor: Was that absolutely *verboten*?

Mr Macdonald: The point that Martin Haworth raises is, once you go into a dynamic hybrid, it has to be dynamic.

Q30 David Taylor: It would still roll out 100% over a six year period, say.

Mr Haworth: You have to make the step in year one.

Q31 David Taylor: You have to make a step.

Mr Macdonald: We could have delayed, as Lynne Jones said.

Q32 David Taylor: It has the same effect surely?

Mr Haworth: No.

Q33 David Taylor: Does it not?

Mr Haworth: No.

Q34 David Taylor: Why?

Mr Haworth: Because you are still coupled.

Mr Macdonald: You would have paid the old coupled payment.

Mr Dunn: You would still have the Beef Special Premium Schemes—the Suckler Cow Premium Scheme, and the Sheep Annual Premium Scheme—all those schemes would have still operated, and then we would have made the choice.

Mr Macdonald: There are some downsides and there were some downsides to that, and we did have a separate discussion, “Should we seek to have this delayed until 2006”. There were a number of difficulties in that. Everybody knew what the decoupled system was, and we would have had land stagnation, we would have had an inability for transactions, we would have had a system which was agreed in 2003 but not implemented for three years. If I can go back to an earlier point, we feel hellish passionate and frustrated about this by every phone call we get. The forensic point on this, and I think we are just trying to answer your questions factually, is that we did make very clear in the autumn of 2003 and the beginning of 2004 that we thought it was wrong to go to a dynamic hybrid. We thought it was right to stick to a historic model for a variety of reasons and we did point out this would be hugely complex. But, and this is a constant which runs throughout this, we were constantly being reassured that the analysis had taken place and that it would work.

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Q35 Chairman: You said you made representations, to whom did you make them and what kind of reply did you receive?

Mr Macdonald: To the Secretary of State, to Lord Whitty.

Q36 Chairman: Was that by means of correspondence or meetings?

Mr Macdonald: I am trying to think. If there is correspondence, you can see it all, but certainly in meetings.

Mr Haworth: And in our formal submission to the Defra consultation.

Mr Dunn: From our perspective, we spoke to Uncle Tom Cobbley and all. Whoever we felt had an influence on this issue, we spoke to, we wrote to, and we dealt with it in meetings and in correspondence.

Q37 Chairman: Can I clear up one point? The National Farmers' Union was not an entirely united house when it came to deciding the type of system of payments. Were you in fact authors partly of your own downfall in that your Horticultural Committee, under the leadership of Mr Graham Ward, ran a passionate campaign to seek payment for land which hitherto under the historic payment scheme, if I have understood it correctly, would not have benefited, but under other schemes was brought into payment? Clearly within the realms of the NFU, you were unable to resolve a policy difference between two parts of your organisation. Did that inhibit your ability to try and achieve what you thought was the simplest system or did you in fact introduce complexity by virtue of default?

Mr Macdonald: I think in part, Chairman, you have answered the question yourself. Clearly that passionate campaign, as you have put it, did occur. The NFU had a very thorough debate about this, looking at all the ins and outs of it. At the end of that, we had a council meeting, the council were asked to determine which way it wanted to go and we clearly and very unequivocally stated we wanted to go for historic payment. As Martin Haworth says, that was our submission. Ben Gill, who was president at the time, made that point to the Secretary of State and, as George says, we repeatedly made that to Uncle Tom Cobbley and all.

Q38 Chairman: Just to be entirely clear, the NFU's official policy position did not agree with the group led by Mr Ward? Your official position was of one of straightforward simplicity, historic model, full stop?

Mr Macdonald: As you know, Chairman, there are many different interests in the NFU so often there are debates in the NFU, but the ultimate position taken after that debate was the single position that we should go for historic payments.

Q39 Chairman: So we have the horticulture group and the CLA, who in your judgment, if I have understood it correctly from your earlier evidence, were campaigning for an alternative model, and unanimity amongst the TFA and the NFU about the historic payments scheme?

Mr Macdonald: And the environmental groups.

Q40 Mr Drew: Perhaps we can move on to the issue of the dramatic increase in numbers of potential claimants. I have been very interested in this because nobody has yet been able to tell me, apart from those people who kept horses, who this now increased group by 50% of the total are. Can you tell me?

Mr Dunn: From our perspective, there were two principal groups. Certainly those individuals with horse grazing, pony paddocks, were by far the bulk of that group of 40,000, but also, as I alluded to before, there was a new group of claimants—people who would have previously let land for grazing purposes to a tenant to graze sheep maybe on a grazing licence, or what is called a profit of pasturage basis, or on an informal basis where you are allowed to keep sheep there on some form of oral agreement—and all of a sudden this new system opened up the opportunity for the owner of that ground to be the claimant for the Single Farm Payment, and the user of that ground, ie the grazier or the person with the crop on the ground, not to be the claimant. So in previous years for the sheep annual premium and the beef special premium and the arable area payments it was the person who was actually doing the arable, the sheep, the beef who was the claimant, now it was a new category of claimant created by people who owned the land, did not necessarily farm it themselves but had some responsibility for the cross-compliance of that ground. So they were new applicants as were the horse owners, and that is where the bulk of the 40,000 came from.

Mr Haworth: There were some other categories, and they would be fruit and vegetable producers who also were not making historic claims. So people who grew just fruit and vegetables who did not have cereals. People with outdoor pigs would be another one. By the way, we talk about pony paddocks, there are some pretty big pony paddocks; we are talking about the Newmarket Stud with 2,000 acres which is now claiming.

Q41 Mr Drew: At what stage did you become aware that we were not just talking about 80,000, but potentially talking about 120,000 claimants? Given, of course, the system is that you have to get the wedding cake to divide it up, at what stage did you become aware that not only were we dealing with a complex system but dealing with a system which would involve many more people than presumably originally anticipated?

Mr Dunn: As soon as the Secretary of State had made a decision to go for a dynamic hybrid, which would end up as a regional average payment, we knew that everybody who had any land at all would be trying to get into the system in order to get on to the treadmill to get up to that 100% regional payment.

Q42 David Taylor: You knew it and you stated it publicly?

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Mr Dunn: We did. It was confirmed on 2 November 2004 when Alun Michael announced that horse graziers could enter freely.

Mr Haworth: We could not work out how many there would be, we did not know there were 120,000, but what we did know was the potential land area which could be claiming it. I have to say that probably 120,000 would have been beyond our expectation but we did know that about 9% of extra land would be claiming and so it has proved. This was stated repeatedly in the stakeholder meetings, in particular by the agricultural valuers who are not here today who said time and again, "If you operate a system based on land, then you will get more land coming into the system."

Q43 Mr Drew: Did Defra realise that this was a sequitur of their original decision, or did they then go back? There is something about going to the Agricultural Council to get clarification on what we meant by a land holding. Also, did they ever talk to you about a *de minimis* level, because some of these payments are going to be, let us be honest, very small and are going to completely grind the process down even though, without being pejorative, most of the people do not need the money, do not necessarily want the money other than they are now being told to claim? Where are we in the dynamics of the dynamic hybrid?

Mr Haworth: I did make the point earlier that the regulation says you cannot deny anybody who has 0.3 hectares from claiming. Our point is, had they known they were going to introduce such a system in England, they could have argued within the Council for getting that *de minimis* up to five hectares, let us say, and that would have significantly reduced the burden they are faced with.

Q44 Chairman: Can I, for the record, make certain that the "they" you are talking about is Defra ministers?

Mr Haworth: This is probably not something which would have been dealt with by Defra Ministers, this is a technical issue which would have been dealt with in the special committee on agriculture or the other special committees which were set up to talk about the technicalities of the CAP reforms.

Q45 Chairman: Can I pin you down further? Would it not be reasonable to have expected that when ministers decided on the dynamic hybrid model that the people to whom you have just adverted, namely on the technical committee, would have or would have been in a position to have advised ministers of the implications of the decision that they were taking?

Mr Haworth: That must be the case, yes, although obviously we do not know that.

Mr Dunn: Chairman, there was quite a discussion through the stakeholder groups following the announcement of the hybrid system about the sorts of land uses which would be permitted on land within the scheme. I remember there was a long list of land uses which the CLA put together—would clay pigeon shooting be included, would off-road

cars be included, would grazed orchards, would horses be in. So there was a need to clarify with the Commission what was meant by "a farmer" under the terms of the regulation, and a farmer was somebody who was keeping land in good agricultural and environmental condition, and some of those uses were therefore ruled out but some were ruled in. So grazed orchards came in, horses came in, but some of the other non-agricultural uses were clearly out.

Mr Haydon: One of the things Defra forgot was that in the horse sector, which is a very large sector of the industry and it is a growing diversification within agriculture and people are encouraged by Defra to do this, there are very professional bodies who run this. I can name one or two—the Thoroughbred Breeders' Association, the British Horse Society—and they very quickly got in on this act. I have a wife who is interested in that sector and she was deluged from all sorts of organisations saying, "You can join. Now is your chance to get on the bandwagon." These leaflets were pouring through my door and I was trying desperately to keep the wife out of it!

Chairman: Very wise!

Daniel Kawczynski: This is a very personal question for me.

Chairman: It is not about your wife, is it?

Q46 Daniel Kawczynski: It is actually! Until we moved to Shrewsbury last week, my wife was the owner of an equestrian centre and she was in a very similar position to Mr Haydon's wife in the fact that she was deluged with information saying, "You are now entitled to these payments". She had a 42-acre equestrian centre and it takes a lot of time in running that. Certain Labour councillors in my constituency have criticised her very publicly and said that, by claiming this, she is preventing poor farmers from getting their payments. Can I ask you, is that the case? I am prepared to put my wife and my reputation on the block here. Is it true that the people who have claimed, therefore, for their equestrian centres, have stopped poor farmers getting their payments?

Mr Dunn: I do not think you can blame individuals for getting onto a system that was made available to them to use. You cannot have half as many claimants again in a complicated scheme that has never been run before with a computer system that has never been tested before, with some of those 40,000 being very small indeed, much below the 42 acres we are talking about in your case, without having a major impact on the way in which that scheme is delivered. The mapping, the registration of those people as new customers, the digitisation of all the parcels on those holdings, the sending in of those application forms, the validation of those claims, all of that, if you take half the number again, must have had a huge impact on the ability of the RPA to cope. I would be interested to know where the break-even point was in terms of the money that they were paying out to those individuals compared with the cost of processing those applications, and I imagine it would be somewhere nearer to the top of the 40,000 smallest claimants.

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Mr Haydon: What they could have done was kept those people separate, because when we got into desperate trouble over these payments, in the meetings that the three organisations have had with the minister it very quickly became apparent that one of the easiest ways of freeing up the system was to take the horse people or the pony paddocks out of it. That is basically what has been done. A lot of them were paid early in the system, only because it was convenient to do; they were small claimants, they were easy, there were no great problems. If you have 42 or 50 acres or less, it is fairly easy to check that compared with a farm of, shall we say, 350 with all sorts of other problems. They got paid quite quickly, or some of them did, but they created a log jam. When we got deep in with the minister and said, "Look, something has got to be done or nobody is going to get paid until October", Mark Addison, who is the new person in charge who seems quite competent, said, "We will put these on one side", and that is what they have done.

Q47 Mr Williams: Just to check if my understanding is correct, new applicants could also be specialist sheep farmers who could have claimed the sheep annual premium without filling an IACS form in and specialist dairy farmers who could have operated and perhaps just used the slaughter premium without an IACS? How many specialist sheep and dairy farmers would be amongst the 40,000?

Mr Macdonald: The vast bulk of these people are very small holders.

Q48 Mr Williams: How many of the 40,000 are specialists in dairy and sheep?

Mr Dunn: It would not be that many. I have not got the figures, but it would not be that many. It is not just the specialist boys, it is the specialist ones who did not fill an IACS form. Of course, the specialist dairy boys would have filled an IACS form out in 2004 to get the dairy premium in the first year, so you are talking about vanishing small numbers in comparison to the total that came in with pony paddocks and other land.

Q49 Chairman: I want to move on in a second to your observations about the IT system, but to conclude on this, Mrs Beckett said at Defra Questions last week effectively that Defra could not have predicted the volume of additional claimants; is that a fair claim?

Mr Dunn: I do not think she could have predicted the 40,000 new applicants that turned up on her doorstep but, as Martin said, the CAAV, us and the NFU were predicting from the word go that any system, which includes a regional basis to it, will mean everybody with a bit of land will be wanting to get in on the game. There was at least at that stage an understanding that there would be a lot more people banging on the door than there were originally.

Q50 Chairman: Did anybody make a cockshy as to what the extra number of claims might be over and above the number of claimants, for example who had been paid under the old IACS system?

Mr Haydon: I do not think so. I think they got the shock of their lives when it turned out to be 120,000, that is what I think.

Mr Dunn: They were certainly pretty shocked.

Mr Haworth: We knew the land area.

Mr Macdonald: We knew it was 9% and certainly we were saying, "This is not going to be a four-figure number of people, it will be five figures".

Q51 David Taylor: While we are in the area of IT, obviously volume does have a significant impact on the capacity to deliver new information systems, would it have been possible—do you agree with me perhaps, Mr Macdonald—for Defra to have taken one or two small sample areas in the country, to survey them in some detail to find out numbers that would result from those typical areas and then aggregate them to something which would approach the sort of scale which landed on her doorstep, to use your phrase? Would that have been possible in theory?

Mr Macdonald: Yes, it would have been possible. We had to make a number of assumptions as to the test that Defra had applied in order to assure itself that it could go down this route. I think you need to view us in the position of people who are outside the system but making forewarnings about what could and could not happen, asking questions and giving reassurances. A constant reassurance that we were given throughout all of that period was yes, it was being taken seriously, yes, there were concerns, yes, they understood the complexity, but it would work. You have seen those same reassurances yourself.

Q52 David Taylor: I forget which one it was, Chairman, but one of our witnesses said earlier on or suggested that the 0.3 hectare *de minimis* could have been lifted to five hectares. Was there any estimate made of what that might have done to the volume of claimants, had there been that *de minimis*, approximately?

Mr Macdonald: No, to my knowledge, I do not think so.

Q53 David Taylor: If there is such information, it would be useful to receive it in writing at a later time⁸. You said—and this was you, Mr Macdonald—earlier on and you just referred to it almost in the same words a moment or two ago, that you were assured that in relation to the complexity that there would be a high level of intervention by Accenture and everything would be okay. I am paraphrasing you accurately, am I?

Mr Macdonald: Yes.

Q54 David Taylor: Who is the "they" who gave you those reassurances?

Mr Macdonald: I would have regular meetings with Brian Bender, the Permanent Secretary, at those meetings and indeed I would imagine at every NFU meeting at every level we would have asked the

⁸ The National Farmers' Union has indicated that while this information is not currently available, once all the 2005 claims have been validated the RPA will be able to determine this information.

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question about the ability of the IT system to deliver. You will remember, Chairman, you alluded to us being through and scarred by the cattle database and various other exercises, so we were concerned about the ability of this to deliver. The meetings that they were having in Accenture I know were at the very highest level—no doubt they will say this when they come to give evidence to you—and I seem to recall that the vice-president of Europe, or whatever his title at Accenture was, was being flown in on a fairly regular basis to give reassurances. It was not just being dealt with at a local UK level, to my knowledge. When you are given assurance after assurance, at some stage you either have to believe it, find another tack or give up.

Q55 David Taylor: I am not suggesting for a moment you do that. I am just trying to find out who gave you the assurance. You are suggesting Brian Bender or the senior officials?

Mr Macdonald: Brian Bender, of course, was Chairman of the Management Board of the RPA.

Q56 David Taylor: In October 2004 there were details of the CAP implementation regulations published, and the RPA have said to us because of that publication they had to make 60 different changes to its IT systems. I am not asking you to confirm that, they will when they appear in front of us, but that is highly likely to result in a very substantial amount of effort in terms of tailoring a large-scale IT system but, if you could form an opinion re the RPA, did you feel they had got the necessary in-house resources to accommodate that scale of change that was happening at CAP level?

Mr Macdonald: I think one needs to distinguish, when you talk about resources, between volume and skill, and the assurance that we were given both by the then Permanent Secretary and by RPA was that they had the people to deliver this.

Q57 David Taylor: Or Accenture had the people?

Mr Macdonald: Between them, collectively. I am afraid I cannot tell you exactly who did which bit of which process but that was there. You would imagine at the time because of our very deep concerns about this—to come back to your point of passion, there is a huge amount at stake on this and we are very deeply concerned about it—that we asked that question repeatedly. I think in hindsight what we can say is that there may well have been the resources in terms of the number of people but it is questionable as to whether there was the skill there to do it.

Q58 David Taylor: Those reassurances would have appeared in writing as well as in conversations of the kind you are describing?

Mr Macdonald: We can let you have that. There would have been more in meetings. I think I have said this to you before, Chairman, that I have regular meetings with the Permanent Secretary; they are not always recorded. I keep notes of those meetings but they are not verbatim, I am on my own on this.

Q59 David Taylor: Are they deliberately not recorded?

Mr Macdonald: No, I do not have the ability to write and talk at the same time.

Q60 Chairman: Did you, as a unit, seek any internal or external expert advice to review what you were being told about the IT capability of the RPA?

Mr Macdonald: From an external IT or other consultant, no.

Q61 David Taylor: Can I conclude my line of questioning, Chairman. A sister organisation to whom you have already referred, the CAAV, has noted that, although the detailed shape of the mid-term review could not be forecast when the computer contract was let in 2002, the ambitions were already clear in autumn 2002; you would agree with that observation, I am sure. They go on to express surprise really, that is my word not theirs, that the system seems designed in a way that does not readily accommodate the inevitable changes and subtleties of policy. Is that a fair assessment?

Mr Dunn: It is interesting you should raise that question because I am a member of the RPA's Industry Forum, which is a sexy term for a stakeholder group. I recall, prior to the implementation of the CAP reform that was agreed in June 2003, raising at those Industry Forum meetings that, of course, you need to be aware of the changes that are coming with CAP reform, that they will have a different mechanism of paying the money out and that you need to be closer to Defra on those aspects. We were given assurances at that time that RPA and Defra were talking to one another and that the computer systems would be made so that they could cope with that sort of change, but essentially they were first brought in to deal with the legacy systems that the RPA had from the Change Programme announced in 2001.

Q62 David Taylor: On 21 January 2003 the draft legislative proposals for the 2003 CAP reform were published; 10 days later, Accenture was formally appointed. This is three years or more ago. Do you find it surprising, and the CAAV certainly do, that the RPA pressed ahead with an IT contract with Accenture based on a policy environment which was already destined for the dustbin of history? Are you surprised by that, as they are?

Mr Dunn: The RPA, let us be clear, were being driven by a Defra-inspired Change Programme to implement new systems, implement new ways of working to close offices, to move away from 'customer to official' contact. They had to have new systems anyway if that is the way they were being driven by the Office of Government Commerce and Defra to upgrade the way in which their systems were operating. You had your own inquiry into that at the time. We said we were going too fast too soon.

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Q63 David Taylor: The normal impact of an internal review: the legislative proposals were there, they were published, they had been on the table previously and here we are contracting on the basis that is historic in every sense.

Mr Dunn: Whether that is the fault of the RPA or Defra, I cannot tell you.

Q64 David Taylor: I am putting the criticism to you to see if you agree with it.

Mr Dunn: It would appear strange that a system was put in place that could not cope with a major reform to the CAP which was imminently to occur.

Mr Macdonald: Perhaps it is worth making one small point, I think that to go back to the dates you mentioned, Mr Taylor, in mid-2002 we were talking about a mid-term review then, so I think the scale of the change that was coming about did not become apparent for some months after that.

Q65 David Taylor: We are now in late January 2003.

Mr Macdonald: By then it was certainly clear that things were going to get fairly serious.

Mr Haworth: To repeat our earlier point, the Commission's initial idea of this reform was it was entirely historic and the regional basis was very much an after-thought put in at the request of the German Government at the time. The idea that we would get anything as complicated as a dynamic hybrid at that time would have been purely fanciful.

Q66 Mr Williams: Of course it was not just the Single Farm Payment which was being introduced then as the responsibility of the Rural Payments Agency, it was also the new Environmental Stewardship Scheme with the requirement to map field features such as hedges and ditches but also the whole farm appraisal as well. Was that too much—it appears to be too much—for the Rural Payments Agency?

Mr Macdonald: I think in hindsight, Mr Williams, quite clearly so. I think with hindsight, if we were asked the question now, "Would you have wanted these to happen?" the answer would be "No." Two points to make. Clearly the Entry Level Scheme has a number of potential benefits to it, it brings money to farmers, it enables us to deal with some of the environmental regulatory issues like the Framework Directive and to bring about some changes, so there are numbers of big pluses in it. At the time we sought the assurance, "Is this deliverable?" I am sorry this is a repeated theme but, believe me, it was a repeated theme from us time and time again in terms of this, and the assurance we were given at the beginning was that this was deliverable. In hindsight, as you say, if I knew what I know now, I would have done something different.

Mr Dunn: I would concur with that. We had the introduction of the new Environmental Stewardship Schemes, we had the major Change Programme going on in the RPA already, we had a complex system of implementing what should have been a very simple CAP reform. We added to that the 40,000 new customers who came along by opening up a system to a bunch of new people. That was bound to create problems. When we were consulted

on when should the CAP reform be implemented, we said, "As soon as possible, so long as you go for the historic system." If they had suggested to us at the time they were going for something more complex, we would have asked them to put it off.

Chairman: I want to move on to a line of questioning about mapping and the Rural Land Register.

Q67 Mr Drew: This seems to be the crux of where the logistical problems have come. At what stage did you, given you were not in favour of this system anyway, become aware there was going to be a significant problem over who would map, how it would be mapped and that there would be a lot of argument over the accuracy of this mapping?

Mr Dunn: I would go back to the answer I gave earlier, as soon as the Government announced it was going for a regional average system ultimately, following a period of a dynamic hybrid, we knew then the mapping issues were going to be huge, that people were going to have to register new parcels of land, people who had not been used to schemes of assistance before and may not be able to provide the RPA with the sort of information which the 80,000 returning customers could have provided. It became clear as the 2005 claim forms were being completed that the system the RPA had chosen to use was causing some major problems—fields were apparently disappearing when they were there before and areas were changing—and people with well-planned out systems were being thrown out by the digitisation process. So our fears about the system became reality when farmers were talking to the RPA Helpline following the issuing of the 2005 claims forms.

Mr Haworth: I think there are two problems. One is the one George has referred to, which is the additional volume because of course all these new people who registered had never been mapped before and this added to the complexity. Secondly, the Entry Level Scheme required a whole set of new parcels of land to be digitally mapped, and things like woodlands to be mapped which had never been mapped before. So that was one element of the problem. The other element of the problem is that the digital mapping system, for whatever reason, never seemed to cope very successfully with new entrants on to the system. It seems to have been too sensitive in some respects. That caused what should have been a fairly simple process of digitally mapping an area of land, checking it and entering it on to the registry, to be enormously complicated because of what has been alluded to, that when changes were made they were not immediately apparent to the applicant or they altered other aspects of the same area. That caused what should have been a simple, one-step process to become three, four, five, or in many cases a process which is still not yet complete even now. We are still in this circle of people saying their corrections have not been effectively registered on the registry.

Mr Macdonald: We should be able to give you more details, but my notes tell me that we started noting this in early 2005. Although it has manifested itself in a huge way, and no doubt you have all heard of

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endless people whose mapping sagas have gone back and forwards, this has been going on for quite a long time now.

Mr Haydon: As far as I know there are very, very few farmers who have had a clean-cut application with no problems with the maps. We personally in our application had great problems. Somehow digitising the mapping process creates a problem whereby fields get lifted out into another parish, so you suddenly find you have four fields which do not belong to you, and after deep investigation you find they are about five miles away. This has been going on all time with people receiving extra land out of the county. That is why, as at last Wednesday, there were 62,000 applications which have not been validated. Unfortunately, when you get one of these it does not tell you the reason why you are invalidated, it gives about six options. So far we have not found out why we are not validated.

Q68 Chairman: Can I ask factually if either organisation was told the RPA had in some way trialled the digital mapping system?

Mr Dunn: We have not been told they trialled it, no.

Mr Macdonald: I do not think so.

Mr Dunn: The line the RPA had given us all along was that the Rural Land Register was working, that 98% of land parcels were on the system and correct, but the understanding from what we were hearing from our members, and I am sure the NFU and the CAAV were the same, was that that was far from the case on the ground. We were not aware it was ever trialled.

Q69 Mr Drew: Can I look at this issue to do with the Single Farm Payment and the Environmental Stewardship Scheme. Clearly, Defra—I presume it is Defra and not the RPA—changed the priority between the two late in the game. What was your view on how you could balance those two sets of mapping priority? Did you have any view on this or were you consulted on this? Were they separate initiatives and you saw them as a separate line of activity?

Mr Dunn: It was one of those situations which came long which you had to deal with at the time, and we were getting calls from members saying, “We cannot get our maps sorted out for ELS purposes, we need to get them sorted out.” People had been applying to the RPA for map changes on the old IACS 22 forms and of course the RPA was building up a healthy backlog of cases they had to deal with alongside all the issues they were dealing with on the Single Farm Payment. So from an operational perspective, whilst we were not necessarily happy with the decision they made, I can understand why they had to make the decision, “Anybody who has applied for mapping changes up to this point will be kept in a priority queue and we will sort them out for you. Anybody else who is making changes for ELS reasons only will have to wait until we sort out the SPS débâcle.” We were not exactly thrilled with that but I can understand why they had to make that decision.

Mr Haworth: I think this is another example of a much repeated story. We were assured in the first place that they could do both and they would do both and there would not be a problem. We carried on being assured of that after it must have been clear to them they could not. At that point we were faced with a really difficult choice, “What do you want to do?” I cannot remember if we were formally consulted but we certainly had to acquiesce in them putting the priority on to the Single Farm Payment, which we did. As George said, we did not do that with any great gladness, I really think we had no alternative. The underlying story here is of repeated assurances being given way beyond the time when, in our view, they should have been given.

Mr Haydon: I think the practical situation is that most farmers with the problems they have with the Single Farm Payment have been very reluctant to get into the ELS scheme until they saw the main thing, the money, sorted out. That is borne out by the take-up which at the moment is only 22% of people who have actually applied for the ELS.

Q70 James Duddridge: I would like to look at some of the lessons learned about the relationship between Defra and the agencies. How much of the problems over payment can be put down to poor information flow between RPA and ministers? Mr Haydon, you mentioned Lord Bach had been given something of a hospital pass in terms of the mistakes having been made, but would you agree with me, whilst I am sympathetic he was passed a difficult problem, he has not acted in a competent way demanding the right information and grasping this problem and dealing with it when he entered the Ministry?

Mr Haydon: It is very easy to criticise people when they have picked up something they did not exactly start off. The worst thing is the broken promises. One of the classics for us at the TFA is that we invited Johnston McNeill, who was the head of the RPA at the time, to come and speak at our AGM and he stood up then in front of the audience and assured everybody that everything in the garden was lovely, and that was on 21 February and he got the sack on 13 March, which was not too long afterwards. He was in charge, so was he telling us a pack of lies or did he not know the true situation? Since he has gone, there have been lots of management changes which Mark Addison has brought in and obviously there is close liaison between the RPA and the Minister now week by week. There was not much progress last week except for the good news about the implementation of the partial payments. Easter always affects things. There is a meeting tomorrow so we shall see how things have changed and whether there is an improvement. It has not been easy for the people in charge, I can appreciate that.

Q71 James Duddridge: Would it be fair to say Lord Whitty has created this mess, Lord Bach did not identify it and now Margaret Beckett is promising to sort it out and it is all happening too late?

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Mr Haydon: I think it would, yes. Maybe a combination of the Secretary of State and Lord Whitty have something to answer for.

Mr Dunn: I certainly had a very short but terse exchange of views with Lord Whitty after the end of the second anniversary of the Curry Report when he was speaking at that event. We had just had the call from him that morning that he had spoken to Reg and I said, "This is going to be a disaster" and that is why we had the meeting about eight days later with him. Lord Bach I think has had a difficult issue to face but, let us be clear, whilst the RPA appear to have had all the forms scanned on to the system, they have keyed all the data and they have got it all on to the computer system ready to push the button for validation, this was the first time this system was ever used in anger, and for the RPA then to press the button to start making definitive establishments of the type as of 14 February and then do the validation, no one knew if the system was going to work. I was clearly aware that senior figures in the RPA were saying, "We hope to do this, we want to do this, this is what we are aspiring to, but we cannot be sure because the system has never been run before." So in a sense there was a groping in the dark by ministers, a groping in the dark by RPA senior managers. This was the first time the system was operated in anger, "What is going to happen when we push the button? Oh no, it has gone pear-shaped. Now what do we do?" Whether or not you can say that was the fault of an individual or a group of people, I am not sure, but there was clearly a huge systems failure that was only apparent when they pushed the button to start validating claims.

Mr Macdonald: Let me try and answer the question in the forensic spirit of it. You have seen the public statement the NFU has made about ministers and, therefore, you can take it—I am conscious of your comment about lack of passion and being too polite—that there is certainly none of that. In terms of the RPA, I think you can say, there was a very poor information flow from RPA to Defra/ministers, that is clear. I find it pretty difficult to conceive that the RPA and senior managers at RPA did not know—or if they did one has to question their ability and competence—that there were very significant difficulties taking place. I have to say that we, NFU, TFA and others drew attention to the RPA and a whole host of difficulties that were taking place going back months. The repeated answer that we were given was it would happen; you have seen the delays that took place, the changes and the lack of contingency time that was available but (a) that it would happen, and (b) and I am repeating the point I made earlier that this was a task-based system, ultimately, there would be a great crescendo and hey, presto, it would all happen. We had, to put it mildly, very serious doubts as to whether that was going to take place. I am almost asking the questions that I guess, Chairman, you will have to ask in due course. The second question is, to what extent should Defra have known? I think it is fair to say we were drawing these issues to their attention. Secondly, if they did know, what more could they do than ask RPA repeatedly and get the same sort of

answers we did? I think there are question marks there. I think there is an issue that I alluded to right at the beginning which—forgive me, I am not here to pose your questions for you—is what is the structure of the interface between Defra and the RPA, because I think that you may find that the majority of the effort, for a lot of reasons, is based on trying to ensure their process and system is working as opposed to asking, "Are we achieving the policy goals that we set out?" Therefore, a significant number of the people in Defra who are involved in the interface with RPA are systems, process and management people as opposed to policy people and what we have here is a huge policy, a very complex policy issue that has to be implemented. If you are a manager or a systems person and not a policy person, you do not necessarily see the difficulties in the same way. Therefore, I think that there are, at the very least, some significant questions as to whether the structure of the interface had the right people. That is not a resource one, that is an issue of the right expertise constantly looking into this. I think if you were often to talk to Defra policy people, they would say this is a systems issue going back. Again, in hindsight I think that that is wrong and certainly an awful lot of the issues we have been raising questions on for the last six or seven months, whatever it is, more probably, are policy-based.

Mr Dunn: There was also another review which was carried out, which I have never seen the report on, which I think was the Office of the Government Gateway Review of the RPA's performance in its Change Programme and delivery of the SPS. I certainly gave some evidence to that on 8 February this year. I understand that a report was drawn up; I do not know where that report is, who has got it or what it says, but that was looking at some of the processes and some of the systems issues and IT concerns that you were talking about, so if it was possible to find out where that has got to, it might be useful for the Committee.

Q72 Chairman: Can I ask you, sometimes organisations like the TFA and the NFU form, on a person to person basis, some private relationships of a very proper nature, but nonetheless private relationships, that help to communicate what is going on under difficult circumstances, such as the ones we have been discussing for the last hour and a half. When you started to see the wheel falling off this process, did you, Richard, Martin, George or Reg, pick up the telephone to speak to anybody quietly and privately in the RPA and say candidly, "What the hell is going on? Is it going to work or is the wheel going to come off?" Did you have any insight like that?

Mr Haydon: We thought that if we asked the head of the RPA down to speak at our AGM, because things began to look not too good around February time, by having the person in charge he would be able to give us the truth and the up to date situation. He stood up and said, "Gentlemen, everything is fine. We are about to start tomorrow, the computers will roll, the button will be pressed and money will be

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coming out”, so we thought, “Hoorah, fantastic”; it all turned out to be an absolute load of nonsense. What more could you do?

Mr Dunn: It is true that private conversations took place with senior individuals in the RPA and, from my perspective, they never differed from what they were telling us publicly at stakeholder meetings and within the RPA Industry Forum. It was always couched in terms of we were aiming, ie the RPA was aiming, to get the payments out as soon as possible in the payments window which was opened on 1 December, as you know, but that was always couched in terms of “This is an untested policy. There are lots of changes yet to come from the Commission that we need to implement. We are not sure whether the technology is going to work for us”, et cetera, so they were always saying, “We hope to achieve this, but we do not think that we can say for absolute certainty that it will happen”. Even when we had the start date in February and the bulk by the end of March, senior figures in the RPA were saying to us in meetings and privately in conversations that we were having, “We cannot say for sure this will happen. This is what we are aspiring to, this is what we can see so far we are getting to, but there are some huge risks here that we may not get the system implemented in time”. When we had similar conversations with Defra, the line we got from Defra was, “The RPA are telling us they can do it”.

Mr Macdonald: The answer, Chairman, is yes, both publicly and, as you say, in less formal meetings and discussions. I can look back and know that we, in

terms of NFU people at various levels, and I have quite clearly fielded the difficulties but given a very similar line throughout. I think one of the issues is it does come to the point of process that you are looking at, which is, ultimately, which one person held the ring and pulled all these things together? Quite often, what one did is talk to somebody, who said, “I need to tell somebody else” or “I am assured by somebody else”. I suppose the charitable way of looking at it is this is a very process-driven system, you have a whole variety of different players on this and we are waiting for it to come together.

Q73 Chairman: Gentlemen, thank you very much indeed. You have marked our card, particularly in those closing words about where else we must seek the truth about what is happening. I suppose like the best of the soap operas we close with the words, “Well, why did Mr Johnston McNeill say it was going to be all right on the night, when in actual fact from within his organisation there was a trembling and a worry that it would not be?” No doubt in further episodes of this thrilling investigation, we will get to the bottom of that and perhaps our next set of witnesses will be able to assist us in that. Thank you very much indeed. There are a number of questions that we did not reach, which we will put in writing to you, and there may be further things that arise during the course of our inquiry that we would like to come back to. Thank you very much for your candour and information, much appreciated.

Supplementary memorandum submitted by National Farmers’ Union (NFU) (RPA Sub 12)

MAIN PRE SPS SCHEMES—PAYMENT WINDOWS

2004 was the last year of the following schemes (except HFA):

1. Arable Area Payment Scheme (AAPS): Payment Window 16 November 2004 to 31 January 2005 (only exception being Non Food Crop Set-aside Payments which are paid upto 31 March 2005), total sum of money *circa* £900 million +. Most paid in the first two weeks of the window.

2. Beef Special Premium Scheme (BSPS)/Suckler Cow Premium Scheme (SCPS)/Slaughter Premium Schemes (SPS) Veal Calf Slaughter Premium (VCSPS):

EC Regulations did not allow the RPA to pay these premiums before 16 October, after then the RPA could pay 60% of premium claimed on eligible cattle that had been validated. As the applications for SCPS were open until 6 December 2004 and BSPS/SPS/VCSPS until 31 December 2004 (late applications with penalties up to 25 days after these two deadlines) following 16 October. So the late applications after 16 October the first payments would be made once these claims had been validated and obviously not on 16 October. Balance Payments were made 1 April to 30 June 2005. There were delay to some of the balance payments.

3. Extensification Payment Scheme: Made Between 1 April and 30 June 2005—based on eligible SCPS/BSPS claims. Most paid on time, but some were paid late due to BSPS/SCPS late payments.

4. Sheep Annual Premium Scheme: Payment Window 16 October 2004 and 31 March 2005 for 2004 Scheme, majority of the money was paid at the start of the payment window.

5. Dairy Premium and Dairy Additional: Payment Window 16 October 2004 and 30 June 2006—most paid at the start of the window.

6. HFA Payments 95% by the End of March 2005.

Not sure of the value of payments for 2–5 above.

April 2006

Supplementary memorandum submitted by Tenant Farmers Association (RPA Sub 10)

INTRODUCTION

1. This written evidence sets out a chronology of events, from the perspective of the Tenant Farmers Association, starting with the 2003 Common Agricultural Policy (CAP) Reform Agreement and ending with the decision to make partial or Interim payments in relation to 2005 Single Payment Scheme (SPS) claims. This is set out to aid the Select Committee's Inquiry into the events that have taken place to get us to today's crisis.

26 JUNE 2003

2. EU farm Ministers agree on reform package for the CAP and TFA gives its broad support to the package.

9 JULY 2003

3. There was a stakeholder meeting chaired by DEFRA Minister Lord Whitty. In response to a point raised by the NFU which is contained in the minutes as follows:

“In implementation the core principles must be remembered, in particular the need for simplification”.

4. Lord Whitty is quoted on page 2 of the minutes of that meeting as saying:

“simplification was the key”.

(see annex 1)⁹

22 JULY 2003

5. DEFRA launches a consultation on implementation of the CAP Reform including how to apply the single payment. The covering letter to the consultation document says:

“The Single Payment Scheme can be introduced in one of several ways. By adopting a regionalised approach, we have the further option of applying it in the form of an area payment . . . Such an approach would have the benefit of extending cross compliance to more land than the basic approach—linked to historical entitlement—but it would also have very significant re-distribution effects within the agricultural sector. There has been little interest shown in this option to date but views are invited as to whether we should adopt an area payment approach in England.”

6. There is clearly no talk of a hybrid scheme here. It was quite clear to TFA and other organisations that up to this point the preferred route being looked at was the historic route. Indeed DEFRA officials were clearly of a mind to steer Ministers in that direction.

AUGUST 2003

7. The CLA issues a paper to its members exploring the possibility of supporting Regional Average Payments as a means of implementing the SPS. The conclusion of that paper says:

“We are fundamentally a land based, property rights organisation. We have campaigned vigorously for these rights during the debate of the last 12 months. In this campaign we elevated the two issues to the top of our priorities: the initial allocation of payments to the active farmer/occupier in 2005 and the attachment of payments to land. Regional Average Payments offer both; IHE [Historic allocation] offers neither. Thus the recommendation from this one staff member is option E above [to support the Regional Average Payments approach]. However, quite properly the decision is for members to take, not staff.”

(see annex 2)¹⁰

12 SEPTEMBER 2003

8. There was a Stakeholder meeting Chaired by Senior DEFRA official, David Hunter at which was discussed a draft programme plan for implementation of the CAP Horizontal Regulation in England (ref: Cap Programme Plan 11.17). This had been circulated to stakeholders on 9 September 2003 under cover of a letter from DEFRA official Tony Higgs.

9. This argued for:

“ . . . an effective management and governance structure that is kept as light as possible consistent with the enormous number of interests”

⁹ Annex not printed.

¹⁰ Annex not printed, (confidential).

10. It provided that David Hunter would be the Senior Responsible Officer of the programme. David Hunter would in turn report to Andy Lebrecht [DEFRA] to ensure implementation was secured.

11. Section 6 dealt with potential risks. Three of these were as follows (listed with DEFRA's proposed solutions):

- (a) Lack of Resources in the RPA (Early estimate of resource requirement and agree bid with DEFRA)
- (b) RPA unable to deliver payment and inspection systems on time (Early engagement with RPA at senior level and ongoing consultation as policy framework is agreed leading to clear remit)
- (c) IT delivery systems prove inadequate (Early review by delivery agents of system capability).

12. At Section 8 the plan says:

"RPA has produced an initial assessment of the resource implications for the Agency of implementing the Horizontal Regulation (Bill Duncan's minute to David Hunter of 2 June) This suggests very substantial additional costs to implement CAP reform of between £37 million and £63 million over four years depending on the nature of the agreement and the ongoing steady state annual costs thereafter of between £1.8 million and £8.7 million. The assessment also emphasises the significant margin of uncertainty associated with the estimates and with the assumptions concerning the precise terms of the reform agreement and the way it is implemented domestically."

(see annex 3)¹¹

19 SEPTEMBER 2003

13. The TFA writes to Lord Whitty to express concerns about the growing support for a system of Regional Average Payments. CLA and RSPB press articles are seeking to influence the direction of policy towards a Regional Average Payment.

(see annex 4)¹²

1 OCTOBER 2003

14. The government extends the consultation on options for implementation until 24 October.

8 OCTOBER 2003

15. There was a Stakeholder Meeting chaired by David Hunter. The minutes of that meeting say:

"Several present sought greater clarity as to what exactly might be possible within the scope of the agreed text: whether regionalisation within England, or sectoral distinction, or LFA/Non LFA distinctions would be possible. And how far a hybrid system could be constructed—for instance one which used an historic basis for livestock and an area basis for arable crops [the CLA preferred option] . . . For a discussion on 17 October the Chairman [David Hunter] agreed to prepare a brief summary of what DEFRA understood to be possible . . ."

16. At that meeting NFU and TFA said they supported the Historic route but CLA said it was still making up its mind but could see the attractions of the area payment.

17. Although not in the minutes George Dunn recalls Bill Duncan from the RPA saying that if DEFRA chose anything other than a straight historical model or a straight Regional Average Payment system then RPA would have severe difficulties in implementing the system.

(see annex 5)¹³

17 OCTOBER 2003

18. The paper on the options was prepared and discussed. David Hunter chaired the meeting and John O'Gorman (DEFRA official) took stakeholders through the options. There were no minutes of this meeting but George Dunn recalls David Hunter saying that the hybrid options were the most complicated and the dynamic hybrid options would present the most difficulty indicating that it would be madness to go down a hybrid route.

(see annex 6)¹⁴

13 NOVEMBER 2003

19. The TFA and CAAV met Lord Whitty to follow up George Dunn's letter of 19 September 2003. It was clear that the Minister was veering away from a purely historical approach for fear as to how it might look in years to come.

¹¹ Annex not printed.

¹² Annex not printed.

¹³ Annex not printed.

¹⁴ Annex not printed.

1 DECEMBER 2003

20. There was a stakeholder meeting chaired by Lord Whitty. Lord Whitty said he had an open mind on how the Single Payment Scheme should be implemented and asked for views from Stakeholders to ensure he knew where everyone stood. TFA, NFU and CAAV opted for history. The environmental organisations tended to support regional average payments. The CLA supported a static hybrid model.

*(see annex 7)*¹⁵

6 JANUARY 2004

21. Lord Whitty gives a steer on BBC Radio 4's Farming Today programme and at the Oxford Farming Conference that he is against implementation on the basis of history alone.

12 FEBRUARY 2004

22. Margaret Beckett announces dynamic hybrid as the means to implement the Single Payment Scheme.

20 FEBRUARY 2004

23. TFA meets with Lord Whitty to discuss Landlord Tenant Concerns of 12 February decision.

27 FEBRUARY 2004

24. There was a Stakeholder Meeting chaired by David Hunter. Although the TFA can find no minutes of this meeting George Dunn from the TFA asked what had happened to the advice provided by the RPA (Bill Duncan) at the Stakeholder meeting of 08 October 2003 (see above) about the severe problems the RPA would face in implementing the SPS on anything other than a straight Historical or Hybrid System. George Dunn was told by David Hunter that "the RPA would do what the RPA is told to do". There was no response from the RPA.

22 APRIL 2004

25. Following further lobbying Margaret Beckett agrees to industry compromise to move to three regions to improve the situation for non moorland, SDA producers.

2 NOVEMBER 2004

26. DEFRA announces that it is opening up the Single Payment Scheme to land grazed by horses. This leads to a 40,000 new applications under the scheme.

3 NOVEMBER 2004

27. At the RPA's Industry Forum meeting chaired by Johnston McNeill in Reading the RPA expresses significant concerns to stakeholders about the task ahead in mapping all the new land including the land which will come in from horse graziers—at that time an unknown quantity.

28. RPA also said it was its intention to make payments under the Single Payment Scheme as close to the 1st December as possible. It set out a number of risks that would delay payments including:

- (1) Policy changes.
- (2) Technical problems with computers and the validation process.
- (3) Impact of the RPA's change programme.

19 JANUARY 2005

29. The RPA issues a press statement saying:

"The Rural Payments Agency can confirm that the most probable date for payments to start is February 2006. Therefore this is the earliest date to which farmers, their financial advisers and banks should plan".

¹⁵ Annex not printed.

9 MARCH 2005

30. At the RPA's Industry Forum meeting chaired by Johnston McNeill Simon Vry (RPA Business Development Director) reiterates the aspiration to start payments in February 2006 but restates the risks referred to at the previous meeting of the industry Forum.

31 JANUARY 2006

31. Lord Bach announces that:

“English farmers will start receiving full payments in February under the Single Payment Scheme”.

“A total of £1.6 billion will be paid directly into farmers' and growers' bank accounts or by payable order, starting at the end of February and with the bulk complete in March. All payments will be well within the window set by EU legislation which runs until 30th June 2006.”

8 FEBRUARY 2006

32. George Dunn from the TFA was asked to give evidence to the Government Gateway Review on the performance of the RPA. The conclusions of that review have never been seen.

16 MARCH 2006

33. DEFRA announces that RPA will not make the bulk of payments by the end of March and removes Johnston McNeill as CEO of the RPA. He is replaced by Mark Addison who becomes Acting CEO. Lord Bach introduces weekly meetings with TFA, CLA and NFU.

19 APRIL 2006

34. Margaret Beckett announces the RPA will make interim payments “as soon as operationally possible”.

DETAILS OF ANNEXES REFERRED TO IN RPA SUB 10*

**(These have not been printed with the evidence)*

<i>Reference</i>	<i>Item</i>	<i>No of Pages</i>
Annex 1	Minutes of Stakeholder meeting with Lord Whitty (July 2003)	1 – 6
Annex 2	Country, Land and Business Assn—CLA response to the Defra consultation on options under the CAP reform agreement. (First Draft for consideration). (3 September 2003)	1 – 25
Annex 3	Copy of Defra's implementation plan (from T Higgs, Single Payment Scheme Unit.) (9 September 2003)	1 – 22
Annex 4	Letter to Lord Whitty from the Tenant Farmers Association (19 September 2003)	1 – 2
Annex 5	Minutes of the CAP reform Stakeholders' meeting 8 October 2003	1 – 3
Annex 6	CAP Reform—Single Payment Scheme: Options for Regional Implementation. (No date reference.)	1 – 3
Annex 7	Minutes of Lord Whitty's CAP reform Stakeholder meeting. 1 December 2003.	1 – 5

April 2006

Memorandum submitted by Public & Commercial Services Union (PCS) (RPA Sub 01)

1. In light of recent developments in RPA, notably SPS delays and the removal of Chief Executive Johnston McNeill, we felt it necessary to send a further submission. In particular we wanted to respond to some of the inaccuracies given by RPA during the hearing of 11 January.

2. You will recall that bullying in RPA was a feature of the PCS's submission to the Committee. Having now seen the Minutes of Evidence of the hearing we were alarmed by the responses given by Mr McNeill. In response to Question 97 he stated that he had “no recollection” of a bullying culture in RPA. This was

not true since the matter was escalated to the RPA National Whitley Committee meeting a month earlier. Unfortunately, Mr McNeill who was the Chair of this Committee at the time did not attend the meeting. Other RPA Directors were present however so it is unlikely that he was not aware of a matter so serious.

3. Since Mr McNeill's denial PCS has surveyed its members in RPA on whether a culture of bullying and intimidation existed in the organisation. The response rate was high and of 778 responses received (40% of PCS members in RPA) 567 (73% of those responding) said they felt that there was such a culture in RPA. Since the survey a number of important meetings were held with Mr McNeill and his Directors which looked to address this matter. The result being a PCS-sponsored paper to the RPA Executive Board which sought a much more proactive look at bullying. The recommendations contained within the paper have now been agreed by RPA. Given existing pressures on RPA it remains to be seen whether they are serious about this issue. Certainly as things stand there has been little change from the environment that was described to you when we met.

4. The response given by Mr McNeill is also inaccurate for one other reason. In it he referred to his relationship with the trade union as being "quite excellent". This could not be further from the truth. Indeed we do have a seat at RPA Executive Board meetings but this in itself does not constitute an excellent working relationship. In August 2005 we wrote to RPA's Deputy Chief Executive with our concerns about the current state of industrial relations in RPA. In particular we were unhappy with poor consultation and RPA's increasing disregard for laid down Agreements and procedures. To date we have still not had a response to this letter despite repeated calls. This is an indication of how serious RPA has taken this matter.

5. Whilst we appreciate that things have moved on considerably since the hearing we felt it important to bring these matters to your attention. It is particularly important that the issues affecting staff are not forgotten as RPA increasingly finds itself under the spotlight.

April 2006

Witnesses: Mr Christian Bishop, Trade Union Side Chair, Mr Glenn Ford, PCS Defra Group Vice-President, and Ms Norina O'Hare, PCS National Officer, Public & Commercial Services Union, gave evidence.

Q74 Chairman: Can I now welcome the representatives of the Public & Commercial Services Union. We have got Christian Bishop, the Trade Union Side Chair, Glenn Ford, the PCS Defra Group Vice-President, and Norina O'Hare, the PCS National Officer. Can I first thank you very much for your patience in waiting. It is inevitable when you get started on something as detailed as this that it takes longer than you had anticipated; so your patience is much appreciated. May I also put on record my appreciation for the help you were able to give us when we did our interim report; I know my colleagues who are the rapporteurs much valued your union's input. Obviously, from your point of view, you have a seat at ringside. You and your members will have seen many of the problems evolving, I am sure. I think it might just be useful to open our questioning, if I may, by simply asking you in the same way I asked the farming unions, when did you start to see the wheel fall off as far as the preparations for the introduction of the Single Farm Payment were concerned?

Mr Ford: I think one of the earliest ones when we saw the wheel coming off was not really due to the Single Farm Payment scheme, but it was the start of the Change Programme in the RPA in April 2001 when the Agency was separated from core Defra. That was really the start of the major troubles because that brought with it a scale of economies that needed to be made. RPA was set up deliberately to administer the CAP schemes at a reduced cost to the Government under the Defra set-up. The main aim was to reduce the number of staffing, that was the efficiency saving, by bringing in an all-singing, all-dancing computer system that would be able to replace the manual computer data inputting that the

staff had been doing on previous schemes. That was really where the wheel started to fall off because at that stage nobody knew what the future was bringing and a computer system was set up with the existing legacy schemes, the old schemes, the IACS schemes and the sheep premium, the cattle schemes, so it was run on that basis. The number of staff that was needed was very much a guesstimate at that stage based on the assumptions that they thought were going to happen to the schemes. At that stage the change in the CAP programme had not really been built into it. It was based on the number of staff and that number of staff has only just been settled on, so it has been a long period of time where the staff have been unsure of what is going to be happening to them and what their future was, and that was where it started to go wrong right back in April 2001.

Q75 Chairman: When you start on a complex Change Programme, normally there is some kind of milestone mapping process that takes place. Were your members involved in such a process and, if so, at what point into that process did one start to see the potential for change that has now become the Single Farm Payment scheme being worked up?

Mr Bishop: It is difficult for us to respond to that question, Chairman. Certainly sitting listening to the submissions from the National Farmers' Union and the Tenant Farmers' Association, they were certainly privy to much more information and there were certainly many more meetings going on than there were with us. We certainly do not get phone calls from Margaret Beckett at home. Certainly throughout the process our key involvement in this has been about the RPA organisation's design. As

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Glenn said at the outset, this was a driver for it, for the RPA Change Programme throughout: ie the reduction of the number of staff involved. Our involvement was throughout that, and that was a driver for the programme. In fact, what you saw was it was driven by those efficiencies in terms that each area that was dealing with work, was dealing with much reduced staff figures rather than the actual staff you would need to administer an area.¹

Q76 Chairman: When did the process of number reduction start to bite in human terms?

Mr Bishop: The initial work started in about 2002, but office closures started in 2003.

Q77 Chairman: What I am trying to establish is, if you like, the relationship between this diminishing workforce, the arrival of a new policy framework and the arrival of a new IT partner for the organisation in terms of Accenture. What difference did their arrival mean, because they signed up to the contract on 31 January 2003? Did changes in personnel follow at a faster rate from that time?

Mr Ford: The signing of the contract with Accenture was part of the Change Programme. Staff knew that would be happening but in 2002 they knew what the target figure of staff was going to be for RPA by the end of December 2006. That is when the process started of looking at office closures, whether there was a need for voluntary redundancies, whether there would be a need for compulsory redundancies. So the signing of the contract with Accenture had very little input into what was happening. The signing of the contract with Accenture was there to enable those staff numbers to be reduced and staff knew that, so whether it was a contract with Accenture or anybody else they knew their jobs were on the line. What then happened of course was that Accenture and RPA were not able to deliver the computer system which was first envisaged and that is where the numbers started to create problems.

Q78 Chairman: When you say they were not able to deliver the computer system as they envisaged, what was envisaged and what could they not deliver?

Mr Ford: The computer programme which was envisaged covered everything from the start of the application process right the way through to the payments, that there would be very little, if any, manual input into it at all. You would have a document management unit which was set up in Newcastle where electronic claims would come in or claims which came in on paper would be scanned in and then put on to the electronic system. There would also be a customer service centre, so there

would be no contact with the farming public apart from the customer service centre. Staff who would be used to the processing side would have work either pushed to them by the computer system, so that when they logged on a claim would come up on to the screen and they would deal with that claim, or they would pull work down from the computer system. What has never happened is that the document management unit has fully functioned. There were a lot of problems in 2005 when, instead of the applications coming in being optically read, they had to be manually put in, which was not something which was envisaged in the first place. The customer service centre could not handle the number of calls because, as we know, the number of applicants went from 78,000 up to 120,000, so there were problems there. The idea was that all the schemes would have been on the one computer system but, because of the delays and the problems, page 4 of the computer system is no longer being looked at, so some of the old legacy schemes—the trader schemes, school milk and things like that—will still continue on the old legacy systems and will not go on to the new reader system.

Q79 David Taylor: I want to preface this by saying that at every stage of this process, following Roger Williams' and my visit to Reading in particular, I have taken pains to exonerate staff at Reading, and by implication elsewhere, from the problems which have manifested themselves, and in fact I have been quick to praise the work you were able to do against the backdrop of redundancies, outsourcing, rapid changes in specification and so on. Perhaps the Chairman is old enough to remember the Danny Kaye song, *The King's New Clothes* whereby silver-tongued salesmen sold an invisible suit of clothes to the King saying it was only visible to those with sophistication and intelligence, and the courtiers around the King were slow, indeed reluctant, to point out he was in fact totally naked, and a little boy came along and pointed out what was happening. Not drawing the parallel too far, I see the silver-tongued salesmen being the Accentures of this world, the King being the top management of Defra, and the courtiers as the staff. Were staff quick to point out the flaws in what was being proposed by Accenture, because otherwise there is a small amount of complicity in all of this, is there not?

Mr Bishop: Just picking up on one of the points you made there, we would certainly hold Accenture partly responsible for what has gone on here, but we should not forget that prior to the RPA setting up there was initial work done in terms of mergers, because RPA itself is a merger of different government departments. Certainly early on there were cultural issues which needed to be dealt with internally as well. Turning to your question, were they quick to tell? Possibly. Staff did not see much change early on, it has only really been in the last two years that change has impacted on them. As we said earlier, in terms of organisation design, that

¹ *Note by witness:* RPA Programme was driven by efficiencies. This was shaped by a Organisation Design which significantly reduced the size of the workforce. This meant that sections were to be run on reduced staff because of the reliance on IT. PCS was involved in the Organisation Design process although our key objective was the avoidance of redundancies.

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was meaning that people were moving around—not in all areas—taking up their jobs and it was causing some problems early on.

Q80 David Taylor: They were not too deferential to Defra top management—no pun intended there—in terms of the direction they were taking? They were able and in fact encouraged to contribute their observations? Roger must speak for himself but I am sure he will agree with what I am about to say, we were assured there would be Defra staff integrated at every level of the system development to keep the whole thing on track, to keep it realistic and to ensure it delivered the objectives which were set for it. I am not at all sure when we talked to staff there that there were sufficient experienced Defra professionals working with the Accenture IT people. Is that how you see it?

Mr Bishop: In terms of key personnel, I do not recall anybody from Defra involved in the actual day-to-day process work of the Change Programme.

Mr Ford: Certainly when the contract was signed with Accenture there were RPA staff who were involved in working with Accenture on what was needed but they did not necessarily have the computer or the IT expertise to challenge what Accenture were doing. They knew what the schemes were and how the schemes were administered and what was needed there, that is what their experience was and that is what they were feeding into Accenture, but as you say Accenture would then sell them whatever package—

Q81 David Taylor: That is the whole point.

Mr Ford: The other thing is, to use your analogy of *The King's New Clothes*, whilst Accenture might well have been the salesmen, the customer actually was the Government with the Government cuts which were needed to be made throughout the Defra family, and RPA was the place where that was going to be done. So whilst Accenture might well have been the salesmen, the customer was the Government who wanted those cuts made.

Q82 Chairman: Just a point of clarification: where does IBM fit into this? They were the old IT partner, were they not, before Accenture?

Mr Ford: We used to have our own internal IT system set up. That was outsourced to IBM who now are our outsource partners dealing with the hardware.

Q83 Chairman: So they are process as opposed to policy and systems design, which is Accenture?

Mr Ford: Yes.

Chairman: Thank you.

Q84 David Taylor: To complete and then file away for good the analogy I have drawn, the little boy is Mark Addison because he seems to have been praised for analysing the situation and recommending a new direction, which contains some pretty obvious things to do which should have been there from day one. We were shown, and Roger Williams will perhaps confirm this, the task-based

system almost in the sense of “This is good, isn’t it?” when the claim-based system which is now in operation was an obvious step to try and extract the RPA from the problems which beset it, was it not? Were you ever doubtful? There were as many as 10 different people working on a claim in five different locations and it was being said, almost with approval, “This is what technology can do. We have people in Newcastle and Reading and elsewhere, Exeter perhaps, working on Mr Bloggs’ claim” and I am not at all sure that was the right attitude. This is not hindsight, we were saying it at the time.

Mr Bishop: We do not disagree with that. We had a discussion earlier about where RPA has come in its five or six years. Basically we have almost come full circle. Mark has come in and looked at the task-based system and moved it on to a claims-based system.

Q85 David Taylor: Has that move now taken place?

Mr Bishop: It is in hand. That is how it was done before. Pre-RPA, targets were always met. We have come five years down the line, at a cost of £X million, looked at reducing the staff, staffing levels are about the same but we have closed four offices, so in those five years we have not come very far.

Ms O'Hare: When we met with Mark Addison, immediately after Johnston McNeill being removed from office, we made exactly that point, which is that when we had regional offices, we had staff working in those regional offices who were dealing with claims direct and who were dealing with the claims manually often, who were making the calculations, and in fact Glenn said to Mark Addison, “In 2001 when we were operating in regional offices, we could have delivered the Single Farm Scheme on time.” We have the same number of people working on the RPA system but because it was a task-based system we were told at the time we could not revert back to manual payments, so we have been tied into not only an IT system but a process-driven system which was designed to reduce the number of staff and which has fundamentally failed. It has failed the farmers and it has also failed the staff because the staff have been working extremely hard over a very long period of time, working very long hours, and yet they have no satisfaction of actually completing a single piece of work.

Q86 David Taylor: I understand that. Sorry to cut you off but my abiding impression of that visit four months ago is that the RPA staff were absolutely committed to a high quality customer service and were frustrated this had tailed off in a catastrophic way. We have heard in evidence from the Tenant Farmers’ Association and others that what had previously been a pretty positive and rosy assessment of the quality of service provided went downhill quickly, not least when the customer service centre was buttressed by untrained managers and staff brought in to tackle the huge volume of calls. At that point, what was your reaction when customer service was going down the pan?

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Mr Bishop: To revert to an earlier question about the key point, I think that was a key point at that time. We had a meeting and invited Johnston McNeill to an IT meeting in the middle of all of that—he was going up and down to Newcastle where the customer service centre was so we invited him to our meeting in Sheffield—and you could see then what was happening at the customer service centre was pretty much a microcosm of what was happening in the rest of RPA at that time. It was crisis management, quite honestly. I think since then, within the last year, things have gone downhill quite rapidly.

Q87 Chairman: Did Mr McNeill accept your invitation to come to your meeting?

Mr Bishop: Yes, he did.

Q88 Chairman: Did you confront him with the fact you had identified that crisis management was the order of the day? If so, what did he say?

Mr Bishop: Absolutely. We reminded him during this last year of that discussion, because we were worried about what was happening. We could see quite early on what was happening. We asked the question on a number of occasions about the contingency and it is interesting hearing the earlier evidence. The Tenants Farmers' Association, the National Farmers' Union, were getting the same message, ie we were committed to making payments, and they will be made. That was the message all the way through the year, and the same message was given to us as it was to these other bodies early in February this year as well.

Q89 Mr Williams: I would like to confirm David Taylor's view, when we visited Reading, we were always impressed with the commitment of the staff, working in quite difficult conditions. The ministers in Defra and senior executives in RPA exuded confidence that the targets were going to be achieved. Did the staff share that confidence?

Mr Ford: No, the staff did not share that confidence. The staff had been concerned, I think, from very early on that the targets were never going to be made. They have raised the situation time and time again that the computer system was not functioning well, there was so much down time when more people tried to log on than the bandwidth could take, there was a lot of down time. They were also concerned that it was a very complex scheme and got frustrated because it was being dealt with better in the devolved establishments. They were concerned that they were letting down the farming public in England and they did know that it was not going to work but nobody was listening.

Q90 Mr Williams: You say "at an early time". Was there one specific point in which you can say the staff knew in their heart of hearts that these targets were not going to be achieved?

Mr Ford: I think at the meeting which Christian mentioned when we invited Johnston McNeill to that one, we had an idea then and the delegates around the room from the different offices had a feeling then that it was not going to work.

Q91 Chairman: When was that meeting?

Mr Bishop: That was February 2005.

Mr Ford: It was just coming up to getting the applications in. They could see that the system was not there and the staff numbers and hours were having to be increased so all of the data could be put into the system and they could see it was in difficulty then.

Q92 Mr Williams: Applications were only just starting to come in then?

Mr Ford: Yes.

Q93 Mr Williams: Because the deadline for applications was 15 May 2005?

Mr Ford: They realised at that stage because that was when the customer service centre was beginning to get overloaded and was being sent out to BT call centres to take calls. Then staff were being encouraged to work over the weekends so they could ring back farmers who had made calls during the week. They could see that there were not going to be enough resources from that very early stage.

Q94 Mr Williams: At that particular meeting, were you, on the staff side, as explicit to the management as you have been to us today?

Mr Bishop: Absolutely. One of the difficulties we had at that meeting was he came and made "a speech", but he was talking about external customers and we were quite frustrated, in actual fact, that there was no discussion or he had no idea about some of the internal impacts on staff. We got quite angry with him at one point because we were not getting any answers from him.

Q95 Chairman: You put to him all these reservations. Did he agree to come back to you with any kind of response later or did he just say, "I do not believe what you are saying. Everything will be all right"?

Mr Ford: Yes, in as much as he was saying that was not the message he was getting from his senior management team, that there were not any problems.

Q96 Chairman: Just to be specific, you mentioned three things a moment ago: down time, a bandwidth issue and nobody was listening. In the case of the down time—and the bandwidth is quite a technical issue, you have got to understand how a system works to understand when there is a bandwidth constraint—how did you formally communicate that back to the senior management of the RPA?

Mr Bishop: I think it was in Johnston's evidence at the interim hearing he referred to the fact that we sit on executive board meetings, and we do. Certainly, there are monthly meetings and it is our opportunity to present whatever issues we have got. Certainly, at those meetings, we were raising these sorts of issues regularly. In terms of the Whitley structure of the RPA as well, we have twice-yearly meetings, but we were doing it on a regular basis.

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Q97 Chairman: The executive, is that the management structure that runs the RPA?

Mr Bishop: Yes.

Q98 Chairman: Who is on that executive?

Mr Bishop: Predominantly RPA directors.

Q99 Chairman: RPA directors, and do you appear before it or are you part of it?

Mr Bishop: We appear before it.

Q100 Chairman: Do you see the minutes of those meetings?

Mr Bishop: Yes.

Q101 Chairman: Did the minutes of the subsequent meetings to your alerting the RPA that there were these problems indicate there had been any discussion or action taken as a result of what you said?

Mr Bishop: Some minutes did but not all of them. We can check back through the minutes about what we did raise and when we raised it.

Q102 Chairman: Were you getting feedback from your members about, if you like, the degradation that was occurring as the system ran slower and slower and problems were known? Did they feed back to you? I do not know if you have a fact-gathering mechanism.

Mr Ford: Certainly, they were feeding back to us. We meet on a quarterly basis and there were representatives of all the branches at those meetings and they report back. There is also a lot of communication with branches: Christian works in the Reading office, I work in the Exeter office, our Secretary works in the Newcastle office. We have officers in each of the offices as well. We are on the ground knowing what is happening. The frustrating thing has always been that whenever we have raised the issues, we have had the same feedback that the previous witnesses had, "No, everything is fine. Your members are only seeing a small part of it, they are not seeing the wider picture. The wider picture will be that we will be fine in the end and get the payments through". It was almost as though everything you were saying was being dismissed.

Q103 James Duddridge: Did you have any direct communications with ministers or have you any evidence that your views were forwarded to ministers?

Mr Ford: No, we have had nothing.

Mr Bishop: In actual fact the Defra Trade Union side has had quite a bad experience really in terms of organising meetings with ministers and certainly Margaret Beckett is reluctant to meet on a number of issues.

Q104 James Duddridge: You have asked for those meetings?

Mr Bishop: Certainly DTUS has on a number of occasions, yes.

Q105 James Duddridge: She has said no?

Mr Bishop: She has been reluctant to meet. I do not know whether she knows, but she has certainly been reluctant to meet.

Q106 James Duddridge: Have ministers visited your site?

Mr Bishop: We do get occasional visitors. Occasionally, we do get an opportunity to meet them but that is not very frequent.

Q107 Chairman: When I was a minister and used to go around different government offices for which I had responsibility, one of the most valuable things I used to do was to sit down with the staff who would tell me very straightforwardly what was good and what was bad. I learned a lot from them. Did Lord Bach or his predecessor, Lord Whitty, come and sit down with any groups of your staff and hear it straight from the horse's mouth about what was going on?

Mr Bishop: Certainly, I do not remember him coming to Reading and speaking to us. He spoke to sections of staff but he did not speak to trade unions.

Q108 Chairman: It is perhaps conjecture but nonetheless, I will ask the question, did you get any feedback that those sections of staff had told him of the kind of problems they were encountering?

Mr Ford: I cannot remember any formal meetings with ministers.

Q109 Chairman: Or even informal?

Mr Ford: I think there might well have been one or two informal ones, but, how can I say, it would not have been an open forum.

Chairman: One thing I would be grateful for, in the light of your observations, would be if you make some inquiries of any members who had even just conversations with the minister because it would be helpful to us to know whether in fact when he said, "How are things going?", because that is the normal sort of ordinary ministerial opening gambit, what kind of issues were discussed? David, there are some issues about the staff you want to follow up on?

Q110 David Taylor: You have reiterated again, quite rightly, the things you put to Roger Williams and myself in December about the working environment, the pressure of working around the clock, seven days a week et cetera and then, a moment or two ago, the staff were being encouraged to work weekends. Were they bullied and intimidated into working weekends?

Mr Ford: That is a very difficult one to answer. From a trade union perspective, we would say yes, there was certainly intimidation, there is bullying and there is pressure. When we have spoken with the executive board on this, they dispute it completely because they look at bullying as how many cases have been taken through the RPA's formal procedures on bullying. The answer to that, of course, is none, but when you ask the staff and our members, as we did after the last meeting through a quick, unofficial email survey whether they felt there

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was a bullying and intimidation culture, we got 40% of our members responding to that email question. Out of the 40% that responded, 73% of those said yes, which equates to nearly 30% of our membership felt there was a culture of bullying and intimidation. Whether that is actual bullying and intimidation or whether it is a perception, our view is that even if it is a perception that 73% of those who responded said yes, they felt there was, then the perception has to be dealt with and there must be something in that to go along with.

Q111 David Taylor: Johnston McNeill, it has to be said, hotly refuted that allegation, but nevertheless, whoever is right, how do you feel this alleged body and culture must have affected the delivery of this SPS system?

Mr Bishop: Can I make one point, David. Certainly, yes, we were aware that Johnston did refute that at the interim hearing. We first raised this in December at the main RPA Whitley committee meeting—we put it on the agenda because these were the concerns we were getting from our members. Johnston was not at that meeting; I think it is the first meeting of a Whitley committee I have known of where the chief executive is not present. Of course, when he went to the hearing early in January, he was not aware of it; he should have been aware of it, he should have been at the meeting. Certainly none of his directors who were present at the meeting reported back to him. Yes, we were quite horrified quite honestly when we read the minutes of the hearing to say that he had no knowledge of bullying in the RPA.

Q112 David Taylor: My final question is, it sounds a bit of a disingenuous question really, if a bullying culture existed, how do you feel it impacted on the delivery of the SPS system?

Ms O'Hare: You could look at it in two different ways, one of which is the fact that you have got a highly complex system, process, being introduced in a very short period of time with an IT system which is web-based, therefore not allowing all the people who are employed to be able to access it all of the time, and pressures from middle managers to meet targets. That is where you get the culture of bullying and people feeling pressured to go behind their line managers all the way up the chain to do more and more work, to come in, to work longer hours and to do overtime. Management will say overtime is voluntary, and in the terms and conditions of the service, yes, it is, but if you are constantly being told you have to meet targets, and those targets are really crucial, and each office is being told that nobody can fail—Grade 7s are told, “We will not tolerate being told that you cannot deliver”—that creates, right the way through the organisation, a sense that you cannot speak out, you cannot speak out as civil servants. Civil servants should be able to say to ministers, to their senior civil servants, “What you are asking for is not going to be possible for this reason.” People in RPA at lower levels, our members have been telling

us, we, as their representatives, have been telling the executive board and the chief executive and the Permanent Secretary of our concerns about whether or not it was going to be achieved.

Q113 David Taylor: It was not compulsion but it was fully-fledged coercion?

Ms O'Hare: I think what we have seen is a culture develop which has been because of the timescales and people not being willing to say at key points, “We may well have to go back to ministers and tell them we are not going to deliver this on time.”

Q114 Chairman: Thank you, that is very helpful. One of the antidotes to this problem was, as we understand it, the introduction of a vast swathe and army of agency staff. Why was it they had to take on these large numbers of staff? When did that process begin?

Mr Bishop: First of all, I think it is worth making the point that not all of the RPA has a huge number of agency staff. I am not sure what the latest figure is but in terms of contingent workers it was something in the region of 1,500 at one point. The bulk of them came across with the British Cattle Movement Service merger with RPA, so there were about 400 of them for that. Slowly, over time, there have been an increase in contingent workers, and that is made up of agency staff, fixed term appointees, casual staff, and that number is fluctuating all the time. It is still a very vast figure.

Ms O'Hare: The one reason why I think there is a huge increase in agency staff, notwithstanding what Christian has said about the fact there was a big group coming over from the British Cattle Movement Service, is that it comes out of operational costs and not the staffing figure. It is not staff-in-post figures. If you ask the RPA how many staff they employ directly, it will be something in the region of 1,500. They have more agency staff than they have permanent staff in RPA and it is because it does not count, it does not have a headcount figure, it is a service which is being procured.

Q115 Chairman: So the Change Programme might be reducing the number of stated permanent staff but it is not reducing the wage bill?

Ms O'Hare: No.

Q116 Chairman: Because, as we understand it, the labour costs of the IT system in relation to the RPA introduction have effectively doubled from the initial estimate. I presume that must be reflected by the temporary staff who have been brought in. What functions were these temporary staff being invited to do that clearly the permanent staff could not do themselves because there were not enough of them?

Mr Ford: The majority of the agency staff have been brought in at the admin officer level to do data inputting because the computer system was not able to do that. One of the reasons—

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Q117 Chairman: Sorry, when you say “the computer system was not able to do that”, is that because—you mentioned earlier about the automaticity of what they hoped to do—the original system as designed did not work?

Mr Ford: Yes, because the document management unit was not able to cope with the scanning-in of all the 120,000 applications last year, and all the details which were on those forms had to be manually typed in.

Q118 Chairman: Can you confirm if there was any testing of any part of this new system prior to it going live, when the window opened for applications to be made for the first tranche of Single Farm Payments?

Mr Ford: As far as I know, and I would not be able to confirm it, there was some testing going on but it was not ready at that stage. They are hoping the full optical-reader will be ready for 2006 now. What happened, and again this is only what I heard, was that the development team who were put on for the optical-read were then taken off to do the policy changes and the computer changes which were needed because it was to become a single payment scheme. So where you had a team working on one area of it, they would move to another area which was deemed to be the priority which was to get the policies right.

Q119 Chairman: When ministers agreed what has now become the dynamic hybrid model, was there a noticeable change in pace of activity so that this more complex arrangement could be incorporated onto your system?

Mr Ford: I would not have seen any changes because the changes would have been taking place in the back whilst the majority of the staff were still working on the old legacy schemes.

Q120 Chairman: I presume that all of this sea of people flowing in on a temporary basis, the concerns the staff had for the way which things were going were not exactly making the RPA the happiest place to be working. Did you do any surveys of staff morale during this time?

Mr Bishop: Not a survey as such. Certainly, as Glenn referred to earlier, at quarterly TUS meetings we were getting regular reports back from branches around RPA and offices at the TUS, and on visit sites we were getting first-hand information about morale at that time. An honest assessment is it fluctuates. Certainly in some of the sites that were closing, morale was quite high, but on some of the sites where there was maintained work, it did vary. Certainly, what we have seen, as Norina was referring to earlier, is there has been this climate of fear. If you look at the customer service centre fiasco, we had senior managers going up there threatening to close the site, but currently some of the sites live in that fear. If you speak to any one of the six RPA sites, they are all fearful of closure.

Q121 David Taylor: I think we can deduce or infer your attitude to the agency work of different kinds, but taking this much more broadly, what is the PCS's general position on outsourcing activities like ICT?

Ms O'Hare: As we represent most of the IT staff who have been transferred into the private sector as a result of Civil Service IT outsourcing, we have been opposed to it. We have been opposed to it on the basis that prior to the start of that whole move to buying in from private sector IT companies, we had staff within the Civil Service across all the ponds who had IT skills in both software design and hardware and what that meant was you also had managers at senior levels who were able to talk with knowledge to IT providers about what the salesmen were telling you. The biggest problem, from our point of view, is that you have lost that skill in the Civil Service so you do not have a big enough career-base now for IT staff in the Civil Service to be able to ask the hard-nosed questions and the candid questions and to say, “You are talking rubbish, sorry, but why would you propose a web-based system for this particular sort of payments scheme?” It is because they could talk with the detailed technical knowledge that they could then ask those hard-nosed questions. I think from our point of view, from the PCS point of view, all of the major fiascos in terms ICT outsourcing—and there have been so many—have been because you are transferring specialist staff to the private sector and you are losing your ability to be able to then purchase those services and to get the right product back. It seems to me that is fundamental. That has been a fundamental problem with central government IT procurement and we believe it is because of the outsourcing process we have lost that sort of ability to manage.

Q122 David Taylor: Has this significant scepticism towards the principle of outsourcing trickled down so that your members working in the RPA with Accenture staff have impaired the cordial working relationship? In fact, is there a working relationship in any way?

Ms O'Hare: I cannot answer that, Glenn or Christian would be better placed.

Mr Ford: When we talk about our members and the RPA staff working with Accenture staff, as I said earlier, you have got the computer programmers, the Accenture people, who are the technical people, and then the RPA staff, who are user-testers to see if that works. The working relationship between the two sides of staff has caused problems because, of course, they work on different levels. You have got a group of civil servants who are being paid their rate of pay and then you have got very expensive IT consultants who are working opposite them and working with them and there is very much a case sometimes that rather than RPA running the show, that it is Accenture who is putting it forward as to, “This is what you will have”, and, “Yes, okay, we will go with that”.

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Q123 David Taylor: Finally, Norina's point is that they should directly employ a core of people that have ICT knowledge or special confidence to challenge decisions that are made either by top management or by Accenture but that critical mass is disappearing?

Mr Ford: Yes.

Q124 Mr Drew: We could look at the dispute in Exeter in some detail, but I am just surprised with this level of ill-feeling, which has obviously built up over a number of years not just since the RPA was created, there was not more formal industrial action. I know the pay dispute has been rumbling on for some time, but this is, in a sense, more important than pay; it is about people's dignity at work. We heard all the evidence from two colleagues who visited that this was a very unhappy place to work, people may have hung in there, but may not hang in there for any other reason than this was a job and not one that gave a great deal of satisfaction.

Ms O'Hare: When you have more agency, casual, fixed-term appointee staff than you have permanent staff, that is going to destabilise the workplace in that people will live in fear of whether or not they are going to have their contracts renewed, whether they are going to have a job. Some of the sites are in areas where there is no other kind of work of a similar nature so those people are and were very unhappy. We did have a pay dispute in the RPA which ran on for both 2005 and 2006 where staff's unhappiness is reflected in the fact they were willing to reject pay offers and were willing to lose a day's pay to take action. They were also conscious that what they are doing is making payments to another group of the public, who are the farmers, and if the farmers do not get their payments then they are creating misery for another group. I think they have, despite the fact they have worked in very difficult circumstances, acted professionally as civil servants and are keen to know they are going to have a future. At the moment the Hunter Review is looking at the RPA in detail and their fear is that RPA will either not exist in the form it does at the moment or that it will outsource

its problem; that Ministers and Defra will decide the problem has to be dealt with in some way. We know, despite your interim Report's recommendation that RPA should give some indication to all the temporary staff what their future might be, staff who are on fixed-term appointments who have been continuously employed by the RPA for four years are being told they will have their contracts extended but they will not be made permanent. They are using the current situation over the Single Payment Scheme to argue there is an objective justification for not making them permanent, and that seems to fly in the face of both your recommendation as a Committee at the interim stage and it goes against the regulations on the employment of fixed-term employees. It is against that background that they have a fear of not having a job if they make too much complaint, if they raise their concerns, or indeed if they take industrial action. We have always had to balance up those things all the time in dealing with disputes and the problems, both the processes and pay within RPA.

Mr Bishop: In terms of the industrial action, it is worth making this quite important point, particularly in relation to pay. Our pay as an executive agency of Defra is less than Defra. That is an unsatisfactory situation given that this is Defra's number one priority. We are now being managed by Mark Addison who is a Defra member of staff and it has caused problems. It is also worth reflecting on the fact that over the last couple of years RPA was the only civil service department to issue formal redundancy notices on top of threats to pensions as well. This is important background information in terms of setting the scene.

Chairman: Thank you very much indeed for giving us an insight from the staff's standpoint about what has been going on. It will be very helpful when we come to talk to the IT partner and indeed the senior management to have had the insights you have provided this afternoon both in your oral evidence and indeed in your earlier submissions. Thank you very much indeed and thank you again for your patience in waiting.

Supplementary memorandum submitted by Public & Commercial Services Union (RPA Sub 01a)

1. Following PCS's recent oral evidence submission we have recently been able to obtain updated RPA staffing figures.

2. Presently RPA has 3,173 staff which includes 295 Fixed Term Appointees and 577 casual staff. In addition 1,293 Agency staff are used by RPA. This is additional background material to Q85 of evidence given on 6 April 2006. Our point being that despite a downsizing programme RPA has more temporary workers employed now than permanent ones.

May 2006

Monday 8 May 2006

Members present:

Mr Michael Jack, in the Chair

Mr Dan Rogerson
Sir Peter Soulsby

David Taylor

Memorandum submitted by Country Land & Business Association (CLA) (RPA Sub 07)

1. We are delighted that the Efra Committee are following up the horrendous problems at the RPA. We consider Defra's decision not to review the failure of the RPA's administration of the 2005 Single Farm Payment is completely unacceptable. A thorough post mortem of this process is needed. However, we would not in any way wish to see the examination delay the current processing.

2. Our advice is that the Committee should accumulate the detailed questions and understanding of the magnitude of the failure that we and other organisations can supply, but that you delay putting those questions to the RPA until the bulk of the payments have been made, which I suspect will not be until the end of June or later.

3. Clearly we do not have access to the sort of detailed information that your investigation will be seeking from RPA. However, some of the issues and questions that we think you should look at include the following:

- A. It has been suggested by some groups that the choice of a dynamic hybrid system is the root cause of all the problems. We don't accept this. Certainly a number of other EU countries have adopted equally complex systems—including Denmark, Finland and Germany—and they have managed to make almost all their payments by the end of last year. The problem is not with the system, but with the implementation and management of the system.
- B. Choices made by Defra and the RPA made a complex system far worse than it needed to be. Why, for example, has the RPA been subjected to an ongoing "change programme" while this complicated system was being implemented. Surely this is a time when all resources should be focused on delivery of the SPS. The "change programme" is all the more questionable when Defra and the RPA are also introducing the new environmental stewardship programmes, and a grand, all-encompassing new customer register. In our view, it is clear that the RPA has been overloaded and under-resourced.
- C. Changes introduced by the new acting CEO, Mark Addison, suggest the processes under his predecessor were fundamentally flawed. Why, for example, were there six levels of authorisation after level 2 validation had been completed? Why was mapping—so fundamental to the new programmes—so decentralised around the country? Why was a task-based system used for processing claims, instead of a claims-based system? The changes introduced by Mark Addison are very welcome and will help to expedite processing, but, if their need was so obvious to him within days of taking over, why were they not implemented much sooner?
- D. We would also ask about the degree of DEFRA supervisory input into this whole project? What intensity of scrutiny was put in by the most senior DEFRA officials, through what processes? We can only observe that the senior official who used to chair the Stakeholder group dropped out of that process in spring 2005 leaving it to quite junior officials. Also what did ministers ask and when? Certainly, the RPA consistently failed to take seriously the comments of stakeholders, and rejected our repeated warnings eg about the volume of mapping work in Autumn of 2004, and the slowness of the processing in early summer and autumn of 2005. This was a particularly frustrating experience as, despite the paucity of information—and misleading information—that the RPA provided us with. We have anticipated all the problems faced by the RPA and warned them in good time. In every case we were told that we didn't understand and that everything would be alright. At each stakeholder meeting we asked for statistics, were denied them, given obscure IT brush offs and were told repeatedly that "everything was on track". It has appeared to us that there was an absence of supervisory management processes. The RPA could not, or would not, provide us with basic information that should have been available including the numbers of claims by type, the incidence of problems among the claims. The RPA consistently seemed to have a poor appreciation of scale and make-up of problems they faced.

- E. We suggest you might probe more deeply into Defra's role in all this. From the very beginning, Defra have been exceptionally slow in reaching decisions. For example, the seemingly simple matter of "who is a farmer" for the purpose of entitlement transfers took months to resolve. DEFRA as ever, took refuge by hiding behind the Commission and it took us a large amount of time and continual badgering to get a letter from the Commission which said that the problem was of DEFRA's making and the solution we had been suggesting for months was the correct one. Similarly, it was Defra that decided that six weeks' advance notification were needed for transfers of land and/or entitlements. This decision alone caused hundreds of antiquished letters, emails and telephone calls to be made, and hours of discussions, and finally they reduced the period to three weeks. The decision about the moorland line is another case in point. Defra have been very slow in reaching policy decisions, which has meant that much needed information was not available until the very last minute. At the same time, the seniority of Defra's involvement in the RPA stakeholder meetings has fallen precipitously. In short, from everything we have seen, Defra appear on occasions to have been more of a hindrance than a help for the RPA.
- F. When we responded to your earlier inquiry we made a number of suggestions about lines of questioning which I am not sure you were able to follow up on. Specifically, can you track down the dates of when RPA invited tenders for outsourcing the help with mapping? We had been asking about this from Autumn 2004 onwards. It was plain to all stakeholders that a great deal more land would have to be mapped than previously and we were concerned they did not have the resources. We suspect that this was not acknowledged until quite late in spring 2005. When did the contract come into force? In similar vein, it appears to us that the computer system at the heart of the SP5 processing was never specified adequately for the task. Was the fault the initial specification, or failure of the IT company to deliver to the specification, or failure of the systems operation to use the system correctly? We understand that the system simply could not cope with the number of operators who required to be online simultaneously and thus it continually crashed leaving operatives drumming their fingers. It might be worth getting some expert IT witnesses to give opinions on this.
- G. Extremely poor communications and customer relations have been a hallmark of the RPA over the past months. Not only have they provided limited and misleading information to stakeholders, but—more importantly—they have all but abandoned their customers, the farmers. The frustration amongst farmers at not knowing what is happening to their maps, their claims, or their support payments is palpable, we could provide sample letters and emails. Until very recently—after much protest from stakeholders—their website was woefully un-informative about decisions the RPA were making about the process. At the critical point, when entitlement statements were first being sent out, the call centre was actually shut for over two weeks. Even now, with many farmers having been caught up in a Kafkaesque application procedure—especially the mapping—for up to a year in some cases, over half the claimants have no idea what is happening to their claims or when they can expect to be paid, and thousands were sent blank application forms which the explanatory letter said were pre-populated. All summed up by one of our members as: "unvalidated, unpopulated, unpaid and unhappy".
4. I hope that you find these remarks and observations helpful to your enquiry. We would, of course, very much like to have the opportunity to explain and expand on these points in an oral examination.

April 2006

Witnesses: Mr David Fursdon, President, and Professor Allan Buckwell, Chief Economist and Head of Land Use, Country Land and Business Association, gave evidence.

Q125 Chairman: Good afternoon, ladies and gentlemen. Welcome to the second of our evidence sessions on the Rural Payments Agency. At the outset, can I apologise that we are a little thin on the ground on this side of the table. One or two colleagues have had some transport problems in getting here and one or two may have to go at short notice to take part in a debate, but we will do our best to get into our questions as quickly as possible. To that end, may I welcome, on behalf of the Country Land and Business Association, David Fursdon, their President, and Professor Allan Buckwell, their Chief Economist and Head of Land Use, and move straight to a very simple question. Could you sum up, for the benefit of the Committee, who do you think is to blame for the present mess, in terms of the RPA and payments to farmers?

Mr Fursdon: I would say that the management of the RPA primarily, and it is difficult for us to know whether that blame would attach also to Defra without knowing more about the command and control mechanisms between Defra and the RPA.

Q126 Chairman: Right. Some people have said that part of the problem was the move to the dynamic hybrid model, with the complexities versus the historic model that it brought. What was your reaction when, after all the discussions, as I would see it, where the historic model had been the one that was most talked about, Defra went for the dynamic hybrid?

Mr Fursdon: I would say that we had had difficulties within our own Association as to exactly what answer we wanted, and we had had a lot of debate

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and we had tried to do it as democratically as we could. I would say that, in that it reflected the fact that there would be a regional element to it, we were not dissatisfied with that, but the proposal that we had put forward did take account of some historic element to it, we called it HARC, which was a combination of the two, and so obviously there would have been some of our members that would have been disappointed that there was no historic element to it. I think that would be our view. I think that we were trying, throughout this process, to be sensible and to read the tea-leaves, and I think that it is wrong now, with the benefit of hindsight, to say that everybody thought it was going to be a historic system, that was what everybody was counting on. If I remember correctly, there was really quite a debate, particularly from the environmental groups, who were keen to have an area-based system, for the logical reason that if you were going to be looking after the environment as your *quid pro quo* then actually looking after all the land made sense, as opposed to looking after part of it.

Q127 Chairman: Can I interrupt you and ask you, some people have fingered you, that is the CLA, as being the authors of the complexity, and therefore, by definition, the downfall of the present system. You have made it clear that you had your own version of the payments system, a sort of static hybrid model. Did you have any bilaterals with Defra Ministers, outside the implementation stakeholder meetings on this, to make your case, and why do you think yours is a better system than either a historic system, full stop, or the dynamic hybrid?

Mr Fursdon: Certainly, I am happy to answer that question. One of my slight concerns, however, is that I am very happy to look at this, but it does seem to me that by concentrating on this too much we are in danger of actually giving it more importance than perhaps it had; but I understand that.

Q128 Chairman: I am just giving you the opportunity to defend yourself from having the finger pointed at you as the authors of the problem?

Mr Fursdon: I am very happy to do that and, in fact, it quite amuses me that people suggest that we have such influence that whatever we come up with is the one which immediately is taken up by the Government and introduced; however . . . Allan, I do not know if you would like to come in; you are somebody who was involved. The question about quite how we got to that, in terms of bilaterals, and so on, I do not remember any particular bilaterals about it.

Professor Buckwell: No. First of all, in principle, if we are changing the purpose of the payments system, it is not at all surprising that the basis and the beneficiary group would change. The arguments that the most decoupled payment is an area-based system, a system which is paying for land management ought to pay for all land management, not just bits of it, and ought to pay it at rates of payment that are roughly defensible, so that there are very strong reasons as to why, in the long run, you would move to an area-based system if you have

accepted that we have moved away from an agricultural subsidy system, the CLA was well apprised of those arguments and sympathetic to them. The question then becomes the practicalities and speed. That is why we argued that to move immediately to an area-based system, which incidentally no Member State of Europe has done, it is done only in the new Member States where they are not replacing a historic system, would have been hugely painful because of the redistribution effect on livestock particularly. There are such wide discrepancies in the historic payment rates per hectare, particularly for beef and cattle producers, some very high, some very low, that moving to an average would simply destroy those businesses if you did it very rapidly. Therefore, our answer was to at least signal that we have got to move in that direction in the long run by regionalising the arable payments, but for the time being, in order to get a system up and running, to stick to the historic distribution for livestock, and, admittedly, that was, if you like, a political compromise within the CLA. We had no special meetings with Ministers, because we do not get them; we were part of a stakeholder, active debate on this which took place over about a year. It is absolutely untrue to say that the only voices were talking about historic; only the farming voices, the farmers' unions, were arguing about historic only, but the more far-sighted and wider-looking organisations were seeing that there were other arguments that had to be in play.

Q129 Chairman: Your alternative model was more about what you thought was best for distributional effects and to get the system up and running, rather than something that was guided by an insight into the organisational complexity of alternative models?

Professor Buckwell: The organisational complexity was not a factor in our decision, because we could not know and did not know and still do not know, and we hope that your Committee will bring this information out, what the requirements on IT systems and on management systems were. I have to point out that in Germany, which is implementing a dynamic hybrid over all of the *Länder*, over 16 or 13 regional schemes, it managed to make 80% of payments by last December. That points the finger very clearly. This is nothing to do with the system of payments chosen, it is to do with the capability and the ambitions to map land and to administer an IT system, and we have got a fraction of the number of applicants that they have. We tried over the weekend to get data on the extra number of applicants that they have had and managed and the extra amount of land. We have not got that, but we will certainly communicate it to the Committee if we can track that down. These are excuses. Your first question was "Who is to blame?" The answer is the management and the IT system that was put in place. This is not a very demanding task, to measure a few fields of 120,000 people and dish out some money within 12 months. It does not sound like something that ought to grind a government department to its knees, and yet apparently it has.

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Chairman: We would certainly be very interested, if you were able to throw any light on the fact of, seemingly, some of our questioning will elicit later on, Defra “taken by surprise” by the number of applicants over and above their existing volume of recipients, in terms of a new payment scheme. Clearly, some of the issues surrounding the definition of agricultural land would be very interesting to explore, so any information from the German context would be helpful.

Q130 David Taylor: You said that you are surprised that people credit you with influence which you do not have, and you have sort of rebutted the suggestion of the TFA, in particular, that you had pressed Defra for a list of potential models which could be used to implement the SPS?

Professor Buckwell: We certainly pressed them for that.

Q131 David Taylor: Which included hybrid models?

Professor Buckwell: Of course. This was a very unusual Regulation. Instead of just defining the end point and how to achieve it, it gave a huge range of choices, and it seems perfectly rational that stakeholders would want to hear from Defra, the Department responsible, what those real options were and what their pros and cons were.

Q132 David Taylor: Despite your perceived lack of influence—that is your perception, not mine—in relation to Defra, how did you go about the discussion on hybrid options then; did you suggest that your membership might be positively disposed towards certain of them?

Mr Fursdon: I chaired our Executive Committee at what was one of the most difficult Executive Committees I have chaired, where we were trying to decide on policy and we were informed by Allan and others who had been around the country on road-shows, we had done a questionnaire in a magazine, and so on, and we had a good debate about it. It is quite interesting this line of questioning now, which is, to some extent, how much did the choice of system affect what has actually happened. We were working on the assumption that whichever system was chosen the RPA would be able to implement it, and we were never given any indication that the resources would not be available and the management capability would not be made available to implement whatever was suggested. At the time, in whatever way one may look back at it now, whether or not we would actually get it to work was not one of the subjects which were being discussed. We were discussing how we could square the circle of those people that wanted to reflect something for the historic element—Allan has just explained the difficulties on the livestock, and so on—with the fact that we read the tea-leaves on the way in which it was going, the way in which the environmental groups were arguing, the way in which even the Government, in its attitude to the CAP, was going, which is that you are actually going to have to justify what you are doing longer term. It was a combination of those things. Yes, we actually asked

and we wanted to know what all the options were, and at the end of the day we came up with our own option, which is the HARC option, which was not the one that was chosen but was one which we put together actually to try to find our own way, as an Association, with the diversity of views within our Association, as to the way forward.

Q133 David Taylor: Until deep in the process, it seemed to you that Defra were going to be making a choice between historic and area bases, so it was a surprise, was it, that a hybrid emerged? Should they have consulted specifically on a particular hybrid option, in fact, the one that they chose, do you think?

Professor Buckwell: We would have preferred that, and we understand in the final throes the NFU were quite close to that process, they were actually involved in the final stages of the phasing of the dynamic portion and handling regions. I have to say, they did not make a tremendous success of that, because the two regions announced had to be changed into three very rapidly.

Q134 David Taylor: There was not widespread consultation on this?

Professor Buckwell: No; we were certainly not part of that.

Q135 David Taylor: You had not been in negotiation with an important player?

Mr Fursdon: We were not party to that.

Q136 David Taylor: Should you have been?

Mr Fursdon: We would have liked to think we would have been, but we just accepted the fact that we were not invited in to discuss that.

Q137 David Taylor: We had evidence from the NFU, I cannot remember, Chairman, whether this was written or oral, and they said that the Regulations would not have allowed for a dynamic hybrid that started with a combination of 0% area and 100% historic, which, looking back a little bit, seems likely to have been implemented with more success than the hybrid that we have landed with?

Professor Buckwell: Most of the problems that we have run into are not specifically with the new people that are brought into the scheme by choosing a hybrid.

Q138 David Taylor: It is not connected with the roots of the problems, and we heard some interesting comments from you earlier and we shall hear some more in a moment or two, it is whether or not you feel, as the NFU did, that the European Commission would not have allowed a combination of zero area and 100% historic in the first year, that they wanted to see some step forward on a hybrid?

Professor Buckwell: I have no idea if that is the case or not.

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Q139 David Taylor: They were quite straightforward and certain about that. Would that have been a simplification, Professor, or do you think that it would have led to fewer problems of the sort we have seen?

Professor Buckwell: No, I do not think so. The problems that we have got, we have got a deep-seated problem in registering and mapping land, that is fundamental, and the management systems around that and the fact that it was decided to manage this process on a task-based basis rather than a case-by-case basis, there were decisions of that kind, which condemn the process to disappear into perplexity, which we are still trying to unravel. Given that we were going to be mapping a huge amount of land in a new way, digitising these maps, this was going to run into problems whichever system had been implemented, is our gut feeling, and there is no requirement that because you had chosen this particular hybrid it was guaranteed to fail, because other Member States have shown that is not the case.

Q140 David Taylor: Defra and the RPA were quite intransigent on this particular point, that they wanted to have all the area claims in so that could have an aggregate, that was averaged out over the complete area so needed everything to be in before they could pay anything; that was their stance for quite a time, was it not?

Professor Buckwell: If you have got an area element at all, you have to map all the land, however small.

Q141 David Taylor: Of course. It might have been possible then to put 80% in to have made an interim payment based on what the information so far, maps and aggregations, had been: that would have been possible, surely?

Professor Buckwell: I do not understand the scheme you are suggesting.

Q142 David Taylor: That you do not need all of the data; if you have got a large sample of the data that is fully mapped and fully analysed, that you can make an interim estimate at least as to what the average might be, to be refined when all the data has been collected and mapped?

Professor Buckwell: It sounds as though that would run into the problems, which in a sense we have got now, of validation, where there seem to be very exacting standards, that you are not able to get just rough estimates based on 80% we are not validating.

Q143 David Taylor: Eighty per cent, say; I am just picking out a figure?

Professor Buckwell: Even on an individual claim, if there is a dispute over two-hundredths of a hectare it is enough to stop validation. The tolerances and the precision thresholds have been set ludicrously high. The fact that is the case is shown by when a new Chief Executive of the RPA comes in, changes several of these tolerances within days and speeds the process, and it just indicates that there is a degree

of searching for precision in implementing, and, I suspect, whatever system which Defra imposed on RPA which condemned this process to failure.

Q144 David Taylor: What I think I am saying, Mr Fursdon, is that where individual claims had been ratified and validated, it would have been possible to pay interim amounts to them, based on the likely aggregate sums available?

Mr Fursdon: I think the answer is, it might well have been, and indeed there might well have been other ways in which interim arrangements could have been made. This is where the actual interaction between the RPA and Defra and what they felt was allowable under European rules seems to have been the problem. Along with the other farming organisations, certainly we suggested, much earlier on, that interim payments could have been made on a number of different bases; but every time we came back to this idea of disallowance and going against the rules. While I understand the point you are making, I suspect that could well have fallen foul of that, because if there had to be a retrospective readjustment there was a panic if the readjustment led to payments needing to be clawed back, that they were not prepared to take that risk.

Q145 Chairman: I just want to pick up on something you said in your evidence just a second ago, about belief in what the RPA could do. From where did you get your feedback as to what you think the RPA are capable of doing; did you have any bilateral discussions with the RPA over any aspect of the likely implementation process of the Single Farm Payment?

Mr Fursdon: We did not have any bilateral discussions with the RPA. What we said, at almost every meeting that we had—

Q146 Chairman: Are these the stakeholder meetings?

Mr Fursdon: They were the stakeholder meetings, in particular.

Q147 Chairman: That implies that there were other meetings?

Mr Fursdon: There were other meetings; for example, the then Chief Executive of the RPA came to us, in our London office, with his Head of Operations, and met me and Allan at that; they both came to our CLA Council.

Q148 Chairman: When was that?

Mr Fursdon: The Council meeting was in early November last year. The meeting in Belgrave Square was, if I remember rightly, two weeks after that. Those were the sorts of meetings we had with them, but the stakeholder meetings had been going on for a while, and you will have heard about those as well.

Q149 Chairman: The reason I ask that is, in your supplemental and very helpful evidence, you guide the Committee by saying: "We suggest you might probe more deeply about Defra's role in all this. From the very beginning, Defra have been

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exceptionally slow in reaching decisions.” Then you talk about: “For example, the seemingly simple matter of ‘who is a farmer’. . .” Then you go on to list a number of things where Defra have been very slow. If we go back to 2003 when the Regulation was being determined, does this slowness, in your judgment, of Defra’s involvement go back as far as that?

Mr Fursdon: In my view, it goes back to the worries that we had, and I will ask Allan to amplify, because he was more involved in the stakeholder meetings than I was. I think what we had was a situation where at every opportunity we warned them that there was more work to do out there than they seemed to be acknowledging. We asked whether they had enough resources. They dismissed those sorts of questions.

Q150 Chairman: When you say “they,” let me be very specific: who are “they,” who dismissed it?

Mr Fursdon: In the case of Johnston McNeill and Ian Hewitt, those were the two people I was referring to, when I was talking to them and suggesting that they might not have enough resources to get it done, because at that particular time what they were doing was coming to us and saying, essentially, “It’s all under control.” I chaired the meeting with our Council, with them there, at which almost all the members of our Council were saying, “Well, my maps are completely wrong,” and “So are mine,” and “I’ve had this, that and the other wrong.” There seemed to be a disconnect between what we were seeing on the ground with the reality of what was happening and the somewhat bland assurances that we were being given that there were sufficient resources to turn it round in time to make the payments on the timetable that we had been promised. That is one answer from my point of view.

Professor Buckwell: In a sense, exactly what David just said, we can roll back months to after the announcement in February 2004 as to what the system would be, and it took us all a while to digest what that meant and how it worked. There are three levels of meetings. There are stakeholder meetings, industry fora and for a while there was a contact meeting which was chaired by a Minister.

Q151 Chairman: Can I pick you up on a very important point of detail. You said in February 2004 you got the information; “it took us a while to work out what it meant.” Does that mean to say that when Defra announced the policy they did not give you any implementation detail?

Professor Buckwell: I would not say they did not give us any, but it is a complicated thing and to fully understand how that is going to be implemented and what has to be measured and what the forms are going to look like, this took months to clarify, in fact, we are still clarifying, there are issues which are still unclear, around fields.

Q152 Chairman: From whom were you attempting to get these clarifications?

Professor Buckwell: In a sense, this is the important point, in my view, and I have to say this, with hindsight. The senior Defra people backed out of this process quite early on last summer and they left it to the RPA operational staff, and in fact below the Hewitt level. The main guy who used to chair the meetings was Bill Duncan, who is now retired. It was at that sort of middle-management level, I do not know how senior he was, reasonably senior, at which the detailed discussions with stakeholders were taking place, and mostly a very productive and constructive atmosphere, until the autumn, when we all sensed it was going badly wrong. Throughout that period, as I am sure the CAAV will tell you later this afternoon, we were warning them constantly, “If there’s money for having fields, there’ll be a lot more fields out there.”

Q153 Chairman: How did this backing-out process manifest itself; how did you know they had backed out?

Professor Buckwell: They were not there. The meetings initially, there was a contact group chaired by a Minister then, and the stakeholders was chaired by a very senior Defra official, David Hunter, who is now conducting one of the many reviews of the RPA.

Q154 Chairman: Sorry; just to wind back the clock. The meetings with stakeholders started with a Minister?

Professor Buckwell: It was called a “contact group”; they kept changing the names.

Q155 Chairman: In other words, you started off with all the players round the table, with Larry Whitty in charge?

Professor Buckwell: With Andrew Lebrecht, a very senior Defra official, at his side.

Q156 Chairman: When did this gathering of the great and the good from Defra first manifest itself?

Professor Buckwell: That was going on in the run-up to and after the announcement, is my recollection.

Q157 Chairman: This was through 2004?

Professor Buckwell: The end of 2003 and into early 2004. Then, in a sense, once the decisions were made, they got more technical, the senior guys did not turn up and, progressively, Hunter’s level withdrew. Then there was a Head of an Implementation Unit and then it seems that the Implementation Unit fizzled out to about one person, or two people.

Q158 Chairman: Have I understood it correctly that, whilst this gradual, receding presence of Defra, from the senior point of view, was going on, there was a mounting pile of practical questions for which there was no policy answer?

Professor Buckwell: The honest truth is that there was a mounting pile of unprocessed applications from May onwards about which there was complete silence, and it was not until the September and October, when we were saying, “The Welsh are giving us processing statistics weekly; why can’t we

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even have the first set of processing statistics?" and we started really pushing for having some concrete information on progress. It was not until, as David has said, we got Johnston McNeill in front of us that finally we started getting processing statistics, mid autumn. It was only then, I suspect, that Defra realised how slow the process was going.

Mr Fursdon: Was there not also a period when the stakeholder process was stopped and we had to actually get it going again?

Professor Buckwell: Yes. From after the applications in May 2005, the next three or four stakeholders were taken up entirely with the design of the 2006 application form, because they were very keen that we should make good progress with that, which was fine, and then the meetings stopped altogether, and it was not until we agitated—

Q159 Chairman: Let me ask this question, and I apologise to my colleague here but you have opened up a very interesting line of questioning. As a body, you meet from time to time with Ministers, sometimes over a drink and I do not blame you for doing anything like that. With this mess sort of accumulating underneath, did either of you have one of those conversations where you said to Larry Whitty, or to Lord Bach, or whoever, "What the hell's going on here? Here we are, going to all these meetings you organise, and we're coming away with great misgivings, very worried; have you guys got any idea what's going on?"

Mr Fursdon: We got to the stage, we did not have those discussions with Ministers through the summer of 2005, basically until, I suspect—

Q160 David Taylor: Were they formal meetings, or informal?

Mr Fursdon: We did not actually have formal meetings in that period. My predecessor had some meetings. I took over as President of the CLA at the beginning of November, so I was not involved in those meetings. I am not entirely sure what my predecessor may or may not have said in private, but certainly we did not have public meetings which addressed these issues, other than it was one of the issues that we were talking about. When we started to get seriously concerned was, first of all, when we started to get stakeholder meetings up and running again, and then when we had Johnston McNeill come both to our Council and to see us privately we started to get so seriously concerned that we asked whether we could start having some, if you like, resuscitation of the contact group, the actual ministerial meetings. Those ministerial meetings actually, in the recent past, have been happening again, but only really from a stage when they started to accept and acknowledge that they were in trouble.

Q161 Chairman: It would be accurate to say that as we neared the mounting pile of problems so the amount of contact between you, as a representative body, and those who were involved at the heart of the process actually diminished?

Mr Fursdon: It diminished, in terms of those that were dealing with the stakeholders. We had no greater nor less contact with the Ministers through this period than otherwise would have been the case until it was ratcheted up when they realised they were going to start missing the deadlines and they realised they really were in trouble, which was probably, I cannot remember exactly but I should think, January or February of this year.

Q162 David Taylor: Right at the heart of the problems that we have seen over the last few months was, at least to the RPA, the unexpectedly high volume of applications. You acknowledged that the 70,000 IACS have grown to 120,000, but you are relatively unsympathetic, in that you say that they should have been aware of 20,000-ish specialist milk and sheep producers, I think, and that 30,000 is the real growth. Am I paraphrasing your attitude reasonably accurately?

Professor Buckwell: That is the essence, yes, absolutely. Even the other group, once you decide, as they did, as an act of policy, in February 2004, to incorporate a land-based approach, a flat rate, a regional average payment approach—

Q163 David Taylor: That is what has been described to us?

Professor Buckwell: Exactly; they have statistics on holdings and these things. There is no reason on earth why they did not know it was tens of thousands and not just one or two hundred, for example. Likewise, it is Defra who, in a sense, does the mapping of this land, of this country, and they know what the area is; the statistics are pretty rosey, but they knew as well as anybody how much land, within orders of magnitude, they were likely to capture. There is no reason whatsoever for them to say they were surprised that there were a lot more applicants and there was a lot more land; it was their policy precisely to do that.

Q164 David Taylor: Were you asked by either Defra or the RPA what the volume of new applications might be? Even if you were not asked, why did you not contribute your estimate you have just given?

Professor Buckwell: I can show you an e-mail trade—I cannot actually, because they destroy their e-mails—where I was asking them constantly for their estimates of data, but this is treated as state secrets, that are not allowed to share land areas.

Q165 Chairman: When did you first start this bombardment of requests for information?

Professor Buckwell: In February, or even before the announcement, when all the rumouring was about what sort of system and how much land; this is intensely interesting, this is what we are here for, to understand the application of the system.

Q166 Chairman: Which February; was this 2005?

Professor Buckwell: It was 2004. Our members need to be informed about the effects of policies and we try to estimate it.

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Mr Fursdon: One of the things certainly, and I have not been involved in it in quite so much technical detail as Allan has been but the impression that I have had at each stage is that we have been a slight irritation to the process and that really they know best and that our questions are a slight annoyance to them because they know what they are doing. This is certainly the impression that we had throughout the whole process, "We know what we're up to; stop bothering us, stop fussing us with this, we're in control, it's all going fine. Don't keep asking us all these questions," and then you got the impression that every so often there would be a consultation, a rather sort of set-piece consultation with you. That is something I think is a process that has been quite prevalent.

Q167 Chairman: Could you be very specific and tell me, Professor Buckwell, to whom you started your flow of questions; who were these aimed at, was it a named official?

Professor Buckwell: It would be to named officials in both RPA and Defra.

Q168 Chairman: It would be very helpful to us to know whom. I appreciate you have not got the e-mails and that is completely understandable, but it would be very helpful, in terms of providing an audit trail for us, to know who was the recipient of your requests for information?

Professor Buckwell: The Economics Department of Defra, because they are the people who gather the economics and statistics on the sector, and as soon as we start talking about regional payments, we would like to estimate how big they might be, which needs an estimate of the area, so there is a discussion and e-mail traffic.

Q169 David Taylor: Were we to ask Defra and RPA for the audit trail, as the Chairman has described it, of correspondence with yourselves, you would be very relaxed and supportive about that?

Professor Buckwell: Yes.

Q170 David Taylor: To press on briefly, to finish off on volume, Chairman, before returning the baton to you, I asserted, rather than actually justified, that the delays were due substantially to an increase in volume of applications over and above that which they might have had in any plan which they created. Do you agree that is a reasonable thing for me to have said?

Professor Buckwell: Of course; and it makes sense, if you have more customers it is going to take longer, but all I would ask is, I would like to see an analysis of where the real difficulties have been. In a sense, this is what your inquiry, I hope, is going to get to the bottom of, but I think the decision to digitise the mapping and to include environmental features and to change the environmental schemes, and all at the same time, all the demands on the Rural Land Register, was a task, given their IT system and the way it is managed, which was simply too big for those resources to cope with. In other words, the fact

that it has gone wrong and has taken much longer than anybody thought is not just because of the additional number of customers.

Q171 David Taylor: You said something interesting, amongst a lot of things which were interesting, particularly interesting, a few moments ago, when you said that when you make more money available for fields more fields will appear. Do you stick by that?

Professor Buckwell: Of course. That is the nature of policy systems and incentive systems.

Q172 David Taylor: The point I would make is how closely is that tied to there being a very low, *de minimis* measurement, of 0.3 of a hectare, or something like that; had that been raised?

Professor Buckwell: This is a European Regulation and it has to cope with the pocket handkerchief size plots in farms in other Member States, and so you cannot have different minimal requirements for different Member States, apparently.

Q173 David Taylor: Because there will be a larger number of beneficiaries of CAP funds, has that had any corresponding change in your own membership; have you had people pressure you?

Mr Fursdon: No; it has not really. In terms of our membership, our membership has been roughly the same for the last few years, it has not increased or decreased really, it has stayed much the same.

Q174 David Taylor: The mix of members, the land-holdings they have, this sort of thing has not been a factor?

Mr Fursdon: We have not been able to find any trend that would link any changes in our membership numbers with what has gone on here. The point that you raise, yes, there are more people and therefore that takes more time. My point is that actually if they have a task, which is they have decided to go down a certain route which involves mapping, and so on, they have got that task, what resources have they got in order to achieve that task, whether human, IT or anything else, then the third question is how long have they got to do it, and we knew when they were trying to get these payments out, and it is a combination of the interaction of those three things. Yes, more claims will mean the task is greater, but our contention is that should have been obvious to a Department which is tasked with dealing with these things and dealing with payments and dealing with the environment and mapping, and all the rest of it. Having got that, so two of the three variables were fixed, what the task should have been and when it had to be done by, therefore the one that had to be fixed was the resources one and how the resources were going to help them achieve that.

Q175 David Taylor: There were lots of "they" in there; they, Defra, they, the RPA, they, Ministers?

Mr Fursdon: They, the RPA, who designed the system, to follow what they, Defra, had laid down as the task that they wanted achieved.

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Q176 Chairman: Just on a point of detail, there was the overarching Regulation to introduce the decoupled payments scheme and then there were some implementing Regulations. In terms of the kind of detail which Mr Taylor has just been exploring, for example, your postage stamp, pocket handkerchief pieces of land, was that agreed within the discussions on the implementing Regulation?

Professor Buckwell: That was in the Regulation.

Chairman: That was in the Regulation. The reason I ask that question is that one of our witnesses put it to us that, had Defra decided early enough that it was going to go down the dynamic hybrid route, in some way it could have re-engaged, and I use the word advisedly, in the process of discussion about the Regulation to have influenced it in some way, as my colleague said. In other words, to put in a *de minimis* larger than the present. If I have understood you correctly, Professor Buckwell, they could have engaged in that, but perhaps they did not?

Professor Buckwell: I am not completely certain of this. I thought it was in the Regulation. Most of these Regulations, in a sense, flow on from the predecessor Regulations and it has always been the case that the threshold for getting agricultural subsidies was very small, I assume the logic is because you have got a lot of very small holdings in other Member States and who would not like half of their farms to be excluded by having a much higher threshold.

Mr Fursdon: Certainly under the old IACS system you were doing it to two decimal places in hectares, on the old IACS forms.

Professor Buckwell: These are excuses; ex-post rationalisations of the fact that we have got a badly-managed system, and there is no reason on earth why 120,000 applications cannot be processed in a matter of a few months. It is not rocket science.

Q177 David Taylor: We have not necessarily bought this rationale, we are just letting you have a say.

Professor Buckwell: Yes, I understand.

Q178 Chairman: Our task, Professor Buckwell, is literally to sort the wheat from the chaff and so we have to review with each of our witnesses what other people have said to sort out the difference between excuse, conjecture, rumour and hard fact. I am delighted that you are rebutting that and you have come back to the central point that you made at the beginning. In your written evidence, and just following on from the line of inquiry on this volume, you comment, and I quote: "We understand that the system" meaning the IT system "simply could not cope with the number of operators who required to be online simultaneously and thus it continually crashed leaving operatives drumming their fingers." This feedback on the volume effect of the IT system, is that anecdotal from your members, or did you have any feedback from somebody on the inside of the RPA?

Professor Buckwell: That particular and the drumming of the fingers literally came from a member who managed to get inside Reading and watch them as they processed. You have heard these

stories, the fields are on, they are off, they are on, they are somebody else's fields, on; it is an unstable system that does not do what it says on the tin it ought to do. This member got in there and he watched this and he watched the system go down and literally everybody sitting there, just waiting, they cannot do anything, and you can imagine the frustration of the operators, who are professional people, trying to cope with, essentially, a lousy IT system.

Mr Fursdon: I have to say that in our discussions with Johnston McNeill and Ian Hewitt there was an acknowledgement that the system crashed from time to time. I cannot remember whether it was a discussion in the margins of our invitation to them to attend our Council, or whether it was in the bilateral meeting we had with them in Belgrave Square, but at one or other of those meetings there was an acknowledgement of the IT crashing, which seems to bear out what Allan was saying came from this member about it.

Q179 Chairman: Just before we move from this area, you have given us a picture to date of growing unease, going back to 2004, and you have also indicated that your main points of contact, over that period, about the policy implementation were with various officials from Defra, subsequently with the RPA. During that period, between the agreement of the Regulation in 2004 and the wheel falling off at the end of 2005, did you formally communicate your organisation's concerns to Ministers by means of correspondence?

Mr Fursdon: I am not sure that we did to Ministers by correspondence. We certainly did to the RPA Chief Executive by correspondence, by correspondence on several occasions, concluding with Peter Kendall of the NFU and myself writing a joint open letter to him about the shambles.

Q180 David Taylor: This was in conventional ways with copies that you have retained for your records?

Mr Fursdon: Yes, we would have copies on the file. I am not aware that we actually mentioned it in written correspondence with Ministers, although when I took over from Mark Hudson the two of us went together to see Margaret Beckett and discussed various things, amongst which was the RPA, which we expressed as one of the items put forward.

Q181 Chairman: Let me pin you down again on a point of detail. It would be very helpful to know when you went to that meeting, because officials will have taken a minute, no doubt, about that and it would be very interesting to find out, because you may not remember yourself, covering a large canvas of issues, exactly what the Secretary of State said at that time, but it would be very helpful for us to know when you went to see her?

Mr Fursdon: What I know is that at that particular meeting she was much delayed and so we were waiting; one or two of her other Ministers were there and she came in. What I cannot remember, without

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the notes and I do not know that I have got enough detailed notes, was quite which bit was covered with Ministers while we were waiting for her and which was covered with her when she arrived. I can look in the diary, and if you would like a date certainly I can give you a date.

Q182 Chairman: That would be helpful.

Professor Buckwell: Can I just clarify, that the real concerns about the pace of processing did not well up, so to speak, until autumn, October/November; that was when we realised that it was not going well and that was when all the arguments about partial payments started. Prior to that, the anxieties were about delays in announcing specific implementation details, so if we have given the impression that there was a lot of niggling long before autumn last year, it was about the fact that we had not announced what a farmer is for transferring entitlements. I have got a list of about 30 of these sorts of issues that were running for months where we could not get an answer.

Q183 Chairman: It would be very helpful to have that list. The reason we are asking all these questions, and you put your finger on it, which was why I started inquiring about your understanding of the IT system, if you are going to get an IT system to do something you have got to tell it what to do, and resolving the questions that you have just described is key to it. Being able to let IT people then build that into the software requires decision-makers to have decided, and I am anxious to know who knew what, where and when. If we are to get to the bottom of how this occurred, we have got to know when the decisions were made and how long the IT people then had to write it into the software and the operating procedures and to make it work. That is why we are asking these questions. It would be also very helpful, in that context, if you were willing to share with us your correspondence with Johnston McNeill and any others that you think are relevant, so that we may see how they were reassuring you against a background of the facts that are now emerging?

Mr Fursdon: I am happy to do that.

Q184 Chairman: Thank you. I just want to move on very briefly to something you touched upon earlier, which was inquiring with your German counterparts. Are you still awaiting some feedback from them, because one of the questions that we would like an answer to is, if they have adopted what appears to be a not dissimilar dynamic hybrid model, they have managed to pay, as you said in your evidence, 80% of the money by the end of last year? I gather, from conversation with some colleagues in the *Bundestag* that we had here last week, that it has not all gone absolutely perfectly, but at least their farmers have got their 80%, whereas a large number of ours are still waiting. Have you had any feedback as to how they have done it and we have not?

Professor Buckwell: The short answer: no, but certainly we will pursue that and we will share it when we get it.

Q185 Chairman: That will be extremely helpful, because we are always interested to know how other people manage to do it when we hiccup. Would that also incorporate some commentary on the mapping system; what I am not clear about, in the case of the Germans, did they use the same digital approach that we have had to follow? I would like just to ask you, almost *en passant* but nonetheless very important, because a lot of what you have been talking about is about the flow of information from people who provide answers, systems, solutions to the needs of Defra, to their Ministers, and in the Natural Environment and Rural Communities Bill Defra takes powers to itself to be able to subcontract to other agencies some of its duties, and I wonder if by any chance this debacle over the Rural Payments Agency has caused you to reflect upon the power that Defra now has?

Mr Fursdon: From my point of view, it has not specifically, because I think until you actually see what is happening and who is doing what you do not focus on it, necessarily. I made a comment, which was a very general comment, just now, which is that so-called partners, or so-called stakeholders, are ostensibly part of the process but in reality are not. They are seen as a possible contributor at some stage but ultimately the inner sanctum then decides. I think that how that plays out with other organisations which may be delegated the powers to deal with these will depend on how they deal with the organisations that they come into contact with. I would sincerely hope that they would not deal with it in quite such a sort of 'them and us' way, as we have seen through this.

Professor Buckwell: I think it is an extremely good question, because this is the issue of the Government's approach to divorced strategy and policy from implementation. There are clear, potential arguments for it, which is specialisation of the delivery agencies and efficiency, but when it goes wrong it goes spectacularly wrong. Of course, if the policy is not well designed, because the people making the policy are so out of touch with the delivery and therefore with the customers and the people on the ground, then you run into problems. For example, the Regulation that we are working from does not even appear to have any concept of the way land is managed in the UK and the short-term crop licensing and grazing agreements which are absolutely common, which it appears that nobody, when this Regulation was being designed, said or had any effect in saying "We'd better take into account the way the British land tenure works." You slightly suspect that was because they did not know, rather than that they tried and failed to get this into the Regulation. They talk about six-year tenure periods, which we do not have, so that when there is a lack of understanding of the way farming operates on the ground amongst those who are charged with making the policy then it becomes pretty damned difficult to implement.

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Mr Fursdon: We could have told them; that is what I am trying to say.

Q186 Chairman: Who are “they”, in this case?

Mr Fursdon: In this case, it could be Defra, who are charged with looking at systems of land tenure and how you might implement these Regulations. Rather than to come rather late in the day and say, “Oops; how do we get out of this?” if they said, “Can we just check that we’ve got the land tenure systems right?” then that would be an easier thing to do, and I suspect that CAAV will have something to say on that.

Q187 Chairman: In summary, you are saying that Defra does not really understand, in the context of the Single Farm Payment scheme, the way in which land is operated in a number of different scenarios that you have described in the United Kingdom?

Professor Buckwell: I would have thought it was not unreasonable that, on the day that the Regulation comes out, which mentions a new phrase in tenure arrangements, land at the disposal of a farmer for 10 months, Defra would have an answer to how that fits in.

Mr Fursdon: Farm scheme arrangements, farm business tenancies, whatever else there may be.

Professor Buckwell: Last year, it took 10 months to clarify that, of constant badgering by us as to how those systems were going to operate within this Regulation; but, of course, poor old RPA is just waiting for the answer.

Mr Fursdon: That is not to say that there are not Defra lawyers that might have some of this at their disposal, maybe not all of it, but what tends to happen is that they are not connected up to the people who are actually dealing with the implementation of the Regulations as they come in, and it is not spotted quickly enough, so that actually when the design stage is coming through people have not necessarily got their heads round the implications for this country of some of these Regulations.

Q188 Chairman: Gentlemen, thank you very much indeed. I wish we had an infinite amount of time. I am sure there is even more information to elicit. If, as a result of the line of questioning that you have been kind enough to assist us with this afternoon, other points occur, other than those which you have kindly committed yourself to supplying some further information on, the Committee would be delighted to hear from you. We are disciplining ourselves that when it comes to sorting out this mess we do not have to rush to get our answers out at the sacrifice of thoroughness, in trying to get to the bottom of how this problem occurred. To pick up, Mr Fursdon, on a point you made on a programme that you and I appeared on, we certainly also do not want to do anything to slow up the payment to farmers, and I hope you will accept that we have designed our inquiry to that objective?

Mr Fursdon: I noted that you had done that, so thank you very much, it is much appreciated.

Chairman: Thank you both very much indeed.

Supplementary memorandum submitted by Country Land & Business Association (CLA) (RPA Sub 07a)

1. We were a little alarmed in the CLA at the turn your inquiry into the RPA debacle has taken, by focusing so much attention on the choice of system of allocation of the Single Payment System (SPS) between Historic, Regional Average Payment (RAP) or a hybrid of the two.

2. We think that this is dangerous as it suggests that the task was more difficult than it was. Other member states, notably Germany managed to sufficiently validate claims to make 80% of payments in December 2005, and the balance in February before even the first payment was made in England. The German payment system is more complex than in England as it is a Dynamic Hybrid with some degree of coupled payments, applied in 13 regions, compared to three in England. Our information is that the additional number of customers in Germany was almost identical to that in England, 38,000. We have not been able to ascertain the additional area in the new scheme accurately for either country.

3. It is disingenuous to suggest, as DEFRA and RPA have, that they were surprised by the additional customers and area in the scheme. DEFRA are the collectors and custodians of all the relevant data on farm holdings and land areas, and they were repeatedly warned by many organizations that the Government’s chosen hybrid would attract more customers and land from Autumn 2003 onwards. It is the responsibility of Government correctly to resource the implementation of the policies it chooses.

4. The problems with the RPA were not created by the complexity of the mathematics of the hybrid system, or even by the larger number of additional customers. The new customers holdings are mostly small and simple, yet they collectively manage a significant area of land. We do not know how much land as the RPA have still not been able to disentangle the forage area involved in specialist dairy and sheep farms (which would have to be included in any SPS) from the extra area drawn in by the wider, area-based, SPS chosen. Quite a lot of this new area is near population centers and it seems sensible to include this within the ambit of the Good Agricultural and Environmental Conditions. Those who disparage this do not seem to have caught up with the fact that we are dealing with a new policy; this is no longer solely a “farmers” payment but a “land managers” payment.

5. Rather the problem was fundamentally the inability of the RLR mapping system, to work efficiently and to talk to the payment system both technically and in management terms. This would have been just the same in an all historic or all flat rate system. We do hope your inquiry nails the key point that the system choice was emphatically NOT the fundamental problem. WE believe the chaos was caused by under resourcing, technical specification not fit for purpose, and poor management by DEFRA and RPA.

6. We therefore have no regrets in arguing for the static hybrid (HARC). We accepted the arguments to move from a system that supported farmers by interfering in food markets to one that protected the rural environment in the absence of food production (management) but also kept it in good agricultural condition should the land be needed for growing food again in future—and that this should apply, in principle, to all the land. It was also intended to be a transitional payment to enable those farmers heavily invested in unsustainable farming systems (often motivated by the subsidies) to a system that would over time comply with a fairly stiff set of environmental conditions. An “all historic” system would not have achieved this as there would, by year 8, have been a mismatch with payments not related to the desired outputs. Equally an immediate full Regional Average Payment (RAP) would have made transition extremely difficult for a large and important section of the farming community thus knocking the transitional support idea on the head.

7. It is important to nail the precise causes of the problems because the system choice cannot be changed. Indeed we predict that other countries will, at the next reform, be asked to come in line with the RAP approach and not vice versa. Whereas we are apparently stuck with the current mapping and payments processing systems and IT. These must be upgraded if we are not to find the same problems for 2006 and future applications. We are particularly concerned that the mapping problems are overcome because the increased emphasis on environment schemes will make further demands on mapping. The CLA is committed to make these schemes work. One of the biggest costs of the current RPA debacle is that it has deeply scarred land managers’ trust in Government schemes—especially anything that involves maps. DEFRA will have to work very hard to restore trust and confidence.

8. We promised to supply some other information, the date of the meeting between Mark Hudson my predecessor, myself and Margaret Beckett was 27 October 2005. We attach a list of areas where policy decisions by DEFRA were arrived at in a slow and massively risk averse way holding up RPA processing.

Thank you for the open way you are conducting this inquiry.

David Fursdon
President

May 2006

IMPLEMENTATIONS OF THE ENGLISH SINGLE PAYMENTS SYSTEM

EXAMPLES OF DELAYED OR TARDY DECISIONS AND DEFRA/RPA INTERACTIONS WHERE DECISIONS WERE TAKEN SLOWLY OR CONFUSINGLY

- Details agreed June 2003, main regulation Council Regulation (EC) No 1782/2003 (dated 29 September 2003) (published 21/10/2003)—system implementation decision announced 12/2/04.
- No guidance on “10 month land at the disposal of farmer” rule until DEFRA’s “July 2004 SPS update” brochure—published 26 August 2004—first raised by CLA January/February 2004, in light of grazing difficulties.
- Long delays over the FVP rules—February 2005 update brochure (CLA roadshows solely focusing on FVPs that Spring in run up to applications in May).
- Huge procrastination and delays over definition of non-agricultural activities—30 March 2005, motor sports position finalised on 13 May 2005, two days before applications had to be in.
- Ditto grazed orchards and woodlands.
- Priority given to ELS mapping rather than SPS in May to July 2006—“repriority” announced 18 July.
- Crass initial decision on definition of a farmer making an entitlement transfer in the first year, and massive delays in finally coming to the obvious solution—only following the industry’s joint letter to the Commission, responded to over Christmas 2005, finally announced by DEFRA on 27 January 2006.
- Big delays in announcing the set aside percent—outside the date set by the regulation.
- The Moorland Line appeals. The guidance they actually used conflicted in part with the guidance they told farmers they would be using, and it took them the best part of a year to determine those appeals.
- Prospect of delays in 2006 payments flagged early when sugar reforms were going through—the system would not cope.
- Definitive Establishment date is set by the regulation as 31/12/05 disregarded; likewise the close of the payments window set by the regulation as 30 June payment window (for 2005 payments). DEFRA has recently requested permission from the Commission for extension to October 2006.

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- Entitlements statements sent out, randomly, from 19 February, over 50% of which were unvalidated—no calls accepted by CSC until after 6 March.
 - National Reserve scaleback to 4.2% only announced on 17 February, confusion as to how decisions for NR allocations have been calculated, no clarification forthcoming despite repeated requests.
 - The requirement that we had to make formal Freedom of Information requests, and under FOI timetables, for things that they knew they would have to supply us with eventually anyway—Cross Compliance Inspectors Guidance for example.
 - Change in transfer notification time from six weeks, to three weeks, on 30 March, which was so last minute that it was actually no use to the industry, who had either busted guts to get to the six week notice deadline (2 April), or given up and not bothered transferring this year. We were repeatedly told that the reason the six weeks could not be shortened was that it required an SI which itself requires 21 days. In fact the SI was brought in overnight when they finally relented.
 - Clarification on cross compliance responsibilities for graziers/landowners provided very late in the day, despite early notification in January by CLA, and in the end, daily chasing, on 30 March 2006, by which time the majority of grazing agreements for 2006 had been entered into.
 - Again, following (in response to?) a joint industry letter direct to the Commission, penalties for late applications have been lifted for two weeks (but no derogation applied for as has applied in Greece) on 5 May, 10 days before the 15 May deadline.
 - Over 20,000 2006 application forms were sent out blank, with letters saying they were prepopulated. Insufficient sufficient continuation sheets—blank forms only made available from RPA (sites and website), and industry reps from 28 April—the website downloadable form is different from those received in the post—RPA guidance contradicts itself—forms being submitted to meet 15–31 May deadline, but with covering letters saying why can't fill in properly—will lead to same delays in 2006 payments?
 - The latest errors admitted on 8 May are wrong advice given until 27 April on how farmers should code insurance set aside areas (ie land farmed according to set aside rules which is above the required set aside area as an insurance against being deemed to have too little set aside and thus suffering penalties).

THE EVIDENCE OF DEFRA DISINTEREST IN THE WHOLE PROCESS AND PROGRESS

- Cancellation of the Ministerial (Whitty) contact group quiet early on.
- The withdrawal of senior DEFRA staff—initially Lebrecht used to come and Hunter, Atkinson and Scrutton, plus the grade 7s. One by one the senior staff withdrew from the contact group (which ceased) and then from the stakeholders meetings. Since the autumn 2005 by which time the rot had truly set in, no senior DEFRA staffer was present only the technical staff (J O'Gorman and S Sood). DEFRA appear to have largely disbanded the SFP implementation unit. Not once did we see the Permanent Secretary, Brian Bender, throughout the whole process (nor Helen Ghosh). This seemingly was not a DEFRA top priority until they admitted it went wrong. It had actually gone wrong months earlier.
- Our best evidence of this is the absence of processing statistics and the blood we had to spill (and still are, no statistics circulated this week (17/5)) to get meaningful data—compared to other parts of the system (WAG, Scottish Exec and Rural Development Service). Our initial conclusion was they had the numbers but were not sharing them, we now wonder that they did not have them at all until we pressed. It was DEFRA's job to oversee and monitor the progress with payments, this they patently failed to do. There was continual wishful thinking exemplified in the way that the political target for making the payments changed from (Whitty) "We hope to make payments towards the early part of the payment window", to "the majority of payments will be made by the end of March". Then Ministerial statements then went from 96% to "75%ish", to 51% and then to the sacking of McNeill because it was scarcely over 20% and is still hardly above 50% on 8/5, one week before the 2006 application date.
- How much of this failure was due to the fact that DEFRA's main concern throughout was the "Change Programme" and meeting Brown's target to sack thousands of civil servants. And whose job was this? None other than the late hero, Mark Addison. He, must be amongst the suspects among DEFRA officers as responsible for the lack of DEFRA oversight. Yet he is "in danger" of coming up smelling of roses if he gets partial payment out by the end of May! However, the CLA does not want to upset this!

Memorandum submitted by the Central Association of Agricultural Valuers (CAAV) (RPA Sub 02)

The Central Association of Agricultural Valuers (CAAV) is the specialist body representing over 2,000 members practising in agricultural and rural valuations and related advisory and professional work throughout England and Wales. Its members provide professional advice and valuation expertise on issues affecting the countryside to all who require these services whether current or prospective owner occupiers, tenants, landlords, public authorities, or lenders and whether farmers, estate owners, conservation bodies, public organisations or those with other interests.

As such the CAAV and a very large proportion of its members have taken a close interest in the development and implementation of the Single Payment Scheme, handling many matters for farmer clients.

<i>Executive Summary</i>	Paragraphs	A–F
Background	Paragraphs	1–3
Since January		4–9
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EXECUTIVE SUMMARY

A. The CAAV welcomes the opportunity to give further evidence developing its submission of December 2005 which we believe to have been amply borne out by subsequent developments. In doing so, we express our continued appreciation of the intentions and efforts of individual staff within the system. Our review of the present situation suggests there is no “magic bullet” or ready solution but rather that it is sufficiently intractable to require a long period of sustained effort to get it right.

B. The ambition of the policy does not seem to have been matched by a realistic appraisal of the practical world in which it is to be implemented and the tools that were available to do it sensibly. The systems that should make the Rural Land Register operable generate problems that do not seem easily soluble.

C. The move towards payments in February forced a crystallisation of the true awfulness of the position which should have been recognised much earlier.

D. Entitlement statements have been issued to the wrong people and many (including those officially fully validated) are wrong. Similarly, many farmers cannot understand their national reserve awards and have asked for more details. In neither case, has the ready explanation of the arithmetic been easily forthcoming. There are particular issues over horticultural authorisations, commons, cross border farmers and other aspects. Farmers now have to complete their 2006 application forms by 15 May 2006 without knowing what rights they have to payment. The two years have now collided.

E. The late issuing of uncertain entitlement statements also affects 2006 by the pressure it has placed on transfers, usually following the sale, letting or surrender of land. Failure to transfer would mean *no* payment on those entitlements in 2006 compounding the problems of 2005.

F. The effort is now at last to bring order to a situation that has in recent months seemed to be disintegrating rather than reaching a conclusion.

BACKGROUND

1. In choosing the dynamic hybrid model in early 2004, DEFRA willed the end but not the means. It does not appear that Ministers (rather than civil servants) understood the pressures that inevitably followed under the structure of the main EU regulation 1782/2003 as applied to English circumstances. This option necessarily paid claimants on the basis of the area they submitted 15 months later in May 2005 with all the consequences that flowed from that. As the CAAV advised in the run up to that decision, it was inevitable that offering payment by area would see more area found, especially with the new definitions of the SPS and the simultaneous introduction of the Entry Level Scheme. It also had major effects on farm land sales and lettings as farmers and owners protected themselves over the intervening 15 months using all the flexibility afforded by our sophisticated land and business structures.

2. Similarly, it seems for the outside that the RPA did not appear to understand the full scale of what it had taken on or the inadequacy of its approaches until late 2005. We are not aware (but there might be no reason for us to be) that it sought additional resources to cope with this. While answering the CAAV in the winter of 2004–05 that the system had been tested for 120,000 applicants, it seems the RPA never really expected more than its usual 85–90,000 applicants. Work appeared to proceed slowly over logging the data from the SP5 application forms in summer 2005. As the situation developed, the RPA then appeared to be in denial over the matter with no one apparently taking an overview of the true situation.

3. The rigidity of the out-sourced computer systems created many issues, some now irretrievable, some only now being tackled on a clear recognition of the situation. The cost and management effort required to effect changes meant that as problems became apparent they were not tackled. It also appeared to lead to the policy focus in early summer 2005 on drafting the 2006 application form rather than handling the 2005 applications.

SINCE JANUARY

4. The immediate consequence of the Committee's Interim Report in January was Lord Bach's affirmation of the Government's pledge that payments would start in February 2006 but now with "the bulk" rather than 96% to be made by the end of March. This pledge precipitated something closer to open recognition of the situation as the RPA was in no position to deliver it on the instructed timescale. While the CAAV had advised from spring 2004 that farmers should not budget on receiving payment until Easter 2006, it had been assumed that the process would be on an improving curve with things coming together now rather progressively revealing ever more difficulties.

5. Had the RPA honestly recognised and discussed its position in late 2005, the debate on interim payments would have been in a different context, with less concern about risking the delays that were already unavoidable.

6. The problems seen in late February were already foreshadowed by the allocation of most national reserve awards from late January—it is understood that some have still to be issued. Not only did a significant number appear not to be right but there was no explanation nor any indication whether the award was such as to trigger the rules barring transfer of those entitlements in future years. Naturally, many farmers have lodged requests for explanations. Further, there are indications of a number of situations where the rules are being applied on tighter or different tests to those laid out in the guidance books of last year.

7. Rather like chasing the end of the rainbow, each stage seen to be key has felt much less significant on reaching it:

- the legal key to the system is "*definitive establishment*" of entitlements. That was to be done by August 2005 with the potential for an extension to December 2005. We are unaware of any derogation covering DEFRA for not having definitively established entitlements then and the Commission has written that no English farmer should be disadvantaged by the failure to do this on time. When payments and entitlement statements began to be issued in later February, it was said there had been definitive establishment at the national level but not at the individual level. Full validation was now the key for individual claimants; and
- full validation was then understood to be the key to payment. Yet, not only were many fully validated statements not correct and many FVP authorisations attached to them not correct but it then proved there were further sample checks on accuracy and other hurdles before a claim could be passed for payment. This seems to mean that perhaps 7,000 or so of those who received "fully validated" statements in late February have not been cleared for payment. Full validation was not the assurance of final accuracy it was presented to be.

8. The concern now is that as the total of those paid rises towards the total of the fully validated (and so possibly accurate) claims, so the slower progress on full validation becomes the bottleneck. As we near 60,000 fully validated claims out of the 120,000 so the remainder must include a disproportionate share of the more difficult cases and payment rates would slow down.

9. It became clear in late February that the number of farmers with fully validated entitlement statements was much less than the perhaps 80,000 that had been implied. The actual number may have been 39,000 out of the 120,000 but these were disproportionately concentrated among the smaller, simpler, low value claims. Even in early April when almost 30% were cleared for payment, these accounted for less than 20% of the money due. These figures were now approaching those given as accurate at the time by the Secretary of State to the NFU AGM in late February. Yet, judging by non-payments, it would seem that perhaps 10,000 of those 39,000 initial full statements are now accepted as wrong with the additional payments having come from more recently validated statements.

ENTITLEMENT STATEMENTS

10. There are still farmers (including those committed to transfers this spring) who have not been given any form of entitlement statement. A significant number of awards appear to be in serious error. This may touch on either confusion over the recipient or the actual allocation. There may well be situations where an apparently odd entitlement statement is right but the absence of ready explanation adds to the confusion.

11. There are cases where:

- substantially too many or too few entitlements appear to have been awarded;
- the wrong type of entitlements appears to have been awarded;
- farmers not due set-aside entitlements have been given them (and the reverse);

- errors over the allocation of FVP authorisations, accepted by the RPA as happening even for fully validated statements;
- uncertainties over calculations based on commons;
- farmers have been given entitlements in a wrong English payment area (perhaps most often where the results of successful moorland line appeals have not been recognised);
- the relationship with the national reserve has not been followed through;
- special entitlements have not been recognised as such; and
- entitlements have been given surprising “use by” dates implying unknown disputes over the 2005 claim.

12. It has proven difficult to confirm the values given to entitlement statements. Even with great effort to obtain calculators (and why should they not have been readily available?), most farmers seem resigned to it if they can get it within a few hundred euros—yet surely it should work arithmetically and, allowing for rounding errors, the figures calculated by the RPA, valuer and farmer should all be within pence of each other.

13. There remain particular problems for cross border farmers (such as those farming in both England and Wales) in securing proper recognition of the value of their entitlements.

14. There are cases where:

- the entitlement statement has been made in the name of the farmer’s agent, trustee or manager rather than the business;
- the address used has become garbled and so the statement has not been received;
- despite all previous papers being correct the statement is in the name of someone now dead who was the farmer in the reference period;
- switched SBI numbers have been used; and
- the entitlements have been issued in the name of an intended transferee.

TRANSFERS

15. A key feature of this spring has been the need to transfer entitlements to support the real claimants for 2006. Any failure to deliver this would not merely delay payments for these farmers for 2006 but preclude them absolutely. Once the May 2005 application process and the accompanying ten month periods were out of the way many got on and sold, let or surrendered the land or divided or created the business that they had been frustrated from doing by the wait from 2003 to 2005. They then needed to pass on the entitlements but could only do after definitive establishment.

16. DEFRA was helpful in being able to interpret a Commission letter to the English farming and professional bodies to mean that the transferor did not still have to be a farmer (who had perhaps died or ceased to be tenant in September 2005) in spring 2006. However, with most entitlement statements not arriving until into early March the rules only allowed the period to 2 April to handle this. An extension of this to 23 April has now been agreed. The RPA and its helplines placed excessive emphasis on a misleading date (19 March, now 9 April) for reporting “with land” transfers which has added to the confusion. Even now there is little time, if any, to put right a transfer that is rejected for some reason. Members handling these have been put in the position where they have to be right at the first attempt in a new and chaotic system which may not have thought of the circumstances in hand.

17. The English form for this, RLE1, is over-ambitious and confusing to complete. For reasons which appear in part to lie outside the RPA it is intended to be used not only for entitlement transfers but also for changes in boundaries and land occupation which would ordinarily be reported on the main claim form (though this use of the RLE1 has recently and helpfully been largely suspended for spring 2006). We do not see the point of this, doubt the likelihood of practical compliance and fear it adds an opportunity for error.

RURAL LAND REGISTER

18. Over the months, the RPA has not easily accepted points arising from the enormous and frustrating problems members have found with the Rural Land Register. There were already problems in securing corrections to farmers’ maps before this. The issue has been compounded by the need to add parcels created by the new definitions of the regulation, the allocation of entitlements on the basis of 2005 area and the introduction of ELS. The RPA perceived its system as a good one and has been reluctant to accept that it has problems.

19. Over a long period of months, members have reported many cases where the same amendments have had to be instructed several times but are not made. It is not clear whether the RPA failed to make the change or whether the change was instructed but not accepted by the system. Where a change is finally made, another error has often then crept in.

20. The problems described have meant that many members have had to do the same work several times over to no effect, to the frustration of their clients as well as themselves. This failure by the state has imposed a needless professional cost which members often feel should not or cannot be billed to farmers.

21. Discussions show there are at least two systems:

- the “mapping system” which is the digital register. The RPA still believes this is substantively correct. Yet there are some fields where the mapping produces successive and markedly different figures for fields; others where it invests effort in making one digit changes to the reference and area of a field and then reversing it, sometimes repeatedly. Such minor issues appear to be among those that have delayed validation for many. Some of the issues may arise from the level of accuracy demanded. The basic Ordnance Survey 1:2500 survey used may not be accurate to within 2 or 3 metres yet fields are to be measured to a hundredth of a hectare; and
- the “linkage system” which produces the maps and links parcels to claimants and farms. This is accepted by the RPA as posing problems and explains, among other things, why some farmers are persistently given fields that are not theirs.

The potential scale may be guessed by reviewing the failure to move to comprehensive full validation. If somewhere over 80,000 farmers could not be fully validated and the most likely reasons for not being fully validated lie in issues over assessment of areas (and then allowing for perceived dual claims), it may well be that in mid-February 60,000 farmers had RLR issues preventing their full validation.

COMPUTER SYSTEMS

22. Some of the difficulty has lain in the way the computer system was established. Each specific point was generated as a separate task to be dealt independently of any other task. No one saw a farmer’s claim in the round. We welcome the RPA’s move in April 2006 to adopt a claim based approach.

23. The computer contracts themselves appear to be task based, so that the consultants have done their job when they hand it over while the RPA has an interest in the whole system being workable in the medium term. Although the detailed shape of the Mid Term Review could not be forecast when the computer contract was let in 2002, its ambitions were already clear in autumn 2002 yet the system seems designed in way that does not readily accommodate the inevitable changes and subtleties of policy. In practice, there has been much more time to do this than had been foreseen as the reform was to be introduced in 2004 rather than 2005.

24. We fear the whole system may have been so reactively patched that it could be generating its own problems. There have been occasions where conversations with the RPA have felt as though staff were trying (and finding it difficult) to work out what their computer had done.

25. We have already been advised that problems between the RPA and British Sugar systems will delay all English farmers’ 2006 payments.

IMPACT ON 2006

26. All this has meant that the failure to resolve 2005 application forms is now overlapping with the 2006 claims for which 15 May is legally the last date for submission. We are urgently trying to establish guidance for those who need to complete forms to be paid for 2006 but do not believe their entitlements statements.

27. While 37,000 SP5 application forms had been sent out by early April, these would have been to those initially validated and so, in general, to the less significant (and often less needy) claimants. As of 4 April, 83,000 forms remained to be sent out by 18 April. That typically gives a month at most for all the pre-populated detail (not included on many now going out) to be checked for accuracy and new details of extra land, transferred entitlements and other key information to be provided and returned. This spring is no easier for professional advisers than last spring.

WALES, SCOTLAND AND NORTHERN IRELAND

28. Some comparison with the devolved administrations is possible. In doing this, we are most familiar with the position in Wales. They had a number of advantages:

- operating on the simpler historic system in Wales and Scotland (though Northern Ireland with its hybrid system could and did make interim payments);
- and so not having the extra issue of fruit, vegetable and potato authorisations;
- the pressure created by the system for farmers and owners was to preserve their reference period position rather than jockey for a better one in 2005;

- taking applications for most national reserve cases ahead of the main application period rather than the RPA stumbling to the point where it had to send out a fresh form to all claimants in October 2005 seeking supporting evidence because it failed to ask for evidence on the SP5 form (though it is understood Scotland has still to make its national reserve payments);
- shielded by the slowness of progress in England;
- their entitlement transfer forms only aspired to be that rather than trying to capture changes in land occupation as well; and
- their national reserve award letters were clearly laid out with the basis of calculation evident.

FINAL THOUGHTS

29. For the farmers involved this is not a simple, neutral, administrative matter of marginal interest—it is a major source of income and cash flow of crucial importance to many when production is now adapting to decoupling. They cannot go home from this in the evening. There will be farmers who are accepting less than they are properly due in the hope this may see them paid and so ease their financial position. Farmers are subject to enforcement systems where minor errors on their part can result in heavy penalties but perceive no parallel treatment for the authorities.

30. More widely, this whole story (which is not yet complete) is one that should be analysed more widely to assist the more general delivery of government policies since it illustrates:

- how the hubris of choosing a policy option without regard to the practicalities of its implementation can lead to such a nemesis. It looked as though ministers (who had not until autumn 2003 even considered the area option) thought the intention sounded right but do not seem to have closely considered the world in which it was to be done—what it would stimulate and how it could be implemented. The RPA was left to do it and to be kicked for getting it wrong;
- the dependence on computer systems whose design seems ill suited to the fluidity of such implementing such a policy; and
- the problems of accelerating overlapping initiatives—not only bringing in the Environmental Stewardship Scheme with the extra pressure that imposed on the Rural Land Register—but also pressing on with Whole Farm Appraisal.

31. Save perhaps for the Second World War, there has been no similarly comprehensive recasting of support for all agriculture before, not in 1846, 1973, 1984 or 1992. Such a task required a focus on priorities and implementation. Instead, excessive ambition has run ahead of practical delivery.

April 2006

Witnesses: **Mr Charles Wreford-Brown**, President, **Mr Jeremy Moody**, Secretary and Adviser, and **Miss Alice Russell-Hare**, Professional Assistant to the Secretary, Central Association of Agricultural Valuers, gave evidence.

Q189 Chairman: We now move on in our quest for the truth, as they say. The Committee is joined by the Central Association of Agricultural Valuers, Charles Wreford-Brown, their President, Jeremy Moody, their Secretary and Adviser, and Alice Russell-Hare, the Professional Assistant to the Secretary. May I say at the outset how grateful the Committee is for the very considerable amount of additional material which the CAAV has very helpfully submitted. As you might have noticed, with the line of questioning that we have just had, the diary of events is of particular value in trying to put into context some of the information that we have just heard and also the notes from the stakeholder meetings. We recognise that these are not a verbatim report but they do give some very important insights into some of the processes that are involved, and the Committee is also very grateful that you are happy that this information be entered as evidence into our inquiry, and for that we are very grateful. Starting with a very simple question to all of our witnesses, just to get them revved up and in the mood for answering the more detailed questions, who do you think is to blame for the mess with the RPA and the Single Farm Payment scheme?

Mr Moody: You start with the decision to choose a hybrid system, and it probably matters not which hybrid system but any hybrid system. Having taken an option which was self-evidently the most difficult of those available, it then falls to those that have to deliver it to will the means to deliver it, and that seems to be the point where things have fallen apart, that a challenging hybrid was put in place without necessarily the attempt to deliver it or to understand the world in which it had to be delivered. You heard previously from the CLA how they sought to represent it; we too sought, as you will see from some of the papers that are before you, to represent the kinds of stimuli and process that were set in place by a dynamic hybrid, and it is dynamic not only in its own system but that it is dynamic in creating stimuli for people to react to it. It is inherent in the area option and anything that relies on the area option that it turned on the 2005 facts of land occupation. It was desperately important that whatever decision was taken was taken as early as possible, and this particular time it was taken two or three months later than the industry would have wanted, but, as it was, it gave 15 months' notice to everybody of the

8 May 2006 Mr Charles Wreford-Brown, Mr Jeremy Moody and Miss Alice Russell-Hare

rules by which they could maximise their positions. It created its own dynamic and that would seem not to have been appreciated. As was discussed, I think, earlier this afternoon, Defra did clearly lay out, fairly early in this process, for their own purposes, quite detailed management programmes and various sorts of management jargon pertaining to this, and so forth, but for the delivery of consultations, decisions, SIs, and so forth, by no means, for all sorts of reasons, did they hold to that. That process then seemed to stall. As was said earlier on, there was effectively a handing over of discussions after the May 15 forms went in, in 2005. All our discussions effectively then, the focus of them moved, as with the CLA's, from Defra to the RPA, and that is the point where the IT systems, or the management of it, or whatever, have got us to where we are now.

Q190 Chairman: If we go back in time to when the discussions first started, do you have any feedback as to, I suppose, how Britain conducted the negotiations? I think what I am getting at is that some of the problems have been referred to in the context of "us not realising what it was we had agreed to," in other words, the volume argument. If one winds back the clock, when Ministers were sitting there in the Council of Ministers and they were discussing the new Single Farm Payment arrangements, most of the Regulations that I have ever been involved in usually sketch out in general terms what the territory is and what you can do and what you are allowed to do. Did you get the impression then that Britain understood what it was signing up to?

Mr Moody: I think, very clearly, the British negotiators were among the more competent of those negotiating the process. We put in an enormous amount of effort with the active policy officials on this one, hammering out definitions. Our suspicion was that only the Swedish Government was making a similar level of effort. There is a story that somewhere round about the beginning of June 2003 the Belgians sent a junior Foreign Minister who thought this was only a minor review and was sharply disabused as to where things had got to at that point. I think the level of input from British policy officials, certainly, and then, in those June 2003 negotiations, from Ministers was very strong, was competent and delivered a large number of national goals. The problem was then we changed our mind about what we wanted from it. There had been no internal discussion, no thought at all that as the area option began to emerge in the very late stages of the negotiations we would ever take it. It was regarded as a bit of an amusement, faintly entertaining, that it was there. We understood the reasons why the Germans had some desire to have it, because of competitive issues vis-à-vis Poland, and so forth, but it was seen as a bit of an oddity. The luxury of debate opened up when round about late May or early June 2003, in the closing stages of the negotiations, because of the lack of awareness among many of the other Member States, the implementation date for this moved from what was

clearly very demanding but I think the date that people wanted, which was 2004. All of a sudden an extra 12 months was given and, to an extent, that took the tightness out of a lot of the debate. We were on a very tight run to deliver for January 2004, a very tight run indeed, in the light of hindsight. Suddenly having space opened up, opportunities for people to talk then about other options and ways of doing it. We moved from a Regulation where if you wanted to understand it from the farmer point of view you started at Article 33, halfway through the Regulation, to the point where, so we started on this back to front, then we turned it inside-out to make it all run from Article 59, and some minor paragraphs of Article 59, in trying to apply the regional area option, and then do so with the hybrid model. In practice, the British Government very competently delivered something that did not answer the questions it subsequently chose to ask.

Q191 Chairman: Would you have thought that, in the briefing of Ministers, and I am trying to put this question to you as neutrally as I can, United Kingdom Ministers would have been briefed by those officials who had worked with other officials within the Council of Ministers, that the Minister sitting down to agree the Regulation would have understood what it was they were agreeing to?

Mr Moody: I think the Minister would have understood that she was agreeing to a historic option. That was the mainstream, that was the central architecture of the Regulation. It was the one which it was presumed that Britain would follow, and that if there was a byway, with interesting little arguments about how what were then called the "negative list" crops, the fruit, vegetables and potatoes, were to be handled, this was a little bit of continental arcana that did not really trouble us very much, save insofar as it affected coalition-building within the Council of Ministers. The interest in areas blew up in late summer, and by then we had gone into hybrid three. Within England, not the UK at all, it blew up in late summer 2003, hybrids emerged as a feature of the discussion once the problems of pure area were identified, in mid October, running through November and on. The negotiations on the political agreement were all closed by 26 June.

Q192 Chairman: What do you think it was that was the catalyst to this sudden interest in area payments and the then need to introduce them with a dynamic hybrid model? Was it the campaign that was run by various elements within the National Farmers' Union to bring horticultural land into payment for the first time, or was it something else?

Mr Moody: I think, probably, if you are looking for an organised campaign, it most probably came from the environmental bodies, which were anxious to draw in all land for cross-compliance. Somehow they saw the theory of what now I suppose you would call double decoupling, not only decoupling from production, which is the core, even fundamental, economic reform that comes with the Mid-Term Review, but also that if you decoupled people's future subsidies from past activities that

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was somehow even more virtuous, though it delivers the same economic effect, that production decisions remain driven by the market rather than by subsidy. That seemed like a bridge too far from where we sat at the time, but they seemed keen to run it. They seemed frustrated, in discussions, with our emphasis on looking at the practicalities of operation, the practicalities of its effects on business. I think there was concern from certain arable landlords, who were used to a land-based system for arable aid. There was always this tension running back into the autumn of 2002, when after the Commission published its *Reflections* papers as to whether it was to be a land-based or a claimant-based system, and effectively livestock had been claimant-based, arable had been land-based and so there was a tension whichever way you jumped. They were concerned, though I think actually wrongly, that moving to a claimant-based system could prejudice their economic position. You had those two angles. The particular angle of the horticulturalists was coming in as a little bit of a sideshow, I think, at that point, but I think it complicated matters within the NFU, in terms of the clarity with which only ultimately they were able to put their position. What seemed as much to have struck Ministers, and I think, if you look at Lord Whitty's Oxford Farming Conference speech but also our notes on the meeting we had with him on 13 November, were two things. You could see a world in which obviously entitlements were going to move between farmers, and I think he quoted the Hungarian Minister as saying, "I can see why I might have so many entitlements because I had 20 cows, but why after a period of transfers should I have an entitlement based on the fact that you had 20 cows?" I think that was part of the debate and he was almost quixotically anxious about what would be the right decision for five years' time. Clearly, he went through a process of agonising, one of the reasons why I think the decision took so long to arrive at, and ultimately he chose perhaps the purity of theory over the practicality of delivery.

Q193 Chairman: It is not often that ministers have such sort of blinding flashes of inspiration. It is usually that officials and/or lobbyists come and suggest these things and they are digested in the form of submissions to ministers and then ministers read them and think, "Well, that might not be a bad idea." Have you got any idea how this sort of sudden interest in this intense detail, the legacy five years hence, got through to Lord Whitty?

Mr Moody: That is why I explained it; I think, starting with various interests and then reached Ministers as they began to focus on the issues.

Q194 Chairman: The ability to respond to such lines of argument, fortuitously, from Defra's point of view, had already been agreed. The reason I am asking this question is, Ministers have said they were taken by surprise by the volume of applications. Is it because they alighted upon a way of satisfying a line of argument that you have just put to me and, in actual fact, when they alighted upon that bit, which you said earlier on was something continental and

not of great interest to us, certainly they said, "Well, it now is of great interest to us," but, in alighting upon that, almost by definition, they had not worked out what the consequences would be for its adoption in the United Kingdom at the time when the Regulation was agreed in the Council of Ministers?

Mr Moody: I think, if we are looking for rational policy-making, we would assume that they accepted the consequences of the decision they adopted. How far they understood the dynamics of that, how they actually understood the flexibility of the British farming industry and landowners, Allan Buckwell said their data can be a little rosey, we would subscribe to that view, and how far they actually understood these issues, which our members do because we are handling it day to day, in practice, advising all parties, and so forth, I think is a perfectly open matter of discussion, but in taking that decision they accepted those consequences and we had done what we could to lay those consequences before them.

Q195 Chairman: You backed the historic model, as an organisation, going back to this point about visiting yesterday's decision on the future: why did you back it?

Mr Moody: We backed it for a number of reasons. The point that a number of people since have requoted from us, which is that if you offer to pay for area you will get area; do not be surprised about the amount of area that you do not know about in England which will materialise. We backed it because we perceived, just as Allan Buckwell outlined earlier this afternoon, the enormous injustices that would flow from the radical redistribution of support overnight, which was what an area system would have meant. Bear in mind that when we started this the hybrid system was not on the table. Bear in mind also that arguing over the hybrid system was rather like wrestling with a bar of soap; it started in one place and by the time you got an answer on that it was somewhere else in the bath. It was peculiarly an elusive concept, and one quite difficult to deal with, but inherently it included within it substantial operational issues that by bringing more land into play, within the already refined definition of agricultural land, we drew attention then to the extent to which this would simply distort decisions over land occupation.

Q196 Chairman: Can I just pick up on a point, when you said the redefinition of agricultural land, the redefinition from what?

Mr Moody: The Regulation as a fundamental part of 1782/2003, that being a farmer is defined as being one of two things and they can be mutually exclusive. He can be someone who grows, rears, breeds agricultural produce, so the traditional farmer; or, and it is absolutely, in Article 2, an "or", he is somebody who keeps land in good agricultural, environmental condition. That decision, at that point, in the 26 June 2003, political agreement, as then enshrined in the September Regulation, set the stage. That liberty is there in Wales and Scotland but, because they have worked on a historic basis for

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allocating entitlements, those definitions are less tested, less pressured in practice. In England, we gave the issue full rein, because we chose an area option based on the facts that were then 15 months in the future.

Q197 Chairman: Would I be right in saying that if the Ministers' briefing, when they finally came to seek political agreement in the Council, had not said "The Ministers should be aware that agreeing the keeping of the land in good agricultural order will potentially admit X thousand hectares into possible payment which heretofore had not qualified under the old system," that might have been a missing ingredient?

Mr Moody: It would have been tangential though only with the historic option, because the historic option said, "What was the area used to support claims in 2000–02?" That was a fixed, defined issue, based on people's forage area and arable area.

Q198 Chairman: Only if you keep it with the express intention that the second bit was not going to be applicable?

Mr Moody: Yes, which I think was the British position. Remembering back into discussions in that period as the area option emerged, it was seen as something conceded to suit German circumstances, just as there are little appendices to suit Portugal over Madeira and the Azores.

Q199 Chairman: Given what then has transpired, was there a point when Defra could have postponed the introduction in some way to have allowed more time to get the administration in better order, to get it right, however you describe it, for what was now a more complicated arrangement than perhaps they had been preparing for?

Mr Moody: There are legal options, of course, and the French have exercised theirs, in particular, to delay, and I think Italy has on the milk side of the reform; there are legal options there. Firstly, the British Government was a very firm supporter of reform, and therefore wished to proceed with it as a flagship, so in her July 2003 announcements, the first statement to the House after the 26 June agreement, Mrs Beckett made it clear that the UK as a whole would move for reform in 2005, take it up early, before, of course, any of the discussion on area had started. Quite what manoeuvring room there was then to turn round and change the decision I am unclear, but from the industry's point of view I think it needs to be understood that this had been an exhaustingly long game. This is a reform with one of the longest time-frames I suspect that anybody can think of. Even if you take the mainstream architecture, people getting their first payments in 2006, under whichever model you take, would be doing so in part on what they claimed in 2000. The reference year period stopped at the end of 2002. Some people will have been assessed on what they had been paid in 1997–99, some people will be assessed on what they had been paid in 2004, but if you look at the mainstream farmers the clock stopped for them, as regards their history, at the end

of 2002. The land market froze at the beginning of 2003, and lettings froze, and so forth, because of people's uncertainty about the position. They went through 2003, the additional year of 2004, which was an uncovenanted extension; they were actually desperate to be able to get on and move on with their lives. Postponing this process further would actually have been damaging to the industry, its flexibility, its certainty, its confidence in Government, and so on and so forth. The decision had been taken and actually the industry needed to move on.

Q200 Mr Rogerson: Once the decision had been taken about the system, whatever its complexity, and the RPA had to deliver it, and also given the other schemes that the RPA was having to come to terms with as well, do you think it was being asked to do just too much?

Mr Moody: Hindsight certainly says so. We put out a press release on our October 2003 representation, which described this as a reform too far; that was in terms of the area basis. I think we would then subscribe to the view, if you look back at what civil servants were saying, I noted in capitals at the time, from David Hunter, 17 October, simply saying at that point "Time is against us. More expensive is to blend history and area," and I thought that significant enough to capitalise in my Day Book at the time, sitting in on that meeting. This was the first time that we had undertaken a reform that affected everybody, every acre of land, potentially, within the United Kingdom. The reforms that, of course, naturally, took two years for milk quotas to bed down in 1984, they affected 30,000 players. The more comprehensive MacSharry reforms had their store of agony and pain back in 1992 and 1993 and some appeals ran beyond that. We were trying to do this to absolutely everybody, whether they had ever been in a subsidy system or not, whether they ever wanted to know the authorities. We were trying to do something fairly fundamental.

Q201 Mr Rogerson: The later decision for a change at the top of the RPA sort of implies that, from the Ministers' point of view, they felt that the resources had been there to get the job done and it had just not been managed very effectively within the RPA; that would seem the conclusion to draw. Would it be your feel, based on what you have just said, that actually, what they were being asked to do, it would be very difficult for any organisation to have delivered it, given the resources they had at their disposal?

Mr Moody: It is very difficult for us to comment on the resource questions, it is very difficult for us to comment on the interplay between the RPA and Defra and who said what to whom. I think there is a bit of a political tendency. Because we would like to record our appreciation of the work of many individuals within the RPA; in a sense, in a conversation the other day, we have reached a position where the whole has been less than the sum of the parts, at this end, that there has been a lot of goodwill, a lot of endeavour, a lot of people have worked very hard and just watched the thing

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disintegrate around them. We cannot really comment on the level of resources. They were given something that was very challenging. Given that there was the political will to take what, in policy terms, or rhetorical terms, or whatever, felt like a nice, wonderful statement to make to the universe, at that point then somebody needed to sit down and put in place the means to deliver it competently.

Q202 Chairman: Why do you think that Johnston McNeill kept telling everybody it was all going to be alright on the night?

Mr Moody: He was not alone. Allan Buckwell again has commented on the stakeholder meetings. This is one of the frustrating things, in trying to get to grips with this, that we went through certainly October, November, December, January, and on, and they were assuring us, repeatedly, that the contingency was slowly being used up but that they were delivering it. We asked, everybody asked, critical questions, all the understandable questions that we asked. It is interesting, in terms of the reception of those, the pressure boiled up periodically to look at interim payments and, on the whole, the stance taken was that we were being assured by the RPA that we were near enough to getting the process delivered that we would frustrate full payments by going down the road of partial payments. We took, because we had to take, I suppose, their assurances on that sufficiently seriously that we continued to press on to deliver the full bill, rather than step off and do partial payments. Coming back on this, I am aware that there seems to have been a lack of knowledge, of those senior within the RPA, of what their own system was doing, where it was going, how far they had got, what the statistics they were producing meant. They believed that all was for the best. I am conscious for example that I think we took a very serious knock to our confidence in the RPA once the National Reserve Awards came out. They started coming out in early to mid January, and apparently bizarre figures were coming out, with no explanation, so even if they were right, for some reason, you could not be sure they were right, and many of them looked wrong and then they carried on dribbling out. They could not explain it to us. Alice particularly but also I had a number of conversations with them, in which they would go away and come back and try to tell you what their computer people had told them they thought they had understood that it was doing, but there were different explanations at different times on apparently similar issues. As we moved on, looking at Lord Bach's announcement of 30 or 31 January in the wake of your Report, pressing on, and, for the first of our briefing conferences this year, because we had been actively briefing members, at this year's conference we had about 700 people through, I wrote a number of papers, one of which was just a statement of where I think we are, for members, and I copied it with all the papers to the RPA staff, because there were a lot of technical matters in it I wanted their technical view on. At that point, picking up the position, I took a view, which I thought was, what we had been told was, sticking my

neck out, to an extent, that it may be that only 50% of claimants would be fully validated at that point, in mid February. That I wrote on 1 or 2 February. On my way to the conference, on 9 February, somebody senior within the RPA rang me up to admonish me, saying that it was outrageous that I should suggest that it was half the claimants awards would be wrong. It has turned out that actually the figure is 80,000 out of 120,000, and many of those that were fully validated were and are still wrong, so actually something like three-quarters were wrong. That gap in knowledge, which led somebody very confidently to request that when presenting my paper I also record their alternative view of their facts and what spilled out of their computer when finally it was forced to press buttons, I think is moderately telling.

Q203 Chairman: What went wrong with the mapping system?

Mr Moody: Thinking about it very hard, I suspect that the problems in the mapping system were there from the beginning but emerged only as it came under pressure. It may be, and this is the problem, I am now talking about somebody else's systems, that it goes back even to 1992-93 and the introduction of the MacSharry reforms. It was fundamental to that, for arable and forage claims, that there be a land register, and that was agreed and put through in Brussels on the basis that continental countries all have full cadastral registers. I know this, from dealing with continental properties, the local authority will hold a full, official map of who you are and what land you have got and you go along and change it. We have no tradition of that in this country and we made it up more or less overnight, in order to satisfy the 1993 first IACS forms, and then progressively it developed and evolved. They have since discovered that it was supposed to have included all agricultural land, but operationally it only included land that was recorded as eligible for arable aid and that which had been declared for forage area over the years. They believed they had a very good Rural Land Register system. Indeed, I understand that they had been commending it to others in Europe. It appears to have come under pressure at the point at which it needed to move from being, essentially, a static system to absorbing much new land, and that came first with the Dairy Premium system in 2004; a lot of mapping had to be done for that. There were something like 6,000 specialist dairy farmers who had not otherwise made area-based claims on the system, because effectively they were just dairy farmers, a few marginal beef claims. The difficulty the RLR had in handling that began to surface in the very late summer, early autumn, as maps were coming back uncorrected, information garbled, and so forth. At that point, we were clearly in the throes of the growing pressure ahead of both the Single Payment Scheme, fundamentally area-based, merely the value being slightly history-based, and also the prospect of ELS, which many farmers were keen to get into because they saw that as a means of bridging cash flow; both area-based systems. I remember, and it is recorded in

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the notes of stakeholder meetings, that both Allan Buckwell and I were making comments about how people, who were new possessors of land, were going to get hold of previous occupiers' data, how they were going to have the time to get the forms in. You will see what I think is a very clear and lucid statement from one of our members, Catherine Davies of Lister Haigh in Knaresborough which I think sets out for you a very representative and lucid account of how it spoke to members on the ground. I think it was incapable of digesting the extra parcels that came in and, of course, as it has materialised, a data system of 1.6 million parcels has now got 2.2 million allegedly on it. Within it, it appears to contain substantial issues over how it measures, how it reports. Both Charles and Alice could give you more detailed instances of actual cases, but the number of situations where members will have tried to submit amendments, half a dozen, eight or nine times, very often without any apparent result. When they achieve a result and lose the fields that were never theirs. We had a situation, and just to dramatise it, where it took considerable effort for a member with a client in South Yorkshire to lose the fields in Devon that he had been given in the system. Then there are shadows within it. Alice was dealing with a case recently where, on getting the maps changed, they suddenly looked the way they had three changes ago. Again, this is where it is difficult to look beyond merely the symptoms that we see. We cannot tell you causes, we can merely describe to you symptoms. The system appears to fail and it is throwing up all sorts of things. I was rung by a member two months ago now, who said "What do the letters OE stand for?" Apart from the obvious and flippant answer, I did not know. I went to the RPA and they said "It means 'out of England'," which might be understandable for a farmer down on the Welsh border, somewhere on the Shropshire boundary; this field was in Lincolnshire. It appears that it cannot accept changes, it appears there are fields which it just sits away and moves it by digit and back, forward and back again. There are random changes. The RPA is very, very reluctant to concede that the land register side of the Rural Land Register, the actual record of fields, is in error. I made the remark, I think, in our evidence, that it has been very difficult to hold useful conversations with them on the subject. When I introduce members to senior RPA officials, it is the one subject they want to talk about. The first 20 minutes of any meeting would not be about what it was supposed to be about, it would be, for the last 12 months and more, more than that, nearly 18 months, that they wanted to chew the RPA official's ear about the Rural Land

Register. Reactions: be it from world-weary "It's somebody else," to "It's perfectly alright, it's customers and agents who are putting in all this duff data;" a deep unwillingness to recognise that it appears to be flawed. So a long reply, but there is an awful lot of it.

Q204 Chairman: I think you have given us a very good flavour of some of the failures.

Mr Moody: If you want practical examples of it then we are more than happy to provide them to you. It seemed that it was not necessarily very suitable for a committee format, but if you wanted a discussion elsewhere. Some of our members have taken to sending through consolidated e-mails with all the scans of the last nine submissions so it is all there for an official to look at and process. We discussed, at one point, in one of the stakeholder meetings earlier this spring, a means whereby difficult cases could be escalated. Talking with one of the officials, he said, effectively, "You could take the escalation process to the level of God. If God decided that it should be changed, if the system does not respond there is no point in having it escalated." From the outside, there is something flawed in it. It shows different screens in different centres, that people in the Customer Service Centre do not see what they see in Reading, or in Northallerton. It appears to throw up data; again, Alice was looking at a particular thing. Alice visited the Customer Service Centre and the screen for a farm there, for when somebody was ringing in to talk through their fields, included fields as away from the farm because they were let, but they had been let three years ago, they had come back in hand for the years since but it was still showing that up, for whatever reason.

Chairman: Time is going to mean that I have to draw this session to a conclusion, which is sad, but inevitably there are constraints on what we can do. However, in conclusion, I would like you to do one further thing, and that is that, if you were in the position of me being the Minister and you being able to ask me the questions, what would you like us to ask the people in Defra/the Ministers when they came before us? You have got a detailed working knowledge of many of the areas of failure and part of our having representative organisations in at the beginning of our inquiries was to make certain that we could ask the right questions of those who are responsible. In bringing this matter to a conclusion, I wonder if I could ask you to assist us in our further inquiries, because that would be of great help, and again to reiterate my thanks for the excellent evidence that you have given us so far. If you would write to the Committee, we should be very grateful. Thank you very much.

Supplementary memorandum submitted by Central Association of Agricultural Valuers (RPA Sub 02a)

- Part 1 The mid term review of the CAP and England: a chronology
- Part 2 CAAV Review: Implementation of Mid-Term Review
- Part 3 Who are the new SPS claimants?

Part 1—THE MID TERM REVIEW OF THE CAP AND ENGLAND: A CHRONOLOGY

- 1999 Berlin Agreement settling the Agenda 2000 reforms for 2000-2006 and providing for a mid-term review in 2003 on a number of points.
- June 2002 First rumours that the Commission would propose more significant reforms than expected.
- July 2002 Commission publishes its Reflections paper proposing a decoupled Single Payment but unclear as whether it would be farmer-based (as proved) or land based.
- From this point the CAAV, identifying this as a potentially major change, opened its engagement on the principles and practical details with DEFRA officials.
- October 2002 Berlin agreement between President Chirac and Chancellor Schröder agreeing on agricultural spending limits to 2013. While it seemed that Chirac did this to defeat the proposals, Commissioner Fischler spoke the following week to affirm his commitment to taking the reform forward within the agreed budget.
- The CAAV then went to Brussels in November to meet relevant Commission officials.
- January 2003 The Commission published its legal draft of what became 1782/2003. This would establish the payment solely on a historic basis to be introduced in 2004 based on farmers' history of subsidy claims and associated area in 2000–02.
- Within a week, the farmland sales market in the UK froze as those with history saw they needed to stay, purchasers did not know where they would stand and professionals struggled to advise. The same effect bore on the letting market but its longer lead times saw this apply more slowly. While we evolved tools to address the issues once the legislation became more certain, these results lasted at least until the 15 May 2005 application forms were submitted.
- The CAAV went again to meet Commission officials (including the draftsman of the regulation) in February 2003 and continuing to explore the practical effects of the wording with DEFRA officials and to inform their negotiations.
- The exploration of the proposals at official levels went on through the spring only reaching serious engagement between Ministers in the later spring and early summer.
- June 2003 An intense and extended period of ministerial negotiations saw then agreement on the regulation 1782/2003. One consequence of late engagement by some continental countries was the delay agreed in late May or early June of implementation until 2005. The regional area payment option of Article 59 was also introduced.
- July 2003 DEFRA made basic announcements on the reform—full implementation from 2005 and separate management in each part of the UK.
- Sept 2003 Detailed discussions resolved the final text of the regulation (published in October). Among other things, this saw the inclusion of negative list (FVP) crops in the regional systems despite their exclusion from the historic option.
- October 2003 The DEFRA consultation on implementation options, including history v area, closed.
- Feb 2004 DEFRA announced area-based implementation having divided England into two regions: SDAs and non-SDAs. The entitlements would be allocated on the “dynamic hybrid” basis of 2005 area with their value set by two components: an area element phased in to 2012 and the benefit of each farmer's historic claims as applied to those entitlements and to be phased out by 2012. Most organisations were very concerned at the impact on businesses (especially dairy and beef) in the SDAs.
- April 2004 Two major EU implementing regulations (795/2004 and 796/2004) giving much detail on definitions and mechanisms were published—but inevitably throwing up more questions and issues.

After industry representations, DEFRA revisited the division of England and created a third region by dividing the SDAs into SDA upland moorland and outer SDAs, thus ensuring that the higher subsidy history of many outer SDA businesses would not result in a final area payment diluted across all the moorland.

Domestic discussions increasingly focussed on the many issues of implementation including cross compliance.

May 2004 Consultation on National Reserve and other issues closed.

July 2004 The RPA sent out the first SP1 forms advising farmers of its records of their historic claims and opening the way for applications (using forms SP2, SP3 and SP4) for hardship, merger, scissions, inheritance and pre-2002 new entrant claims. This was a data-cleansing, administrative (rather than legal) process which continued into early 2005 with the period for lodging hardship claims being repeatedly reopened as new points were administered. This process was affected by a further EU implementing regulation agreed just after first forms went out revising 795/2004 to allow hardship to see the exclusion not of whole years (as first drafted) but of individual scheme years—so beef claim in 2002 could be dropped because of foot and mouth without requiring the arable claims in that year to be dropped.

CSC helplines started with immediate confusion following.

Nov 2004 DEFRA announced its response to its consultation on the national reserve categories and levels of awards as well as on land used by horses and other matters.

Jan/Mar 2005 Main period in Wales and Scotland for receipt of most classes of national reserve applications

January 2005 DEFRA statement that payments will start in February 2006 with 96% made by the end of March 2006.

Feb 2005 Final administrative closing date for hardship applications.

It was clear from the planning of the CAAV's spring 2005 MTR conferences that RLR issues now featured prominently in any meeting between members and officials.

March 2005 Mid-late March 2005—RPA circulated the SP5 forms to farmers.

31 March—milk quota held now set dairy premium element of entitlement value.

April 2005 Blank forms and continuation sheets made available in early April.

May 2005 Final statement of acceptable non-agricultural uses on land being used to claim payment.

SP5 forms to be returned by 16 May (or 9 June subject to payment penalty).

New activity in the land market (and some receiverships) resumes driven by parties—but still depressed by lack of knowledge of assets, national reserve rules and need to hold land to be paid.

October 2005 RPA sent out SP5e forms to collect information on national reserve claims to be returned by 4 November.

Further EU implementing regulation confirms confused position of energy corps. Claimants allowed to revise their 2005 SP5 forms.

Dec 2005 Wales, Scotland and then Northern Ireland (with its static hybrid) commence substantial part payments.

EU Commission writes to advise that: *"It is clear that the delay in the definitive establishment of payment entitlements cannot prejudice the farmer concerned and affect negatively his capacity to transfer his entitlements."* Definitive establishment of entitlements should, under the regulations, have been done by the RPA by August 2005 with a delay to December 2005 countenanced if there were particular legal problems.

January 2006 First national reserve awards letters sent out. This was the first major response to farmers from the RPA and combined apparent chaos with no explanation.

DEFRA responds to Commons Committee report pledging that payments would start in February (understood to be 14 February) with the bulk paid by the end of March.

Feb 2006	First payments and entitlements statements (correct or otherwise) received from 20 February. National reserve deduction announced. Definitive set-aside rates finally confirmed—should have been done by August 2005. RLE1 forms for transferring entitlements (and initially recording land occupation changes until this was relaxed) issued for return by 2 April if entitlements transfer to be valid for 2006 claims. False trail over purported 19 March date for with land transfers.
March 2006	Announcement of 16 March that bulk of payments could not be made by 31 March. RPA to be reviewed and Johnston McNeill removed. First SP5 forms started to be sent out on 20 March but, as aimed first at the fully validated, few reached significant farmers until into April with many waiting until almost the end of April. Announcement on 30 March that closing date for RLE1s for 2006 transfers extended to 23 April. In practice, most forms have arrived a month later than in 2005 and many not pre-populated with field and other data. RPA advised that as of 30 March, 55,000 were thought validated, 37,000 claims had been authorised and 29,000 (24%) had been processed for payment (but as predominantly small claims this only accounted for 14% of the money). The RPA announced a number of changes to its systems including a shift to a claimant based approach.
April 2006	DEFRA announcement that partial payments to be paid to most of those not fully paid to commence when operationally possible (excluding those to be paid in euros, those under €1,000 and some others). The intention is that farmers should have received either a full or partial payment by 30 June. It is not clear how this applies to the 20,000 or more thought not to be fully paid and not to qualify for partial payment. Once this system is operational in later May or June, full payments will cease. Work on full validation will continue but we assume there will be a diversion of effort from it. Blank forms and continuation sheets became widely available from 28 April rather than the intended 8 May.
May 2006	Advised that 132 entitlements statements still to be sent—but it seemed many others had not been received. As of 2 May, 67,000 were deemed validated, 62,000 authorised and 56,000 processed for payment (47% of claimants but 34% of the money). Penalties lifted from SP5 forms returned by 31 May, rather than 15 May. Lord Bach leaves government. The Cabinet shuffle leaves no minister at DEFRA who has been directly involved.

Part 2—CAAV REVIEW: IMPLEMENTATION OF MID-TERM REVIEW

Notes from Stakeholder Meetings, etc

1. *Notes:* These notes on the developing implementation of CAP reform in England are built around Jeremy Moody's manuscript notes of meetings held with DEFRA and the RPA from September 2003, together with other records including Alice Russell-Hare's notes and e-mails. Limited time has constrained the post-May 2005 coverage.

2. Up until May 2005, there were two rounds of main meetings whose business often overlapped. They were separately chaired by David Hunter of DEFRA and Lord Whitty, the Minister. The object of the former was more technical as the regulations evolved and the latter more policy based. After 16 May 2005, stakeholder meetings were generally held with the RPA.

3. Until late August 2003 there had been no understanding that anything other than the historic option would be pursued. The emergence of the regional option in the main regulation had been seen as a particular response to German circumstances and an object of some entertainment.

4. However, the deferral of the implementation date for January 2004 to January 2005 allowed both England and Brussels that the luxury of a further 12 months in which debate could happen, removing the pressure for urgent implementation.

5. My records suggest the first stirrings of interest in the area option was at a CLA Executive meeting of 29 July 2003 after which Allen Buckwell prepared and circulated on 11 August a discussion paper positively exploring it. The possibility was mooted at a meeting on 30 July convened by the CLA to review possible uses of the then national envelope option. This interest appeared to reflect the perceived concerns of some arable landlords. In mid to late August an article in the Financial Times reported RSPB pressure for the area system.

6. The discussion then ran and late amendments were made to the papers for the CAAV's first round of briefing conferences in the week of the August Bank Holiday and the following week to include a general (but still secondary) review of the area option as protective text in what were otherwise papers briefing professionals on the basis of solely the historic option.

7. *NB.* The references in the following notes to 'negative list' are to those crops grown for human consumption subsequently known as FVP (Fruit, Vegetable and Potatoes) which have subsequently given rise to authorisations attached to relevant entitlements.

8. In reading the papers of the time, "regionalisation" was the option of implementing the reform not at a UK level but at lower levels. This would most obviously be along the lines of the devolution settlement which made this inevitable. That then allowed each area to make different choices about how implementation would happen. What these notes call the area option was often then called the regional average area option—that was a matter for consideration once the decision on regionalisation had been taken.

A. David Hunter Meeting 12 September 2003

9. At this first of the formal post-agreement David Hunter meetings, he reported on the general state of play as the regulation implementing the June agreement neared completion.

10. The fourth point raised among those outstanding in resolving the Council agreement concerned the "regional area" option. We were told this would average out the accumulated entitlements over the area including that in unsupported crops. It would not pay out on negative list crops. The Germans and Danes were anxious to disapply the negative list. The UK opposed the negative list. Part of the thinking: "so those using alternative route suffer having asked for it". Also a competitive point—if some hort producers get aid and others don't. So UK argues against relaxation. There was also concern about discrimination against the UK from the relaxation—this could be an issue for ministers.

11. One concern was "wanted to simplify—don't want arrangements adding to cost of inspection".

12. "DH prefers to see negative list applying but sees argument both ways".

13. The RSPB thought area payments more de-coupled than historic ones.

14. The RSPB issued a policy based review paper supporting the area approach also in late September.

15. JM note beside this saying "but surely arable/livestock division makes it more coupled". *There was some background of discussion of such a division in an attempt to recognise the redistribution issues.*

16. David Hunter spoke to the DEFRA consultation paper and confirmed "the area approach is on the table". He hoped to be able to report on the flavour of thinking at the 17 October meeting.

17. In reviewing implementation, Nigel Atkinson of DEFRA thought that after a second consultation in January/February 2004 and the possible third focussed consultation later that spring, SI's could be laid by the summer break. Application forms could go out in early January 2005. There was concern about the urgent need for early clarity in the implementing regulations. The plan said these would be in place by December but there were risks.

18. Issues were raised over regional payments and cross border issues and the interaction with ELS.

19. *There was a brief note on the issues in the history v area choice in the DEFRA Regulatory Impact Assessment of 1782/2003 of September 2003.*

20. *The CAAV produced an initial technical analysis of what was still then a pure area option (rather than a hybrid) on 23 September.*

B. Lord Whitty Meeting of 8 October 2003—Chaired by David Hunter

21. It was hoped to have all of the regulations by Easter but tackling the changes for 2004 first.

22. He noted the "change for FVP because area based countries unhappy with it" understood to be the inclusion of negative list crops in the area option.

23. The NFU reported a long debate with some internal pressure from unsupported crops (no-one else) for the area option. If the only alternative was area, livestock problems made the choice history. Some options get more difficult—separating out livestock would make re-distribution worse.

24. *The NFU discussion paper was produced on 10 October—while its Council finally and predictably opted firmly for history, the preceding open debate allowed to its horticultural members perhaps obscured the NFU's inevitable stance.*

25. The Countryside Agency had not yet chosen an option but “fears unexpected consequences of radical change to area based”.

26. David Hunter said that “Ministers will consider:

- Redistribution
- Policy Issues including the views of stakeholders, the impact on dairy and sugar, are the beneficiaries undeserving”

27. It was noted that Eire going for 100% de-coupling felt there was no way it could do area even though its agriculture was more homogenous.

28. The Environment Agency had made no decision but was leaning to area based because that would extend cross compliance to all unsupported land.

29. English Nature was working on the subject, issuing an equivocal paper later in the month. Difficult when looking at implications to find a clear environmental issue either way so not seen as environmental issue but whichever way will be environmental effects. Cross compliance unlikely to be demanding. The big issue is dairy. It saw the costs of delivery as the potentially decisive issue—but what are they?

30. David Hunter responded on this point which I noted, using capitals at the time: “TIME AGAINST US. Hunter says very much more expensive for history because appeals. MORE EXPENSIVE IS TO BLEND HISTORY AND AREA.”

31. He noted the problems of consulting in Jan/Feb without implementing regs agreed.

32. He thought “ministers would decide on the area issue early. National envelope rules would be the subject of consultation in January/February and hope to have area decision by then”.

C. David Hunter Meeting of 17 October 2003

33. The meeting began with David Hunter saying the re-distribution effect of moving to area payment was substantial. DEFRA’s analysis had been based on categories and not individuals but saw the total of losses as some 14% on re-distribution. He confirmed it would not be possible to take out the dairy area. The effective re-distribution would alter with the exchange rate. Will work out percentage gain from losses.

34. *Note*—DEFRA had issued ahead of the meeting:

- a paper sketching the various options including various hybrid models. This was the first significant official review of the possibilities here; and
- an analysis, at a sectoral rather than business level, drawn from Farm Business Survey data to appraise on the potential redistributive effects of an area system. The CAAV thought this understated the issue and, following press reports wrote to *Farmers Weekly* (7 November) as well as making direct representations.

35. “RPA preparing figures for admin costs of broad options”.

36. Bill Duncan (RPA): “options all have to be sorted at the beginning—once into system all maybe easier.”

37. David Hunter said that ministers had stressed the merit of reform as simplification. I pointed to two steps in assessing this: initial allocation and then subsequent operation.

38. The meeting considered a paper prepared by John O’Gorman of DEFRA outlining a range of options. In introducing this paper, David Hunter pointed to the second indent of paragraph 5 (phased change within historic model) and 8.3 (the area based limitation on transfers within the region).

39. “Other member states not applying area payments would want to see tight application of negative list rules”.

40. “Hybrid schemes reduced re-distribution effects but higher costs because use history. Increases grounds of appeal. Issue over data on what is permanent pasture/grass.

41. A discussion followed on trade in entitlements.

D. Joint TFA/CAAV Meeting with Lord Whitty—13 November 2003

42. This meeting had been jointly requested to express concern over the possibility of adopting the area option.

43. My note on coming out of the meeting reads “his ultimate concern is how to justify payment in several years time. JM said operation not calculation would be issue. JM stressed future facts.”

“Future facts” was shorthand referring to the situation where announcing in winter 2003–04 that the basis for allocating rights to payment under the new system would be area held in May 2005 gave a long lead time for potential claimants to protect their position with distortions to the land market and farm structures.

E. David Hunter Meeting 14 November 2003

44. Over 200 responses have been received to the consultation paper. Davinder Lal gave a review of the responses on all the subjects.

45. Concerning area or history, there have been a lot of comments. Generally the producers of the main commodities, tenants and individual farmers favoured history. Those in unsupported crops favoured area. Environmentalists range from supporting area to being unsure. Many stress the need for more analysis.

46. The discussion of issues fell under four heads: policy, economic, administration and environmental.

47. *Policy*—Farmers favoured history so weak support for area. Farmers who have already diversified would be penalised by area. Area could be “true de-coupling—chance for radical change. Subsidy for public good—area a step to that”.

48. *Economics*—farmers fear that area would hit individuals. Dairy risks of area (also sugar). The capitalisation of area payments. Distortion to the rental market. Livestock faces problems with area—“want some division for livestock”.

49. *Administration*—“complexity of hybrid”. DEFRA should not use valuable resources on administration of a complex system.

50. *Environment*—The arguments were not strong either way so it should not dominate decision. Area would extend cross compliance a little.

51. David Hunter said that it was not just a question of choosing history against a flat rate. “So no single rate across England but whether history is broadly preferable to one or the other hybrid model blending area and history.”

52. Other member states—nearly all asking same sorts of questions. All troubled by re-distribution. Only Ireland decided for history—very easy to decide from data that area was too much political difficulty.

53. Other member states—informally—only two were actively leaning towards area: Germany and Denmark. Finland and Sweden were reflecting, hankering for area but not near a decision and thinking through the consequences. The Dutch were going for history—horticulture had never had payments so why give them now. Luxembourg was having second thoughts about area. Generally there was much flux.

54. Wales and Scotland were likely to go for history with Northern Ireland perhaps area.

55. DEFRA had worked up a hybrid to ring fence arable and livestock money. “Hybrid would be perceptibly more expensive”.

56. *Comment*—David Hunter’s closing remarks here may illustrate the point at which the pure area option had failed despite its attraction to ministers. The hybrid options made for an elusive protean debate thereafter as there was never one option on the table making objective comparison difficult.

57. On 17 November in an e-mail exchange Jeremy Moody wrote to the manager of a major estate: “You should be aware that the area option is looking less like a flat rate payment than some form of hybrid but the animal keeps changing shape (like Proteus) each time it is wrestled with—in ways which do affect the land management arguments.” In a later PowerPoint presentation the heading for the side on the hybrid option was “Solution or Bar of Soap?”.

F. Lord Whitty Meeting—1 December 2003

58. After a brief review of WTO developments by David Hunter, Lord Whitty discussed the decision on the basis for payments. “Minds reasonable open—some constraints as to what can do. Take a hard look over next few weeks. Unlikely to decide for Christmas—around end of year. Have to take in next month or so to get on and meet industry [need for answer]. Other Government departments and devolved administrations.” He noted that the bulk of farmers’ responses favoured historic but most environmentalists were close to area. Some difference between arable and grazing. Differences in the devolveds—Northern Ireland leaning to “vertical decoupling”. Expected some inter-relationship between the national envelope and the new regime.

59. He was “looking to position of Ministers in five years”—how to explain differences between fields. There was a debate about defensibility and transition.

60. Those present restated their positions with the CLA affirming its support for a hybrid.

61. After musing about the objectives of the next report, David Hunter asked whether roots growers realised that the area basis would lead to setaside and noted that an area basis would see money moving into the moors and so to sheep (do we want more sheep?). A new paper would be forthcoming with analysis but he generally saw the analyses of administrative costs as not being robust and not decisive in the choice.

62. *There was then a long gap between formal meetings as much waited on the decision of the option to be taken in England while EU discussions moved slowly. The feeling was that meetings would simply have retrodden the same ground. As frustration grew at the Government’s apparent inability to settle the matter, it became more important for business planning to have an answer than what the answer was.*

63. On 18 December the CLA wrote to the Prime Minister urging the adoption of a specific hybrid model though it concluded more generally that “a reformed CAP is best achieved in our view with a hybrid payment distribution”.

64. *Lord Whitty’s Oxford Farming Conference speech was just on 6 January 2004 reviewing Ministers’ continuing dilemma and from which we concluded that the options were either only a temporary use of history (how within the regulations?) or some sort of hybrid.*

65. *Note*—The stakeholder meetings in December and January were then cancelled in turn as any new discussions depended on a decision on this key issue.

G. Lord Whitty Meeting—9 February 2004

66. Lord Whitty opened the meeting referring to the wide range of consultation responses. “Not yet a finalised decision. In discussions with the Commission and the devolved bodies. The basis for SFP—everybody knows where stacking up. The majority of respondents 2:1 history. The Government’s view is history is hard to defend where [. . .]. So looking at moving away from history. So still looking at moving to area basis over a period of time. Could be a different system for English SDA’s. Want to sort out this week ahead of parliamentary recess.”

67. The CLA was concerned that the system should not start with too small an area payment. Leaving this could lead to a disruptive market in entitlements with much close-to-naked land. If the move is too fast in regionalising livestock payments that would be disruptive to business. No organisation had argued for a dynamic hybrid. If not able to justify the objective risks not being accepted and so delaying decoupling.

68. Lord Whitty responded that some did argue for progressive movement. There may be a Commission view on where the process starts but there was “a balance between taking it gently and bringing it in”. It could be linear or increasing—may have to consult on this. Area was part of the final package. Countries could take difference views—allowed by regs. The Commission should have come forward with detailed regs by now.

69. The Commission’s original concept was historic. Area payments were an addition to the text. So Commission sees history as norm and deviation to be justified. The Commission in difficulty if objects to this. Sees more national policies than first envisaged. Brussels losing control. Hardly anybody takes a definitive position. There might be additional analysis and impact when make announcement. Announcement might be later—probably not this week.

70. The Commission thought that 20% minimum area fraction was needed. Nothing in Council regs. Could be in implementing regs. The NFU had been told it could be tiny. The Commission seemed to be shifting.

71. When asked what were the most important factors in the decision, Lord Whitty replied “central issue—will we finish with a system that makes UK farming more market oriented and delivering . . . environmental outcomes. Concern that do not destroy potentially competitive parts of the market. Fears that land market could be counterproductive.”

72. When asked about the SDA’s, Lord Whitty mused about two regions for England limiting redistribution but would this be justifiable in terms of outcomes.

73. Later in the meeting Lord Whitty said: “this month’s announcements would be broad conclusions. Need to discuss further—devolveds—Brussels—industry. Fears more difficulties with Brussels over a dynamic.”

74. He closed the meeting saying “has been/is a difficult process. Options [for announcement] are this week or week after next. May happen very suddenly. Devolveds may not be coincident in content or timing. Hoping next three weeks.”

75. *The announcement was first made on 12 February 2004*

H. David Hunter Meeting—27 February 2004

76. This was to be the first of a series of monthly Stakeholder Meetings.

77. David Hunter outlined the basis for the decision on area. “Having discussed options, Ministers clear that wanted flat rate option in long term but single rate would be difficult—so two tier. Use SDA line. Transition period to allow adjustment to redistribution.”

78. *At this stage discussion then focussed on the manner in which England itself should be regionalised—two or three regions it should also be noted that at this stage very little was understood about the relationship between history and area under the option taken and equally how cross border cases (both within England and within the UK) would be handled.*

I. DEFRA Technical Meeting of 15 March 2004 on New Implementing Regs

79. Chaired by John O’Gorman, this meeting saw active discussion of such matters as the definitions—permanent crops, orchards, common land and the extent to which GAEC could include fallow as we went through the various articles on what became 795 and 796. Many technical points crystallised discussion only to raise questions to be pursued in the negotiations. At that point further consultation papers awaited review by Ministers.

80. *The focus of industry discussions at this point was whether England should be divided into two or three regions with further representations being made on this to Ministers which ultimately led to a fresh announcement in march re-dividing England into three payment areas—rather than the two areas of the February announcement.*

J. David Hunter Meeting of 26 March 2004

81. The Secretary of State was thinking over the regionalisation of England. Officials had not yet advised. If the position was changed there would be a public announcement. David Hunter suggested that if Ministers were minded to do anything on this they would look at:

- Is there a real rationale coherent with the policy objectives?
- Strength of industry consensus on this for the rest of the implementation period.
- Administrative practicality.
- Costs and risks.
- Legal issue—is it sound?
- Acceptable to Brussels.

82. He noted that the German model is giving some regional redistribution within limits but the same system operates across all Germany. The place of milk is still under discussion.

83. Nigel Atkinson of DEFRA outlined initial thoughts as to how area might be calculated and history allocated. The arable issues included unsupported crops and setaside.

84. After reviewing the emerging definition of permanent pasture discussion focussed on the place of land such as orchards and land used for horses—does it interfere with agricultural area? Could it be part of GAEC? Fact not intention is relevant under regulation.”

85. *DEFRA made an announcement re-dividing England into three payment areas on 22 April 2004*

K. David Hunter Meeting—30 April 2004

86. This meeting saw further engagement in the process of detail the appraisal as David Hunter suggesting a mechanism for handling detailed queries.

87. *Note—I made the point to John O’Gorman at an informal meeting on 4 May 2004 (as I would also have done at other meetings) that the legal definitions meant that horse land was inescapably within the definition.*

L. Lord Whitty Meeting—10 May 2004

88. Among other issues discussed the potential application of the regulation to orchards and other grazed woodlands for which Commission guidance was awaited.

89. In reviewing the next steps and implementation, a timetable was laid out with which concluded with applicants being advised of their “amounts” in summer 2005.

M. David Hunter Meeting—28 May 2004—the DEFRA consultation on the national reserve and related issues had closed.

90. No announcement had yet been made on orchards.

91. The RPA suggested that National Reserve forms might be sent out with the 2005 applications. Work was underway on the ceiling for horticultural authorisations but no dates were given for the work.

92. *Note—As we ran on through the summer so I pressed (with support from others) at these meetings for early action to collect the necessary information for the allocation of FVP authorisations. The cropping of potatoes, onions, carrots, etc had previously been entirely outside the subsidy system but was brought in by the choice of the area option. The sector relies heavily on such growers taking fresh land each year for which there is a lively market in relevant districts—often at substantial rents. The uncertainty over MTR implementation posed major issues for this market as the first relevant lettings for 2005 were being negotiated in June 2004. As it happened we have to handle two years of such lettings without knowing if these occupations would earn the Single Payment or not—we still do not fully now.*

93. *The issue became such that the CAAV and the NFU published joint guidance on 14 August 2004.*

94. The definition of permanent pasture was explored.

N. David Hunter Meeting—25 June 2004

95. This mainly discussed the responses to the second wave of consultations.

96. Discussion continued on the understanding of the ten-month rule.

97. On orchards, it was for DEFRA to come up with a clear rule—they should be grazable though need not be grazed.

98. Acceptable non-agricultural uses requires a common UK interpretation.

Note—This was only finally hammered out in the early days of May 2005 as the last applications were being prepared.

O. Lord Whitty Meeting—12 July 2004

99. This meeting substantially discussed cross compliance and other operational issues though it did touch on the orchards question. It then concluded with WTO and sugar issues.

100. The CAAV again ran the need to collect early information on FVP authorisations.

101. *The SP1 forms to check each farmer's history started going out from 9 July (later than intended because it proved more complex than first thought). The CSC helpline opened and almost immediately (by 20 July) generated significant problems of misinformation—a recurrent feature of this service despite the good will of those on the telephones. At one point in early August 2004 we were able to secure an important clarifying statement after a Yorkshire farmer was given advice read from the guidance to Welsh farmers with their different system. The problems seemed specific to the helpline as the points arising were not ones where we differed from senior RPA staff as to the answer.*

102. *On 8 September, in an informal discussion after a CAAV meeting with DEFRA and RPA officials involved in the reform, Jeremy Moody and Alice Russell-Hare reviewed the draft SP5 forms for 2005. It was already being stressed that the form, in both structure and detail, had been dictated early by IT demands—it would cost the RPA money to make changes. Among the concerns expressed by the CAAV was the point that the form must clearly demand full information from national reserve applicants.*

P. David Hunter Meeting—24 September 2004

103. This meeting discussed a wide range of operational issues. The RPA reported that it had received 10,000 hardship application forms out of 100,000 farmers mailed.

104. Land used by horses “still thinking—to be clarified”. Land grazed by horses could be argued both ways. Ministers asked what the Commission thinks to be right for auditors. Race tracks were excluded. I raised stud farms and gallops. Orchards were still under discussion with the Commission.

105. In a discussion on communication, David Hunter accepted that the helplines were giving varied advice. I warned of the litigation risks associated.

106. There was discussion of the lodging of the English option with the Commission and the lack of a response.

107. Reviewing CAAV e-mails it appears that the first signs of significant pressure on and difficulty with the RLR began to emerge in late September 2004 and then grew steadily during the autumn and into 2005.

Q. Lord Whitty Meeting—19 October 2004

108. After a discussion of cross compliance and set-aside, Lord Whitty discussed:

- Commons
- “Confused on Commons”
- Horses “where land is for grazing then horse grazing will be eligible”
- Orchards “want grazeable orchards to qualify—discussing with Commission

109. Alan Buckwell CLA noted that the RLR wanted all land on the register by next March [2005] but could fail—partly because of the RPA workload. How can owners of land get forms to make good application in 2005? When RLR information was not being released to interested third parties.

110. *The CLA point largely arose from owners of land that had previously been held by tenants or used by graziers who had made the claims.*

111. Allan Buckwell and I jointly warned of inadvertent inaccuracies in 2005 applications because of ignorance of the Rural Land Register.

R. David Hunter Meeting—26 November 2004

112. More was being published on orchards. “People keeping horses are capable of keeping GAEC”.

113. Exact boundaries of the definition of permanent pasture was still evolving.

114. *In discussing communications, the second booklet ("brochure two") was due to be published for Smithfield and being sent to a database of 180,000 addresses. This was based on the records of holding numbers and it was widely expected that this figure much exceeded the number of likely claimants (many farmers have for reasons of history or management several holding numbers) and while it wouldn't be likely to include all businesses recorded as making claims in the base period including those no longer active, I recall discussion of informing those who would be new claimants whether existing or new businesses.*

115. *On 30 November Jeremy Moody e-mailed an adviser regarding the RLR: "I agree that they want all RLR changes on IACS 22. These will also be needed to get land on where wanted for ELS. Processing will be slow and however hard I have been encouraging people to send in IACS22 (now for horse land as well) there will be some sent in with the SP5s in May. RPA recognise that."*

116. The same e-mail also said: "My gossip is still that national reserve applications will be part of the IACS form. Wales and Scotland are both trying to do it earlier but DEFRA doubts how. They will be pushed to do it later as it is to be sorted by 1 August."

S. Secretary of State's Reception for Stakeholders—1 December 2004

117. This was the general pre-Christmas reception for a wide range of DEFRA stakeholders and not a part of the general process of CAP implementation. It was attended by myself and the then CAAV President. It is referred to here for the following point. In her remarks to the meeting, the Secretary of State stressed the importance of 2005 to her Department's work. As she elaborated on this she dwelt on the forthcoming Presidencies of the G8 and the EU—she made no mention of CAP reform—the largest operational task confronting DEFRA.

T. Lord Whitty Meeting—13 December 2004

118. Commons were now largely resolved so that in principle entitlements would only go to commoners who could show that they had been producers on the land—to equate to current system. This gave rise to some discussion as to what constituted a farmer.

119. Later in the meeting further discussion on potentially eligible land included acceptance of salt marsh and a discussion on harvested reed beds.

U. RPA Meeting—10 January 2005

120. This meeting had been convened to review the draft SP5 forms for 2005 (section SP5a to SP5d) and went through them in detail. Again, the RPA's freedom was restricted by IT constraints and any changes would cost it money.

121. Among the points made by the CAAV was the need for the sections regarding the national reserve to address it in more detail and clearly indicate the need for full submissions. The section recording supporting documents made no provision for or suggestion of this. Otherwise (and as proved to be the case) many farmers would not submit them and (as proved to be the case) a new forms (SP5e of October 2005) would be needed.

122. *In the run up to May 16 Jeremy Moody advised clients making claims on the national reserve to do so fully but to prepare three copies: one to submit, one to keep as a record and one to submit again when the RPA asked.*

V. David Hunter Meeting—28 January 2005

123. There was a brief discussion of the possible advance payment of part of the claimants' history. David Hunter said this was being examined but there were many questions including administration, National Reserve and other issues. Validation targets had to have been reached before payments could be made because of auditing.

124. 12,000 hardship cases have been received out of 90,000 SP1 forms. About half of these reflected foot and mouth.

125. The RPA was able to get most forms out in late March and early April to those claimants it knew about (though some did not arrive until well into May)—well ahead of Wales and well ahead of its performance in 2006. One immediate major problem, again driven by IT, was its demand that all claims be made on the actual forms provided to them with the linking bar codes. Photocopies would not be acceptable. Enough forms had gone out by the date of the CAAV's briefing conference at Cheltenham on 22 March for it to be clear from members' questions that blank forms and continuation sheets were each urgently needed in large quantities. The IT system wished to hold the line that these should only be available as a last resort from early May. It proved possible to secure the release of blank forms in early April—the CAAV itself consolidating orders for 6,000 forms for members and their clients.

126. It is exceptionally unfortunate that with this experience and the follow-up warnings made by the CAAV and others exactly the same problem was hit in 2006 with blank continuation sheets (now more important than entire forms) only becoming available in late April—the intention was only to release them on 8 May, leaving very little time for them to be useful. It appears that very few people who had seen the problem in 2005 were still there in the RPA to prepare for (or even recognise the issue) in 2006. These IT constraints have not been designed for the world in which the system has to operate.

127. A related issue in both years has been the difficulty the RPA's system have in recognising that they should correspond with farmers' agents. Unless the farmer's agent has been expressly authorised on a CReg01 form (which many farmers feel would include the agent inappropriately within the business) all responses to queries, mapping issues, forms, and other points are sent to the farmer who then has to take them to his agent, simply building delay, risk and complexity into the system. The SP9 form authorising agents to sign for clients gives no further place in the system.

128. At an RPA meeting on 21 April 2005, we were advised 97,000 printed forms had been sent out since 9 March.

129. At an RPA meeting on 28 April 2005—140,000 forms sent out as at 27 April.

130. At an RPA/DEFRA meeting on 5 May (attended for CAAV by Alice Russell-Hare)—180,000 forms sent out (30,000 back). Many of these would be duplicates as the difficulty in obtaining forms meant that some would be requested several times.

131. In an informal "sweepstake" in that meeting on the number of forms that would be returned, a DEFRA official thought 95,000, and an RPA official 103,000 while the CAAV said 125,000 (Jeremy Moody had said 120,000 outside that meeting).

132. At meetings with DEFRA in late April and early May the issue of what were acceptable non-agricultural uses of agricultural land being used to claim payment were still under discussion with final rulings only being made on 12 May when this was critical for some claimant's forms.

133. As an indication of the apparent inflexibility of the IT systems, the main topic of the first RPA stakeholders' meeting after 16 May (20 May) was the draft of the 2006 form. We were surprised that the RPA did not talk about the processing of the forms received.

134. 2 June 2005—RPA Stakeholders—RLR issues—Advised that 30,000 IACS22 forms (for new land) received with SP5 forms including 3-4,000 duplicating either where an IACS22 already sent or where missing data field data sheet. CAAV highlighted this potential issue at meetings the previous autumn and spring.

135. At this meeting it was being said that entitlements statements would be sent to farmers by the end of 2005 and that it could possibly be provisional, but would prefer to be final. It was also said that letters would be going to farmers in autumn 2005 saying whether or not they had been successful with national reserve applications—this did not happen as supporting documentation had to be requested as it had been missed off the SP5 forms.

136. Subsequent meetings in June were able to begin to address the growing urgency to understand how transfers of entitlements would work. Despite much pressure and discussion over succeeding months, practical answers were not forthcoming for a long time.

137. The initial priority given to RLR processing for ELS applicants was abandoned in July.

138. Alice Russell-Hare attended a meeting with the RPA on 9 September 2005 to which Simon Vry reported that:

- > 1000% of normal annual cycle of IACS22s had been received and that the RLR was not built to deal with that capacity. The objective at that stage was to clear the backlog. Vry: "They were taken by surprise";
- there were problems with the CSC as the volume of calls was greater than expected. They were two to three weeks behind demand due to staff numbers not being sufficient. He said that they were developing greater capacity to deal with 2006;
- almost all data from the SP5 2005 forms had been captured by the date of this meeting. All scanning was almost complete as well. The scanned data then needed to be joined with the captured data. Then the validation process commences—they were apparently 40% through Level 1 validation at this stage and were moving on to Level 2 checks;
- final block of IT software to be dropped 3 October to calculate the entitlements. Vry reported that there had been various technical issues with the system being overloaded and crashing;
- February payments are seemingly deliverable, but that if the October IT drop doesn't go to plan then this date will be "untenable";
- provisional notification of entitlements will cause stretch in RPA resources in terms of CSC; and
- eligibility inspections carried out were finding large inaccuracies in terms of mapping between what was on the ground and what was on the RLR.

139. Ian Hewett of the RPA reported that the SP5 validation system had been in place 6 weeks by the date of this meeting.

Part 3—WHO ARE THE NEW SPS CLAIMANTS?

CAAV Note—8 May 2006

140. The RPA was clearly surprised to receive 120,000 SP5 forms in May 2005.

141. There are several structural reasons why it was always likely that there would be more claimants in 2005.

142. Three reasons are inherent in the overall system:

- (a) the 2005 claim was the one opportunity for anyone with any claims on the system to establish those rights;
- (b) anyone with any history of claims in the reference period of 2000-2002 who could hold land in 2005. In an industry of family businesses where there is always a turnover as farmers die or retire, partnerships divide and new enterprises start, many older businesses (including the executors of deceased farmers) stayed on to secure their rights; and
- (c) the various opportunities to claim on the national reserve and other ways to enhance history.

143. Regulation 1782/2003 changed the definition of farming, so that it now includes those who are simply keeping arable land and permanent pasture in good agricultural and environmental condition. That makes more land and a few more people eligible under any application of the reform. However, under the historic system the effect of this was generally no more than to offer a safety valve for those with history (or entitlements) to find land on which they could be paid. Nonetheless, technically land used by horses is just as much a part of the system under an historic approach as under an area approach but there is less pressure to take it up. In Scotland, areas of open hill and deer forest previously outside the system are being used to give it flexibility.

144. Under the area choice of February 2004 with its 2005 land base set by 1782/2003, this definition had a much greater effect in offering opportunities to many who had not been claimants before. This was the more so as it necessarily gave fifteen months advance notice. The main sources of new claimants appear to include:

- (a) those in unsupported but agricultural businesses such as horticulture (there are a lot of small market garden units as well as larger specialists), turf, poultry, outdoor pigs, alpaca, ostriches and so forth. These would have been foreseeable at the time of the choice, albeit perhaps unquantifiable;
- (b) the ability to concentrate history under the hybrid area system (possibly not foreseen in the autumn 2003 debates on pure area but certainly foreseen by the beginning of 2004) did add to the encouragement noted above for old claimants to be present in 2005;
- (c) where land that had been let on tenancies (whether for grazing or otherwise) which ended between January 2003 and May 2005, many owners took on that land in hand in readiness for the new scheme since they could comply with the new rules. This was a foreseeable part of what the CAAV referred to as distortions in the land market. Many saw the prospect of securing entitlements and the new payment as important, protecting their interests and as perhaps more secure than rents based on decoupled production. Equally, there was a fixation on entitlements that substantially disrupted the high value short term horticultural lettings markets—in many cases in apparent defiance of economic rationality;
- (d) those who newly qualified by managing what was usually permanent pasture—these obviously included larger equestrian businesses, some conservation interests and a number of other uses. The CAAV could not see how these could be excluded but it took DEFRA a long time to accept this consequence with the final announcement only being made in November 2004; and
- (e) new holders (by purchase or tenancy) of land who chose not to pay the outgoer for the transfer of his history under the private contract rules but rely on the prospect of the area element—effectively creating two claimants where there had been one. This limited factor only emerged as the operation of the private contract rules of 795/2004 became evident.

145. The logic of the new system combined with the opportunities created by 15 months forward notice of the key date worked its way through in many ways as parties could optimise their own facts, whether as direct claimants or by contracts with potential claimants. Some of this was defensive as other reasons also led to business changes. For example, once the use of land for horses was recognised as agriculture and so susceptible to cross compliance, some farmers separated out land used by family horses in order to insulate the larger farming business from any cross compliance liabilities.

146. It has been easy for common discussion to suggest that many of the new claimants only have pony paddocks. While there will obviously be some among the 120,000 claimants, most of the claimants on very small areas will be those with some history who have concentrated it on those small areas. It is not obviously rational to undertake the paperwork and assume the liabilities when the initial payment is of the order of £7 per acre in 2006 and the long run payment perhaps £60 per acre.

147. Equally, anecdote suggests that only a limited number of the smaller residential occupiers (or new purchasers of a house with some land) have entered the system. Some have consciously avoided it fearing that recording land under the regulation's odd definition of permanent pasture could expose them to possible future extensions of public access. More have begrudged the paperwork and compliance burdens, some will have been unaware of it.

May 2006

Monday 15 May 2006

Members present:

Mr Michael Jack, in the Chair

Lynne Jones
Daniel Kawczynski
Mrs Madeleine Moon
Mr Dan Rogerson

Sir Peter Soulsby
David Taylor
Mr Roger Williams

Witnesses: **Ms Helen Ghosh**, Permanent Secretary, **Sir Brian Bender**, former Permanent Secretary and **Mr Andy Lebrecht**, Director General, Sustainable Farming, Food and Fisheries, Department for Environment, Food and Rural Affairs, gave evidence.

Q205 Chairman: Good afternoon, ladies and gentlemen and welcome to a further evidence session of the Committee's inquiry into the Rural Payments Agency. May I particularly welcome, and thank for coming, Helen Ghosh the recently appointed Permanent Secretary of Defra? May I also thank Sir Brian Bender, the former permanent secretary, now Permanent Secretary of the Department of Trade and Industry for being willing to come to talk to the Committee and also Mr Andy Lebrecht the Director General for Sustainable Farming Food and Fisheries? The Committee is in an unusual position at this stage of its inquiry in that the ministers at various times over the introduction of the single payment system have effectively all left the Department. Lord Whitty, who was associated with the authorship of the policy, is no longer in the Government, the noble Lord Bach who took over has also left the Government and the former departmental head, Margaret Beckett, is now the Foreign Secretary. So in a way, if these are the survivors of the shipwreck of the RPA, we have three people in front of us who are uniquely informed about exactly what has gone on. I hope, before we start asking you some questions, you will understand that we are approaching this particular inquiry in a genuine spirit of trying to understand where the difficulties which have beset farmers with their payments actually came from. Some people have asked us whether we are out to get anybody. Well the answer is no, we are not in that business: we are out to find out factually where something went wrong and, if necessary, where responsibility lies. We very much hope that our witnesses before us today will, as they always have when they have been before the Committee, speak with candour and indeed knowledge to try to help us through and find out the facts as far as this is concerned. Now Helen Ghosh, I understand you want to make a short statement before we go into question and answer and the Committee would be delighted to hear from you.

Ms Ghosh: Thank you very much. May I just say first of all that I should very much like to echo what you said about the importance of discovering the underlying reasons for what went wrong in terms of delays on payments to farmers, because obviously we here, Brian as well in terms of his overall governance responsibility within Government, have an enormous interest in this; in a sense, if you were

not doing this, of course we would be doing this ourselves. We too very much hope to learn from this experience and I hope you will find us answering your questions with the candour you suggested. First of all, thanks again very much for the understanding you have shown in terms of the witnesses who are appearing before the Committee and, in particular, for delaying the appearance of our RPA colleagues who are busy down in Reading and elsewhere trying to sort out the issues. Secondly, on behalf of my Secretary of State, I should like to reiterate the apology for the distress that the delay in payments has caused to the farming community. As you know, David Miliband, as one of his first statements on arrival in his new job, was to make that point. I thought it might be helpful to the Committee to let them know today's position on payments as a context for what we are going to discuss. We have now made 58,700 full payments to claimants which totals £553 million. We have made 31,000 partial payments to a total value of £734 million; those are the partial payments which represent 80% of the claim. So as of today we have paid out £1.287 billion, which we estimate is about 85.8% of the total to be paid out. That leaves us, by fairly simple mathematics, with around £213 million left to pay, if we assume the total fund is about £1.5 billion. We of course have a number of groups of claimants who have not received either a full or a partial payment on whom the team at the RPA is now concentrating. About 5,000 of those are owed more than €1,000, about 21,000—these figures are a bit approximate because of overlaps in category—are waiting for payments of under €1,000 and we are currently in the process of discussing with the Secretary of State and ministers, our policy in terms of trying to get those payments made as quickly as possible. As you say, at the heart of today's hearing is what caused the delay in payments beyond the target date set by ministers and, in particular, the risk to the payment closure date at the end of June. Just in overall introduction, I should say that in discussion both with colleagues within Defra, with Sir Brian, with colleagues at the RPA, it is pretty clear to me that there is not one decision or one set of circumstances which makes the delay inevitable. Crucially, for example, no-one involved in the original decision to go for the dynamic hybrid model, including the RPA who were fully involved, thought that it was undeliverable for the 2005

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scheme year and why it proved in the event so challenging is obviously why we are here today. Finally, the previous Secretary of State, and I am sure David Miliband would reinforce this, promised to let you have some background papers. I currently have a list with me, which I am happy to give to the Clerk, of around 40 governance meetings with the Department, with the RPA and with stakeholders. I am happy to give you a list today. We are compiling all the minutes and papers onto a CD-ROM for ease of access and we shall let you have that in the next few days. Thank you.

Q206 Chairman: That is a very helpful statement. May I just pick up on a point that you mentioned there. In terms of the papers, Lord Bach, when he made some less than complimentary comments about the Committee's previous work in this field, told us, when we made a request for information, that he would sort of be the editor-in-chief and he said that there were certain bits of information which were not in the balance of public interest in terms of disclosure. When you have compiled your CD, which will no doubt rise to the top of the charts as far as this is concerned, has that sort of editorial block been removed? Do we have a full disclosure of everything we wanted?

Ms Ghosh: You would expect me to say what I am about to say. There will be very little editorial action taken on the governance group minutes and I am sure we shall be discussing those at great length these include the Ownership Board, the Executive Review Group, the Programme Board called CAPRI the meetings which various officials and ministers had with stakeholders, that is clearly an area on which we shall need to consult ministers, and where FOI exemptions begin to kick in, which is around policy advice put to ministers. However, as far as we possibly can we shall be as open as we can. For example, just to give you some flavour, one of the papers which I may well mention later on is the very detailed analysis we did in January this year of the various risks and costs and business cases around whether to go for an interim payment at that stage or whether to press on for February payments. That is very detailed analysis, which I think the Committee will find helpful. There will be lots of very detailed stuff in there, but at the point where it transmutes into formal policy advice to ministers, FOI considerations may kick in.

Q207 Chairman: When you came into post, what did they tell you about the state of the RPA? What did you inherit? What did you see when you opened up that folder with the briefings in and it said new permanent secretary, here are the facts? What did you see?

Ms Ghosh: What I saw was a variety of things. I made a very early visit with Lord Bach down to Reading to meet the RPA top team in November last year and I got a very strong impression there of a team which was working extremely hard, very much focused on making full payments to claimants as soon as possible. I also had on my desk various bits of evidence, objective evidence. I had OGC gateway

reviews, which again, although they, as all gateway reviews would tend to do, highlighted the risks around some of the delivery, nonetheless, they were on the whole saying that risk management was good, there was good teamwork between the department and RPA and that, with a fair wind, we should be successful. I also had evidence coming from non-executive groups. We had a non-executive member with significant project experience on the Executive Review Group. She too, was saying—

Q208 Chairman: Could you just help the Committee? When you talk about the Executive Review Group, Executive Review Group of what?

Ms Ghosh: We may come onto this. There is a hierarchy of governance. It is probably helpful to describe this now. What we would think of in normal governance terms as the board of the RPA is a thing called the RPA Ownership Board, which is chaired by me and was chaired by Sir Brian before me. It has non-executive representatives both from the Audit and Risk Committee of the RPA and two external members who are both farmers, and representatives from the RPA and the Department. In terms of hands-on supervision of the change and SPS programme, the Executive Review Group is the high level supervisory board, again chaired by me and Sir Brian before me, with a non-executive representative nominated by the Office of Government Commerce and again involving all partners, the RPA, the Department and, most of the time, Accenture as well. I had advice coming from both of those groups about the do-ability of the project and at that stage risk, but risk being managed well, and significant challenges that we needed to deal with. That was the overall impression I received of the project.

Q209 Chairman: What was the list of challenges?

Ms Ghosh: At the heart of the challenges we had at that stage—and we shall explore later how we had got to that stage—I should say the biggest challenge we had, was ensuring that the management information we were getting about the completion of tasks, the close-down of tasks and therefore the reliance we could place on percentage confidence for payments being made by given dates, that was the biggest challenge and that was something that we shall come back to later in the hearing. Another challenge was how to balance. This is a continuing point, another theme which will come up again and again and, for example, the decision point in January that I referred to earlier. What we had to do all the time and what ministers had to do was to juggle a variety of considerations. Clearly the primary consideration was getting payments to farmers and, as a sub-set of that, making sure that we could get them in a position to be able to trade entitlements, if we wanted them to do so. A secondary but equally important consideration was the cost to taxpayers which could be incurred through disallowance. Clearly some courses of action, and again I am sure we shall come back to that later, we shall be considering that too and we had to consider the simple deliverability of any particular course of action, how certain we could be,

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what kinds of confidence levels we could put on payments by particular dates. So there was a complicated juggle to be done and complicated analysis to be done around it and that was one of our big challenges.

Q210 Chairman: I am sure that was the case. We shall get into some specific questions in just a second, but I am anxious to try to establish with a little more clarity some specifics about what you were told. When you came into post in November, did you ask for or were you given an indication as to when payments could actually be made?

Ms Ghosh: When I came into post in November, we were still working on the basis that full payments would begin in February and the kinds of discussions that were going on then, and obviously accelerated over the next couple of months, were the extent to which we needed to continue to develop, and indeed ultimately implement, a partial payments option. To cut straight to the chase, if I have a regret, but you will see when you see the analysis we did, that it was extremely thorough, if I have a regret now, it is to say we should have made the decision in January to go for a partial payments option, to trigger that contingency. Having said that, many stakeholders very early on in my time in the Department were saying that actually they would rather receive a full payment under a valid entitlement which they could trade a little bit later, rather than a partial payment earlier. Those were some of the message we were being sent, but in November it still looked as though we should be going for a full payment starting in February.

Q211 Chairman: Okay, we shall come back to that. I should like to come to you Sir Brian. There was an interesting comment in some supplementary evidence which Accenture have sent to the Committee and I quote from paragraph five. They said "As has been previously recognised, not least by the Office of Government Commerce, it is difficult to implement large scale and complex business change programmes at a time of massive policy change". When you set out with the RPA Change Programme, you would have known that discussions had been underway for some time about reform of the Common Agricultural Policy and, being an astute observer of the scene, might well have thought that there could have been some significant changes to the way that the CAP would operate in the future from the way that it operated now and that those changes would inevitably have an impact on the RPA, yet you set off on the Change Programme. With the benefit of hindsight, would you have done it that way?

Sir Brian Bender: First of all may I say, and I shall come to your question in a moment, that I hope the Committee will appreciate that my knowledge of some of these issues is already eight months' old. I shall do my best to answer your questions as fairly and fully as I can.

Q212 Chairman: May I just say that if there are matters of fact which you think are very relevant, and I do appreciate how quickly in your line of business, when you move on to something else, what was the stuff you ate, thought and dreamt about, is suddenly deleted and you move on, I do not mind, if you know there are papers there and you want to write to us about it, that we have it in writing. Just because memory is not instant, does not mean that the facts cannot be delivered to us.

Sir Brian Bender: Thank you. First of all, I should say the decision to do the restructuring, as the Committee will know, was made in 2000. It was part of the 2000 spending review settlement and it was responding to some criticisms of the Ministry of Agriculture Regional Service Centres about the variations between them and some criticisms by the Committee for Public Accounts. The forerunner of this Committee, the Agriculture Select Committee, as I understand it, supported the changes, but expressed concerns about the Ministry's capacity to deliver the 2000 changes and recommended a high quality project team be put in charge of the implementation of the proposals, and indeed that is what we did. The contract with Accenture, as I understand it, was concluded as part of the RPA procurement process, indeed before the mid-term review reforms of 2003, and therefore required some amendment to the scope. On the fundamental question, the one you ask, there were papers in 2003 or 2004 which examined the options of continuing with the RPA Change Programme and super-imposing the CAP reform single payment system on top of it or somehow splitting it. The greater risk seemed to be, since they were a long way down the track on the first, splitting it. We set up, as we can describe more fully in a moment, but as Helen Ghosh described, a lot of governance arrangements, independent reviews, checks to look at whether the RPA did have the capacity to do it all and I have to say, having looked at some of the material again more recently, that we were not getting signals of a failing organisation. So it was delivering its business as usual targets and indeed, in one or two cases, the OGC commented very favourably on the fact that it was both doing that and delivering the Change Programme. We took that decision with eyes wide open, with an analysis of what the costs and options might be and indeed it was one which was not simply taken at official level, it was then put to ministers for confirmation.

Q213 Chairman: Can you just help us out? Did you have access to an independent individual who was able to give you some dispassionate advice about all the systems implications? You were quite right to remind the Committee of the previous report that was produced on the RPA, which we published in October 2003, in which we flagged up at that particular time concerns that much of what you wanted to do with the Change Programme and subsequently changes in the CAP was going to be dependent on the IT side being deliverable. Who gave you that independent advice?

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Sir Brian Bender: We had at least three sources of independent advice. The first was the chairman of the RPA Audit Committee, who was an independent member of the RPA Ownership Board and had an overview of systems generally, not IT but systems generally, in the RPA and sat on the Ownership Board. The second was somebody that Helen referred to in her intervention. We identified somebody who was a very experienced programme manager from the private sector, who was interested in playing a non-executive role. She was a member of the Programme Board and of the Executive Review Group and her role was to provide delivery assurance to me, as chairman of the Executive Review Group; delivery assurance not specifically on the IT. The third is of course the Office of Government Commerce who conducted several reviews along the way. These, as you will know, are independent peer reviews and we conducted reviews several times during 2005; January, June and September, and then again in February 2006 in Helen's time. These were reviews which looked at the deliverability of the programme against the risks. So there were a series of sideways-on, independent looks at all this, not specifically at the IT systems as such, but that was part of it. I do recall too, though we can check out the details, that at one point we did have someone seconded into the RPA from the Accenture team to look at it from the user side rather than the suppliers side, but that obviously is not completely independent.

Q214 Daniel Kawczynski: Just two questions for Ms Ghosh. Firstly, Sir Brian left his position on 3 October and you took up your position on 7 November. Is it normal that there is such a delay?

Ms Ghosh: There was no gap because Mark Addison, who, as you know, is now just about to depart as acting chief executive of the RPA, took over as the interim permanent secretary. The delay was caused by the fact that Sir Brian's was a managed move to fill a longstanding gap at DTI and mine was an open competition. So there was that gap, but Mark Addison was acting permanent secretary and continued with the permanent secretary role in all the governance procedures, including monthly meetings with Juan Domenech of Accenture. Mark fulfilled all the governance roles of a permanent secretary and met with Accenture as both Sir Brian did and I continue to do. There was no gap in governance terms.

Q215 Daniel Kawczynski: Right, because that was obviously quite a critical time in the run-up.

Ms Ghosh: It was indeed.

Q216 Daniel Kawczynski: Ms Ghosh said at the very beginning "We shall learn from this experience". I do not think it is an experience: I think what happened was an unmitigated disaster. I feel very angry about it. Who are you going to reprimand in the Civil Service or who have you reprimanded over this fiasco?

Ms Ghosh: As you know, when the Secretary of State made her announcement on 16 March about both the timetable and new management arrangements at the RPA, she also announced the move from post of Johnston McNeill, who was the chief executive of the RPA, and his replacement on an acting basis by Mark. That signalled two things: one was an irreparable loss of confidence between ministers and the chief executive. In the light of the fact that only five days before she had been assured and indeed her colleagues had stood up in Parliament and said that it would be possible to make the bulk of payments by the end of March 2006 and, secondly, and this comes to the heart of the question you are asking, which is the analysis of what it was that went wrong, the other thing that had become clear at that point, if I may just take you back a moment to February, was that in February, and we must not forget this, the RPA had hit its target and it had started to make payments. We were all aware of the effort that had gone into that, the management effort and the ministerial supervision effort, but they had started to make payments. For some reason, having started to make the payments, the whole system gummed up.¹ I am sorry, that is not a technical IT word. The challenge for us was trying to work out what had happened and again, it was pretty clear that there was a lack of understanding at the very top of the RPA in how the different elements, the IT system that had been commissioned and built, the business processes, customer responses, would actually ultimately all fit together. What was happening in that period between 20 February and 16 March was that it became clear that an IT system had been built based on a business system which was essentially highly risk averse, contained an enormous number of checks, there was the complicated relationship, which I am sure we shall come back to, with the rural land register and the whole mapping issue and the system simply ground to a halt. Now the fact that that was not predicted by the most senior levels of the RPA was very significant and was the second key part.

Q217 Chairman: Let me pin you down on that. We have just heard from Sir Brian a long series of explanations and indeed you yourself underscored that, that there is this great big structure, external advisers, people giving you assurances, you all believed that it would deliver, even you yourself said that when you came into post on 7 November it looked as though the thing was going to work, yet we go through November and December into January, probably about two and a half working months, bearing in mind Christmas and the New Year, and now you have just described a system which suddenly gums up, to use your own phrase. What I find absolutely amazing is that, given all the professional advice, information, checking, all the lead time you had to introduce all of this, and we shall go into it in more detail, suddenly, something in which you had confidence fails to deliver two and a half months after you took responsibility for it.

¹ Ev 152 (Defra RPA Sub 16b)

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Ms Ghosh: That comes back to this crucial point about the nature of the relationships. It was neither the role of ministers, and in one sense the various governance bodies, nor did they have the capacity to look down at the very, very detailed coding of the system which had been built successively over six months, a year, 18 months or whatever it was previously. It was that kind of predictive ability of how it will all inter-relate when we press the button and it starts to happen. You could not expect the governance groups that we had to be able to go down to that level of detail. What you do expect to have is an overview from the Agency, who should, as a delivery body, have that understanding of the very, very, very detailed workings of the IT system. If they say “We have this level of confidence that it will happen”, ultimately you have to believe them.

Q218 Chairman: But could you just explain to me why it was that paragraph 31 of Accenture’s further information to the Committee tells us “RITA” which is this great system “has been fully stable since October 2005 and is available from 6 am to 9 pm weekdays and 8 am to 6 pm weekends”. Your IT partner tells us here that it is all sorted, it can cope with the volumes, it is doing the business and yet when it comes to delivering it gums up.

Ms Ghosh: You will be able to explore this issue further with Accenture but it is quite helpful.

Q219 Chairman: I am exploring it with you.

Ms Ghosh: I am trying to describe in lay-person’s terms the way that RITA works. What Accenture is describing there is the day-to-day process of accepting applications, doing validations, doing checks. The path of the process that gummed up—and I do apologise for using that term—

Q220 Chairman: It is a very good term for us non-IT technicians.

Ms Ghosh: At the moment when we pressed the button, it was the bit that translated validation into payment and at that last stage—rather like a space rocket, where you use bits of your IT system for a purpose for which you have not used it before, so you have your launch and then your booster and whatever it may be—what we were using was effectively a new piece which had been tested but not tested in anger. At this stage it became clear that even when you had what you thought was a fully validated application and you pressed the button, it nonetheless had to leap through a number of further checks, which in many cases threw the application out. One of the first things that Mark and his team did on arrival and which speeded up full payments even to the level we have got full payments at now, was to look at all those little bits of the system and ask whether we needed this check, whether we needed to keep that check in and to make that process simpler.

Q221 Chairman: Could you explain one very simple thing to me? Why was the system not tested in anger with all the bits in it before you started the process going? Why did you not have some, what I call, full-scale dummy runs with it?

Ms Ghosh: Again, this is an issue that you can discuss in more detail and they will be able to give you more information about the precise testing schedule with Accenture.

Q222 Chairman: You just said it was not tested in anger with all its parts. Your team, your great superstructure, is sending out messages of reassurance that this system is capable of delivering both the Change Programme and the RPA payments and it is all going to be on time and we all thought in November we were going to get there. Why was it not tested with some batch runs of real live forms to see whether it worked in anger, together and under pressure?

Ms Ghosh: It was tested in order to see whether it would produce some batch runs and that is what gave us the confidence and batch runs are, of course, by definition, smaller than the full scale of what you ultimately test. In one sense, pressing the button on 20 February was effectively a test of the batch run, but if I may come back to my earlier comment, all the time of course we were balancing a number of interests. The strong pressure from farmers to get payments out, the commitments that ministers had made and, in one sense, the fact that there were lots of checks against final, final, final payment was something to do with the assumption that we also needed to minimise the risk of disallowance. It became clear that those payments would not be made as smoothly and as swiftly as we wanted once we started to ramp up to the full volumes and that is why Mark came in, made some changes to that and obviously that is one element of the system we shall be looking at very closely in the future.

Q223 Lynne Jones: Do you know when the batch runs were tested?

Ms Ghosh: I do not have the precise details with me, but we shall be happy to give you that information.

Q224 David Taylor: Chairman, I have worked in IT for 30 years which does not make me an expert in anything, but what on earth does “tested but not tested in anger” mean? Testing is about trying to compare the system which has been acquired, designed, implemented with data that it is likely to meet in the course of its life’s running. What the hell does “Tested but not tested in anger” mean?

Ms Ghosh: No, I meant tested with the volumes and the pressure of the volumes that were going to come through once we started to get payments coming through at large scale. Clearly, again this is something on which, back to Lynne Jones’ question, we can certainly send you more details about the testing schedules and I know the Accenture submission has some of that in. The essential principle, back to this idea that what they were building was an IT system which came in chunks, of

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course was that we were testing and rolling out and then implementing in the live environment, chunks of the IT system as we went along.

Q225 David Taylor: This is not expensive Lego for goodness sake. It does not quite operate like that. Would you not accept that one of the casualties of a Gadarene Government rush to outsource IT to external bodies and organisations is the lack of a capacity to embed knowledge within the client staff who are supposed to be involved and making sure that the system being delivered will work in normal circumstances? The Americans used to talk about embedding journalists at the sharp end of the war. There were not very many Defra or RPA staff with sufficient knowledge to make the government an intelligent client in all this, were there?

Ms Ghosh: There was actually a significant IT team within the RPA which was capable of carrying out the intelligent client function. We also had input from the chief information officer's team. Ian Watmore was on the Ownership Board. The issue that the Committee might equally wish to focus on is not the end of the process. Having got to the end of the process, although indeed testing and testing at volumes is a very important part of the process, there is the issue about trying to meet our commitment for farmers' payments and so there would be a limit to how many batch tests we would want to do before pressing the button in anger. So, to give a very positive example, in the case of the partial payments that went out the week before last, we tested that on 1,000 and having tested it on 1,000, we felt that the commitment to make partial payments was the overriding one and we pressed it for everybody else. Happily for everybody else it worked. There may well be issues which are nothing to do with whether you insource or outsource IT supply, which again is something that Mark and the RPA team are now looking at, which is how you construct the basic business process from which you build your IT. So, for instance, the IT process was built around a task-based process and had built into it a very significant element, and perhaps to some extent this is a cultural point, of risk averseness around disallowance, hence all those checks that suddenly came into play at the very end of the system. Now that is not an IT specialism issue, that is a business process issue and that is the kind of question which may well underlie.

Sir Brian Bender: May I just add one point which came across, but I should just like to make sure there is no misunderstanding on the part of the Committee? It was not as though individual releases of IT were not tested along the way and I hope that is clear. What happened in Helen's rocket analogy is that very deliberate decisions were taken from the earlier stages of this programme to break down the IT from a big bang into specific releases and along the way conscious decisions were taken to break it down further so that incremental releases could be made. Those were tested, those were put into place and indeed the Office of Government Commerce, in January 2005, praised

the fact the development had been broken down into manageable steps. The problem then appeared to come at the end, when the last release was put on and the button was pressed for delivery. It was that stage which Helen has been explaining, but I did not want the Committee to feel that there had not been full testing and indeed breaking down into manageable steps along the way.

Q226 David Taylor: Quoting the Office of Government Commerce observations is not a necessarily very convincing part of the argument with the track record that they have. When the present permanent secretary came into post six months or so ago, no doubt she would have been briefed extensively on a whole host of background matters, including, I hope, this Select Committee's assessment of the Department and indeed its critical observation some time ago of the IT strategy or lack of it within the Department. We were brushed aside by her predecessor who said it would all come out in the wash. I am paraphrasing heavily. Did she read this document and did she give any credence to the comments that were made then which are coming to fruition now?

Ms Ghosh: I have not read the document in detail. I presume that the debate was around the question of outsourcing our IT provision overall to IBM. Since my arrival and with the support of an excellent chief information officer within the department, our IT strategy is becoming, by the day, clearer and better focused. To comment in general on the relationship with Accenture, which is obviously not one of our key partners, it is true to say, and forgive me if I quote OGC gateways again, that we have had a number of issues in terms of managing the process with Accenture over the way. I know Sir Brian had issues with them in 2003 over the quality of the people they were putting in for testing, but it has been a very open relationship; regular meetings between myself, Sir Brian before me, the European managing director and the local team. They have progressively put on a stronger and stronger team from our point of view and, in terms of key performance, as they say, the fundamental RITA process is working well. They also did extremely good work on the partial payments system. What we would regret about Accenture's performance, and I am sure that they will discuss this next week when they appear, are issues around delays. It is true to say that in a number of significant releases there was a longer delay than we would have hoped for. That lost us some contingency planning time. It required some of our processes, for example around handling entitlement trading a couple of months ago, to do manual processes rather than IT processes. It is inconceivable that we could have delivered a programme of this scale without an outhouse partner of the kind that we have in Accenture.

David Taylor: Well that is absolutely wrong because you have internal staff who could have done a better job, in the view of others. It is all very well for Sir Brian Bender to shake his head; I cannot know how he is that certain that it would be impossible internally. I just do not accept that.

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Q227 Mr Rogerson: The experience of many customers seems to have been that they are on the phone to people trying to get things across and on the other end was someone who did not really understand the intricacies of what they were going to do. The assumption may be that they were temporary staff and I know temporary staff were drafted in to deal with the backlog. Could part of the problem with the testing that you were talking about or the lack of robust testing be that the people you were using at the other end were people who were not prepared to use the system and that the RPA had to draft in people from elsewhere?

Ms Ghosh: In the note we do about testing, I should quite like to talk about how we took experienced people out from the business to do testing regimes and then we back-filled them with some temporary staff. It is absolutely true, as you say. This is an issue around responding flexibly to demand. There is indeed a high proportion of casual or non-permanent staff in the RPA, but it is still only around 50:50 temporary staff against permanent staff, so there is not a critical mass problem in terms of not enough people in the organisation who understand how the system works. The other thing of course is that what staff at the RPA were operating was not the old system but the new system and there was a process of learning going on for all staff in the RPA, whether they happened to be temporary staff or they were the former permanent staff, to move through the testing and delivery process.

Q228 Daniel Kawczynski: Again this one is for Ms Ghosh. Some European Union countries have done a very good job in doing this exercise and paying their farmers on time and Sweden is one of the best ones. We talk nowadays about being in a single market and the European Union and doing things collectively or in some sort of uniform fashion. What sort of interaction has your Department had, if any, with other EU countries and would you be looking to increase that in the future?

Ms Ghosh: Although you kindly directed the question to me, I shall hand over to Andy who has much more experience of this. The answer is yes, we have a lot of both interaction and comparative experience to learn from other EU Member States, but of course the choices that EU Member States made about the kind of model that they would implement were very different ones. Only a few are actually directly comparable with our own. Andy, would you like to say a little about the international comparison work we have done?

Mr Lebrecht: Yes, I am very happy to do so. One of the characteristics of this reform of the CAP was that it did give a lot of discretion to the Member States in a lot of respects as to how they implemented the reforms. Virtually every Member State did something different one way or another. We worked from time to time closely with a number of countries, particularly countries like Sweden, like Denmark, like Germany which like ourselves were interested in going down an implementation route other than the straight historic route. Everybody's problems were different one way or another, but we shared our

experience, identified common problems and, where that was appropriate, we went together to the Commission to try to ensure that the technical regulations were sensible from our collective point of view. The answer to your question is yes, we did work with them but obviously we were all doing something a little bit different, so there were limits to what we could do.

Q229 Lynne Jones: I want to know, in this incremental process, what the date was when the last bit of kit was added on.

Ms Ghosh: Do you mean added on in the sense of when was it delivered live? It is in the Accenture document.

Q230 Lynne Jones: When was the end of the process?

Ms Ghosh: "Release 3a2—the core batch functions . . . went live on 3 October 2005".

Q231 Lynne Jones: So that is quite late on in the day.

Ms Ghosh: Yes. That was the bit which established entitlements and authorised payments.

Q232 Chairman: Can you just explain something to me? You are almost giving the impression that more bits were added on to this system in February this year.

Ms Ghosh: No, I said they were first used. There was the testing that went on between October and February, the "not in anger" and then they were first used in February to make the payments. It was the authorising payments element of that.

Q233 Chairman: Did nobody, with all the expertise at your disposal, pick up the fact that this system was not as robust as the "testing", in inverted commas, had shown? The idea of testing something is to find out whether it is going to work in practice and the impression I am getting is that there were a lot of fixes going on in February and that you finally failed to make it deliver what it was supposed to do. Yet Accenture told us that the thing was up, running, working and stable in October 2005. It does beg the question: what was happening in November, December and January? Did they just sit back and do nothing or did they carry on testing? How did we find out? Mr Lebrecht, according to paragraph 34 of Accenture's memorandum you have been involved in the implementation group for a long time on this Single Payment Scheme and you are somebody of very considerable experience in the operation of Defra, the CAP and the authorship of the Single Farm Payment. Did you not realise that something was not happening as it should in terms of the ability of this system to deliver, bearing in mind what we shall also come on to look at in more detail, all the messages that were coming from your customers throughout 2005 and a bit before in 2004 when they were expressing concerns about various practical aspects of the ability of the system as it evolved to deliver the final product?

Mr Lebrecht: We were listening very closely to our customers throughout that period and the programme management arrangements which were

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described earlier were very active in that period. It was a period when the IT system was in place and was being used by RPA to process the applications. Of course the process involved addressing all the tasks. It was a task-based system and these were being addressed on a systematic basis by the RPA. What we as Defra were doing was discussing with RPA their progress as it went through October, through November, through December and into January against a number of criteria, but of course top of the list was the criterion “Is this going to deliver against ministerial commitments?”. The assurances we were getting all the way through this, right through up to and including the major assessment we made in January that Helen Ghosh referred to, was that the RPA could deliver. In other words, it could deliver the first payments in February and the bulk of the remainder by the end of the March. We were checking that assurance time and time again and we were getting that assurance all the way through that period.

Q234 Chairman: When you say you were checking it, how were you doing this? If the system had not been up and running and been tested in anger, who was checking the RPA’s assurances? Who was actually responsible for saying “I believe that the information we are getting from the RPA is valid” and that when you gave advice to ministers, you were going to drop them in it, because later on they were going to be found wanting?

Mr Lebrecht: At one level the governance process involved opportunities for us as officials, for ministers, to cross-question the RPA on their performance, because they were using the system during this period, they were making progress on the tasks, and where this did not seem to be performing well to check what the reasons were, to discuss ways of improving performance. We also had external assurance; Karen Jordan, our quality adviser, who has been referred to, was very actively involved in this.

Chairman: Why did this person not spot what was going on? They are an external expert, they are a quality adviser and what we have had is an example of a non-quality system because it could not deliver on time. How come this quality problem was missed?

Q235 David Taylor: What difficulties did you see, or were you just accepting and hand waving?

Ms Ghosh: What Andy has said about what we were focusing on in that period is fantastically important. The main task as RPA saw it and we saw it in governance terms was to get the validation process through, because we were extremely conscious that we needed to reach a point where we could make definitive entitlement statements, send them to customers, get trading going. At the same time, we were getting assurances both from Accenture and from the RPA that the normal testing process was continuing on the other things. Just to come back, the bit that went wrong in the end was a bit that was nothing about entitlements or validation, it was about actually from that point when you said “Here

is a validated claim, pay it”, it was that bit of kit that was between that point and the end. You are quite right. Probably no one of us, because we were focusing very much on the “Let’s get the entitlements out” was going in a very detailed way and saying “Can we see the test reports on that bit of kit which comes after the setting of valid entitlements?”. What we shall do for the Committee is give you the testing schedule for what was going on in that period on that point, which comes back to the point: how much did we test or not as the case may be?

Q236 Chairman: Is the bit at the end of the process something that is beyond this Release 3a2?

Ms Ghosh: It is the bit where payments are made. It is the bit where the RITA system plugs into the actual payment system.

Q237 Chairman: What I should like to know, because I am not an expert on this system, is why Accenture in their evidence say the system is stable, which I assume means up and running and tested, from October 2005? Was what you have described—and if you do not know the answer now we will have it later—that bit, the bit that enables the payment to be made, added after October 2005?

Ms Ghosh: No, that was the same release which was being tested in parallel. We were not focusing on it because what we were focusing on was the validation in fact.

Q238 Chairman: So just to be very specific, did the testing quality validation procedures which we have just been discussing not actually explore whether that bit, the bit that did the payment, actually worked?

Ms Ghosh: That is the question on which we shall come back to you. It was not the thing that we in governance terms were focusing on because that was not the big challenge. The big challenge, as we were being told by RPA and by our external spokespersons, was getting the claims validated and through. There was no suggestion to us, at that stage, that even when we got them validated and through, there might be an issue around getting the payments out of the system.

Q239 Chairman: Was that because you were having so many problems with the mapping system that you decided you would concentrate on the validation? Sir Brian is shaking his head, do you want to respond?

Ms Ghosh: No; no.

Sir Brian Bender: I was going to answer Mr Taylor’s question earlier, and you have moved on slightly but it may be helpful if I give it. His question was: what data were you getting? Each of the releases added a functionality, such as claims processing, such as validation, and the Programme Board and the Executive Review Group were given data about the performance of that system in terms of technical performance and the productivity of the users. I remember some discussions around the middle of last year, particularly about the second, the extent to

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which the systems were, as Helen might have put it earlier, gumming up a bit and therefore the productivity of the users and RPA was not sufficient. We then discussed how we could increase that. That was the sort of data that the various governance groups were getting. Then, coming back to your last question Chairman, we were not overwhelmed simply by the mapping point: we were looking at each of the issues that may be in the critical path. Certainly while I was still there, each of the meetings I chaired over the last few months I was there looked at the backlog in maps and what might be done about that, but it did not only look at that. It also looked at other things that were in the way of the critical path, because from early 2004 onwards the Rural Payments Agency had produced a critical path and one of the issues for each meeting was what was in the way of that, what was at risk of knocking us off that critical path.

Ms Ghosh: That is the material you will see when we release it.

Q240 Sir Peter Soulsby: Ms Ghosh, you have told us several times about what you were and were not told by the RPA at various stages in this process and I just want to explore and see whether I have correctly understood what you were saying about where responsibility lay. In response to an earlier question from Mr Kawczynski, you reminded us of the fate of Mr McNeill, when Mr Kawczynski asked about who had been disciplined and who was to be blamed. I just want to get this absolutely clear in my mind. You are telling us that throughout the Rural Payments Agency chief executive was telling you, he was telling the Ownership Board, he was telling the Executive Review Team and one assumes also, through you, telling ministers that this project would be delivered, could be delivered and would be delivered on time. That is the case is it not?

Ms Ghosh: Yes.

Q241 Sir Peter Soulsby: You had, from what you have told us, no reason to doubt that and you did all sorts of reasonable checks and you had reasonable oversight of it and had every reason to expect, right up until late February and right the way through in fact to mid March, that they would in fact deliver on time?

Ms Ghosh: Indeed; in terms of making the bulk of payments by the end of March.

Q242 Sir Peter Soulsby: Then Mr McNeill came to see you and you were taken by surprise when he said "We cannot do it". Is that right?

Ms Ghosh: That is absolutely right.

Q243 Sir Peter Soulsby: So what you are saying to us in effect is that it was entirely the former chief executive's responsibility to deliver this and that he has taken the rap for it?

Ms Ghosh: I am saying two things, as I said in response to the earlier questioner. At that stage two things became clear to me and to the Secretary of State. First of all there was this issue around confidence, that the Secretary of State could be told

one thing on a Thursday and another thing on a Tuesday about achievability, but also, more profoundly, this was the point at which effectively all the details of the systems to deliver payments to farmers came together and it appeared at this crucial point that the RPA did not have a sufficient overview of the systems it had built to assure delivery. At that point it seemed to the Secretary of State and to me in consultation that we needed to put in a fresh pair of eyes. That was that. I am not for one moment saying, and this is where we might move on to explore, that we are seeking to blame the RPA solely for the problem about late payments. For example, the Chairman has just raised one issue which is an issue around mapping, both in terms of volumes, in terms of customer behaviour and in terms of where we might have expected to be and where we were, where there were significant risks, which we handled but it was still highly challenging. There is a number of issues where we and the RPA were working absolutely in partnership around some of the issues to build the new system and I am not for one moment seeking to blame the RPA for the problem about late payments. That is not how things work in the real world. It was a partnership and there were some issues where perhaps the judgments we made were wrong.

Q244 Sir Peter Soulsby: May I just go back over that? You are telling us that you believed what he was telling you, which was that it could be delivered. You continued to believe that up until mid March when he came and told you something else.

Ms Ghosh: Yes.

Q245 Sir Peter Soulsby: You are saying that you were taken by surprise by that announcement; you had reasonably expected that it would be delivered. That sounds to me as though you are saying he and only he is to blame?

Ms Ghosh: We are just focusing on very small point in history.

Q246 Sir Peter Soulsby: I am sure he does not think it is.

Ms Ghosh: Let us try to be counter-factual. If the validation and payment system had worked in February, we would not be here in the position we are today. Payments would have gone out to farmers, we would have hit the ministerial commitment to pay by the end of March, but it did not. That was the crucial thing on which the Secretary of State and I focused on 16 March. That was the thing which ultimately went wrong. That is the analysis I am giving you.

Q247 Sir Peter Soulsby: May I just try to put it the other way round? You appeared to be saying that it was entirely his responsibility. Are you now saying that it was not entirely his responsibility, it was somebody else's and if so, who else's?

Ms Ghosh: I am saying that we would have expected the RPA to have been able, for example, to foresee, because they were ultimately or originally the commissioners and designers of the business process

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around which the IT system was built. In terms of the advice given on the risks of various options, we would expect this to have been an element which was foreseeable and in a sense not foreseeable by us, in terms of being the policy customer for delivery, but foreseeable when one looks across the piece in terms of the business process and the IT and customer handling. That is the sense in which the Secretary of State felt it was crucial to move Johnston McNeill. That is not the same thing as saying he was personally and solely responsible for the fact that there had been complications in the system, there had been some delays in the system and some customers were not getting as good a customer service as they might have done. I am not saying it was all his fault: I am saying that at that point, this crucial point, the Secretary of State took the decision, for the reasons I have described, that he should be moved aside and Mark should be put in.

Q248 Chairman: As I understand it, the RPA signed the contract with Accenture on behalf of the Secretary of State.

Ms Ghosh: Indeed.

Q249 Chairman: The Secretary of State would therefore have had to have been convinced by somebody that this design and all that went with it was suitable, adequate, properly laid out, deliverable, so that she could say to the RPA, in the way those submissions come up to secretaries of state to be signed off, "We, the customer, are satisfied that our agent, the RPA, is convinced that this system will deliver and therefore, the RPA is hereby authorised to sign up to this system". Who was giving advice? Who specifically gave advice that this contract with Accenture had been satisfactorily drawn up in such a way that the system that was going to be agreed to could actually deliver the endgame at the Change Programme and then subsequently the Single Farm Payment Scheme?

Ms Ghosh: The contract that one signs in those sorts of circumstances does not specify down to the smallest detail, the system that the provider is actually going to build. The issue of the details, for example, of the link between validation, final checks and authorisation of payment, would not have been covered by the overall contract that the Secretary of State approved for Johnston McNeill to sign. That kind of detail of the process simply would not have been in there. Actually clearly I assume that it went to the Secretary of State, although it was Johnston who signed it, or at least to a responsible minister and they simply would not have gone into that and at that stage probably the details of the business process and the IT system would not have been agreed; that was the next stage.

Sir Brian Bender: There were of course two stages of this. One of the pre-2003 reform contract and then there was the change of scope that was done presumably in 2004 in light of the CAP reform. Both of those, indeed the core department including ministers, although I have no precise recollection of how it was done, would have approved going down the route of Accenture, signing the contract with

them in the first place and agreeing to the change of scope in the second. I am certain that the level of detail that you are asking would not have been exposed to the core department or to ministers.

Q250 Lynne Jones: Before I ask the question I was going to ask, may I ask Sir Brian something in relation to the comments he has just made about signing the contract in 2003? Lord Bach told us that, although the contract was signed in January 2003, you knew there was going to be a mid-term review and the Commission's proposals had been published. We were told that the impact of reform would not be significant in the overall IT solution. Was that correct information that Lord Bach gave us?

Sir Brian Bender: I am sure it was; Andy may remember more clearly. It is evidently the case that the significance of the reforms in 2003 was greater than expected and that the initial contract would not achieve it. Therefore, once the decision was made on how to implement the 2003 reforms, there were some negotiations with Accenture about a change of scope to provide the additional things needed.

Q251 Lynne Jones: But when you signed the original contract, you knew, although it had not finally been signed off, what was in the pipeline.

Sir Brian Bender: We did not know the degree of radicalness of the Commission's reforms.

Lynne Jones: We can come onto that a bit later. Going back to what you were saying about being focused on the validation procedure, it is all very well to focus on one bit of the procedure, but the end aim was to make payments. Can you tell me whether the whole procedure, including pressing the button and making payments, was tested out?

Q252 Chairman: May I add a postscript to that question? Perhaps you could just give to the Committee some figures showing the arrival of applications versus the rate at which you were validating the process? That would be very interesting.

Ms Ghosh: We certainly could do that. Sir Brian was talking earlier about the kind of management information we were looking at which was very fine grain.

Q253 Chairman: I understand that you had fewer than 40,000 valid claims by mid February.

Ms Ghosh: That management information we can certainly share with you in terms of how the flow went and it is very much that kind of management information on which we, and the team, in terms of trying to predict whether we could move to definitive entitlements in mid February and then move to payments, were very much focusing. Sorry, back to the earlier point. We are more than happy to give the Committee a note on what the testing was on that final chunk, the bit between validation and payment, what the testing regime was that was going on, how many we tested and so on. It was tested, but clearly, back to my earlier comments, it was not tested

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sufficiently in volume terms to see how, in terms of the additional checks which were put in there, it would slow down the system.

Q254 Lynne Jones: Johnston told the Committee that it is extremely difficult to get IT people to come to work at Civil Service wages and that this is a growing problem. With your departmental experience, both of you, would you agree with that?

Ms Ghosh: We have got some very, very talented people working in Government and some of them are paid at normal Civil Service rates and, as the Committee will be aware, a number of them are not. They come for the challenge and the scale and the excitement of the IT projects that we do. My view is that we continue to be able to attract good IT people in. There is a challenge for us in Government. If one were to say "Why do we not do actual IT development in-house?", that is a very different sort of challenge. IT skills are something which move on very fast and knowing what is the up-to-date thing to be doing is quite a challenging thing. What Ian Watmore and now John Suffolk are doing is developing the capacity in Government to be really intelligent customers of external providers, so that is where we are.

Q255 Chairman: Let me just be very clear. You have put a lot of emphasis on the testing that was done and that clearly influenced the statements that came from the RPA that they could do it.

Ms Ghosh: Yes.

Q256 Chairman: Was there anybody in Defra who was responsible for looking at the testing regime, coming back and saying "I think it is a valid test", either in Defra or on the boards that you mentioned? Who would that be?

Ms Ghosh: The people responsible for "Is this a valid testing regime?" will have been the IT intelligent customer team in the RPA. That is not to say that we were not asking the questions—and I certainly was asking these questions because of my previous experience with big IT systems—"Is this valid? Have we done enough testing? Have we tested in anger? Have we tested in the live environment?". We could ask the general questions: it was for the RPA IT team to ask the specific questions. We need to give the Committee a note on what exactly was happening in that period.

Q257 Chairman: Just two other things. There has been a suggestion about the prioritisation of work in the period running up to the introduction of the Single Farm Payment; by that I am talking about the introduction of the environmental stewardship scheme and indeed the whole-farm approach. There was a certain questioning in terms of credulity in that it seemed that those functions were taking priority over the preparation for Single Farm Payments. Is that correct? If so, why was it deemed, even by your Department, to be the correct order of play when the bigger challenge was not being addressed?

Sir Brian Bender: This did arise on my watch and it arose as a result of some of the mapping problems. The issue arose that a significant number of farmers had put in applications for the Entry Level Scheme and were feeling increasingly frustrated that those were not being processed and therefore a decision was made, in full agreement with ministers, late spring/early summer 2005 that for a brief period priority would be given to applicants mapping under the Entry Level Scheme and it switched back to Single Farm Payments' mapping with effect from mid July. It was only in relation to queuing for processing the maps and certainly the steer and direction I was giving throughout on this was, first of all, make sure that the two delivery bodies are talking to one another and sharing the choices with ministers, and, secondly, that the overall priority was to keep everyone's eyes on what by then had been for some time the commitment to get the bulk of the payments out of the door by the end of March 2006.

Q258 Mr Williams: Mr Lebrecht made the point earlier on this evening that one of the unusual aspects about this part of CAP reform was that national governments had a great deal of flexibility in how they could deliver the principle of decoupling. Given the fact that most of the European national governments and indeed the devolved governments within the UK have delivered their interpretation of decoupling more successfully than Defra. It is at Defra that the complaint and the fault must lie and the fact that English farmers really have lost out in terms of European agriculture. If we go back to January 2003 when the draft legislation was first produced, everybody was happy: the Commission was happy, national governments were happy, stakeholders were happy because everybody was committed to decoupling. The presumption was that it was done on an historic basis. In fact, during the Greek presidency then between January and July 2003, it was only, as I understand it, Germany and perhaps Denmark which were giving the indication that it should be done on an area payment and that some of the benefits of decoupling could be better delivered because of that. At any time during that period did Defra give any indication that that was a system or part of a system that should be delivered in England?

Mr Lebrecht: The short answer to your question is no. We entered that negotiation and our primary objective was to secure full decoupling of the Single Farm Payment. That was actually very difficult to achieve and the fact that we achieved it was no mean feat. The question of whether we should implement it on any basis other than historic really arose out of the consultation process that we initiated in July 2003 when a number of stakeholders argued either for a flat rate or area-based payment or, alternatively, a number of forms of hybrids. It was really only out of that consultation of stakeholders that the question arose of doing something other than going on an historic basis.

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Q259 Mr Williams: So from January 2003 to July and onwards, Accenture believed that the system that they were going to deliver was on an historic basis?

Mr Lebrecht: The contract RPA agreed with Accenture in January was without prejudice to the outcome of 2003 reform. They were not developing a system that was specifically assuming anything out of the 2003 reform and it was only when we had ministerial decisions on precisely how we would implement the reform, which was in the early part of 2004, that we were then able to modify the contract and give Accenture specific instructions about how to build the system.

Q260 Mr Williams: Some of the stakeholders were telling you that they would have preferred an area payment. Can you just spell out which stakeholders said what to you?

Mr Lebrecht: Just looking at the big ones, it was clear that the NFU and the TFA were very keen on an historic basis. A number of the environmental organisations, including people like the RSPB, English Nature, were arguing in favour of a flat rate basis and the CLA, after some internal discussions, were proposing a hybrid, but a hybrid of a rather different form than the one that was eventually adopted. Ministers were faced with a range of opinion amongst stakeholders.

Q261 Mr Williams: So who was the author of the dynamic hybrid that is now being used? How did that arise? Who was the author of that?

Mr Lebrecht: I am not sure there was any one author. It was clear that there were arguments against an historic basis and certainly our ministers had a certain nervousness about the historic, for reasons which are very much in the public domain. Equally, when they looked closely at the alternative, which was an area-based payment, the prospect of moving to an area-based payment on day one effectively in 2005 was something that gave grounds for concern, in particular about the very rapid degree of redistribution of payments amongst recipients that would be involved. So it was really in a sense in addressing that dilemma that the idea emerged that we should go for an area payment, because that was the right thing to do, but instead of going to it on day one, with all the downsides that that would give rise to, we should transit to it over a period and that is effectively the system which we have.

Q262 Chairman: The ministers went along and at the time they agreed, your Secretary of State agreed, to the overall political framework of decoupling and then subsequent to that you started to have a consultation exercise about how you would implement the Single Farm Payment. I do understand the question of confidentiality of exchanges between your good selves and ministers, but let us at least try to get somewhere near what happened. Did ministers actually say to you, did your Secretary of State come back from the Council and say "I'm very worried about this historic

scheme. Give me some alternative options that are now open to us as a result of what we have agreed"? Was that the question that was asked or did you go to listen to the consultation and say "Oh, there are many very important bodies out there getting very exercised about this historic system, we'd better put up some options to ministers so that they can at least see both sides of the fence". Which way did it start?

Mr Lebrecht: The first decision that ministers had to make in July 2003 was whether there were any elements of discretion that they would decide upon without going out to consultation and what other elements they would want to consult on. As I recall, there were only three major items on which they said that they were not going to consult. The first was that we would go for full decoupling; we would not take advantage of the options not to decouple fully. The second was that we would implement on a regional basis, in other words Scotland, Northern Ireland, Wales and ourselves would make our own decisions independently as far as we could. The third was that we would introduce the scheme in 2005, which was something that all stakeholders were very keen for us to do.

Q263 Chairman: Let me just stop you and ask you this question. When the negotiating mandate was agreed, when you were sitting there in the Council and before political agreement was reached, ministers would have had a very clear idea of what it was that they were trying to get. You have made it very clear that hard negotiating, no doubt led by the United Kingdom, got us to a position of being able to have fully decoupled payments. However, in those briefs that always go with these decisions, there is usually a lot of very good background information so that ministers can understand what other Member States are saying and it is clear that some other Member States had a similar idea to us. Did that briefing not include a bit of background information about some of these alternatives? Obviously if you are going to agree something at Council, and you may want to come and consider how you implement it, you want to make certain all your options are open at the point of political agreement in the Council. Would I be right in saying that a bit of thought process like that went on?

Mr Lebrecht: Certainly the briefing covered all the different angles in the negotiation, but there are primary and secondary objectives. The point I was coming to earlier on was that ministers, having secured the primary objectives and the overall framework, then wanted to go out to stakeholders on a whole range of issues. It was not just the question of flat rate or horizontal, it was things like national envelopes, it was options for national reserve, a whole range of things. On those they were saying they wanted to take the views of stakeholders before they made up their minds. That is something ministers are encouraged to do of course.

Q264 Mr Williams: In coming to a decision on the dynamic hybrid, were any risk assessments undertaken as to the difficulties in actually delivering that particular system?

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Mr Lebrecht: Yes, there certainly were. There were a lot of issues around that decision, including questions like redistribution of payments. As far as the deliverability is concerned, we were working very closely with the RPA and through them with Accenture to ensure that ministers fully understood all the implications for delivery of the various options including the one that they eventually went for. In all the advice that was given, there was never a suggestion that this particular option could not be delivered in 2005.

Q265 Mr Williams: But that advice came from the RPA?

Mr Lebrecht: It came from the RPA. Essentially we were in dialogue with them. Our responsibility clearly was to specify the options, the scheme requirements that that would involve and then RPA, using their expertise and the expertise of Accenture, would assess the implications of that for the delivery process.

Sir Brian Bender: From this point on, I was very keen that any policy submission which went up to ministers was fully joined up between the policy side of the Department and the RPA, so that ministers had advice on the policy and its implementability.

Q266 Mr Williams: Nevertheless, in January 2004, Commissioner Franz Fischler, wrote to all the EU farm ministers to warn them of the potential dangers of departing from the Commission's default position of using the historic approach to Single Farm Payments. So it was obvious at that time that the Commission at least had some idea that using area payment or a static hybrid or a dynamic hybrid did have inherent dangers in it. Would you agree with that?

Mr Lebrecht: Commissioner Fischler was obviously very anxious to ensure that the Member States did not do anything that was outwith the terms of reference of the Council legislation. He was certainly anxious, I suspect more by what he was hearing in Berlin than what he was hearing in London, that some Member States might be going too far away from the broad philosophy of the basic regulation. He reminded us in that letter that all Member States had an obligation, whatever model we adopted, to justify objectively any departure from the default position by reference to objective facts and we did that. We had to write to them by 31 August 2004 and we did that, to their satisfaction as far as I know.

Q267 Mr Williams: When you signed your new contract with Accenture, how many changes in the scheme were implemented in that time? I understand, for instance, that in November you agreed that land that was grazed by horses should be included in the scheme. That was a fairly major alteration and it does seem to me that there were many, many changes like that along the line.

Mr Lebrecht: The decision on the horses more or less followed from the decision to adopt a flat rate scheme. One of the key objectives of going for a flat rate scheme was to bring as much land as we possibly could into the scheme, so it could benefit from the

cross-compliance provisions in the scheme. Any land that was in agricultural use would thereby come into the scheme. Land in agricultural use includes land which is kept in good environmental and agricultural condition and that would include any land grazed by horses. So that was not a change in scope. There were changes in the scope towards the end of 2004. Those were primarily driven by developments in the EU legislation, because all through 2004 the Commission were finding, through dialogue with the Member States, not just us but others, that there were flaws in their legislation and they had to amend it in October 2004 and that required material changes in the scope of the RPA contract.

Q268 Chairman: You just said something very interesting and very significant. You said that part of the reason that you went down the route that was chosen was to bring as much land as possible within the scope to gain the environmental payments. You have been in this game an awfully long time and you would have realised very quickly the range of different types of land holding which could have been encompassed by the objective you have just outlined. Why then was it given as a point of excuse for what has happened in terms of the RPA's ability to cope with the volume of applications, that you were surprised by the number of applications you received? You have just told us that you would like to bring in as much land as possible to benefit from these payments. You would have gone into that with your eyes wide open. Why were you then surprised when you knew what you were trying to do?

Mr Lebrecht: I do not think that when ministers took the decision they were surprised.

Q269 Chairman: But that has been said publicly, "We were surprised by the volume of applications". You were overwhelmed by the large numbers. Ministers stood up, I remember hearing the Secretary of State in the Commons when she stood up and said "We did not anticipate the demand that was going to be made". That is what your ministers said in public.

Ms Ghosh: My much less well-informed response than Andy's would be that we were not surprised by the number of applications we got. When you look back at the assumptions that the RPA made about how many applicants we would get under the dynamic hybrid model, they were practically bang slap on right at about 120,000. The IT system was built for 150,000 so there was no surprise about the number of actual single applications. The issue, again on which Andy is a much greater expert than I, which did cause us concern was the scale of the mapping changes and the issues involved in getting the rural land register sorted out. We had a mixture of people catching up with notifications and amendments to their land holding that they should probably have made under the old scheme and the incentive element of the new scheme, for example to the people with land that had not previously been

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covered, but also to existing claimants to maximise the area of land and then there was customer behaviour.

Q270 Chairman: Let me just remind you what Johnston McNeill said and he was talking about the volume. He said "That was the result of 40,000 new customers telling us about the land that they wished to claim on and that was a major shock to us to be perfectly frank".

Ms Ghosh: It is the "telling us about the land". I am seeking to help the Committee in terms of the forensic examination we have been doing. I can assure you that it is absolutely the case that the number of applications was not a surprise. The surprise was the scale of the work, as it were catching up with the historic backlog and the incentivisation effect, which was involved in sorting out the land.

Q271 Chairman: You do not have to be a rocket scientist to work out that you are going to have a major mapping problem even within established farms which have been part of IACS when there were different categories of land on their holding which they previously had not been able to claim for, which they could now claim for. It was bound to be. I am surprised people were expressing surprise. Anybody who knows anything about a mixed farm, for example, would understand that you are going to have more land which could be claimed for and that is bound to bring complexities because you have introduced a brand-new digitally-based mapping system at a time when you expanded the number of people applying and some of them clearly have no previous experience of applying for anything.

Ms Ghosh: That indeed unarguably was the volume issue which was the greatest challenge to the RPA.

Q272 Chairman: You did not see that one coming.

Ms Ghosh: Once we did see it, we took very careful risk management steps to deal with it. For example, the decision Sir Brian took to outsource the mapping process to Infoterra in September last year was absolutely vital to that process. The mapping was the key delivery challenge.

Q273 Chairman: But you did not pick up on this until September.

Sir Brian Bender: May I just correct a point? We did pick up on the mapping problems much earlier than September. The outsourcing to Infoterra was the last action we took to deal with the problems. There were several previous actions to try to deal with the increasing backlog of maps.

Chairman: We shall come onto the mapping in a bit more detail.

Q274 Lynne Jones: Could you just clarify whether, when ministers were in negotiation on the CAP reforms up to June 2003, you had considered that you were going to adopt anything other than an historic model? Mr Lebrecht suggested that originally you intended to adopt the historic model and it was only after consultation that other proposals were being looked at. What is the

timescale for these? The NFU and the Tenant Farmers' Association told us that in their stakeholder meetings they were told by civil servants that it would be a nightmare to adopt the hybrid approach.

Mr Lebrecht: I know that one or two officials said that some of the examples which were being looked at at the time could be a nightmare. None of those examples was the one we eventually adopted. When ministers came to take their decision, I do not think any of them would dissent from the view that we had had from RPA that this was deliverable in 2005.

Q275 Lynne Jones: I should be interested to know which models would be a nightmare. Could we have that information?

Ms Ghosh: That will come through in the material we send you.

Mr Lebrecht: There is a piece of paper which we can give you. Some very, very complicated hybrid models were being floated around at the time and what we have adopted is considerably more straightforward than those. To answer your question about timing, the consultation started in July and finished in October, so it was largely during the period around October in 2003 that these issues were being considered.

Q276 Lynne Jones: You did not consider those alternatives when you were in negotiation on CAP at all.

Mr Lebrecht: No.

Q277 Lynne Jones: Was that a mistake?

Mr Lebrecht: No, I do not think so. What we were focusing on in particular at the time was the big prize of all, which was securing full decoupling. I have read the evidence which was given to you by the NFU and one of the points which was made was, if we had been thinking about an area approach at that time, we might have sought changes to the Council regulation, for example on whether the 0.3 hectare minimum for a claim size could be raised. Our own judgment is that even if we had raised it then, we would not have had any success in securing the change. That minimum is something which has been in the CAP since time immemorial and I do not think the Commission would have been persuaded to change it. I am not sure that in reality there has been any great consequence of the fact that—

Q278 Lynne Jones: What about having a zero area based approach in the first year? Was that considered?

Mr Lebrecht: It was not considered, but I am not sure that would have made a great deal of difference.

Q279 Lynne Jones: You could have gone into the first year on the historic basis and then you would have had more time to work through all these problems.

Mr Lebrecht: I am not sure, if I may say so, that would have made a great deal of difference. The complexity of delivery arises from establishing the definitive entitlement in the first year of application.

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Whenever the first year of application was, that issue would still have been there to be addressed. If we had put off that decision and had a different system on an interim basis, we would just have had to ask the RPA first of all to implement the interim system and then to implement the new system. I am not sure it would have been helpful.

Lynne Jones: You would have had more time.

Q280 Mr Williams: I can understand why Defra wanted to decouple fully in 2005, but if you had used that zero area system, you would have achieved decoupling and had a much simpler scheme to deliver. Was that option ever considered?

Mr Lebrecht: With respect, I do not think it would have made things easier. The critical issue is establishing definitive entitlements, in other words what each farm's entitlements are worth. Even if you have a coefficient of zero in relation to payment in the first year, you still have to go through the process of establishing entitlements, which is about linking to ownership or control of land. I do not think it would have eased the problem.

Q281 Mr Williams: May I offer another solution, that you should use an historic system for the first year and then go to a hybrid system involving area payments in the second year? Is that something which could have been considered? Was that something you could have questioned the Commission on?

Mr Lebrecht: In theory it is something we could have asked them about, but it is the point I made a few minutes ago. What that would have meant doing would have been putting in a new system—because we had to put in a new system anyway—for an historic scheme and then a second new system.

Q282 Mr Williams: But you have to have the historic scheme now because it is part of your hybrid. It was not as though you would have to have something different or something in addition. At the moment you are running two schemes, are you not? You are running an historic scheme and an area scheme because your hybrid payment has components of both those.

Mr Lebrecht: You are doing it once and there are also issues of the reference years. An historic scheme is based on reference year 2000–02, whereas a hybrid scheme is based on the reference year of 2005. If you are suggesting that we have one scheme for a period and then move to another scheme, I am sure it could be done. All I am saying to you is that I do not think that would have relieved the complexity. I fear it may have added some.

Q283 Chairman: According to Accenture's further evidence they claim "Although it was originally expected that the rules for the reformed payment scheme would be finalised before the end of the calendar year 2003, in fact this did not happen until late 2004". Once you got that far you were locked into what you wanted to do. Are you effectively saying that once you had designed the IT system that was what you had to proceed with? You could not

then at some subsequent point change your mind and have the system which Mr Williams described. You had decided by 2004 that was what you were going for.

Sir Brian Bender: My recollection of events and the bit to which Accenture are referring picks up something Andy Lebrecht said some minutes ago. In the context of the EU regulations there were some bits of fine print which were being resolved and they were leading to change requests to the IT which were themselves risking further delay and indeed, at the risk of quoting the Office of Government Commerce again, one of their recommendations in January 2005 was "Stop making change requests. You have to freeze this now".

Q284 Mr Williams: Really you are blaming the other nation states by saying that, because they did not have to decouple in 2005, they could put it off to 2006 therefore there was no urgency in agreeing the detail of the scheme.

Mr Lebrecht: I am not blaming other Member States. We as the UK, not just England, certainly had the option of implementing in 2006 or 2007, but there was unanimity amongst our stakeholders that we should implement in 2005. They perceived the benefits of decoupling.

Q285 Chairman: The Committee are trying to get at this. Mr Williams has put to you that there were other ways of introducing this process. You have made it clear that you decided you wanted to go down the route of the dynamic hybrid model right from the beginning. So there comes a point, when you have instructed your IT partner what you want to be delivered, when he cannot suddenly then go back and build you a new system. When was that point of no turning back achieved? When could you not unpick and do something else? When did you decide that?

Sir Brian Bender: I would have thought that it was pretty early in 2004, because the decision was taken on the basis of advice on what was implementable. At that stage there was both getting on with putting that IT system together and finalising the contract details, the contract revisions with Accenture. To stand back and say you wanted to do something else almost at any stage after that would have been difficult. That is my recollection.

Q286 Chairman: In other words, however much commentators today ask why you did not do something else, from that point in 2004 you were locked into an irrevocable process which has led to where we are now. That was the point of no return.

Ms Ghosh: Not least with the Commission as I understand it.

Sir Brian Bender: The absolute lock-in with the Commission was July of that year.

Ms Ghosh: In July 2004 we had to say what we were going to do.

Q287 Chairman: So no going back in July 2004. That is the point at which the die was cast and there was no way you could change it.

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Sir Brian Bender: And that was legal and technical by that stage.

Q288 Chairman: Would I be right in assuming that when you cast that particular die you obviously at that point had no real idea of what lay in store in terms of the practical problems we have been discussing?

Ms Ghosh: To put it the other way about, there was no suggestion, whether from RPA or from the external quality assurance, that it was undeliverable.

Q289 Mr Williams: Having taken that decision, do you now look at it and say that there was no way in which RPA could deliver once that decision was taken?

Mr Lebrecht: No.

Ms Ghosh: No; absolutely not. I come back to the point that we almost did it in terms of payments starting in February, but not actually moving out as fast as we would have hoped they did. That is some evidence that it was not unachievable.

Q290 David Taylor: Departments, like Defra, are a dream customer, are they not, for companies like Accenture? Do you think they are?

Sir Brian Bender: No.

Ms Ghosh: No. I think we are pretty tough customers actually.

Q291 David Taylor: Do you? Do you really?

Ms Ghosh: When you see Accenture in a week's time and you ask them whether they are making money hand over fist out of our contract, you will discover that they absolutely are not, indeed they are effectively working—I have an interesting statistic, which is that we recently, as part of our ongoing commercial negotiations asked an external reviewer about the difference between a contract based on time and materials, that is, what we would be paying if we had a contract which enabled them to pay for their time as they clocked it up and their materials as they used them and what we have, which is a fixed price contract. The answer is that paying for time plus materials would be twice as expensive. In that sense the contract we have with Accenture is saving the taxpayer a significant amount of money.

Q292 David Taylor: That is an absolutely risible comment, it really is. That should be deleted from the record. Carry on.

Ms Ghosh: In that sense we are not a dream customer. Ask Accenture that question and I suspect you will get that reply. I know you have explored with Lord Bach and previous witnesses the issues around the apparent increase in the contract price. As I think Lord Bach explained, we are now probably at a total contract price of around £54 million for the totality of the contract with Accenture, which is very close to the tender estimate to which we signed up in the first place. The original price which Lord Bach quoted, which is around £18 million, did not include CAP reform. That is the

difference between the two contracts. In terms of the nature of the contract and the controls we have had on them, we think it is a pretty tight contract.

Chairman: Was it?

Q293 Lynne Jones: The revenue costs more than doubled from £18 million to £37.4 million.

Ms Ghosh: From £18 million to £37 million and the capital remained more or less the same.

Q294 Lynne Jones: Yes. So you were anticipating that kind of increase in the revenue cost when you renegotiated in 2004.

Ms Ghosh: Because the revenue cost is the kind of additional cost you would expect in building a new CAP system, because that is people time in terms of writing code and testing and all those sorts of things. That is where you would expect the increase to be.

Q295 Lynne Jones: So that increase was entirely expected.

Ms Ghosh: That was pretty nearly our original contract price assumption.

Q296 Lynne Jones: Are there documents which can be checked to demonstrate that?

Ms Ghosh: Absolutely; yes.

Q297 David Taylor: A minute or two ago you said that the driver of the extra cost was not particularly the volume of claims, although you later acknowledged that volume had its part to play, it was the volume of mapping changes which were involved. Is that a fair summary of what you said?

Ms Ghosh: No, I was not citing cost. I was saying that in terms of the operational challenge the main driver of problem was mapping, not the essential volume of the applications made. The number of applications made was pretty nearly exactly what we were expecting, so it was the mapping and land register issues.

Q298 David Taylor: Here is this tough customer, Defra, which is going to get a really good deal for the British taxpayer and the British farmer and the British consumer from this computer outfit in front of it.

Ms Ghosh: Yes.

Q299 David Taylor: Did you actually take any pilot area of the country, sample area, early on in the process and home in there and see by examination and therefore extrapolation what was likely to occur in terms of volumes of changes? You said that you were taken aback by the volumes of changes which resulted. Did Defra or RPA do a pilot exercise of that kind and if not, why not?

Sir Brian Bender: I cannot answer on the volume point, but the mapping exercise began much earlier as part of a predecessor regime which started in 2002 to deal with the establishment of the land register. In that process both software and associated business processes for the rural land register were piloted and were piloted in Reading and Northallerton as well as having stakeholder feedback.

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Q300 David Taylor: I am not particularly asking whether the software was piloted. What I am asking is whether you went in on the ground to a typical cross section of holdings in an area of England to see what the nature and volume of the applications that you were likely to receive would be and what level and complexity of mapping would result therefrom. Just some small sample areas, typical intelligent client stuff. You said you were a hard client and demanding and difficult to please, but you would have done that sort of thing, would you not?

Ms Ghosh: May I just make a distinction before I hand over to my colleagues? What I was talking about was the nature of the contract with Accenture, not, as it were, the nature of the process in terms of interrelationship with the customer.

Q301 David Taylor: Of course; so am I. No, I am talking about the contract with Accenture who, I would suggest, rub their hands when they see the Defras of this world on the horizon.

Ms Ghosh: We shall give you material on the nature of the contract and what was covered by it and what was not to show the distinction.

Sir Brian Bender: I am not in a position to answer Mr Taylor's question. It is something we shall have to come back to the Committee on in writing afterwards.

Q302 Chairman: It is a specific question on testing.

Ms Ghosh: On how far we did a small area test of the mapping.

Sir Brian Bender: Exactly.

Q303 Chairman: Did you actually go out and get a cross section of farmers and say "Here you are guys. Here is the new mapping system. Now go for it. Let's see how you get on"? Was that the nature of these tests in North Allerton and Reading?

Sir Brian Bender: I cannot answer that. We may have to provide a note on that.

Ms Ghosh: It is probably an RPA point. We shall find the information and get back to you.

Q304 David Taylor: One of the most difficult aspects of big system design is the creation of desk-based test data. The point we are making is that the best data of all is to go out to real farmers.

Ms Ghosh: Indeed; we entirely agree.

Q305 David Taylor: Was that done?

Ms Ghosh: We shall give you the information on that. Overall, in terms of the amount of stakeholder involvement in this, the level of stakeholder involvement in this was pretty high. We might have had theoretical discussions of that kind with stakeholders.

Q306 Chairman: The wheel certainly began to fall off, did it not, over the question of the mapping which is a central part of the subsequent validation exercise on which we now know you were well, well behind, never mind actually making real payments to people? If we are to get to the bottom of where the problems really started, we need to understand how

the system for maps was actually evaluated, not just from the IT point of view, but also from the user point of view. The Committee have been told some stories, both in the evidence we have received from valuers, the letters we have received from farmers; I do not need to say any of this to you because your Department knows about it. You have had legions of people send you their own mapping horror story.

Ms Ghosh: Yes.

Q307 Chairman: What comes out absolutely, totally, clearly, is that the system, whether it be by telephone, interfaced with the user or in terms of IT failings, mistakes, transpositions of holdings, sometimes between different counties, was a complete and utter shambles.

Sir Brian Bender: I can recall the problems. What we are unable to answer now is Mr Taylor's specific question on what actual testing and piloting of this system the RPA did conduct as it developed. That is where my colleagues are promising a note.

Ms Ghosh: Exactly. That would also have picked up the point which was also very striking for us on how customers would behave. Customer behaviour was a very interesting point in terms of the busy farmer. We would send the map. He or she would quite naturally... actually I am agreeing with the member's point.

Q308 Chairman: Hang on a minute. That really amazes me. The Committee has been given evidence which shows that you had customer liaison of one sort or another going on from 2003 onwards. We had evidence last week from the valuers where they made it absolutely clear, people who understand probably as well as anybody in England how this system works, where things were going wrong. We had evidence from the NFU, the CLA, the TFA and yet on you serenely plough.

Ms Ghosh: No, may I just bring you back to the point Sir Brian made earlier? We did not serenely plough on: we took a number of actions to try to improve the situation. I cited the last one which was absolutely in my line of sight, which was outsourcing the activity, but there were several activities—and, again, we can give the Committee a detailed note—which were intended both to work with stakeholders, to work with individual customers, to give them plenty of information about when we would expect the good and smooth handling of their applications, when we might be sending them maps and they would be sending them back to us. There were all sorts of risk mitigation things that we did which were intended to make the situation different. We certainly took on board the points which were being made by stakeholders and we responded to them in a variety of ways. I come back to the point that in terms of the volume of work, although we expected some increase because of the nature of the scheme, the scale of the increase in the work was a surprise to us and that is where we got into risk mitigation and handling.

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Q309 Chairman: It should not have been a surprise to you really, should it? You knew you were bringing in all this extra land in the first place, as we discussed with Mr Lebrecht, land which had never been the subject of any kind of mapping exercise for anybody.

Ms Ghosh: My understanding is that on top of the land we were bringing in which was not covered by the previous scheme we were also getting significant returns from previous existing claimants on land which strictly speaking we should have heard about before but we had not. It is a behavioural point.

Q310 Chairman: You sent out one quarter of a million maps to farmers, did you not?

Ms Ghosh: I am sure the RPA did.

Q311 Chairman: The Committee has received information that at a meeting where your ministers were present in January 2005 they were told that you had sent out 250,000 maps. Is that right?

Mr Lebrecht: The RPA were sending out maps and inviting farmers to check that they were correct. The point Helen was making was that far fewer of them were agreed by farmers to be correct. One of the reasons for that is that some of the land which should have already been notified to the RPA under the previous scheme had not been notified. They were now notifying the RPA and that was one of the major causes of the increase in IACS 22s.

Q312 Chairman: That is a helpful piece of information. When you come back to us on the testing regime, what we should like to understand is why these practical problems were not picked up by some kind of analysis prior to the system going live with big volume. Clearly this is part of the root cause of the problems you subsequently faced. I should be very interested to know why none of these advisers, who Sir Brian advised us at the beginning were all checking and looking, seems to have used their considerable experience to guide those who were formulating this testing programme that here was a crucial, central, fundamental part which did need some practical evaluation. It does not seem to have happened.

Ms Ghosh: We have already promised two sorts of notes. There is the IT testing system, which we were discussing much earlier on and we are certainly providing a note there. Then there is the response to Mr Taylor's point on what evidence we had about the impact of the mapping issue both on the behaviour of customers and on the likely impact under the new system. We shall certainly give you notes on both those things.

Q313 Daniel Kawczynski: I come from a background in private business where in this sort of scenario, if I had been in your shoes or the minister's shoes, I should have been fired. I remember my days in business: people had to take responsibility for these sorts of disasters. In this case, Mr Blair has actually promoted Margaret Beckett to be our Foreign Secretary. He has sacked other ministers when there have been problems in departments, but not in this case. As the former Secretary of State has not been

sacked or moved downwards, how are we going to reorganise Defra to make sure that these problems do not happen again? What can I say to my farmers to give them reassurance that next year this will not be happening again? I just add one little bit there. My concern is that Defra, and certainly in my interaction with Mrs Beckett, was very much focused on the environment and climate change and it seems to me that there was very, very little emphasis on agriculture. That is a real concern to me.

Ms Ghosh: I hope you found the fact that David Miliband's first visit in his new role was to a farm with Peter Kendall on Wednesday where he discussed with Peter and with farmers on the ground the issues and challenges which face us. He has made very clear that one of his first priorities is to sort out issues around Single Farm Payments and one of the first meetings he had with me and the team was on exactly that subject. I can assure you that there is very high ministerial interest and I know Lord Rooker will be similarly committed. What are we doing to make sure this does not happen again? I hope that you would agree that the management changes we have already made at the RPA with a view to strengthening the management team there were a significant first step. Mark Addison has achieved a great deal both to analyse the nature of the problems and to get partial payments going and his role has now been taken over, as of today, by a highly experienced project and programme manager, Tony Cooper, who has successfully delivered a number of projects and whom I recruited having consulted a wide range of people across Whitehall and beyond. I have a lot of confidence in that. In parallel, as the then Secretary of State announced in March, we had already initiated, simply on the basis of the challenges which faced the RPA, not as a payment agency but across the piece in terms of inspection and the Hampton agenda and the other roles, as, for example, the data keeper on the farming side of the house, a review of the RPA which is all encompassing. It is leadership structures, it is business processes and it is capacity to take on board additional tasks, which will be reporting towards the end of this year. In the first instance, we have asked that review team to work with Mark and now with Tony on what is actually our absolutely key priority, which is to get the 2005 payments out as quickly as possible, to stabilise 2006 payments as fast as possible and then we hope to have a smooth and unruffled 2007 system. As David Miliband said in his written statement to Parliament, we do think there will continue to be issues around 2006 and that is very much one of our focuses. One of the issues we considered, for example, when deciding not to go for a partial payment in January—when I say I regret a decision, it may well be that—was the impact on the 2006 applications and processing of a partial payment followed by full payment. However, we are where we are and one of the strands of work we are doing is to try to minimise the impact on 2006. We shall be talking to stakeholders and to the Commission about appropriate approaches to that.

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Q314 Chairman: Could you explain one thing to me? In a system which clearly, up until the time that Mark Addison took over, was highly risk averse, why was the facility to have a partial payment scheme not put in as a fail-safe fallback right from the beginning?

Ms Ghosh: It was. We had had negotiations with the Commission on the basis of the then regulation, which was a partial payment, which would have been 60% of valid claims. That was our contingency and that was the button we could have pressed in January. Given that we were so much further forward, the option we have, which is effectively a more generous scheme, the partial payment scheme, 80% of claims, is one which we have discussed informally with the Commission.

Mr Lebrecht: Yes.

Ms Ghosh: Clearly it is not approved in the same way as the previous regulation so there are risks there around disallowance. We were focusing on the need for farmers to get some payments.

Q315 Chairman: May I take a step back for a second? Anybody listening to this conversation would have heard at the commencement vast amounts of reassuring noise about the number of people of experience who were looking, checking, commenting, approving, agreeing a process, which, right up until the point of delivery, appeared on paper to be capable of delivering. Then suddenly for a period of time it does not deliver. Then almost like a miracle worker Mr Addison arrives on the scene and waves a magic wand and within about one month suddenly money is spewing out of the system, farmers are getting paid, all the problems which were there before but which you have taken all these years to build up are magically removed. It does not speak very highly about the quality of the previous planning that somebody comes in and very quickly unpicks the policy which was there to make it work. For example, why was the task-based system, which now appears to have disappeared, deemed to be the right way and then all of a sudden subsequently it is deemed to be the wrong way?

Ms Ghosh: May I go back to the first part of your question? Mark would be the first to admit that there are still many problems left in the system. What we have effectively done by going for a partial payment, as we have in order to support farmers, is that we have stepped around the system of checks and we shall have to go back through the partial payments we have made and continue to check them in the way that we would have done before. In so far as there has been a move in thinking, it is around the extent to which—this comes back to balancing the interests of the taxpayer—the RPA as an organisation and I guess the culture of Defra as an organisation were risk averse in terms of the nature of the checks we did. That is the kind of issue where we are looking at international parallels, looking back to our systems and so on. Mark has not in that sense, although we have got partial payments going, waved a magic wand and all those existing problems have disappeared. We shall have to sort them out before we can get a reasonable basis for the 2006 system and

there again the kind of issue we shall want to discuss with stakeholders is whether we move straight to an interim payment process.

Q316 Chairman: How is it that Mr Addison's changes have enabled the payment system to work and you said at the beginning of your evidence that the system gummed up with the last step? Is it because the payment system for partial payments—**Ms Ghosh:**—is quite separate.

Q317 Chairman: It is totally separate.

Ms Ghosh: It is totally separate.

Q318 Chairman: So the logjam bit which did not work is still left there in a heap of pieces.

Ms Ghosh: Exactly and we have essentially to go back, as I understand the process, and rework those bits of the process which we have not completed with all the partial payments to make the final payment, to work out what the ultimate partial payment was and pay it or, if necessary, they would expect, in a minority of cases, to get the money back.

Q319 Chairman: In the evidence that this Committee took from the Public and Commercial Services Union they identified a lot of the operational problems you have experienced quite a long time ago. Did anybody actually talk to the staff about this?

Ms Ghosh: They certainly did. They talked to managers and centrally. I must say I was very struck, talking to Sir Brian about this in the run-up to the Committee, that although local members of staff as well as PCS representatives were fed back issues around the system, which were taken on board by local managers and in the change process, that was not the main focus of most of the discussions which either Sir Brian or I had with the PCS; that was not their primary concern.

Q320 Chairman: I am sorry; a moment ago you said you might have to get some money back from people.

Ms Ghosh: Clearly if there had been an overpayment of the partial payment—and I think we assume it would be a very small group of cases—we may already have overpaid, in which case there would be an issue, for example, in netting off next year's payment. My understanding is that it would be very small.

Mr Lebrecht: By paying 80% of the claim, in the vast majority of cases we shall not be paying farmers everything which they should ultimately get. There may be a small minority of cases where, for one reason or another, their claim is bigger than they are entitled to and that may mean that by paying 80% we have overpaid. In that case, when we have completed validation, we shall obviously have to claim back.

Q321 Chairman: Let me come to the core of Defra. Who actually could be said to have been the link between the RPA and ministers in terms of the flow up and down the system of information to keep them posted as to what was happening in this process?

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Sir Brian Bender: In my time we very deliberately set up a programme board, jointly chaired by Andy and by Johnston McNeill, to avoid a situation in which there were two separate halves not talking to one another. The policy submissions went up from Andy's side, but they had an RPA bit in them, which was discussed with the policy people about implementability. Later in my time, when there was operational advice going up for monthly meetings with Lord Bach, that operational advice often went up either as a joint note from Andy and Johnston McNeill or, if it was purely operational, just from the Rural Payments Agency. We did not interpose ourselves unnecessarily, but where there was a need to join up, we tried to ensure that happened.

Q322 Chairman: Did your ministers solely receive their information about what was going on from the mechanism you have just described or did they have stakeholder meetings in which they were involved.

Ms Ghosh: Yes.

Q323 Chairman: They did?

Ms Ghosh: Oh, yes. We shall be able to give you the full list, but ministers had a series of meetings. Lord Whitty, for example, met stakeholders four times in 2003. Lord Bach has been meeting stakeholders early this year on a weekly basis. We are not the sole interlocutors. Just in their daily contact with stakeholders ministers will have been getting a great deal of feedback. I know even in my time Lord Bach, for example, made at least two trips to Reading, on one of which I accompanied him, to talk to staff locally and we met a wide cross section of staff.

Q324 Chairman: When he went on those visits what did he hear?

Ms Ghosh: He heard directly from staff how the process of processing claims was going. For example, he would stand over a member of staff handling a level one or level two validation, talk them through the issues, talk them through the IT process, talk about how they were assessing risk one way or the other and get a very straightforward and open and direct, face-to-face discussion with staff about what was happening. There was no attempt—

Q325 Chairman: If the staff were very candid with him, then he must have picked up that there were some problems.

Ms Ghosh: I can only talk about my personal experience. The kinds of problems he was picking up then were precisely the kinds of problems which we were discussing earlier about the process of validation. For example, I remember standing over a staff member's shoulder and looking at the digitisation of the maps. In fact we were getting very practical examples and feedback from members of staff about the issues they were handling. One very positive thing, for which I should like to give all credit to the staff we met, is that on the whole the morale and the commitment and the hard work of the staff absolutely could not be doubted; it was extremely positive. That meant that when we got the more detailed management information about how

processing, for example, was going, ministers and I and the whole of the senior team had a very clear practical understanding of the issues which were being described to us.

Q326 Chairman: When were those two visits which Lord Bach actually made?

Ms Ghosh: Either just before or just after Christmas. We shall tell you.

Q327 Chairman: Did he not go before then to Reading?

Ms Ghosh: I am only talking about my time. I think he did.

Sir Brian Bender: I think he did. I have a recollection that between the May 2005 election and my departure he went to Reading. We shall get you a note.

Ms Ghosh: That would be the other time.

Q328 David Taylor: On this grand royal visit to Reading were you always chaperoning him? Were you always at his shoulder when he asked how things were or did he have an opportunity to have an off-the-record briefing from people with senior staff and particularly the Permanent Secretary absent? People are not always frank.

Ms Ghosh: It was extremely informal; he was walking around open-plan areas. The chief executive was certainly not breathing down his neck. I certainly was not breathing down his neck. My interest is in getting Defra projects and programmes delivered successfully, so I would have no interest in seeking to twist the evidence he was receiving.

Q329 David Taylor: Roger Williams and I paid a visit to Reading at a similar time and concerns were quite clearly emerging. I agree with you and fully endorse what you said that nothing can be laid at the door of the poor RPA staff who were working incredibly hard and were committed in the most difficult of circumstances and we have made that point several times. Nevertheless, not to have picked up some of the vibrations which were symptomatic of concerns is somewhat surprising.

Ms Ghosh: No, I think you misunderstood what I said in the sense that I entirely agree that people were expressing concerns, for example about workarounds, about tasks they were having to do manually. What I meant to emphasise was that we were feeding those into the process so that when, for example, we were having discussions—I was having discussions in the executive review group or ministers were having discussions with stakeholders or the RPA team—they understood what they were talking about and they could challenge back. When we were given, for example, confidence levels around the delivery of something, then ministers were able to say “Are you sure? When I was at Reading I was told X, I was told Y. The feedback we get from the team in Exeter is Y or Z” and that was taken into account. We were listening, we did hear and it was part of the challenge and development process.

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Q330 Chairman: You mentioned at the beginning of this process the Office of Government Commerce and the ticks in the box they had given you through these gateway reviews. Can we have copies of that?

Ms Ghosh: You may be aware that there is currently a case with the Information Commissioner on an application not for any of these gateway reviews but others. If you can leave it with us to talk to the Office of Government Commerce, obviously we are keen to be as open as possible. I hope at the very least we shall be able to give you summaries of what was in the gateway reviews.

Chairman: That would be very helpful indeed.

Q331 Mr Williams: Could we also have risk assessments of other policies which could have delivered the Single Farm Payment Scheme, including some of the nightmare ones?

Ms Ghosh: I am assuming, just from reading the back papers, that a lot of that material is in the papers which, for example, David Hunter's stakeholders' meeting discussed and that would be open anyway.

Mr Lebrecht: We shall do what we can. I have to say that we did not do detailed risk assessments on options which were unlikely to come to fruition. We shall see what we can do.

Ms Ghosh: We did them on the others.

Mr Williams: It would be nice to see the nightmares and compare them with this one.

Q332 Chairman: You said earlier about Mr Cooper that you had very great confidence in his ability to take matters forward. May I ask you, Sir Brian, why it was that you had such confidence in Johnston McNeill to deliver this process?

Sir Brian Bender: He was recruited via an open competition which we ran in autumn 2000 and a panel which included the then chairman of the Intervention Board, a Civil Service Commissioner, and Kate Timms from the Department². We went through a due diligence test process, taking up references and everything else, before we appointed him and he seemed and was indeed a good appointee.

Q333 Chairman: Why?

Sir Brian Bender: Because if you then look at some bits of empirical evidence in terms of the Rural Payments Agency hitting their targets over recent years, they hit the vast majority of their published targets successfully and in 2004 they were accredited with Investors in People, with some pretty positive things said about the way in which both business as usual and the Change Programme were being run. Both at the time of appointment and subsequently I felt that we had someone who was leading the organisation effectively.

Q334 Chairman: Did he have any experience in his previous incarnation of large-scale IT projects?

Sir Brian Bender: Probably not IT. In the Meat Hygiene Service he certainly had responsibility for a very significant Change Programme, of bringing together about 180 different organisations into one. He certainly had change responsibility. One of his first tasks, in which I took a close interest, was the recruitment of his top team, including his IT director, who came from the private sector and his business development director, currently chief operating officer, Simon Vry, who came in from the private sector. He put around him, as a top team, people with particular skills in those areas.

Q335 Chairman: If they had these skills, have you, in what enquiries you have made, got to the bottom of how they see the problems which occurred? There is a blind spot somewhere which somebody did not see. It only manifested itself when you came to press the button in February and then you had the difficult task of seeing Mrs Beckett and saying "Secretary of State, I'm very sorry, we can't deliver". You got all the way to the endgame and finally you did not see something. Where is the blind spot then?

Ms Ghosh: May I just challenge that interpretation? I am sorry if that is the impression you have that nothing else went less well than we might have expected apart from that last bit.

Q336 Chairman: We have explored lots that have gone wrong.

Ms Ghosh: In one sense that last bit, when the system did not pay out when we pressed the button, is the simplest bit to explain. It must be some combination of the way the IT was built, the extent of testing we did or did not do, the understanding that collectively the RPA team had about that effect. I think the challenge of the history of this project for us is to see how individual bits of challenge built themselves up into the delay which we so much regret. We have already mentioned some of them today in terms of the fact that there were delays in IT delivery which meant we lost some contingency; we may have lost some testing time. There were significantly challenging issues for us about the mapping and building up the rural land register which then had a forward impact elsewhere. There were issues for us around a fundamentally risk-averse approach to payment and fear of disallowance. If we look back on it, and Sir Brian said in his opening remarks, yes, it probably was challenging but it was inevitable that we would do a change process and build CAP reform on top of it. We might not have predicted that at the time. We can all see that there were various factors which added to the delay. The question of pressing the button and the payment going out was, as it were, the ultimate and immediate cause.

Q337 Chairman: It was an accumulating series of events which could only be discovered at the endgame. Clearly they were not picked up on the way through. Sir Brian, you are shaking your head.

Ms Ghosh: We managed the risks around all the things that happened. I should be very sorry, as I know Sir Brian would be, if you went away from this hearing thinking we were just sitting there thinking

² Note by witness: He was also a member of the interview board.

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“Oh dear, things are going wrong, what are we doing?”. With the material we give you, you will get a very strong impression of a very tight, praised by OGC, quality assessed by external advisers, very tight risk-management process.

Q338 David Taylor: The patient died though, did he not? SPS was Accenture's entry into the IT Grand National. They negotiated two laps of hurdles and you, the owners, were delighted by all of this and then, when it collapsed, Devon Loch style, in the easy run-up to the finishing tape, you were more shocked than most people, but it was nothing to do with you.

Ms Ghosh: No, I was not saying that for a moment and I hope that we have come to the Committee with the right approach, which is to be absolutely open about what our analyses of the issues were.

Q339 Chairman: You have been very open, but, maybe out of ignorance, what I am struggling with is that I get the impression that an awful lot of professional input has gone into designing and making the system supposedly work. A vast amount of reassuring information has been coming back from the Rural Payments Agency and no doubt their IT partners, sending back to Defra messages of reassurance which you have been happy enough to pass on to ministers so that ministers can make their public announcements.

Ms Ghosh: No, absolutely not.

Q340 Chairman: Go on. Tell me why I am wrong.

Sir Brian Bender: Obviously I can only talk about the period up to the end of September/beginning of October when I left, but this was self-evidently a high risk, complicated project and we set up programme management arrangements which included the sort of management information we were describing earlier and the critical path along the way. At various stages we looked at problems arising and took decisions to make things easier. We de-scoped some of the IT so that the tasks set would be less difficult. We had an earlier partial outsource of the processing of the Rural Land Register to ease pressures and that was not sufficient, so we decided on taking a further such decision. I made clear more than once that single payment delivery was a higher priority for RPA than business as usual if there was a conflict. I personally checked with the Chief Executive whether or not the demands of the efficiency programme, closing down for example Crewe and Nottingham, risked conflicting with delivery, again making clear that SPS delivery had priority. This was not, taking Mr Taylor's example, a horse easily clearing the hurdles and running home: this was a very difficult programme, very challenging, where we were keeping what we felt to be a close eye monitoring it and at various stages along the way taking decisions to try to de-risk it.

Q341 Chairman: You have made a very important point there in helping us to understand some of the complexity, but you were driving it against a very tight timetable. Some people will ask, if all of this

was going on and it was getting increasingly difficult, whether at some point we could not have put the brakes on? Could we not have said we needed more time to deliver this thing?

Ms Ghosh: That is the discussion we had earlier where we said effectively, once we had signalled to the Commission what we were doing in the middle of 2004, there was no alternative route to go down other than the partial payment system. The only let out—I cannot think of a Grand National analogy for this—the only thing we could have done and the decision we could have made in January 2005 was to make a partial payment and the Committee will be interested to see the detailed analysis we did. At that stage, balancing the taxpayer interest, the farmer interest and the effect on 2006 all together, we concluded that it was better, on the analysis we then had about the probability of being able to make final payments from February, it was better to concentrate on making full payments in February. Retrospectively I should say that we should have made partial payments. If we had known then what we know now, that is what we would have done.

Q342 David Taylor: So the minister sacked, the chief executive of the RPA sacked, but the permanent secretary of Defra just slides out of a side door and on to the DTI. Does that seem a fairly balanced outcome?

Sir Brian Bender: I do not think that is something we can comment on.

Ms Ghosh: No.

Sir Brian Bender: The Committee can make its recommendations and the Cabinet Secretary and Prime Minister can reach their conclusions. I certainly did feel a sense of responsibility for overseeing this programme. I set up the arrangements I described and, using your Grand National analogy, the hurdles were substantial, but the horse was just about clearing them with a few more hurdles and the winning post in sight. I do not feel it is right for me to comment on precisely the question you ask.

Q343 Sir Peter Soulsby: You have described the roles of the ownership board, the executive review team, the programme board, you have described the meetings with ministers, you have described the visit by ministers to look at the RPA. You have described all the processes you had in place for monitoring the implementation of this project and you have told us that despite all of those there was no way that you could have known that this project was not going to deliver on time. You have told us that you and ministers were surprised in mid March when Mr McNeill eventually told you that it was not going to deliver.

Ms Ghosh: The bulk of payments by the end of March.

Q344 Sir Peter Soulsby: Certainly as far as the farmers were concerned it was not going to deliver full stop. For them it had very serious financial and business implications. You have told us all of that. What is Mr McNeill's current employment position?

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Ms Ghosh: Mr McNeill is a permanent civil servant. He is currently on what we call gardening leave and my HR team are in close touch with him in terms of support he may need, outplacement support and discussions about his future. Obviously when we know the outcome we shall inform the Committee.

Q345 Sir Peter Soulsby: You effectively told us that he was responsible. Do you think it appropriate that he remains on gardening leave in those circumstances?

Ms Ghosh: That is a discussion which we are having with Mr McNeill.

Q346 Daniel Kawczynski: There are conflicting views here. You say he is on gardening leave, but Sir Brian said a few moments ago that he has done a very good job and he met his targets. You are saying two very different things.

Ms Ghosh: No; no, I do not think we are saying two different things. When I explained earlier why I had agreed with the then Secretary of State that we would move him from his job, there were two particular issues: there was the issue of confidence in terms of the communications ministers were getting; there was the issue around whether the people at the most senior level in the RPA had a grasp of how the overall IT and business process stacked up together. Those were the things which happened which led us to believe that Johnston needed to be moved. It does not in any way undermine the points Sir Brian made about delivery of broader RPA targets. That was a specific response to a specific crisis.

Q347 Chairman: Can I be very clear then? At no stage during Mr McNeill's tenure of responsibility for this project did he communicate to you two as permanent secretaries or to ministers that he would be unable, that is his Agency, to deliver in line with ministerial assurances on the timing of payments.

Sir Brian Bender: May I take it up until October and then Helen can take it after that? The answer to your question is that it is correct that there were probabilities and there were risks in delivery which he shared with us.

Q348 Chairman: What were the confidence limits of those probabilities and risks?

Sir Brian Bender: At the worst it was around 50 to 60% probability it would be delivered and at those points we then had discussions about what we could do to de-risk it so that probability could be pushed up.

Q349 Chairman: When did those discussions take place?

Sir Brian Bender: We can provide the material later on, but around the middle of 2005, that was the sort of issue: what is the confidence of getting the bulk of payments out of the door by the end of March and what do we therefore need to do to reduce those risks so that it is more certain.

Q350 Chairman: Subsequently, as you attempted to de-risk the project and move it towards fruition, he was coming back saying "I have done X, Y and Z. The risk factor has now diminished to whatever".

Sir Brian Bender: Coming back to your earlier question, the RPA did not at any point say this was not deliverable. They were confidence levels which at no point fell below 50% and when they got uncomfortably close to 50%—indeed one of the questions was how to get it up to 90%—we took the various decisions to try to help and the last one was the one which has been referred to several times which was to outsource all the mapping processing to Infoterra.

Q351 Chairman: When the Secretary of State decided to go for partial payments, what was the risk level then?

Ms Ghosh: When Mark Addison and the team came and recommended partial payments and the decision was taken to go for partial payments, she made absolutely clear, as she did to the House of Commons, that she had asked the team to build this new IT system for partial payments, which basically went round the edge of the existing validation system and she would only ask them to press the button when and if they had done a test of a substantial number. That is what she said to the House; that is what she did.

Q352 Chairman: That was not the question I asked.

Ms Ghosh: She was not given a specific confidence figure until we had run the test.

Q353 Chairman: Let me go back and ask the question again and I apologise if I did not make it clear. Sir Brian has said that in 2005 you were at 50 to 60% certainty that this thing was going to work.

Ms Ghosh: Yes.

Q354 Chairman: You then went through a process of de-risking it. When the Secretary of State came to make her decision, that you could not sit down and hope it would be all right on the night but were going to make partial payments, what was the risk factor in the project? At what point did Mr McNeill say he still could not be certain.

Ms Ghosh: I see. There is a variety of questions there. What became clear, in the conversations that took place at the CAPRI board on the Thursday and thereafter with the Secretary of State on the following Tuesday, was that the confidence levels in being able to hit the bulk of our payments by the end of March were significantly less than 50%. We certainly can tell you that.

Q355 Chairman: If it was significantly less than 50%, Sir Brian said it was 50 to 60% in the middle of 2005. Are you saying that it had regressed to below 50% by the time you decided to pull the plug on full payments?

Ms Ghosh: Yes, but not having gone through a declining line.

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Q356 Chairman: Hang on, you cannot—

Ms Ghosh: Yes, you can, because you take mitigating action.

Q357 Chairman: Tell me how we go from 50 to 60% to a number greater than 60% and then back to 50%.

Ms Ghosh: By a process of risk management and mitigation. The Committee will find it very helpful to see the paper that we used as the basis for a crucial decision in January not to go for a partial payment option at that point. At that stage, having done the business case analysis, having done the options analysis of pressing on with processing and validation as though there were no February commitment, an option, which is to establish definitive entitlements in February and start paying in February and an option to go for partial payments, at that stage, as a result of all the mitigation actions taken on the back of OGC reviews and external observation of the programme, there was a positive—and again I do not have the figure in front of me—expectation that if we went for option two, which was to establish the definitive entitlements on 14 February and start paying, we would get the bulk of payments out by the end of the month; we did a very detailed analysis. In other words, the expectation that we should be able to make full payments by the end of March rose in that intervening period and then we got to the problems later on which we have discussed exhaustively. That was the shape of the confidence.

Q358 Chairman: When you were relating your risk assessment, you were not actually looking at the full picture, because you discovered an element at the end—

Ms Ghosh:—which had not been predicted; exactly.

Q359 Chairman: Why, with all this careful assessing, was it not predicted?

Ms Ghosh: Because at that stage—and when you see the paper you will see—the focus of our analysis was on the interrelationship between processing applications, between the likely validation, the impact on farmers and their very strong desire, entirely understandably, to get a payment and the relative costs of the disallowances. That was the risk assessment we were doing. At that stage no-one had said, for all the reasons we discussed earlier and we shall give the Committee more material on this, that even if you press the button the number of payments you will actually be able to make will—

Q360 Chairman: So you are saying that your IT partner, Accenture, who designed the system, who were fully involved in these risk assessments, did not see that there was going to be this endgame problem. Mr Johnston McNeill with his advisers could not see the endgame problem, the various boards Sir Peter has just referred to could not see the endgame problem, nobody could see the final showstopper right up until a point, suddenly, when somebody could see it and the Secretary of State pulled the plug on it.

Ms Ghosh: The nature of the interrelationship there, of the state of play on the validation and checks which had been done on the applications which were going through and the nature of the process which had been built into the IT, that was the thing which up to that stage it would have been very difficult for anyone to predict, simply because of the interplay of—

Q361 Chairman: But suddenly at that endgame point the penny must have dropped.

Ms Ghosh: Indeed it did drop.

Q362 Chairman: Where did it drop? Who was the discoverer of the missing link? Who was the one who was like the King in his altogether and said “It ain’t going to pay. There are no clothes on”? Who was it?

Ms Ghosh: It was the evidence. I should love to be able to produce for you a series of individuals on whom you could focus. The fact was—and again we shall produce this in our management information which we have promised—that we pressed the button and a surge of payments suddenly went out and we can give you figures on that. Then, suddenly, when we started to look at the management information, the surge began to decline to a trickle and it became clear that something was going on there. However, because of the interrelationship between the state of the claims coming through and the nature of the process built into the IT, you could not have predicted in that way in advance because you had not been in that position in advance. That was when we looked at the management issues. We were still getting positive messages from the RPA that it would be possible, if we speeded up processing, if we looked at some of the blockages in the system, to get the payments out. It was only on 9 March that it became clear that we were not going to be able to overcome that.

Chairman: We are not IT experts. We are but humble questioners. It is great to have a plethora, a tidal wave of information coming at us but I would request that you get somebody to help us interpret and understand it. We are hearing you talk about a system with which you have far greater familiarity, even in the relatively short time you have been there, than we do. We are seeing the outward and visible signs that it is failing and you are seeing the inner guts of it as to how it is evolving. We could well do with something which gives us an overview, to set in context the way that this system actually operates. In fairness, we should not want to misunderstand what you are telling us by virtue of our lack of understanding of some of the detail of the way the system works. If we are going to write a report where we can identify in our judgment where things went wrong and who might be to blame, then we must be clear about some of the things you have talked about.

Q363 Sir Peter Soulsby: I have to say I am beginning to feel a little sympathy for Mr McNeill sitting at home on his gardening leave. We are being told that all of those, the ownership board, the executive review team, the programme board, the ministers,

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and they were obviously quite close to the project, were all of the belief that it was going to deliver. In fact the phrase which was used a few moments ago was that it was difficult to predict and that it was not just Mr McNeill. We are told that he is at home on his gardening leave because of lack of confidence in terms of communication. I think those were the two phrases which were used. I think that means he is at home on gardening leave because he did not tell his superiors that the project was going to go disastrously wrong. I cannot see how both can be right: that it is his fault because he did not communicate that it was going to go disastrously wrong and all of those people who were close to the project could not possibly have seen that it was going to go disastrously wrong either. Either he is to blame or he is not to blame. One might come to the conclusion that actually he is something of a scapegoat.

Ms Ghosh: The model of setting up executive agencies is one which assumes a personal responsibility on the part of the chief executive for delivery. The model on which Defra has related to the RPA since its establishment is on the assumption that they are the deliverer of the programme. We work in cooperation and consultation and I hope we have given a very clear picture that was absolutely shoulder to shoulder with them in terms of what was delivered. There is an element of personal responsibility on the chief executives of agencies and that is reflected, for example, in the way they are rewarded and personal performance targets and so on. In this case therefore it was entirely valid for the Secretary of State to feel that to have got to a stage where we were being assured that bulk of payments would be able to be made by the end of March and yet to discover only two working days later that that was not the case, was a significant confidence issue for her. We are not here either as a department or despite the plethora of governance and checks and QA processes we had in place. It would have been unhelpful and unrealistic to expect the Department to have had the absolutely detailed, refined, day-to-day understanding of all the issues which were going on in the Agency, in the business process, in the IT systems which had been built on the back of the process, otherwise there would be no point in having an agency. So what we had to work on was a governance process which was as exhaustive as you would find in any other project of this kind—and I think the OGC comments reflect that—a detailed understanding and analysis of a set of management information about what was going on and a great deal of day-to-day interrelationship between myself, Sir Brian before me, the team, ministers and the RPA. I do not think therefore that we should have been able to predict the systems issues which ultimately brought about the delay to the process.

Q364 Chairman: You should not, but somebody should have been able to identify these things rather sooner than they did.

Ms Ghosh: Perhaps that person is the chief executive of the RPA, to come back to Sir Peter's point.

Q365 Chairman: Perhaps it is. I think what Sir Peter is getting at—and that is why I asked whether he was an expert in IT systems—is that you are only as good as the information you get.

Ms Ghosh: Yes.

Q366 Chairman: I still do not think I have quite got to the bottom of this. At one point the sources of information in the RPA were communicating to all concerned, boards, chief executives, everybody else, that it would be all right and then all of a sudden, when the heat of delivery comes on, the whole thing melts away. There is somebody somewhere who can point to the bit of the system architecture which did not actually perform on the night. There will be an audit trail going back to tell us where that problem first arose.

Ms Ghosh: I think you will find that is a complex picture and I should very much welcome your outcome.

Q367 Chairman: It may be complex but the Committee are still unclear as to where that audit trail ends. I expect you are in the same boat, are you?

Ms Ghosh: I should say, in generic terms, that if we look back at that particular cause of failure, at the end of the process, in terms of the payment of the money, it is something to do with the way the business process was defined and the way the checks were built into the IT system right at the end. The reason that it was designed in that kind of way may well not be down to one individual but to a culture.

Q368 Chairman: Your Department and your ministers have been let down. Right? Mr McNeill has gone, for the reasons you have stated. Who are you going to be fingering to accept some responsibility for this failure? Is it Accenture or is it some people in the RPA or is it all of them? I am still not clear where the responsibility for what has happened lies.

Ms Ghosh: In my opening remarks I came back to the point that there is not, in my view—but I shall be interested to see the outcome of the Committee's deliberations—a single person, a single set of circumstances, one single decision which was taken which led us to where we are today. There was a complex set of circumstances, many of which we have discussed and elaborated. Setting out on this path there was no question that this was an undeliverable project. A number of issues arose along the way, some of which—as I am sure the Committee will no doubt point out—we should have predicted, for example around land registry and the behaviour there, others of which were less predictable to those of us looking in from outside. It was a complex set of issues which can teach us a great deal about how to run projects of this kind. I must say that what I am focusing on, and I know my team and the team at the RPA are focusing on, is not to apportion blame for the past but to get it right for the future. I think the analysis this Committee does, parallel work that the NAO are doing, will help us get a picture of what the issues were in terms of the problems with the scheme and help us to get it right

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for the future. We have significant challenges left for 2006. We very much hope we shall be able to get things on a stable base for 2007. That is where our energy is going at the moment and then we may well come back to see whether there are any other lessons we have learned from this process that we have not already put right. That is where I am.

Q369 David Taylor: Executive agencies are a useful device, are they not, for distancing home departments from failure?

Ms Ghosh: I do not feel distanced from failure as I sit here.

David Taylor: It does not show in the structure, does it?

Chairman: Sir Brian, Ms Ghosh, Mr Lebrecht, thank you very much indeed for sharing your thoughts with us. We look forward very much to receiving, with perhaps a bit of guidance and interpretation, further material which you are very kindly going to provide us with and we shall be very interested to see the official government response to the report which we shall inevitably produce. Thank you very much.

**Supplementary memorandum submitted by the Department for Environment, Food and Rural Affairs
(RPA Sub 16)**

FURTHER DETAILS ON THE TESTING PROCESS

1. Testing schedule (Q.223)

The SPS claim processing functionality was introduced in RITA releases R3A0, R3A1 and R3A2. These were implemented in May, July and October 2005 respectively. The testing for these three releases overlapped and ran from November 2004 until December 2005. The agreed Test Approach for these releases was as follows:

- (i) Component Testing (conducted offshore by the India Delivery Centre in Bangalore).
- (ii) Assembly Testing (conducted offshore by the IDC in Bangalore).
- (iii) Application Integration Testing (conducted onshore by the Accenture led joint testing team in the UK).
- (iv) Solution Integration Testing (conducted onshore by the Accenture led joint testing team in the UK).
- (v) Regression Testing (conducted onshore by the Accenture led joint testing team in the UK).
- (vi) Technical Testing (conducted onshore by Accenture).
- (vii) User Acceptance Testing/Deployment Testing (managed by Accenture, testing performed by RPA staff).
- (viii) Operational Acceptance Testing (managed and performed by Accenture).

2. Testing objectives (Q.224 & 256)

The main objectives of the testing were to prove that RITA behaved in accordance with the system design and supported RPA's business processes.

Each test phase is designed to meet a set of agreed lower level objectives. In summary these were as follows:

- (i) Component Testing—lowest level of testing. The objective is to confirm that each component or unit of the system functions is in accordance with its technical design.
- (ii) Assembly Testing—concerned with bringing related components together to test them as a whole. The objective is to ensure that the internal interfaces and interaction between components has been correctly designed and implemented.
- (iii) Application Integration Testing—functional testing. The objective is to ensure that the system functions are in accordance with the functional design and that the business processes are supported. This will include confirmation of interface data mapping and “disconnected” testing of interfaces.
- (iv) Solution Integration Testing—concerned with bringing related systems together to test them as a whole. The objective is to ensure that the interfaces and interaction between systems has been correctly implemented and that the business processes are supported.
- (v) Regression Testing—to ensure that any changes introduced do not have an adverse impact on existing functionality.
- (vi) Technical Testing—to verify that the system is capable of operating at realistic and peak workloads in a fully integrated live environment.

- (vii) Deployment Testing—final stage of system validation to enable the users of the system to determine whether to accept the system. Tests are based on the business activities performed by the users of the system.
- (viii) Operational Acceptance Testing—to ensure that the system can be correctly deployed and meet the system availability, resilience, reliability and disaster recovery Service Level Agreement's as defined in the Service Definition Document.

RITA was also subject to “live data testing”. These tests were driven by a copy of live data and aimed to confirm that accurate payments could be made with real data. They represented a rehearsal of what was due to happen on the live system. As per earlier submissions, this phase of testing was completed after the system was put live.

There was limited “negative” testing to ensure that the system did not do things that it was not designed to do, ie explore what happens when customers/users do things that are unexpected. The testing conducted was focused on ensuring the system supported the business processes as documented and behaved in accordance with the design as documented.

The “live data testing” went some way to mitigate this in relation to customers completing Claim Application forms in an unexpected way.

The people working on testing were mainly Accenture staff from the UK and the IDC in Bangalore, India. There was a small number of RPA staff involved in RITA testing. The RPA staff involved were civil servants who had operational experience of old schemes rather than temporary employees and were seconded from various sites to work alongside the Accenture team.

Testing progress was reported by Accenture at a number of joint meetings (Release Owners Meeting, Test Governance Meeting, Programme Board & CAPRI). Ultimately, the RPA Business Owner of the testing activities was Ian Hewett.

3. *End to end testing (Q.238)*

There are two types of End-to-End testing:

- (i) End to End Process Testing.
- (ii) End to End System Interface Testing.

Both types mentioned above were covered by the Test Strategy which was in place at the time.

The Solution Integration Testing (SIT) activity was concerned with testing the interfaces between RITA and the Finance system via the Managed Gateway (a messaging hub).

Definition of SIT from the Test Strategy Summary was sometimes called System Test, tests the business-related functional and technical requirements. Testing is driven by the Business Processes with an emphasis on the integration between the Applications. The tested solution is then suitable for use in Training and User Acceptance Test.

The Release schedule, ie delivering the functionality required to support SPS 2005 processing in stages meant that functionality was built and tested in stages which tied in to the dates the business required the functionality to be deployed in the live environment. In the testing performed, the aim was for the input to one stage of testing (eg R3A2 at the highest level) to take the output from the previous stage of testing (eg R3A1 at the highest level).

Therefore, true end to end testing of the entire SPS 2005 processing year from receipt of claims through to making a payment was not tested in one single test phase. Testing was performed in chunks, eg Data Capture was tested as part of R3A0, Level 2 validation, Claim value calculation and making the final payment was tested as part of R3A2.

4. *Testing of Rural Land Register mapping functions (Q.303)*

The Rural Land Register (RLR) was introduced by RITA release R1A. R1A was the first RITA release and it was implemented in September 2004. All RLR mapping functions were tested as part of R1A

RLR mapping functions have been regression tested in each of the subsequent RITA releases (R1B, R3A1, R3A2, R3B1 and R3B2). Regression testing is where we test something which hasn't been changed to prove that it is unaffected by changes that been made to other system functions.

Since the RLR was implemented, processes and working practices will have changed. Further testing to ensure the system, processes and working practices work together effectively has not been performed by the testing team.

5. Accenture contract (Q.296 & 301)

The contract for developing the RPA Change Programme systems was awarded to Accenture in January 2003. The original contract cost of acquisition was estimated at £34.1 million, broken into £18.1 million revenue and £16.0 million capital. The seven year contract, covered 20 months of development and ongoing support and maintenances until 31 December 2009. The current Contract extended the development period but not the support and maintenance ie it still expires on 31 December 2009.

The Contract was awarded on a fixed price, fixed scope basis and this premis has remained throughout. The scope of the Contract was to undertake a Business Process Re engineering exercise followed by the build and maintenance of a system to support the findings.

The original contract did not include CAP Reform costs. At the time of both the procurement tender the subsequent award CAP Reform had not been negotiated. Therefore the nature and timing, or indeed whether there would be any reform agreement at all was far from certain and as such was deliberately excluded from the contract (save an ability to remove certain aspects from scope [Bovine schemes]).

All changes to the contract, and consequential commercial agreements have been considered as successful in the opinion of both RPA and OGC.

Current forecast for the Accenture contract (circa £54 million) is not significantly above the original Pre Tender Estimate (PTE) for RITA of £49.4 million. Indeed the current forecast includes CAP Reform and SPS 2006, whereas these were not covered in the PTE.

6. Analysis of other policy options (Q.275 & 331)

An analysis of the impacts of the Scheme to be adopted in England was published on the Defra website in summer 2004.

<http://www.defra.gov.uk/farm/capreform/background/pdf/webnoterev16.pdf>

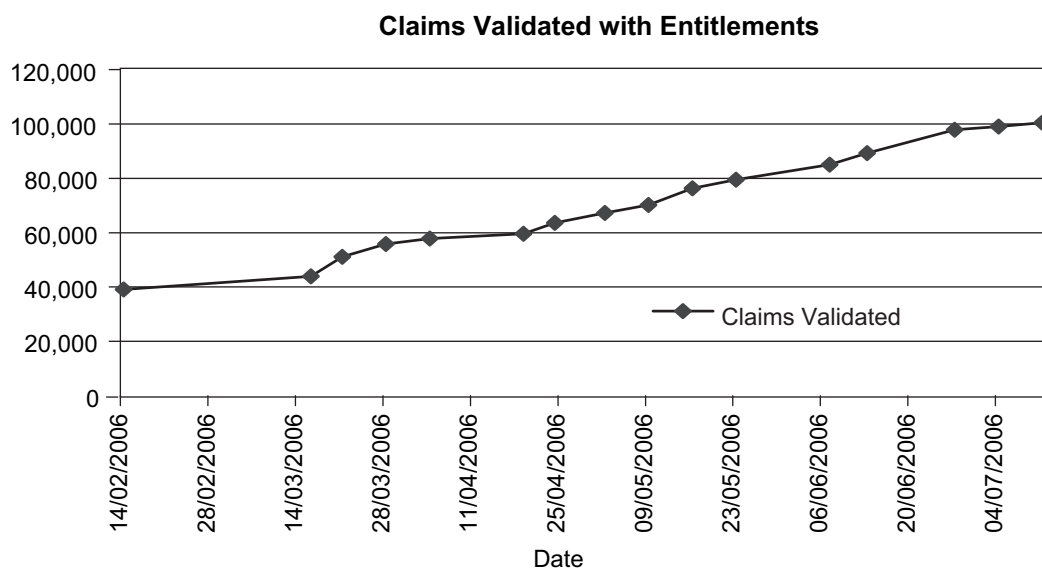
7. Governance papers (Q.206)

The RPA Ownership Board minutes from September 2004 onwards have been published on the Defra website.

<http://defraweb/corporate/delivery/executive/rpaob/>

8. Rate of which claims were validated with Entitlements (Q.252)

RPA has been working on the assumption that there are 120,000 claimants for 2005. After removing duplicate claims, consolidating multiple claims into single business claims and voluntary withdrawals, the actual number of claimants establishing entitlement was over 118,000. Of these 116,474 is the maximum number to receive a payment since some are not activating their entitlements.



9. *Dates of Ministerial meetings and advice during 2005 and 2006 (Q.323)***Advice to Ministers**

<i>2005</i>	<i>2006</i>
23-03-05	06-01-06
28-06-05	13-01-06
18-07-05	19-01-06
28-06-05	26-01-06
28-06-05	01-02-06
28-06-05	09-02-06
28-06-05	15-02-06
19-07-05	23-02-06
19-07-05	07-03-06
19-07-05	17-03-06
13-09-05	21-03-06
06-10-05	28-03-06
12-10-05	6-04-06
26-10-05	18-04-06
02-11-05	28-04-06
09-11-05	3-05-06
16-11-05	12-05-06
23-11-05	5-06-06
30-11-05	19-06-06
07-12-05	11-07-06
15-12-05	
22-12-05	

Ministerial meetings with officials

<i>2005</i>	<i>2006</i>
17-05-05	10-01-06
30-06-05	30-01-06
19-07-05	6-02-06
26-07-05	14-03-06
27-07-05	28-03-06
13-09-05	11-04-06—Reading
29-09-05	18-04-06
4-10-05	4-05-06
5-10-05	8-05-06
13-10-05	17-05-06
20-10-05	31-05-06
8-11-05	20-06-06
11-11-05	12-07-06
1-12-05	
16-12-05—Reading	

Ministerial meetings with stakeholders

Ministers continue to meet with various stakeholders on a regular basis to discuss a wide number of issues including the Single Payment Scheme. Following Margaret Beckett's statement on 16 March, regular meetings have been held by Lord Bach and his successor, Jeff Rooker, with the Presidents of the NFU, TFA and CLA exclusively on the SPS.

Lord Bach meetings

22 March 2006
 29 March 2006
 5 April 2006
 12 April 2006—Mark Addison Chair in LB's absence
 19 April 2006
 25 April 2006
 4 May 2006—Mark Addison Chair in LB's absence

Jeff Rooker meetings

10 May 2006
 24 May 2006
 7 June 2006
 21 June 2006
 12 July 2006
 next scheduled on 30 August

Department for Environment, Food and Rural Affairs

July 2006

Further supplementary memorandum submitted by Defra (RPA Sub 16a)

Letter from the Chairman of the Committee to Lord Rooker, Minister of State (Sustainable Farming and Food), Department for Environment, Food and Rural Affairs

THE RURAL PAYMENTS AGENCY'S PRESS NOTICE OF 6 SEPTEMBER 2006

As you know, the EFRA Committee has appointed a sub-committee which is examining the work of the Rural Payments Agency in administering the Single Payment Scheme. In my capacity as chairman of the sub-committee, I am writing to express my concern about the RPA's press notice of 6 September 2006, which describes how a new software upgrade has been introduced to adjust up to 19,000 Single Payment Scheme claims and 7,700 claims with horticultural authorisations, where the original payments on these claims has been found to be inaccurate. The need to review such a high proportion of claims is in itself worrying, but I am particularly concerned by Tony Cooper's admission that the problem that led to this remedial action being required was identified as far back as February 2006.

It is most surprising that neither Defra nor the RPA has volunteered this information to the sub-committee's inquiry into the RPA, given the numerous opportunities available for them to do so. Since the identification of the problem in February, we have questioned the Secretary of State, the former Acting Chief Executive of the RPA, the current and former Defra Permanent Secretaries, and in none of these meetings was the Committee informed of this issue. Indeed, when Helen Ghosh gave evidence on 15 May 2006, she talked candidly about the "very small number of cases" that may have been overpaid in the context of partial payments (Q 320), but chose not to disclose the issue that was identified in February, when the RPA was still attempting to make full payments to farmers. I would therefore be most grateful if you could explain to the sub-committee why the Department and the RPA choose not to tell the Committee about the potential problem of inaccurate payments prior to last week's announcement. We would also be grateful for the earliest possible indication of the proportion of inaccurate payments which will result in recipients being required to repay some of the money they have received.

Chairman of the Committee

15 September 2006

Letter to the Chairman of the Committee from Lord Rooker, Minister of State (Sustainable Farming and Food), Department for Environment, Food and Rural Affairs

Thank you for your letter of 15 September 2006, regarding the press notice issued by RPA on a new software update to enable the adjustment of SPS entitlements and potentially associated payments.

The press notice was issued to provide the latest position on SPS payments and to tell the industry of the software upgrade.

In February RPA recognised it would be necessary to make adjustments to some entitlements and this would require a software solution. At the time it appeared to affect a relatively small number of claims and RPA planned to implement towards the end of the payment process when the vast majority of claims had been paid. Time was also needed to specify, build and test the IT change.

It was well into the summer when it became clear, with the increasing number of representations from farmers as well as routine checks by RPA, that the issue was more significant than originally envisaged. Indeed, it was a review of Horticultural Authorisations that resulted in some 7,700 claims being added to the review list during early September, prior to the issue of the News Release.

I consider that Helen Ghosh's comments to the Committee on 15 May were related directly to the issue of overpayments on partial payments, which had just begun, and are not related to the issue of reviewing and if necessary recalculating entitlements.

I hope this information helps explain the circumstances behind the announcement and its timing and apologise for any misunderstanding the News Release may have caused.

Manuscript addition to the letter and initialled by Lord Rooker:

Whilst our focus has been getting out of our door to farmers I feel we should have given the Committee more background as we approached the upgrade.

Lord Rooker

Minister of State for Sustainable Farming and Food

9 October 2006

Further supplementary memorandum submitted by Defra (RPA Sub 16b)

1. I understand from Tony Cooper that you have requested confirmation that I was content with the clarification provided by Andy Naish, Peter Holmes and Sean Shine regarding my remark that “the whole system gummed up”.

2. The comment related to the process by which validated claims were authorised for payment, which was a combination of IT system and business checks. This resulted in a much higher number of claims being withheld from payment than had been anticipated.

3. It was this that resulted in delays in the authorisation and subsequent payment of a significant number of these claims. There was no one cause behind the delay but a combination of matters that brought about the difficulties.

Helen Ghosh
Permanent Secretary

September 2006

Further supplementary memorandum submitted by Defra (RPA Sub 16c)

You wrote requesting the names and CVs of all those who applied for the position of Chief Executive of the RPA when the position was advertised in autumn 2000, to inform your inquiry into the delays to the administering of the 2006 SPS.

The Permanent Secretary cannot see circumstances in which she would release the personal details of unsuccessful applicants for posts. This would breach the confidentiality in which they submitted the details. In any event she does not understand what the committee is seeking to do here. She hopes that you are not trying to second guess the decision taken in an appointment made through a process six years ago? But she is happy to tell you about the process.

The post was subject to an open competition. Following short-listing candidates were interviewed by a panel chaired by Brian Bender. The other panel members were Kate Timms, at that time MAFF Head of Agricultural Crops and Commodities Directorate and Keith Todd ex Chief Executive of ICL.

The Selection was carried out against the key criteria set out in the advertisement and detailed in the accompanying information pack for candidates as follows:

A leader with a successful track record of delivering radical organisational change in a substantial private or public sector delivery organisation:

- Familiarity with ICT systems;
- Keen to grasp the opportunities of e-business;
- Experience at board level with accountability for significant resources, in an organisation operating in a policy-led framework;
- Track record of management in a dispersed or multi-site organisation;
- Experience in a customer-facing organisation;
- Excellent people management skills;
- Commitment to and highly developed communication, motivation and leadership skills;
- A commitment to continuous improvement and working with quality systems;
- Political awareness and sensitivity;
- An understanding of the processes of central government and the EU desirable;
- The ability to think strategically;
- The ability to influence;
- Energy and enthusiasm; and
- Integrity, honesty and political impartiality.

I do hope this is useful.

Jennifer Allott
November 2006

Monday 22 May 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
Lynne Jones
Sir Peter Soulsby

David Taylor
Mr Roger Williams

Memorandum submitted by Accenture (RPA Sub 14)

EXECUTIVE SUMMARY

1. Accenture has been and continues to remain committed to supporting the RPA to deliver payments through RITA (RPA Information Technology Application). Accenture understands the importance to farmers of receiving payments in an orderly and efficient manner.

2. Accenture was procured in January 2003 after a competitive bidding process to build and maintain a new claim processing system known as RITA. The January 2003 contract was a fixed price, fixed scope contract.

3. RITA is part of the wider RPA business processes and IT systems which together are designed to enable the RPA to make payments under the Single Payment Scheme (SPS). Accenture does not have responsibility for these other IT systems or processes.

4. In May 2004, a revised contract was agreed in order to accommodate the fundamental changes necessitated by the EU CAP Reforms of June 2003 and to enable as soon as possible the implementation in England of the “dynamic hybrid” system. Major changes to the RITA specification continued to be made until December 2004. This new focus impacted the specifications, scope, delivery timeframe and overall cost of RITA.

5. As has been previously recognised, not least by the Office of Government Commerce, it is difficult to implement large scale and complex business change programmes at a time of massive policy change. It is widely acknowledged that the June 2003 EU CAP Reform represented a fundamental change in terms of policy. Those reforms required the RPA to order significant changes to RITA, the scale of which had not been anticipated when the original contract was signed.

6. Despite the challenges created by the changing policy environment which required the RPA to request significant changes to RITA between May and December 2004, Accenture has successfully delivered the releases of RITA necessary to make the SPS payments that commenced in February 2006.

7. RITA is functioning as designed and has been in operation and fully stable since October 2005. It is available to the RPA from 6 am to 9 pm weekdays and 8 am to 6 pm weekends, and we are proud of what we have delivered.

8. Our work met the budget and contractual requirements agreed to by Accenture and the RPA. In January 2003, Accenture and the RPA agreed a fixed price, fixed scope contract. After the EU CAP Reforms of June 2003, the scope of the contract changed and continued to do so. The increased value of the contract has arisen from approved change requests representing changes made to RITA specifications or timescales.

SCOPE AND HISTORY OF ACCENTURE ENGAGEMENT

9. The 1999 PricewaterhouseCoopers (PwC) review of the administration of EU agricultural payment schemes in England proposed that the CAP administration activities of the Intervention Board and the Ministry of Agriculture Fisheries and Food (MAFF) be brought together to form a new organization (the RPA).

10. In April 2001, the Ministry of Agriculture, Fisheries and Food (MAFF) embarked on the RPA Business Change Programme aimed at improving the effectiveness and cost efficiency of key aspects of CAP administration using modern technology while also improving the service and value to its customers.

11. To help deliver some IT elements of this Change Programme, DEFRA (the successor Department to MAFF) let the procurement for a system to replace certain legacy information systems. Accenture won the procurement and contracted in January 2003 on a fixed price, fixed scope basis to build and maintain RITA. Accenture is not involved in any other part of the Change Programme.

12. Accenture was procured in January 2003 after a competitive bidding process to build and maintain a new claim processing system known as RITA (RPA Information Technology Application). RITA is one of several IT systems designed to enable the RPA to make payments to farmers. RITA is being delivered through a series of software releases since September 2004. Although there were challenges in the early stages of the RITA project prior to the EU CAP Reforms of June 2003, Accenture has successfully delivered the

releases of RITA necessary to make the payments under the Single Payment Scheme (SPS) that commenced in February 2006. These releases have been in operation and stable since October 2005. RITA is functioning as designed and continues to be stable, and we are proud of what we have delivered.

13. After the January 2003 contract was entered into by Accenture and the RPA, the June 2003 EU CAP Reforms were agreed. As a result of these Reforms and their implementation in England, the RPA changed its requirements for RITA.

14. RITA, as delivered, is a new claim processing application. It was a significant development effort, and is only one part of the overall application development landscape needed for the SPS. The success of the Change Programme and the RPA's ability to make payments to farmers is also dependent on a number of other system development projects and business processes, including the finance system, OREGON and the interim entitlements calculator. Accenture has never been responsible for these other IT systems and business processes.

CONTRACT ISSUES

As much detail as possible on the contract tendering process

15. Accenture was engaged in January 2003 as a result of a standard EU procurement process. The key milestones of the procurement process were as follows:

- Open Supplier Conference (27 November 2001).
- Formal Pre-Qualification Stage (11 Feb 2002).
- Request for Proposals issued (4 March 2002).
- Accenture proposal submitted (29 April 2002).
- Contractual negotiations between the RPA and potential suppliers, including Accenture (took place between May and December 2002).
- Potential suppliers (including Accenture) invited to submit Best and Final Offers (20 December 2002).
- Accenture submitted its Best and Final Offer (3 January 2003).
- Contract signed with Accenture (31 January 2003).

Who was ultimately responsible for the Accenture contract at the Defra/RPA end Which Minister signed it off?

16. The January 2003 contract was concluded between Accenture and the Secretary of State for Environment, Food and Rural Affairs acting through her agency, the Rural Payments Agency. The contract was signed by Johnston McNeill, RPA Chief Executive.

17. Accenture has no visibility of any approval process there may have been on this contract between the RPA, DEFRA and the responsible Minister.

What penalty or incentive clauses were included in the contract?

18. The RPA and Accenture agreed a fixed price, fixed scope contract ("January 2003 contract") with payment against delivery of RITA releases on acceptance by the RPA. There were no penalty or incentive figures in the original contract; however, the current contract re-negotiated in May 2004 contains various provisions under which both parties have accepted financial liability in the event of default. Further, payment to Accenture is dependent upon the achievement of Key Milestones and Accenture is subject to service credits, in each case subject to contractual limitations. We believe there is the necessary risk/reward balance on both parties as required for a major project of this nature to be successful.

Whether Accenture thought that the original contract provided sufficient resources at the outset?

19. The original contract specifically excluded EU CAP Reform. On this basis, and given the specific policy environment at the time, Accenture believes that the January 2003 contract provided sufficient Accenture resources at the outset for Accenture to deliver the original scope of RITA.

20. The January 2003 contract was planned to replace legacy IT support for existing systems. Its scope included a Land Register [Geographic Information System (GIS)], a customer register, a claim processing engine, 68 CAP schemes, a customer service centre (CSC), a document management unit (DMU) and a customer on-line capability. It called for Accenture to build and maintain two releases of software: Release 1 covering GIS, CSC, DMU and land based schemes; Release 2 for trader schemes.

CHANGES TO SPECIFICATIONS AND COSTS

The extent to which the specifications of the RITA contract had to be changed after the CAP reform agreement of June 2003?

21. The June 2003 EU CAP reform agreement included, amongst other things, the introduction of the Single Payment Scheme (SPS) which the UK chose to implement in 2005 and that introduced a fundamental and major change in the way agriculture is supported in England:

- Cut the decades-long link between subsidies and production.
- Payments made to farmers on the basis of land area farmed.
- New rules came into force on 1st January 2005 under EU CAP reform.

As a result of EU CAP reform, new categories of claimants were eligible for payments under the scope of SPS, resulting in a significant increase in the number of one-off registrations for entitlements by landowners to receive payments.

22. Changes brought by EU CAP Reform meant that the original contract needed to be revised to include changes to the planned system that would enable the RPA to make payments on the basis of the Reforms. Accenture and the RPA therefore agreed in May 2004 to vary the original RITA contract in order to accommodate the fundamental changes brought about by EU CAP Reform and to enable as soon as possible the implementation in England of the “dynamic hybrid” system. The parties agreed to concentrate RITA development on the implementation of the SPS. This new focus impacted the specifications, scope, timeframe and cost of RITA.

23. Over the course of the next seven months, the policy details of EU CAP Reform continued to change. Although it was originally expected that the rules for the reformed payment scheme would be finalised before the end of the calendar year 2003, in fact this did not happen until late 2004. As a result, in addition to the changes to the RITA contract that were agreed between Accenture and the RPA in May 2004, major changes to the RITA specification continued to be made between May 2004 and December 2004. To deliver RITA, software development had to continue in parallel with the finalisation of these rules, albeit with a delay to the implementation date and re-phasing of the release structure, due to the changes in late 2004. Changes in specification necessarily impacted the delivery timeframe and the overall cost.

24. On the basis of the revised May 2004 contract and the RITA changes requested by the RPA in late 2004, revised releases of RITA required to meet the needs of SPS 2005 payments were agreed and were all delivered by October 2005. These deliveries took place as follows:

- Release 1a—the Rural Land Register went live in September 2004.
- Release 1b—the Customer Register went live in February 2005.
- Release 3a0—the High Volume Data Capture for SPS Application forms went live in May 2005
- Release 3a1—the core validation functions for SPS Applications went live in a pilot July 2005 and rollout in August 2005.
- Release 3a2—the core batch functions required to establish entitlements and authorise payments went live on 3 October 2005.

The extent to which the increase in running costs experienced by the RITA contract can be attributed to changes in the contract specifications

25. For the original RITA contract, Accenture and the RPA agreed a fixed price, fixed scope contract in January 2003.

26. The increased value of the contract has arisen from approved change requests representing changes made to specifications or timescales. In addition to the costs brought on by the changes mentioned above, RPA subsequently procured other items from Accenture not within the scope of the May 2004 contract.

CUSTOMER VOLUMES

What projections of customer volumes were provided to Accenture and upon what basis were these forecasts made?

27. The January 2003 contract included an assumption that RITA would be capable of supporting up to 100,000 customers. This was increased to 150,000 customers as part of the revised May 2004 contract. These figures were provided to Accenture by the RPA.

28. In addition to the assumptions provided by the RPA and included in the contracts, the RPA provided an estimated set of volumes for each software release to enable Accenture to create a capacity model to demonstrate how RITA handles the volumes.

What problems were caused to the IT project by there being a larger than anticipated volume of applicants to the SPS scheme?

29. The combination of the 50% increase in the number of claimants (from 80,000 to 120,000) and the requirement to register all the land in the first year of SPS (which resulted in an increase of over 1,000% in land changes from 9,000 per annum to over 100,000) unexpectedly increased the load on RITA and led to problems of availability and stability of RITA. These issues had to be rapidly addressed by the RPA and Accenture, spending additional effort and time to increase the capacity and stability of RITA.

30. The large increase in volumes has resulted in greater demand from the RPA for RITA. To support this increased demand, Accenture has made enhancements to both the hardware and software to improve the responsiveness and stability of RITA in agreement with RPA.

31. RITA has been fully stable since October 2005 and is available from 6 am to 9 pm weekdays and 8 am to 6 pm weekends.

STAFF RELATIONSHIP

The relationship between core RPA staff and Accenture personnel and the extent to which RPA staff were placed at a sufficiently high level in the IT project, so they knew what was going on

32. The governance arrangements for the RITA project include the following:

- The DEFRA Executive Review Group (ERG).
- The joint DEFRA / RPA Common Agricultural Policy Reform Implementation Board (CAPRI).
- RPA Change Programme Board.
- RPA Quality Assurance.
- RPA and Third Party Programme Management.
- Office of Government Commerce reviews.

33. The Executive Review Group is chaired by the Permanent Secretary and usually meets on a monthly basis. The focus is to keep departmental stakeholders abreast of progress on the RPA project and to secure agreement to key decisions. Accenture has attended as an invitee in February 2006 and April 2006 and continues to be an occasional invitee on a case by case basis.

34. The Common Agricultural Policy Reform Implementation Board (CAPRI) is jointly chaired by the RPA Chief Executive and the DEFRA Director General for Sustainable Farming, Food and Fisheries. Its focus is purely on the implementation of the SPS. It spans new deliverables and releases and operational progress of implementation of SPS. Accenture attends CAPRI meetings as senior IT supplier.

35. Accenture attended meetings of the RPA Change Programme Board which until recently met every two weeks during the Change Programme and was chaired by the RPA Programme Director and comprised senior RPA staff, including the RPA IT Director and the RPA Operations Director. The Programme Board was responsible for monitoring progress of the change programme as a whole.

36. In addition, for each specific Release, there are a series of reporting structures (for example, Board meetings, Project Team meetings, Business Relationship Manager meetings, Test Governance meetings, Release Owners meetings, Risk and Issues meetings) and there was a Change Control Meeting to manage formal contractual changes to the agreement, all designed to ensure that RPA staff are involved, informed and able to exert necessary control on the RITA project.

37. There has been extensive assurance activity from the RPA in relation to Accenture's work—specific RPA staff closely involved with testing and providing assurance on the Releases and on the Accenture live service, as well as external third party reviews commissioned by the RPA.

38. Much of the assurance and programme management for the Change Programme is provided by RPA engaged third party companies.

LINES OF COMMUNICATION

How the advice and progress reports from Accenture were fed into DEFRA and the decision making progress

39. Apart from the updates provided at the CAPRI meetings mentioned above, Accenture does not know if or how its progress reports to the RPA are incorporated into DEFRA's decision-making process.

40. Accenture has regular meetings with senior DEFRA officials, including the DEFRA Permanent Secretary.

RPA RISK MANAGEMENT

Was it the experience of Accenture that the RPA was unduly risk averse? For example, was it ever possible to cut corners when testing system releases?

41. As has been widely acknowledged by numerous commentators and experts, significant IT enabled business change programmes can be difficult to manage. There have been many examples of problem projects in the public and private sectors in recent years with difficulties attributed to poorly defined requirements, changing business needs and lack of business involvement and preparedness that can lead to delivery difficulties.

42. As described above, the substantial EU CAP reform in June 2003 and continuing changes to the rules for the SPS presented significant challenges to the Change Programme.

43. With this context in mind, Accenture believes that the RPA had a thorough and comprehensive assurance approach (both in quality and in timescale) to the development of RITA.

44. The RPA requires and Accenture provides a rigorous testing approach to new system releases. These releases have been in operation and stable since October 2005.

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Witnesses: **Mr Sean Shine**, Managing Director, UK & Ireland—Government, **Mr Peter Holmes**, Managing Director, Atlantic & Europe—Government and **Mr Andy Naish**, Senior Executive, UK—Government, gave evidence.

Q370 Chairman: Good afternoon ladies and gentlemen. I am sorry you are so far away but unfortunately this was the only room that we could get. We are delighted to see such a large turnout. Can I formally for the record welcome Sean Shine, the Managing Director of the United Kingdom and Ireland of Accenture, Mr Peter Holmes, Managing Director, Atlantic and Europe and Mr Andy Naish, Senior Executive, UK. Gentlemen you are very welcome. Last week we had a very interesting session where we had the former permanent secretary, Sir Brian Bender, and Helen Ghosh, the current permanent secretary, accompanied by Mr Andy Lebrecht. They answered a lot of very interesting questions from the Committee about some of the issues underlying the problems that the Rural Payment Agency has faced. I would be unsurprised to learn if Accenture had not got a very detailed record of those exchanges and indeed have read the transcript so that you will be very well equipped to know what the line of inquiry is that the Committee is interested in. To start off I would say that right at the end of the session last week when I was still trying to get to grips with what had actually gone wrong, where was the nub of the problem; I put that to Helen Ghosh. I asked her if she could help me and she said (I quote from her remarks): "In my opening remarks I came back to the point that there is not, in my view—but I shall be interested to see the outcome of the Committee's deliberations—a single person, a single set of circumstances, one single decision which was taken which led us to where we are today." Do you agree?

Mr Holmes: Yes we do agree with that.

Q371 Chairman: Could you explain why you do agree because usually when something goes wrong you can unpick a system such as the RPA and at least, if not to one thing, you can point to a collection of things which enable you to identify what went wrong and then answer the question, why did it go wrong? Can you help us?

Mr Holmes: Yes, certainly. It is a very complex situation implementing IT systems to support a change programme. It is a complex thing to do. On top of that we had, as discussed at previous committees, a very radical change in policy. The timescales were onerous so there were a number of factors, when put together, which meant that this was an extremely challenging project for us.

Q372 Chairman: That is a description, not an answer to the question. You are a professional company, amongst the world's best known in the field. You are used to dealing with complexity, challenge and radical change. That is why you were employed in the first instance by the RPA as its IT partner as part of its change programme. That is why you went through this complex bidding process, including convincing the RPA of your credentials otherwise you would not have won the contract. The question I asked was whether you could help us, if it was not one event, thing or person, to put our finger on or point us at least down the road we should be travelling, to find out what actually went wrong. Bluntly your system is a part of this and you are being fingered and I am sure you would want to defend yourself. Would you like to try to answer my question, could you help us to try and get a list of the things that did go wrong that account for why payments to farmers have been so delayed?

Mr Holmes: Yes. Our IT system, the system we were contracted to deliver, is part of a jigsaw of many pieces that go to ensuring that farmers get paid. We delivered against the IT system we were contracted to deliver against the timelines and our system has been operational for many months now. Our IT system underpins the change programme but we do not have responsibility for the overall change programme.

Q373 Chairman: Mr Holmes, that still has not actually answered my question. You told me effectively you did your job. We will come on to look

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at some of the detail of that in a moment, but can I ask you for the third time if you can identify for me the list of the things which, from your perspective, having delivered on your bit, when you are looking out you are fully involved and engaged in this process, all of your experts are embedded in the RPA, you are by definition having to talk to all the other players to integrate what they are doing to what you are doing, you must have got an idea why the wing fell off. Let me ask the question again, what went wrong? Help us with our list.

Mr Holmes: It is very difficult from our perspective to do that because we were not involved in all of the activities in the programme. We were not involved with discussions around policy; we did not have an oversight of the change programme itself. We were not involved with some of the work around changing the business processes. Our role was a role where we had a fixed price contract to develop an IT system against an agreed specification. The answer to your question, from where we sat in the overall scheme of things, is that it is impossible for us to have a perspective on that and inform proceedings.

Q374 Chairman: Let us just be very clear about this. You have provided, if you like, the engine room—the delivery system—and you have no idea, sitting in what sounds like a hermetically sealed little box, as to what is going on in the outside world around this system that you have created, and suddenly you wake up one day to find that outside the box it is not working. I find that almost unbelievable. You have had your staff working with the RPA, and anybody who understands anything about systems development must, by definition (if you are going to plug your little box, or big box, into all the other things that are going on) understand the total picture to know where you plug in. Therefore if bits of the other picture are not doing what they are supposed to be doing you, by definition, are going to have some difficulties, are you not?

Mr Holmes: Where our systems plug into other systems—in total there are five technology IT systems which are involved in paying farmers—we need to understand the detailed specification and make sure that those systems interface tightly and correctly with each other. On things like the re-engineering of business processes, the management of how the forms were being handled, we were not involved in those activities. It was never part of our contract and we were not involved in those activities.

Q375 Chairman: You were not involved in things that you were subsequently going to have to deal with. Is that right? Other people brought information systems requirements to your front door and then you have had to take them over in your system and do something with them.

Mr Holmes: Our contract was to develop a system that met a specification and to prove and demonstrate that that system had met that specification, which we did, and then to help with its implementation.

Q376 Chairman: What I am struggling to understand is that Sir Brian Bender last week, when he came to see us, indicated that you were a very important player in the RPA's change programme and when you first got the specification for what you were bidding for you would have had to have a very clear understanding of the universe into which you were about to descend. You would, I presume, have been aware that in addition to Defra's change programme for the RPA there were a lot of policy unknowns going on—changes to the Common Agricultural Policy—which could well have an effect on what you were subsequently asked to do. Were you aware of those?

Mr Holmes: Yes, we were aware of those.

Q377 Chairman: Were you aware of them in some detail?

Mr Holmes: No.

Q378 Chairman: No? You were not aware of what the change programme was?

Mr Holmes: Sorry, we were aware of the change programme; we were not aware of the detail of the policy changes.

Q379 Chairman: Do you not think you ought to have been?

Mr Holmes: We were not brought in as experts on agricultural policy or CAP reform.

Q380 Chairman: Bearing in mind the RPA's job is to administer something like 38 of the old legacy schemes, in order to enable them to do that with the change you would have to have had some idea of what these various sorts of policy schemes or systems actually did. Presumably you understood that.

Mr Holmes: Not prior to award of contract in detail. That was part of the initial phase of our contract, to understand the requirements.

Q381 Chairman: So as part of the contract you did have to work to understand that detail.

Mr Holmes: Of the existing schemes, yes.

Q382 Chairman: You understood the existing schemes and I presume you subsequently had to understand the new schemes.

Mr Holmes: Subsequently, yes.

Q383 Chairman: So you understood the old; you understood the new and you understood the change programme.

Mr Holmes: We understood the change programme at a level.

Q384 Chairman: Could you say what you mean by "at a level"? What does that mean?

Mr Holmes: We understood what the change programme was about, what its objectives were, how it was being implemented, but not in the detail of how the change programme would roll out and what impact it would have on existing processes.

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Q385 Chairman: Let me ask you one final question by way of introductory remarks. If, at any stage, in trying to deliver against the evolving contractual relationship between you and the RPA you saw a risk of a reference to being able to deliver within a timescale which the RPA or ministers had set; would you have felt duty bound to tell the RPA's management and others about a risk factor that would prevent them achieving a publicly stated objective?

Mr Holmes: Yes.

Chairman: Fine. Thank you very much indeed.

Q386 David Taylor: Mr Holmes, which of today's triumvirate have been with Accenture throughout the whole process from 2003? Any of you or all of you?

Mr Holmes: Just myself.

Q387 David Taylor: Who has had the greatest opportunity or indeed the responsibility allocated to them for the day to day involvement with the emerging system? Would that be Mr Naish?

Mr Holmes: Today it is Andy.

Q388 David Taylor: When did Mr Naish join the company?

Mr Naish: I joined the company in October 1987.

Q389 David Taylor: You have been with Accenture through the whole period then.

Mr Naish: Yes but I have not had responsibility for the . . .

Q390 David Taylor: I asked Mr Holmes which of the three of you have been with Accenture through the whole the thing.

Mr Holmes: All three of us have been.

Q391 David Taylor: Would you agree with the old maxim that success has many parents but failure is an orphan?

Mr Holmes: Yes.

Q392 David Taylor: Would you say that Accenture have done their best to distance themselves from the procreation of this debacle?

Mr Holmes: No, I would not. We have said on record that we have delivered against the contract that was agreed. We have met the specification, we have delivered against the set of agreed dates and we are proud of what we have delivered, to be honest.

Q393 David Taylor: In a sense this select committee inquiry is a paternity test on failure in relation to the SPS IT system. We have no idea yet what the conclusions will be but do you expect to come out largely unscathed from this process?

Mr Holmes: We do not have expectations of the end of this process.

Q394 David Taylor: You are bound to have some idea as to what might emerge, some scenario that would be acceptable to you.

Mr Holmes: We do a lot of work with public sectors around the world. We accept that doing work in the public eye means that from time to time we find ourselves in these kinds of discussions or being subject to media interest and we accept that that is part and parcel of undertaking work in the public sector.

Q395 David Taylor: Would you accept that your association with this project which has failed in the most public and spectacular way will not exactly and necessarily burnish your reputation when you are bidding for future public sector contracts.

Mr Holmes: No, I would not accept that; we do not believe that.

Q396 David Taylor: You do not believe that, so it does not matter.

Mr Holmes: It does matter.

Q397 David Taylor: You said in describing the scope of your 2003 contract the various things like the Land Register and Customer Register but you also referred to claims processing.

Mr Holmes: Yes.

Q398 David Taylor: Towards the end of our inquiry a week ago today it is that section of the whole project which in particular seems to have failed in an unexpected and unpredicted way; the patient had died even though every part of the operation had been successful. Is that how you read it?

Mr Holmes: No.

Q399 David Taylor: You have read what she said.

Mr Holmes: Yes, and in fact I have discussed this since with Helen Ghosh and RPA. What she meant to say was that it was the broad business process system and not the IT system.

Q400 David Taylor: Did she know she meant to say that? How do you know she meant to say that?

Mr Holmes: We have spoken to her subsequent to last week. We had a meeting with her officials and our view is that the IT system did not fail. We are very emphatic about that and are happy to discuss that at length today. The IT system did not fail. The IT system has been stable, delivered since October of last year, and what she meant by the remarks about the system were the overall business systems not our particular IT system.

Q401 David Taylor: She expressed penitence for this remarks, did she?

Mr Holmes: She said she was happy for it to be said today that we had had that discussion with her.¹

David Taylor: So she will be submitting a memorandum to confirm and correct what she said. We need that to be in hard evidence from here.

Q402 Chairman: It might be helpful for us if you defined for us what you mean by an "IT system".

¹ Ev 152 (Defra RPA Sub 16B).

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Mr Naish: The system that we have built and operate for the RPA is known as RITA. RITA consists of a number of components. The first we delivered was the Rural Land Register which is a database of land in England and particularly a layer which describes permanent boundaries of fields called land parcels. The second part is the Customer Register which is used for capturing and processing amendments to customer details; their names, addresses, bank account details and so on. Those are systems which are important together because an important part of the process is linking together the land with the customers who have a claim on that land. The third part is a system for capturing claims as they come in, claim form information as it arrives. Then there are two parts which support the process for taking a claim from its initial submission through steps of validation and then into the entitlements and payments process.

Q403 David Taylor: I know the terms are not necessarily absolute ones but to what extent is what you have described a group of off the shelf applications or ones that have been designed almost from the ground up to reflect RPA's own unique circumstances?

Mr Naish: There are parts of particularly the Rural Land Register which are based on packages for processing geographic information in the way that is appropriate for the Land Register. We have also made use of some packages in some other parts of the system, but there has been a lot of customisation of those products in order to provide the system that the RPA required.

Q404 David Taylor: Was the claims processing engine packaged-based?

Mr Naish: Part of it yes.

Q405 David Taylor: We went to Reading towards the end of last year and we have had evidence from PCS as well, but the task-based approach which was the characteristic of the system until the new chief executive took over was causing serious problems. Do you recognise that and can you put your finger very briefly on why that might have been?

Mr Naish: I have heard that said, yes, and we are involved in some work with the RPA now looking at solutions for the future to change that. The task-based approach was part of what the original specification was in the way that we were asked to design a delivery of workload to RPA users. It was task by task rather than on a claims basis.

Q406 Lynne Jones: Are you saying that it was the RPA that laid the task-based approach or did you have any discussions with them about whether that was the appropriate way of going about things?

Mr Naish: It was part of the requirement specified by the RPA that the system should work that way.

Q407 Lynne Jones: You just accept that that is what they require and you do not have any discussion about the most appropriate way of dealing with the requirements.

Mr Naish: I am not aware of discussions that took place at that time and whether that was appropriate or not.

Mr Shine: The task-based process actually pre-dated the RPA. Before the RPA was created when an initial review was done by PWC that at that time identified that the shift should be towards a task-based process so this was a core tenet of the procurement that was subsequently held which we then bid against.

Q408 Lynne Jones: When Mark Addison came in the task-based approach was abandoned. Is that correct?

Mr Naish: Yes, the intent at that time was to move towards clearing tasks but grouped together by claim.

Q409 Lynne Jones: Do you think the department of Defra had any discussions with the RPA about the task-based approach?

Mr Naish: I am not aware of any.

Q410 Lynne Jones: It was entirely the RPA's responsibility.

Mr Naish: I am not aware of what discussions might have taken place.

Q411 Lynne Jones: Could you explain which parts of the IT system were not your responsibility?

Mr Naish: In support of the overall business process there are a number of other system components. For example, the system that actually creates payment records that go into bank accounts is a separate system. There is a separate system that prints paperwork and letters that get sent out. There is a system that handles the internal calculation of partial payments and there is a system which delivers communications and messages out to the user base.

Q412 Lynne Jones: You were aware of these systems and you were quite happy with their adequacy, were you, when you entered into this contract?

Mr Naish: At the time we entered into the contract I do not think we had any direct involvement with them. It was obviously part of the early part of that to get to grips with what they did and what their responsibilities were.

Q413 Lynne Jones: Are you aware of any problems with those systems subsequently?

Mr Naish: No.

Q414 David Taylor: What proportion of your European revenue is associated with public sector in its broadest sense?

Mr Holmes: Fifteen to 20%.

Q415 David Taylor: What proportion of your profits is associated with public sector?

Mr Holmes: Less than that.

Q416 David Taylor: We shall be examining that one later on. You were procured—if I can use that expression—in January 2003, were you not?

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Mr Holmes: That is right.

Q417 David Taylor: At that point CAP reform was not incorporated within the specification.

Mr Holmes: That is correct.

Q418 David Taylor: It was understood that CAP reform was not just on the horizon but it was galloping into the field almost. Surely the contract tendering process must have talked about possible indications of CAP reform. Were any of you present or had reports made to you about what was happening in that regard?

Mr Holmes: Not in any detail. There were 68 schemes in operation at the time. Our contact was to design a system that would support the existing schemes with an expectation that at some point between the award of the contract and the implementation of the system CAP reform would come along. The general headline was that the reform would make the systems much simpler. The view was that it would actually make life far easier for us because the new scheme would be a single scheme, not many schemes, and it would be simpler.

Q419 David Taylor: Was this an important project to you?

Mr Holmes: Yes.

Q420 David Taylor: Were any of the three of you directly involved in any part of the negotiations, specifications, discussions or are you telling us today what you have had reported to you?

Mr Holmes: I was involved in those discussions.

Q421 David Taylor: In a detailed way.

Mr Holmes: Yes.

Q422 David Taylor: You are the very last person to say that you do not recall very much happening in the way of CAP reform.

Mr Holmes: I was involved in those discussions, yes.

David Taylor: There was a set of assumptions made that the new systems would be simpler and assumptions were made about when decisions would be made, about complexity and over a period of time those assumptions either turned out to be correct or incorrect.

Q423 Mr Drew: Just a very quick point, clearly you must have done all your calculations of how you were going to write this system based on the historic model of payments.

Mr Holmes: Correct.

Q424 Mr Drew: Did you look at all at any ways in which you could adapt that, you could enhance that, given that it was fairly widely known that it was looking to change its approach to payments?

Mr Holmes: We were asked to develop a system based on the existing schemes and to provide a degree of flexibility to cope with subsequent on-going changes.

Q425 Mr Drew: As IT specialists did you see that as a challenge? Did you see that as optimistic? Foolhardy? Here you have a system that is working; it is a system that needs to be improved, that is why you were brought in to organise the change. Then you start hearing noises whenever that basically the payment system is to be radically altered. How did you see that? If you go for an interview for a new job someone might say, "How do you think you might take this job on?" and that sort of discussion. Did that not take place at all?

Mr Holmes: No, it is far from ideal. There is a lot of best practice out there which says in an ideal world you would not want to undertake that amount of change in the middle of such a large and complex programme.

Q426 Lynne Jones: You said that you were told that the reforms would make life simpler for you. Lord Bach told us that the impact of reform would not be significant in the overall IT solution. That is what you thought the situation was.

Mr Holmes: That is what we probably thought the situation was in the middle of 2003.

Q427 Lynne Jones: At what point did you discover that the CAP reform was going to be significant and life was going to be more complicated and not simpler?

Mr Holmes: That began to emerge for us I would guess in late 2003/early 2004.

Q428 Lynne Jones: That quote I have just given from Lord Bach was given to us this year when he was still optimistic about payments being made. Why do you think the minister still thought that the impact of reform would not be significant in the overall IT solution?

Mr Holmes: I am sorry, I cannot comment on that.

Q429 Lynne Jones: You do not think that would have been a correct statement at that time.

Mr Holmes: The impact of the reform in terms of what impact did it have on our work, it had a big impact on our work. It had a big impact on our work but what it would mean ultimately when the new system was implemented was that it would have a different impact on different people at different points in time.

Q430 Lynne Jones: When government was in discussion about what way the single payments would be made and whether it would be historic or area based or the dynamic hybrid that eventually took place, were you consulted in any way? Did you have any input into whether the system that they chose would have any significant impact for the computer system that was being developed?

Mr Holmes: No.

Q431 Lynne Jones: So you basically were just told at the end the process that this is what we are going to implement and we have to re-negotiate a contract on that basis.

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Mr Holmes: There had been some assumptions made during the second half of 2003; those assumptions subsequently turned out to be incorrect in terms of which scheme was opted for and the impact upon us.

Q432 Lynne Jones: When you were actually told what the new method was going to be did you have any input then? Did you issue any warnings that the complexity of that might lead to problems in actually making payments in the timeframe necessary?

Mr Holmes: Not at that stage. When we were first told to be honest we probably did not fully understand the complexities of the policy and its impact on the timescale.

Q433 Lynne Jones: Whose fault was that? Was that your fault for not grasping the problems or was it the fault of the way in which you were told the information?

Mr Holmes: As with all these things, the devil is in the detail and it is fine to make a policy announcement but there is an awful lot of detail that goes into it.

Q434 Lynne Jones: Are you saying then that policies were decided without a proper understanding of the detail and the significance for the need to actually make payment to farmers?

Mr Holmes: No, I am not saying that because we were not involved in . . .

Q435 Lynne Jones: It sounds like you are.

Mr Holmes: We fully understood what was meant and in fact we are on record as saying in our early submission that it was late 2004 before all the details of the new policy and its implications on the system were fully defined.

Q436 Chairman: Can we be absolutely clear here? During 2003 when the negotiations to finalise what became the new single payment scheme were going on with the Council of Ministers in Brussels, are you telling us straightforwardly that nobody from the RPA had any conversations with Accenture about the IT implications for what might emerge?

Mr Holmes: I would not say categorically that nobody in the RPA had any conversations; we were not involved in any working sessions or detail sessions or understanding around the policy options.

Q437 Chairman: Nobody from the RPA or Defra talked to you about the deliverability of an alternative scheme such as the one we have now.

Mr Holmes: I am not aware that anybody did.

Q438 Chairman: Who actually was in charge day to day with Accenture's dealings with the RPA? Who did Accenture report to in the RPA?

Mr Holmes: Day to day in those days probably . . .

Q439 Chairman: Not probably; you must know the answer. I am trying to establish some facts as to what the organisational structure was within which you operated. In other words, who fed you information and who, in the opposite direction, did you feed information to?

Mr Shine: Formally, as you know, in our submission we talked about the governance arrangements. In effect we reported to the Programme Board. There was one official within RPA with whom we had more day to day contact with, that was Simon Vry. About your question around the policy changes, as we have said, the changes themselves did not become finalised in detail until towards the end of 2004 so as we went through 2004 we were aware of the policy to shift to a land-base was coming but the details had not yet been finalised. At the same time we were continuing to build other components of the system as we have outlined in our submission and we were delivering those. In a sense the view was to wait until the details are finalised before we begin to look at specifying that and then pick up the detail. As I think many of you will be well aware, there is no point too early in the process beginning to do detailed specification. Really we needed to wait for the specification to be done so that we could then begin to assess the impact of the system and then assess the way in which we would manage the components of the system in order to get delivery.

Q440 David Taylor: One of the Committee last week put to Helen Ghosh the fact that you might have seen Defra as a dream customer and she retorted that they are pretty tough actually. How do you rate it?

Mr Holmes: I would agree with that. We competed for the contract under public procurement. It was a highly competitive competition. We gave what we believed was a fair price based on our estimate of what it took to do the job. As part of that original tender mechanism there was a very clear mechanism in place to deal with change control and change request which is the mechanism that has been subsequently used.

Q441 David Taylor: Is the customer always right in terms of the specification that they want?

Mr Holmes: I guess rhetorically the answer to that is, no, they are not, but in this particular case we were brought in not as advisers, we were brought in as an IT developer to build the system to meet a fixed specification.

Q442 David Taylor: So your devil in the detail comment a moment or two ago, was that Accenture code for "Not us, guv"?

Mr Holmes: Sorry?

Q443 David Taylor: Are you trying to wriggle out of responsibility by saying that the customer said what they wanted and you merely delivered what they asked for. Do you not have a moral and, more importantly, a professional obligation to nudge

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them away from things which you strongly feel are going to be costly or less likely to work? The task-based approach, if you like, would be an example.

Mr Holmes: No, we have an obligation to deliver what we are contracted to deliver. We are not in that role in an advisory capacity; we are there very much with a fixed price to do a fixed piece of work, delivered to a certain level of performance against an agreed specification.

Q444 David Taylor: How does Defra compare with your other public sector clients in terms of being “a tough customer!”?

Mr Holmes: I would say that Defra compares very well in comparison to other public sector clients in terms of being a good customer. There have been good governance arrangements in place throughout the project. We had regular meetings with Sir Brian Bender and now Helen Ghosh. There has been good engagement at senior levels and regular contact and governance arrangements.

Q445 David Taylor: Rapidly changing specifications or amendments that are added thereto can be a bit of a cash cow can they not for the Accentures of this world?

Mr Holmes: No because, as I have already said, we had a contract which, whilst it was part of the competition process, had a defined mechanism to deal with change request. Defra have full visibility of the resources that are going into the change of request and understand the mechanism and overall price, so it is not a cash cow.

Q446 David Taylor: In the bills of quantity and specifications for the construction of houses there is often a phrase something along the lines of “unforeseen works below ground level”. Is there not that equivalent built into contracts of this kind therefore companies sometimes have a vested interest in a rather loose specification being part of the agreed contract.

Mr Holmes: Certainly in this case there are no such phrases and it is very clear what the mechanism was to deal with the changes. RPA officials had full visibility of the resources that were being committed to those changes and to understand why they were happening.

Q447 Mr Drew: Do you have any interest or partnerships with companies who are delivering agricultural payment systems in any other EU country?

Mr Shine: I am not aware of any formal interest but I think, given the scale of Accenture, we would tend to work with most companies. If I take for example Oracle—the database provider and some of the software provider in the RPA—we would of course work with Oracle in multiple countries and multiple projects, but in terms of your specific question around interest in agriculture payment systems the answer is no. I am aware of one project we undertook in Ireland a number of years ago when we used some sub-contractors around spatial systems

and other components of payments, but the specific answer to your question is no, not that I am aware of.²

Q448 Mr Drew: You will have had people from Accenture who will have gone to conferences discussing issues to do with IT capability and how that will help the reform of the CAP. Surely there must have been international conferences to look at this issue. In terms of the budget of the EU this is the biggest issue the EU has to grasp. Are you saying that you did or you did not have members of staff going along to look at those issues?

Mr Shine: I am not aware of any specific people who have attended. I am happy to check for you.

Q449 Mr Drew: Could you check that up? We would be intrigued to know whether you had any interchange of ideas with what was happening in other countries which would at least give you an idea here that things might be more problematic if the UK, leading the charge for a new system of agricultural payments, were to say, “Okay, Accenture, you fix it”. Could you come back to us on that?

Mr Holmes: Yes, I will.

Q450 Sir Peter Soulsby: In your evidence you have described the governance arrangements for the RITA project and amongst that number is the RPA and indeed others within Defra. I think you told us a little while ago that you had, throughout the process, regular contact with the permanent secretaries. Is that the case?

Mr Holmes: Yes.

Q451 Sir Peter Soulsby: Not just with the Rural Payments Agency itself but also with the permanent secretaries.

Mr Holmes: That is the case, yes.

Q452 Sir Peter Soulsby: At what stage did you tell the permanent secretaries that all was not going well?

Mr Holmes: We had regular meetings with the permanent secretary, Sir Brian Bender at the time, and we had discussions and we would provide a view based on the deliverability of our IT systems. We were not asked for a view and we never presented a view. In fact we would have actually said that we believe we could deliver our IT system on time—as we subsequently did—but would remind the

² *Note by witness:* Although Accenture do not have any interest or partnership with companies who are delivering agricultural payment systems, we want to clarify that we work with the Department of Agriculture and Food in Ireland where we have built IT systems to support the processing of Area Aid, SPS and Forestry payments. We have also built the Integrated Fisheries Information System (SI2P) for the Portuguese General Direction of Fisheries and Aquaculture (DGPA). The SI2P system provides functions including processing of applications for EU fishery project grant aid and the management of fishing boat licences. In addition, one of our subcontractors (eSpatial) provides a spatial software package (iSmart), spatial software development expertise and spatial data cleansing. eSpatial has had some involvement with other paying agencies.

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permanent secretary that there was a whole pile of other activities which were outside the scope of our contract which we were not in a position to comment on deliverability.

Q453 Sir Peter Soulsby: At no time did you tell the permanent secretaries that all was not going well with the projects.

Mr Holmes: In the early stages we had some challenges with the project.

Q454 Sir Peter Soulsby: You are not answering my question, with respect, Mr Holmes. Are you telling us that at no stage in this project did you tell the permanent secretaries that all was not going well with it?

Mr Holmes: I do not believe that at any stage we did tell them, no.³

Q455 Sir Peter Soulsby: At no stage you told the permanent secretaries that all was not well with the project.

Mr Shine: Part of our meetings with the permanent secretaries was to take the review of progress on what we were doing as one would expect given the scale of the IT project. At any point in time there would be a series of issues and risks that we were assessing, so every discussion would have focused on the issue of the moment or particular issues. As Peter has said, our focus was on delivering the IT component of the systems and therefore at times we would have discussed challenges and issues around delivering the IT components so therefore we would have raised issues, but we would not have raised other concerns because we were not directly involved in the other aspects that were involved in the bigger business process and indeed with the other IT system components. We were focusing on an area and quite frankly we had a lot to do as Peter has said. We had a series of issues there in getting on with the project and we were focusing on getting those under control and ensuring that we were delivering.

Q456 Sir Peter Soulsby: So despite your intimate involvement with the delivery of this project, the permanent secretaries could reasonably believe what you were telling them, that it was going to be delivered successfully and on time. Is that right?

Mr Shine: I think as my colleague has said, we were very clear to say that we could comment in detail on the IT components . . .

Q457 Chairman: When you had these meetings with the permanent secretaries, were you on your own? Was it Accenture to permanent secretary, full stop?

Mr Holmes: The RPA officials were there.

Q458 Chairman: The RPA officials were there and they, I presume, would have had the knowledge about the other bits that were not your responsibility.

Mr Holmes: Yes.

Q459 Chairman: So let us come back to the question that Sir Peter was asking. When the question was raised about how things were going, presumably at some of the meetings the permanent secretary would have asked the question, "Is everything going well? Is everything on time?" and you, from your standpoint, would have given a reassuring answer.

Mr Holmes: As Sean said earlier, the whole point of the meetings . . .

Q460 Chairman: Could you just answer the question instead of giving us what might have been. Is it yes or no?

Mr Holmes: Could you repeat the question, please?

Q461 Chairman: The question was, do you give a reassuring answer on each occasion when progress is being questioned by the respective permanent secretaries that you were going to be able to deliver your bit functioning and on time?

Mr Holmes: Yes.

Q462 Chairman: So all your answers were in the affirmative.

Mr Holmes: Yes.

Q463 Chairman: You would have heard at the same meetings if there had been any messages to the contrary.

Mr Holmes: If there had been messages we would have heard them.

Q464 Chairman: You heard nothing at any meeting that you were at with the permanent secretaries, with the RPA in attendance, that gave a contrary message that everything would be all right.

Mr Holmes: That is right. Those meetings were essentially about managing the relationship between Accenture and RPA and Defra. Wider issues about impact on policy or other things were not discussed.

Q465 Chairman: I am not talking about wider impact on policy or anything; we are talking about deliverability. We will come in detail to look at some of the mapping issues, but in your evidence you say at paragraph 31: "RITA has been fully stable since October 2005". That says that it is all ready to go; you are confident it will deliver what you said it would deliver. It does what it says on the outside of the tin, is that right?

Mr Holmes: Yes.

Q466 Chairman: Is that what it means?

Mr Holmes: Yes.

Q467 Chairman: You were sitting there with a smile on your face; Accenture can deliver.

³ *Note by witness:* Relative to all questions relating to our communications with the Permanent Secretaries, we want to confirm that in these communications we did talk about the RITA system and highlight some factors critical to the RPA getting the full benefit from the RITA system, and therefore being able to make payments on time. These were factors that were outside the scope of our contract and beyond our control and into which we had little or no visibility and we were therefore not in a position to comment on their deliverability by the RPA (as per our responses to Q452 and other questions).

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Mr Holmes: Yes.

Q468 Chairman: Did you at that time have any misgivings whatsoever that the other parts that were complementary to what you could do were not going to deliver their part of the project?

Mr Holmes: Misgivings is the wrong word. We were at pains—and continue to be at pains—to say that this is only part of a jigsaw.

Q469 Chairman: You said that before, but let me come back and ask you the question again. Did you have a meeting with the permanent secretaries to discuss that statement that the system was stable at October 2005?

Mr Holmes: I cannot honestly recall.

Q470 Chairman: You cannot remember.

Mr Shine: If I understand your question, did we have a meeting to discuss that specific point, the answer is no. It is worthwhile saying that the RPA measures system availability every month and has done since September 2004. It is a fact that the system has been available 98.9% since that point. In our submission you have that specific question. The final release of the system that was required for making payments went live in October and so that is why we pointed to October in terms of the system being available from then and also the percentage availability. From October onwards the system has been available in excess of 98.7% of the time. We did not have a specific meeting to discuss that; that is part of the normal monthly statistics that are measured in terms of system availability and, as we have said, the system was available as part of our commitments given early in the process.

Q471 Chairman: Would you like to re-focus your mind; when was the last meeting around that autumn period in 2005 that you did have with the permanent secretary? Do you have any recollection of that?

Mr Holmes: It would have been in September or October.

Q472 Chairman: Would you like to tell us a little more about that meeting?

Mr Holmes: To be honest I find it difficult to recall which meeting that was.

Q473 Chairman: Mr Holmes, you have been giving us, with remarkable clarity and recall, the reassuring messages about what Accenture negotiated and could deliver, the nature of the contract, the nature of the arrangements, but when it comes to me asking you a specific question about these rather important meetings your company was having with the permanent secretary your collective memory has gone somewhat fuzzy. Could you try to de-fuzz that for us and give us an insight as to what was actually said?

Mr Shine: My recollection is . . .

Q474 Chairman: Were you at this meeting?

Mr Shine: Yes, I was.

Q475 Chairman: Good.

Mr Shine: My recollection of precise dates is not absolutely correct but we can check that. We had a regular series of meetings with the permanent secretary throughout the project. As you may have recognised, we did have some challenges in the system throughout the summer and particularly in August and to be quite frank the focus of the meeting in September was focussing around those technical issues. We have commented on some of the issues and some of the reasons why they arose which were primarily driven as a result of unexpected volume. My recollection is very clear of those meetings. We commented on the volume of land changes was in fact 10 to 11 times the expected volume. The actual number of changes to land parcels turned out to be around 10 or 11 times what was expected, so over a 1,000%. The reason why my recollection of that meeting is so clear is because there was a core focus on addressing the issues that had been occurring during August and focusing on how those technical issues were going to be resolved. As we were pointed out in previous submissions we made a number of technical changes during that period in order to support the increased volume that was required at the time. It was a very detailed, technical discussion focusing on the issues that had arisen.

Q476 Mr Williams: I think at the beginning Mr Holmes said that although you were not responsible for the change programme your systems were going to be responsible for delivering it. Can you just tell us what you understood by the change programme?

Mr Holmes: Going back to the discussions with the RPA in 2002 during the procurement there were a lot of briefings about the change programme and it was about bringing the organisations together; it was about having a new approach which was essentially a task-based approach to dealing with the claims and driving efficiencies out through this process so that there would be an office rationalisation process and a general efficiency. It is about harnessing technology to improve the efficiency and effectiveness of the Rural Payments Agency.

Q477 Mr Williams: So it is about reducing numbers of staff in the Rural Payments Agency.

Mr Holmes: Yes.

Q478 Mr Williams: Were you seen by the people working in the Rural Payments Agency as someone who was likely to result in the loss of their jobs?

Mr Holmes: I do not believe so because the die had already been cast, the decision had already been made to go with the change programme. Consultants had been working with the RPA in defining how the change programme would be structured and the requirements so the die was cast by the time we were brought in.

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Q479 Mr Williams: Do you think that the change programme coming together with the added complexity of the contract that you had to deliver for the RPA, knowing those things were going to come together was the decision to go on and deliver them simultaneously a good decision?

Mr Holmes: That is a pretty normal kind of situation where there is a major technology system or programme that is underpinning some business change programme. We would expect that to be something that is going to be able to be handled.

Q480 Mr Williams: As part of your contract did you have an agreement to have embedded in your organisation experienced members of the RPA?

Mr Naish: We worked very closely with the RPA in a number of places assisting development. They are not embedded in our organisation in that sense but we worked in joint teams on a few specification phases and also through testing phases.

Q481 David Taylor: What is your idea of having RPA staff embedded in your organisation?

Mr Naish: I am assuming you are thinking about having RPA staff and reporting to Accenture management.

Q482 David Taylor: Possibly, or the other way round. What is your perception?

Mr Naish: From the way the question was phrased I assumed the former.

Q483 Mr Williams: Did you have either? Was either system operating then, either you having RPA people working in your organisation, reporting to you, giving you the benefit of their knowledge of how their systems have worked in the past and their way of working with their customers?

Mr Naish: We have had RPA people working with us but not in a reporting line to Accenture.⁴

Q484 Mr Williams: Were the RPA willing to enter into that type of arrangement? Were you happy with the quality of staff from the RPA?

Mr Naish: We have had good quality staff from the RPA working with us.

Q485 Mr Williams: When you signed your contract in the beginning of 2003 it was against the background of the change programme without any knowledge of the complexity of the systems that you might have to deliver in the future.

Mr Holmes: We had made our own assumptions and estimates about the complexity of the system based on supporting the existing scheme so there were a lot of opportunities to understand the existing schemes and the technology that supported them today and therefore the technology that would be needed for the future.

Q486 Mr Williams: Then in May 2004 you updated your contract. We are told that even after that there were 60 changes in the scheme that you finally had to deliver programmes for. Is that true, or is it an under-estimate or an over-estimate?

Mr Shine: I do not have the precise number but that scale of change sound reasonable. As we have outlined already the final parts of the detail for the CAP policy were only finalised in December 2004. That time frame generated a series of changes and, as we have said, the specific detail can have a significant impact on the system. I do not know the precise number but that does not sound unreasonable in terms of the amount of changes. The precise rules would be finalised based on policy direction.

Q487 Mr Williams: Our line of inquiry has been criticised, that we are spending too much time on the decision to go in for the dynamic hybrid and the effect that that has had on the inability to deliver and the chaos that has resulted from that. Somebody has told us that the problem was fundamentally the inability of the Rural Land Register Mapping system to work efficiently and talked of a payment system both technically and in management terms. You are saying that that is not the case.

Mr Shine: Absolutely. The Rural Land Register stores land parcels. There are currently over 2.5 million parcels of land stored on that system. It is a working system; it is there; it is storing all the land details. In terms of the period that you referred to, there was, as I have already commented, firstly an increase in the number of customers from around 80,000 up to around 120,000. Somewhere in the region of a 50% increase in customers were registering for the first time directly as a result of some of the policy decisions to include all land types and all land owner types or land user types. That was the first part of the change. The second part was the entire policy around CAP reform was based on shifting to land usage. The nature of the rules that were identified out of the directions that were taken meant that the customers were then focused on their land. There were a lot of land changes generated at a much higher volume. I have already spoken about the numbers; well over 100,000 land changes would have come in when the typical expectation prior to that for a typical year was around 9,000. So in excess of 11 times the number of changes plus 50% increase in the number of customers. That drove the fact that there was some system availability and stability issues during the summer⁵. As I have already referred to, they were addressed and dealt with and they are now working fully and have been for some time. They were the facts that happened during that period.

Q488 Mr Williams: Was there any expectation either in your first contract or the amended contract in 2004 that the payments should be delivered at the beginning of the payment envelope?

⁴ Note by witness: At various stages during the Programme, there have been individual Accenture people who have reported to the RPA.

⁵ Note by witness: This should be 2005.

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Mr Shine: When the broad policy for CAP reform began to pin down in the first number of months in 2004 we were able to take a broad view of what effort it would take in order to deliver the components of the system that would subsequently be required to establish entitlements and subsequently make payments. In about February of 2004⁶ when we looked at that it appeared that at that point that the December⁷ date was not possible. At that time the target date was February. At about the end of the first quarter in 2004⁸ our target date was to ensure that the payments were capable of being made in February 2006. As we have already said, the first payments were made in February 2006 in terms of delivering on our commitments. We did that and, as I have also said, our system components that were required for that were delivered as per schedule in October 2005. The final piece of the component that was required for establishing entitlements was done in October. The final piece that was required for doing all the task updates for those particular pieces was done in July 2005, all in advance of the February target date. As I have said, the February target date was achieved and the first payments were made then.

Q489 Sir Peter Soulsby: You have told us how you and your company were intimately involved with and responsible for the systems that were at the heart of this project. Therefore obviously you needed to understand the totality of the project even though it was not within your direct responsibility. You have told us about the very close working relationship that you had with the permanent secretaries and with others involved there. You have also described the changes that were taking place, the increase in the number of customers involved which, being intimately involved, you were clearly very well aware of. You are saying that at no stage did you tell the permanent secretary that it was not going to deliver, does that therefore mean that you, like the permanent secretary, were completely taken by surprise when the chief executive of the Rural Payments Agency announced that it was not going to happen?

Mr Shine: Yes.

Q490 Sir Peter Soulsby: You were completely taken by surprise.

Mr Shine: Yes.

Q491 Sir Peter Soulsby: Do you not think that might be difficult for us to understand? Can you perhaps explain, if it was not your systems that did work, if it was not the related systems did not work (you have said they were all fine), how we might remain puzzled as to what it was that gummed-up?

Mr Shine: Certainly as was discussed last week and it seemed to be discussed in some detail, making payments is the final stage in a whole series of steps that have to happen in terms of identifying the cost for establishing the entitlements, working through all the tasks in terms of any land changes,

corrections need to be made, ending up finally with entitlements being established and subsequently payments being made. There are quite a lot of steps to be done. As we have said already, the system components that we were responsible for were in place. We have also said that we were not directly responsible for the other components but our understanding was that steps were being taken to ensure that those tasks were in hand. We were not monitoring on a daily basis or on a frequent basis; we did not have a direct view of that. As I have said, from what we could see the technical components were in place to get to that point.

Q492 Sir Peter Soulsby: Despite your intimate involvement and responsibility for the heart of this project you were not involved and did not think it necessary for you to be involved in making sure that the project actually delivered. Is that really what you are saying?

Mr Shine: No, that is not what we are saying. As I have said we were specifically responsible for delivering the system components and we continued to do that and continued to focus on that. That does require on-going work in terms of making changes and, as you are aware, in the recent past we were focusing on ensuring the system components were there to make partial payments. We continued to be very busy focusing on that aspect. As I have said, we have one part of the process that we focus on ensuring we deliver and as was discussed in great detail last week the points were made that it was the bigger business process, there were a lot of components that had to happen. The IT system was there and ready for it but other parts of the process did not work as fast as had been expected.

Q493 Chairman: Let me pursue Peter's line of questions because I, too, am a bit stuck here. You said a few moments ago, Mr Shine, that the payments were made at the end of February. According to paragraph 24 of your evidence, "Release 3a2—the core batch function required to establish entitlement and authorise payments went live on 3 October 2005". Was there another process after that for which you were not responsible which actually delivered the payments or was batch 3a2 the bit that delivered the payments?

Mr Naish: The 3a2 release included the last pieces of functionality required to make payments.

Q494 Chairman: Mr Naish, please can you speak in layman's terms. What does that mean, it included the last piece of functionality? Just tell me, did 3a2 contain the bit that enabled the cheque to reach the farmer?

Mr Naish: The piece of the system that actually writes a cheque and sends it to the farmer is not part of the RITA system. That already existed.

Q495 Chairman: The bit that writes the cheque or transmits the money is not yours.

⁶ Note by witness: This should be 2005.

⁷ Note by witness: Refers to December 2005.

⁸ Note by witness: This should be 2005.

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Mr Naish: Exactly.

Q496 Chairman: Where do you stop and where does that bit start?

Mr Naish: Perhaps I could describe the last stages of the process.

Q497 Chairman: Yes, by all means.

Mr Naish: The last steps of the process through to getting payment out to the farmers are that once a claim has been fully validated, ie all the validation tasks created against that claim have been cleared, our system—the RITA system—goes through a number of steps. First of all it calculates the entitlement value for that claim and it calculates the monetary value associated with that level of entitlement for the land associated with the claim.

Q498 David Taylor: Is cheque production down stream of the claim processing system?

Mr Naish: Yes, it is.

Q499 David Taylor: Cheque production is not you, claims processing is. Is that what you are saying?

Mr Naish: Yes.

Q500 Chairman: Your end at the bit that says, “This is how much you ought to receive”.

Mr Naish: I am not quite there yet. Once we have established the entitlement we calculate the value of that entitlement and then we create a record that indicates the payment to be made for that claim, the amount of money that will be paid for that claim. That system then creates a task for a user to perform to authorise that the payment be made. It delivers a task to a user on a screen which says, “Please authorise this set of payments together”; it creates a batch of payments that are authorised together. Once a user says, “Yes, this payment is authorised” that night our system will then create a file of payments which then go into the payment system itself which executes the physical payments.

Q501 Chairman: Let us go upstream. You were saying that after validation you began the process of entitlement calculation.

Mr Naish: Yes.

Q502 Chairman: Which bit of validation were you responsible for, if any?

Mr Naish: The system validates the claims in two steps. First of all a set of checks that the claim form itself is correctly completed, that the customer exists, that the details of the customer match the records. There is then a second stage of validation that checks that the land associated with the claim is matching the land as recorded in the Land Register to make sure the land is accurately being claimed. Our system validates those things and creates tasks for the users if there are any issues associated with that validation, any points of discrepancy.

Q503 Chairman: Do you do anything before validation?

Mr Naish: Before validation we do the claim capture process.

Q504 Chairman: You do from claim capture to putting a message on a screen that says, “This is how much the farmer should receive”. Your system is responsible for everything between those points of activity.

Mr Naish: Yes. There is a wider business process where users are making use of our system to clear validation issues that have been raised.

Q505 Chairman: I am trying to establish very clearly what you are responsible for. I want to move into this bit and try and unpack what, if anything, did not work properly. We are getting somewhere near to being able to try to disaggregate this system you have created to see what did not work. What we do know is that there were huge problems with the processes involved in validating claims. The Committee has heard evidence on this. You have said to us that all of the system worked. You told us the Rural Land Register went live in September 2004 so I presume that meant it worked and you are satisfied it worked. You told us the Customer Register went live in February 2005. The High Volume Data Capture went live in May 2005. The core validations functions for the single payment went live in a pilot in July 2005 and rolled out in August 2005. If all of that worked why were there such problems when it came to do it? I think that is what Sir Peter was after. You have told us you delivered what you were asked to do; you have produced a list for us of the things that you say worked, and yet when it came to claims validation the thing collapses. Why?

Mr Naish: I do not recognise the collapsing.

Q506 Chairman: We know there were a lot of problems with claim validations. Ministers told us in relation to the number of applications, when they finally pulled the plug on March payments, it was an indication that there were a lot of claims that had not been fully validated.

Mr Naish: Yes.

Q507 Chairman: So we know the validation process had some problems. Why?

Mr Naish: The primary driver is one of volume. The amount of work, the number of tasks that were created by the system where there were discrepancies in land from claims that were on the Rural Land Register, was much higher than had been expected.

Q508 Chairman: In paragraph 27 of your evidence you told us that the January 2003 contract would be capable of supporting 100,000 customers was increased to 150,000 customers as part of the revised May 2004 contract. That would suggest to me that you anticipated extra business going through the system. If there was more than 50-odd thousand customers going in by definition there must have been more bits of land going to be applied for. When did you first become aware of the volume issue? Who told you or did you just wake up one morning and

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think, “Oh, good heavens, we’ve got all these extra things to deal with. We thought we’d got it all bolted down, everything was working, everything was fantastic”? What volume of land were you working on?

Mr Shine: If I could comment on that, I think I have covered some of it already. The expected volume of land changes, as I said, was predicted beforehand to be in the region of around 10,000 per year.

Q509 David Taylor: Predicted by?

Mr Shine: By RPA as part of our contract. As you would expect as part of our contract we will design a system for a particular volume so one of our pre-contract assumptions in terms of procurement time was to take some view on what the volume would be. As I have already said, the actual volume of land changes turned out to be much higher than anyone had predicted, in excess of eleven times higher. Let me take a real life example in terms of understanding what might happen. There may be two farmers/land owners who both claim on the same piece of land. It may be that the boundaries between them have moved somewhat; it may be that one of them has drawn the map incorrectly, but that one claimed for one plot of land on one side and one plot on another. If there is an overlap there is a task that says, “The application that you have made for a piece of land does not hang together correctly because those two boundaries do not work”. That issue will in turn generate some tasks which would therefore require somebody within RPA to look at that and in some cases they might contact the farmer directly or in other cases they might look back at the original and take a view from there. The volume of tasks is a function of the large number of land changes and indeed the shift of focus to land. The underlying focus of CAP reform was to shift away from production to that of land, therefore the number of land changes is much higher, therefore the number of tasks generated in terms of validating that particular claim was high.

Q510 Chairman: On a point of detail, does that mean that the original estimate for the volume of land that you might have to be dealing with, was that predicated on the historic system?

Mr Shine: That is correct.

Q511 Sir Peter Soulsby: Can I follow up this question about the volume of claims and ask Mr Shine when they first became aware that the volume was not really what had originally been proposed and was in fact many times more?

Mr Shine: Certainly from recollection that seemed to occur round the July/August 2005 time period. It was during that period because that is when the amount of work on the system increased, the amount of changes coming in, so it is in or around that time.

Q512 Sir Peter Soulsby: You are telling us that one of the main contributors to the difficulties that subsequently emerged was the increase in volume. You had been aware of that increase in volume back

many months earlier, but nonetheless you were taken by surprise when the whole thing failed to produce.

Mr Shine: No, what I said is that the increase in volume in land changes did result in some technical issues with regard to system availability which were dealt with immediately at that point. Essentially we changed the system and as you are also aware the RPA took some steps to outsource some of the digitisation of some of the land changes that were coming in as well in order to give increased capacity in a short period of time. That was the case then. As I have said already, the IT system component then required to enable the entitlements to be made and to enable the payments to be made was there and running from that period.

Q513 Sir Peter Soulsby: I understood you to be telling us that it was this increase in volume that was the major contributor to the difficulties that subsequently led to this project failing to deliver. If that is the case, how come, if you had been aware for many months before that, you were taken by surprise when it did actually fail to deliver?

Mr Shine: The increase in volume was a contributor to the increased number of tasks which subsequently had to be worked through by the RPA.

Q514 Sir Peter Soulsby: Surely you, as the ones who are intimately involved in developing these systems and are responsible for these systems, must have realised at a very early stage that the volume that was actually going to have to be dealt with by the system was out of all proportion to what was originally expected. Surely you must have realised that that would have implications on whether or not the project could actually be delivered on time. Yet, you tell us, despite having had this knowledge you were nonetheless taken by surprise when it failed to deliver.

Mr Shine: And very much our focus, you are right. At the time when the amount of land changes were higher we had to do immediate work in terms of increasing the capacity of the system to handle that volume of changes which we focused on during that period and which we did. What we were not managing and were not responsible for was actually managing the business process. In effect the number of tasks that were being handled and how those tasks could be closed and how fast those tasks were being dealt with, that is part of the business process.

Q515 Chairman: Who is responsible for that?

Mr Shine: That is the RPA.

Q516 Mr Drew: Can I establish very clearly in my own mind, these are bespoke bits of software; they were written especially for the RPA initially to take account of the historic methods of payment but you were then given separate enhancements to go on and adapt the software. Are these very complicated bits of software? On the A to Z of software creation are we on the As or are we on the Zs?

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Mr Naish: It is difficult to make a comparison but they are very complex calculations to work out entitlements and payment amounts. I think the key area of complexity is in dealing with the Rural Land Register and the mapping process around that. It is scale which drives complexity and the way in which land in particular is handled makes it complex.

Q517 Mr Drew: As soon as the system approaches change and the RPA came to you and said, “We are not going for a historic system; we are going for a different system” you must have said, “That’s fine, we can do this but don’t come to us telling us there is going to be a big increase in the volume of people putting in claims”. That is what you would have said.

Mr Holmes: What we said actually was, “Let’s sit down and understand the requirements and have discussions about it, which is what we did.

Q518 Mr Drew: At what stage did you go from discussion to having some concern that if there was an increase in the volumes—whether it is the volume of the land numbers or the volume of the claims—to start saying to the RPA, “Volumes are going to make a difference here”?

Mr Holmes: We went from discussion to agreeing the revised contract in May 2004. We then had separate work going forward about the complexity of the new policy. As we have said a number of times today it was only later in the year that some of those detailed requirements were finally understood and a system was sized to meet the volume of customers that we ended up dealing with and that was fine. I guess we started to understand the volumes involved in terms of the land changes around the spring of 2005. In fact we made some changes to the software to handle high volume data capture. We were taking on board the IT system implications of the increased volumes. We produced some software to allow the data to be captured at volume and we did some work to cope with the increases, but we were not looking at this from a “how will all these forms be processed, how will all these tasks around the land changes be handled” because that was outside the scope of our contract.

Q519 David Taylor: You have just heard your colleague say that scale drives complexity. Do you agree with that?

Mr Holmes: Yes.

Q520 David Taylor: Do you?

Mr Holmes: Yes.

Q521 David Taylor: Impacts on performance certainly; impacts on capacity, but surely it is variability that drives complexity.

Mr Naish: The reason for saying that is that the scale and breadth of types of data . . .

Q522 David Taylor: Hold on, they are likely to be more variable and more complex in themselves. You did not say that, did you?

Mr Naish: Apologies.

Q523 David Taylor: That is all right, I am not trying to pin you down. The fact is that I want to compare what you have said with what Helen Ghosh said. She said, “At the moment when we pressed the button, it was the bit that translated validation into payment and at that last stage—rather like a space rocket, where you use bits of your IT system for a purpose for which you have not used it before, so you have your launch and then your booster and whatever it may be—what we were using was effectively a new piece which had been tested but not tested in anger.” Do you recognise that distinction between tested and not tested in anger?

Mr Naish: Again, from an IT system stand point, we had been through very thorough testing phases prior to the release being delivered in October 2005. We had also been through what we called a live data test during the early part of 2006 where we took a copy of the actual data as it was being worked on by the RPA.

Q524 David Taylor: Was that the first time you had had real live data from the real fields in Leicestershire and real components of farms?

Mr Naish: It was the first time we had used the software that was delivered in October to process the entitlements and payments part of the system against that live data. The live data had been there and been worked on for some time prior to that using the Land Register system.

Q525 David Taylor: It is quite difficult to define test data on a scale of adequate complexity to check out systems, is it not?

Mr Naish: It is, yes.

Q526 David Taylor: It is one of the most difficult parts of the process, do you agree on that?

Mr Naish: It is, I do agree on that.

Q527 David Taylor: Do you think that the access to real live data from real people with real fields was sufficiently early in the whole process to make you content that all was well?

Mr Naish: We would always like to do it as early in the process as possible. The difficulty with this particular programme is that because it is the first time through you can only start using live data once it has been captured and processed for the first time and because this was the first year of a new scheme prior to having the system in place there was no capture of that data that enabled us to do a live data test earlier than that point.

Q528 David Taylor: Were you surprised that the volume estimates that the RPA had come up with had been so far adrift, bearing in mind the changes that had taken place?

Mr Naish: I think it would be true to say we were surprised, yes.

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Q529 Chairman: Can we go back a bit. The Rural Land Register, the basis of the mapping exercise, you said in your evidence that this Register went live in September 2004. What exactly does that mean?

Mr Holmes: That means that our software was fully developed, fully tested and put into operation.

Q530 Chairman: Fully tested. What do you mean by fully tested?

Mr Holmes: Fully tested against our system test and acceptance testing.

Q531 Chairman: Fully tested?

Mr Holmes: Fully tested.

Q532 David Taylor: Fully tested with what?

Mr Shine: At that point there were 500,000 land parcels that were moved into the Rural Land Register. Prior to that period the RPA had been involved in the digitisation process.

Q533 Chairman: When you talk about digitisation can you explain what that means?

Mr Shine: Essentially what it means is that you take a picture, a map of a field and turn it into a part which can be put into a system.

Q534 Chairman: Where does this picture come from?

Mr Shine: The picture comes from that digitisation process.

Q535 Chairman: Who took the picture?

Mr Shine: As my colleague has already said before and I apologise if I get too technical, underlying within the Rural Land Register first is a mapping database that essentially stores pictures of all the land in England.

Q536 Chairman: Is that by satellite imagery?

Mr Shine: Yes, and other mechanisms. It is essentially based on the ordnance survey mapping of the entire country. That base is there. On top of that then goes what is called a permanent boundary layer. It is in a sense the boundaries of a piece of land.

Q537 Chairman: Who supplies the boundary information?

Mr Shine: The farmer supplies that because the farmer supplies maps to the RPA which says, "Here is the piece of land that I own, here is the field and I mark in the boundaries". In a typical situation of what affects land is a river. As you will know the banks of a river will change over time so in fact there are changes required to land boundaries every year. In some cases farmers will have cut back their hedgerows so they will be narrower.

Q538 Chairman: Let me make something clear. The closing date for applications for the year in question was May 2005.

Mr Shine: Yes.

Q539 Chairman: So are we saying that between 2004 and at some point in 2005 the Rural Land Register was not tested with any real data?

Mr Shine: As I said, to be precise in September 2004 when the Rural Land Register went live for the first time it started with 500,000 real land parcels, so there was real data in it and the system was working.

Q540 Chairman: That was data which had come from the mapping exercise.

Mr Shine: Yes.

Q541 Chairman: The Committee has seen many, many cases where when farmers sent in their details and it came to validating their claims, there seemed to be a lack of fit between what the farmer said was their parcel of land and what the Rural Land Register said belonged to them. Then all kinds of strange things happened. Land was uplifted and put somewhere else, all kinds of operational glitches occurred. What I am coming back to, bearing in mind this information that farmers had was available at the same time that you had satisfied yourselves in September 2004 that your Rural Land Register software worked, did nobody actually go and get some examples of what farmers said was their land and see if it worked in the Register before you actually went live with it?

Mr Shine: My understanding is that from that period onwards there was a continuous amount of land changes happening. As I have said already, the standard practice is that there would be changes . . .

Q542 Chairman: Mr Shine, that is not what I was asking about. What I envisaged was that somebody might have gone out to a group of farmers and said, "Excuse me gentlemen, would you be so kind as to help us? We are going to test out the Rural Land Registry. Would you please submit us in the following format what you think your holding is?" You would have then said, "Look, this is the front end of the application, let's run it through the Land Register and see if everything fits together using the farmers' supplied rural information". Did that process not happen until you went live with the system?

Mr Naish: I cannot say whether it did or not. I could perhaps be allowed to go and find the answer to that question.

Q543 Chairman: Mr Naish, I cannot believe that you do not know whether in fact your piece of software which you believe was capable of delivering was not in any way evaluated against a real world land data from real farmers until you went live.

Mr Shine: Perhaps I should clarify this.

Q544 Chairman: That is a good idea, Mr Shine.

Mr Shine: The 500,000 parcels that were put in September 2004 was real live land data. It was based on the digitisation process that had been undertaken by the RPA with real land.

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Q545 Chairman: The point is that there is a difference between building the land database, what you think is out there based on these satellite pictures, ordnance survey and co-ordinates and all of that going in . . .

Mr Shine: And, if I may say, land submissions from farmers as well. It was not just a theoretical exercise.

Q546 Chairman: If that was testing, why did it go so wrong when it came to go live? Why have we heard so many complaints about the mapping system and that seems to be at part of the heart of why validation could not take place. Why did that go wrong?

Mr Shine: I think it is worthwhile saying that first, as I have said, the shift in policy made a profound movement from that of production to that of land. It did come out in last week's discussion that while there was an expectation within the RPA that the farmers would have had their land records up to date from previous interactions they had had with the Department, it turned out that that was not the case and in fact that the volume of changes made by farmers and made by land owners was much higher than expected.

Q547 Chairman: I accept that there may have been in process timing a volume issue, but what we are talking about is an accuracy issue. In other words, somewhere along the way what the farmer sent in I presume did not tie up with what was in the Rural Land Register. Is that right?

Mr Shine: That is correct.

Q548 Chairman: Is that because farmers were wrong or they changed at the last minute? Why could it not be sorted out?

Mr Shine: You depend on getting input from the farmer. The scheme was based on the farmer saying, "Here's my land" and giving mapping. Part of the process that went on was that the RPA sent maps out to the farmers and said, "Here's the reference that we have about your land". Because of the shift in policy to move to land my sense is that the farmers were very much focused on having a higher degree of accuracy in their land because it also results in entitlements. As you are aware the entitlement process was going to be done once in terms of establishing definitive entitlements; that was one of the features of the new CAP reform scheme. Therefore there was an onus on all land owners to ensure that their land records were fully up to date. That was one side of the process for existing land owners. The second part of the process was that there was now a new number of customers—as I have said already, over 40,000—who were now focused on adding more land details because they had never had them in there before. Those two things together resulted in a huge volume. You also then had the possible situation—but real life situations do occur—where two farmers, for example, on both sides of a land boundary perhaps moving it a few feet away.

Q549 Chairman: In reality you, as Accenture, only became aware of the changes you have just described from the time when the system went live and started to deal with real live applications.

Mr Shine: Yes, but secondly I think it is worthwhile saying—as you have said already—that the closing date for the scheme is when the large volume of changes came in and that is when the business process said, "We now have all of these changes to make, let us start entering them" and that resulted in the system having much higher requirements for throughput than what it was designed for.

Q550 Chairman: What I am intrigued about is that you said you only became aware of this in July 2005 but the closing date was May.

Mr Shine: As I have said to you already, my precise memory on the precise dates is not fully accurate. I am very happy to check that but it was around that period.

Q551 Chairman: In your judgment, looking at this, was there anything that the RPA could have done to have trialled in the real world some of the implications of the policy changes and given you a better feel for the volume side of things? Let us be benevolent to you, you look as if you are feeling in the dark; the customer is not giving you accurate information from what you have told us about the anticipated volume. The customer has sent out to all these farmers maps which do not tie in with what the farmer believes is the land holding situation, and when all of this lot comes hammering back with 10 times the volume that was anticipated, not unnaturally something had to give and I presume it was the inability of your system not because from your judgment it was badly designed and incapable of delivering, it just could not cope.

Mr Shine: Partially, but the bigger impact was the volume of forms and all the validation checks and tasks that had to be done.

Q552 Chairman: Although the closing date is May 2005, if the RPA had been sampling the volumes coming in and the content, I am sure they would have been able to predict that something was happening that they did not expect. Did they not communicate at all to you in April or early May and say, "Hey guys, something is happening in the way these applications are coming in that we didn't expect".

Mr Shine: As I think was said last week, it is down to customer behaviour in terms of putting in changes at the last minute. I cannot recall precisely the time when the significantly higher land changes began to become clear. I am happy to go and check that and come back to you in writing.

Q553 Chairman: I would be grateful if you would because, as I said right at the outset of this inquiry, we are not trying to stitch somebody up. We are trying to find out what actually went wrong and who must accept responsibility. We started off with one policy, the historic; we moved to the dynamic hybrid which had certain consequences. You are telling us that in volume terms from the Accenture standpoint that

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was not predicted. Suddenly your customer confronts you with a lot of information which you did not anticipate and your system which was, according to you, fit for purpose could not cope. In terms of actually putting all of this extra information in was it the case that the RPA could have got round that by having more operators, more input, or was the system only capable by definition of taking in and dealing with so much information at a time?

Mr Shine: Again to clarify the volumes question, as I have said already the system is designed to support up to 150,000 customers, so the number of farmers, the number of land owners up to 150,000. The system was also designed with an expected volume of land changes as to what happened in a period of time. As you said yourself, Chairman, it is the volume of those changes in a period of time being 10 or eleven times the expected volume which caused the temporary issue in terms of the availability of the system which we identified and focused on. We made some changes to both hardware and software in conjunction with the RPA. We made those changes and the system is available and does support that volume of changes today.

Q554 Lynne Jones: We have heard about those problems but you seem to have overcome them because you were not flagging up any problems to permanent secretaries or to the ministers. Is that correct?

Mr Shine: As I have said already, I recall the specific meeting in September 2005 where much of the discussion was focusing around some of those system availability issues.

Q555 Chairman: Who was that meeting with?

Mr Shine: That was with the permanent secretary.

Q556 Chairman: And who else?

Mr Shine: With representatives and officials from the RPA and a number of people from Accenture, including myself.

Chairman: We are going to suspend the Committee for as short a time as possible, 10 minutes if colleagues can manage it, whilst we go to vote and then we will come back.

*The Committee suspended from 6.14pm to 6.26pm
for a division in the House*

Q557 Mr Drew: Can I reflect on what you have been saying to us and I think I would like one question answered from what you have been alleging. With the benefit of hindsight, if you had been able to run a full scale test with real data that could only have been a good thing. Or was what you were trying to do so clearly identified in your minds as a company you just thought it was going to work so a test was irrelevant?

Mr Holmes: No, we would always say it is a good thing; it cannot be anything but a good thing.

Q558 Mr Drew: So why did you not ask for real data to do a test? Why do you think the RPA did not offer you real data to do a test?

Mr Holmes: Real data to do a test at which stage?

Q559 Mr Drew: At a stage when you had the data coming in, from May 2005 onwards.

Mr Naish: We did do a test on real data. Once the final part of the end to end system had been delivered and the processing of claims through the validation steps had gone far enough in January or February this year, this was the earliest opportunity to take real live claim data that had been progressed far enough through the business process to be able to test those entitlement and payment steps.

Q560 Mr Drew: That was three and a half months after you said that you had a working system that was running nicely.

Mr Naish: Yes.

Q561 Mr Drew: If I can go back, from May 2005 you have real data. You may not physically have that real data in your computers but, take Leicestershire for example, somebody could have said, "Let's just look at Leicestershire, let's look at what the farmers are putting in, let's look at the data and what we expect it to be. Let's try Leicestershire and see if it works for Leicestershire." That did not happen.

Mr Naish: No, and there are some good reasons for that which make it difficult to do that at the last stages of the process. The way the system works when it establishes entitlement is that it needs to take the claims across the whole of England in order to make those entitlements. It is difficult to run those end pieces of the programme on a small part of the population.

Q562 Mr Drew: I understand the problem; you need to know the size of the wedding cake before you can actually cut the slices.

Mr Naish: Yes.

Q563 Mr Drew: Let us say that somebody somewhere—presumably the RPA—could have come to you and said, "Let's just test one of the slices" you are saying your system could not have worked with that.

Mr Naish: It would have been an unrealistic test to have used just a small part of the overall area.

Q564 Mr Drew: Or a random or typical set of data or a sub-set.

Mr Naish: Any sub-set would have been something different to what was intended with the system design.

Q565 Chairman: If I have understood you correctly, what you are saying is that until you got all of the claims in you did not know what the totality was of the area that you were dealing with. That was the sticking point, was it?

Mr Naish: That is right.

Mr Drew: I cannot get my head round about not being able to carry out a test on some of the data.

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Q566 Chairman: If you are saying that the first time you were able to run it in anger, if you like, a proper real live test with all the bits functioning was January or February 2006, how does that fit in with the fact that even at that time there were still unvalidated claims where, by definition, you would not have known what the area was that was being discussed.

Mr Naish: The tests we performed at that stage we used those unvalidated claims as well and we went through an analysis step with the RPA at each stage of that test to make sure that anything that was unexpected would be explained.

Q567 Chairman: Do you know when it was in January or February you actually did your first real live test to see if it all hung together?

Mr Naish: It would have been in the first or the second week of January.

Q568 Chairman: Were you asked before Lord Bach gave his Oxford farming conference speech by either the RPA or by Defra or by both what the payment deadline would be at that time in the light of the tests that you ran?

Mr Shine: The consistent question that was asked of Accenture with regard to the system was, would the IT system be there and be ready in order to make entitlements and payments? We were asked that question on many occasions. The answer to that question was yes, the IT system will be there and running in order to make payments. As my colleague has already pointed out earlier on, that is one part of the system; the other business process steps were not our responsibility. As I also said earlier on and I think it is worthwhile repeating, our system was there as required and as agreed. Our system did work. The IT system components did work as required. What we have been talking about here is the business process and the use of that system. As Helen Ghosh said last week, that was the part that gummed up, but the IT system components were working and were then from October. I think it is worthwhile having that clarified in that it was there, the system components were there and were there in good time. The question we were asked on a consistent basis was, will the IT system components be there to enable the rest of the process to continue, and the answer to that question was consistently yes.

Q569 Mr Drew: When it came to February 2006 the system crashed.

Mr Shine: The IT system did not crash. The IT system continues to be available and continues to work. The IT system component required to handle the validation is there and is working and continues to work.

Q570 Mr Drew: When the CLA in their evidence said there was “the frustration of operators who are professional people trying to cope with essentially a lousy IT system” they are completely wrong.

Mr Holmes: They are completely wrong, yes.

Q571 Mr Drew: The system is not crashed.

Mr Holmes: No, the IT system is working and has been working.

Q572 Mr Drew: Why then did Helen Ghosh say “For some reason, having started to make the payments, the whole system gummed up”?

Mr Holmes: That comes back to the earlier comment at the beginning of today’s session where Helen has since said that she meant to refer to the wider business system not just the IT system.

Q573 Chairman: What did you understand went wrong?

Mr Shine: I think as was discussed last week, there was quite a discussion that you have had around the business process, the components. The IT system components are working, continue to work, have been there since October and are working.

Q574 Chairman: Let us say for a moment that we put all the ticks in the box. You have done your job; you have produced a system that is capable of working. What has let you down? You are in the line of fire and your defence is, “We produced a system that was capable of delivering” but from the outside from the farmers’ point of view, you are the authors of a system that has not delivered. You are saying it has. What parts of the business process did not work?

Mr Shine: I think as we have said already the part of the business process involved in the validation and the decision to approve payments, that did seem to take longer than expected. The IT components underlying all of those are working and continue to work.

Q575 Chairman: What do you believe was the final, convincing piece of evidence that led to ministers pulling the plug on what had been assurances on the payment deadline?

Mr Holmes: I do not think we are in a position to understand that. We were not party to those discussions.

Q576 Chairman: Somebody must have explained to you why things had changed, or do you live in a sort of information free zone?

Mr Holmes: No.

Q577 Chairman: Nobody from the RPA came and explained why the then secretary of state, Mrs Beckett, said that she had effectively lost confidence with the person you had had a lot of dealings with, Mr McNeill. Did nobody come to you and explain why that had occurred?

Mr Holmes: What was clear to us was . . .

Q578 Chairman: Would you like to answer my question? Did nobody come? Yes or no?

Mr Holmes: In fact the permanent secretary phoned us up to make us aware of the fact.

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Q579 Chairman: What did he say to you? How did he communicate this new era of awareness?

Mr Holmes: Basically it was a very brief phone call; it was a “for information” phone call.

Q580 Chairman: What information did he impart to you?

Mr Holmes: That an announcement was going to be made and that the chief executive of the Rural Payments Agency was about to be suspended.

Q581 Mr Drew: Did any of your people working the system prior to the permanent secretary ringing you up to make this announcement give you indications there were problems?

Mr Holmes: We were aware that despite the fact that the software had been in place since October, despite the fact that there had been some early payments made, the payments authorised and claims being authorised were not coming through at the rate that one would have hoped.

Q582 Mr Drew: You are telling us that these people who were working with the RPA embedded or otherwise did not ring you up and say, “We think there are some real problems here. It may not be your problem; it may be the number and the amount of data that is coming in, but we seem to have a problem in that our output is not working the way it should be”?

Mr Holmes: Yes, we were aware of that

Q583 Mr Drew: How many people? One? Two? Half a dozen? How many people do you have there and how many people alerted you to the fact that there was a problem, maybe not your problem but there was a problem?

Mr Naish: It would have been two or three people.

Q584 Mr Drew: Did they all ring you up? Did you document it? Did you not say to yourselves, “We’d better talk to Mr McNeill here because potentially there’s a fall out going on”? It may not have been the IT system, but the system was not working.

Mr Naish: I do not think that would have been documented in the form of a memo to Mr McNeill in that way. We would have been present at meetings discussing the progress at that stage with the Agency until the information about what had happened the day before and the day before that would have been clear.

Q585 Chairman: Can I ask you what happened when Mr Mark Addison took over because he seems to be something like a miracle worker. Every time Mr Addison waves his magic wand all of a sudden payments gush forth from the system. It seems absolutely remarkable that in spite of all this expertise, knowledge, information, system availability nothing happens until Addison steps into the post. When Mr Addison came along did he have some discussions with you?

Mr Shine: As soon as Mark Addison took office I met with him shortly afterwards; two or three days after he took up office in Reading where essentially

he set priorities for us in terms of focusing on ensuring that we were doing anything that was required from a systems perspective to support any payments that needed to be made.

Q586 Chairman: Did he give you an analysis as to what he thought was the problem?

Mr Shine: My recollection of the meeting is that he focused on the throughput of both the approval process for payments and also closing the validation of the individual claims. That, in a sense, was not happening fast enough.

Q587 Chairman: Was that in any way related to the system that you had designed?

Mr Shine: No.

Q588 Chairman: So what was it related to?

Mr Shine: It was related to the throughput. As we have already said there are a large number of tasks to be validated and closed off. There were also a large number of claims where entitlements had been established, I believe just under 40,000, so in a sense they were ready to go to the next stage of being approved for payment. What we discussed—certainly the impression I formed at that time—was that the focus was on speeding up both processes in order to speed up the throughput so that there would be a faster rate of approval and a faster rate of entitlement established.

Q589 Chairman: Can I just ask for the record, was I right in being informed that when the system was first designed a lot of the data which was coming in was supposed to have been read electronically.

Mr Shine: That is right.

Q590 Chairman: In the end it was not.

Mr Shine: That is correct.

Q591 Chairman: Who was responsible for that bit?

Mr Shine: We were responsible for the data capture component.

Q592 Chairman: Is that the optical character reading of application forms?

Mr Shine: Yes.

Q593 Chairman: So that did not work.

Mr Shine: It is not that it did not work. As we went through the process during the summer of that year a decision was taken that it had not been tested fully and therefore a decision was taken to use the high volume data capture component that we have referred to already and that was used instead.

Q594 Chairman: So something that was not tested was dismissed. What was the replacement system?

Mr Shine: The high volume data capture.

Q595 Chairman: Is that a technical name for employing a lot of people?

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Mr Shine: For key entry on the applications.

Q596 Chairman: Does that explain why the cost of this system went up very substantially from £18 million to nearly £36 million?

Mr Shine: The data entry is not included in those costs you have quoted. We are not responsible for actually keying in the application forms.

Q597 Chairman: Why could your optical character reading system not cope with reality?

Mr Shine: I would have to check in terms of specific facts. I cannot recall so I would only be speculating.

Q598 Chairman: I would have thought that would have been engraved on your memory.

Mr Shine: As I say, I would like to go and check the facts and then respond to you in writing to give you specifics.

Q599 Chairman: Do we assume from that that the fact they went to a human based system might have accounted for some of the difficulties that were subsequently discovered with mapping and validation issues?

Mr Shine: It is hard to say. I would not assume that that was the case because the application form includes text essentially, it includes name, address and some other details that the land owner puts in but the maps were handled separately. The mapping data has to be handled in a different way. The fact that the data capture was done essentially by key entry rather than by optical character recognition would not necessarily introduce more errors into that process.

Q600 Mr Drew: Did these discussions come up when you were at the project team?

Mr Shine: I cannot recall the specifics of it; I will come back to you on that.

Q601 Chairman: Let us move onto the questions about partial payments. Was that an option, as I think we were told last week, that was built into the software you designed from the beginning?

Mr Naish: No, it was not. The partial payment system was not part of the original system.

Q602 Chairman: When did it become part of the system? When was it first discussed with you?

Mr Naish: Throughout 2005 there were a number of discussions with the Agency about contingency solutions, what could be done in the event of contingency.

Q603 Chairman: Why in 2005 did the RPA suddenly start talking about contingency? If we go back, you had obviously been right the way through 2004 busy working along your contract, working up the software, delivering what was what, the first bit goes live in September 2004. Why, in 2005, did they start talking about contingencies?

Mr Naish: I could not say why in 2005 specifically but as part of good practice in delivering payment systems they wanted a contingency.

Q604 Chairman: Why did they not do that at the beginning?

Mr Naish: The key driver for 2005 was based on the point at which the policy decisions were finalised at the end of 2004.

Q605 Chairman: From your standpoint you think it was the fact that policy made them realise that perhaps they had bitten off a bit too much.

Mr Naish: I think it more likely that their policy decisions gave enough clarity to be certain about what sort of contingency might be required.

Q606 Chairman: Would you not advise a client, when the systems have been specified, to consider contingency arrangements?

Mr Naish: Yes, we would.

Q607 Chairman: Did you at the beginning of the process when you were negotiating your contract or when the system was being specified?

Mr Naish: I could not say with any certainty.

Q608 Chairman: You have just said to me in words of great clarity that you would normally advise a client to think about contingency measures.

Mr Naish: Yes, and I would expect that we would have done but I do not have a piece of documentation to that effect.

Q609 Chairman: You expect you would have done; could you check that fact because it would be of considerable interest to the Committee to know? You reckon in 2005 they start talking about contingency issues and you think it was because they then could see with clarity what the policy was all about.

Mr Holmes: And because in 2004 the focus had actually been on resolving these outstanding issues.

Q610 Chairman: It would be helpful to know exactly when in 2005 these contingency conversations started. Could you tell us more about what was discussed? How did they raise the question of contingency?

Mr Naish: It was an evolving picture as 2005 continued, as more of the RITA system was delivered and also as business processing progressed further through to claims payment.

Q611 Chairman: What was the contingency that they were asking you to handle?

Mr Naish: The contingency that gave rise to the first partial payment scheme was that if it is not possible to establish definitive entitlement and so start making payments in time to begin that process in February, then what possible alternatives are there to taking the data—the information on the RITA system—and making an accurate partial payment at some level off that RITA system by some other means.

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Q612 Chairman: So at a date to be confirmed in 2005 there is a realisation that a contingency arrangement was required. When did you actually deliver or say to them, “We have now written the software that will give you a partial payment option”.

Mr Naish: We did not actually write the software.

Q613 Chairman: Who did?

Mr Naish: It was written by the RPA’s IS organisation. I think they may have used some other third party.

Q614 Chairman: Why did they discuss contingencies with you if they could do it themselves?

Mr Naish: They wanted to understand how the information in the RITA system could form part of a partial payment solution. They wanted us to be involved in the testing of the partial payment system and comparators between the partial payment system and the core RITA system.

Chairman: Helen Ghosh was very complimentary about what you did so you obviously got that bit right as far as that was concerned.

Q615 Mr Drew: Did this have any impact whatsoever in the contract itself in terms of any money? Did it make any difference at all to the overall amount you were going to be paid or not going to be paid?

Mr Shine: To clarify, there were two types of contingency systems. As Andy has been talking about, the first one was during 2005, if the primary system for whatever reason cannot deliver, is there another way of delivering payment? That was being built and, as Andy said, we had to provide some input and advice into that. As we shifted in and as RITA was live and everything was working, then the second part—and in fact was the part that was used in the last number of weeks—was that if we need to make an advance payment using all the data from within RITA. So we were involved in the second part as well in providing some input into that. There was a series of change requests around providing a degree of support in that and the cost to the RPA of those series of change requests was in the region of £200,000.

Q616 Mr Drew: The RPA did this work itself on partial payments and in reality that made no difference to the contract.

Mr Shine: As I said, there was a relatively a minor cost.

Q617 Mr Drew: The RPA paid that.

Mr Shine: Yes. The reason for that was that there was additional work that they were requesting us to do around extracting the data and ensuring that we were providing the files for the right way. I think, as was discussed last week, the actual partial payments—the advance payments that were made a number of weeks ago—were as a result of some changes that we did and worked with the RPA to ensure that we executed those payments very quickly once the decision had been made to do that.

Q618 David Taylor: The partial interim payment system is not conceptually all that complicated, is it? Here we have the Land Register and Customer Register, claims processing engine; we have the historic data there. Yes, we are waiting for a precise figure for the area component but we can get very close to that can we not? Is it that difficult to slide into the payment module something which says, “Halve this for the time being” and “Hold that as an advance payment to be recovered when the final payment is made”? Is that difficult, Mr Naish?

Mr Naish: Not conceptually.

Mr Holmes: Except you have 50% of the claimants who are first time claimants so you do not have historic data there.

Q619 Mr Drew: I understand that, but that is not difficult, is it?

Mr Holmes: To do what? You do not have any history.

Q620 Mr Drew: I understand that as well. It is not conceptually difficult. So why on earth were ministers being advised by whomsoever that it really would lead to problems with delivering the final system were any effort or priority to be given to interim payments, which is a relatively straight forward thing to do. Why were you not asked to do that? Here you are, you are the delivers of this contract. You have the credibility on the line of delivering the whole contract, but somebody then comes to you in 2005 and says, “We’ve got to have a contingency; we’ve got to have a plan B”. We are always in this Committee looking for what plan B is, and yet they say, “No, we’re going to do plan B, we just want you to assist them.” Why do you think they did that? Why did they not come to you to do plan B?

Mr Holmes: I am not answering the question directly, but I will do. The concerns about partial payments were not about the ease of how you make the software change in order to make partial payments, it was more about best practice saying that people should be kept focused on the main objective and, secondly, understanding all the EU implications of disqualification and all those kinds of things. It was not technology issue.

Q621 Mr Drew: Were you not a bit miffed when you know that they were using their own people to develop a partial payment system when they had to use your system to deliver that? Did you not say to them, “We of course could do the partial payment system? You will have to pay us a bit more money but we can do this?”

Mr Holmes: Not at all. As was said earlier, our system is one of a number of IT systems that co-exist with other systems in what is going on outside our area.

Chairman: Before I bring Peter in, you will let us know when the first test on the partial payment system was conducted so that you knew that the interface between the RPA software systems worked.

Q622 Sir Peter Soulsby: Can I just play back to you what I understand you to have been saying to us. Correct me if I am misrepresenting what you have

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said. Is it fair to say that you are telling us that your IT systems worked perfectly and in good time? The pre-existing related IT systems worked well and were not the cause of the problem. The problems were with what you described as the business processes and that despite your intimate relationship with the project you could not reasonably have been expected to realise these problems nor could the permanent secretary. The only person who might have spotted these was the chief executive of the Rural Payment Agency. Let me stop there and see whether I have correctly understood what you are saying?

Mr Holmes: We are saying that our IT systems worked against the specification as a group. Earlier Andy said that he was not aware that there were any issues with the rest of the IT system. The rest of your comment we are not saying.

Q623 Sir Peter Soulsby: Let me try those other bits and you can tell me what you disagree with. Are you saying to us that you could not reasonably be expected to have seen the problems that were emerging with the system?

Mr Holmes: Yes, we are saying that we did not have oversight and were not in a position to do so.

Q624 Sir Peter Soulsby: Nor could the permanent secretaries because they were taking advice from you and indeed from others. You were intimately involved with them and if you could not spot it you could not expect them to either.

Mr Holmes: I am not in a position to say that.

Q625 Sir Peter Soulsby: I think it is probably a fair inference. You are also stopping short of saying that the only person who could have spotted it was the chief executive of the Rural Payments Agency. I understand why you might want to stop short of that. We understand that at least as far as you are concerned you did your job perfectly. You are then saying that the problem was with these business processors and you are saying that the particular thing that gummed-up the system was the validation and approval element of what was necessary. Am I right in understanding that? That is a particular part that you focus on as being the cause of the problem. Can I just explore that? Are you saying that in that particular element there was a lack of people to deal with it? Was there a lack of information for those who were dealing with it or that there was some problem with the processors?

Mr Holmes: I am not sure that we are saying that. I am not sure we are in a position to say that.

Mr Shine: Our view would be that it could be any or all of those issues, but as we have said we are not managing that process and your question to us is quite precise. It could be any of them or all of them but we were not involved in managing that process. As I said, we already have our hands full in building and testing the IT systems and delivering goals and supporting them so we are focusing on this. We have observed that one of those areas you mentioned was slower than the target would have been, but in terms of the causative reasons for that we could not speculate specifically.

Q626 Sir Peter Soulsby: Can you remind the Committee of the value of this project to your company?

Mr Shine: The total value of the original contract is £54 million.

Q627 Sir Peter Soulsby: So this was a £54 million project for your company. Your company was intimately involved with it, indeed was right at the heart of the delivery of a system that would make this project deliver and you are not able to tell us what actually went wrong with the business processes that failed to deliver it on time.

Mr Shine: Not specifically. Let us go right back to where we started. There is a jigsaw of multiple components involved in ultimately delivering payments to farmers. We have specific responsibility for certain IT components for that. Obviously our focus is to ensure that we deliver that to specification, which we have done. The costs for those components was £53.8 million to be precise. While we are aware of the delays in the business process we are not specifically involved in managing that and in monitoring that on a day to day basis.

Q628 Sir Peter Soulsby: You are saying that despite having a contract here for £53.8 million you, as a company, did not show an interest in what was actually causing the thing to become gummed-up and failing to deliver?

Mr Holmes: We did show an interest but our contract is very clear about what is in scope and what is not in scope and the contract is very clear about what our authority is and what our responsibilities are.

Q629 Chairman: I think I understand where you three are coming from. You are saying that you will speak about the things that Accenture were contracted to do and for which you have direct management responsibility. Notwithstanding the fact that sitting where you are you would have seen what was happening in the landscape around you, you are not prepared to comment or express a view about what was happening on the bits that were peripheral to the areas for which you were directly responsible. Is that fair comment?

Mr Holmes: No, I do not think it is fair comment. If you take what happens on a day to day basis in the RPA offices dealing with those business processes we did not have visibility.

Q630 Chairman: Were you ever asked—by Mr Addison, Mr McNeill or Helen Ghosh from your standpoint as experts in systems and what makes things tick and with the knowledge you had of this process of the single farm payment—to give any opinion or express any view about the problems at all to anybody who had a senior responsibility from the customer side for this process?

Mr Holmes: I do not believe we were.

Mr Shine: We have actually discussed earlier on where we have given views and when we sat in sessions with the permanent secretaries in terms of focusing on our aspects we would have frequently talked about the fact that this is our responsibility.

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There are a whole number of other areas that we are not responsible for. In order to deliver the entire process successfully you need to focus on all of those. As I say, we have discussed that already. We would have had those generalised discussions.

Mr Naish: We would also have been asked if there was anything we could do to change the IT system that might help. We were also asked to do a workshop which Mr Addison organised. We were asked if there were things we could do to the IT system in quick order that might make a difference to speed those things up.

Q631 Sir Peter Soulsby: Did you not think with a £53.8 million stake in this contract you had a moral responsibility if not a contractual responsibility for understanding why it was not delivered?

Mr Holmes: We cannot have a responsibility because you cannot have responsibility without authority and without resources and we had none of those things.

Q632 Sir Peter Soulsby: You did not even have a responsibility for understanding why the project was not going to deliver never mind actually having responsibility to do something about it. I accept that was somebody else's. Did you not have a responsibility for understanding what was going wrong?

Mr Holmes: It is impossible to have a detailed understanding when you are not actually on the ground.

Q633 Sir Peter Soulsby: I would suggest with a contract of £53.8 million you do not just have a contractual responsibility you have a moral responsibility for understanding why it is not delivering and for telling people what it is that is going wrong.

Mr Holmes: I disagree with that because we did not have the oversight to do that.

Q634 Lynne Jones: Mr Naish, you mentioned workshops. When did these take place?

Mr Naish: There was a specific one very early on after Mr Addison came on board.

Q635 Lynne Jones: What date are you talking about?

Mr Naish: I do not have a specific date, but quite quickly after Mr Addison came on board.

Q636 Lynne Jones: What year?

Mr Naish: This year.

Q637 Lynne Jones: The increase in the volume of the land parcels, did that in any way contribute to the increase in the contract value on the revenue side?

Mr Shine: There would have been some changes round the IT both hardware and software in the late summer of last year to increase capacity to the new level and so there would have been some costs there. I do not have the specifics here but there would have been some as a result.

Q638 Lynne Jones: Can you give us some idea of the increase that led to?

Mr Shine: I will get back to you on that.

Q639 Chairman: When Mark Addison came into post to sort the job out, did he gather together in one room all of the key players and tell you what he had found and what he thought needed to be done?

Mr Shine: As I have said already, I met with him individually with other officials to ensure that we were doing whatever he wanted us to do. As Andy has already pointed out there was a series of workshops that he could have convened. However, at the time our focus was to ensure that the system was doing what it needed to do. His request in that first meeting was to ensure that the system remains available for as much as he requires. Our job was to ensure that that happened and that in fact happened. We continued to make the system available as we had done since October from 6 am to 9 pm, so 15 hours a day, five days a week plus 10 hours a day over both weekend days. So there was quite a long time of availability during every week which was a requirement in order that the users could subsequently use the system in order to do the work that they wanted to do. That was the primary request, to ensure a stable system and an available system and that is what we delivered.

Q640 Chairman: What were the amendments aimed at achieving that Mr Addison asked you to look at?

Mr Naish: He was interested in finding ways of improving the speed with which validations could be addressed and also was there anything that might make payment authorisation slicker.

Q641 Chairman: Were there?

Mr Naish: The primary changes associated with the payment authorisations were made through changes to the business process rather than changes to the IT system. We did support—and are supporting for next year—some changes to alter the way tasks are delivered to make them claim-based rather than task-based. The change to the RITA system to support that is something that will happen at the beginning of 2006.

Q642 Chairman: You were saying that the system is now stable and working correctly at all stages of the process.

Mr Naish: Yes.

Chairman: Gentlemen, thank you very much indeed for the evidence. There are a number of points which the Committee were not able to touch on which we will address in correspondence to you. We welcome the offer of further information and in particular the clerk will also be writing to you with reference to some of the meetings you may well have had with permanent secretaries and others so that we can get a complete picture of your exchanges with both the RPA and with Defra. Thank you for giving your time and coming before us as witnesses this afternoon.

Supplementary memorandum submitted by Accenture (RPA Sub 14a)

Thank you for your letter of 26 May in which you ask Accenture to provide further supplementary evidence in relation to a number of questions. I attach a memorandum which provides responses to these questions.

I would also like to take this opportunity to emphasize to the Committee the following key points:

- Accenture's involvement in the project has been to build and maintain a new claim processing system, known as RITA (RPA Information Technology Application).
- RITA is an important but single piece of the overall jigsaw to enable the RPA to make payments. There are a range of other IT systems and business processes which need to be functioning for the RPA to make payments. Accenture does not have responsibility for these other systems and processes.
- Accenture has delivered RITA within the timeframe and budget agreed with the RPA despite a challenging environment. RITA is functioning as designed and has been in operation and fully stable since October 2005, which is what was required from the RITA system to allow the RPA to make payments from February 2006. The RITA system did not "gum up".

As you know, we have provided evidence at different times to the Committee: in addition to the attached memorandum, we provided written submissions on 2 December 2005 and 5 May 2006, oral evidence on 22 May and the corrected transcript of that oral evidence. Please treat all of this evidence as a whole and the various components should be read in conjunction with one another.

Accenture remains committed to assisting the Committee with its enquiry and if you have any additional questions please do let me know.

1. Any interchange of ideas Accenture had with paying agencies (or IT providers for paying agencies) in other EU countries (Qq 448–449).

Accenture works with the Department of Agriculture and Food in Ireland where we have built a number of IT systems to support the processing of Arable Area Aid, SPS and Forestry payments. This work commenced in 2001 and is ongoing. The SPS system was built to support an implementation of SPS specific to Ireland.

eSpatial is our subcontractor for the work for the Department of Agriculture and Food in Ireland, providing a spatial software package (iSmart), spatial software development expertise and spatial data cleansing. We understand that eSpatial has had some involvement with other Paying Agencies.

The RPA held a workshop with their Dutch counterparts in early 2004 to exchange ideas and experiences. Accenture was invited by the RPA and participated in this workshop. We also had also some contacts with the Dutch Ministry of Agriculture between June and August 2004 when it commenced its procurement of the IT system to support payments to farmers but we did not maintain our interest in the procurement and did not subsequently bid.

We have also built the Integrated Fisheries Information System (SI2P) for the Portuguese General Directorate of Fisheries and Aquaculture (DGPA). The SI2P system provides functions including processing of applications for EU fishery project grant aid and the management of fishing boat licences.

We are not aware of any of our staff having attended conferences which have discussed how IT could be used to implement CAP Reform.

2. The dates of meetings between Accenture and the Defra Permanent Secretaries, and the subjects of discussion at those meetings (Qq 469–475).

According to our records, meetings between Accenture and the DEFRA Permanent Secretaries took place on the following dates: 2003: 11 March, 7 November, 11 December 2004: 14 May, 2 July, 20 July, 3 September, 5 October, 5 November, 3 December 2005: 14 January, 2 March, 6 April, 6 May, 13 June, 14 July, 19 September, 18 October, 18 November, 16 December 2006: 6 February, 6 March, 19 April, 22 May.

These meetings were primarily to discuss the status and progress of the RITA project and to address any key issues facing the RITA project.

In our communications with the Permanent Secretaries we did provide updates about the RITA system and highlighted some factors critical to the RPA getting the full benefit from the RITA system, and therefore being able to make payments on time. These were factors that were outside the scope of our contract and beyond our control and into which we had limited visibility and we were therefore not in a position to comment on their deliverability by the RPA (as per our note to Q454 of the transcript of oral evidence).

3. *Confirmation of the date on which it was communicated to Accenture that the volume of land changes was significantly higher than was originally anticipated (Q 552).*

The increased volume was not formally notified to us, but in our capacity of Senior (External) Supplier on the Programme Board, Accenture became aware over time from regular business reports generated by the RITA system and Board discussions that the volume of land changes was higher than anticipated and increasing over time. During early 2005 we noticed the increasing number of land changes to the extent that we raised it as formal issue with the RPA in April 2005. In October 2005, we agreed to the RPA's request to support the outsourcing of land change updates to a third party.

Neither the January 2003 nor the May 2004 contracts provided estimated volumes of land changes. These were first provided by the RPA to Accenture in September 2003 as part of developing Release 1A (RLR implementation) which went live in September 2004.

4. *The specific reasons why the optical character reader system was not deployed for the 2005 SPS scheme year (Q597–598). (+ Q600)*

There are two factors which contributed to the RPA's decision not to deploy the Optical Character Reader (OCR) System for the 2005 SPS scheme year.

In April 2003, a technical pilot of the OCR System was undertaken. Although the pilot was technically successful, the RPA had concerns over the impact of this technology on existing business processes and associated risks. The RPA therefore decided not to take the OCR System forward at that time within IACS, but it was marked for consideration in a future delivery after the initial implementation of pre-CAP Reform IACS Support. The CAP Reforms of June 2003 then caused the programme to be re-planned and the OCR System was targeted for Release 3.

In August 2004, the RPA and Accenture entered into a Change Request to increase confidence that Release 3 would be delivered on schedule, in time for SPS 2005 processing. This included splitting the Release into Release 3A and Release 3B. The OCR System was moved to Release 3B.

The High Volume Data Capture (in Release 3A0) facility was introduced through the same change request to provide data capture support for SPS 2005 within Release 3A.

The OCR System has since been installed in March 2006 for the 2006 SPS scheme year.

5. *When the first test on the partial payments system was carried out to establish whether the interface between the RPA software systems worked correctly (Q 621). (+ Q607–609)*

As part of our contractual commitments to the RPA, Accenture provided a contingency management plan to the RPA in May 2003 which outlined contingency management arrangements that Accenture had put in place to manage any potential delays in delivery of RITA. In line with our normal practice in relation to contingencies, we advised the RPA at this time to consider contingency arrangements outside the RITA system.

The first test of the interface between RITA and the RPA's partial payments system took place in late November 2005. This was the earliest opportunity to undertake this test using fully synchronised RITA and RPA environments. A further test took place between 1 December and 7 December 2005.

A final retest of the partial payments system interface from RITA was undertaken between 11 April and 28 April 2006 following revisions by the RPA to the partial payments approach. These tests were successful.

6. *An estimate of the increased costs associated with the changes that became necessary as a result of the increased volume of land parcels and mapping changes (Q 637).*

A number of changes were made by Accenture to the RITA system to address the increased volumes but these did not result in an increased cost to the RPA.

Additional hardware was purchased by the RPA from third party suppliers and commissioned into the live RITA service by the end of August 2005 to provide increased processing capacity on the RITA system.

7. *It might be inferred from your oral and written evidence (paragraphs 29–30) that the stability issues surrounding RITA had been addressed by increasing the capacity of the IT system to allow for more operators to use it at any one time. It would be helpful if Accenture could confirm this understanding and also let the Sub-Committee know whether the system was at any point working to its newly enlarged capacity, or whether there would have been scope for the RPA to have deployed more users onto the system to deal with the additional tasks that were being generated.*

The increase in the capacity in July/August 2005 of the RITA system did have a major contribution to improving the stability of the system and through this enabled the RITA system to support more RPA users. In addition, Accenture continued to tune RITA in the live service to remove performance bottlenecks identified and allow better use of the available capacity, as is common practice on any new major implementation.

Standard RITA service hours are from 8 am–6 pm Monday to Friday. In order to make full use of RITA, the RPA requested Accenture to increase the service hours from 6 am–9 pm Monday to Friday and 8 am–6 pm on weekends which Accenture did at no increased cost to the RPA. In terms of users, in September 2005 for example, the average daily peak was between 850–900 concurrent RPA users. In October 2005, the average daily peak was above 1,000 concurrent RPA users.

8. *Whether Accenture could confirm if the system for handling claims processing creates a constant log of the number of claims that are awaiting validation and the number of tasks that remain outstanding.*

The RITA system enables reports to be generated which provide information about the number of claims awaiting validation and also the number of tasks outstanding.

Additionally, it allows for provision of information on the number of fully validated claims and the number of claims awaiting authorisation that have had a definitive entitlement established.

As the technology provider of RITA, Accenture provides a service from which these types of reports are and can be generated for use by the RPA.

9. *Accenture’s response to Helen Ghosh’s assertion that it would be “inconceivable” that Defra/RPA could have “delivered a programme of this scale without an outhouse partner” such as Accenture (Q 226).*

It would be usual to use an external partner for a programme of this scale for the following reasons:

- The scale of the IT enabled change programme.
- The complexity of the change programme.
- The skill set required to implement the change programme which has required RPA to employ other third party advisors as well as Accenture.

10. *Despite the questions already answered by Accenture on the subject of testing, you may feel there is something you could add to explain why the elements of the IT system could not have been tested with real data prior to January or February 2006 (Q 559).*

Each individual RITA Release was tested prior to go-live in accordance with our contractual obligations.

In November 2005, the RPA requested Accenture, in a change request, to complete live-data tests. The live-data tests were outside of the original contractual scope of testing.

The objective of these tests was to de-risk payment processing by executing the RITA batch processes from definitive entitlement processing through to the payments interface from RITA to the RPA payments system (OREGON). These tests aimed to confirm that the RITA batch processes could run successfully against live data and to flush out any issues caused by unforeseen data permutations ahead of time critical live processing by the RPA.

These tests were conducted from January through February 2006. They identified issues which were resolved ahead of the time critical live processing by the RPA. These issues related essentially to unexpected data permutations.

As the SPS 2005 scheme was new and there were no historical records or “live data” to use, the possibility of undertaking realistic live data testing which would provide more confidence over and above the contracted testing scope was limited. The tests conducted from January through February 2006 required the use of a recent clone of the live data on the RITA system. This clone was not available with sufficient quantity and quality of level 2 validations before this time. Both the testing of the individual RITA system releases and the live data testing achieved their objective of ensuring that the RITA system was stable and capable of making payments, as is evidenced by the fact that the RPA commenced making full payments on 20 February 2006.

As we made clear during our oral evidence on 22 May, the RITA system did not “gum up” in February/March 2006.

11. *It would be very welcome if there was anything that Accenture could add to help clarify exactly what a “task” is, how tasks are generated, how they can be resolved, and the significance to the validation process of having task outstanding.*

The RITA system is built upon a software tool sometimes referred to as a workflow engine which, at its simplest, facilitates the movement of tasks through a work process.

A “task” is an item of work for an RPA user to perform which is created by the RITA system and delivered to the user electronically. These tasks are generated based on defined business rules and require specific user actions to resolve them. That action may, for example, require contact with the customer that has submitted a claim form or land change. Once the user has performed the resolving actions, they close the “task”, and the RITA system then progresses the claim to the next stage at which point a user may be required to undertake further tasks.

For payments to be made, RPA users need to clear all outstanding validation tasks and authorise a payment. Authorisation of payments is done in batches of 100 claims, and without authorisation, no payment will be made.

June 2006

Wednesday 28 June 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
James Duddridge
Lynne Jones

Sir Peter Soulsby
David Taylor
Mr Roger Williams

Witness: **Mr Mark Addison**, former Acting Chief Executive of the Rural Payments Agency, gave evidence.

Q643 Chairman: Good afternoon ladies and gentlemen, welcome to a further evidence session of the Sub-Committee of the Environment, Food and Rural Affairs Select Committee's inquiry into the Rural Payments Agency. We welcome Mark Addison, the former Acting Chief Executive of the Rural Payments Agency, indeed a former, very senior member of the Defra Management Board. We are very grateful to you for agreeing to come before the Committee because I understand you are now an ex civil servant, is that right?

Mr Addison: That is correct; I am an ex civil servant from the end of May.

Q644 Chairman: We are particularly grateful to you because one of the problems, as you may have gathered, is that many of the people who were central to the decisions and the processes involved in the Rural Payments Agency have moved on for many and various reasons, so we are particularly grateful to you for coming. I am almost inclined to start my line of questioning with one very simple question. If you were able to answer it in a detailed and comprehensive way, we could all go home early. I shall put it this way to you. Can you tell us in your own words what went wrong and why?

Mr Addison: I shall do my best. For me there are two fundamental issues which explain why it went wrong and then there is a variety of factors which I am not entirely sure in my own mind were decisive, but they were probably relevant. The two key factors which are responsible for the crisis and the failure to make the payments to the published timetable were: one, the volume of change and ambition that the RPA, with the Department's agreement, accepted going way back to the original change programme in 2001 and I shall explain that a bit more in a moment. Linked to that were not simply the volume of things they were trying to do, but the timetable to which they were trying to do them and the fact that the deadline set by the European Union was a completely inflexible deadline. Of course it is a fixed point, delivery has to happen to that point and if you fail to deliver at that point or in that way, you have a very big impact on the customers that you are trying to serve. The combination of the amount of things they were trying to do on the one hand, the timetable on the other simply in the end was too much for the organisation to be able to deliver against successfully. If it would be helpful, I could mention one or two other factors which were possibly contributory.

Q645 Chairman: You just keep talking and you may be able to answer all the questions that we were ever going to ask in one simple *tour de force*.

Mr Addison: We shall see. Four or five other factors contributed to the difficulties. The first, and this is linked to the timetable point, is that the fact the timetable was very tight meant that the amount of testing—and I know the Committee have covered this before—of whole-system testing in particular was not as much as ideally it should have been. Second, there was probably, I am not absolutely convinced about this, but there was probably too fine a set of tolerances built into the basic scheme design and the basic assurance mechanisms. The training that was offered to frontline staff and to some extent the managers, but particularly the frontline staff, could have been stronger and better and deeper for a very new system that was being introduced. The management information arrangements and the focus of the performance data could have been improved and could have been better fit for the purpose for which it was being used. I believe that to be the case. Finally, as it turned out, the task-based approach rather than the claim-based approach was not so much flawed in original conception but, once it became clear that the whole process was getting into difficulties, it was a much more difficult set of processes to recover from and manage than would have been the case if they had had a claim-based approach from the first instance. I am not in a position to say whether that judgment was right or wrong, but certainly once the problems began to arise, it was more difficult to manage your way out of it with a task-based rather than a claim-based approach.

Q646 Chairman: I presume that your remarks reflect two things: one, the experience of this process right back from the beginning of the change programme with the RPA which goes back quite a long way—we commented on that in October 2003; also the situation which you found when you assumed responsibility after the removal of Johnston McNeill. I am also aware, having studied the minutes of the Rural Payments Agency Ownership Board, that you attended, certainly through 2005, all of the key meetings and therefore would have been aware of these things. One thing strikes me in what you have said. If, with the benefit of hindsight, you have identified these key areas as your major reasons for why things went wrong, does that not raise some quite serious issues as to why some of these difficulties were not spotted at the outset? It may

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have been complex, but Government are used to doing complicated things. Yes, there were more applicants under the new arrangements than the old, but MAFF/Defra had successfully coped with the old IACS scheme, there was plenty of experience around in Government, for dealing with complex IT things, not always with the best results, but somehow, in spite of that pool to draw on, you have identified some fairly fundamental failings by management to spot the weaknesses in what was being proposed by those who designed the system to deliver the single farm payment. I just wondered what your observations were as to what went wrong in that respect.

Mr Addison: You are absolutely right about the basis of these views and I should like to be quite careful and hedge them about with a certain amount of uncertainty given the fact that I was with the RPA for two and a half months and before that I was, as you rightly say, sitting on the RPA Ownership Board and latterly the Executive Review Group, so I had some view of what was going on, but not a detailed view. It is good to have a chance to enter that caveat. I was trying to distinguish, in my explanation of the reasons why things went wrong, between these two fundamental points which I shall explain a little bit and these other issues which were probably not individually decisive and every project and every programme has a number of things which could be done differently and better, which is why one has all the gateway review processes and evaluations at the end of them. They were not the decisive points. The decisive point was this combination of overall ambition for change and the timetable to which it was being done. On that, it was not actually so much the numbers of claims, the volume of SPS activity in that sense. I know the Committee have spent some time working through the numbers of new applicants, whether they were expected or not, how big an issue that was, the number of changes to parcels of land and so on. We could come back to that if you like and those are certainly worth some discussion. What I meant by the volume of change activity was the combination of three key programmes simultaneously, so it is good to have a chance to explain that. The first was the original RPA change programme, which was the one that was launched in 2001 that Accenture were brought on board to help with. It involved the introduction of a new IT system. It involved the switch from a regionally-based organisation to a national organisation with sites which did not deal with local regions but certain sets of tasks, the reduction in the number of sites by three down to five and it was designed to deliver some very substantial savings to a certain timetable. That was the first big element of this three-fold programme to which I am referring. The second was clearly the CAP reform and the changes that needed to be made as a result of that to the system design and the nature of the payments to farmers. Linked to the second was the third, which is the rural land register which was launched in September 2004 and being built, used, and deployed for the first time in parallel with the single payment scheme. In my view, it was that

combination of the three programmes together which in the end was an overwhelming set of requirements for the RPA to meet and as a result it failed to do so. The decision that was taken to run all those in parallel was of course taken some way back. It was taken back in 2003 and Sir Brian Bender himself referred to this in the evidence that he gave you relatively recently.

Q647 Chairman: The thing that I find difficult, before we explore some of the detail to which you have been kind enough to refer, was the heroic public representation that somehow, in spite of all of the things that you have talked about happening or not happening, as the case may be, the heroic statements about when things were going to happen in the form of the timetable for payments. At the end of the day that is what the revised RPA was tasked to do and in spite of a growing awareness I am sure—perhaps you can confirm that there was a growing awareness that perhaps you had bitten off a bit too much—people were still saying almost right up to the bitter end that everything would be alright on the night. For example, when the Lord Bach came before the Committee, he was very vehement in his defence of the timetable and in fact was very critical of the Committee's report which had the temerity to question whether it would actually happen and whether in fact there should be arrangements for interim payments. Perhaps you would like to comment then on what informs this sort of heroic public persona, when in actual fact some of the problems which you have adverted to clearly must have been becoming more self-evident with the passing of every day during 2005?

Mr Addison: There are two rather separate questions here. Taking a step back, the first question you raised was why it did not work and that does go back to the degree of ambition originally. How any project of that scale or ambition is going to go wrong is impossible to predict at the outset. One just has a sense that somehow or other that is biting off more than can be successfully chewed. It is a rather different question to say: why was there not a sharper understanding, even quite late on, that it was not going to work? That is a more difficult question to answer and I should say there is a number of factors here. Let me start by saying that it is a legitimate question to raise and indeed criticism of all of us that were involved with the process that we did not identify some of these underlying issues earlier than we did. The reasons for that, which I shall try to explain, were as follows. First of all, remember what the RPA at the time was trying to achieve: it had a massive number of different elements of the programme to get right; it had the customer register to sort out; it had so-called level one validation, the basic checks, to sort out; it had the document management processes to sort out; it had the cross-compliance inspection functions to sort out; it had a very wide range of things to resolve as well as what turned out to be the decisive indicator, which was the rate of level two validation so-called. Forgive me if I am getting a bit into the technicalities. Level two validation is the main bit of

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the process after the basic checks have been completed in level one. The claims go into what is called level two validation and the important checks are successfully completed to make sure that the claim is right and accurate and that the information on land in the claim matches up with the information on the rural land register. That was one component, so the RPA had an awful lot of other things to get straight and therefore it did not give, in the end, the rate of improvement of level two validation as much attention as it probably should have had. There were maybe two other reasons. Putting the best possible interpretation on it, if one looks at the position in mid-March of this year, 44,000 claims had successfully completed level two validation. If one takes the bulk of the payments target by the end of March, on the most generous possible assessment to the RPA, to be 51%, just over half in other words, then they were roughly 16,000 claims short of that in terms of level two validation, so they were off. It must have been becoming clear, if the right figures had been looked at, that they were off, but they were not a million miles away. That was one factor. The second factor was a consequence of the task-based approach and it is worth a bit of explanation even though it sounds a bit technical. The task-based approach involves breaking down each claim into a number of separate tasks and completing all of those tasks and when all of the tasks on a claim are complete, then the claim is cleared and it successfully passes level two validation. The task-based system therefore inherently produces a model, an expected profile of delivery which is end-loaded. With a task-based approach you do not expect to see a huge amount of progress early on because you are doing a lot of tasks, not necessarily specifically with the aim of getting individual claims successfully concluded, you are just working on the tasks. So you might find that you have 40 claims, you have 10 tasks on each and you only maybe do one or two tasks on each, so no claim is successfully processed to completion in that period. As the balls begin to fall into the holes, you expect the profile to start rising very sharply and you expect most of the successful level two validations to come at the end of the process, not the beginning. This is a feature of the forecasting model that a task-based approach entails. It is therefore quite a risky mechanism to use, because if nothing much is happening, it is quite hard to tell whether nothing much is really happening or whether everything is going as it should and you expect to see a rapid amount of movement towards the end of the timetable. Because that was the model and that was the approach, there was a sense in which the RPA management team would not have been as exercised as some others about relatively low rates of progress on level two validation earlier on in the window. Maybe that helps to explain a little bit why they remained more confident than outside customers and outside commentators that it would come alright on the night. I agree, if one does not have some explanation of that kind, that it is quite hard to see why the level of confidence internally which I, as a member of the Defra Management Board, had previously shared in

the autumn of 2005, should have been there. Nonetheless I suspect, had a more detailed analysis been undertaken over a period of the level two validation rate, it might have been clearer that, even allowing for the way in which the model worked, it was ambitious to hope for results by the end of March. Nonetheless that was the message coming out the RPA and which the Department and ministers were responding to.

Q648 Chairman: I suppose what you seem to be saying is that, having opened up the box labelled RPA and looked in, you have drawn these conclusions, but that the flow of information throughout the whole of the process, from the start of the change process through to the preparations for the single farm payment, the feedback mechanism to the Ownership Board and to Defra's Management Board and subsequently to ministers, the gift of that information was very much in the hands of Johnston McNeill and his senior colleagues and you, as the "outsider" representatives, because you and Andy Lebrecht were key senior Defra officials on that Ownership Board, had effectively to accept at face value what you were being told. You did not have at your disposal, either any independent or Defra technical advice to say "You guys are not IT experts, you are not systems experts, you are management, you are officials and I think there might be something there that needs a bit more probing".

Mr Addison: I would not accept that the Department was completely reliant on RPA advice with no kind of independent purchase. As you have heard, the mechanisms that were set up to govern this programme were extensive, they had independent input and they had hefty independent input both from the non-executive director on the RITA Programme Board plus the OGC reviews and indeed some other work that was done to check on progress. It is not fair to say that the Department simply had to take what the RPA told it was going on. The RPA was as keen as us to make sure we had some independent view about the progress we were making. On the question of looking back and what I would have done differently, with the benefit of hindsight—and everything I have said is with the benefit of hindsight because, as you rightly pointed out, I was part of the departmental governance mechanism—two things and one of them bears very directly on your point. The first is that at the decision point when the Department was being advised by the RPA that these three elements of the programme could be run together, it would have been helpful to have had an independent view of somebody who was not actually that closely engaged with the programme, but was familiar with large-scale financial retail delivery or systems or something of that sort, who could have come in and given us a sense of the degree of risk that we were taking by trying to run those three programmes together. That might have been helpful. The other thing that might have been helpful—your point about having some stronger capacity to interrogate and challenge the assessments that were coming from the RPA—

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would have been if we had all, that is the RPA and the Department, had a stronger purchase on the whole system and how it worked. As it turned out the RPA did not have a strong enough capability itself of that kind and the Department therefore was not able to share it. That is one of the things I know that is being looked at right now and which we were quite keen to try to build subsequently: a stronger understanding of the way in which the different components of this new work process and IT system were going to relate together in order to deliver results. That capability was not strong enough as it turned out, either on the Department's side or the RPA's.

Q649 Chairman: When Margaret Beckett, I presume, summoned you to take over and try to sort the ensuing mess out after she had decided she had lost confidence in Mr McNeill, and you went to see her, what did she tell you that you ought to do or did she just say "Mark, go and fix it"?

Mr Addison: The remit that I was given flowed very directly from the immediate cause of the crisis, which was that the expected rate of flow of payments for 2005 claims had not materialised, that the end-March target was going to be missed and that the Department's and ministers' fundamental priority, not just for the RPA but for the whole Department, was to complete the process of single payment scheme payments for 2005 as fast as was legally possible. That was the remit that I was given and that was the remit that I took away.

Q650 Chairman: The thing that we found quite intriguing was that in a relatively short space of time, you came in, you announced a series of measures that amounted to a fundamental restructuring of the operation and magically money started to flow. You then brought in the interim payment mechanism which, according to the minutes of the Ownership Board, you had been considering for some considerable time but had dismissed up until that moment. We were left with a sort of situation of saying "How come this guy Addison goes in there with a magic wand and makes it all happen when after the previous two years of so-called meticulous planning, the end result was the dismissal of the chief executive and ministers being left to hang out to dry?". You came in and sorted things out within a few weeks. It was something that did not really fit very well together. That is the point: that you came in quite incisively and it would be very interesting to have your commentary as to why you made the changes that you did. If you were able to produce that analysis in a relatively short space of time, how was it that those who were responsible for the RPA's management for a longer period of time could not see what you saw effectively in a matter of days?

Mr Addison: The first thing to be clear about is what was achieved during the period I was at the RPA and what was not and I shall happily run through that. Your summary of it, although obviously part of me would like to say "Yes, it is absolutely right, I did achieve all those wonderful things", I am afraid is an exaggeration of what was actually achieved during

my period there. Certainly some things improved and some progress was made, but in other areas, the problems remain and it would be good to explain that. Then there is the question about why, if it was possible to do that, was the problem not identified earlier and something done about it earlier? On what was achieved and what was not, there were several phases which I personally and the organisation went through after Johnston left and I arrived in terms of analysing the problem and identifying what needed to be done. It might just be useful to run through about five. The first was the one that we were just talking about which is why, when the button was pressed, only a few payments seemed to emerge. What was the reason, in Helen's words, for the gumming up of the process? This did genuinely take everybody by surprise. There had been an expectation that once claims had successfully passed level two validation, once the button was pressed to make the payments, there should be very few hold-ups and they should flow through. In other words, at the end of the pipe there should be no blockages. It turned out that there were some quite significant blockages at the very end of the pipe which prevented the 44,000 claims which had been successfully sorted being translated into payments. That turned out to be about a number of what are called authorisation checks, final pre-payment checks which are done before the claim is passed over to the payment engine for payment. In all of these decisions we were obviously very keen to involve the people who ran the actual business and operation in the RPA, the internal audit people and the lawyers to make sure what we were doing was sound and the risks were properly identified. Over that very first weekend the RPA experts recommended abandoning four of the six so-called authorisation checks and subsequently in fact we realised we could abandon five out of the six. We took the view they were redundant, they were already covered by the checking process as part of the mainstream level two validation and we cut them out. That had a big effect: when that claim was checked, it did not just stop that individual claim as by then the claims had been batched up and the whole batch would be held up, so it amplified the effect. By removing those checks therefore, you did not just allow those individual claims to flow through you allowed the batch to flow through. This is a slightly simplified version, but that is basically what happened. That was the authorisation check stage.

Q651 Mr Williams: Could you just tell us what sort of checks those six were?

Mr Addison: Absolutely. I happen to have a list. The first one, which was the one we retained, is the payment being made to the correct payee, in other words a final check to make sure that the person you are going to pay the cheque to is the person on your records. Just some examples of the remaining five. Check two: are there any obvious reasons why the payment cannot be made? Check three: is the claim for an eligible scheme activity? In other words, is the scheme activity being claimed for eligible? Check six:

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the amount that had been calculated appears reasonable and conforms to scheme rules. In other words these are quite general checks; you are asking the operator at the end of the process to confirm finally that everything is in order. They are quite general and they are quite discretionary. There was quite a long routine of steps that individuals had to go through, but the view that the experts were able to take was that they were already covered by the main processing machine.

Q652 Mr Williams: Were those checks carried out by anybody or were they part of the computer system?

Mr Addison: No, they were carried out by individuals. The computer system, the RITA system, allowed them to be undertaken and allowed the result of them to be recorded and then the necessary steps to hold up that batch of payments would flow. They were conducted by individuals but they were done on the system. That was the first step. It was very clear quite quickly that that was not going to solve the fundamental problem. That would resolve the immediate cause which precipitated the crisis at the point where it became clear that the payments that were already expected to be sorted were not sorted, therefore the end-March timetable became impossible. The more fundamental problem was the rate of progress on level two validation. How quickly were claims getting into that bit of the pipe? That was clearly moving too slowly and almost whatever metric or measurement you looked at and tried to forecast by simply extrapolating from what had been going on in recent weeks or months, it was pretty clear that that would fail to hit the end-March deadline and probably fail to hit, on most of the measurements, the end-June deadline. So there was a fundamental issue with level two validation. The next thing that became clear was, for the reasons that I have described, that the nature of the model meant that forecasting was immensely difficult and we also, of course, had had our fingers very severely burned by the failure to get the forecast right in the past so it seemed to me quite early on that forecasting anything would be very high risk. We simply did not have the data or evidence to forecast confidently pretty well anything and, as a result, for the next few weeks, indeed even now, ministers are taking a view that it is very difficult to forecast ahead timetables for completing certain phases and that is absolutely right, that was my experience. You mentioned partial payments. This was the next issue to address. A system had been set up for partial payments and it was decided not to deploy it in January or February when it became clear that actually the payments should start in February. The phasing on partial payments worked as follows. For the first two weeks I and my RPA Executive Board colleagues took the view that partial payments would be a distraction; we could not afford to take people off the main processing to design or to take a fresh look at partial payments. Once those first two weeks had elapsed, it became pretty clear that we could not offer ministers sufficient confidence that we could hit the end-June deadline for completing the level two validation process and we therefore began to plan in earnest.

After four weeks I felt that we had got to the point where we were clear that a suitable partial payment solution—that is quite an important qualification: a suitable partial payment system—could be deployed that would work. Ministers on the back of that announced that they would deploy it as soon as it was operationally possible to do so and in six or seven weeks we had deployed it. That was the sequence of events on partial payments. We started with no work and ended up deciding to do it when the full difficulty that we faced became clear. Finally, in terms of the steps that were then taken to try to resolve the fundamental problems, we took the decision to move from the task-based system to the claim-based system. We opened up communication between processors and individual customers by telephone and we decided to bring the mapping back in-house in order to create a package of measures that we hoped would speed up level two validation. The conclusion we reached on level two validation was that there were no simple silver bullets. There were no obvious steps we could take to remove elements of it that would radically speed it up. It had to be a redesigned work process and I believe those fundamental challenges and difficulties remain. The system remains and will remain for some time, difficult to run, complicated and in some respects quite clunky because a number of manual and off-system work-arounds, so-called, were put in place which affect productivity and make it harder to run the whole arrangement. Those problems remain. We could not solve those overnight, but we did think a new approach to doing the work would help.

Q653 Mr Williams: When Accenture were first contracted by RPA, it was to deliver the change programme and to update the IACS systems. It was only when the 2003 reform came into place that they were then tasked to produce RITA, the system to deliver the single farm payment and also to do the rural land register. We were told by Accenture that dealing with those three separate tasks was not an exceptional request to be made of an organisation like that. Are there any other examples in the public sector of a contract being upped to such an extent after the contract had been entered into or do you think it is exceptional?

Mr Addison: I am not sure I can give you a definitive answer because I would not know enough myself about the range of examples there might be. My sense would be that it was an unusual amount of change to introduce shortly after a contract had been signed. It was a very fundamental change.

Mr Williams: We have recently been to Germany and met with some officials there who delivered the single farm payment. They did it on a regional basis but it was basically a dynamic hybrid just as the English system is. Each of the La[scodot]nder was allowed to commission its own software and yet each managed to deliver the system on time and within the window.

Q654 Chairman: There were 353,000 customers.

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Mr Addison: On that, I am not sure I know the answer but a relevant question would be: at what stage of development was the digital rural land register when the new software was introduced, alongside it presumably? I do not know the answer to that but that was quite an important issue for England. The other factor goes back to where I started, which is that the policy issues were clearly one set of issues. I am not sure whether the dynamic hybrid in itself... I know the Committee have discussed whether delays of one year or whatever would have made a difference and I am not sure of the answer to that because I do not know what policy freedom there would have been. What I am saying to you is that it was the combination of the RPA change programme which, remember, was not, I assume, something which would be replicated necessarily in other countries, it was a completely new kind of organisation being deployed alongside a completely new policy, alongside a completely new rural land register which was the factor which made the whole thing topple over in the end. I am not sure how Germany compares with that or any other country compares with it. The dynamic hybrid component is one of those three.

Q655 Mr Williams: The mapping issue and the rural land register seem to be key factors in this. This afternoon we were given an example of a particular customer of the RPA who had 19 different maps delivered to them before the correct solution was found and that was in May of this year. We were told by the RPA that one of the difficulties was that every single piece of land had to be mapped before the total land area had been identified and the entitlements could be worked out and yet payments started to be made before this particular customer's land had been mapped. One of the other issues that we were talking about was whether the RPA and the system that they were using was too accurate and that a little bit less accuracy could be accepted to get the system working. Do you have any comments on that?

Mr Addison: I mentioned earlier on that one factor which is worth exploring, I am not sure it was a decisive factor, but it is worth exploring and thinking about, is whether the approach was not too finely tuned. One of the steps that the RPA took after I arrived was to introduce a tolerance limit of two hectares or 3% on individual claims; if that tolerance was not exceeded, but there was an issue and the system was saying there was a problem, nonetheless the payment was to be made. We did quite a lot of calculations on varying that level of tolerance and seeing what the impact would be on the number of claims that would go through and the potential level of disallowance that would be entailed. Obviously that is a factor with all these decisions and that was why we ended up with those figures. Interestingly, although it helped, it made some improvement, it did not make the enormous improvement and change that you would have expected if the fundamental reason behind all the difficulties had been the degree of tolerance. That

rather supports my feeling that that was a factor, but not a decisive factor in the whole set of reasons why the target was not met.

Q656 Mr Williams: After meeting with the German officials, it was quite clear that they had got the money out to the farmers. The question really is whether they got it out in compliance with the European regulation. We shall only know that presumably when the system is audited and there could, of course, be disallowances as a result of that there, as there may be in the English system. Has Defra, as a result of the less fine measurement of the land areas, made any allowance for disallowance in its budget in the future? Was that built in as a result of taking the decisions that you had to take?

Mr Addison: The position, after it became clear that the target was not going to be met, meant that the whole approach to calibrating risk had to change. Ministers in the Department were extremely supportive throughout my period—I am sure they are still being extremely supportive—and willing to consider options which would have been difficult to consider six months ago and those options do entail, because nearly every change does, some additional risk of disallowance. We tried to advise them as best we could on the range of possibilities and the decisions were taken. The whole question of disallowance is not, as you will know, an exact science. At every step we took the best advice we could about how to limit its impact and we were extremely careful with the partial payment system which was not the original design, it was a new design in order to meet the requirement of the time. We were extremely careful to make sure we had as many controls as would enable us to argue and negotiate the level of disallowance down as best we could. We had the arrangements for claw-back: if a payment had been incorrectly made that was more than the payment that was subsequently validated, then we shall seek recovery and that is exactly what is happening. We have had relatively few in percentage terms, but that system is in place. You can introduce a number of steps to try to reduce the risk, but you have to have some appetite for risk, otherwise you cannot move.

Q657 Mr Williams: Presumably the rural land register process was carried out in Wales as well even though the payment was on an historic basis. We seem to have had very few complaints in Wales that payments have been held up because the land had not been mapped. I do not know what system was used in Wales because there have been so few complaints. Could you tell us whether a different system was used in Wales or a similar system?

Mr Addison: The policy was different. What I am not clear about, I am afraid, and what I cannot help with, though I am sure we could get this information for you if we asked the Department, is how far the land issues had to be resolved in order for those payments to be made. I am sure we could find that out.

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Q658 Lynne Jones: As far as you are aware there is no difference between the mapping system in Wales and England.

Mr Addison: The rural land registry itself? I am not sure, to be perfectly honest, how Wales have set about mapping. I do not know whether they are using the rural land register we use in England or not.

Q659 Sir Peter Soulsby: May I just take you back a little bit to your description, with the benefit of hindsight, of the things which could have been done better? You have described them to us and it was clear from your description of them that none of them was individually fundamental. You also described what you termed as the decisive points, the volume of change and the timetable and its inflexibility. They had been factors that you had been aware of for quite a long time. Even the volume of claims was something that had been known for a substantial time. What I still find very hard to understand is how it was possible for all of those involved, the Rural Payments Agency and the Department and the ministers, to be so apparently confident right up to mid March and to be telling us how confident they were, that this could be delivered and then so suddenly for matters to emerge and for the position to change so dramatically; suddenly it was not going to happen. Was it that the chief executive and the others in the Rural Payments Agency did not realise that this was not going to deliver or was it that they realised but were not telling you and us?

Mr Addison: There were these two factors. The issue which took everybody by surprise, including everybody in the Rural Payments Agency, was the failure of the 44,000 claims to go through into payment smoothly. The authorisation checks' element of the process had not been tested as part of the whole system test, a point raised earlier. That simply did take the RPA by surprise.

Q660 Sir Peter Soulsby: Could we infer from that that what really went wrong was the failure, at an appropriate stage, to test the system, to make sure it really would deliver and really would work? Is that fair?

Mr Addison: As I said earlier, the amount of testing that was done, the amount of whole system testing that was done and the amount of whole system knowledge there was, was, as it turned out, not great enough. One of the reasons for that was the overall timetable. A lot of this can be traced back to my earlier two points about the number of things being done and the timetable.

Q661 Sir Peter Soulsby: You have explained all of the reasons behind this, all of the factors that were part of it and you have explained the decisive points, which were things that you were aware of well in advance. It does strike me that the actual failure was to test the system and make sure in a timely manner that it was actually going to deliver. It surely was the

responsibility of the Rural Payments Agency and its chief executive to test and the responsibility of the Department to make sure that they had tested it.

Mr Addison: Testing can mean a very wide range of things and you have had evidence from others who have explained that a good deal of testing was done. The individual system releases were extensively tested. If you look at the OGC programme of reviews, all of those reviews looked at the bits of the RITA system that were being designed and one of the questions they asked was whether this had been successfully tested and so on. So there was a great deal of testing. As it turned out, where the testing did not happen, in the way that it would have been useful if it had, was the testing of the whole system which would have been a very major undertaking, would have taken a good deal of time and would probably have compromised the original target in any event. There was also lacking, as I have said before, a depth of understanding of the way in which the whole system would fit together and work and those are the issues. It is quite interesting; it is not quite as clear-cut, if I may say so, as you are suggesting. Take the partial payment system which was designed and used in early May; the actual partial payment system which was used to get the £730 million out. We had a choice around the end of April about how much testing we should do on that programme.

Q662 Chairman: Are you talking about April 2005?

Mr Addison: No, April 2006. I am talking about the partial payment system which enabled the money to be released. There was a question about how much testing we should do. As you would expect, having come in afresh, having a naturally sceptical attitude to claims that X or Y would work unless I had actually seen it working in black and white, my inclination was to say that we must test as much as we possibly could and we did extensive testing on that new partial payment system. However, there was one thing we did not test. We did not test it end to end. We decided that if we were to let, say, 100 cheques go through the whole system and be paid to individual farmers, it would delay the whole process by several weeks. I cannot remember the exact timetable. So what did we do? We looked at alternatives. We said "What is our confidence that the payment system works? What is our confidence that the partial payment system will work? How confident can we be that, put together, these two things will work?". The conclusion that we reached was that we had a good degree of confidence in the linkage between those two, the actual calculation mechanism and the payment mechanism, on the basis of what we had seen already. We therefore decided to advise ministers that the whole arrangement was ready for deployment and that, although we had not had a chance to test the whole thing end to end, we were pretty clear it would work and it worked like a dream. That was the right call; history convinces me it was the right call. So it is not always obvious that a test is absolutely required, if you are up against a very tight timetable and you have a high degree of confidence that the different bits of the system will work together. Of course we

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now know, with the benefit of hindsight, that we should have done more whole-system testing. We know that; I agree with you. Was it obvious at the time, given that the timetable had to be met? I am not convinced.

Q663 Chairman: You took on board Accenture as your IT partner from the start of the change process for the RPA, the big change of the whole system. They are there as professionals and they told us that basically the system they designed would do what it said on the side of the box. In their remarks to us they were confident that they had delivered what they were asked to do. I have just been reminding myself about how much time remained once the policy was agreed and there was actually quite a lot of time, at least to tackle the problems at the front end of the system without having to test the whole thing. Did you get advice from Accenture about the risks that this approach was putting to you? Accenture were very careful in their remarks not to make any comment about any other part of the RPA for which they were not responsible and, to an extent, one can understand that. But in terms of the mapping system, was that ever tested with what I might call some dummy information? When, for example, was it decided to employ the digitised approach, a different approach to the IACS mapping system which relied on ordnance survey maps, to employ that technology? Why seemingly was it not tested with some real live farmer data to flush out some of the idiosyncrasies to which we have just been exposed by a presentation from the valuers? They made very clear to us, from their personal experience and indeed the Committee have had many representations, the type of instability on the mapping system, because that is the most fundamental before you even get to the point of application validation. Why was that bit not tested more thoroughly?

Mr Addison: I am afraid you are taking me into territory I cannot help you with because I cannot recall whether I myself, when I was on the Defra side, was part of those discussions or not. You are absolutely right that the mapping and the land issues are obviously at the very heart of this and if one looks at most of the tasks which have to be undertaken in level two validation, many of them are to do with land and maps. Accenture are making a valid distinction between testing the system to make sure it works at a technical level and the question which I think you are asking which is surely that if you had piloted the RLR and this new approach, it would have become clear that there were going to be more changes to land and to parcel size and applications coming in from farmers than the RPA expected. That is not a technical point; that is about the way in which the whole system works. I think that Accenture are making a valid distinction. I am afraid I cannot help you on whether that was piloted in some way or not.

Q664 Chairman: Let us come to a fundamental question which I should have thought the board of Defra and indeed the Ownership Board of the RPA

would have asked, a simple question: does it work? Let us separate out the question of volume and change from the stability of the system once in operation. The example that we had shown to us this afternoon was of a farmer who ultimately had the issue of her maps resolved after 19 separate attempts. The first part of the process began in May 2004 when this particular applicant started the process and it was not actually resolved, finally, until 16 May 2006. Given that you knew you were going to have to operate a new digitised mapping system, I really do not understand why somebody did not do some “dummy runs” on this. I am sure the board must have asked whether this bit actually worked, because that was the bit that was ahead of the bit you have described, the level one and level two parts of it, which had their intrinsic problem. Did somebody on the Defra board, when you were getting reports back from the Ownership Board not say “Have we actually made certain this thing is stable and it can process a number of these”? I am sorry to go on, but just to give you an illustration of what we heard, when the valuer in question got along to say “Right, let me try to help you, oh client, to get this thing right” at one point quite early on in the process she told us that the system had just about got it spot on. So an agreement was reached that she would print-out a new set of maps for final confirmation. What then happened was that a set of maps arrived which had a completely different order of land on it, fields were not there, in other words it was not the same as that which had been agreed. So you ask why the system had substituted a series of incorrect maps for ones which had been deemed correct. It is that kind of very practical example which does not seem to have been bottomed before you went live and compounded the problem by a whole series of instabilities in the system. That is why I come back to the very simple fact, and Peter would agree with me, that we do not understand why that bit was not tested, as we as lay-people understand it, which means putting 200 or 300 real live mapping exercises through it and seeing whether it actually works. Was that never done?

Mr Addison: I do not know the answer to that because I simply do not know how the testing was done.

Q665 Chairman: Who would know the answer to that?

Mr Addison: The RPA would certainly know the answer to that question.

Q666 Chairman: So we need to put that on the yet-to-be-asked list.

Mr Addison: Yes. It is a very specific question and I am sure you could get a very specific answer to it.

Chairman: Coming back to the questions which ministers were asking, ministers would have been briefed on what it was they were buying. They would have had a description. All those submissions to ministers would have said that ministers will be aware that we are introducing a new digitised mapping system and this is how it will work. Did they not have a demonstration as to what was going

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to be coming along? Were they exposed to it? Lord Bach told us he popped in and out of the RPA with monotonous regularity and Lord Whitty no doubt did the same.

Q667 Lynne Jones: Or even members of the Ownership Board like you.

Mr Addison: I cannot remember the exact date, but what I do recall is that as members of the Ownership Board we did see the rural land register at a point at which it was struggling, not so much to sort the problems that you have identified, but actually simply to work at a technical level. The volumes of activity that the system was being required to cope with were overwhelming it, so it was suffering from a lot of problems. We were in Exeter, we saw it.

Q668 Chairman: That is reflected in the minutes. What I am concerned about is what happened upstream of that. Coming back to Accenture, they were remarkably correct in saying that the system they provided was going to deliver. I presume Accenture were responsible for the mapping system, were they?

Mr Addison: For the design of the RLR.

Q669 Chairman: Was that one of their boxes?

Mr Addison: I would want to be absolutely sure.

Q670 Chairman: If you are not sure, I shall not press you because it would be unfair.

Mr Addison: We can find out. I believe they were, but we can check. Subsequently of course it was then moved off at the point where the volume of activity on digitisation exceeded the capacity of the organisation to deal with it.

Q671 Chairman: They told us that each component of the system had been, by their use of the word, tested and that they were clear that it worked. If the IT supplier says he is producing you a system which in 2005 they had tested and was stable—that is what they told us—if it was stable and it worked, why did it not deliver? That is the layman's question.

Mr Addison: I agree and it is a good question but I would come back to try to make this distinction. I am sorry I cannot be more helpful about exactly what happened and when. There is a distinction between a system which is technically stable and a whole work process which is not performing satisfactorily. Just by way of an example, take the authorisation checks. The authorisation checks were not technical difficulties. The RITA system was working, the individual operator would identify a problem, the claim would be identified and the batch would be stopped. The issue was the way in which the whole work process functioned and in particular, in the case of land, the way the relationship between the customer and the RPA worked or did not work in relation to the flow of information between them. That is not necessarily the same, in fact it is not the same, as saying the system was technically unstable. The system may have been technically quite stable, but the whole work process was not functioning properly, which clearly it was not.

Q672 David Taylor: What, in one line, would be the responsibility of the Ownership Board? Just in one sentence. How do you recall the brief of that board? Just one sentence.

Mr Addison: The Ownership Board's responsibility was to do two things and this is general in Government: one was to agree the plans and targets and resources for the agency and advise ministers accordingly; linked to that, to take responsibility for the Agency's performance and advising ministers again on how it had performed against the targets which had been agreed. That was one set of performance measures. The other is to be the representative body in the Department for that agency or organisation.

Q673 David Taylor: If I were Johnston McNeill on gardening leave, sitting in my potting shed this sunny afternoon with the radio on listening to the evidence that has been given, I should be thinking that Mark Addison was being given credit for sorting out problems for which he, as part of the Ownership Board, was substantially culpable. The Ownership Board collectively signed off the specification, did you not? You must have done; you must have signed off a transaction-based system, an antiquated, historic approach to major system design equivalent to a single-task production line in an engineering factory decades ago when people had moved on to team approaches where sub-component parts of the car or whatever it might be were assembled at that point. The Ownership Board were responsible for that, were they not?

Mr Addison: Maybe I can deal with two of the points you make. On the Ownership Board responsibilities, I have already said as clearly as I can that the Ownership Board back in 2003, on the basis of advice from the RPA, endorsed the view, as Sir Brian Bender said, that the RPA change programme could be run in parallel with the CAP reform initiative. History tells us that was not the right decision. Everybody around that table, including me, bears some responsibility for that decision.

Q674 David Taylor: I am not holding you individually responsible; I am saying you are corporately culpable.

Mr Addison: That is absolutely clear and I have tried to be as upfront about that as I can. As to your second point about claiming, me personally and my successors—

Q675 David Taylor: It was your admirers who claimed it.

Mr Addison: No, but the point you made was about successes at the RPA. I am also very keen to be completely clear with you that the progress that was made at the RPA during my tenure was about the successful delivery of substantial sums of money—

Q676 David Taylor: It was the little boy saying the King has no clothes, was it not? It was stating the obvious, was it not?

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Mr Addison: If I may finish the sentence. It was about getting money out, it was not about solving the fundamental problems which will take some time to resolve and the RPA will be doing well to improve in 2006 on performance with the 2005 payments and we all hope that it can create some more significant improvements in 2007 and maybe 2008 is the first major opportunity.

Q677 David Taylor: Moving on, you expressed the opinion that it would have been a good idea to have had more of an independent perspective, people who knew something about ICT rather than mandarins and outsourced staff who did not have an invested interest in it. Do you regret now being substantially responsible for making redundant 1,600 to 3,500 people who might have given some input to improve the way in which this system was delivered? Almost a half of the 3,500 staff were made redundant, that is right, is it not? You were part of that.

Mr Addison: Certainly that was the plan. Again, with the benefit of hindsight—

Q678 David Taylor: It is not with the benefit of hindsight. With great respect, you, Defra senior management outsourced a great deal of your ICT expertise. Those people with the knowledge of the area concerned, who had the experience and could give advice, could have pointed to the significant and serious flaws that were always there in that original system design, when the people charged with signing it off, that is the board of which you were part, clearly were either hoodwinked or negligent. That is a fair assessment is it not?

Mr Addison: Absolutely not. Maybe I could just explain why. First of all, by “the decision to outsource” I take it you mean the Accenture involvement.

Q679 David Taylor: It is a general Civil Service trend to outsource as much as possible of that which is crucial to the future of the organisation and retain that which is not. Yes, I suppose I do, in relation to the Accenture contract.

Mr Addison: That is not right. The planned reduction in staff numbers, which of course has not happened in total, but the planned reduction in staff numbers of the 1,500 that you mentioned was not around the outsourcing of IT, it was to flow from redesigned business processes which Accenture were there to help with.

Q680 David Taylor: It was in part to drive down headcounts to satisfy the Cabinet, was it not? Then getting back people at half the cost and with less competence.

Mr Addison: It was to enable the RPA to become a more efficient organisation. It was not directly linked to the outsourcing decision.

Q681 David Taylor: So you do not feel at least partly responsible as part of that body for signing off a seriously flawed top-level design of a system that has failed so spectacularly?

Mr Addison: I feel very responsible for being part of the organisation and the board and the Department which clearly were involved very closely at many stages with the development of the plans in the RPA and therefore the subsequent failure to deliver.

James Duddridge: With hindsight there was clearly a breakdown in the flow of communications from the front line; somewhere between the front line and ministers there was not full information. Lord Whitty on *File on 4* went further. He said there “... was obviously some degree to which people were putting a bit of a gloss on how well the system was going” and that there were even “... times we were misled”, we being ministers. They seem quite strong words. Were ministers misled or indeed is Lord Whitty misleading the listeners of Radio 4 in his statement?

Q682 Chairman: May I just add the sentence that came after, to emphasise and put into context what Lord Whitty said? He was asked a question by the interviewer in which he started off that Lord Whitty was remarkably candid and then she concluded, after some observations, by asking “Were you misled?”. “I feel at times we were misled” said Lord Whitty “I would say we were given a story at the optimistic end of the scale when there was a range of outcomes”.

Mr Addison: I guess Lord Whitty must have been referring to the time that he was in the Department. He is probably referring there quite specifically therefore not to the level two validation progress, but the mapping issues which were very live at the time. I do not want to comment on whether Lord Whitty misled the viewers or whether he was misled in those terms. I have tried to be very clear that there is a real question to be asked. Even if one accepts that the fundamental causes of this difficulty were about the overall ambition of the programme there is a real question to be asked about why it did not become clearer earlier that there was a set of difficulties around which were going to compromise the target. There are reasons for that which I have already given, but just to repeat them very briefly: one is that the number of things the RPA had to attend to at once meant that it did not actually, as things turned out, focus on the one key indicator that proved to be the most important. Second, it had a model which encouraged the RPA thinking to be less concerned about slow rates of progress than the outside world and therefore they did, as a result of that, err on the optimistic end of the range of forecasts. In that sense, probably Lord Whitty is right, but there is a reason for that and one of the reasons for that was the nature of the model that was being used.

Q683 James Duddridge: What lessons have been learned in terms of information flows between agencies within core Defra and then ministers to make sure there is a more open, transparent, probed and validated information flow in order that ministers can get a grip on what is going on in the agencies to avoid similar problems in other Defra agencies?

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Mr Addison: Some of this is work in progress and I am not, I am afraid, absolutely up to speed with it. When I moved on we were trying to set in place some of the following: first of all a strengthened management information system that captured the information we needed to manage the process better; second, a joint team that would involve both RPA staff and Defra staff working together to ensure that we had a common understanding of everything that was going on around the SPS. We were also seeking to strengthen the communications more generally between staff and RPA senior management. It did seem to me when I arrived that everybody, the top team in particular, who had been working extremely hard like the staff, had been focused on trying to sort their own issues out and maybe needed to work first of all more closely together as a corporate body and also to spend more time listening to frontline concerns rather than letting them come up in the normal way through the management chain. Steps were being taken to put some of those changes into place as well. There were communication issues. I should not put them in the decisive box of things, but they were things that needed to be strengthened or improved and I very much hope that those are happening. I am pretty sure they will be.

Q684 James Duddridge: From your time as acting permanent secretary, are there any other agencies and lines of communication and key performance indicators that you would express concern about and that are not working in the way that the RPA did not work?

Mr Addison: In general no. The RPA was in a pretty unique position with the introduction of a new scheme to deliver payments to customers. The area which is slightly similar, which was of course affected to some extent by the SPS and in turn affected it, was the Rural Development Service and the roll-out of the entry level scheme and countryside stewardship. There was some read-across there and I am quite sure that some of the lessons that have emerged from the SPS saga will be being factored into that by the Department. No; the answer to that is no.

Q685 Chairman: We were just trying to probe this question about why it was not picked up earlier that problems were occurring. For example, in the Defra Management Board summary that was helpfully published in public of a meeting held on 27 January 2005, the first item on the agenda is headed "Implementation of CAP Reform" and Simon Vry of the Rural Payments Agency came along and talked about how CAP reform was being implemented as part of the RPA change programme. One of the points he made at the time was that the programme was on red, primarily because of issues around testing which were being actively addressed. He set out the importance of working closely with the supplier and other interested parties and in having a single team for complete testing of the IT system. He went on to make other comments. I suppose that raises the question with me of the Office of Government

Commerce who did conduct a series of gateway reviews into the programme. As I understand it, those comments would have reflected some red lights as a result of that review process. We have talked about outside or independent assessment. Can you give us some commentary on how effective this gateway review process was in flagging up failures in the system? Lord Whitty was probed on the Radio 4 programme *File on 4* which dealt with this and he was probed about the number of red lights and the fact that these red lights seemed to remain on for quite some considerable time and therefore issues were not being resolved. The Committee has not had the privilege of seeing these gateway reviews yet; we are promised that we might have sight of them but we have not seen any of it yet. Could you just help us to understand where the red lights came on and what happened?

Mr Addison: Yes. I shall speak from memory which may not be perfect and you will be able to check when you see the reviews if they are coming your way. The programme was green until gateway three. There was then a series of gateway four reviews which came up with reds and those reds were always related to particular issues rather than just being generally red. My recollection is that on each of those issues steps were taken to sort them out and move on. A red gateway review does not mean stop the whole programme and abandon ship. It means there are things which need immediate attention.

Q686 Chairman: May I just be clear? Is the term "gateway" a state-of-the-art piece of language to say that there are certain key points at which you review? You talked about the roll-out of different parts of the computer software and I presume somebody at the beginning of the project laid down the critical path and said here is a key point so that is gateway one and so on.

Mr Addison: Exactly.

Q687 Chairman: Just for the record, so we understand, what was gateway three, what was the key moment?

Mr Addison: I am afraid I shall have to refresh my memory.

Q688 Chairman: Please do that and, again, I appreciate it is some time since you saw this information and if it is not possible for you to answer definitively, we understand. However, it would just be helpful to understand what represents each gateway.

Mr Addison: I can give you a very quick summary from here, but I am sure you will need to look at this in more detail. There are now gateway zeros which are at the very early stages of project formation and are called a strategic assessment, but it is the kind of "Should this project even get off the starting block?". Gateway one is business justification, the business case. Gateway two is the procurement strategy and the gateways are designed essentially around system and IT procurement exercises of one sort or another. They can be used for other things, but that is what they are essentially designed for. Gateway two is

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the procurement strategy. Gateway three is the investment decision, in other words, are you at the point where you can press the button with your supplier? Gateway four is readiness for service, in other words, are you actually at the point where you can press the button for delivery? Gateway five is the post programme review, the evaluation in other words.

Q689 Sir Peter Soulsby: Are you able to tell us roughly what the timetable was for those particular gateways for this particular project, particularly the later ones we were just referring to?

Mr Addison: What happened around gateway four, the readiness for service, was that a sequence of gateway four reviews was undertaken—4a, 4b and 4c to my knowledge.

Q690 Chairman: Do you know when those began?

Mr Addison: They were all related to the release of individual components of the software. The most recent one was 4c–4d was underway when I was there—in February 2006 and had just been completed when the announcement was made that the target was not going to be hit and 4d was the final release of software for 2006. So the gateway fours were about the fitness for purpose of software that was dropping into the main RITA system. Interestingly 4c, although there was a series of reds as you rightly say around 4a and 4b, got an amber. So 4c in February was rated at amber.

Sir Peter Soulsby: It is very difficult for us as members of the Committee without actually having these gateway reports in front of us.

Chairman: It is indeed.

Sir Peter Soulsby: May I just re-emphasise the point which has already been made that we do need those papers.

Q691 Chairman: Absolutely and I can understand that, particularly as they have already been commented on by radio programmes which seem to have rather more knowledge about these matters than we do. I just hope that eventually they will filter their way through to us in some way, shape or form. Just one or two more points of detail before we conclude. When you arrived at the RPA, who came along and said “Oh, Mr Addison we’re so glad to see you. Here are the things you can do to speed it up”? McNeill by that time had gone, so who came along with “This is what we have been waiting to do, please help us”? Somebody must have been there with the solution. Who was that?

Mr Addison: The morale of the frontline staff was surprisingly high when I arrived; I expected that, given the pressure they had been under and some of the calls they were taking, that their morale would have been knocked back. In fact their morale was remarkably high in the circumstances. They had had plenty of ideas about how things might be improved and the management team themselves collectively and individually also had a whole range of ideas as to how, in particular, the blockage that had emerged and taken people by surprise in mid February might

be tackled. I found a real willingness and appetite at every level to think about ways of doing the job better.

Q692 Chairman: When we had the representatives of the PCS Union in to see us, they indicated that on a number of occasions they had raised issues with RPA management which, with the benefit of hindsight, we can see they had spotted were starting to cause problems. I suppose it made us wonder just how seriously the input of the management was being taken. There are indications that there are people who have been on the inside of this system who were only too happy to comment internally about problems, but you do not exactly get the impression that they were being listened to and responded to. That may be a totally false conclusion I reach, but if you have people who are at the front end saying to this Committee “Look, these are some of the problems” and they were doing it upstream of the kind of difficulties you came and helped to sort out, you do wonder how much listening was going on to the people who were actually trying to deliver the service.

Mr Addison: I agree that the communication between the front line and the management team, and by that I mean listening rather than just words, did need some strengthening and improvement and that happened and is happening. The reason for that was that the volume of activity and work and pressure at every level was such that the organisation was finding it pretty hard to find the space and time to do some of the things it should have been doing. I think that is true.

Q693 Chairman: Let me just ask you about this volume thing because it keeps coming up. Again, your Department contains some of the most experienced people when it comes to analysing agricultural activity in England and when this policy was being determined at EU level, the fact was evident that new forms of land were going to come into payment which previously had not been allowed for. Why did it seem to take everybody by surprise? When Accenture came to see us, they said that the volume of customers was being increased from 90,000 to 120,000—I think that was the figure quoted. In other words, Accenture were obviously given a piece of information from somebody saying there are going to be more customers under the new system. The second fact seems to be that if you look at the National Farmers’ Union, their horticulturalists campaigned very successfully for a new series of areas of land to be part of the single farm payment scheme. So anybody that knew something about it could have made some estimate because they would know roughly speaking what area of land was down to horticulture and to fruit and so on. Yet somehow the volume argument seems to have taken everybody by surprise. Given Defra’s expertise in these matters, why was it such a surprise? Why did somebody not do some estimating about the kinds of demand, particularly when the definition was finally agreed as to the type of land in total which could have come in, which then opened

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the door to the sort of pony-paddock-type small-scale land holdings which may be alien to United Kingdom agriculture, but which are typical in continental Europe. Bearing in mind that officials would have been in management groups in the Commission, working through all of this, surely there was a growing awareness of what was coming down the track much earlier than appears to have been publicly acknowledged.

Mr Addison: The issue was not so much the number of new customers and the pony paddocks. I think that was programmed in, as Accenture may have said. The expansion of the customer base to the 120,000 was not a surprise, certainly it did not take the Department by surprise; it was not a surprise. What surprised the RPA was the volume of changes to individual parcels of land alongside the number of new customers. It was the combination of those two things. I cannot give you a precise figure, but I seem to remember the rural land register increased the number of parcels by something like 400,000 up to 2.1 or 2.2 million parcels or something, so it was a bit of an expansion in that respect.

Q694 Chairman: Did nobody ever go out to do a little check? It seems to me amazing that, if you have a policy which is agreed, which brings an opportunity to gain revenue from parcels of land which previously had not been incorporated, so somebody realises that paddocks and woodland areas in farms which may have been dealt with by other mechanisms score under the new system so they bring it in, somebody did not go to take a small parcel, say a county, and just say "Okay, we have our new maps, we've looked at all of this, let's just do a bit of calculating and see what kind of grossing up we might expect". You had the base of the number of fields under IACS. You had that, you knew where you were coming from, if you had just taken a cross-section of farms and said "Right, given the new regulation, what new bits of land on this cross-section of farms have come in?" you could have got some idea of the order of magnitude. What I find odd is that nobody seems to have done that.

Mr Addison: That was the point you raised earlier and I cannot help you with the extent to which it happened and why it did not. I would just comment that it seems like a very sensible thing to have done to get a handle on the scale of the issues which were likely to come back at the RPA. Whether it would have in total overall speeded up the resolution of those problems is another question. I agree it would have made the process more manageable and more predictable.

Q695 Chairman: But you were hampered by the fact, as I understand it, your data input was to have been done by an optical character reading system which did not work. Is that right?

Mr Addison: Yes, that is my understanding.

Q696 Chairman: That is why the costs then went up because you had to employ more people to input the data manually.

Mr Addison: That kind of sequence of events and the errors which may arise and the fact that the data is therefore not as clean as you want it to be all have knock-on effects through the system and that was one example. There were other examples where, because of time pressures, it was not possible for the RITA system to do as much as it should have done. You then introduce these work-arounds you have at the moment: the tasks are allocated by the RPA intranet, a system called IRIS and the actual processing is done on RITA. This means the two have to talk to each other and they talk to each other both through the individual operator and through the system. That is a clunky process.

Q697 David Taylor: It did not help, did it, that you had to depend for a lot of this bulk processing on semi-trained agency staff on little more than national minimum wage because a lot of your key people had been made redundant? That was not a boost to productivity or success, was it?

Mr Addison: It is hard to tell. It is hard to know how the old experienced hands would have dealt with the new system. I should say that in my visits around the offices and talking to the staff and meeting both the people who have been in the RPA for some time, the permanent staff, who are now in a minority overall, and the agency staff and the fixed-term appointees and the casuals, there are no differences between them in their enthusiasm to do the job and the expertise and advice they have to offer. They have been an asset as well as essential in order to get the job done.

David Taylor: It is worth repeating yet again for the record—and I think Roger Williams would agree—that no-one, least of all me, is disputing the huge amount of effort and endeavour and tolerance that people to whom we talked, certainly at the front line and the middle level, put in at the RPA. I am full of admiration for them; do not misunderstand me at all. It would just have been helpful if the change programme had not had such a damaging effect on the people you had.

Q698 Lynne Jones: When we saw Johnston McNeill previously he told us that he had regular bilateral meetings with Sir Brian Bender, that Sir Brian chaired the board meetings at least once a month, that the director of finance was present and you were there at those meetings, that there were meetings with Accenture and Sir Brian Bender. He concluded by saying that they had very, very high level consideration of pressures upon the organisation to deliver this and the cost implications. Do you agree with that?

Mr Addison: Absolutely.

Q699 Lynne Jones: Can you remember from your experience what you would say were the two or three most important pressures which were reported to you that they were struggling with?

Mr Addison: In the period I was sitting around the Ownership Board table there were certainly issues about the successful deployment first time round of some of the RITA components, the Accenture

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components. As has been said to you before, some of those did not work properly first time round and they needed to be worked on and that ate into the timetable for the whole programme. That was an issue. It was that issue which prompted the direct engagement between Sir Brian Bender and the very senior people in Accenture and those meetings proved to be very productive as a way of responding to those concerns. That was one factor. Remember that some of the other factors that the ownership board and others would have been concerned with were the old schemes and systems. Until 2005–06 the RPA was still delivering the old schemes. There were plenty of issues around the time limits of payments, the extent to which customers were happy with the service they were getting, which we were quite focused on. They were the subject of targets that the RPA had to meet in the agency plan which was agreed with ministers and the Department. Quite a few non-SPS issues were being discussed in those fora as well.

Q700 Lynne Jones: In terms of the single payment scheme, what would you say were the most important issues? If they were raised with you on a regular basis, one would have expected that by the time Lord Bach and the other people who appeared before us and were confident that they were going to achieve the payments these problems would have been ironed out.

Mr Addison: The issues more recently, for instance when I was the acting permanent secretary for a month in October last year, the subjects of the discussion with the RPA and indeed with Lord Bach, were around the prospects of hitting the end-February starting of payments target, whether there was a contingency plan which would work if that were not successful, how long it would take to tee-up, the extent to which the Commission regulations might bite on what contingency we could employ and what we could not employ. All of the discussions were around the confidence we could have in the target and fallbacks and contingencies in the event that was not deliverable. As others have told you, up until mid March the RPA advice was that the targets were deliverable.

Q701 Lynne Jones: As far as you were concerned the problems and pressures they were drawing to your attention during those meetings were being resolved or had been resolved when in fact they had not.

Mr Addison: The Department certainly—and the RPA felt this—was trying to be as helpful as it could in ensuring that all of the issues which surfaced and were raised were resolved. For instance, when there were discussions to be had with the European Commission about requirements which came out of the blue in October about the way in which the payments should be calculated, the Department was extremely helpful in saying “Let us see whether we can dissuade the Commission from having this as a requirement”. There was very good dialogue and debate about ways of trying to ensure, in the jargon, that the programme was de-risked.

Q702 Lynne Jones: If everybody was being frank about what the problems were, why is Lord Whitty saying that the reports were too optimistic, if you were having these full and frank discussions and if the issues were being dealt with as they were being raised?

Mr Addison: I think Lord Whitty is referring to a different point in the cycle and I do not want to comment on what Lord Whitty said because I do not know exactly what he was referring to. All I can talk about is the period when I was very directly involved with those discussions. I can say that the problems as RPA saw them were being tackled vigorously both within the RPA and, when the Department could help, by the Department. I agree with you that there remains this point about why it was that the failure to deliver only became clear late in the day. I have tried to explain some of the reasons why I think that may be the case. I am absolutely sure that things were not being deliberately concealed.

Q703 Chairman: Hence the fact that Lord Bach could come and lambast this Committee in quite vigorous terms and only about six weeks later was faced with the ground opening from underneath his feet in a big way. I do not know whether you had a chance to see the evidence that we took from Accenture. Can you just clarify that?

Mr Addison: I did see it.

Q704 Chairman: Did you agree with their assessment of the work they had done?

Mr Addison: Are you thinking in particular that they were proud of what they had achieved and that the system was working?

Q705 Chairman: The message from Accenture was that they did what they were asked, they delivered it on time, it worked and if there are any problems “Please do not look here”.

Mr Addison: That is not exactly what they said, but I understand the point. My view is that the IT is working. Tasks are being closed down, claims are being validated, records are being kept and payments are reaching farmers. All of that is happening too slowly and too late, but the system is working. In that sense I should say that Accenture is absolutely right. I think they were making the point because there is a sense in which people were saying this was another IT failure or cock-up or whatever. I think they are right to say—and I agree with them—that that is not the case in this case, that it is a much more complex set of issues. I do think the fact that some of the releases took longer than planned to stabilise and be ramped up to deal with capacity did eat into the total time available for the programme, because you have a fixed end point. That was a factor, alongside a very wide range of other factors, which all conspired to make the total amount of work that needed to be done too great for the time that was available. In that sense Accenture, like all the rest of us, all those who were involved in this programme, have some responsibilities to

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account for. In terms of their basic analysis that the system is doing what they were asked to make it do, that is right.

Q706 David Taylor: But surely they had a professional obligation to point out some of the serious flaws that were present in the specification which you and colleagues were pressing on them or had accepted. They had more of a responsibility than just saying "That's what you wanted mate, away you go". There were clearly serious flaws there. This is not hindsight.

Mr Addison: All I can say is that when I arrived in the RPA in mid March, one of the first groups of people I spoke to was Accenture; they were keen to speak to me and I was keen to speak to them. They were very willing to offer help and advice in ways which did not seem to me to be fundamentally constrained by a very narrow interpretation of the contract.

Q707 Lynne Jones: When she spoke to the House on 27 March Mrs Beckett said that the systems were not remotely customer focused. Do you agree with that? How could we get to a situation where a new system was not remotely customer focused given all these high level discussions about it?

Mr Addison: The fact that the system as it worked is not customer focused is beyond doubt. You have given me the example of the map. There are a few but very few customers who think they have got a good service. Once the difficulties with the whole system working as planned became clear, it proved to be an immensely difficult system for customers to understand and deal with, where you had tasks being allocated to different offices without regard to claimant, so requests and letters could come from different offices without a co-ordinated approach being in place. That was extremely difficult for customers to understand or deal with and it was not the system over which any of us wanted to preside. That was when it began to get into difficulties. I understand that there are plenty of task-based systems out there in other fields which work perfectly well. Once it got into difficulty and began to work too slowly and some of the discrepancies between the claim and the land register became clear, it became a very, very unfriendly system to use. I think Mrs Beckett was absolutely right.

Q708 Lynne Jones: Why were you not aware of this when you had all these meetings?

Mr Addison: We were aware of the difficulties with the land register. We were obviously aware of customer anxieties. We were also of the view, given the advice we were getting from the RPA, that the payments would be made to the target date. It only became clear that was not the case in mid March.

Q709 David Taylor: But you were not asking the right questions of the RPA, were you? You were accepting blithe reassurances too readily.

Mr Addison: Certainly I agree that both the RPA and ourselves, given what we now know, were not asking the right questions. It is easy to say that after the event, but looking back I agree with you.

Q710 Chairman: It is a pretty large condemnation of the RPA change programme, which was agreed in 2003, that here we are in March 2006, roughly two and a half years on from the agreement to that programme, and David Hunter is now carrying out what looks like a root and branch fundamental review of what the RPA is about. Bearing in mind the change programme was designed to reconfigure, improve, make more efficient, save money, refocus the RPA, enable it to deal with the new single farm payment, to be going through the whole process all over again after such a short period does raise some very fundamental questions as to the nature of the management decisions which established the RPA in its current form in the first place, does it not?

Mr Addison: For me it raises a rather different issue. The issue that it raises is more a Defra-wide issue. It is: what is the RPA's place in the wider family of organisations that constitute Defra as a whole. Set the SPS to one side for a moment. If one looks at the other responsibilities the RPA has accumulated over the last few years, the responsibility for instance for the livestock side, all of the animal health and livestock tracing scheme, livestock register, if one looks at the work they now do on behalf of the wider Department in relation to inspection and enforcement, if one looks at the work the RPA do, or it was planned they do and they are currently doing in terms of cross-compliance coordination, there is a variety of functions which the RPA, because it is a very important Defra delivery body, has accumulated over the last few years. What the Department is taking this opportunity to ask itself, amongst other things—and of course there are other issues here including the way the RPA has handled the SPS—is where the RPA should fit in the wider Defra scheme of things and what kinds of cross-departmental responsibility it should assume, if any, beyond the payment agency job. That is an important question to be asked.

Chairman: That might be a focus for a future inquiry by the Committee, but for the moment we have plenty to digest from the very helpful and indeed straightforward answers that you have given us to a wide range of questions. May I reiterate my personal thanks and thanks on behalf of the Committee for the fact that, having now ceased to have direct management responsibility for any of this, you have been kind enough to come back and give us the benefit of your experience? We have learned a lot from what you have had to say and for that I am most grateful. May I just ask as a postscript what you are intending to do now? Are you going on a long holiday to get away from all of this or do you have other mouth-watering activities in mind?

Q711 David Taylor: You are not joining the board of Accenture, are you?

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Mr Addison: Not as far as I know. The first thing I did was take a week's holiday in Greece with Lucy my wife and hit the coldest spell that Greece has had for a while whilst the UK had the hottest. What I am hoping to do next is to walk the Wessex Ridgeway and I hope that will keep me busy. Then in August I

hope to begin thinking about assembling a new set of activities to keep me busy. I have not made much progress with that yet.

Chairman: We shall make certain that Wessex farmers do not quite know when you are coming just in case they say "There's the man". Thank you very much indeed.

Monday 23 October 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
James Duddridge
Lynne Jones
Mr Dan Rogerson

Sir Peter Soulsby
David Taylor
Mr Roger Williams

Witnesses: **Lord Whitty**, Defra Minister for Farming, Food and Sustainable Energy from 2001 and 2005, and **Lord Bach**, Defra Minister for Sustainable Farming and Food from May 2005 to May 2006, gave evidence.

Q712 Chairman: Good afternoon, ladies and gentlemen, and welcome to this further evidence session on the EFRA Sub-Committee's inquiry into the Rural Payments Agency. Can I say at the outset there is always the possibility that our proceedings might be disrupted by votes so if you hear any bells, do not worry. You will see us run, and we will get back as quickly as we can. Can I particularly welcome our two witnesses this afternoon, Lord Whitty of Camberwell and Lord Bach of Lutterworth, both former Under-Secretaries in the Department of Environment, Food and Rural Affairs. I am most grateful to you, gentlemen, for agreeing to come before the Committee, although you no longer hold ministerial responsibility. I am pleased that you understood the Committee's wish to learn more about the decision-making processes that led up to some of the problems which the Rural Payments Agency had. I think it would be quite helpful for the Committee if we could start, Lord Whitty, with you, to sketch in so that we can understand with absolute accuracy, in the process of introducing the Single Farm Payment and perhaps the departmental change programme which was an integral part of some of the work which the Rural Payments Agency was doing, what specific responsibilities you had. When you have been kind enough to respond to that question, Lord Bach might make certain that we have also understood what his role in this matter was.

Lord Whitty: I was responsible to the Secretary of State for all matters relating to CAP policy, including the EU negotiations and policy decisions and, with the Secretary of State, took the key decisions, although other Ministers were also involved, on the option that we adopted in relation to moving to an area payment. Obviously, the Secretary of State took some such decisions but I was very much involved in those decisions. As far as oversight of the RPA is concerned, however, although I did briefly in 2001 have direct responsibility for the RPA, at no point during this process was I responsible for the overall programme for the RPA or for the IT programme, which was the responsibility of one of my colleagues.

Q713 Chairman: Just for the record, who was that?

Lord Whitty: At the risk of extending your witness list, Mr Alun Michael. Having said that, I do take responsibility for looking at the implications of any decisions on the CAP policy for the RPA itself.

Q714 Chairman: Just before we move on to Lord Bach, you said that you had been involved in CAP, CAP reform policy. Were you directly involved in the negotiations that led up to the adoption of the Council decision to move to a Single Farm Payment?

Lord Whitty: I was present at some of those negotiations. There were several such negotiations over the year or 18 months beforehand. I was present at some of them on my own, sometimes with the Secretary of State, but the final negotiations were actually conducted by the Secretary of State herself.

Q715 Chairman: Did you, when you were dealing with the evolution of that policy, recognising that the Council regulation opened the potential for more than the then existing group of recipients of CAP reform to make claims, get any indication at that stage about the volume of farmers who might be able to claim under the revised arrangements?

Lord Whitty: At that stage, it would be wrong to say, because the discussion which at a relatively late stage of the negotiations opened up the possibility of area payments then led to us considering that option and then consulting on that option. At a fairly early stage in that process, which was after the political agreement in June 2003, we looked at what the effect of going for an area payment would have been and sought advice from the Department as to how much additional land would be brought in as a result of that.

Q716 Chairman: Did that advice contain any details, not so much of the hectareage but of the number of holdings that might be involved?

Lord Whitty: I am clearer on the recollection of the estimated increase in hectareage, which throughout was put at 9%. I will qualify that by saying that was almost entirely based on new applicants and probably did not take full account of people having infill in their existing registered land. On the number of new applicants, the figure of 26,000 was one which was mentioned at the time, which I think related largely to horticulture and potato growers of any size coming into the scheme. So we were thinking there might be 26,000 more than were currently in the pre-existing schemes, though obviously it turned out to be somewhat more than that but not dramatically more.

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Q717 Chairman: Would I be right in saying that that would take the number of holdings, on that analysis, to just over 100,000?

Lord Whitty: Yes.

Q718 Chairman: Lord Bach, could you just give us an answer to the same question: what were you responsible for?

Lord Bach: I was responsible under the Secretary of State for the Common Agricultural Policy and also for the Rural Payments Agency, among numerous other parts of what was a very extensive portfolio.

Q719 Chairman: When you took over, when you came into your post, was Alun Michael the Minister who handed you the poison chalice of the RPA?

Lord Bach: If Alun Michael was running the RPA before the election of 2005 and I was running the RPA after the election of 2005, the answer is yes.

Q720 Chairman: It might be useful in terms of scene-setting if you could tell us, when you took over responsibility for this in 2005, what did you find? What were you told? When you came in and the civil servants handed you that inevitable folder, saying, "Minister, this is what you are responsible for. We would love to give you a more detailed briefing on the Rural Payments Agency," what happened when you first learned about this animal for which you were now responsible?

Lord Bach: It was clear, obviously, from the moment I set foot in my office that this was a major part of my responsibilities and that we had said we would ensure payments were started by February 2006, and it was made clear that this would take up a considerable part of my time during the months that were to follow, and indeed, that of course occurred. You will, I think, Chairman, have seen the list of meetings and advices that were sent to you from the Department. I have counted them. I had, if this is absolutely accurate, 24 formal meetings during my 361 days in post. That is one every 15 days. I think that is just an example of how significant this part of my portfolio was and, to be fair to all concerned, that was made clear to me at the start.

Q721 Mr Drew: If we can look at this, to me, key issue of the additional people who were now included within the new arrangement, did anyone ever try and define who was likely to now be able to claim? I accept horticulture, because I met the horticulturalists and they were obviously going to be part of the new arrangement, but did anyone think of looking at the issue of those, for example, who kept horses in a paddock, and actually try to think through whether they were the right people to be claiming, whether there was any ability to stop them from claiming, given that, as you know better than me, it is the wedding cake principle: the more people in the scheme, the less money available

for what I would define as genuine farming activities, for whom the scheme was principally intended? Was that ever a live discussion?

Lord Whitty: It was a consequential issue. One of the aims of the scheme was effectively that it did not matter how you were using your grazing land or your growing land in 2000. You would be paid for keeping that in good agricultural and environmental condition. So for equivalent sort of land, there would be a level playing field. So the fact that in 2000 you might have been growing potatoes and your next door neighbour may have been growing a subsidised crop should be irrelevant, because the ultimate objective was a level playing field and a positive environmental outcome. I rather dispute the term "the people for whom this was intended"; it was intended for all agriculture, which includes horticulture, potato growers, and, in my view, horse enterprises. In fact, the decision on horses related to grazing land, not to paddocks, and quite a lot of horse grazing land was already in the IACS system, because it had previously been or was available for subsidised livestock.

Q722 Mr Drew: This was an active discussion, so we are effectively redefining farming.

Lord Whitty: No, we are not redefining farming. Some had previously been subsidised, and obviously there is a fruit and veg regime, although there is not a subsidy attached to it any longer. It was all in the agricultural system, both ours and the EU system.

Q723 Mr Drew: It was not previously in the agricultural system. Those people did not receive any subsidy.

Lord Whitty: No, but they were in the agricultural system. There are EU regimes covering areas which are not subsidised. There used to be EU regimes covering pigs, where the subsidy had been withdrawn. These were like the EU regulations covering poultry. So most of this land had at some point been in the EU system in one form or another and in any case, the same agricultural regulations and environmental regulations applied to that land as to land which was being used for subsidised activities.

Q724 James Duddridge: Lord Bach, can I take you back to how the RPA fitted within other parts of your portfolio? I am struggling to understand how big an element it was, whether it was 20%, 30%, and in terms of your priorities, whether it was in the top three, top 20 priorities. Could you perhaps give us an idea of the percentage and prioritisation, if it is that precise?

Lord Bach: It is not really that precise. It is hard to do but it was clearly one of the top five priorities, probably top three. It was important. In terms of the time that it took, I think, as I was saying to the Chairman, you have a list of advices and meetings that I had during my period, and those were the official ones. There were clearly unofficial meetings too, when someone would pop in or I would have

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a question. I had weekly reports for a very long period of time and of course, after March 14 this year I would have daily reports as to what was going on. So it was very major in terms of my priorities. In terms of the time it took up, that is much more difficult to say, because some of the responsibilities that may not have been as high a priority may have taken as long because they involved going abroad or involved visits. I am afraid that is the best I can do.

Q725 James Duddridge: I do not quite understand how Ministers work together in teams, but given it was one of the top three priorities, what were the sort of mechanisms for review within the broader team and up to the Secretary of State of each Minister's key priorities?

Lord Bach: In those days we had weekly meetings with the Secretary of State. All the Ministers met with her on a Wednesday, and Ministers were of course at liberty to bring up any of the issues that were of the moment, but of course, at the meetings that I held and called on this subject there would nearly always be present a Special Adviser of the Secretary of State plus a private secretary from the Secretary of State's office. The advices that I signed off would nearly always invariably go to the Secretary of State and, of course, there would be some that I would sign off and then she would sign off after me. So the relationship between my office and her office I think worked perfectly adequately.

Q726 Chairman: When you took over responsibility for this particular project, you said very clearly that the target was payment in February 2006, that that was obviously clear, am I right in saying, right from the word go, when you took over after the election in June 2005? Yes?

Lord Bach: Can I remind you that it was in January 2005 that the Department announced that we would begin payments in February.

Q727 Chairman: But you inherited that. What advice, when you first met the officials involved in this, did you seek from them about the risks that had to be faced in meeting that timetable?

Lord Bach: I think every meeting, almost without exception, that I held would be around risk, would be around what the Department had said would happen and whether it would actually happen or not. I cannot recall, I am afraid, the first, second, third meeting as they took place, but this whole issue of whether we would meet that date to start the payments was there really at every meeting.

Q728 Chairman: Let me ask it in a different way. As you became more familiar with the unfolding nature of the Rural Payments Agency and its work, what troubled you when you left the office, when you had had time to reflect on the challenges that the RPA were having to face? What are the things that you recall were uppermost in the mind, the worry factors? Every time you met with the officials

you were thinking, "Is that going to happen? Is that not going to happen?" Where were your worry beads?

Lord Bach: Mr Chairman, like you, I am legally trained . . .

Q729 Chairman: I am not a lawyer. I am just a humble backbench Member of Parliament, but do carry on.

Lord Bach: I am also a humble backbench Member of the House of Lords, but I am also a lawyer, and these meetings that took place were not "How nice to see you. Have you had a good journey from Reading? Would you like a cup of tea? What is it you've got to say to me? Goodbye." They were meetings at which I believe I cross-examined, or attempted to, the officials, both RPA and Defra, who would be present at these meetings as to what it was they were putting forward to me, and they would either satisfy me or not satisfy me with what they had to say, and they did make it clear to me, to be fair to them, that this was a risky enterprise, but on all occasions it was likely that we would reach the date of February 2006 for first payments. You will recall, I am sure, that when I appeared before your Committee on January 11 this year, you and your colleagues, quite rightly, pressed me very hard, I think it is fair to say, as to why I could not tell you then whether we would meet those first full payments by the end of February, it being only six weeks or so away, and I held the line, if that is the right expression, by saying no, I could not tell you because we were not sure even then that we would be able to meet those dates. As it happened, we did meet that date but, as, of course, is obvious, we failed as far as the bulk of payments were concerned.

Q730 Chairman: I am intrigued about the way that risk was managed. You clearly accept that it was a potentially risky venture but did anybody produce any kind of schematic to say "These are the risks in the project and every time we have a meeting let's have a look against this list of potentially risky ventures how we are actually doing to move us towards the deadline"? Was it ever as rigorously done as that or is it that you knew you were travelling a difficult road but every time you talked to the driver of the bus he said, "Don't worry, we're going to get to the destination"?

Lord Bach: I think it was pretty systematic and schematic, to use your word. At the back of our minds—at the forefront of our minds—was that we had this date to attempt to get these important payments started and really, all the discussions that we had around the very technical nature of some of the issues—and the Committee will know very well how technical some of the issues are—what I was intent on and I believe officials, whether from the RPA or Defra, were intent on was in trying to make sure that we could, and it was a question of taking a judgment as to whether we would or not. Sometimes it looked better than it did at other times; at other times it did not look so good, but as we drew towards Christmas of last year it began

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to look as if we would meet those first payments and make the bulk of payments by the end of March. As you know, one of those came true and the other certainly did not.

Q731 Mr Drew: Did you have complete confidence that the Accenture system was going to work as intended?

Lord Bach: Yes, I think I did have confidence that it was going to work. The advice I received led me to believe that it would work, yes; that there were risks attached to a number of aspects but that this would work.

Q732 Mr Drew: Was that because the RPA management was confident that Accenture knew what they were doing? Was it because your civil servants had really got in and done some proper scrutiny of what Accenture was doing, or was it that Accenture were directly telling you, as they told us, that they still believed that when they pressed the button it all worked, but it did not quite do the things that maybe they thought it would and should have done?

Lord Bach: Accenture were not present at all the meetings I had, by a very long way. This was very largely with RPA civil servants and Defra's civil servants, who would come to me with a common view, because, as you know, there was a myriad of committees which were looking at the RPA at this particular time. So they would come to me with a view, and I would discuss that view and debate that view, always, as I said, bearing in mind risk factors involved. But I do think that, at the end of the day, some of the advice that I received from the RPA was over-optimistic.

Q733 Chairman: Again, for the record, and for our greater understanding of these matters, you just indicated that there were a myriad of committees. Perhaps you could explain what the management structure was, because it would be nice to know who was actually in charge of the project. The NAO give a hint that there was a shift in responsibility from a body known as CAPRI to something called ERG, which I thought was a Continental form of petrol till I looked and found it was an Executive Review Group. The sense I get from the NAO report was that management responsibility was ceded from those who were very close to the coalface to those who were over-viewing the project. This ERG were masterminding it. Who was actually reporting to you about progress?

Lord Bach: I can answer your question by saying the people who were present at the meetings generally would be the chief executive of the RPA and his board really, the main players on his board, or two or three of them, and there would also be some very senior Defra officials, often the Permanent Secretary, and others who were very senior officials in the Department. They would all be at these what I think could be described as fairly high-powered meetings. The people who would speak at the committees would often be those

around the chief executive of the RPA, not necessarily him, and of course, the Defra officials as well. But I have to say that, having chaired those meetings, and taken a full part in them, I find it difficult to say where the power lay really at official level. They were coming to me with a collective view and that was a view they wanted ministerial approval or disapproval for.

Q734 Chairman: Was there not a conflict of interest? They were seeking your views as a Minister, but the very people who you might have turned to in Defra, namely senior officials with an understanding of what was happening, for advice, were involved with the RPA in managing and delivering the project. Are you, again, for the record, telling us that there was no impartial point of advice that you, as the Minister responsible for this programme, could turn to say "Well, you understand about complex systems. Am I getting a proper message?" It seems to me that Defra and the RPA had joined hands to give you a view but you did not have anybody of your own, uninvolved in either of these two boards, to turn to. Is that right?

Lord Bach: I had the private office, of course, and I also had, as I say, a number of unofficial meetings that would happen during the course of a day. I might see an official from the Department and, if I had a particular concern in my mind, talk to him or her about that but basically, when these meetings were held there was a common view, which had been established, I suspect, at a previous meeting between Defra officials and RPA officials.

Q735 Chairman: So the Defra officials and the RPA, as you say, came with a common view, so there was no collective tension to argue it out with you as the Minister. They simply came along and said, "This is what we're doing." We are going to look in a little more detail later on at some of the issues that came up as a result of this point of progress.

Lord Bach: These meetings certainly had tension in them because, although the Department would come with a point of view, and I do not actually think there was anything wrong in that at all; that is the way the civil service behaves. They come to a Minister with a point of view that they have come to in discussion but of course, as the discussion unravels during the course of some of these meetings, there would obviously be differences of emphasis between perhaps people within the RPA and senior civil servants from Defra. They were pretty open discussions. No-one was hidebound by a piece of advice that might have come to a Minister before that.

Q736 Chairman: Am I right in saying that you, in the nicest sense, in your forensic way of probing what was happening, were left to your own devices to work out the questions you were going to ask of this joint group who were presenting you with the view about what was going on? You were on

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your own to probe, using your obvious powers of investigation, understanding and intelligence, but the questions asked were your questions?

Lord Bach: By and large I think the questions were mine, and the Special Advisers' too, but that is not to say that Defra officials would not ask questions for clarification from the RPA and even *vice versa*. These were not meetings where it was me against the world, Chairman. I was given a lot of advice and assistance from officials from both the RPA and Defra at these meetings, but I have tried to describe them as best I can.

Q737 Mr Drew: You said that Accenture were not at many of the meetings, so where was the line responsibility through the RPA to ensure that the system was going to work? Did you actively take part in any prototype work on the system, given that there were a number of changes—as we know, 23 identifiable ones, from memory? Is this something that was crucial to the RPA, working with yourself, with the way in which this was all going to take place? I am confused what level Accenture played in this mechanism of decision-making.

Lord Bach: I think the Defra official who had most dealings with Accenture in a formal manner was the Permanent Secretary of the day, and I think the Committee heard that when the two Permanent Secretaries gave evidence. The RPA of course set up as a delivery body for Defra and one of the issues, of course, that I think arises out of all this is what kind of role the delivery body has under an agency system towards the central Department and then towards Ministers who are on top of the central Department. I have to say that, as far as taking part in prototype testing, as I think you are implying, no, I did not, but I would receive information about what had taken place as part of the advice that I received.

Q738 Mr Drew: Presumably, that information was all positive.

Lord Bach: Not always positive, to be fair, no. Sometimes things had not gone as well as had been hoped, but the general line over that period of time leading to my appearance before your Committee and the events that we all know so well took place afterwards was that the RPA could fulfil what they had said they could fulfil.

Q739 Chairman: We are going to come back and tackle, probably in even greater detail, some of those issues. I just have a couple of quick questions to Lord Whitty. Lord Whitty, were you at all involved in the appointment of Johnston McNeill?

Lord Whitty: No.

Q740 Chairman: Who was? Which Minister would have made the recommendation that he was the man to head up the RPA? Can you help us on that?

Lord Whitty: I cannot from first-hand knowledge. The Secretary of State herself would have approved the appointment, through the normal process of civil service appointments.

Q741 David Taylor: We are going to be talking about Accenture later on. I understand that, but one of the performance indicators, if you like, that might have been relatively obvious at the time—and I am talking about a year ago—was the fact that the IT contracted spend with Accenture had more than doubled, it was announced, from £18 million to £37 million by about November of last year. I wonder if I can ask Lord Bach if at that point you got a frisson of concern? Was there any feeling that the system and the contract was spinning out of financial control and beyond the grasp of management?

Lord Bach: There was certainly concern. I spoke to Sir Brian Bender. He would come and see me and I would see him and, of course, he had monthly meetings, as you have heard, with Accenture. There was certainly concern generally about whether Accenture were carrying out what they had said they would carry out. I have read very carefully all the evidence that has gone before, but particularly carefully what they had to say to the Committee, and quite clearly, when they first entered into the contract, which of course was well before my time, if they are right, they had not taken into consideration, or no-one had taken into consideration exactly how the CAP reform would be implemented in England, and clearly, there were some concerns about delays, *et cetera*, with Accenture generally, and of course, you are quite right; it is clear that by that stage it was costing Defra a good deal more than the original contract. I have to say though, no-one ever for a moment suggested that somehow, because of the difficulties that there were or had been with Accenture, that that meant that we would not be able to fulfil what we had said we would, ie payments beginning and the bulk of them, 96% as it was then, and then the bulk of payments being paid by the end of March.

Q742 David Taylor: One final observation, Chairman. This Committee were reasonably excoriating about what was seen as the weak IT strategy of the Department in an earlier report, and it is often the case in the public sector that the top managers of client Departments, if I can call it that, have relatively little knowledge of the world of IT and therefore are rather vulnerable to hearing what they want to hear from contractors and would-be software deliverers. We know there is a chapter of accidents that stretches long before 1997 and will no doubt stretch well into the next decade and beyond. Did you sense when you took over after the 2005 general election that the knowledge that was necessary at the very top of the Department to have a good feel for some of the computer systems that were being worked on was adequate or was the Department ultra-vulnerable to receiving seriously flawed and over-optimistic information?

Lord Bach: I agree with your premise, what you say about the history of government and IT. You have made the point to a number of witnesses and I agree with that, but on this particular occasion I did not get that feeling that somehow those in the Department were out of their depth when face to

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face with their Accenture colleagues or rivals. It seemed to me that this was an IT system that had been set up. Costs had obviously increased. Accenture would no doubt say that was because there were new things added to their contract as a result of the CAP reform, but I did not get the feeling that somehow the Department was in fear or somehow did not know how to cope with Accenture.

Q743 Chairman: Did you have any body or part of government or external source of independent advice to which you could turn to just touch base if ever there was a moment of hesitation or concern to find out what was going on? Obviously, you had the gateway reviews to call upon—we will come on to those later on—but was there anybody you could phone and say, “Hey, this computer system that we’ve got—do you think it’s really capable of doing this given the following situation?” Was there any source of independent advice, or did you ever feel the need for it?

Lord Bach: I did not feel the need, I have to say, so I cannot really answer whether there was anyone. I certainly did not attempt to do so.

Q744 Chairman: Lord Whitty, the reasons for choosing the dynamic hybrid model: clearly, there were other potentially more straightforward ways of introducing the reforms. Could you explain for the record why that one was chosen?

Lord Whitty: I dislike the term “dynamic hybrid”. What it is is a way to get into an area payment system. The choice was between a historic payment and an area payment. The choice of an area payment met a number of objectives in Government policy much more than a historic payment could have done. A historic payment would mean you would be paying the same farmers for doing what they were doing in 2000 in 2012. Government policy was, one, to make farming more commercial, more market-oriented; two, to get a better environmental outcome from farming; three, to ensure the EU was in a better position in relation to the WTO talks, and that we were not engaged in trade-distorting subsidies; four, that the bureaucracy would be simplified. A move to an area payment appeared to meet all those criteria, partly on the grounds that I was mentioning earlier, that there would be a level playing field between similar land, whatever you used it for, therefore farmers could chase the market rather than the subsidies; secondly, because cross-compliance conditions would be attached to all land and the environmental output would be better; in terms of the WTO, the more a degree of recoupling of what was supposed to be a decoupled payment occurred, the less likely it was that our trading partners would regard it as a genuine green box system, and indeed, the historic payment, since it goes differentially between sectors, is still regarded by the Americans and some third world countries as being a production-distorting intervention, subsidy. So, for all those reasons, a land-based payment which effectively supported farmers on the basis of

their fixed costs, not on the basis of their variable costs, and was not related to production seemed a much simpler basis on which to have a sustainable system of support for farming. On the simplification dimension, on the face of it, moving from in total 21, but 11 effective systems in England to one, paid once a year, must in the long run—and I had hoped at the time the not very long run—help to move to a more simplified system of support. So on all those criteria, an area payment was better. There will of course be substantial redistribution arising from an area payment, both between sectors and within sectors and different geographical areas. We modified some of that by having the three-tier definition of land, so that all the money did not go uphill, as the expression was at the time. There were other distributional things between sectors which we had to sort out and between land owner and tenant, which caused quite difficult problems of definition and which we partly but not entirely resolved, but because of this substantial distribution need, we had to have a transition period. I would say myself that the transition period was not the optimum one, or the transition arrangements were not the optimum. If you want me to go into that, I will.

Q745 Lynne Jones: What would have been optimum?

Lord Whitty: I wanted to move to an area payment as rapidly as possible. Clearly, I was persuaded by both pressure from the industry and the advice of the Department that it was not sensible, whatever date we had started it, to move in one year to an area payment. My original proposition, as I said, we took a five-year period, the first year would be 100% historic payment, the last year of which would be 100% area payment; in other words, a three-year transition period between the two. That was not the final outcome. I actually think that would have been better. Whether it is optimum is another matter but I still think that would have been a better transition period. There were two reasons we did not adopt it. One was that legal advice came that, by definition, if you pay 100% historic payment in the first year, then you are only paying these people who had previously been in the scheme, and the legal advice was that you could not then bring other people in at a later stage, except through the national reserve mechanism, which was a relatively limited number. That seemed to destroy the purpose of some of it. I was not totally convinced by that legal advice. I am not a lawyer so I do not necessarily believe what lawyers tell me. I was challenging that or trying to find a way round that but, because the pressure from the industry in a sense was for a longer period, and because eventually one had to present this as a way we were both moving fast and taking a long time over it, we eventually adopted a seven-year period when we would start a partial land payment in the first year. At the time I thought that was a mistake. I was more concerned, frankly, about the seven years than about the 10%, although I was worried about the 10%. I am now absolutely convinced that was

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not the most sensible transition period, and that had we been able to have 100% historic payment in the first year, some of the difficulties which subsequently ended up on my desk and Willy's would not have occurred.

Q746 Lynne Jones: Since you knew you could not have 100%, or you were advised that you could not have 100%—certainly I have raised that in Committee meetings and we have been told that—would it not have been better to have deferred it for a year?

Lord Whitty: With hindsight, I think it might have been, but all the advice, all the pressure, was to get into the system as rapidly as possible. We had committed ourselves, as leaders of the reform, to taking the lead to take it in. There had been Government statements to that effect. The Commission were expecting us to do that. The industry actually were urging us to get on with it. There were no voices to say postpone that. I would say it was on the assumption that detailed decisions would be taken more rapidly in Brussels and in Westminster than they eventually turned out to be taken, particularly in Brussels. Nevertheless, there was no pressure at all for postponing the introduction.

Q747 Lynne Jones: Since you say that there were pressures through the WTO to have a scheme which you could be sure would fit in the green box, yet other countries, and indeed other countries in the EU, opted for the historic approach, so that really was an artificial pressure you put on yourselves, because you knew that other countries were going down that route.

Lord Whitty: I think in order to reach a final deal in the WTO—and of course, that has all been stymied, in part because of lack of faith in what the Europeans are doing on agriculture—that eventually they will have to move away from historic payments. We were at that stage, of course, expecting the WTO talks to have reached a greater degree of success than has now proved to be the case.

Q748 Lynne Jones: Because of this self-imposed leadership role though, were you not rather gung-ho in going ahead with this complex model when you already realised, obviously, by advocating the 100% historic in the first year you were aware of the complexities that this might lead to and the problems in delivery?

Lord Whitty: We were convinced that it was sensible to move as rapidly as we could, and the issue of it being complex, of course, is a result of the details and of the system. Basically, we were going to move to a payment which consisted in part of consolidating all the historic payments which were already in the system into one payment, which should not have been that difficult, that complex, and in put of identifying all the land, which was in any case being brought into the system through the already started or in-train programme to establish the Rural Land Register and which, given that I

was advised that roughly 9% extra land might come in, was already being set up to cater for 90% of the land which would go in the system. So yes, there are complexities about it, but the central part of the system is not that complex. It is certainly not as complex as the pre-existing nine systems under which British agriculture had laboured for many years.

Q749 Chairman: Can I just interject for a second? With all of this intense analysis which you have just enunciated, why at the end of the day do you think the estimating of the number of claims and claimants was so wrong? You had obviously looked at it, you had thought about the land holdings, you knew 9% more land was coming in, and yet if this was the informant of the size of the job that the system had to cope with, then clearly, it was not set up against a proper estimate of the job it had to do. There was a gross under-estimate. Why do you think the estimates were so wrong?

Lord Whitty: The estimates were wrong to the degree that there was a 9% estimate of the extra land, and it turned out to be slightly more than double that. Most of that doubling related to bits of land which were owned by people who were already on the system and who theoretically should already have told the RPA in the preparations for the Rural Land Register that they had that land, even though they were not claiming on it. I think there are reasons why that was an inaccurate . . .

Q750 Chairman: Did nobody go out and just take a sample of a dozen farms and say "Here's the policy. Now, what does it mean on the ground? Have we actually got it right in terms of our estimate of what was going to happen"? What you are suggesting is that the whole estimating process of the volume of work which ultimately had to be visited upon the RPA was a desktop exercise.

Lord Whitty: It was based on existing maps, so it was not untested; it was not a finger-in-the-air exercise, but it did end up with too low a figure. However, I would contend that the volume argument is not what failed the system. Because we had made an estimate which came to over 100,000 on our figures, our estimate—our inadequate estimate, if you like—we upped the number of claimants which the system was supposed to deal with to 150,000. It never actually got anywhere near 150,000, so the system was designed for up to 150,000. The other point on why the estimates were wrong: I think the effect of the 0.3 hectares was not entirely taken into account and although from time immemorial, as I think one of the officials said, had been EU policy, in English terms, the full effect of the number of potential new claimants had not operated and we did not—and I never remember this even being raised—decide, as the Germans did, who were operating more or less the same system, a 100 euro exclusion. If we had operated a 100 euro exclusion, we would have got rid of, I think, 13,000 claimants—I would need to double-check that—which would have brought our estimate much closer to the one that I was originally given.

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Chairman: So that is a blind spot.

Q751 Lynne Jones: Lord Bach, would you like to comment on the situation? Also, were you aware of the discussions and the reservations that Lord Whitty had and his feeling that you should try and go for a 100% historic in the first year?

Lord Whitty: It had all been overtaken by then.

Lord Bach: The answer is no, I was not aware of it, because when I came in we had 280-odd days until we had to attempt to implement the first payments, so I was not, I have to say, knowledgeable or particularly concerned about the background to the decision that had already, of course, been taken.

Q752 Lynne Jones: When was the decision taken?

Lord Whitty: The decision was taken in February 2004. The announcement of the basic decision was on 12 February 2004 and the area dimension of it was announced in April, so the seven-year move was announced in February 2004 and the clarification on area definition came two months later.

Q753 Lynne Jones: So it was a *fait accompli* when you actually picked up the reins, so to speak?

Lord Bach: Yes.

Q754 Lynne Jones: When you embarked on the contract with Accenture—that was in 2003—and you knew that there was going to be this mid-term review, in a letter you sent, Lord Bach, to the Chairman in March, after you appeared before the Committee, you said that the view was taken that the impact of reform would not be significant on the overall IT solution. Who took that view? It is your letter dated 4 March. You also said that, because of this awareness at the time of the original contract, the details were not known, that you deliberately made the contract flexible. Who took the view that the impact of reform would not be significant on the overall IT solution?

Lord Bach: What paragraph of the letter are you looking at?

Q755 Lynne Jones: It is right at the end, the penultimate paragraph.

Lord Bach: Thank you. I am afraid all I can say about this is that this was a view, no doubt, the Department took quite a long time before I took office. It is probably not a question best directed at me.

Q756 Lynne Jones: I ask this because the Secretary of State told the House that the reason for the doubling or the substantial increase in the cost of the IT system was because it was a big change in the system and therefore that justifies it. That does not really quite tune in with this view that there would not be significant changes.

Lord Whitty: When Accenture took the contract, I was not involved in the contract negotiations. I was aware of them, obviously. When Accenture first took the contract, they took it in the knowledge

that there was going to be fairly substantial reform of the system within a year or two because the negotiations had already started. When the decision was taken as to the form in which we were going to implement the discussion, that is to say, at the beginning of 2004, there were then discussions with Accenture to change the nature of the contract, which would mean that the revised contract ran from May 2004. That already took account of and allowed for a significant increase in the cost. Admittedly, in response to Mr Taylor's question earlier, it was clear there were greater cost escalations than were anticipated there. That revised contract in May 2004 took full account of the nature of the system that we were intending to implement.

Q757 Lynne Jones: So what was the increase anticipated in 2004 as compared to what the increase actually was?

Lord Whitty: I think it went up to £30 something million.

Q758 Lynne Jones: It was £18 million and it went to £30 million on the capital cost, I think.

Lord Whitty: Yes, but that was the capital cost. The running costs went up more than that.

Q759 Lynne Jones: Was that anticipated in May 2004, that level of increase?

Lord Whitty: Not the full level of increase but part of the discussion . . .

Q760 Lynne Jones: 10%, 50%? Give me a ballpark figure of approximately what it was.

Lord Whitty: The capital cost was as you say. The running cost was . . . I am not entirely sure I was ever aware of the additional figure.

Q761 Lynne Jones: It was anticipated that the capital cost was going to double?

Lord Whitty: Yes.

Q762 Lynne Jones: In 2004?

Lord Whitty: By the time of the revised contract in 2004 or slightly thereafter there was the estimate that that would cost more. In the discussions on the system that we were going to adopt there was the assumption that there would be roughly a doubling of the total contract, which was actually less than it turned out to be, but nevertheless, that was roughly the assumption. It was one of the arguments against adopting the system that we did but it was not a very big part of the argument. It was a very rough, ballpark figure.

Q763 Lynne Jones: Do you have any comments that you would make on that, Lord Bach?

Lord Bach: No, I have not because I believe the events that you are asking about were before my time.

Q764 Lynne Jones: Obviously, Lord Whitty, you have explained the reason for going for the dynamic hybrid and the need to get to the land-based system.

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Do you think that you were given sufficient information in reaching that decision about the complexities that would arise, and had you had that information, do you think that you might have done what other devolved authorities did?

Lord Whitty: No, I do not think that. I think the policy was absolutely right and remains right. The transition period, as I say, was not optimum. Most of the arguments about going for the system were about redistribution and the effect that this would have on farmers' incomes, not about the management of the system by the RPA. There was a cost element introduced there, but the arguments at that time did not include any argument about it being undeliverable, and indeed, Accenture and the RPA were both confident that it would and could be deliverable. It was in that light that we took the decision. I now think that some of the information was not sufficiently accurate. We talked about the additional land coming in. Nevertheless, had I had the accurate information, I would probably have taken the same decision. I think the problems with the system actually were not problems of the initial policy decision or of the broad move to the area payment but of inadequate resources and some delay in decisions as we went on. In other words, they were not chronically wrong decisions; they were decisions which went wrong and, at the end of the day, if I may stray into Lord Bach's territory, every part of the system was reported to us and to the overseeing group of officials as having worked. All the testing systems worked until right at the end. In other words, there was a serious system fault at the point where validation had worked but authorisation for making payments did not work. It was late, but it had worked, so I do not actually believe the argument that this was never do-able. It clearly was do-able. Apart from anything else, the Germans did it, and as we were going through, every test proved positive. There was a bit of delay but not a huge delay.

Q765 Lynne Jones: Did you have any discussions with your counterparts in the devolved authorities in relation to their decision to adopt the historic payment, and, Lord Bach, did you have discussions with your counterparts in Germany and other countries that had adopted a similar system as to how they were going about it?

Lord Bach: No, I did not, to your last question. By the way, I agree absolutely that this was the right policy choice and I think it will be proved to have been so in spite of the agonies that farmers have gone through. I think we did the right thing in England in policy terms and I think that will show in due course. I did not talk about it to other countries that were adopting our system or the other system. My job was to attempt to make sure that the RPA implemented the scheme that, whether it was the right or the wrong one, was actually there. That was the decision that had been taken well before I came.

Lord Whitty: In my time we had, obviously, very lengthy discussions with the devolved administrations as to whether we could have a common approach, although we had agreed that we

had had the opportunity not to have a common approach, and indeed I would say that there was some inclination by the political leadership to try and go closer to the system we adopted in England, but in fact in Scotland and Wales we adopted a purely historic system and in Northern Ireland a static mixed system. We also had some contact with Germany.

Q766 Lynne Jones: What reasons did they give though? Did that not cause any concerns? Did they give any reasons why they thought it was too complex?

Lord Whitty: They thought there would be too much redistribution amongst the farming community and that the political importance of farming was greater in Wales and Scotland than we were taking into account in England. My view would be that we were looking to the long term for the farming industry in England and they were looking rather at the short term. However, I do not want to be too disparaging to my Scottish and Welsh colleagues because clearly there was in a sense other more substantial political pressure. We also talked to the Germans but at the time the German system seemed more complicated than ours because of the differentiation between *länder* and the rather difficult dividing line that they drew between grassland and arable.

Q767 Chairman: Lord Whitty, you used a phrase a few moments ago, "inadequate resources". What did you mean by that?

Lord Whitty: I think the essential failure of this scheme has been the mapping. One or two decisions were a bit late and one or two systems took a bit longer to get into place but basically, until we got into the mapping, there were not serious problems of either resource or expertise from RPA or from Accenture. When we got into the mapping it was clear that the existing Rural Land Register system was not as advanced as we had thought it to be. The staff at RPA were not able to cope with the number of queries that the farmers had with the maps they were originally sent. Sometimes that got to quite antagonistic relationships because of a lack of adequately trained and experienced staff. I think that was the point where more staff and more experienced staff would have been helpful. I do not think that was the case beforehand and I do not think it should be the case when the system is fully running, but at that point the RPA were short of staff. Perhaps I ought also to say that this was the point at which I felt the advice I was getting was most misleading, and I have used the term "misleading" publicly but I would perhaps prefer to rephrase that in the NAO terms—

Q768 Chairman: Develop that thought process for our benefit.

Lord Whitty: "Over-optimistic upward reporting", I think the NAO referred to it as.

Q769 Chairman: Could you just give us a moment in time when—

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Lord Whitty: We had had the situation where, in July 2004, from an 80% confidence that we could deliver in December 2005; by December 2005 we had slipped and we had to put it back to February. That was the turn of the year, so I am talking after that. I am talking February/March/April 2005 when the maps were going out. Forms had gone out, and although the forms had some difficulties the preparation had been done for the forms, the preparation had been done for the maps. The reports which were coming to me from officials, were that this was going reasonably well, there were a few little difficulties but it was going reasonably well. There would be some difficult cases but no, it was running reasonably well. The feedback I was getting from farmers and from others, including both formal and informal representations from the farming organisation, was quite contrary, mainly that maps were hugely inaccurate, that people they talked to were not fully understanding the ways of solving the problems that they were suggesting, and that therefore the process was taking inordinately longer than it was supposed to on the timetable. I think it was those weeks of the mapping exercise which really put even the February 2006 date in jeopardy. I have to say that at the same time and throughout my period, right up until two days before the election, the assessment of the likely meeting of the February date was reckoned at 70% consistently, so a 70% probability that we would meet the revised target date of making payments in February was what, if you like, I left it at, but I also knew that some of the information which was informing that was not what was going on on the ground, and some of the experience of farmers trying to deal with this system was not the same as the experience being relayed to me in my fairly regular meetings with RPA and Defra officials.

Q770 Sir Peter Soulsby: And I guess that if this was becoming evident to you it was also becoming evident to the Permanent Secretary and others at the top of the department, so at about the time that Lord Bach inherited this portfolio, not from you but from your colleague, it ought to have been evident at the top of the department that there was this fundamental problem. I suppose my question is to Lord Bach. Did anybody tell you this?

Lord Bach: I never received advice that suggested that, because of the mapping difficulties—and there clearly were; I knew there were mapping difficulties, of course,—there was likely to be at the end of all this a full stop, an inability to pay the bulk of the payments by the end of March. My approach to this is very like Mr Addison's. He mentioned to you that he thought there were two main reasons why this went wrong. One he called volume and the other he called timing, and by "volume" he did not mean the number of bits of land. He meant the fact that there was the Single Payment Scheme being implemented, there was the Change Programme that had started before that, and he meant the Rural Land Register changes that were taking place, and I think that is consistent with what Lord Whitty has said. The answer to your question, Sir Peter, is no, no-one told

me that because there were mapping difficulties somehow that put at risk the eventual paying out of the single payment.

Q771 Sir Peter Soulsby: It strikes me that at the time you took over you were inheriting what Lord Whitty has told us ought to have been something that was very evident to the Permanent Secretary and those around him, of course, Sir Brian at the time. You were inheriting a timetable, you were inheriting a contract with Accenture, you were inheriting a management structure and you were being told that it could deliver on time despite what had been evidenced to Lord Whitty of this very fundamental issue about the mapping.

Lord Bach: Yes.

Lord Whitty: I should say that what was said to me, and I am sure to my successor, was that despite the mapping difficulties, (and I think I have made clear that I think the Department underestimated the mapping difficulties), every bit of the system that was being tested was working. I have not got the notes but there was a meeting at the end of March which said 70% likely and by the end of June it should rise to 90% if everything went well, and that was repeated to me two days before the election, so the confidence in the system was very high despite the fact that a particular part of the system, or a particular part of the information going into the system, to be more accurate, was causing difficulties, so what would have been told to my successor was, "The system is on course more or less. There are some risks and the OGC and others have pointed out the risks, but there are some problems at this particular phase because the mapping has proved somewhat more difficult". I do think that was underestimated at the time. I think I was more concerned about that than any advice coming to me was concerned about it because I was being lobbied by farmers directly on the issue, people for whom I have some considerable respect, not necessarily the average bloke who catches you at the county show. I am talking about serious people who wanted the scheme to work telling me that it was not working and that was contrary to the kind of advice that was coming. There was a difficult situation at that point but up until then there had not been.

Q772 Lynne Jones: So what you are saying is that you were putting rubbish in and you did not realise that you would get rubbish out at the end of this process?

Lord Whitty: No. It is still the case that most of the land should have gone through the Rural Land Register and come out the other end, so it was not rubbish going in. There were bits of land which were not going into the system properly and the mapping system itself was not working properly, so it was not so much rubbish in. 90% of the land information was accurate going in. Farmers would tell you that this was the map we gave but it came back to us in the wrong form. It was not just that the farmers had not got all the land into the system, so I do not think it is rubbish in.

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Q773 Lynne Jones: So it was 90% accurate information going in and then that came out as rubbish by a system that was not working?

Lord Whitty: Yes, the system was not dealing with it very well, and, as I say, queries about that system were not being dealt with very well. That was the one point, and it is a very important point, where the RPA and the Department were not operating to maximum efficiency and the information coming to ministers in my view was inadequate. I would say that the rest of it, even though some of the news was not particularly what we wanted to hear, was working. The mapping system proved to be a serious problem. Having said that, Chairman, may I just repeat, at the end of the day it was not that which failed the system. That was all sorted later but was substantial. What the system “gummed up” on was nothing to do with mapping because all the validation had taken place, all the land information had taken place, but the authorisation failed, so although it delayed it was not the central system’s failure.

Q774 Lynne Jones: Have mistakes not been made though in the payments that have been made?

Lord Bach: Some. I am going from the NAO report; that is all I can go from. Some mistakes have been made but I think it is almost inevitable that some mistakes have been made both on overpayment and on underpayment for something as complex as this. I think Lord Whitty is right: it was not the mapping that in the end led to the breakdown that we saw in early March 2006. He is also right in saying that the mapping caused immense problems and that is why the Department outsourced the mapping part of this, and I cannot remember the month, quite a long way into 2005.

Q775 Sir Peter Soulsby: I am aware that we have in front of us one Minister that had partial responsibility at an early stage and another Minister who had responsibility for a limited period of time. I wonder if I can just explore what was being said to Lord Bach in particular because, as I understand it from the evidence that the Permanent Secretaries gave to us and what Lord Bach has said today, the Permanent Secretaries were personally meeting with Accenture on a monthly basis, the Permanent Secretaries were involved on the executive board and the management board, I think I recall them describing to us, of the Rural Payments Agency and were also advising you, Lord Bach, that there were difficulties, there were risks, but that they had every reason to believe that it would actually deliver on the date. Can I just check that that is a correct understanding of the relationships and of what was being said to you?

Lord Bach: The collective view of the RPA and the Department was that while there were risks, and some were worse than others, we would meet the first payments by February 2006 and the bulk of payments by the end of March 2006. That was the advice, yes.

Q776 Sir Peter Soulsby: Pursuing the point that the Chairman was making earlier on in his questioning to you, you were getting this advice from the Permanent Secretary, in effect, or with the Permanent Secretary’s apparent approval that what you were getting was reliable and appropriate. Did you not feel the need to turn elsewhere for advice beyond this reassurance because others were saying that, despite what apparently you were being told, it was not going to deliver?

Lord Bach: It was not just the Permanent Secretary. As I say, it was the collective view put to the Minister all the way through that we would meet this date, and I would have expected to be advised if we were not going to meet this date, but of course the Permanent Secretary would have played a role, and a leading role no doubt, in making sure that that was the advice that I got. I have to say that the advice that I got was both from the RPA and from the Department, and I did not feel the need to go elsewhere. I am not quite sure where else I would have gone. After all, if you will excuse me, Chairman, I am quoting something that you said on 3 April, talking about me, “I am sure he tried to do his best in answering the questions of the Committee but at the end of the day I know from my experience of Government that ministers sometimes are only as good as the advice they have been receiving”.

Q777 Chairman: That is perfectly true, but when I was responsible for the introduction of self-assessment in the Treasury, which was a massive change in the way the tax system operated. I had the benefit of George Cox, the head of Unisys, as a piece of independent advice to come and tell me whether we were travelling in the right direction on such a complex issue. I had masses of technicians, members of the Inland Revenue, all telling me what was going on, but I did have the benefit of somebody who could hold my hand in an area where I was not familiar. That is why I asked you those earlier questions. I was intrigued, actually, because we do have an insight into some of the advice you did get. Jeff Rooker has very kindly sent us copies of some of the briefings which you received and I notice that, for example, in the briefing on 29 September 2005 you are told that there is going to be “a brainstorming session”, where I presume Johnston McNeill, who wrote this stuff, said his staff and policy colleagues in Accenture were going to meet on 6 October to ensure “that we have identified all possible actions that could ensure for February payment”. I must admit that if I were brainstorming in September a sense of concern would have come over me. And then I notice in the briefing you got on 6 October that they start to talk about “work has started on digitising the land parcels”, but we do not get any reference thereafter to mapping issues until 30 November when they said a total of 35,730 mapping tasks had been processed since 3 October. Given the volume of work that, by definition, you must have understood was being done, did that not ring any bells that there was an increasing and mounting tide of problems? Again, on 30 November you were told that there was an increase in the total population of genuine tasks to

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be sorted out at 522,000, and then, by the time we get to 9 February when doom is building up at the doorstep, we find that the number of tasks to be done had mounted to 731,000. With that kind of picture I think a few bells might have been ringing in my head that something in the state of Denmark was not right.

Lord Bach: As I say, all the way through the assurance was that we were likely to meet the targets that we had set over a year before. You will recall asking, I am sure, at the Committee hearing on 11 January, about the tasks that remained to be done. The point that I think was made in reply, probably from Mr McNeill, and I cannot find the place just like that, was that because this was a task-based system that was being used, and you have heard all about that during your inquiry, once you had solved, as it were, one task you might have solved 5,000, 10,000, even 100,000. I was aware, of course, from what Mr McNeill was telling me that there were risks attached, but I was hearing all the way through that we were likely to meet the date of starting this scheme, and indeed we did meet the date that we had said we would get to, which was February 2006. I will quote if I may what Mr Macdonald from the NFU said to you. He said, “When you are given assurance after assurance, at some stage you either have to believe it, find another tack or give up”. That is what he said at question 54, a question from Mr Taylor, as it happened.

Q778 James Duddridge: Can I turn to Lord Whitty? Earlier you went back to your statement that I think you made to Radio 4 on 20 June and said you were moving away from the term about ministers being misled and more to a term around being over-optimistic. Why do you think the RPA was overly optimistic in its analysis, its operational analysis in particular, and was there a culture both within Defra and the RPA that made it difficult to bring bad news to ministers?

Lord Whitty: I moved away on the grounds that “misleading” can to some hearers suggest intent. I do not necessarily think it was intent to mislead. It had the effect of misleading. I think in all life people tend to tell their boss what they think their boss wants to hear, and indeed tend to talk to their colleagues as if the most optimistic outcome is likely to be the most probable. I do not think it was particularly a culture of the RPA that that was the case. I found RPA officials quite open to discussion of matters and I found Defra officials, who were questioning them and then agreeing with them or reporting to me, pretty open, so I do not think they were scared of reporting it. I think they just took the most optimistic of the outcomes, put them together and felt that that was the message they needed to give to those who were overseeing them. That is not to say it was not challenged; it was certainly challenged by me and it was challenged by Defra officials and, to revert to the point about independent advice, there were independents built into the overseeing system, which used not to be the case in terms of—and I am not sure about the Inland Revenue—civil service projects, and they were

clearly questioning them as well. Nevertheless, the net effect of that was that they were over-optimistic on two grounds: first, the fact that all the parts worked might not have meant that the total system worked but nevertheless it was reasonably solid ground for saying that things were going well if all the different parts were working; and, secondly, I think they were not sufficiently taking on board the problems in relation to mapping at that stage and I think that did delay one or two later things over and above any delays which had related to late decisions at an earlier stage, which in comparative terms, although they are not unimportant, are relatively minor. I do not think that those who were managing the system, whether Accenture or RPA, were fully aware of or gave sufficient importance to the fact that the system was not working with the actual customers.

Q779 James Duddridge: Looking forward, what lessons have been learned, in particular about how ministers access official advice they receive, because clearly many things went wrong in terms of this over-optimistic presentation? How can we avoid a similar situation happening again?

Lord Whitty: I think there are two key issues to be answered on this. One is that all the decisions of Government, particularly in relation to Defra of late, have said “Separate out policy from delivery”, following the Haskins Report, on which in my time as a Minister I reported to this Committee, and the tendency is in that direction. I think this example shows you that actually you cannot just do that. You have got to follow the policy through and have some system of following it through to the point of delivery. I think if anything we have to reconsider when there are major policy changes—I am not saying ongoing efficiency improvements and so forth—that you need to follow through right to the point of delivery. Ministers and senior advisers need to do that and it needs to be tested. I am not sure that that system would have thrown up quite the difficulties that we had but we should have done it more effectively and I think that same lesson, if I might say so without straying into ex-colleagues’ territory, probably applies to a lot of other IT projects where the Government have not delivered what has been quite a positive and good policy but has been undermined by inadequate delivery.

Q780 James Duddridge: I am struggling to analyse the information because there are two sets of information: one set I have heard that says ministers and senior officials were so involved in the detail that there was not a sufficient check mechanism, and another set that says they needed to be more detached to give oversight.

Lord Bach: I think that is a dilemma for ministers, to be honest, with the Agency system as it is. How involved should ministers become? Should they spend all their time acting as a kind of check on the details that they are being given by those who are technically expert or should they on the other hand stand back and say, “You sort it out among yourselves, boys, and then at the end I will look to

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see whether you have done it right or not”? I think getting that balance correct is extremely hard. Speaking personally, I have learned quite a lot of lessons from this rather bitter experience.

Q781 Lynne Jones: What are they?

Lord Bach: As Lord Whitty says, the simple proposition that you should have on the one hand policy and on the other hand delivery may be too simple; it may be over-simple. That is not to say it is completely wrong and that it is not solving some of the things that went wrong before, but there are consequences for ministers, I think, when you have, as it were, two levels: you have your department that is advising you and you have beyond it a powerful agency and you rely on the agency extremely heavily in these circumstances.

Q782 Chairman: I think Mr Duddridge has teased out some very helpful observations here, and I come back to my point: the Department had integrated itself into the Agency and you said you relied very heavily on the Department but the very people in the Department who could have given you another perspective of advice (looking for example, at Mr Lebrecht, who was the number two or three person in Defra) were involved in the ERG and they became very heavily involved in the CAPRI board. Did that intermingling not take away some of your channel of advice, if you like, from the Department that you have just said you were very heavily dependent on?

Lord Bach: Arguably it did. I have already said, I think, this afternoon that there were unofficial meetings when I would ask very senior officials from the Department their view or they would give me some advice—and this is not the formal list of meetings that you have—so it was not quite as total as you suggest, but on the other hand the Department is bound, I think, on something like this to want to have a week-by-week, if not day-by-day, interest in how the implementation about which ministers have said things is getting along. I imagine that all the Department was trying to do, they would argue, was to assist the RPA in reaching the deadlines.

Q783 Chairman: To those of us who have not only the benefit of hindsight but also of being observers, looking at all the evidence that we have had from the NAO, from the minutes and the plethora of data that has been sent to us, there is a mounting series of problems and if the buck so far has stopped at the door of Mr Johnston McNeill because he was removed from his post, and he is the main source of this optimistic flow of advice which was accepted by the Department, you do have to ask yourself the question what was informing Mr McNeill and his management team that it would be all right on the night when just about every other observer of what was going on was sending out, and in fact what Lord Whitty adverted to with his contact in the real world, that the wheels were well and truly falling off both ends of the axle simultaneously? It is one of those things where you say, “This is blindingly self-obvious it is not going to happen”, but on went the

army, as I said on the radio on Saturday morning, into the valley of non-payment with the slings and arrows of people attacking you from the heights, but on you went, and then, after defending the *status quo* with great vigour in front of the Committee, within a month of that you collapse.

Lord Bach: I wonder if I can make an attempt first of all at disagreeing with some of other things you say. You say the buck stopped with Mr Johnston McNeill. Well, perhaps in a sense it did. I think the buck also stopped with someone else and it was me, if I may say so, and I think my present status perhaps is some evidence of that. Although there would be many who would deny it I think that is the general perception.

Q784 James Duddridge: I must admit I started off being in agreement that the buck should end with yourself but, reflecting back to the beginning of the discussions that as one of your top three priorities everything was going through the Secretary of State, to what extent was the Secretary of State responsible?

Lord Bach: I do not think either the Secretary of State or I would claim our responsibilities were the same. I actually do not think either of us is to blame for this having gone wrong, if you press me. I am sure there is more I could have done, but I was accused by this Committee in their interim report of complacency and that is an accusation that has stung, I have to say. I think it is a very easy one to make and a hard one to refute but I think it is a very serious accusation. Much more serious than saying a minister is stupid is to say that he is complacent.

Q785 Chairman: That is very helpful. So you can get away with stupidity but not with complacency?

Lord Bach: Part of my agreeing to come before your Committee today, Chairman, if I may say so, is to try and gently persuade you into thinking that whatever else I may have been I was not complacent.

Q786 Chairman: You have had your chance to put that on the record. I think we were stung a little bit by your observations about our activities on the *Farming Today* programme and on the *Today* programme.

Lord Bach: I think I owe you something of an apology for that, not a total apology; I must be very careful not to eat too much humble pie, but I do owe you and the Committee, I think, something of an apology for perhaps a slight over-reaction. I think it has cost me though.

Q787 Chairman: And it is accepted in full measure. What I would say is that the Committee always considers very carefully what it says, and I have to say for the record that part of the reason we did put out an interim report, which is fairly unusual for us to do, is that we were aware of the growing difficulties that farmers were facing and we wanted to apply a little gentle pressure to try and encourage the process, bearing in mind we were not as well armed with knowledge about what was going on behind the scenes as we are now, and I did a moment

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ago preface my remarks by saying that we have the benefit of this discussion and conversation and the benefit of hindsight, so I think we are all learning something about this. You mentioned the question of accountability and where the buck stops. I think Mark Addison, when he came before the Committee, gave us the first hint that perhaps what we were seeing was the sum total of the parts which we managed by retrospective analysis to show where things went wrong, and you were generous enough to say a second ago that you felt some of the responsibility lay with you and some lay with Johnston McNeill.

Lord Bach: I did not say Johnston McNeill. I actually do not think Johnston McNeill as a personality is someone who should be crucified. That is not my view. My view is that the top management of the RPA was not up to task on this occasion.

Q788 Chairman: The whole—?

Lord Bach: Yes, that is how I would put it, actually, and were giving advice. You have had this example. On Thursday 9 March, we were given advice that the bulk of payments would be made by the first few days of April, not the end of March but the first few days of April. On the 14th, five days later, Tuesday, 14 March, and that is a date which I think will stick in my memory for a while, we were told that there was no chance at all of such a thing happening, that the bulk of payments would not be made anywhere near by the end of March and, of course, as you know, they were not. I frankly have to say that I do not think that that was satisfactory from senior civil servants whose job is to tell ministers the truth.

Q789 David Taylor: They were being complacent on the 9th and stupid on the 14th?

Lord Bach: I do not think they were deliberately trying to mislead, I really do not think that at all; there would be no point in doing that, but I think there was a slight conspiracy of optimism, I have to say, as I think Lord Whitty has been suggesting existed perhaps before my time, and it may be that I should have been slightly more aware that over-optimistic noises were being made. What stopped the bulk of payments being made, as has been referred to before, was that at the authorisation stage, the very last stage, all these validations and entitlements have been gone through and at this very last stage, to use Helen Ghosh's phrase, something got "gummed up". That is what happened and I dare say it is not what the RPA expected to happen but that is what happened, and I have to say that ministers, of course, were caused a huge degree of embarrassment, which is not necessarily unusual, by the way in which the timing worked out.

Q790 Mr Drew: I am confused and I just cannot get to the bottom of this. I can understand the thing getting gummed up. What I cannot understand is that from all the evidence there did not seem to be a full, desktop run-through of how the thing could function, not would function but could function, from, let us say, 15 farmers, which we will call X,

through to their mapping exercise, which we will call Y, to their outcome in terms of payment, Z. Take 15, take 30, take two. Nowhere in the evidence from all that I have seen did anyone do this desktop exercise to say, "Blimey! This all works", or, "Actually, it did not quite work because of problems with Y". That is where I am flummoxed by the fact that when they pressed the button and it did not work there was not something to fall back on to say, "Ah! We had an idea that there might have been some problem with this when we went live". Is that something you were surprised about?

Lord Bach: I think, and it may tell against myself to some extent, you have a real point there and I have been trying to think since I read some of the evidence that has been heard before as to why that should be so. Forgive me quoting, because I do not like to do that; it is almost too court-like, but Mr Addison, when he gave evidence before you, dealt with this point and I think he dealt with it as best it could be dealt with. Sir Peter asked him the question at Q661. He was asked about testing and he said that "testing could mean a very wide range of things", and you had had evidence from others who had experienced that a good deal of testing was done, that was definitely true. The individual system releases were extensively tested. If you look at the OGC programme reviews, all of those reviews looked at the bits of the RITA system that were being designed, and one of the questions they asked was whether this had been successfully tested and so on, so there was a great deal of testing, he said. As it turned out, when the testing did not happen in the way that it would have been useful if it had, was the testing of the whole system which would have been a very major undertaking, he said, would have taken a good deal of time and would probably have compromised the original target in any event. There was also lacking, he went on, as he had said before, a depth of understanding of the way in which the whole system would fit together and that those were the issues. I think I agree with what Mr Addison told the Committee on that subject. That is why I think he said the two causes of what went wrong were, one, volume, and, two, timetable. It is for that second reason, the timetable issue, that the testing falls under. I do not know technically whether it would have been possible to have tested live to a satisfactory extent, but obviously the decision was taken not to test live, one, because there would not have been time, and, two, maybe there were other factors too.

Q791 Chairman: I think the frightening thing when you look at Appendix 6 of the NAO report, which has got a detailed analysis of the date when we knew, is that the number of red marks increases with frequency as time goes on, and under the column headed "Risk/Issues" it is just a solid series of red traffic lights. Under "Resources" we have got red traffic lights from October 2005 through to the end; "Business Case", red traffic lights all the way through to the end. There seemed to be a lot of lights

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shining that perhaps might have caused somebody to question whether this was deliverable and for the advice that you were getting to flag that up.

Lord Bach: Yes, and I think that is fair comment if I may say so. I notice though, and you will forgive me mentioning it, that in February 2006, which is Appendix 6, page 44, the last page of the NAO report, that by February 2006 there was a status amber. It goes on to say that since the last Gateway review, when the probability of making February payments was assessed at around 50%, a huge effort had gone into achieving this target, the relationship with Accenture had improved and they were now performing to a stronger standard. That was encouraging in the very month that we were going to and did start making payments.

Q792 Chairman: Tell us about fallback positions because the NAO report talks about the fact that the technology for a fallback position existed. That was dismissed on the basis of the optimistic noises but then eventually, when Mark Addison takes over running the project, within about a couple of weeks we are into a position of interim payments. Why did fallback get pushed out of the way so forcibly?

Lord Whitty: If I could answer for my period and Lord Bach can fill in the rest of the story, throughout that period there was a fallback of relying on the existing systems for working out and making a stab at the Land Register. There was what was called the old systems contingency. There was a point when the resources devoted to continuing that contingency would be too much and the probability of achieving the main aim would have increased to sufficient a level to put that about, but throughout the early part and a large part of the subsequent period there was a full-scale contingency arrangement for paying. The interim issue is a different issue and I do not know whether you want to deal with that at the same time. The interim payment issue arose when we slipped the timescale from December to February, and if you recall December was the earliest possible time we would legally pay; it was the beginning of the window. When we slipped to February the issue of an interim payment was very much pressed on us by the farming industry and was very much my concern, that if we were not certain of February we ought to have an interim payment. The pressure from outside, from within the management system, was the opposite. The OGC report in January 2005 said if you maintain the interim payment option this is going to divert resources. The Commission said if you are going to pay an interim payment you have got to get the farmers to securitize it which really destroys the possibility of it. The view from the senior management in Defra and the RPA was that we were endangering not only this year's programme but next year's if we went for an interim payment. Nevertheless, we kept the possibility of the interim payment open because by that time it was clear that a significant number of farmers were going to be in very serious difficulty if we did not make an interim payment, so we kept that option open as a contingency.

Lord Bach: It was a live issue, of course, when I appeared before the Committee last and I said at the end of that that there will definitely be payment by the end of February, "whether or not it is a full payment or the first part of a partial payment" was my direct quote. The reasons why we did not go for a partial payment then, and I know the present Permanent Secretary regrets that decision, and I think she may well be right, was because we managed to start a full payment, which on the face of it was a better course of action, but the arguments against a partial payment were reconciliation with final payments, full payments would not have commenced until April, risk of false expectations, the whole issue around trading which could be excluded by partial payments, the greater risk to 2006, the risk of disallowance still looming in future years and the threat to the payment window of 2006. They were all powerful arguments, Chairman, against partial payments where we believed we could start full payments. After the fiasco that occurred in March then of course we considered again very quickly whether partial payments were the best method of trying to at least give farmers something where they had been expecting something more, and the Commission agreed and that was what happened. There are consequences of partial payments that I think will be felt over the next period of time but the balance had certainly shifted by that stage. I am sure we were right to agree partial payments in April.

Q793 Lynne Jones: Could we talk a little bit about the Change Programme. Although the RPA was not your direct responsibility, as the Minister responsible for the CAP reform did you have involvement in the decisions about the RPA Change Programme?

Lord Whitty: Not in a direct sense. Clearly I was aware of the programme and the profile that it suggested but I was not involved in discussing with the RPA in any detail about the implications of the Change Programme.

Q794 Lynne Jones: So when you were making decisions about the Single Payment scheme did any consideration come into play that at the same time as you were bringing about—

Lord Whitty: Yes, to be honest I was concerned that we would not go too fast on the reduction of staff which, after all, was a consequence of decisions which had been taken years beforehand, basically MAFF decisions, that the rundown in staff was too steep. However, I did think that the end point was do-able because we were moving from a system which involved the RPA in processing 11-plus different schemes to one where they would be processing one, therefore the beginning and the end points seemed sensible to me in terms of the staffing levels. I think there were some shifts in the profile of that which meant that the point where the RPA had just lost such a significant body of staff was followed by the point where they should be dealing with the mapping. I was not entirely sure that the same staff would be the most appropriate to do the mapping

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but, nevertheless, that was the point where the staff squeeze began to be apparent. I do not think that it had affected the programme at all up until then because relatively senior staff were developing the programme, it was not a hands-on face to customer approach, but when the mapping came in, and to some extent the forms, then clearly we needed more experienced staff, and I think the impact of the Change Programme on that was probably not sufficiently taken into account. The overall trajectory of the Change Programme I never queried. I queried the speed but not the overall direction.

Q795 Lynne Jones: Lord Bach, would you like to comment?

Lord Bach: I really have not got very much to say. The Change Programme was in place, it was obviously quite a dramatic Change Programme over a number of years. The combination of that with Single Payments plus the Rural Payment Register difficulties did add up to a little bit too much volume, I have to say, but by the time I arrived the Change Programme had been implemented to a considerable extent. I really do not have any strong views on that.

Q796 Lynne Jones: I know that there were concerns about the lack of consistency amongst different offices, as I understand it, but who took the decision to move to the task-based approach.

Lord Bach: That was before me, I think.

Lord Whitty: That was before me as well actually. It is pretty prehistoric. When we wound up the Intervention Board and other organisations and merged them into the RPA, the regional offices that had been dealing with everything were going to be task related. The consequence of that decision was followed through to the formal Change Programme. It was quite a 1999–2000 kind of decision which meant that was the future structure of the RPA. The Change Programme as a term of art was used slightly later on when it was part of the Defra Change Programme which meant with the creation of a new department and its agencies there would be a reduction in staff in total of which the RPA was but one part. The key decisions of the kind you are talking about had happened before that.

Q797 Lynne Jones: Yet when the acting Chief Executive came in, was that Mark Addison, he immediately did away with the task-based approach.

Lord Whitty: In part, yes.

Q798 David Taylor: The reasons that government department outsource so often are complex but they include things of the kind such as “we have not got the resources, we have not got the skills, we have not got the time to do it with the people we have directly employed within our department”. We have certainly addressed a lot of the Accenture issues, Chairman, but I want to make the point I am making now. Sir Brian was moved to say at one point that it was inconceivable that Defra could have delivered a programme of this scale without an external partner such as Accenture. In the cold light

of day, months after the events that we have been analysing both this evening and in the weeks and months that have gone before with the NAO, do you think that Sir Brian was right? Was he being a tad over-bullish about the benefits of outsourcing?

Lord Whitty: I think at the point when this came in there was no alternative but to have outsourcing because we had earlier outsourced a significant proportion of MAFF and Defra IT staff. Whether they would have had the level of expertise to do it more in-house—you still need some outside advice—I do not know, but at the point at which the decisions as to how to deliver the Single Farm Payment were made there was no way in which we could have managed without an outside partner.

Lord Bach: I agree with that. I read what Sir Brian said and thought about it and I agree with that.

Q799 Mr Drew: Did you ever discuss staffing in the RPA? We all know about the terrible goings-on in Newcastle which seemed to be very much a problem with that office but certainly MPs I have talked to who have RPA offices in their constituencies, and we got this from PCS, regular briefings that things were not right within the agency itself, that people felt very under-valued, they felt completely overwhelmed, and deliverability was always going to be a problem even if the wonderful system worked, was that ever reported through to you?

Lord Whitty: I was aware that following the rationalisation of the RPA from its predecessor that there was ongoing and understandable resentment. There were office closures, there were quite substantial redundancies and re-tasking and that was still running through. I think the RPA also suffered from the devolution of pay negotiations relative to the department system, of which I do not approve. I can say that now I am not a member of the government. It did lead to severe differentiation between RPA staff's pay and sometimes the staff who were in the office next door or even the same office. I think there was a morale problem. My personal judgment is that was not the reason we did not deliver the system.

Lord Bach: I read the PCS's evidence very carefully and one of my regrets here is that I did not see them when I paid my visits. When I was at the Defence Ministry when I paid visits I would always see the unions involved. I did not when I had my two visits to Reading and one to Carlisle and I now wish I had.¹ I have to say that I did hear that there were some staff difficulties, indeed RPA senior officials did not shy away from the fact that there were some concerns and, indeed, I believe there was some prospect of industrial action of some kind towards the latter part of last year in which I took a very special interest.

Q800 Lynne Jones: Johnston McNeill told this Committee there were excellent relations with the trade unions.

¹ *Note by witness:* I made three visits not two.

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Lord Bach: I do not necessarily disagree with him, I just wish that I had met with them myself and formed my own view on that, I have to say. It is not just the trade unions in this case, I am quite sure there are other people within the RPA who are not necessarily members of trade unions. I did meet a cross-section, particularly in Carlisle interestingly enough.

Q801 Mr Drew: It seemed that the agency relied an awful lot on temporary and contracted staff.

Lord Bach: Yes, they did.

Q802 Mr Drew: To undertake, with the best will in the world, very complicated tasks.

Lord Bach: Yes, and by the end in order to try and meet the implementation dates they were doing that I think, looking back on it, to too great an extent. Indeed, I had Members of Parliament come to me. One in particular came to me and said, "Look, not only are these full-time RPA people paid less than Defra people but the people who come in as agency workers get an even worse deal". There clearly were

staff issues but at the end of the day I am not sure whether in this instance that made the difference between success and failure, although I think there are lessons to be learned from that.

Chairman: Gentlemen, thank you very much indeed first for giving of your time to come back. There is no obligation on former ministers to come before select committees but there is great value in the fact that you both volunteered to come and talk to us about the background to this whole matter. Can I also thank you for the candour of what you have said. If there is any value of inquiries like this it is genuinely to try to unearth what went wrong if for no other reason than to prevent things like it happening in the future. You have greatly assisted us in giving us a real flavour of the decision-making processes both in terms of the policy and the reality of the way in which the Single Farm Payment and the RPA came about and for that we are very grateful. If there is anything that you want to qualify in writing in terms of what you have said, please do not hesitate to write to us. The only thing that we cannot undo is that which you have already said. Thank you very much indeed.

Monday 27 November 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
James Duddridge
Lynne Jones

Sir Peter Soulsby
David Taylor

Witnesses: **Mr Tony Cooper**, Interim Chief Executive, **Mr Simon Vry**, Interim Chief Operating Officer, and **Mr Ian Hewett**, Operations Director, Rural Payments Agency, gave evidence.

Q803 Chairman: The witching hour of 4.45 on Monday 27 November has come round and we move forward with our further inquiries into the Rural Payments Agency. Formally, and for the record, can we welcome Mr Tony Cooper, the Interim Chief Executive of the Agency, Mr Simon Vry, the Interim Chief Operating Officer, and, the only one who is not interim, Mr Ian Hewett, the Operations Director; gentlemen, you are very welcome. You are not going to tell me, Mr Hewett, that you are interim, are you, just to complete the three?

Mr Hewett: Not to my knowledge, Chairman.

Q804 Chairman: We do not like to be the bearers of difficult news. I think the Committee had hoped that by now we would be coming to the end of our inquiry, but just, as I say, for the avoidance of doubt, the Committee still lives in hope of hearing from Mr Johnston McNeill, the former Chief Executive of the RPA, and we are in correspondence with him. Also, next Wednesday, for those who like to know what the forthcoming attractions are, we will be hearing once again from Sir Brian Bender, the former Permanent Secretary in Defra, now the Permanent Secretary in the Department of Trade and Industry. We are, I suppose, as they say, resummoning him to the witness stand, because there are certain issues which have emerged, which occurred on his watch, and we would like to probe him in a little more detail on that. Once that is done I hope we will be able to start drawing our inquiry to a conclusion. Gentlemen, you are very welcome. I would like to start perhaps with Mr Cooper, with whom I have had the pleasure of talking about the Agency and what is happening, at a meeting which Lord Rooker organised for Members. I was pleased with the workmanlike way in which he approached answering the questions on that occasion, which bodes well for what we are going to be doing. Can I ask you, Mr Cooper, when you came in as Interim Chief Executive, why has the Agency got an Interim Chief Executive? There is a sort of air of lack of permanence to it. Is it because you have particular skills in interim management, or that you are just passing through, because this was a difficult job to do and the pass came to you?

Mr Cooper: I was asked if I was interested in helping the Agency, and I was. I took up the post on an interim basis and the plan is to advertise the post in due course.

Q805 Chairman: When you decided to give the help that you have just indicated, did you have any conversations with either Johnston McNeill or Mark Addison about the history of the Agency and how it had got to the position that you inherited?

Mr Cooper: I did not have any conversation with Johnston McNeill but I did speak to the Permanent Secretary and also to Mark Addison, as well as others.

Q806 Chairman: The others, I presume, were the senior managers, were they, of the Agency, that you found yourself in charge of?

Mr Cooper: Some were, and some were within the parent department Defra.

Q807 Chairman: Inevitably, I would imagine one of the first questions you would have asked is "How did we get into this mess?" What did you get as an answer to that question?

Mr Cooper: To some extent, I did ask that question, but also I took it upon myself to take a view that I should be looking forward. Therefore, given that I was taking up this role, whatever was there that was the starting-point for me, which obviously has benefits and disbenefits in the approach. My starting-point was that I would accept what was there and try to move forward.

Q808 Chairman: I suppose history always supplies an answer, not just to the question of how we got there but also it helps to outline some of the challenges that you face. If you are going to move through to the programme which we will discuss in more detail in a moment or two, it does help sometimes to know where you have come from. What was your surmise, taking over this organisation, as to the key reasons why it had run into such difficulties?

Mr Cooper: In summary terms, then the phrase which comes to my mind is it was too much in too short a timescale, obviously then a whole host of issues rolling forward from there. That I think is the way I would sum up where the Agency had got to.

Q809 Chairman: Mr Vry and Mr Hewett, you were previously involved in the Agency under Johnston McNeill's watch; what would be your description as to how the Agency got into the mess that it did? What do you say to that, Mr Vry?

Mr Vry: In terms of the situation in which the Agency found itself.

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Q810 Chairman: Can you just confirm to us what you did before what you are doing at the moment? That might also be of help.

Mr Vry: I joined the Agency in November 2001 as Change Programme Director. The remit of the role there was to ensure that the senior management team worked together to ensure the delivery of the Change Programme as it was then. Obviously, as the Committee will be aware, the nature of the challenge facing the organisation changed as a result of the implementation of CAP reform. I continued in that role and was due to leave when the Change Programme completed, so I was looking to leave towards the end of 2005. I was asked by Johnston McNeill, then Chief Executive, to stay on to help the organisation towards commencing payments in February, which I did, then obviously, with the issues which occurred in March, I was asked whether I would stay on as Interim Chief Operating Officer from 15 March.

Q811 Chairman: Mr Cooper has just told us that it was too much too far and you were involved in the Change Programme. What made you believe that the Change Programme would deliver a functioning, efficient Rural Payments Agency which would also meet the changed operating environment in which Sir Brian Bender was steering the whole of the Department, in terms of the overall Change Programme and the commitment by Defra to certain reductions in its budget? What made you have comfort that it would all work?

Mr Vry: I do not think it is fair to say that there was ever 'comfort'. I think, as you will have seen from the various reports, the Change Programme was always identified, from its very early stages, as a high risk programme, and the OGC risk assessments that we undertook throughout the Change Programme showed it to be high risk and it continued to be high risk throughout its life. I would not use the term 'comfort'; obviously, it was always going to be a very challenging programme for the Agency.

Q812 Chairman: You must have believed that it could have been delivered otherwise you would not have carried on, however risky it was. It was not, in your judgment, so risky, it would appear, that any of the senior management said to either the Chief Executive or ministers "We can't deliver; it's not going to work. We're not going to be able to make these payments on time; we can't meet our Change Programme objectives." You must have thought, ultimately, however risky it was, it was going to work?

Mr Vry: First of all, the Change Programme objectives, towards the latter part of the Change Programme, clearly were focused very much on delivery of SPS and, as we progressed through the life cycle of developing the Change Programme, the risk profile, as I mentioned, did change and it became increasingly high risk.

Q813 Chairman: We go from a risky to a higher risk programme. What do you think the elements were which caused that risk profile to change?

Mr Vry: I think the report which was undertaken by the National Audit Office was quite useful in summarising the key points. They mentioned a number of factors. They mentioned that changes during the development of the IT systems to incorporate EU regulations and other policy changes reduced the time available for testing before the system went live, so there are issues around that which increased risks. The Agency underestimated the amount of work in mapping farmers' land, and that is absolutely true, there was an underestimate, some people think, of the amount of work which would be involved in mapping; that, in the absence of adequate management information, the Agency underestimated the amount of work involved in processing each claim.

Q814 Chairman: It is very good of you to read out the NAO Report, but we have read that for ourselves. What I am actually more interested in is why, Mr Vry, as a part of the former senior management team of the Agency, you prescribed—and I am sorry you happened to be, if you like, you and Mr Hewett, the people who remain, so inevitably you have to take the burden of some of these questions—what I am intrigued by is, as people with expertise, otherwise you would not have been appointed to these tasks, you presided over policies which amounted to the difficulties that you have enunciated, seemingly without perceiving that these problems were going to be the show-stoppers they turned out to be. What went wrong inside the senior management team? When you met to have your various and many meetings, some of which we have seen, did not any bells ring with anybody that you were heading for the rocks?

Mr Vry: First of all, when we encountered the changes that we needed to make to the system, as a result of policy changes, in December 2004, we went through a fundamental review of the risks of delivering that programme. We took a view that it was still deliverable at that point in time, but it had increased the risks of delivery. In discussion with Defra, we announced that the earliest we could start making payments would be February 2006, and we worked throughout 2005 and early 2006 to ensure that we did hit that milestone, and indeed we did commence making payments in February, as we had promised some 12 months before. The issue was that where we had not understood the complexity was that it would take far longer to get the payments out; once we started making payments they did not flow through with the speed or at the level that we had anticipated, and that is where then the major problems arose.

Q815 Chairman: We are going to come back to follow that through, because I think we would all be very interested to know why there was such a difference between the fit, between what you thought you could do and what subsequently transpired. We will also explore, in some detail, the candour of Mr Cooper's explanation that he has still got an organisation which has some problems which are inherited from the scenario you have put to them.

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Just to start the process of looking forward, Mr Cooper, can I turn to you and ask you to bring us up to date with where we are with the 2005 payments and how many of them are currently not yet settled, and perhaps to give us a flavour as to what the barriers are to progress on that?

Mr Cooper: The 2005 position, we have, I think it is, 41 Priority 1 cases, high value cases, which have not yet been paid; in fact, they have not received any payment. The majority of those cases are cases that are in probate, the minority are held up for some legal dispute issue; so we have explored as many ways as probably we can to find ways of making payments, including whether we can make payments to executors, and the like.

Q816 David Taylor: Sorry to interrupt. Is this 'high value' more than €1,000; is that the definition?

Mr Cooper: It is, yes.

Q817 David Taylor: It is not that high value?

Mr Cooper: It is how we class the Priority 1 case. In previous years a number of high priority or probate cases have existed and have run through and those cases will continue to prevent payment for quite some time probably, although as those cases are resolved we will make payments. The other area is those that are under €1,000, so under £682, and of those we have about 1,700 still to pay, and we will continue to pay those and expect to pay them over the next few weeks. In addition to that, there are some top-up payments which are still due, that is in the order of about 2,500, and we are continuing to work through those. We have some outstanding correspondence which we are still dealing with for 2005. We have made significant inroads into that. In August it was something in the order of 28,000 outstanding items and is now down to 12,000, so we have made significant progress there.

Q818 Chairman: Just to be clear on that, you say that you had 28,000 items of outstanding correspondence; what kinds of things did those deal with, in general terms?

Mr Cooper: What we have found is, it is a multitude, because there were some people who wrote and said "Where's my payment; when am I going to get paid?" There were some who were responding to questions that we had asked them, for points of clarification, and then there follow-ups to that, saying, "I sent you this information but I haven't heard back." We got into a sort of unmanageable vicious circle round the volumes and we have had to make a concerted effort to sift through those and identify them. There were also some representations made on the basis that perhaps some of the payments were incorrect and we have identified those and given them a higher priority.

Q819 Chairman: One of the consequences of the organisation that you inherited was the question of disallowance from the European Union and, using your best endeavours, you have put a contingency of some £131m into the Defra accounts. I think it would be interesting to have a bit more detail as to

how that £131m has been calculated, and when the process will begin to determine if it turns into a real £131m you have got to find, or whether it is something which can be expunged from the balance sheet. I gather also that you have made a total provision of £150 million for EAGGF financial corrections for the year 2005–06. I think the £131m is separate from that. Perhaps, again, just so that we understand the overall contingency liability, because that says it looks like your Agency has got £281m of contingent liability written into its balance-sheet, it is quite a lot of money, so where has that money come from?

Mr Cooper: The estimate, which I think, in round terms, is £150m in total, there is £131m which is placed as a contingency against disallowance because of the Single Payment Scheme and the balance is against the other schemes that are administered, because of potential disallowances. The £131m is an estimate and, as you are suggesting, can be only an estimate until we have correspondence with the European Commission. It is driven partly because of the way in which partial payments were made, partly because of a level of incorrectness over payments identified during audits. The European auditors are in the process of auditing the accounts at the moment and once they have completed their work they will report back to the Commission. The first step in the process of agreeing the figure is that the Commission will write and advise I am not sure whether it is the Department or the Rural Payments Agency of the figure which they believe is appropriate. When we have that figure then we will start a process of discussion with the Commission to understand why they have reached the figure that they have reached. Our estimate is one that we have estimated taking some advice from lawyers around the interpretation of the Scheme, and clearly we would argue that we have not put at risk the fund at any stage during the decision-making process to make payments.

Q820 Chairman: Help me to understand the £131m. Whether it be the £131m or whether it be £1, some real money will have to be found from somewhere; where does it come from?

Mr Cooper: The provision that has been made is in the Defra accounts and therefore Defra will need to decide how that funding, if it is needed, is going to be gathered together.

Q821 Chairman: Just to be absolutely clear on that point, Defra has a certain amount of expenditure which it has got to make; now, in terms of the timescale, when do you anticipate that the audit process will be concluded? Have the Commission given you any indication of that?

Mr Cooper: No. The experience which I believe the Department has had in the past is that it can take anything up to two years to come to an agreed position.

Q822 Chairman: In which year's accounts does the £131m sit?

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Mr Cooper: The £131m has been provided for as a contingent liability in the 2005–06 accounts.

Q823 Chairman: If that is the case, in terms of contingent liabilities, Defra will have a certain amount of money that it can actually spend in the financial year in question, because this will be out of the 2006–07 money, is it, just so we get our financial years right? You said 2005–06, but that financial year closed at the end of March this year, so that is where the £131m sits, is it?

Mr Cooper: If I may just consult Mr Hewett.

Mr Hewett: Very little of the expenditure would have been made by the end of the 2005–06 financial year, but the majority would have been made in the European Union year which ended on 15 October 2006. It is split.

Q824 Chairman: Okay; it is split. In actual fact, let us say, somewhere along the line, if you have got a contingent liability in your accounts, you have got to say to yourself, if that turns into real money, it has got to be found from somewhere. What I am trying to be clear in mind about is which year's expenditure it is going to be hurt, because Mr Cooper said, if it comes, whether it is £1, or £1m, or whatever it is, somebody has got to find the money from somewhere. Just so I do not get it wrong, if you are saying it is split between the two years then in the 2006–07 financial year, the one we are in at the moment, Defra may have to find that money, because if it has put the contingent liability and it has got to think "What happens if we pay it out?" some things may not happen in the year, because the money has got to be paid out. Is that the way it works?

Mr Hewett: It depends on what the European Commission try to disallow us for. Mr Cooper mentioned it could be for the partial payment solution that we started to make payments in May. It could be for the fact that not all of the monies were paid out by the end of the regulatory window, which ended at the end of June. It could be for the way that we validated claims, which started some many months ago and would have fallen within the 2005–06 financial year.

Q825 Chairman: In asking my questions, I have come to the very simple point that, obviously, the public seeing £131m sitting there will want to know does this mean less expenditure in other Defra programmes, if £131m, or some other number, becomes the number? That is what I am trying to understand, just for the avoidance of doubt. Equally, you have also got to put a bit aside for the potential £150m, because disallowance is nothing new in this territory. I think I am trying to get a feel as to what sum of money could suddenly be visited upon Defra as an amount which they cannot spend on United Kingdom programmes which they are going to have to find from their accounts to meet any disallowance that comes. If you do not find that the fine is visited upon you in the 2006–07 financial year,

does that mean that the contingency rolls over into the 2007–08 financial year, because that is where the real money has got to come from?

Mr Hewett: I suspect that we would need to talk to our departmental colleagues about the impacts, but I think the prudent way to do this is that there is a potential disallowance which could fall in the 2005–06 year, therefore that is why the contingent liability was placed there.

Chairman: Being a simple man in these matters, I would be grateful if you would go and talk to your colleagues. What I would like to know is at what point, when disallowance is determined, does contingency crystallise out into reality, and where will the real money come from? The impression given by the Secretary of State, when he has been probed on this, is that somehow this is not real money, that it does not have to be found from anywhere, no programmes are going to be affected and it has got absolutely nothing whatsoever to do with the current Defra budget cuts; but it is real money, at some point in the future, and I would like to know where it is going to come from.

Q826 James Duddridge: Mr Cooper, I am interested in some of the changes you and Mr Addison made, first in terms of chronology. Did any of the changes Mr Addison made to expedite the claims of 2005 have a potentially detrimental impact for future years?

Mr Cooper: I think the changes that were either introduced or started by Mark Addison are helpful, and I have, largely, I think, taken them all forward and built on those. I am trying to think where a change that he introduced might have a knock-on effect.

Q827 James Duddridge: Just to help, you said "largely;" which area is perhaps coming in and looking afresh again at the time point when you said, "No, that's not right to carry forward"?

Mr Cooper: I do not think I have come across any yet. So that I do not appear to disregard the discussion we have just had about disallowance, quite clearly, the partial payments that were made and the decision to make those partial payments carry the disallowance risk, and you could argue that is a detrimental feature going forward. I do not necessarily want to go back into that discussion on disallowance, but I think that will be the only area. The sorts of things that were introduced where we streamlined some of the checking, where we started to explore how we would introduce a different way of working rather than the pure task-based working, those are the sorts of things that are going to make a difference and those were taken forward into the 2006 year.

Q828 James Duddridge: From when you took over, what specifically have been the Cooper changes rather than the Addison changes?

Mr Cooper: I guess, if I can give an outline in terms of my first four months, first of all, which were focused largely around continuing to make payments as quickly as possible and then moving in

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towards changes in the organisation, restructuring it, looking at the governance arrangements and changing those, defining people's roles and responsibilities clearly, so that they knew what they were doing. The organisation had moved towards being a fairly matrix-type organisation where people had multiple responsibilities and it relied upon good co-operation across different sorts of teams, and whilst my experience is that works well in a well-functioning organisation, when it is in a bit of difficulty it needs to have very clear roles and responsibilities. That is what I defined. I introduced some changes in the senior management team. I introduced an Agency Board with four directors, three of whom were new to that Board, and I introduced two non-executives, to provide a degree of challenge into the organisation. We have also gone ahead and appointed site managers. What I inherited was six sites and they had a management team which shared the responsibility for managing that site, and by introducing one single person I have clearly got a more direct line of control over what is happening there and greater accountability in the organisation. Those were the sorts of changes I made in the first four months. In the last two months and the next two months what I am moving towards is what is the business strategy for the Agency, what are the changes that we are going to introduce and, having taken stock of the IT and confirming that the IT is fit for purpose, then what further investment is needed in that to advance in the way that we need to, to be able to become stable and functioning in a way that I think our customers would expect and stakeholders would expect.

Q829 James Duddridge: I have read that you are going to introduce greater quality control over manual checks. What have been the problems which have been demonstrated through the absence of that quality control to date?

Mr Cooper: There is a range of quality controls which are already in place, which in some areas are carried out too many times, so we end up checking the checker's work. The approach that I would take is more of a risk-based approach, whether that is on the basis of a member of staff being new to the organisation and therefore going through a learning curve and that you would expect to check their work, or because it is a highly complex case which needs a second look at it. There are quality mechanisms already in place but what I am trying to do is arrange it so that they are focused, to be more effective, really.

Q830 Chairman: Can I ask if one of the two, new non-executive directors that you have appointed has got IT or systems experience?

Mr Cooper: One has certainly change experience, and I suspect therefore has looked at IT change from a business perspective rather than being an IT expert. I know she is not an IT expert. That is her qualification for this particular job.

Q831 Chairman: There is nobody with a specific IT background?

Mr Cooper: Not as a non-executive, no.

Q832 Chairman: I notice that on page 11 of your Operating Business Plan for 2006-07 you comment on the state of the RPA for doing all the other things for which you are responsible. You have given us an outline as to how you are going to get the Single Farm Payment Scheme right, but sometimes it is easy to forget that you have got lots of other things for which you are responsible. I note that on page 11, paragraph eight, you say: "Unsatisfactory delivery of non-Scheme activities due to resources for non-Scheme activities falling to unsustainably low levels. Systemic failures in RPA due to lack of funding for the resources required, loss of key knowledge, accreditation/control weaknesses, and poor staff morale leads to reduced productivity." If that is the state of the rest of the business, it looks like a pretty big task to fix that as well, together with the focus you are going to have to put on getting the Single Farm Payment Scheme right. Are you equipped to do that and, if so, are you going to get the resources you need to correct that very candid list of problems?

Mr Cooper: Can I clarify first though that this is a set of risks that we have identified to the successful delivery of these schemes and for the Agency. Having identified the risks, quite clearly, we wish to take mitigation action to ensure that we do not realise that risk, and the areas that we have identified are those to which we need to pay careful attention. There is a risk that we take too many resources out of those areas that are non-SPS, as we have made SPS the priority for the Agency, and I need to guard against that. I do that by, for example, tracking on a regular basis the performance of those areas against the targets which they have. At the moment I am managing that risk.

Q833 Chairman: Can we come to some specifics, because what the Committee has learned over time is that the present set-up is costing far more than was originally budgeted for, and you are still left, roughly speaking, with the present set-up, because you said that you cannot implement the kind of dramatic change that you might want to, possibly for the next two years. If you are going to have to operate the current system with more resources than was originally planned, have you been given those resources and, if so, what does it amount to in millions of extra pounds?

Mr Cooper: We have been allocated in this current financial year an additional £23m, which has provided additional funding for the additional people that we have recruited into the organisation.

Q834 Chairman: That extra £23m, let us be absolutely clear, does that come on top of the additional resources which had to be put in to get the Single Farm Payment actually up and running, or is it £23m above some base-line figure; just so that we know? I do not want to be accused of inaccuracy. Which is it? Is it £23m above what it cost in 2005-06, so in other words the 2006-07 expenditure is £23m above the 2005-06 for the delivery of the Single Farm Payment?

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Mr Cooper: I think the annual expenditure, running costs, for the Agency is more or less the same as last year, but I think I should offer to confirm that to you.¹

Q835 Chairman: It would be helpful to have some clarity as to where that £23m comes in. Were you going to say something else before I sought clarity?

Mr Cooper: Just to say, that provided sufficient funds to make some additional IT changes which have been necessary and also to fund 300 staff that we recruited to start the process of validating the Single Payment Scheme.

Q836 Chairman: Again, just so we are clear, we were told that, to make the Single Farm Payment work, you had to take on 900 staff during 2005–06, these were supposedly temporary people, to make up for the failure of the optical character reader system. Therefore, do I understand that in addition to those 900 you have now had to have another 300 to make it work in the next financial year?

Mr Cooper: It is not quite as straightforward as that.

Q837 Chairman: This is your chance to tell us what the numbers are?

Mr Cooper: The number of staff that we have in the Agency at the moment is about 4,500, but that number fluctuates depending on the demands and therefore it constantly goes up and down and it can vary. I suspect, when I say there are 300, there are 300 people that were recruited specifically on a temporary basis to do the initial processing of the Single Payment Scheme for 2006. They were recruited in one location and, as you would expect with temporary staff, there has been quite a turnover. The 300 people that were recruited, 200 of them went back to college at the end of the summer and obviously we have been continuing to recruit to replace those people. In terms of recruitment numbers, the recruitment numbers are quite different from those that we have actually sitting at desks.

Q838 David Taylor: Are you reviewing training of the members from the first batch that you recruited?

Mr Cooper: We are putting a lot of effort into reviewing and improving the training facilities that we provide. The induction training and the SPS training is being reviewed and it is being revamped; indeed, I think there is work this week going on to draw upon the experiences of the staff who have been on the receiving end of the training and having to process it as a result of that. We are learning from that and developing different models and different approaches.

Q839 Mr Drew: It is very interesting, because obviously I was working on exactly the same script as the Chairman, so either we have pre-prepared this or we are thinking along the same lines, and David Taylor's point is absolutely crucial. You identify and are managing risk, as the Chairman has said, quite

rightly, loss of key knowledge. We know that one of the real problems was that the nature of the people who were being employed, without being rude to them, was externalised temporary staff who clearly had no long-term commitment, because of the nature of the employment under which they were taken on, and who were not doing the work, not through any fault of their own, they were not really capable of doing that work. Are you saying that those people no longer exist in the organisation, or are you still taking on students who clearly cannot have any long-term commitment to the Agency?

Mr Cooper: We have a range of people employed in the Rural Payments Agency and it would be very wrong to assume that a category of those people employed are not doing a good job. There are many temporary staff that are fulfilling a very, very competent job.

Q840 Mr Drew: That was not the case in the previous incarnation. I do not go along with the horror stories which were identified in the press, I think that was the extreme end of what was going wrong, but it is symptomatic of an organisation which was employing the wrong people. Any organisation which has got this level of complexity, and even though you can make the particular functions that people are working on rather mechanistic, it is all about knowledge and application and, I have to say, a degree of interpretation. You are not going to get that with temporary workers?

Mr Cooper: There are a number of reasons for some of the difficulties you are describing. One is the experience of some of the management, which is being addressed. Another is the nature in which the training was delivered and the speed with which the training was delivered. Whether, as a management team, we provided the right tools for these people to do the job properly, I do not think it would be fair to think that they were armed, fully equipped to be able to do the job, so I think I want to defend a significant proportion of the staff. There will be one or two who will have left who were ineffective.

Q841 Mr Drew: Give us an idea of how many? If you are hiring students, which was the way and it seems to be the way you are continuing to work, with the best will in the world those students are going to work for, if it is the summer holidays, we are talking about three months. If you have got them on a part-time basis, there is a limit to how many hours they can serve you for and, more particularly, they are going to come in and out of work because of the nature of their studies, and so on. Give me a feel for what sort of number of people were involved in that category?

Mr Cooper: In overall terms then, in fairly sort of round numbers, there are round about 2,300 permanent members of staff in the Rural Payments Agency, and today, because it does move around, there are round about 1,400 Agency staff, and the balance is made up with fixed-term appointments and casual staff who are employed directly.

¹ Ev 240 (RPA Sub 17).

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Q842 Mr Drew: How many casual staff?

Mr Cooper: I need to ask my colleague, Mr Hewett: do you know the number?

Mr Hewett: The numbers are bouncing around all the time, but casual staff tend to be dominated in one or two offices which have gone through the fair and open competition route to get those casuals out for a period of up to two years.

Q843 Mr Drew: That is not students?

Mr Hewett: No, absolutely not. What I am saying is that there is a mix of staff, and that is for a very good reason. During the course of 2005, processing SPS, we encountered a number of issues, one of which was to make better use of the IT system for longer during the day, so we were running dawn shifts, six till nine, twilight shifts, six pm to nine pm, and sometimes double day shifts, and it is trying to get people around those certain times, to try to flex the IT system as much as possible. People who were available for short periods of a working day, if you like, outside of the normal nine to five period, would be quite helpful to us. What we are trying to do is move to a more permanent situation and the numbers which Mr Cooper mentioned, in terms of employment agency, we are in the process of trying to convert some of those, I will not say all of those but some of those, to fixed-term status, working with the new HR Director that Mr Cooper has brought in. I was speaking to him only this morning on that subject. The new HR Director and I are going to Newcastle, I think on Thursday of this week, for the first of specific sessions on training, where we are bringing together people from each of the sites who have experience of processing SPS to see what changes we can introduce quickly into the training process to build on that which is already there.

Chairman: For the avoidance of doubt, Mr Hewett, and again to make certain that we get an accurate view, in commenting on what the problems are that you are addressing presently, there is a sort of retrospective feel about this. If I turn it round the other way, in terms of what we have just heard, this says the right management were not appointed, the right training packages were not originally put in place and nobody really understood how the IT system was fully to operate, given the volume of tasks that you had to do.

Mr Drew: And the wrong staff.

Q844 Chairman: Indeed, and you have just talked about having to flex the IT system and bring in a pretty heavy series of shift-working solutions to cope with what you had to cope with. Is my surmise correct?

Mr Hewett: No. I would say not, Chairman. The first point is that 2005 was the first year that we went through the Single Payment Scheme and certainly we found issues as we went along. I think it has been well documented, the level of change, the amount of land that we had to register, the time it took to register, etc. All of that meant that we have tried to

learn the lessons from 2005 and are moving things forward, both in terms of the type of staff that we have running schemes and the amount of training.

Q845 Chairman: Mr Hewett, You are quite right in saying you are trying to learn the lessons, but part of our task is to get a very clear and accurate sight as to what actually went wrong. We are getting some good answers about what is happening into the future but I come back to the fact that we were just told that the training was not right and the management was not right. Those are facts; those appear to be incorruptible facts. You are not disputing those, are you?

Mr Hewett: Yes, I am, because the training was provided at the time based on what we knew about the system and about the processes.

Q846 Chairman: Let us go back to one stage before then: you did not know enough about what it was you were supposed to be doing?

Mr Hewett: I think it is well documented, Mr Chairman, that we did not undertake full end-to-end testing for the whole process, the end-to-end process; we did incremental testing of the various components as they came along. Knowing what we know now, if we had undertaken that full end-to-end testing, we may have come up with a different solution in some of the processes.

Q847 Chairman: This relates back to the line of inquiry I was putting with Mr Vry, that people set off in the direction of travel not quite knowing what the road map was. Seemingly, you have got some idea of where you would like to end up, but you did not know quite how you were ever going to get there?

Mr Hewett: When we set off, of course, we were not going to administer the Single Payment Scheme, we were going to administer 11 farm-based subsidy schemes which we had had since 1993.

Chairman: Mr Hewett, you knew that the negotiations on the Single Farm Payment were proceeding and your Agency had close touch with ministers over that. We did a report, if we go back to 2003, in which we flagged up some of the problems that you were going to face, whatever the situation, so I think everybody knew in which direction of travel you were going. The point I am getting at is trying to understand what went wrong in the ingredients of the team who were planning and who had to execute the new direction. The main message I am getting, whether we like it or not, from the words you have said, is that the management were not up to it and the training was not right, in the light of what you encountered.

Q848 Lynne Jones: Perhaps Mr Hewett could add something. I just wanted to chip in with a comment. You have no comments to make on policy?

Mr Hewett: I am sorry. I have been through that before, on policies. We discovered issues as we went along and we tried to deal with them as best we could at the time. With the benefit of hindsight, clearly there are things which we are trying to do now which, if we had done them before—

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Q849 Chairman: That accounted for the mounting level of risk which Mr Vry outlined, did it? In other words, you went along discovering things; you discovered it was a far more complicated, risky and difficult venture than you had planned for?

Mr Hewett: I think that is fair to say, that the level of complexity became clear only very late in the day.

Q850 Lynne Jones: How late in the day, would you say, because the Minister wrote to the Committee in January saying, you mentioned just a little while ago that the original system was set up to deal with the original CAP tasks and then you had the reform, but he told the Committee that the impact of reform would not be significant on the overall IT solution, and that was in January, in a letter to the Committee? How could the Minister have had that impression in January?

Mr Hewett: Some of the issues became apparent only after that point, some of them were identified before, but some of the complexities and the level of manual tasks which were required to be processed became evident only after that. I have looked back at the information that we have been producing on a weekly basis over many months leading up to the first payments going out in February and the number of tasks requiring manual resolution increased substantially as we went along.

Q851 Lynne Jones: I have looked at some of those and you have Johnston McNeill's memorandum saying basically "This week we've identified X thousand more tasks," and that had been happening on a weekly basis and yet no alarm bells seem to have rung, such that the Minister was still giving out assurances that payments were going to be started at the end of February?

Mr Hewett: They started on 20 February.

Q852 Chairman: Just to back up that point which Ms Jones has made, I looked at one of those reports and by the time the decision was being taken, that you were going to recommend to the Minister you would start paying out by the end of February, the task rate had gone up from, I think, a sort of September figure of 440,000-odd to over 700,000. What amazed me was that no bells seemed to ring that you might not make it?

Mr Hewett: The information that I think went forward explained that we would not complete all of those tasks by the middle of February but that we were satisfied with the degree of accuracy on the overall level of entitlements and payments, meaning that we could start in February, as we had announced some 13 months earlier, and we did make a start to payments. Unfortunately, the payments did not flood out as we were hoping, they trickled, and it was at that point we became alarmed.

Q853 Chairman: Just to be absolutely clear, there was not a point, Mr Hewett, during the year 2005, at which anybody in the Agency, from Mr McNeill downwards, involved in the senior management,

ever had a *scintilla* of doubt that you were actually going to be able to do what you said you were going to do by the end of February 2006?

Mr Hewett: I think Mr Vry has already explained that the level of risk, the risk profile, changed and the risks increased.

Q854 Chairman: That is the point I am getting at. The risk profile changed, going through 2005. As you say, this was a voyage of discovery, you were finding out the complexity, you were finding that more things were going to have to be done than you bargained for; behind that there was an argument, a discussion, interim payments, Farmers' Union requesting to know whether you were going to do it. That started towards the back end, the autumn, of 2005, and, in spite of that, you believed that you were going to make it to February 2006 and it would all be okay. What I am trying to get at is that you never wavered from your belief that you could actually deliver 100% of what was required by the end of February, in spite of the fact that every observer from outside was seeing mounting problems. Huge problems with the mapping, lots of unanswered letters, poor communications, all the things that you know about, but which never made you sway one moment from saying, "Excuse me, do you think we ought to think about interim payments?" before you came to the conclusion in 2006 that you needed to do interim payments?

Mr Hewett: I think very much we did consider interim or partial payments, even before the European Union adopted a regulation to provide for that, and we discussed with our policy colleagues the potential for that and, once a regulation was adopted and the conditions were prescribed, whether that was something which would assist, or not, as the case may be. The general conclusion was that it would not help and it would add even more work, if we were to try to undertake complex processing of a partial payment to meet the regulatory requirements, and so at that time it was decided to continue with the strategy of going for full payments. It became apparent only during the months of March and April, when we did not achieve the level of full payments that we were anticipating, that we needed to move into a partial payment scenario. It was at that point that Mr Addison, on advice from colleagues within RPA and discussion with policy colleagues, sought agreement to make a partial payment, and that is what we did.

Q855 Sir Peter Soulsby: Chairman, I think what we all struggle with is to try to understand how the problems and the risks which were being talked about within the Agency and within the Department led to such a catastrophic failure. A catastrophic failure which, from what you have described today, still presents you with a backlog which is quite enormous and quite astonishing, really, in terms of just the correspondence, never mind some of the other aspects of it, with what you appear to have described to us today being an organisation which really seems to have no aspect of its business that is yet anywhere near stable and, as I understand it, a

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recovery plan which is two years from completion. First of all, is that a fair summary of the situation, that there is not anything which is stable, there is an enormous backlog and it will be at least two years before this recovery plan is fully implemented?

Mr Cooper: There is certainly a tail of work, or a legacy, from the 2005 experience, which is still with us. Ideally, we would have been able to focus more effort on the 2006 scheme without having to clear up the 2005, but, inevitably, you have got to do that before you can move on to the 2006. Yes, there is work to be done on 2005; 2006 though, I do need to emphasise that we did not just stand by and watch 2005 only. The 300 people that we recruited have gone through the first, what we call, Level 1 validation, the initial check of all the claims that have been made, and clarified a number of points which needed to be clarified. There is progress being made there, and now we are processing 2006 claims.

Q856 Sir Peter Soulsby: Perhaps you could tell us just where you are at with the Level 1 and Level 2 validations?

Mr Cooper: Level 1, I think there are about 1,000 of the Level 1s which have not yet been completed, and that is either because we are still waiting for some information or there is some oddity in the IT, which has been identified, which is preventing that case from just moving to the next stage. That has not stopped us though from moving those cases which have cleared the Level 1 into Level 2 processing, so the Level 2 processing is now underway. For example, we have identified the claims which have potentially dual claims on them, so that we can resolve those. We are continuing to progress through the Level 2 validation. In terms of your question about where are we going to be with 2006 then I think the Secretary of State has made it clear already that 96% of the fund value by the end of June is going to be challenging, and that is certainly my opinion. What we are trying to do obviously is seek further improvements for the 2007 scheme and it is probably worth bearing in mind that the 2007 scheme actually kicks off when the forms are pre-populated on issue to farmers in March, which is only four months off. Of course, that relies on us having good information to put on those forms.

Q857 Chairman: On a technical note, your term 'pre-populated'; that means that the information about the mapping, etc., the information that farmers have given for the 2006 payment, is put onto the form for 2007, and in March next year farmers will look at that and will have to decide if it is accurate or whether there have been any changes?

Mr Cooper: That is right; and they have to return that. The further forward we are on validation means that the quality of the information that we can provide is going to be that much better to the farmer, and therefore the farmer has to change less, and once we go through that cycle, the 2008 one, that is when we expect to be in a better position. In my view, it should be a 12-month cycle, let us say, for a scheme; at the moment it is not, it is running at 18 months and beyond, and so my task is to shrink that

into a 12-month period so that the information going onto the start of the process for the pre-populated claim forms is accurate. When I get to that position and the faster processing then that is when we are in a stable and, what I would call, a predictable state.

Q858 Sir Peter Soulsby: Mr Cooper, you have mentioned the Secretary of State's target for June 2007 and you have also mentioned your task. What are the consequences for you and your colleagues if you do not meet this target, and indeed, while we are about it, for how long are you with the Agency?

Mr Cooper: For how long am I with the Agency: my contract is until the spring of 2008.

Q859 Chairman: Are you on any kind of performance bonus?

Mr Cooper: I am, yes.

Q860 Chairman: What is that dependent upon?

Mr Cooper: It is the targets that are in the Operating Business Plan.

Q861 Chairman: Your hitting the 96.14% payments triggers a bonus payment to you?

Mr Cooper: Provided that target is met, yes, it would.

Q862 Chairman: Is your salary and bonus package on a par with Mr McNeill's, or a more generous one?

Mr Cooper: It is on a par.

Q863 Chairman: What about Mr Vry and Mr Hewett and the other members of your senior team, are they on performance-related bonuses as well?

Mr Cooper: They are on a different arrangement, because they have targets to achieve but no pre-defined bonus. Under the present scheme, their performance would be considered by the Defra Pay Committee, as with other senior civil servants.

Q864 Sir Peter Soulsby: Just to clarify this, Mr Cooper, you are expecting to be with the Agency until 2008, and at the end of that period a recovery plan is to be in place, and by that time you are expecting the Agency to be stable and delivering?

Mr Cooper: Yes. Just to clarify; what I would anticipate is that the business strategy that we will produce for going forward will incorporate a recovery programme, whatever those actions are. I would anticipate that would be as part of the business plan that we produce for the Agency, and if we did it on time that should be published in April, and we will work towards that. That would set out what we were doing for the 2007 and 2008 schemes and what I would anticipate is that you would see some visible improvements in the 2007 scheme and have stability in the 2008 scheme.

Q865 Sir Peter Soulsby: Can we take you to the issue of part payments. The decision not to make part payments immediately, is that based on the risk of disallowance, or on the effect that will have on your ability to cope with making full payments?

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Mr Cooper: Disallowance is certainly a factor in there, but the fundamental question was when would the partial payment solution be available, and I had to form a judgment, and therefore make a recommendation, of when I could commit to that solution being available and working, and therefore provide a predictable date as to when payments could be made. That, combined with the more we can do, in terms of validation and making full payments, has got to be the best result that we can achieve, so we want to try to do as much of that as we can in the period up until partial payments are made. The partial payments, yes, potentially, it could run and carry a risk of disallowance, if we cannot get sufficient validation done.

Q866 Sir Peter Soulsby: What attitude have the European Commission taken to partial payments?

Mr Cooper: They have provided for partial payments and we are working towards trying to comply with those regulations.

Q867 Chairman: Could I ask, in terms of the work you are going to be doing to improve the operation of the Payment Scheme, does that involve further software modifications?

Mr Cooper: It will do. During the process of getting to the starting-point with the Single Payment Scheme the contract was a fixed-price contract and it had specific items to deliver. During that process some items were either moved to this current financial year or were descope. Management information is a good example, where that was taken out of the solution which was provided for the 2005 scheme; therefore, if you call that software, which I do, that is part of the service that we are buying from the contractor.

Q868 Chairman: From Accenture?

Mr Cooper: From Accenture, yes.

Q869 Chairman: Just to be clear, are you going to have to find extra pounds to pay Accenture to do some of this work, or because it was a fixed-price contract you have paid them all the money they are going to get and in the next two years they are still going to have to do certain other tasks?

Mr Cooper: No. The fixed-price contract was for the deliverables up to the point of the Single Payment Scheme going live. We have now embarked on a new contract, which this year is the mechanism by which we are buying the services that we are getting from them.

Q870 Chairman: Does that represent additional expenditure which was not planned for, or have you got a line in the budget written for continuing IT expenditure?

Mr Cooper: The budget includes the expenditure which I am talking about now.

Q871 Chairman: It is not like the extra staff; in other words, it is not another £23m, or whatever the right number is?

Mr Cooper: It is included in the overall costs of the Agency, at £223m. We included the estimates of the additional services that we would need from Accenture in that.

Q872 David Taylor: Is there a definition of 'going live' Mr Cooper?

Mr Cooper: Let us call it the period when the last release was delivered, which I think was June 2006 this year.

Q873 Chairman: I suppose, roughly speaking, it is round about another £20m in IT. If we look at paragraph seven of your Forward Plan, you say: "Additional funding of £46 million has been agreed with Defra, split between running costs and capital to cover planned staff costs and project expenditure (including software development to support the 2006 and 2007 Schemes)." Is that a rough ballpark figure?

Mr Cooper: That is right, yes. Obviously, that sum also includes the additional policy changes which we have to make, so it is policy as well as the items that have been descope, like management information.

Q874 Lynne Jones: What problems are you still having with RITA, and how does this square with Accenture's assurance that their system is stable and functioning?

Mr Cooper: The RITA system is a complex system and a collection of services and it has been operating quite effectively. It is not necessarily easy to use, I do not believe, I would not describe it as a user-friendly system, but in terms of its functions then those functions work, and work every day. There can be many reasons why there is a difficulty for some of our staff, for example, and it may not be caused by RITA, it may be another part of the IT tools that they use, because they use more than RITA.

Q875 Lynne Jones: Could you give an example?

Mr Cooper: We use a different system for tracking correspondence, for example, and there are obviously networks and infrastructure which are not provided under the RITA service.

Q876 Lynne Jones: That was known when the RITA contract was set up, that there was no interrelationship between the systems?

Mr Cooper: It was, yes. The different suppliers work together to make sure that it all gels, so the information flowing along the infrastructure in the pipes, the networks, that is provided by a different supplier, but obviously they work together.

Q877 Lynne Jones: You just said that they do not work together very well?

Mr Cooper: No; sorry. The systems within RITA and the interfaces do not work necessarily in the way that I would describe as user-friendly. Our processors have to work with multiple screens to be able to perform transactions, which makes their job more complex.

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Q878 Lynne Jones: Is this because of the task-based system?

Mr Cooper: It is not, necessarily. A task-based system, I think everybody knows that we are moving away from task-based and dealing with a whole case. In a way, there is nothing wrong with task-based systems. My personal view is, where we have to make the adjustment is taking a case and attaching to it the task which would have been scattered across the organisation. The way it was designed, it was a fairly random sort of distribution of the task across the organisation, which led to lots of confusion, because, for example, different processors could contact the same customer, they could be working on the same case and they would not know that necessarily; whereas the way we are going to work going forward is that one person or one team will have control over what is happening on that case.

Q879 Lynne Jones: Mr Vry, you were in charge of the Change Programme and the Change Programme involved setting up the task-based system. Who was it who decided that this was the way to go?

Mr Vry: My understanding is that the original proposition for how the organisation should be structured came out of the original business case which was created in 1999, I believe. It sets the objective for the Agency to have a work-flow-based system, which would allow task management, giving maximum flexibility for the organisation, because running 60 or more schemes, as it did at the time, the intention was that you would be able to use staff across the sites to process more than one scheme each and so maximise the flexibility. That was where the original proposition came from.

Q880 Lynne Jones: You were not involved at that point?

Mr Vry: I was not at the Agency at that time.

Q881 Lynne Jones: Do you know who was?

Mr Vry: No. I do not know the details of who accepted that business case.

Q882 Lynne Jones: When you took over, you thought it was a very reasonable proposition and were happy to go along with it?

Mr Vry: When I joined, in November 2001, I looked at the business case as part of my review before joining the organisation to see what was proposed and the business case itself seemed reasonable and sound. It was recognised even then as being high risk, and the original proposal, to implement it inside of 12 months, from PWC was rejected and a longer timeframe was set for implementing the changes that were necessary because it was thought that the timeframe was going to be too aggressive. We then went into a phase, at the same time as I joined, of recruiting a supplier to help RPA, which did not have that experience, to develop an IT system and to help with the business process re-engineering, to change our business processes to map onto that new way of working. That procedure went through and culminated in the appointment of Accenture at the end of January 2003. Then we went

forward with Accenture starting to work on business process re-engineering to look at all of the business processes that RPA had got across all of its schemes to see how they could be re-engineered to fit into a task-based system. RPA had already done some work around specifications for that and shared those with the suppliers who had been short-listed and asked them to look at that, and there was opportunity there for parties to view what was the best approach. In the end, we concluded a contract with Accenture which was based around a model which was task-based processing. That was a period whereby we had the opportunity to review that. Of course, as we moved forward, and then during the course of 2003, there were difficulties in the business process re-engineering work which was kicked off with Accenture, which we did jointly with Accenture. RPA was not happy with the outcome from that work and we did not think, at the time, that it reflected necessarily the requirements of the business or, in particular, how we would need to comply with EC regulations in operating the schemes. That piece of work was rejected by RPA and at that point we decided not to proceed with that work with Accenture. In the same timeframe began to emerge the changes of the CAP reform and so there were detailed discussions held between RPA, Accenture and Defra in terms of what would be the appropriate way forward, given the fact that the whole locus of the Change Programme was about to change. This being from one driven by benefits, in terms of implementing a new IT system to put all of the schemes onto one IT system to reduce the number of staff needed, to deliver a lower-cost operation, and the underpinning system therefore was to deliver that flexibility that we needed, to one which was driven more to do with delivering a new scheme, the requirements of which were not known. Therefore it being inherently more risky, in terms of specifying the requirements, than one where we had run, in particular, the 11 schemes which were replaced by SPS, and the whole profile of the Change Programme changed at that point. We went through the process with Defra and Accenture of looking at what the options were, and decided that the focus of the Change Programme should be to deliver the Single Payment Scheme and that we would continue developing the system which was already in stages of development to deliver Single Payment Scheme as the priority. There was still the element of bringing the other schemes on board, but at a much later stage. That pushed back the length of the Change Programme; at that stage, it was estimated that an additional year would be required. We then worked through a new schedule to deliver that IT and all the supporting business processes which would be needed, and training, etc., to support the implementation of the scheme, and settled on a set of dates which we thought were achievable and realistic at that time. As we went through successive months and years, obviously some of those dates were not met; as it talks about in the Report, there were delays in the delivery of policy and there were subsequent changes in the European policy, which meant that as we progressed with the design of the

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system the requirements which that system was to meet had changed and we had to go back in and redesign elements of the system and retest them. That is why, in the Report, where it talks about the timeframes for the IT being compressed and there being limited amount of testing and no end-to-end testing, it is that picture. The original locus of the Change Programme was focused for a very different thing, and implementation of SPS changed the direction of the Change Programme. Unfortunately, as we moved through to the later stages of the programme in delivering SPS, it became increasingly apparent that a task-based approach alone was not adequate to give us proper control of knowledge of how quickly we were getting through individual payments. Our difficulties were that, as part of the necessary descopeing to get the system delivered on time, one of the key components of that, the management information, was not in scope, it had been removed from scope. Therefore we had information which gave us a view of how many tasks were outstanding but actually we had problems with being able to manage through to complete the payments in the timeframes that we had expected. As I said, when we started actually changing the scope of the programme, we had a timeframe, that timeframe changed over a period of time and became fore-shortened by delays in realising policy. That, in turn, impacted upon the testing timeframes, which meant that the testing was not completed to the level of detail that we would have wished, and the processes suffered similarly from compacting on the timeframe. We spent a significant amount of time looking at alternative options, including the development of a contingency solution as an alternative to the RITA processing function, and also looking at potential options for partial payments or advance payments. Significant amounts of RPA and Defra management time were spent looking at those options and how best we could deliver that. Also we used the Office of Government Commerce to provide regular reviews of progress, to give us an indication of whether our own views were realistic or whether they were either too optimistic or too pessimistic, to try to give us that balance. Clearly, at the end of the day, we were not able to get the volume of payments out to the customers in the timeframes that we expected, and we got that badly wrong, and I do not think anybody is arguing that is not the case. We did set a forecast, in January 2005, that the earliest we could make payments would be February 2006 and we met that objective, so we managed that process through. Where we got it badly wrong was that actually, the process of finishing off the validation around these payments and getting the payments out of the door, we got that wrong in the sense that we predicted we would do it sooner than we did. That was a difficulty of running a new IT system, with new business processes, for the very first time. That was why, when I was talking about the elements of risk, the risk profile was increasing, because things that ideally we would have liked to do, like completing end-to-end testing, were not practical in the remaining timeframe.

Q883 Lynne Jones: Were you quite happy to go along with the optimistic scenarios which were being put forward, the bullish reports that Johnston McNeill was putting forward, you felt that they were realistic, knowing, as you have just described, all the examinations of the systems which took place, looking at alternatives, which all appear to have been rejected?

Mr Vry: The benefit of hindsight is a wonderful thing. Working as a team, we sat down ourselves in RPA and with Defra and with external advice, we looked at the options, we looked at what were the realistic options at the time and what we thought was the viable way forward and, based on that, we felt that it was deliverable. Indeed, the initial headline of getting payments out in February we met, having predicted that a year ahead. What we badly underjudged was actually the ability to process the payments and get the bulk of payments out in a reasonable timeframe thereafter.

Q884 Lynne Jones: You were not put under any pressure, either by senior management in your team or politically, which prevented you from expressing any concerns that you might have had?

Mr Vry: I think it is fair to say that everybody felt pressure, not that they were put under pressure but felt pressure, that we wanted to provide good, early payments to our customers, which were accurate, and that, at the same time, we wanted to provide value for money for the taxpayer and not encounter significant sums of disallowance.

Q885 Chairman: Can I be clear on one thing. Earlier on, you were describing the process of the changing demands that were being put upon the system that you were building as part of the Change Programme, and, if you like, the pressure accelerated as new elements of the Single Farm Payment policy emerged. Did you ever say, at one time, "We need more time in total to deliver the package" to the standards that you wanted and did you ever flag that up to ministers with a request that the process should be slowed down, that the introduction of the Single Farm Payment should be delayed?

Mr Vry: There were discussions around the risks of implementing the IT system in constrained timeframes and the risks that could pose and what our alternative options were, and issues including postponing the implementation of it were raised and discussed. One of the issues was that in England we had committed to the European Commission, I believe, I think it was in August of 2004, if my memory serves, that we would be implementing the scheme in the 2005 scheme year. Therefore, it was felt that had to be met and we had to deliver that, therefore we were looking for alternative contingencies to mitigate the risks around the IT delays, but all options were considered.

Q886 Lynne Jones: Who would have told Lord Bach that the impact of reform would not be significant on the overall IT solution?

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Mr Vry: I am sorry, I do not know.

Q887 Lynne Jones: You do not recognise that phraseology: would you say that it was not an accurate point of view? Mr Hewett implied earlier that it was not an accurate point of view because he was talking about major changes as a result of CAP reform.

Mr Vry: I can say, speaking with hindsight, and hindsight is a wonderful thing, that it is quite clear that the impact of CAP reform was a major issue on the overall Change Programme and RPA's ability to commit the IT.

Q888 Lynne Jones: When do you think it became known that it was a major issue?

Mr Vry: I think that was one of the issues. It was not at any one point in time, there was a slow accumulation of issues, and if the question is at what point did the tipping-point become—

Q889 Lynne Jones: It was a slow accumulation of issues and it just crept up on you and you did not notice it happening?

Mr Vry: It crept up on us without anybody noticing. If you look at the reports, the reports do state the key issues and there is a lot of reporting around red, amber, green status of the key issues the organisation was facing, and it was recognised that it was an increasing risk profile.

Q890 Lynne Jones: Can you tell me what the difference is between the Change Programme and the CAP reform and the Single Payment Scheme? Is developing the SPS part of the Change Programme, because I was led to believe that they were two separate issues, that you were embarking on a Change Programme and then you had to implement this new scheme?

Mr Vry: That was the discussion which went on, around the middle of 2003, when the CAP reform issues began to emerge, in terms of being crystallised, that CAP reform was going to have to be sooner rather than later. The Change Programme existed already and it had a clear set of requirements around reducing the organisation, in terms of the number of offices from which it operated, the number of staff which operated it and improving its efficiency and placing the lion's share of the IT onto one single IT system, from what was previously a plethora of IT systems, legacy systems, which were reaching the end of their supporting timeframes. When CAP reform began to emerge as a current issue and looked likely to happen in the near future, there were discussions around how it would be best to implement that. Various different options were considered and the ultimate decision was that it was best that the Single Payment Scheme and the implementation of CAP reform was part of the wider Change Programme and became the key driver for the Change Programme, going forward, as the number one priority for that Change Programme and for RPA itself to focus upon.

Q891 Lynne Jones: It was sensible to let go all those experienced staff, as part of the Change Programme?

Mr Vry: Again, it is an issue of timing. When it was envisaged originally, with the way in which the organisation was designed to move, it was sensible that there was going to be a downsizing in the organisation, with 11 schemes being simplified into one scheme, and the various different aspects of CAP reform was anticipated in the very early days, that there were opportunities to continue with that downsizing. There was a requirement, which was discussed, about having to give notification to staff about that, so it was not that you could turn around on the Friday and make a decision and then remove people on the Monday, you would have to give them adequate notice, so there was a period in which we had to give significant, I think it was in the order of six months, notice of the intention to do that. Unfortunately, as the complexity of what the organisation was seeking to deliver increased, some of those decisions had already been taken and commitments had already been made to staff to allow them to leave. It was those two issues, pulling in opposite directions but in the same timeframes, which were one of the problems that the organisation faced.

Q892 Lynne Jones: Since you have moved to operating on a claims-based business process, is RITA, which was designed for a task-based process, now fundamentally unsuitable?

Mr Vry: Currently we are having a review to look at that situation and we are using an external party to have a look at the applications that RPA operates and the infrastructure on which they are provided, to ensure that both the applications and the infrastructure are suitable for RPA's needs going forward. We do not have the review outcome from that yet. I spend some time talking to staff and getting their views and ask them what they think about the system, and there is frustration about some aspects of the system, about the design and how it is not, as Tony Cooper was saying, as user-friendly as it could be, and there are certainly opportunities for us to improve that. The system continues to process claims from receipt through to payment, so it does work and it continues to work. Therefore it is not possible to say that it is not fit for purpose, because it does the job, as things stand. Does it do the job well enough: no, I think we could do more.

Q893 Chairman: Throughout your response to Lynne Jones's questions, you have used the word 'risk'. Risk is a concept about probabilities of either achieving or not achieving something. Did you quantify the mounting riskiness, as you went on, numerically; in other words, as we go through, the percentage, i.e. the chance, if you were a gambler, of not achieving the results you have set out to? Obviously, in gambling terms, the odds would be shortening all the time. Did you quantify risk at all as you went on?

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Mr Vry: We tried to quantify risk and actually set down some examples of how we thought that risk profile was changing over time, but it is not a scientific exercise where we can say we are 75% confident and be sure that is 100% accurate. We tried to give some indication of the level of risk and how that was changing over time, and indeed in the reports that we provided there were graphs indicating risks for different areas that we were operating under which showed the movement of those risks over time.

Q894 Chairman: Looking at the summation of the Gateway Review report, within the NAO report, it looked to me as if you had managed to get nearly a complete line of red traffic-lights on 18 August 2005. You have got only one subject which is an amber light, which was 'Scope' of the project. On that particular assessment it is red lines, all bar one, right across. On 22 September, you have got two ambers, the rest were red. Then you were back to all, bar one, on 18 October. That says to me that, in that period, the risk factors were increasing quite substantially.

Mr Vry: Are you referring to Appendix Six?

Q895 Chairman: Yes. This is actually RPA's report, page 43.

Mr Vry: This is the report that RPA did for the Executive Review Group; it is not OGC's report.

Q896 Chairman: Even better, if you produce these reports yourself, there is this mounting tide of red traffic-lights and yet nobody puts on the brakes, the car continues to career towards the edge of the cliff?

Mr Vry: These red, amber, green ratings were constructed in accordance with the OGC standards for the red, amber, green, and red meaning that actions need to be taken immediately to address the situation.

Q897 Chairman: The more reds you get the more, as a layman to these matters, it says to me there is a mounting tide of uncertainty about what we are going to be able to do. In terms of the kind of decision-making process over, for example, interim payments, it is just interesting to look at the increasing occurrence of red traffic-lights against a background of "It'll be all right on the night," amounting to Lord Bach coming to this Committee saying everything would be okay and then, within almost days, weeks, suddenly it was not going to happen. I just do question the competency of the assessment of risk, particularly during that second half of 2005, when your own reasonably objective assessment shows a mounting tide of risk increasing?

Mr Vry: There was a key issue of risk, and we used OGC to help review constantly our progress to make sure that we were not being overly optimistic, or indeed overly pessimistic, to give us a way forward. Indeed, we even brought in OGC in October of 2005, and at the end of 2005 they advised us that they were convinced that the programme had a reasonable chance of success of delivering SPS payments within

the payment window. We had independent confirmation that, yes, it was high risk and, yes, there were challenges and it was difficult.

Q898 Chairman: Did Accenture ever talk to you about their view of the project beyond the sort of narrow little world in which they seem to operate? The message that they gave to this Committee was "We did what we were asked to do. It worked when we tested it; the system was stable. No, we're not offering any observations about that which we weren't responsible for. The end." The end was it did not work. Did Accenture ever communicate beyond their little box, or did they just do what you asked them to do?

Mr Vry: First of all, most obviously, there was a contract in place with Accenture for what Accenture was being asked to deliver and we had in place contract management arrangements with them in order to ensure that they delivered against that contract. Also, they did sit on the Change Programme Board. There was a seat for a senior supplier, in fact we had two senior suppliers on that Programme Board; one was external, which was Accenture, our lead delivery partner, and one was internal, which was the IT Director of RPA, to provide us with the ongoing assurance and review as to how the programme was progressing. They were involved in the overall programme, but obviously they had a contract which they had to deliver, which was specifically a part of the Change Programme.

Chairman: You did not actually answer my question. My question was did Accenture, particularly if they were sitting on this Board, comment on anything about what they saw going on around them?

Lynne Jones: All the additional tasks which suddenly came up?

Q899 Chairman: Here, you have got a company with a world reputation, which was why you employed them, because they were good at doing these complicated tasks. They have to understand the totality of the universe in which they are operating, otherwise they cannot plug in the bits, their software, to make it work; they have got to understand externalities. Therefore, if you are looking at what is going on around you and you are a very experienced company and operating in this field, and if you can see risks mounting and problems occurring, did they just sit there, like Trappists, and say nothing, or did they offer any guidance to the management of the RPA that, in their professional opinion, as observers of a complicated system, they might have one or two observations to make about what was going on around them?

Mr Vry: As I say, they did take part, on the RPA Change Programme Board, so they were party to some of the discussions which were taking place there.

Q900 David Taylor: Was that actively, or just passively?

Mr Vry: No, they were actively engaged and they were involved in the discussions.

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Chairman: They might have been actively involved in the discussions, what I am trying to get at is, were they a positive participator, to say, "Look, guys, you're running into some problems. We understand how complex systems operate and this one ain't going to operate"? Or did they just sit there and say, "Yes, you've asked me a question, are we going to deliver this release, that release, on time; yes, we're going to do that. Have you tested it; yes, we've tested it"? Were they active participators or just merely sitting there, waiting to be asked questions?

Q901 Lynne Jones: Did they go along with the optimistic scenarios that were being painted?

Mr Vry: My experience was that, during the life of the Change Programme and when they attended the Change Programme Board, they were active participators, and we had a number of workshops with them, looking at the way in which we operated RITA and how that worked within the organisation, and they liked to contribute to that.

Chairman: Yet Mr Cooper has told us, very interestingly, that the resulting system for which they were directly responsible was not "user-friendly". I find that intriguing, that you can have these experts sitting there, participating, going to workshops, no doubt talking to people who will have to use it, and yet they produce a system which you describe as not user-friendly. I just find that quite amazing. Surely the idea was to provide something that people can operate properly, without having some of the difficulties. How come you ended up with a non-user-friendly result?

Q902 David Taylor: Why did you sign it off?

Mr Vry: The first thing which was one of the key issues was obviously there was a requirement to get the system in, in order that we could process the payments. Therefore, we had to work with them to deliver it in that finite timeframe, recognising that we would need to make some changes, but, having said that, the business was involved in signing that off and were the people who were involved in testing it and user-acceptance testing it, to ensure that it was capable of doing what we asked of it.

Q903 David Taylor: Was Accenture rubbing their hands at the prospect of future revenue because you signed off this unsatisfactory, non-user-friendly system?

Mr Vry: We did say that it was not as user-friendly as we would like it to be, and that is absolutely correct, it was not as user-friendly as we would have liked it to be, and we accepted the solution as meeting the requirements that it was defined to meet.

Q904 Chairman: We do not want to get into too much of the detail, because we do not know exactly what was said, but most people when they are designing computer systems want them to be user-friendly. Did not that bit appear anywhere in the specification, that this thing should be user-friendly?

Mr Vry: I do not know the exact details of the specification so I would have to go back to find exactly what the wording was, but clearly we had an

issue to cover in terms of getting the system in, in order to be able to process the payments, versus not making last-minute adjustments to the system in order to correct some elements which were not user-friendly.

Q905 Chairman: I suppose really what you are trying to say, in a nice, diplomatic way, is "We were more concerned with the end-game and getting the thing to work and not so much in refining it." In other words, it was the result that counted first, refinements came later, and Mr Accenture was happy to go along with that philosophy?

Mr Vry: What we had to do was make sure that we delivered the system in order to enable us to make payments, so that was the priority.

Sir Peter Soulsby: It sounds as though they had you over a barrel there.

Q906 Lynne Jones: Mr Alan McDermott was hired in 2001 as your Information Services Director on a salary of £225,000 a year, on a six-month, recurring fee-paid contract. Was the experience of bringing him in a positive one, and has he been replaced?

Mr Vry: I can talk about how it worked with Alan. Alan McDermott joined the organisation before I did and he was a very experienced IT professional, with whom I found it very useful to work.

Q907 Lynne Jones: Was the experience of bringing him in a positive one; did he contribute effectively to the task that he was set, as Information Services Director?

Mr Vry: I am not an IS technology professional so I cannot comment on that, but I can comment on my experience of working with him, which was very positive.

Q908 Lynne Jones: Then what did he achieve?

Mr Vry: He was very useful to me, as the internal person with IT experience helping us to deliver in constrained timeframes.

Q909 Lynne Jones: So that was responsible for liaising with Accenture then?

Mr Vry: He and I worked closely together. I had the contract management team reporting to me. Alan McDermott dealt with the technical issues and provided the advice and guidance on the issues which would surround us which related to the technical aspects of the programme.

Q910 David Taylor: Does advice and guidance include the advice and guidance to sign off the inflexible, slow and opaque system, because of the time pressures?

Mr Vry: There was a whole degree of people who were involved in reviewing the system and, say, an acceptance process, which would include sign-off by members of the Programme Board, based on assurance received from people working within the business to assess whether it was acceptable, against the acceptance criteria.

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Q911 Lynne Jones: Has he been replaced?

Mr Cooper: He has, yes. I have a different IT Director now on the Board.

Q912 Lynne Jones: Have you improved the quality of the management information available to you in Defra on the performance of the RPA?

Mr Cooper: We are doing a lot of work to arrive at a different set of metrics for the Agency and providing that sort of performance information to Defra. At the moment, a lot of that information is collected clerically, but we are now moving towards a more automated solution.

Q913 Lynne Jones: So the RITA will be able to provide you with the management information you need?

Mr Cooper: RITA at the moment can provide management information, but the difficulty we have is that when we run the reports then that uses the processing power, it means that it slows down and the service that the processors use is inadequate. What we have to do, which is quite normal, I think, is create a smaller version of the database and take a copy of that and pull reports off that copy, or mirror, database. That will give us then the sort of information that we are looking for.

Q914 Lynne Jones: You say that is normal that when you want management information it actually detracts from the performance of the system?

Mr Cooper: If it is run against the live database, then if you run complicated reporting against that, yes, that is likely to cause the service to deteriorate, the performance to slow.

Q915 Lynne Jones: Can you not get that information overnight?

Mr Cooper: There are already batch runs which run, and that absorbs the available window. Some information is pulled off in that way. That is the source that we have at the moment. What I am outlining is how we are moving forward so that we have a better capability to provide the sort of management information I need, the teams need and Defra needs.

Lynne Jones: It would be useful perhaps if you could give us a note as to what information you have to collect manually and when you anticipate that will be provided automatically².

Q916 David Taylor: Our potted CV for you, Mr Cooper, says that you were responsible for implementing major IT change programmes in the DWP and the NHS. Which of those systems were you most proud of?

Mr Cooper: I think the experience I had on Pension Credit probably was the one that I was most pleased with, in terms of how it progressed.

Q917 David Taylor: You said earlier on that, at present, Defra has, I think the figures were, 2,300 permanent staff, 1,400 agency and currently some

undeclared numbers of fixed-term and casual staff. Can you think of any other government department where the permanent staff are outnumbered by the casuals, the fixed-terms and agency staff?

Mr Cooper: I am not aware of any others. I believe that there are some who have a commercial arrangement to run almost 50/50, but I think that is the exception rather than the norm.

Q918 David Taylor: Is this driven by Gershon, to a degree, to get these people off the Government's books?

Mr Cooper: Defra had a Gershon target to which the RPA was making its contribution, and that was one of the drivers for the Change Programme and the efficiencies which were being sought.

Q919 David Taylor: It is smoke and mirrors, is it not?

Mr Cooper: Why do you say that?

Q920 David Taylor: The head count of permanent staff must be driven down at all costs, so even if you are recruiting some lowly-paid, ill-trained, expensive in the long run, staff, it is at least partly responsible for the position in which the RPA found itself in March 2006?

Mr Cooper: The position that RPA found itself in means that the contribution that they were making to the Gershon target has not been achieved.

Q921 David Taylor: On 16 March, which I am sure is wired into people's psyche in the RPA and in Defra, the then Secretary of State announced the Hunter Review, a fundamental review looking at the then existing and possible future functions, looking at the effectiveness of relationships of the RPA with the parent department and other key stakeholders: 16 March; it is almost nine months since that was launched. There must be some early information feeding out of the Hunter Review, some early conclusions, some summary data that you could share with us today, in brief. What sorts of things does it say?

Mr Cooper: I do not have knowledge of the final report that David Hunter will be writing, and I believe that will be published or made available to ministers early in the New Year. In the early stages of the Hunter Review, they identified some areas that we needed to focus on, for example, the organisational change, the strengthening of the leadership, the strengthening of management and the suggestion that some of the processes had to be redesigned, and those are the things that I have been taking forward in the meantime.

Q922 David Taylor: Only three months after that announcement, Defra contracted Corven Consulting to look at the Single Payment Scheme, did it not?

Mr Cooper: They did.

Q923 David Taylor: Was there not at least some potential overlap between the work of the Hunter Review and what Corven Consulting were charged with, and how has that worked, in practice?

² Ev 240 (RPA Sub 17).

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Mr Cooper: The first stages of the Hunter Review were undertaken by Corven, so those early findings also are reflecting what the Corven report said.

Q924 David Taylor: How much has Corven cost so far?

Mr Cooper: I do not know. That contract was between Defra and Corven.

Q925 David Taylor: It is not going to be coloured by commercial considerations? We are not going to argue them now.

Mr Cooper: I can let you have a note.³

Q926 David Taylor: Will you write to the Committee with that information?

Mr Cooper: Yes.

Q927 David Taylor: Then the sister committee, the PAC, last month, Helen Ghosh told them that you had brought in a team of consultants from Gartner to look at the Agency's IT. What is their role and how much will they cost?

Mr Cooper: Their role is to take a look at all of the IT in the RPA.

Q928 David Taylor: Including the SPS?

Mr Cooper: Including the SPS.

Q929 David Taylor: Are you going to hold Corven Consulting aside so that they can have a look as well?

Mr Cooper: No. Corven were not asked to look at the IT by Defra.

Q930 David Taylor: That is interesting. How can you look at the Single Payment Scheme without referring to the IT applications, which are at the core of it; how can you possibly do that?

Mr Cooper: They looked at it from a business process perspective and looked at it from the RPA's management capability, I guess, rather than looking at the technical detail of the IT.

Q931 David Taylor: We have got all these consultants and agencies and reviews going on, and consultants are buzzing round the corpse of SPS like so many wasps at Wimbledon on a hot day. You are a senior civil servant of very considerable pedigree; do you agree with me that, in my experience in IT, public sector IT, the decision to outsource by senior managers, or top managers, was often driven by a lack of self-confidence about learning IT language or a lack of confidence in the abilities of their own internal IT staff? Which was it that led you to contract out; why were they needed?

Mr Cooper: I asked Gartner for two reasons: one because they would provide an independent assessment and I needed a considered view of the condition of the IT.

Q932 David Taylor: At great cost. Could you not get the information more quickly and more reliably and more inexpensively from senior IT staff within the Department, or have they all been outsourced because of Gershon's pressures?

Mr Cooper: I do not think I could identify three or four people that we have freed up with the right skills to be able to look at the systems and provide that independent view that I need.

David Taylor: I find that astonishing, quite frankly. With the 4,500 staff that you have got, you have had to go outside for expensive, gilt-edged consultants. They must be licking their lips.

Q933 Chairman: How much is Gartner costing?

Mr Cooper: I knew you would ask me that.

David Taylor: I did ask it, actually.

Q934 Chairman: You have not given an answer; that is why I am asking the question again?

Mr Cooper: I need to confirm but I think it is £300,000.⁴

Q935 David Taylor: A fixed price?

Mr Cooper: Yes, it is.

Q936 David Taylor: Until they find them something else to do.

Mr Cooper: It is a short-term piece of work. I have used Gartner before for various benchmarking exercises.

Q937 David Taylor: How short-term, and how many consultants is that?

Mr Cooper: They will report at the end of December.

Q938 David Taylor: How many consultants will have been in place for the six months of the contract?

Mr Cooper: It has not been six months. The contract was let at the beginning of October.

Q939 David Taylor: I am sorry; in the three months. How many consultants, on average, will there be for that £300,000?

Mr Cooper: I think there are three or four; there is a core team but there are some further personnel reviewing and drawing on information that they have from their global experience.

Q940 David Taylor: Three or four consultants for about three months; that is about a consultant year, is it not, for £300,000? It is more generous than the previous contract to which Lynne Jones referred. Gartner must be awash with money.

Mr Cooper: I think it is important that we have clarity on the suitability of the IT before we put further investment in the IT.

David Taylor: I do not deny the reasonable use of the objectives of the process. I do query the applicability and value of the source of the consultancy that you have contracted.

³ Ev 240 (RPA Sub 17).

⁴ Ev 240 (RPA Sub 17).

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Chairman: I think the Committee will find it very interesting that, now, with the benefit of hindsight, so much care is being taken over the IT, when I think we can see that there were some questionable decisions made at the beginning of this process about the IT and the development of the software, because that is from where a lot of the problems seem to have come.

Q941 Lynne Jones: Do you think that you have the necessary in-house expertise? You are appointing consultants, but should you not have in-house expertise in these areas?

Mr Cooper: I take the view that having an in-house capability, to some extent, certainly is necessary. One issue I would have though is how those individuals refresh their knowledge and keep up to date with developments. I think that bringing in a firm like Gartner to do a specific piece of work actually does make sense to me, rather than trying to build that capability in house.

Q942 Lynne Jones: When we saw Larry Whitty, I have not recently looked up the account but in effect he was saying that he was meeting with farmers and they were giving him information about problems with the mapping system; we also had a presentation of all the problems that were being experienced by farmers in getting accurate mapping systems. Were you getting any information from your customers, or from within the Agency with members of your staff who were having to deal with your customers, which caused any problems? This would be for Mr Hewett and Mr Vry.

Mr Hewett: Yes, we do, through various sources. Until Mr Cooper's arrival I had responsibility for meeting on a regular basis with our main stakeholders; those stakeholders brought some of those cases to our attention. We undertook specific sessions with stakeholders to review specific cases, to follow those through and see if there were any underlying issues and where they were and what we would try to do about those. We also obviously received inquiries direct, through our customer contact centre and through written representations, and again we undertook to review some of those and to follow those through and see what changes were necessary. One of the key points in relation to mapping is just the sheer volume that we were receiving in relation to the 2005 Single Payment Scheme and the volumes that we have seen since, a huge data capture and then cleansing exercise. In 2005 there was a phenomenal amount of mapping inquiries and registrations and modifications to those registrations, which we have not yet seen, thus far, in 2006. I think it is fair to say that some of the technical issues which beset us early on in 2005 and eventually resulted in us outsourcing the digitisation capability, which we discussed the last time we were in front of this Committee, led to that problem in itself, and then certainly the scale of it. As you may have heard, we have since brought that digitisation capacity back within house and are now processing predominantly out of one location.

Q943 Lynne Jones: All of this information which was coming from your stakeholders did not lead you to have any doubts that you would be able to achieve the payment window that you expected?

Mr Hewett: It was certainly another pressure, which we took into consideration but it did not alter our overall view.

Q944 Lynne Jones: Did ministers have access to this information, did they know what was going on; they knew that the stakeholders were up in arms?

Mr Hewett: Indeed, ministers had been meeting stakeholders on a regular basis.

Q945 Lynne Jones: They knew as well, but again they still thought that somehow or other it was going to be all right on the night?

Mr Hewett: Certainly they tried to address issues during the course of those representations and discussions.

Q946 Lynne Jones: Can you give me a specific example of measures that you took to address those issues; obviously, you outsourced the digitisation?

Mr Hewett: That was the first part of it. That in itself allowed us to increase the rate of digitisation but created its own problems in getting the data back into the system, which then impacted on the speed at which we can validate a claim. The first point was to get the land mapped and registered, or to amend an existing registration, and then we had to get that digitised area, or revised digitised area, back into the main processing system so that we could get on and validate. Once we got over the peak of that digitisation exercise, and certainly we did a huge work amount of work during that outsourcing period, we decided it was more efficient to have the process in house. Certainly the intention is to centralise on one location wherever possible to make sure that any errors are corrected at source, or whether there are any technical issues which were created through the outsourcing, and then getting the data uploaded, to have that all within the system.

Q947 Lynne Jones: Did ministers have access to any independent sources of advice, apart from the RPA and Defra, in relation to the whole Single Payment Scheme?

Mr Hewett: Advice from their policy colleagues, would have been one, and obviously from the stakeholders.

Q948 Chairman: Just on a point of detail there, when you say "advice from their policy colleagues," who were those colleagues?

Mr Hewett: Sorry; policy colleagues of mine to their ministers.

Q949 Chairman: Policy colleagues of yours?

Mr Hewett: My policy colleagues in the Department who would be advising ministers.

Q950 Chairman: Who would those be; what functions did they perform? You said "policy colleagues."

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Mr Hewett: The colleagues within the Department who have responsibility for the Single Payment Scheme.

Q951 Chairman: You mean, like Mr Lebrecht?

Mr Hewett: Yes; people such as that.

Q952 Chairman: He seems to be running everything. When you look at the NAO Report, he seems to have managed to be on the Executive Review Group and he seems to be involved in CAPRI, I know he is a chum of yours, in giving advice. How independent was this sort of route to ministers?

Mr Hewett: I am saying there was a different source of advice, rather than just the RPA. Our RPA policy colleagues would have provided advice on the Single Payment Scheme to ministers, separate from that which went from RPA.

Q953 Lynne Jones: There was not anybody independent of Defra?

Mr Hewett: There were independent members on the CAPRI and on the Executive Review Group.

Q954 Lynne Jones: Did ministers have access to their expertise?

Mr Hewett: I do not know, as I was a member of only one of those groups.

Q955 Lynne Jones: Was there a culture where bad news would be brought to the attention of ministers?

Mr Hewett: Yes.

Q956 Lynne Jones: When you were having all these problems with the mapping, you discussed the implications with ministers, so they knew, they had all these reports saying that you had identified another 10,000 tasks that week and that the number of tasks outstanding was growing?

Mr Hewett: I think those reports were directed from Mr McNeill to ministers.

Q957 Lynne Jones: In June 2005 the likelihood of success was rated by the Agency at 40%. What discussions did you have at that time with Defra on contingency options or measures to mitigate the risks of failure? Was this effectively the last chance to follow a different course?

Mr Hewett: There were various discussions at various stages. As Mr Vry explained earlier on, there was a contingency solution which was intended to mirror each stage of the process needed, first to data capture and then to validate and then finally to pay claims under the Single Payment Scheme. That contingency system sat alongside, until such time as each of those various stages that we could get through the main RITA solution was in and was operational. At that point, and it came to a certain point, once we had moved into the RITA validation system that contingency system no longer became viable, because once there was only data captured and we had started to validate on the RITA system, if at that point we would have decided to move to the contingency solution we would then have had to go back and separately data capture all of the SPS

claims on the non-RITA solution and then start the validation on that non-RITA solution. It was at that stage that consideration turned to the potential of using an interim or partial payment as a contingency solution, and it was at that stage we discussed with our policy colleagues, then in turn we discussed with their colleagues in the European Commission, the potential for a partial payment solution. That is my understanding.

Mr Vry: Basically, that is it. We reviewed in that timeframe that you referred to the widest range of options that we possibly could, but as we went closer to the payment window, when information was being placed into RITA at the front end, it became increasingly high risk to withdraw it and place it into other systems, so an early decision was made whether to continue with RITA or to proceed with a contingency solution. The contingency solution was by no means a guaranteed, successful alternative, because in itself it carried a lot of risks and many workarounds and so it was deemed at the time that actually the better option, in terms of the way forward, to proceed with was with RITA. However, that did close off one contingency option. When that occurred then we discussed with Defra alternative contingency options around advance payments and, as is known, Defra and policy colleagues had discussions with the European Commission about what might be available to us by way of advance payment and partial payment options.

Q958 Chairman: Can I just be clear on the people who were advising within Defra on the flows of information that you have just identified. Mr Hewett talked about his conversations with policy colleagues. Was there anybody in Defra with IT or systems experience that you knew of who was not in any way involved in either the Executive Review Group or the CAPRI Board, who was also privy to what was going on, who could give ministers some degree of uninvolved, impartial but knowledgeable advice on the messages coming out of the flows of information that you have just described?

Mr Vry: There were obviously people within Defra who had IT experience, because there are organisations like the Defra Design Authority, but, the level of engagement, I do not know whether it was adequate for them actually to provide that advice or not.

Q959 Chairman: I think what you are saying is, no; is that right, that there was not anybody? The Secretary of State could not ring up X and say, "Have you had a look at this flow of information? Come and tell me whether we're going to make it or not"?

Mr Vry: Information was provided through the reports to CAPRI, etc., which were seen by members of the Defra Design Authority, so there were certain amounts of information. Whether that was adequate for them to make those types of value judgment decisions and advice I do not know.

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Q960 Chairman: This Defra Design Authority, in theory, should have had, in your judgment, the technical capability of raising anything that they wanted to, of a technical nature, about the process that you were embarking on? If they had a concern then obviously they would have had the ability, if they had wanted to, to provide that information to ministers, should they have been so minded?

Mr Vry: We had dealings with them, so if they raised queries we would respond to their queries. I believe that obviously the primary source of technical assurance outside of RPA was relied upon from the OGC reviews that were coming to review the various releases that we were delivering. The external assurance was provided primarily by the Office of Government Commerce Gateway review process, which we used extensively.

Q961 David Taylor: To your sure and certain knowledge, do the OGC have a great track record in identifying what are the problems with the major systems that they are charged with assessing?

Mr Vry: I cannot say to my sure and certain knowledge, because it is my first engagement with the Office of Government Commerce, not having worked with them before, so this was my first experience of them. Obviously, they are the organisation which is tasked with reviewing high risk, mission critical programmes, such as RPA's Change Programme was.

Q962 Lynne Jones: They were involved in the discussions around June 2005, were they, and they agreed that you battle on?

Mr Vry: Yes. What we asked them to do was review the format of the process that we came up with for helping us to assess the various different options and to look at that to see whether it was as reasonably objective a format for making those decisions as was possible, and OGC were involved in reviewing the process. They did not actually opine the decision, as far as I am aware they did not, but they looked at the process to ensure that the process was a reasonable one.

Q963 Lynne Jones: How did you manage to give yourself a green light under 'Schedule' on 9 March, just a week before the whole project collapsed?

Mr Vry: That was specifically, as I recall it, in relation to the initial milestone, which was to commence payments in February, and the milestone was met and we did commence payments in February. The subsequent milestone, which included completing the RPA target of 96.14% by the end of March, we had indicated already was not going to be met and so we were focusing on trying to achieve the bulk of payments by the end of March. That was not met, clearly.

Q964 Lynne Jones: Basically, the system gummed up? You started making the payments and then it gummed up?

Mr Vry: Yes. There were a significant number of payments, about one-third, which had been validated to that stage. They had to go through an

authorisation process, and that authorisation process meant that a number of payments which we had expected to go through and to get those payments out to customers did not happen in timeframes that we had expected, and the authorisation process, in essence, did gum up those payments. After obviously the incidents around the middle of March, and Johnston was removed from his post, we then held a workshop with staff from across the organisation on a Sunday to look at the issues around authorisation processes, to see if we could un-gum that process. As a result of taking some steps around there, we were able to pay out twice as much in the subsequent two weeks as we paid out in the previous month, because we managed, for the large part, to un-gum that process which had gummed up those payments. However, that did not solve all of the problems, because obviously there were still a large number of payments which had not completed validation, and that is where we have struggled to get that process to proceed quickly enough, and ultimately a decision around fast payments was taken.

Q965 Lynne Jones: Do you take any personal responsibility for the failure of the SPS to deliver?

Mr Vry: I think, as part of the RPA Executive and part of the CAPRI Programme Board, all of us, and certainly I speak for myself, feel desperately unhappy that we have not been able to get the payments out to the farming industry. I know and talk to farmers about the issues that has created for a large minority of them and that uncertainty and dissatisfaction for the majority of them. Yes, I take that very personally. I do not like being involved with a failure, and clearly this was a failure, and I am committed to try to help put it right.

Q966 Lynne Jones: With hindsight, do you look back and think "I wish I'd done such and such"? Were there any points where things were going through your mind and you might have suggested something different?

Mr Vry: With hindsight one could put the world to rights and everything in the garden would be rosy, but the problem was that we did not have hindsight and we were working to an extremely difficult, challenging schedule and we had set an objective of starting to make payments in February and making the bulk of payments by March. By February we had started to make payments, we had validated a third of the claims and we thought it was not beyond the realms of our capability to get the bulk of payments out by the end of March. Unfortunately, we were wrong, we made some wrong decisions and we regret that deeply. That is something that we want to correct and are trying to resolve currently with, obviously, Tony Cooper and the team. It is going to take a while to resolve, it is not something that we have a silver bullet for, that we can correct overnight, but we are determined to correct it.

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Q967 Lynne Jones: What about you, Mr Hewett?

Mr Hewett: Absolutely the same, and we have said so on a number of occasions with our customers and our staff. Our staff are deeply frustrated that they were unable to make the payments to their customers, their claimants, as they see them. We do work very hard behind the scenes to try to make those happen. There are still a number of 2005 payments outstanding and some of those individuals are in very serious financial difficulties and we are trying to expedite those. Even last week there was one particular case which came to my attention where we just simply had to get the balance payment out, they had a partial payment, and we simply had to get that payment out, and we work with various other groups, such as the industry representatives and the voluntary sector, to try to make sure that those payments happen as quickly and as practically as possible. What I think we can do is try to build on some of the issues which came out of the lessons from 2005 to make sure that 2006 does not go the same way and that farmers do receive their payments in good time.

Q968 Lynne Jones: Do you think when you appeared before the Committee in January and, for example, Johnson McNeill told us that the Change Programme would make the scheduled savings by 2006–07, that was accurate? Was that an answer made on the basis of an accurate assessment of the situation; we were being given accurate evidence in that session?

Mr Hewett: It is difficult for me to answer for Mr McNeill. What I can say is that, based on where we were at that point, we still anticipated starting payments in February, which we did. We had anticipated getting a substantial proportion of the money out by the end of March, which clearly we did not, and for which we apologise. It was seen at that particular time that the bulge, if that is the right term, in terms of the resource effort to process through SPS, would be a short-term issue and therefore the numbers of people required within RPA to process SPS for the remainder of the SPS 2005 cycle and in moving forward would reduce quite substantially, quite rapidly, after the end of March and certainly by the end of June. That proved to be false.

Q969 Lynne Jones: Can I ask Mr Vry the same question. Based on the state of knowledge that you had about the Change Programme on January 11, do you think it was reasonable for Johnston McNeill to tell the Committee that you would be back on target and making the savings to the Change Programme by 2006–07; this year, in other words?

Mr Vry: If the plans which had existed at the time, in terms of making the bulk of payments by the end of March and then getting the remainder of the payments out before the end of the June payment window, had been completed without having to make the partial payments then the amount of work that we are having to do now would have been very different, so there would have been potential to achieve if not all at least a significant part of those

savings. I cannot quantify exactly what there would have been, but obviously, with the difficulties that we had from the early part of March, it has become impossible to deliver that in that timeframe.

Q970 Lynne Jones: It was reasonable for him to tell that to the Committee?

Mr Vry: Based on the information and the plans which existed at that time, had the payments been made in accordance with that plan, I do not see that it was unreasonable to assume that a significant element of those benefits would have been realised.

Q971 Sir Peter Soulsby: Mr Cooper, we have focused again today, and just have been, as we have done on previous occasions, on this interrelationship between the departmental management, the Rural Payments Agency senior management and advice to ministers. These three elements have been an important part of our questioning today, as they have been on previous occasions, and we have talked about the Executive Review Board and CAPRI and who served on what and when and who is advising whom about what. I wonder, Mr Cooper, whether you could just summarise the changes that you and the present Permanent Secretary have made in those relationships and the thinking behind those changes?

Mr Cooper: There are several changes around the governance arrangements. Mr Lebrecht has taken responsibility for what is described as the Owner of the Agency, on behalf of Defra, and we have implemented a monthly meeting of a group, which is Defra senior personnel and RPA senior personnel, to discuss the progress on issues that arise with the Agency. In addition to that there is a refocusing of the Ownership Board, which was described in the Framework Document for the Agency and is now in the process of being revamped into a new body, with a slightly smaller group and with myself taking part in that group to explain the progress being made and, for example, to agree business plans and annual reports. Below that there is a structure within the agency, which I spoke about, which I put in place, but also there is a joining up of the policy area. There was always an interface between our Defra colleagues and the policy interface within the Agency, and to make that a better arrangement we have put one person in charge of both legs, so there is a single person who has responsibility for certain staff in Defra and in the RPA.

Q972 Sir Peter Soulsby: That describes what you have done, but it does not describe adequately, I think, what the fundamental weaknesses were you were setting out to address and perhaps identify for us quite how you have tackled those weaknesses?

Mr Cooper: There has been in the past, I think, and it is something that I have seen elsewhere, a misunderstanding between a department and an agency, and that misunderstanding in the policy context is about the way in which rules and delivery are described. In a delivery agency they speak about things in delivery terms and Defra will speak about

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things in policy terms and often there is a lack of understanding in terms of that communication. Being able to arrive at what is deliverable, can it be done and what are the impacts, then by joining up that group under one person it means that one person has to form a view and make a recommendation to both the Defra organisation and the RPA organisation. If there were differences of opinion, and we spoke about the disallowance risks earlier on, if the RPA were rash enough to make decisions without consulting with Defra and incurring significant disallowance then, quite clearly, we would be acting in an irresponsible way. One way of making sure that does not happen is we have joined that up with a Disallowance Working Group, who in turn take information from the RPA, take information from Defra, assess what the risk is and make a recommendation or provide information into this group that Mr Lebrecht has set up across the two to consider progress in the organisation with Defra colleagues and with RPA. That is the type of thing that we are doing, which is all about bringing us closer together and joining up the thinking.

Q973 Sir Peter Soulsby: Is it fair to say that there was a fundamental lack of clarity about roles and purposes, which really was at the heart of the problems between the Department and the Agency?

Mr Cooper: It is quite difficult for me to comment on that, other than what I found when I arrived and describing things already underway.

Q974 Sir Peter Soulsby: It seems to be what you have addressed, does it not?

Mr Cooper: I always believe there is further clarity to be brought to what we are trying to do, and trying to find ways of bringing that clarity and joining people up, I think, is an important facet.

Q975 Chairman: I think what we can deduce from that is that the mechanisms which you inherited did not deliver some of the improvements in communication and understanding which now you believe you are putting in place. I think, by a reverse piece of analysis of what you are doing, we can work out for ourselves where we think the holes were, which does lead me to wonder about the role of Mr Lebrecht, who figures in all of this. He was involved in the Executive Review Group and was fairly close, I think, to CAPRI and would have been a key conduit of information about what the Agency was doing, to ministers, with the result of the problems that you inherited. Now the self-same person is heading up an organisation which is supposed to put right some of the misunderstandings that were there before. You might not want to comment about that, but that is again a piece of analysis which I draw from what you have told us?

Mr Cooper: I think my only comment is that I firmly believe we must be as transparent as possible about what we are doing, and that is the approach that I am adopting, with the full support of Mr Lebrecht and ministers, I believe.

Chairman: I think that is a very good point to conclude our discussions. We like transparency on this Committee. I have to say that in the inquiry we have been undertaking it has not always been possible to get transparency about exactly what was happening, and some of the things that we have been asking about today I think still leave the members of the Committee scratching their heads about, if there was so much expertise available, how did it all go so badly wrong. As we have said, with the benefit of hindsight you can start to put things right, but the one value of hindsight is that it does tell you what went wrong and it does raise some interesting questions about the perceptiveness of the process of change on which Defra embarked. I think you have said fairly clearly, in your evidence to the Committee, that you were trying to do an awful lot against a background of a rapidly closing timescale, and there were policy and practical changes which also impacted on the endeavour that you were about. I think that reinforces the Committee's decision to have a further discussion with Sir Brian Bender, because clearly he put in place and signed off the Change Programme and the processes which led to the creation of the Agency as it is now, and indeed was singularly involved, to be left with a number of the issues which have arisen as you progressed towards the problems with the payment. I suppose I am still left with one question at the back of my mind and that is, in all of this, why the system was never, ever tested using seemingly live, real farmers' data.

Mr Drew: That was the question I was going to ask earlier, why somebody did not get 20 cases from across the country and put the stuff into the computer just to see if actually it made sense, tying into the mapping, tying into what should have been paid out. You do not have to be a rocket scientist to work that out.

David Taylor: Mr Hewett and Mr Vry are both seasoned in the world and works and methods of IT. This is not 20/20 hindsight, this is just a lamentable lapse from a halfway decent service.

Q976 Chairman: In the interests of transparency and clarity and openness, why was not there a test done using real farmers' data to see if the system could deliver the cheques without gumming up?

Mr Vry: First of all, the gumming up that was referred to earlier on was not down to the system, in terms of delays, it was to do with an authorisation process which took place, then at the end of it people were checking before they released payments, authorised them for payment. That was an issue around the authorisation process. Following, as I say, the changes that were made in the middle of March, we sat down with some front-line staff and actually worked through in a workshop on Sundays to see why that was causing problems and found ways to address that and resolved the authorisation process quite rapidly. The reason why it was not possible to complete end-to-end testing was the way in which we had to deliver the IT in bite-size chunks, in incremental steps, so by the time that actually the final envelope was delivered data had already been passed, almost all of it, into the Rural Land Register.

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Q977 Chairman: Did anybody actually ever ask, from any of the great Boards that were looking, the experts, “Can we test this to see if it will be all right on the night?”; was that question ever asked by some person, not if you like with their nose pressed close to the glass of the project?

Mr Vry: Yes, testing was done. All the individual elements of the system were tested.

David Taylor: In sequence; was it a sensible way of doing that?

Chairman: The point I am getting at is, if somebody says to me “I’ve tested it,” what that means is it will deliver what it is supposed to, and it did not.

Q978 Lynne Jones: We had some evidence from Iosis Associates and they said: “It ought to have been possible, during system tests, and then at any stage once some claims had been verified, to advise the system that it has a complete set of data, give it a notional sum of money in the pot, and then “those end pieces of the programme” (“the last stages of the process”) as a test.” Do you accept that could have been done?

Mr Vry: Unfortunately, I am not an IT expert so I cannot say whether that was possible or not.

Q979 David Taylor: Accenture “treated you as one”?

Mr Vry: No, they did not.

Q980 David Taylor: They said that you were the one with whom they had day-to-day contact?

Mr Vry: As Programme Director, yes, but I was not the IT specialist.

Q981 Lynne Jones: Who was the IT specialist on the RPA side?

Mr Vry: We had Alan McDermott, who was our IT expert.

Q982 Chairman: Hang on, Mr Vry; when you say the term Programme Director, does that mean you were responsible for the whole of the process doing what it was supposed to do?

Mr Vry: I was responsible for managing the team to deliver the RPA Change Programme.

Q983 Chairman: Who was the person who was actually responsible, to say “It will do what it says on the tin”? I presume that was Johnston McNeill, was it?

Mr Vry: There was a process in place by which staff who were involved in the testing—

Q984 Chairman: No, no. Mr Vry; sorry. Let us get away from a lot of the complicated speak. As a layman, a simple question: who was the person in the RPA responsible for asking the searching question “Will this system pay out cheques when it says it is going to; have we established if that will happen?”?

Mr Vry: First of all, the system itself does not pay out cheques, it relies on another system.

Q985 Chairman: No; sorry to be awkward. You are talking in systems. I am a simple politician, right. I come back. I was responsible in Government for self-assessment, and the question I used to ask was, “When taxpayers send in their form, will it work, will it calculate how much tax, and will it work, will it be okay?” People came back and gave me some answers and, with the benefit of hindsight, it did work. That was a simple question. It is a simple question I am asking about this. All the bits that are in the box labelled “Single Farm Payment Scheme,” did anybody actually ask the question “Is what’s inside the box going to produce at a moment in time, the end of February, cheques to send out to farmers?”? If the somebody said, “Well, no, we haven’t found out if the box works; we’ve done a few bits in the box, we don’t know whether if you join it all together cheques will come out,” who should have done that?

Mr Vry: The answer to the question is, yes, the system, the whole box, did pay out cheques in February, payments did go through and were made starting in February. The answer to your question is, that did happen.

Q986 Chairman: Yes, but you did not actually run the thing with sufficient flow-through to find out that as soon as it started then it stopped. You have just said that the real problem was the validation process, right? I presume you are saying, yes, the machine produced bits of paper, then before they could go out there was another bit in the process which stopped that happening?

Mr Vry: It was the authorisation process which gummed up.

Q987 Chairman: Alright, let us focus on that. Why was not the authorisation bit ever tested?

Mr Vry: That was tested, but obviously not well enough and, when we implemented it, it did gum up. We thought payments would be being authorised and going through; what was happening was, the way in which the payments were being batched together, when staff came to authorise them it meant that far more were stopped than we had anticipated, and that is what we went in to address.

Q988 Chairman: If you like, the dress rehearsal really was not thorough enough to find out if all the actors knew their lines?

Mr Vry: The point being though that the system did process and validate and ultimately authorise and, in another part of the system, pay the claims, and we started making those in February. What we got wrong was obviously that we did not get anywhere near the volume through the authorisation process that we had expected to, having validated 30 or so% in February. We had anticipated that those would go through in early March; because of the authorisation blockages, that did not happen. Then, beyond that, the actual process of validation took longer than we had anticipated; it worked but it took longer than we had anticipated, and that was the issue.

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Q989 David Taylor: Because it had not been piloted, it had not been tested, it had not had a dry run?

Mr Vry: It had not been end-to-end tested, absolutely, as I said earlier on, that case had not been happening. The incremental way in which we had to deliver the system in elements meant that became impossible to do in the timeframe.

Chairman: Gentlemen, it has been a long session and you have done your best to answer our questions. We are very grateful to you for the information that

you have been able to give us. We are also grateful for your kindness in offering to provide specific written replies to a number of questions that we have asked. Mr Cooper, I think, on behalf of the Committee and all those who have written to us in the past, particularly farmers with individual problems, we send you our very best wishes for success in your endeavours and the sincere hope that, although we would like to see you again, it is not to go over problems in the 2006–07 or 2008 payment window that you are working very hard with your colleagues to sort out. Thank you all very much.

Supplementary memorandum submitted by the Rural Payments Agency (RPA) (RPA Sub 17)

1. DISALLOWANCE

The Committee asked for a note to clarify how Defra had accounted for possible disallowance—financial penalties imposed on the UK by the European Commission for not implementing the requirements of Single Payment Scheme fully or for making payments after the deadline.

Defra and the RPA jointly assess the risks of disallowance arising from the administration of CAP programmes in a working group chaired by Defra. Since Defra makes up the shortfall if penalties have been imposed, the Department makes provision for disallowance in their accounts. Defra made provision in its recently published 2005–06 accounts for £150 million in relation to possible penalties for payments funded by the European Agricultural Guidance and Guarantee Fund. This includes but is not confined to the Single Payment Scheme. The provision also covers EAGGF schemes funded by the devolved administrations.

The actual extent and timing of any disallowance is not known since there are considerable negotiations between the Commission and Member States about possible disallowance. Where agreement cannot be reached, the Member State may request that the matter be referred to the independent Conciliation Body and, thereafter, to the European Court of Justice as the final arbiter. This process can take up a number of years. Defra have made a provision in their 2005–06 accounts based on RPA's performance on SPS 2005 during 2005–06. (ie the risk was identified at the time of the year end).

The disallowance process has already begun for SPS 2005—RPA received a letter from the European Commission recently proposing disallowance following the EC's audit on inspections and the control environment in September this year. Based on recent audit results etc—the timeframe for the application of disallowance is between two to three years. Following results of the Conciliation Body the EC normally apply the appropriate disallowance correction—it is only after that that Member States can apply to the ECJ. So Defra will pay out disallowance monies before the results of an ECJ case are known.

The estimate which underpins the provision in the Defra accounts is based on all cases where the EC has notified that a financial correction is being considered in respect of UK EAGGF administration and a UK appraisal of possible weaknesses in our administration of the Single Payment Scheme.

The financial corrections vary depending on whether the matters concerned are considered to be key or ancillary controls and the extent to which Member States are deemed to have failed to comply.

The key weaknesses in implementing SPS 2005 issues which could lead to disallowance include defining entitlements prior to validating all claims; a high level of keying errors resulting in incorrect payments to producers; inaccuracies in the Rural Land Register; a shortfall of 1.5% in the application of Extensification Premium Scheme scale-back has resulted in small overpayments to a third of SPS claimants. Ancillary control weaknesses include that RPA has discovered that some penalties may have been applied incorrectly.

In addition to the £150 million mentioned above, the Defra accounts also include contingent liabilities of £63.5 million in relation to late payments and partial payments under the Single Payment Scheme made before claims were fully validated.

The provision and contingent liabilities in the Defra accounts are based on an assessment of the risk of disallowance. The contingent liabilities are based on an assessment of risks that are considered less likely than those for which provision has been made in the accounts. The £63.5 million includes an additional possible penalty in respect of partial payments but is included as a contingent liability because action taken by the RPA may mitigate the risk of disallowance.

2. RPA BUDGET

The committee asked for a note clarifying how the 2005–06 budget for the Agency compares to the 2006–07 budget and whether the additional funds the RPA received this year were above the 2005–06 baseline.

The RPA's final allocation for 2005–06 was £227.8 million. This included additional funds made available to the RPA during the year to assist with implementation of the Single Payment Scheme.

The initial allocation for RPA for 2006–07 was £190 million. The planned reduction in RPA funding included anticipated savings resulting from the RPA change programme. The problems in delivering SPS 2005 mean that these savings will not now be achieved.

The RPA's operating business plan explained that the RPA had at that point a running cost budget of £197.1 million but that additional funding of £46 million had been agreed with Defra which would be split between running costs (to cover staff costs associated with processing SPS claims) and capital costs (including software development to support the 2006 and 2007 schemes). Defra has recently agreed a £27 million running costs/£19 million capital costs split for the additional £46 million funding.

3. MANAGEMENT INFORMATION

The committee asked for a note clarifying what management information is still manually collated and when this will be collected automatically.

Whilst the majority of data is now recovered through auto capture, the following management information currently remains produced manually ie not stored on one of the RPA's systems (together with the date where they will be automated) are listed below:

Data capture: (Automation of data capture will occur by May 2007)

- Initial checks on receipt of claims.
- Progress through scanning.
- Optical Character Recognition/Intelligent Character Recognition quality checks.

Initial (level 1) validation: (December 2007)

- Quality checks (Peer and management checks).
- Productivity (FTE component).

Detailed (Level 2) validation: (January 2007)

- Productivity (How many full time equivalents are working on claims per day).
- Progress of claims through the additional checks which are not recorded on the main SPS system "RITA".

Claims payment:

- All key management information is automatically produced.

Representations, Appeals and Complaints: (December 2007)

- Capture of the number of representations, appeals and complaints Inspectorate: (April 2008).
- Inspection tasks completed.

4. DEFRA CORVEN CONSULTANCY COSTS

The committee asked for a clarification of the costs of the Corven consultancy element of the Hunter Review. Defra paid Corven £557,331 for this work.

5. GARTNER REVIEW OF RPA INFORMATION TECHNOLOGY

The Committee asked for details of the costs of the RPA's contract with Gartner Inc to review the Agency's information technology systems:

- (a) The cost of the contract is £265,000 excluding VAT and expenses.
- (b) The project began on 25 September 2006 and is due to be completed by 18 December 2006.
- (c) 13 consultants have been working on the project and have been additionally supported by five research analysts.

December 2006

Wednesday 6 December 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
Lynne Jones
Mr Dan Rogerson

Sir Peter Soulsby
David Taylor
Mr Roger Williams

Witness: Sir Brian Bender, KCB, CB, former permanent secretary, Department for Environment, Food and Rural Affairs, gave evidence.

Q990 Chairman: It is now 4.15, and I officially open this evidence session of the Rural Payments Agency Sub-Committee of the Environment, Food and Rural Affairs Select Committee. We welcome back Sir Brian Bender, former permanent secretary of Defra. Sir Brian, we appreciate your kindness in coming back because the events that we want to discuss go back quite a long way. We appreciate that in assimilating your new role you will be a bit like the exam student who was once absolutely up to speed with everything one would ever want to know about the RPA but who, for completely understandable reasons, might well have pressed the delete button some time ago. We will try to tease out of that residual part of your memory some of the information that we need to look at again in the light of inquiries made of other witnesses. The Sub-Committee has a sense of frustration that to date it has not been able to speak to the former chief executive of the Rural Payments Agency, Mr Johnston McNeill. That is where I should like to start our questions. You chaired the appointment panel for Johnston McNeill and issued an information pack to the candidates who sought this appointment listing a number of the skills which you felt the person appointed as chief executive of the RPA should have. I do not know anything about the other candidates who were interviewed for the job, but clearly Mr McNeill impressed you. Can you tell us why?

Sir Brian Bender: Chairman, I begin by thanking you for the way you introduced this session. I will do my best to help the Sub-Committee, racking bits of my memory which in this particular case I think go back six years or so. It was an open competition presided over by a civil service commissioner. The other members of the panel were: me, Kate Tims, who some Members of the Sub-Committee may know was in effect Andy Lebrecht's predecessor, and Ian Kent, a businessman who was the independent chairman of the Intervention Board. Mr McNeill was the recommended candidate. Effectively, the reason is that he had a track record most notably from his time setting up the Meat Hygiene Service of creating new organisations involving what I describe as complex mergers in different cultures. That track record, combined with the references that he had, gave the panel the belief that he was the best candidate for the post.

Q991 Chairman: As you will recall from our previous investigations, we identified, and I think your former department agreed, that some degree of

expertise and understanding in IT systems was important. If we go back to the investigations of our predecessor, the Agriculture Committee, in 2001, when Mr McNeill was questioned on that occasion he admitted that he was not an IT expert and said that one of the first tasks he would undertake would be to recruit a director of information. Yet I note that in the job specification familiarity with the ICT system was a prerequisite. Obviously, looking forward to the role which the RPA was to perform it would have seemed quite important that the holder of the office should have some experience and understanding of these areas, but of his own volition he had to get an expert to hold his hand.

Sir Brian Bender: I hope you will forgive me, but I cannot recall the detail of the selection panel's discussions on what his skills and gaps were compared with those of the other candidates. The primary reason he was the selected candidate was his track record in creating the organisations. His first task on appointment was the recruitment of his senior team and for those purposes he agreed by then with me the profiles of the four main posts that needed to be covered: operations, business change, finance and IT. He brought in people for those functions. Even with the benefit of hindsight, I believe the important point was not whether or not he was an IT expert but probably whether or not he had those people around him and was himself capable of being a very intelligent customer of IT. I am not trying to mince words, but I simply do not recall the extent to which when the panel had a discussion about whether that was crucial. Clearly, it was not a determining factor looking at the candidates one against another.

Q992 Chairman: How would you describe Johnston McNeill's management style? Was he consensual? Did he attempt to build a team? Was he the kind of person who would have attracted natural loyalty, or did he have other characteristics that you might have thought appropriate at the time? How did he come across?

Sir Brian Bender: To be frank, as I need to be with the Sub-Committee, he had a reputation from the Meat Hygiene Service of being a robust manager. The panel looked into that and reached the view that, given the cultural change challenge that the RPA needed in creating something from the Intervention Board and the Ministry of Agriculture's regional service centres, it might well be necessary to break some eggs, if I may put it that

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way. I remember that that was a phrase somebody used at the time. Therefore, that robustness was not a disadvantage given the task to be faced in creating the RPA. He had the opportunity to recruit his own top team and I believe that the only in-house person he took was the operations director.

Q993 Chairman: You had dealings with him. Was he a man who did not hold back when reporting to you what was happening in the RPA, or did he give you a selected version of what occurred?

Sir Brian Bender: Here we risk getting into Rumsfeld's unknown unknowns. I am not trying to be facetious here. I had no reason to believe that he was not being frank. No doubt in the course of this hearing the Sub-Committee will ask me how things developed at moments along the way. Clearly, it was a high-risk programme, but one of the first times that the alarm bells started ringing for me, or one of the most difficult moments, was the time that the RPA opened the customer service centre.

Q994 Chairman: When was that?

Sir Brian Bender: It was about the spring of 2005 and before the forms went out. They were overwhelmed and the service given to farmer customers was poor, with people waiting on the line, not getting answers and so on. Coming back to your direct question, I believe that in the conversation he and I had afterwards he was being frank. He felt that there was a culture in the organisation which I seem to remember his describing as "it will be all right on the night". He wanted my express authority that for the next phase when the forms themselves went out there should be overkill, if anything, in terms of the ramping up of available resources. I will check afterwards to see whether my memory of the particular year is right. It might have been in 2004 or 2005, but the particular point I am trying to explain is that he was concerned that there had been a failure in customer service and he was pretty robust in telling me about what appeared to be a cultural issue in the organisation. Some of his people had said that it would be all right next time and he wanted my cover, which I gave him without hesitation, that he should not rely on that and I preferred that he over-commit resources and scale them back rather than be in a position second time round of under-supporting customers' understandable demand for information.

Q995 Chairman: Did you find that during the implementation period, the change programme and development of the RPA on all occasions when you had to meet formally and appraise how things were going Johnston McNeill was objective and realistic in terms of the nature of the information that he brought to you about what was happening in the agency?

Sir Brian Bender: I think there are two answers to that question. At the time, yes. No doubt the question that is baffling the Sub-Committee and me is how the RPA got into the position as late as January of this year of making to you and also the then Secretary of State in Parliament a very

optimistic statement. They did not understand how difficult things were. I cannot believe that they were deliberately misleading. I think there is a question as to how much the chief executive and his senior team really knew about what was going on. I do not believe that that is solely an IT issue—I am sure that you will want to discuss that with me later—but there is somewhere a question to do with staff productivity, business processes and the interplay within the agency between the culture of compliance and avoiding disallowance on the one hand and the culture of making payments to farmers because that was its business.

Q996 Chairman: I think you begin to approach part of the heart of the matter. Your panel and, at the end of the day, you as permanent secretary had to take responsibility for recommending to the Secretary of State at the time that McNeill was appointed through the interview process and that he had the right skill sets to build the RPA and conduct the change programme and the complex business that went with it. If you are saying that somewhere at the heart of the RPA may lie the answer to the question that we will come to—the nature of the reporting process—it begs the question whether the architect of the process was up to the task.

Sir Brian Bender: First, you have not asked me directly—no doubt you will at some point in the hearing—about Margaret Beckett's statement in March. When I heard it I felt both deep dismay and a sense of responsibility because certain things had happened on my watch. Second, I think that the question comes back to what we know with hindsight and what it was reasonable we should have or did know at the time, and no doubt some of that will come out in further questioning.

Q997 Chairman: That was why I asked you about how things were going. Obviously, part of the change programme was to alter the way in which payments to farmers were made with the advent of the Rural Payments Agency. If we park for one moment the difficulties associated with the single farm payment, life with the 38 individual CAP payment schemes that they had to administer was certainly no less complex than the project on which they subsequently embarked. Therefore, one had to be certain that the system would work properly against the kind of cost pressures that you had. I would have thought you would have had a fairly good idea if McNeill's direction of travel was good.

Sir Brian Bender: I think I said in the hearing in May that there was no sign that the RPA was a failing organisation. With one exception relating to beef payments in 2003, I think, it was hitting its business-as-usual targets and in terms of change the best indication was the IIP (Investors In People) evaluation. All the indicators seemed to be that this was an organisation that was delivering business as usual and managing change.

Q998 Chairman: Who was responsible for Johnston McNeill's appraisals?

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Sir Brian Bender: It was me. I know that Helen Ghosh has slightly changed the arrangements since I left, but I decided when the RPA was set up that this was a sufficiently important set of issues, even before CAP reform in 2003.

Q999 Chairman: I am sure you would agree with me that the appraisal process that you had to administer was a rigorous one.

Sir Brian Bender: It was a rigorous one, and the objectives against which he was being assessed were ones that had been agreed by the Ownership board of the RPA, including the three or four independent members of that board. His assessment against them—in other words, the bonus that he got—was not a unilateral decision by me but was something that was advised by those independent members.

Q1000 Chairman: My next question may be a level of detail too far but nonetheless I will ask it. Do you recall ever having to mark his various boxes on appraisal with some critical observations about what he had done?

Sir Brian Bender: Broadly, no, which means that as far as I recall there were no such examples. The real issue was being able to assess the capability moving forward as against business as usual, because it is very easy to have a clear tick in terms of the targets to making payments in the past. We did have discussions within the Ownership board about how we could get meatier performance indicators looking forward, but the short answer to your question is no.

Q1001 Chairman: Do you recall Mr McDermott, the director of information systems?

Sir Brian Bender: Of course, yes.

Q1002 Chairman: What exactly was his job? He seems to have ended up being paid about twice as much as Mr McNeill. He was the IT expert and yet, as your inquiries have adduced, failures in that area had some pretty serious consequences. Tell us why you had such confidence in this gentleman.

Sir Brian Bender: First, I have read what Mr Vry said to the Sub-Committee last week. From where I was sitting it seemed to me to stack up. Again, he came with a good track record in IT and seemed to be providing within the agency what was necessary. I do not believe that it was simply an IT issue; it was the interaction of IT and the business operations of the Rural Payments Agency with the compliance side of it. I thought that I was giving a consistent signal that the Rural Payments Agency needed to strike an appropriate balance between the risk of disallowance and the risk of failing to implement the single payment system. I thought that several times I gave a very clear signal that due weight had to be given to the second. In the end, the agency had the worst of both worlds. My sense with hindsight and talking to people, including one or two members of the board of the agency, is that that culture at the time things went wrong was still too compliance-focused as opposed to business operations and customer-focused. I do not want to mince words

about what is and what is not IT, but it was the link between IT, the compliance controls put onto it and the focus that the agency ought to have had in terms of recognising that it had two responsibilities, but a particular one towards the farmer customers in making the payments and also to the taxpayer in terms of disallowance.

Q1003 Chairman: You had a one-to-one relationship with Johnston McNeill?

Sir Brian Bender: Yes.

Q1004 Chairman: But there would have been others within the Defra management board who would have been more closely involved in monitoring what was happening with the RPA. Can you tell us who would have been the day-to-day point of liaison and commentator on what was going on inside the RPA back up to the Defra board?

Sir Brian Bender: To make clear the logic of what I am about to say perhaps I may make the following statement. The core department is responsible for policy development and the RPA is responsible for implementing that policy. One of the issues throughout, particularly looking at it with hindsight and the lessons, was how to ensure that the accountability of the agency was not blurred by second-guessing and backseat driving, but nonetheless there was sufficient challenge. In a way, I guess that is at the heart of this Sub-Committee's inquiry. In the department three people were mainly involved at board level. Andy Lebrecht at the time was director general for sustainable farming and food. His primary responsibility was policy development on this side but he also had accountability as joint chairman of the CAP Reform Programme board. Before Mark Addison became interim chief executive at the time he had the title in the department of Director General for Operations and Service Delivery. He had within his purview the IT part of the department and general overview of relationships with arm's length bodies. The third person was the finance director who at the time was Andrew Burchell. Those three people attended all the meetings of the Executive Review Group, except when they could not for some reason, and they were also members of the Ownership board of the Rural Payments Agency on the department's side.

Chairman: No doubt we will come back to how messages went up and down the line, but it is very helpful to have that clarification.

Q1005 Mr Rogerson: I would like to focus a little more on the change programme and how it interacted with the introduction of the SPS. You told us back in May that you personally checked with the chief executive that there would not be a conflict between these two things. To explore that a little more, what was the initial assessment of the effect of the change programme on the ability to introduce SPS?

Sir Brian Bender: I have looked back at the files again. The decision to merge the two was taken in 2003 when the shape of CAP reform was known.

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The proposal came from the Rural Payments Agency to the governance group that I chaired. Clearly, one of the issues throughout all this was whether the RPA had the capacity to do it all. What I am about to say does not answer that, but it was not something that the department imposed on the RPA; it was a proposition from the RPA. As I recall it, the pros and cons were carefully considered and the issue was then put to Defra ministers for endorsement. The question was: with these two things happening, would it be more sensible to handle them in parallel or put them together? There were risks both ways, but the arguments at the time were compelling. Clearly, with the wonderful gift of hindsight, one of the questions that needed to be probed further was whether the RPA had the capacity to do what it was proposing. But in meetings or in private no one from the agency side said that we were asking too much of it, or that it was offering too much.

Q1006 Mr Rogerson: As you said, the proposal to lose 1,800 staff in the run-up to that time came very much from within the agency; it felt that it could deliver it?

Sir Brian Bender: Along the way I was trying to give two messages to the agency. One was the balancing of disallowance risk with the delivery risk; the other was balancing the efficiency programme with single payment system delivery. I thought I made clear several times—I hope the record shows it—that if there was any risk of the Rural Payments Agency failing to meet the single payment system delivery as a result of what in shorthand we called the Gershon programme it should be put to me because that would be an argument that I would have to have with the Treasury and the Office of Government Commerce. They should not assume that downsizing, to use an awful American word, was paramount. As far as I was concerned, the single payment system was the priority and the question was whether they could do both. Obviously, with hindsight there were risks but at the time they were not flagged up. One of the points that I looked at, again with hindsight, was the extent to which the messages that I thought I was giving were being heard through the organisation rather than just at the very top levels.

Q1007 Chairman: You said that when the change programme and single farm payment were pushed together and you asked the Rural Payments Agency whether it could do both it came back with reassuring noises. You then said that you put it to Defra ministers. How did you explain to Defra ministers that it would work? Ministers were not experts in what happens in the guts of the RPA; they would have needed some reassurance, in the way that minutes are put before ministers with recommendations. They are followed by a series of paragraphs explaining why officials recommend acceptance of what they propose. How did you give that information to ministers?

Sir Brian Bender: My recollection is that they probably received a copy of the presentation that had been put to the relevant governance body.

Q1008 Chairman: Which body?

Sir Brian Bender: The governance bodies were changed slightly. At the time there was something which was subsequently replaced and became the Executive Review Group. I think that at the time it was called a Restructuring Board.⁸ That was a body I chaired which brought together basically the policy and Rural Payments Agency. If I got this wrong I can correct it afterwards. A presentation was made to that body by the RPA in the way I described earlier and a submission would have been made to ministers after that which I believe would have picked up that presentation—it might even have attached it—and spelled out the proposition and, I hope, though I have not double-checked it, the risks involved.

Q1009 Chairman: Therefore, ministers would have relied entirely on the senior official who presented the submission to ministers and a presentation. Were they taken through this presentation?

Sir Brian Bender: I cannot remember whether or not they had a meeting on it. Again, we can come back to you. They may have been.

Q1010 Chairman: The reason I ask the question is that what you would have known about was the ability of the RPA to do a certain amount of work because it was already doing a lot of that in administering the existing payment schemes and other areas of responsibility like the Intervention Board. Therefore, it was not a body that was unused to a considerable volume of work.

Sir Brian Bender: Exactly.

Q1011 Chairman: If I had been a minister I would have thought somebody would show me some rough comparisons between the volumes of work done before and after RPA and the number of people who would be doing it. I would have been looking for something that might have shown symmetry between the volume of work and the resource available. Perhaps I would have wanted a discussion with somebody about that. I am not getting the flavour that there was much discussion on it.

Sir Brian Bender: I cannot remember whether ministers had a meeting on it at the time. They may have done so, but again we can check that.⁹

Q1012 Chairman: The reason I ask is that when Lord Bach was with us and talked about his period of watch he told us that he asked all the kinds of reasonable questions that a layman would have asked about it. I am trying to get a flavour as to how much ministers were able to probe this meaningfully

⁸ *Note by witness:* The predecessor of the Executive Review Group was the MAFF Restructuring Board, which was chaired by Sir Brian Bender. There was also a Common Agricultural Policy Paying Agency Board reporting to the Restructuring Board.

⁹ *Note by witness:* The witness is unable to find files with dates.

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with objective information being given to them that all of the various risk factors had been examined by people like yourself and others with experience to give them the reassurance that when they signed on the dotted line they knew what they were letting themselves in for.

Sir Brian Bender: First, I do believe that the submission outlined the risks involved, and there were also risks in not doing it. Second, the quality of the independent challenge was increased at a later stage. By that stage we were having regular Office of Government Commerce Gateway reviews. I believe it was after that that we brought into the relevant governance arrangements, as I mentioned at the May hearing of this Sub-Committee, somebody who was an experienced programme manager in the private sector and who provided independent support and challenge to the department and me.

Q1013 Chairman: Who was that person?

Sir Brian Bender: Her name is Karen Jordan. I cannot remember whether she was around at that point in time, but she was certainly there by late 2003 because it was she who recommended the revised governance arrangements. She had a strong track record in both audit and programme management. We found her through a search with the Whitehall and Industry Group. She became a member of the Defra audit committee but also fulfilled a role which I would describe as quality assurance of the delivery and provided a lot of challenge as well as support in meetings and outside. From time to time, including in the last couple of weeks of my time in Defra, she had private meetings about where she felt more comfortable and where she had concerns. She may now be a member of the RPA Board. She came on board at some point and that fulfilled the requirement which the Office of Government Commerce later introduced into high-risk projects of making sure that on the relevant programme boards there was some independent challenge.

Q1014 Mr Rogerson: If we move to the task-based approach, you have a system coming in which is new to those who are completing the forms. Obviously, it is a new way of working for those who have to deal with things at the other end. Was there any reassessment of the programme given the complexities and newness of the SPS to see how new conflicts and problems might be emerging?

Sir Brian Bender: Plainly, there was a question whether the IT system was right, which it obviously was not, for the single payment system. There was a renegotiation and change in the scope of the contract between RPA and Accenture. I do not recall any discussion, task-based or otherwise, at that point. As the Sub-Committee knows probably better than I, the original proposition for task-based working came out of the 1999 business case to set up the RPA. I know what the current chief executive said to the Sub-Committee last week about the inefficiencies of the system. The point I make is that this was a proper issue for the agency; it was not for the department to second guess because it was an operational issue. That is not intended to be a cop-out on my part, but

I think that it would be quite a brave core department that said it was wrong. Plainly, there are questions that one can ask in terms of challenge.

Q1015 Chairman: Had anybody ever done task-based working elsewhere in government at which you could have had a look?

Sir Brian Bender: I cannot answer that.

Lynne Jones: The Child Support Agency?

Q1016 Chairman: I am just intrigued to know whether there was some justification that as a piece of methodology it was proven, or whether somebody just plucked it off the shelf or out of the blue as a good idea.

Sir Brian Bender: I cannot answer your direct question. I will probably say what you already know. The original business case set the objective of a workflow-based system that would allow management by tasks so that it would provide flexibility for staff to manage more than one scheme at a time. That was relevant to 1999–2000. Obviously, Mr Rogerson's question is: what review was made when the single payment system came in? The answer to that is that certainly the scope of the IT was refined and revised and there was renegotiation with the supplying company. I do not recall any discussion of whether or not task-based working was still appropriate. Whether or not that happened in the RPA I do not recall, but I do not remember it happening in a meeting at which I was present.

Q1017 Mr Rogerson: One of the biggest frustrations on the other side—the system is also new to the claimants—is the ability to engage in an individual case and develop a relationship with someone in order to overcome the complexities. There was the continued need to explain things to a new person each time without making much progress, and the maps coming out were still inaccurate and gave rise to the same problems.

Sir Brian Bender: I absolutely understand that. I was very struck that one of the things Mark Addison did in the period he was interim chief executive was remove some of the controls so that, for example, things could be dealt with by phone rather than having to consider letters coming in and going out. That does not quite answer your question, but in part it comes back to my point—I am not trying to mince words—about the extent to which this was an IT problem rather than understanding the business operation and applying it. I do not think that it was quite as clear cut as some of the questioning suggests. Mark Addison came in and said that there were controls which meant that it was not working efficiently in getting out payments and was unnecessarily restrictive in the way it was operating. I think that there is a blur between the pure IT and controls that the agency built in.

Q1018 Chairman: In April 2001 the change programme was established and the process of office rationalisation came in. If I have understood it correctly—if not, correct me—task-based working

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was a key element in the deliverability of the change programme. When you took over the department how rigorously did you probe how this method of working, which is absolutely central to achieving your savings in cutting back on the old MAFF offices and reducing the number of personnel, would work?

Sir Brian Bender: The answer is fairly strongly. I did not get into the detail of the task-based system, but I recall quite a lot of discussion. I arrived in the department in June and the announcement was in the context of July spending review. It was probably the single matter on which I spent most time in that few weeks in the context of the closing stages of the spending review. Does this stack up? Is it deliverable? Nick Brown as minister was quite understandably asking questions about it. What I do not recall is any discussion about the fundamental IT underpinning of it.

Q1019 Chairman: Put aside the IT bit because I think it is right to park it as a technical piece of mechanism to make something work. The implication of the task-based system and the fact that it had enough process and could be managed was central to the ability of Defra to make these substantial savings. It is the foundation of it.

Sir Brian Bender: Yes.

Q1020 Chairman: Yet the impression I get is that it was taken on trust that somehow this new way of working, which was radically different from anything that had gone before—because the old MAFF offices would be affected—and might or might not have been proven elsewhere, would now be adopted in a department as the foundation of its change programme, and therefore its cost savings, seemingly without any evidence that it would be all right on the night.

Sir Brian Bender: There was a lot of testing of the assumptions about making the change, setting aside the pure IT point. The taking of the business case into decisions was overseen by a programme board, which if I recall rightly was headed by Jane Brown, a senior official of the department at that time, in which the Intervention Board and regional service centres were players. There had been a lot of discussion about this. I recall that Nick Brown himself wanted to be satisfied particularly about the point that a farmer would not have a particular individual dealing with the matter which, as you say, was central to it. I do recall the issue being discussed. It was not simply a matter of whether officials were satisfied; the minister himself asked a number of questions in the run-up to the July 2000 announcement.

Q1021 Chairman: I suppose that the probing exercise came down to someone saying, “Here is an idea which is compatible with closing down MAFF offices and requiring us to share out the work over a reduced number of places. Yes, we think that we can build an IT system to make it work. If we add up all these bits we think it will work”, without anybody pointing to another model in the public or private

sector which enables that dissemination of work to be achieved and saying, “We think we can apply it with success to the RPA.” We do not know the answer to that question, do we?

Sir Brian Bender: I cannot tell you about any previous models. The rationale was not primarily the saving of cost, though clearly in order to get the Treasury to make the upfront investment a business case was required. The rationale for proceeding in the first place was criticism of variations between the individual regional service centres of the then ministry and calls by your sister Public Accounts Committee for action to improve the consistency and control of costs. The administration cost of making CAP payments was high. Further, the European Commission had concerns about the way in which paying agencies, in this case in part the Intervention Board and the MAFF regional service centres, were run. A series of criticisms was being addressed. The question then is: is there a business case involving investment to make savings that stacks up?

Q1022 Chairman: What I would say—it is not fair to press you further at this juncture—is that for those who make a note of what you have said it would be helpful if Defra could supply the Sub-Committee with a bit more of the background as to how it was determined that task-based working was a good idea. Where did the idea come from, and by what mechanism was it justified as capable of being a foundation and major delivery mechanism for the way in which both the RPA and Defra were to work in future?

Sir Brian Bender: I understand the question and I shall help to point them in the right direction. We are self-evidently talking of a period between late 1999 and the summer of 2000.

Q1023 Mr Rogerson: When the decision was taken that the task-based system was the way to go, that it would deliver savings and was an efficient way of working, was it based purely on efficiency and the ability to get the job done, or was an assessment made of customer relations and the effect that it would have on the customer?

Sir Brian Bender: There was quite a lot of discussion and, quite rightly, the minister in particular was concerned about the extent to which moving into offices where there would be expertise but no individual relationship would be a problem. My recollection is that one of his conditions for moving in that direction was that there should be a kind of hit squad of agency staff who could move around where there was a particular need to deal with difficulties with individual customers, but certainly it was a concern right up to cabinet minister level at the time.

Q1024 Mr Rogerson: That deals with it on the basis of problem areas in terms of workload and resources that could be moved around. I am thinking of the interface with customers. Was it believed that the good relations built up with farmers was something that could be legitimately sacrificed?

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Sir Brian Bender: My recollection is that it was believed that that could be managed, but the idea of the hit squad was not simply based on workload; it was also to help with particular difficulties and somebody could come in and deal with those relationships. Obviously, it would depend on spotting the problems.

Q1025 Mr Rogerson: The Chairman has focused a good deal on what information was flowing from the RPA to you and then on to ministers. As ministers were taking the decision about what form of model to use for the SPS, settling eventually on the dynamic hybrid method, you said that in the past they were advised of what the effect of that choice would be. What examination was made of the advice put to ministers specifically on the dynamic hybrid method in terms of how that would interact with the change programme and changes to the way that the RPA worked?

Sir Brian Bender: First, I recall making clear to the department and agency that no advice should go to ministers on any aspect of CAP reform implementation without a section on implementability, if I may use that word, to which the RPA was fully signed up. Second—this was discussed at the May hearing—at the time no one advised ministers that what was being asked was undeliverable. The way the advice was put together on what was deliverable was based on the agency looking with Accenture at what was known of the scheme requirements and what it would mean in terms of changes to the existing IT systems. The third and fourth items which were rather important were the business processes and the profiling of their resources. Those were the elements put together in respect of which it was said, “We believe that though what you envisage is complicated it is not undeliverable.” It was deliverable. There was then a critical path drawn up by the agency which made clear that if such and such was delayed it would have knock-on effects right through. That became a tool for some of the later decisions.

Q1026 Mr Rogerson: But was the examination and assessment made within the RPA and then passed through Defra without any further great examination before it reached ministers? What I am trying to get at is how far the department drilled down into the advice given by the RPA.

Sir Brian Bender: I am trying to recall what happened in what was quite a busy period. My recollection is that there was a fairly intensive dialogue between those trying to devise what the policy would be and those in the RPA who would have to implement it. It was not just a matter, caricaturing it, of the department saying, “Well, here it is”, and the RPA saying, “Well, that is what it is.” There was a process of dialogue and discussion, not simply one passing it on to the other and the other passing it back in a black box.

Q1027 Lynne Jones: Bill Duncan of the RPA and David Hunter of Defra attended the stakeholder meetings with members of the NFU and no doubt other stakeholders. Who were they, and what was their role?

Sir Brian Bender: David Hunter was a senior official at director level within the department on the policy side and worked to Andy Lebrecht. In particular, at that point he was the EU lead person. Bill Duncan worked to the director of operations in the RPA on the different schemes, as far as I can recall.

Q1028 Lynne Jones: According to the NFU, Bill Duncan told them, “If we choose anything other than simple history or simple regional average payment we will have a nightmare on our hands”, which is not quite the same “nightmare on our hands” as it being deliverable. Obviously, he was fairly senior in the RPA.

Sir Brian Bender: Yes.

Q1029 Lynne Jones: Was that view ever taken on board or up through Defra to ministers? Did he change his mind?

Sir Brian Bender: I am aware of the quote, but not at the time. I would like to think that if I had been aware at the time he would have had an opportunity to say it. One of the issues in the whole of this is the extent to which there were frank exchanges within RPA, feeding upwards to the department about whether it could do it. But I was not aware at the time, only later, that he had made this comment.

Q1030 Lynne Jones: David Hunter was the senior officer responsible for delivering the payments. He was there and heard it and he never mentioned it to you.

Sir Brian Bender: No.

Q1031 Lynne Jones: And it was never mentioned to ministers.

Sir Brian Bender: Ministers were aware that the department was concerned about the complexity but I come back to the point that they were never advised it was undeliverable, and the particular quote was never shared. I cannot remember when I first heard of it. It may have been when I was preparing for my hearing before the Sub-Committee in May. One comes back to the question: was there within the organisation a culture of being frank and open and reporting doubts upwards, or were people just saying, “Well, we have been asked to do it and we had better do it.” I am afraid that I cannot provide a better answer to your question than the one I have just given.

Q1032 Chairman: Help us through the method by which Defra decided that the dynamic hybrid was the model of choice. Looking at the timeline, on 26 June 2003 the farm ministers adopted the proposal for fundamental reform. They introduced the decoupling mechanism and, if you like, started the ball rolling. If we look at that compared with the situation when the Secretary of State in February 2004 announced the choice of the dynamic hybrid

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system, there we have a period of approximately six or seven months during which you looked at the policy and your former ministerial bosses must have decided which model to adopt. Tell us how the mechanism worked and how you decided that this was the chosen route of travel.

Sir Brian Bender: I will try to answer that as best I can. I seem to recall Andy Lebrecht saying some of this in May. Clearly, the regulation or whatever was decided upon by the Council left a lot to national discretion. The department went out to consultation at some point over the summer to interest groups, the public, stakeholders and customers about how to apply that discretion. My recollection is that they took a couple of decisions up front; in other words, this consultation was based on the assumption that x and y were decided. One was that we would go for 100% de-coupling. Experts behind me confirm that that was an option. Therefore, they decided one or two things upfront, in particular that it would be 100% de-coupling and then there was a process of consultation with the usual 12-week period during which the department was obviously reflecting and doing further analysis but not making any recommendations to ministers. In the light of the consultation process options with underlying analyses were put to ministers, and for a fair part of the late autumn—I recall it was November/December—ministers were engaged in a process of discussion with officials about the implications of going this or that way, what it would do in terms of relative distribution of subsidy, what it would do to particular categories of farmer and how it would meet overall policy objectives in relation to the general thrust of wanting to move more towards payment for the way people look after their land and less towards direct coupling. Therefore, there was a process of iteration and requests for further analysis by officials which led to the decision announced by the Secretary of State.

Q1033 Chairman: What I am interested in, if you like, is the guts of this and how much the RPA was feeding in on the achievability of whatever the policy decision would be. I am not clear about the kind of analytical process that you were looking at because there were only so many variations on the theme that you could have chosen.

Sir Brian Bender: Yes.

Q1034 Chairman: Did somebody produce a paper after the fundamental decision to de-couple had been taken which gave a summary of the possibilities and send it to the RPA asking which of them was doable, what would be the risks and what would be the practical implications? Did an exercise like that occur?

Sir Brian Bender: I do not recall the detail, but I do recall there was a process of regular engagement and dialogue between the RPA and department about the implications of going down this route versus that route in terms of implementability. Indeed, that was one of the purposes of the joint programme board chaired by Andy Lebrecht and Johnston McNeill

which was set up to make sure that the two parts, policy development and implementation, were joined at the hip.

Q1035 Chairman: Can you assure the Subcommittee that there was never a stage where the Secretary of State and those around her had come to a decision as to what they wanted and basically handed it over as a tablet of stone, saying, “Go away and deliver it”?

Sir Brian Bender: I believe that I can give that assurance. I was making clear through this period that I wanted to ensure that anything that went to ministers covered implementability. As I say, ministers were never told that it was not, which I appreciate is not the way you are putting the question.

Q1036 Chairman: When the final decision was made that the dynamic hybrid would be the chosen model, was that a deliberative meeting involving the senior officials in the department and the Secretary of State and other ministers where you sat round the table with various papers and thrashed out what the final result was, or was it the case that having put all the papers to the Secretary of State a meeting was then called in which she announced her decision? Which way round was it done?

Sir Brian Bender: It was between the two, in the sense that there were a number of deliberative meetings along the way in which outline options were put up. The Secretary of State had a meeting and asked for more work to be done on them. There were several meetings, so the final meeting might well have been your second category, but that would have been after quite a lot of deliberative discussion and submissions with further analyses as to whether this was legally defensible in terms of what the regulations allowed, what the implications would be and its practicability.

Q1037 Chairman: Did the Secretary of State ever sit down with Mr McNeill and discuss it directly one to one at a deliberative meeting?

Sir Brian Bender: I do not recall a direct discussion between the RPA chief executive and Secretary of State. I do recall the RPA being part of the process of putting advice together, but I do not recall a meeting between the chief executive and Secretary of State. I may be wrong, but I do not recall it.

Q1038 Chairman: Was a risk analysis done in numbers that we might understand which showed from the point at which ministers announced this in the public domain to the point at which the payment window opened the position if there was no change for year one, the historic method, and then the dynamic hybrid or other things where one could see escalating numerical risks of not achieving that? Were the risks flagged up in those simple terms?

Sir Brian Bender: I do not recall it being put quite like that. There was no doubt in the papers around at the time that ministers were advised that to go for the dynamic hybrid involved greater risks but that those risks were manageable. A critical path was

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produced a little afterwards which, in order to get the payments out at the beginning of the payment window—you will come in due course to the subsequent delay—identified what would happen if a particular IT release was not on time or a successful or a subsequent policy decision was not made.

Q1039 Chairman: Therefore, there was never a time in the decision-making process when the Secretary of State asked you to do something in respect of which you had to seek any kind of written confirmation from her against your better judgment that that was what she wanted to do?

Sir Brian Bender: That is correct. We were not in the operational equivalent of Accounting Officer territory.

Q1040 David Taylor: When the collective decision was taken to go for the dynamic hybrid do you say that an analysis was made of the pros and cons but the categories themselves were merely analysed in a qualitative and not quantitative fashion? You had a critical path, but it did not seem to be a particularly rational way to come to a final decision on something as important as this.

Sir Brian Bender: Ministers were advised on the greater simplicity of implementing the historic model and the greater complexity of implementing the dynamic hybrid, but, to come back to the Chairman's previous question, at no point were they advised that the latter was sufficiently complex that it would be very difficult or impossible to do and the then Secretary of State said, "Well, I want you to do it anyway." The advice was concerned with the degrees of complexity.

Q1041 David Taylor: Did you attempt to assess the skills, people and resources necessary to implement the dynamic hybrid and compare it with what you had on board, and looking back did those estimates woefully undershoot the true position?

Sir Brian Bender: I cannot remember whether you were in the room when I said that one of the issues that arose subsequently—the Sub-Committee has pursued this—was the loss of staff and skills along the way. As I think I said in answer to a previous question, throughout I was saying to the RPA that if there was a conflict between achieving the efficiency targets and delivering the single payment system it should come to me because SPS delivery was the priority and we would have to work out with the Treasury how to handle it in the returns. One of the lessons from all this was whether the RPA understood the productivity, if you like, of its staff using the new system. Obviously, with hindsight it did not. I have rambled on and am not sure I have answered your question directly.

Q1042 Mr Williams: I can understand why politically the decision was made fully to de-couple and go for a dynamic hybrid, but pragmatically there was the option which would have complied

with the regulation of postponing the scheme for a year. Was that ever considered and, if so, in what depth?

Sir Brian Bender: Ministers decided quite early on to go for 2005, so the context in which the advice was put was the degree of difficulty in going for 2005. Clearly, they could have decided that it was sufficiently difficult and the risks so great that it would be safer to go for 2006. They were not advised that that was an avenue to pursue and, therefore, they did not cross-examine us on it. It comes back to the advice given to them.

Q1043 Chairman: I ask about terminology. You have used the word "risk". Can you quantify that for us? Putting it in betting terms, what were the odds on getting there in terms of the different models? Was it 10 to one on delaying it for a year and then going for a historic name change and eight to one against for the dynamic hybrid but you would still have a go because you thought it was a good runner?

Sir Brian Bender: It was not quite like that. There were two types of risk.

Q1044 Chairman: How did ministers know what the word "risk" actually meant?

Sir Brian Bender: There were two ways in which we used that word in this process. The first was, if you like, just a risk register. What are the big and significant risks of failure, and are they moving into the worrying and dangerous territory or back down? For example, at one point the risk of industrial action in the Rural Payments Agency on the issue of comparative pay across agencies and core Defra went up the risk register. There was a risk register on the question whether it was at an acceptable level and it could be pushed down. Therefore, there were individual items. There was then a critical path which, based on RPA, led us at various stages to consider and challenge its assessment of the probability of making the payments successfully at a particular point in time. Usually, that calculation was around 60%. At one particular point in the summer of 2005 that fell to 40%.

Q1045 Chairman: But when ministers had before them the options was there a score to show that the probability of delivering the dynamic hybrid within the desired timescale was $x\%$?

Sir Brian Bender: I do not recall it being quantified at that time in that way; in other words, ministers were advised that it was more complicated but it could be done early in the payment window.

Q1046 Chairman: Therefore, ministers were blind. What they had was a subjective assessment as opposed to a combination of subjective and objective assessments when they made their decision.

Sir Brian Bender: They had an assessment that was subjective but with the elements of what the particular problems might be. It was not put on the basis that if they went that way it would be $x\%$; if

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they went the other way it would be y%. It was not put to them in that way at that point as far as I can recall.

Q1047 Chairman: Do you think it should have been?

Sir Brian Bender: With hindsight, yes. I know that one of the questions in all this is the extent to which ministers should have taken the decisions they did. Putting it in the negative, they were not advised in terms that meant they made the wrong decision. With hindsight, there is a question about how the department and agency might have quantified the set of risks to help them understand better, but I come back to the point that it was not necessarily the wrong decision because right the way through until January 2006 there was optimism that the payments would be made.

Q1048 Lynne Jones: Was there ever any feeling that irrespective of what advice was given to ministers as to the difficulty and complexity of administering the dynamic hybrid they were determined to go down that route anyway?

Sir Brian Bender: I am just trying to recall the flavour of it. They were attracted.

Q1049 Lynne Jones: Because if that was the case maybe that was why the messages were not being conveyed to them.

Sir Brian Bender: They were attracted by that route. Nonetheless, it is the role of a civil service to speak truth unto power and expose these issues. Clearly, with hindsight one of the questions is the culture in different parts of the organisation that fed anxieties properly up the line. But I certainly did not experience any fear of exposing these issues to the Secretary of State. Obviously, what I do not know is what people felt particularly in the second tiers of the agency in Reading.

Q1050 Mr Williams: When Accenture was first engaged it had to undertake the change programme and deliver the schemes already in place or upgrade the way in which they were delivered. With the advent of the single farm payment and choice of the most complex scheme, was this all really too much? In hindsight we can say that it was all too much.

Sir Brian Bender: All too much for Accenture?

Q1051 Mr Williams: Yes.

Sir Brian Bender: I do not believe it was. If I look back at the RPA experience with Accenture, there were some performance problems early in the first stage where my sense at the time was that it had not moved quickly enough from sales to delivery. It had leadership of an inexperienced team that gave rise to some deficiencies in quality of testing. We addressed those in a number of ways. The RPA did it. But that was when I began to have contact at my level with the chief operating officer of Global Government Services. I then had those contacts regularly. On a monthly basis I had a meeting with him in addition to whatever other meetings were taking place in which Accenture was involved. Nothing that I saw suggested that the overall task was beyond it, but

one of the things in respect of which we kept on its back was to make sure this was seen corporately in the company as a sufficiently high priority in terms of its reputation to put the right resources into it. I remember at one point the chief operating officer of the company came to the UK and saw the cabinet secretary. I made sure that that was registered by Andrew Turnbull with him as well as in a meeting that I had with him. There is always an anxiety, as some Members of the Sub-Committee know better than I, about whether an IT supplier has the right skills which are relatively scarce if it is trying to manage a number of contracts. There were times when I was worried about that. What I would say is that when those worries were registered personally at that man's level he took action on it. I had no indication that the task was beyond it. Indeed, subject to the particular difficulties over the maps, it delivered what it said it would do, albeit sometimes with some slippage.

Q1052 Mr Williams: Although different elements of the computer system were tested, it became apparent fairly soon that the whole system could not be tested in a timely manner. Was there any period then when ministers or the Secretary of State could have said, "We really want to abort this and revert to something about which we are more knowledgeable and have experience of delivering"?

Sir Brian Bender: We are now getting to the stage after I left Defra, but I will try to join up the two bits. Individual elements were tested and with various hiccups they worked, so the central question you are asking is why there was not a whole system test. One answer to that is that with hindsight, knowing that the system gummed up, to coin a phrase Helen Ghosh used in May, plainly we would have done that. But I think there is an interesting question whether an IT system failure or the compliance and restrictions checks put into it by the users caused that to happen. I come back to my earlier point that one of the interesting things Mark Addison did pretty quickly to release quite a lot of money was to remove some of those restrictions. But with hindsight I guess that we should have ensured that there was an all-system test. It would have had implications for the date because the only time it could happen would have been around the turn of calendar year 2005–2006. That was after the time I was in the department. That would have been quite a difficult decision to make when there were no signals at that time that the individual elements were not working.

Q1053 Mr Williams: What stopped a full testing of the system? Was it that the system was not in place or there were insufficient validated claims on which to test it?

Sir Brian Bender: The whole system could be tested only when the last element was in place, so we are talking about a period when I had left the department. We are talking about the autumn of 2005 and going into 2006 with the validated claims. I think Simon Vry tried to answer some of these points last week. Trying to piece together what

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happened—it was after I left the department—there was no reason to believe it was necessary. With hindsight, it plainly was. Had it been done it would have led to some delay in the payments.

Q1054 Chairman: You were having these nice discussions with the cabinet secretary and laying it on the line to the top man from Accenture how important it was. You were in post when the contract was signed and the specification for the system was drawn up. You were in post in May 2004 when the Accenture contract with the RPA was renegotiated. Are you telling the Sub-Committee that at no stage in any of these discussions was there a line in the contract which said, “We, the buyers, expect you, the provider of the system, to have fully tested it to make certain it works within the timescale that you have agreed to do the work”?

Sir Brian Bender: I do not know the answer to the question about exactly what was in the contract. What I can say is that there was a lot of discussion about the testing of the individual components and what risks might be taken by release earlier or later.

Q1055 Chairman: When Accenture came before us it obviously very well schooled in not saying anything beyond the area of its agreement. It kept falling back on the line that the system was stable and it had tested the ingredients that went into it. It is a bit like somebody saying that he has an idea for a thing that has four wheels which may move but he has not bolted it all together to see if it will turn into a car and go forward. Therefore, I should like a check to be made on whether there was a requirement in the contract that it should be tested in the round, ie that all the bits worked together, before the system went live. All I am being told is that there was a lot of discussion about the testing of the individual components but not the system as a whole. Mr Williams has been asking why. I would have thought that a pretty fundamental part of the contract was that it should work.

Sir Brian Bender: I will talk to the department and get back to you on it. Accenture was a member of the programme board and so was part of the wider discussions. I do recall discussing with the man from Accenture not only whether it was delivering on time what it had been asked to deliver but the RPA’s capability to implement it, in particular its productivity in using the Accenture system.

Q1056 Chairman: They are all sitting there in the RPA and they know that the Secretary of State is coming to the point of decision. A decision is made to go for the dynamic hybrid model and a pretty tight timetable is agreed because ministers are talking about a payment window opening in December, possibly paying in February. They did not take the full payment window to June in any public statement. All these guys are sitting back in Reading along with Accenture thinking, “This is a bit much. What can we do? We do not want to say we cannot do it because our jobs are on the line.” Mr Neill says that his bonus is on the line and asks Accenture what it can do to take some time out of it.

Accenture turns round and says that if it tests each bit and marries it together as it goes along x weeks can be taken out of the critical path and there will be a system that it thinks will work because it is the expert. Was anything like that said?

Sir Brian Bender: I have two comments on that. First, I recall discussing with the company not only the release of individual elements but how it would work together and whether the agency could make it work together. It was as a result of those discussions that we started getting the Executive Review Group data on RPA staff productivity and using the system as it came out. That is not exactly the point you are asking. To come back to the point that I am trying to make, this is not simply an IT issue; it is the productivity of the RPA staff in using the IT, and that was where I think there was a big issue.

Q1057 Chairman: This is one of the points about the relationship with Accenture which I find fascinating. Accenture are very expert people with considerable world expertise in the way that complex interactions occur between the IT systems that they are designing and the environment in which they will operate. I find it unbelievable that they seemed to maintain a Trappist-like silence in commenting on what they saw going on around them which reflects entirely on the point you have made about the productivity of the system. Did Accenture interact to your knowledge with anybody in the RPA, the Executive Review Group or CAPRI to express a scintilla of doubt that what was going on around them would not happen to enable their system to work properly?

Sir Brian Bender: The one area that it did register both in writing in meetings was that successful implementation would depend on the RPA’s productivity in using the system.

Q1058 Chairman: When did it say that?

Sir Brian Bender: More than once. Again, we can try to find out and let the Sub-Committee know.

Q1059 Chairman: What was the reaction to the warning that if the rest of the system did not work hard enough there would be a problem?

Sir Brian Bender: A lot of the reaction was about what the RPA’s own staffing productivity was and what the issues might be to improve it.

Q1060 Chairman: It would be very useful to know when that occurred, whether it was at the end, the middle or beginning of the process, to understand where the thing started to unravel. One of the matters arising out of the report of the National Audit Office that intrigued me was that the Executive Review Group and CAPRI board were supposed to be keeping an eye on all that was going on. I do not get the impression that these boards were working properly. For the record, perhaps you can describe how you saw ERG’s and CAPRI’s function.

Sir Brian Bender: The CAPRI function was a programme board of the process of implementing CAP reform and it had different strands: obviously, a policy development strand before the final policy

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decision was taken; an implementation strand; and a communication strand. But it was in programme management terms a programme board that oversaw it. The Executive Review Group was intended to bring things together to me, including Mark Addison and Andrew Burchill as chief operating officer and finance director in the department. It included the independent quality assurance person who was acting as a non-executive from National Grid Transco basically to check, challenge and quality assure what was going on. Among the various reviews that we have had along the way both the programme management and governance was something that the Office of Government Commerce was praising except for one or two questions that it had. There were a lot of other issues but they were not criticising the governance, and the inclusion of the quality assurance person pre-empted a recommendation that they made more widely across government.

Q1061 Mr Williams: In answer the previous question you said that the whole system could not be tested until perhaps the last item had been completed. Did you mean by that the last part of the system or the last validated claim?

Sir Brian Bender: If you want to test how it would work in the round you would have to have some validated claims as well, and in the memorable phrase used by Helen Ghosh that was when it gelled up. I guess that the question you are asking is: was it possible to pilot it? The answer to that would be some point between the last release and enough validated data coming in. It could not have been much before the turn of 2005 because the last release was still in the summer or autumn of 2005, if I remember rightly. Farmers were then beginning to return forms. It would have been pretty late in the day that piloting of this sort could have been done.

Q1062 Mr Williams: What do you mean by “the last release”?

Sir Brian Bender: There were a different number of releases for claims for validation and so on, so there would be different IT releases. Again, I would need to have my memory jogged on that.

Q1063 Mr Williams: Is there any way in which ministers could have come to a conclusion about which system to adopt that would have given Accenture and the RPA more time to accomplish the work? I think that the decision was taken in November 2003 and announced in February 2004. You said that these discussions had been going on for quite a long time during the summer.

Sir Brian Bender: There was that set of decisions and then the later decision in late 2004 when the critical path that the RPA was producing began to make clear that getting the payments out at the beginning of the payment window—December—was too ambitious. RPA as the agency responsible for implementation reviewed the critical path. They worked as appropriate with Defra colleagues and put the timescale issues to the programme board and then the Executive Review Group. It was at that

point they said it was realistic to plan to make payments in February 2006. I remember saying to them at the time that we were now moving from the general to the specific and once we said it would be February 2006 we would be hoisted on that petard. While we said “as early as possible in the payment window” there was vagueness but once we went to February 2006 we had to be confident. Once ministers made that decision not only would they be disappointed that it was not December, which became clear, but we risked being hoisted on a petard. There was quite a lot of challenge about the reliability of February. I believe that it was around the end of 2004 and early in 2005 that there was a further opportunity to have that sort of conversation and indeed with ministers.

Q1064 Mr Williams: But by then they were so far down the process of the dynamic hybrid scheme it was difficult to turn back.

Sir Brian Bender: It could not have turned back on the dynamic hybrid, but it could have said, “Hang on. As we are slipping anyway, let us build in a bit more safety to make sure we get this absolutely right.”

Q1065 Mr Williams: Could there have been more time for Accenture and the RPA to deliver the dynamic hybrid system if that decision had been taken earlier in the process?

Sir Brian Bender: There is no doubt that one of the difficulties in all this—it was not just the dynamic hybrid—was the lateness of some of the policy decisions. As I think Andy Lebrecht said to the Sub-Committee in May, some of those decisions depended on Brussels decisions. At a certain point which I do not remember, but probably in 2005, we started to make it very clear that the scope was being frozen and we would not implement anything more that came as a result of a Brussels decision so that in effect there was no excuse for the IT supplier either to charge a lot or say that this was now becoming too difficult. When the transcript is available I will check whether I have got any of the dates wrong and send either a letter with the transcript or some corrections if I have misremembered it.

Q1066 Chairman: Just for the record, from the information we received Mr Lebrecht is said to have told the Defra management board that ministers expected the RPA to be in a position to make payments from 1 December 2005. That statement is supposed to have been made on 17 June 2004.

Sir Brian Bender: It was around the end of 2004 early 2005 that the RPA assessed that as being un-doable and I think it was in January or February 2005 that Defra ministers announced it would not be December and the aim would be to get the payments in February.

Q1067 Lynne Jones: Who was responsible for co-ordinating those elements of the overall business programme that were to be supplied by Accenture and who would be responsible for the rest of the programme?

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Sir Brian Bender: If you are talking simply about the RPA change programme—obviously there were other issues in relation to the environmental stewardship programmes that were being run elsewhere—this came down to the RPA management, and I simply do not know the extent to which it was Alan McDermott or Simon Vry below the chief executive. I certainly do not remember.

Q1068 Lynne Jones: Accenture told us that it had had most contact with Simon Vry.

Sir Brian Bender: Yes.

Q1069 Lynne Jones: It also told us that there were no discussions with the RPA about what implications the selection of the model for delivering the single payments would have on its systems. Do you not find that extraordinary?

Sir Brian Bender: Yes. I find it extraordinary and hard to credit, not least because there were revisions of systems. I do not understand that point.

Q1070 Lynne Jones: Before the decision was made to go down that particular route Mr Naish told us that he was not aware of what discussions might have taken place.

Sir Brian Bender: I feel a bit reassured because that would have been appalling.

Q1071 Lynne Jones: Perhaps we ought to check with them exactly what discussions did take place.

Sir Brian Bender: I do not quite see how the RPA could have advised on the complexity of implementation without having a talk with its IT supplier, which is exactly your point.

Q1072 Lynne Jones: Yet in March of this year the chairman had a letter from Lord Bach, the then minister, basically saying that the view taken was that the impact of reform on the overall IT solution would not be significant. He was not saying that before the decision was taken but in March of this year, which is an extraordinary statement. I presume that civil servants must have helped the minister in drafting this letter. How on earth could such a statement have been made?

Sir Brian Bender: There are two different points here. First, I find it hard to credit that there was not discussion with Accenture about the implications of the particular choice. There were negotiations with Accenture about altering the scope of the original contract to deliver single payment. That having been done, nonetheless it does not seem to me inconsistent with what Lord Bach said, which is that having negotiated those changes to the contract to widen the scope the IT supplier got on and did it.

Q1073 Lynne Jones: But Accenture told us that the challenge presented by the change programme increased significantly as a result of the substantial reform of CAP schemes in June 2003. That is certainly not in accord with what Lord Bach told the chairman in March. I find it extraordinary that the minister, or even that the civil servants drafting the letter, should have had that impression.

Sir Brian Bender: Would you read out again the passage from the letter?

Q1074 Lynne Jones: The whole passage reads: “It should also be noted that RPA considered delaying the original procurement process until the true picture of the 2003 CAP reform agreement was available. It concluded this was not feasible or appropriate. The legacy systems needed replacement urgently, and the view taken was that the impact of reform would not be significant on the overall IT solution.” That is the historic view so perhaps I am being unfair in quoting him at that time. Certainly, the view then was that it would not have a significant impact on the overall IT solution, which is remarkable.

Sir Brian Bender: My brain is not working quickly enough. It does not seem to me that it need be inconsistent. Perhaps I can take that point away and see if there is anything I can say having looked again at that letter and talked to Defra colleagues.

Q1075 Chairman: The NAO report is very critical of the relationships between the Executive Review Group which you chaired and the CAPRI board. I quote from paragraph 5.8 on page 23: “The changing role between the two boards led to some confusion among officials as to the respective remit of each board and who was responsible for making decisions. Proposals were often submitted to the CAPRI board for approval before discussion at the Executive Review Group and then being put to ministers for approval.” It is a bit of a mess really. These two bodies which were supposed to be overseeing seem to have got themselves well and truly dragged into the running of the project. To me, it suggests that the line of objective advice to ministers about what was going on was blurred because the people who ought to have been giving objective advice were getting nearer and nearer to running the project. From the mountain of evidence we have received I recall that Mr McNeill expressed some reservations about this. He almost suggested that somehow he was no longer in charge of the whole project but that the CAPRI board was in charge of it. Did you ever get any flavour of this?

Sir Brian Bender: Obviously, I do not know when that arose. I happen to have opened the NAO report at a page where it says: “The former chief executive confirmed to us his belief that CAPRI came to supersede his role as a senior responsible owner.” First, he never said to me at any time up to the end of September 2005 that he felt his role was being superseded by the board. Second, the advice I was getting from OGC reviews was in no way critical of the governance arrangements that we had set up. I was not involved in commenting on the NAO report as it was being finalised; nor do I know the period in respect of which it makes these points, but the suggestion that the Executive Review Group was becoming too closely embroiled in it or that the programme board was superseding the role of the chief executive was not registered in my time, and he had plenty of opportunity to say that to me in private had it been the case.

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Q1076 Chairman: Did you think that the management overview and the relationship between the two boards was satisfactory? Did you believe that ministers were able to get a clear line of objective advice about what was going on from people who were not quite so close to the coal face?

Sir Brian Bender: In effect, the advice was going to ministers at the critical middle and late stages often jointly from Andy Lebrecht and Johnston McNeill as the co-chairs of the programme board. These were not people doing the operation; they were the joint chairs of the programme board. Looking with hindsight at what went wrong, one of the questions must be the extent to which the challenge of advice at the Executive Review Group that was being shared with ministers was getting under the skin of what was going on at the RPA. In a way, I am stating only the obvious.

Q1077 Chairman: I looked at some of the material which supposedly was the report back from Johnston McNeill to ministers. I speak now without having the benefit of the papers in front of me, but I remember that midway through 2005 there was a report which said there were 441,000 tasks to do and two or three minutes later it had gone to 720,000 tasks to do, yet onward sailed this project seemingly unaffected by the mounting tide of undone work. Nobody seems to say, "Excuse me, are we ever going to get there?" The whole flavour of the reports he was producing supposedly to brief ministers contained unbelievable optimism that somehow it would all be all right on the night and yet it was getting closer and closer to the then public timescale when payments would be reached. How on earth did this kind of overoptimistic reporting seemingly go unchallenged and unnoticed?

Sir Brian Bender: By that stage there were well run in quantifiable assessments of the risks to successful delivery. I mentioned 60% earlier. In the summer of 2005 the probability of payment by 1 February was reduced to 40%. At that point the programme board or Executive Review Group discussed some propositions for reducing risk and they were put to ministers. There is a question about why there was a belief that it would work and why it was 60% and certain de-risking to keep it on the right side of 50%. But there was a lot of challenge and questioning and by that stage ministers were having regular meetings and were able to do that challenge and questioning themselves. It comes back to the question: did the RPA know sufficiently what was going on in their own organisation about their own productivity in using of the system?

Q1078 Sir Peter Soulsby: I want to follow precisely that point. I should like to know precisely what discussions you had with the RPA and ministers at that point about the choices open to them. Do you think that in retrospect the right choices were made? Whose decision was it to rule out deferral as an option?

Sir Brian Bender: Ultimately, it was the decision of ministers, but that is not meant as a cop-out. I think that it was in the summer of 2005 that the probability

estimates fell so that at that stage the RPA assessment of the probability of commencing payments on 1 February was 40%, which increased to 75% if the date was slipped to 1 March. There was discussion at official level in the various groups. There were recommendations to ministers for actions that would increase that confidence level. For example, one recommendation that was put was to mothball what I describe as the non-RITA contingency solution because it was diverting resource effort. A second one, which comes back to the heart of this, was a deliberate decision which as Accounting Officer I was prepared to authorise to take measured risks that would speed up payments but on the other hand potentially increase the risk of disallowance. A number of specifics were arrived at to discuss at official level and put to ministers. I cannot remember whether the Secretary of State had a meeting, but I remember being at a meeting with Lord Bach where he discussed those. Certainly, those two decisions were taken. On that basis the probability of getting the first payments out in February was increased to a more comfortable level.

Q1079 Sir Peter Soulsby: Am I understanding correctly that what was decided was to rule out the fallback rather than go for it?

Sir Brian Bender: There are two different contingencies here. The one that Helen Ghosh mentioned at the previous hearing, which with hindsight she would have done differently, was to make sure that there were contingencies to make interim payments. I do not question that. The second contingency was to continue to use the legacy systems and have them ready to make payments. The advice that we were receiving at the time was that this was costly and a huge diversion of resource effort and was therefore unwise to continue.

Q1080 David Taylor: From whom were you getting that advice?

Sir Brian Bender: Primarily from the RPA, but we were obviously challenging that advice. If I had my time again what would I do differently? I think I would go with Helen. There are two issues. One would be to cross-examine very hard the reliability of the particular timetable dates, but the second would be to go very hard on the interim payments, because once one got significantly beyond December and through the payment window it would be a greater hardship to farmers and any diversion of effort in making interim payments would have to be weighed against that. With hindsight there are other things that I might have done differently, to which I can turn if the Sub-Committee wants, but that is my answer to the specific question.

Q1081 Sir Peter Soulsby: Do you think that behind the decision to go that way was too much focus on the risk of disallowance and not enough on the other risks in the project?

Sir Brian Bender: I tried to make that point earlier. I was trying to give signals on a number of occasions, that I thought I was getting across clearly, that the RPA needed to balance appropriately the risk of

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disallowance against the risk of failure to deliver. In the end, they got the worst of both worlds. As Accounting Officer potentially I was prepared to take a higher disallowance hit, provided it was carefully understood and managed, in order not to screw up the payment to farmers. With hindsight, particularly given what Mark Addison achieved in his first few weeks in terms of relaxing some of the restrictions, it does not seem to me that that message was received sufficiently clearly at all levels in the RPA. One of the lessons that I draw from that is that if you think you are saying something, even if it is said in writing and in minutes, you follow it up more effectively. I think that is one of the lessons. I believe that the culture of the RPA was turning out to be too focused on compliance and avoidance of disallowance, which is important, and not enough on the business processing and payments to farmers and getting that right. I thought I was making it clear; I said it several times privately to Johnston McNeill and in meetings recorded in minutes, but the fact that immediately when Mark Addison got there he lifted some restrictions and released some money in my view confirms what I have heard anecdotally since March that culturally the balance was wrong.

Q1082 Sir Peter Soulsby: I have a similar question on the focus of the RPA at that stage. Do you think it is true to say that it was overly concerned with the IT system at the expense of the wider business processes of which it was a part?

Sir Brian Bender: As I have been trying to say at various points in this hearing, obviously one cannot separate the one entirely from the other. But at heart I do not believe that what went wrong was simply the IT; it was the capability and productivity of the agency in understanding the IT and using it productively to get the money out the door. These things are blurred, and I am not trying to mince words. What I am saying now is based essentially on conversations that I have had with people since March, but I believe that the compliance side of the organisation had too high a profile and, if you like, the business processing side—that the agency was actually there to make payments to farmers—did not have a high enough profile. I say that with the benefit of hindsight and anecdote.

Q1083 Chairman: Was there ever a time when you as permanent secretary put a note to the Secretary of State asking for consideration to be given to interim payments given the worsening situation in 2005 to try to give yourself a bit more time to sort out the overall process problems?

Sir Brian Bender: It was not done in those terms, but there was discussion with ministers about the pros and cons of pressing ahead with interim payments and, as part of that, the policy side of the department went to Brussels to try to get legal cover for doing it, because the legal position was a bit blurred. I would say that in the summer/autumn of 2005 it was under active consideration.

Q1084 Chairman: Did you make any kind of international comparisons? When the Sub-Committee went to the German agriculture ministry it learnt that it had three times as many customers, four separate computer systems and 18 different *Länder* involved in the process. Because of the complexity of what they were doing it was clear that they had to adopt an interim payments strategy in order to get over the problem and make certain that farmers were not left in the lurch. Given that you had only 120,000-odd customers and you were on a par with that complexity, did that ever ring any bells?

Sir Brian Bender: These issues were discussed in the department—I cannot remember the exact date—in my time. I concur with Helen that with hindsight this was something that we simply should have done, as opposed simply to discussing it and putting a little bit on the back burner in the belief that the bulk of the payments would be delivered by the end of March. I agree with Helen and with hindsight had I been there throughout I would have done it differently, too.

Q1085 David Taylor: Have you had an opportunity to look at the NAO report?

Sir Brian Bender: Yes, I have.

Q1086 David Taylor: You note what it said about Accenture falling short of expectations in the early stages of the new programme once Defra decided to implement the CAP. You will also note that the OGC expressed concerns in January 2005. At what point did you leave the department?

Sir Brian Bender: I left the department at the end of September 2005. I am happy to say a bit more about the OGC.

Q1087 David Taylor: To finish the quote, it expressed concerns about significant weaknesses in the management of the testing team which was crucial. Do you want to say something about that?

Sir Brian Bender: As to the management of the testing team, this was something that I personally took up, as did others, with Accenture and they strengthened it, but there were problems at the early stages. They corrected it but that led to some delays and difficulties at that stage which I believe was in 2003 or 2004. As far as concerns the OGC, I think that there were lessons, which I had been discussing with John Oughton, as has Helen, about what this exercise told us about the Gateway review process. As the Sub-Committee knows, there were regular Gateway reviews. In each case as I understand and recall it all the recommendations that the review team made were acted on and in no case did the OGC say to me or anyone else it was reporting to, “Stop. This will fail.” The question is the extent to which it was looking at a broad enough or too narrow a picture. I think there are issues that we are discussing in government about what lessons this has for the whole Gateway review process. But as late as September—my last month in Defra—the last Gateway review contained the sentence: “We are convinced that the programme has a reasonable chance of delivering SPS payments within the 2006

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window”, which for cautious people was quite encouraging. Obviously, it did not say that it would deliver in February/March.

Q1088 Lynne Jones: How did it gather evidence that would lead it to that conclusion?

Sir Brian Bender: The OGC Gateway process essentially involves some experienced peer reviewers having a whole series of interviews with different players. But one of the questions is: what does this episode show for the breadth of the Gateway review process in what is a complex and high-risk programme? My sense, again with hindsight, is that it was a bit narrow each time and not dynamic; it did not look back and say, “Hang on. Can you do all of this?” which was something on which we needed advice.

Q1089 David Taylor: You said that it was part of the decision process. I do not want to go too far into what was said earlier, but a detailed critical path analysis was made of the whole project which seemed to suggest to all concerned that on balance it was feasible and there would have been some slack and float in it. It would be predicated eventually on the opening of the payment window on 1 December. In your time the start window was moved to February, was it not?

Sir Brian Bender: That is correct.

Q1090 David Taylor: At the time that you effortlessly glided out of the department to your new empire in Victoria Street, as it were, presumably you would have looked at the present state of the critical path analysis because all of the slack and float would have disappeared by then, would it not? You had a very tight system.

Sir Brian Bender: Yes, it was very tight. The last Gateway review in September had the sentence in it which I quoted. I had a meeting in my last couple of weeks both with Mark Addison, who by that stage was going to be acting permanent secretary before Helen arrived, and the independent challenge person Karen Jordan. My recollection is that she did share some concerns but still expressed the view that it was more than possible but do-able. I also made it very clear both to Margaret Beckett and Mark on leaving that this needed to be one of the continuing high priorities because it was difficult stuff. You used the phrase “glided out”. This was an issue to which I gave a lot of attention in my time, and my parting words both to Margaret Beckett and Mark Addison were that this deserved quite a lot of attention because it was high-risk stuff. But the advice we were getting was that it was still on track. We then come back to the position in January 2006 when the public statement was made that not only was it on track but it would be achieved.

Q1091 David Taylor: Accenture said to you at some point that all was set fair but it had a cautionary note that it depended on, to use your words, the productivity of the RPA staff and their ability to use the system that Accenture had supplied. To simplify it a little, was it not the case that because it was a

hybrid system which incorporated an averaging element to pay any claim you needed to have the great bulk of claims in so that you could average it out? Was that not a serious flaw in the sense that you could have had a moving average? On the basis of the first 20% of claims processed it would be very likely, assuming that one had chosen the cross-section intelligently, that the average calculated at that time would be very close to the overall average when 95% of claims were in.

Sir Brian Bender: I understand the question you ask. Part of my answer goes back to the answer I gave to Sir Peter a few minutes ago. We come down to the balance between the disallowance risk and delivery risk. On the basis of the great gift of hindsight, there is no doubt that the balance was wrong and in effect that was what happened with the interim payments.

Q1092 David Taylor: I am not sure that that is hindsight. I am sure that it would have been possible for the people in charge of the process at the time to deduce that a very risky element of the whole process was the need to have the vast bulk of claims in before any payment was made in respect of the averaging element. Surely, could not someone have picked that up and incorporated it into the business processes being utilised?

Sir Brian Bender: Yes. What I do not recall are discussions about that in 2004. I do recall in 2005 discussions about it and the options for dealing with it, including interim payments and other things that I described earlier.

Q1093 David Taylor: That gave Accenture a get-out-of-jail card, did it not? Accenture has repeatedly said to us that it delivered what it was asked to do. That suggests that the RPA and your overall leadership were taking on the whole design of the business process and IT specification and Accenture’s approach was merely to say that it did what it was told.

Sir Brian Bender: I think Helen Ghosh discussed some of this at the hearing that I attended with her in May. One of the fundamental questions must be: did the RPA understand at a sufficiently senior level the systems that it was designing or asking Accenture to design and what the implications were? I suspect that part of the answer to that comes back to the balance between compliance and the business process.

Q1094 Lynne Jones: To return to the quotation that I read out earlier relating to the discussion with Accenture, I referred to the wrong page. There was a definite “no” to the question about Accenture having any input on whether the system chosen for CAP reform would have any significant impact on the computer system being developed. In the evidence it is definite that it was not invited to comment on the impact on the IT systems which, as I said earlier, I find extraordinary.

Sir Brian Bender: I find that odd to say the least. If after this hearing there is any light that I can shed on it I will do so.

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Q1095 David Taylor: To come to the point at which de-scoping was decided upon, both Lord Bach and the NAO referred to the optimism of the RPA's self-assessment of the chances of meeting the target for making payments by the revised date of end of March. Your successor told the PAC on 30 October that advice to ministers was based on "over-optimistic interpretations of perhaps inadequate management information . . . The 'de-scoping' of the management information systems meant that the RPA did not have good information on the progress they were making." Do you agree that the fact it had been de-scoped immediately weakened the reliability of such management information that there was to measure progress?

Sir Brian Bender: I understand that to be the case. Looking at my own checklist in terms of what I think the lessons are, one of them must be not only whether the agency understood the tasks that it had to take on but whether it was able to have the necessary management information. It is an obvious point, but it was creating, not deliberately, a misleadingly rosy picture. The question is why. Was it simply because of the de-scoping? I am sure that it was more complicated than that. I do think that some of it came back to whether or not it understood enough about its own business processes and staff productivity, because that is also linked to the fact that, despite what I said to the RPA on several occasions about SPS delivery taking priority over efficiency savings if necessary, we were advised that it was not necessary to retain the extra staff. There is no doubt that de-scoping played a part in this, but I think there is a wider issue about whether or not it had enough understanding of what was going on within the organisation and its own staff productivity that allowed it to keep saying there was no problem about releasing all the staff.

Q1096 David Taylor: You are talking about them in the third person. Is that a subtle distancing of the RPA from your overall supervisory role?

Sir Brian Bender: I was overall responsible. One comes back to the principle of executive agencies. This was an arm's length body that was accountable for the implementation of the policy under the 1980s Next Steps Agency model. Therefore, one gets to the question: how do I and ministers get the right assurances without crossing the line and blurring accountability by second-guessing and backseat driving?

Q1097 David Taylor: I fully understand that it is a tricky line to walk, but this was a crucial project which was hitting very choppy water, which you had picked up. You told us that you de-scoped some of the IT so that the tasks set would be less difficult. I am sure that it was de-scoped with good intent, but it has proved to be a pretty short-sighted decision, has it not?

Sir Brian Bender: I am sorry to repeat myself, but what I do not have a feel for is the extent to which the inadequate management information—plainly, historically it was—resulted from that de-scoping or wider issues. I do not think that it was that simple. It

is certainly the fact that there was not the right management information coming through. I am not trying to shuffle that off, but there is a question about how much someone at central department level can appropriately become involved in what is going on in the interstices of an arm's length organisation.

Q1098 David Taylor: The de-scoping involved the stripping out of the management information software from the IT system, did it not?

Sir Brian Bender: Yes, but I come back to the point that there was more to what was done in the RPA than simply that decision.

Q1099 David Taylor: You signed off, endorsed and approved the de-scoping recommendation without necessarily being fully aware that one of its implications was that the information available to monitor progress and test performance would no longer be available in any reliable form.

Sir Brian Bender: I would not put it exactly like that, but essentially I did not have an appreciation of the quality of the management information that would be coming forward. I had assumed from everything I was told that we would be getting enough management information to know what was going on. One then gets to the question: how much intrusive management does one do in these issues? With hindsight, the answer must be more.

Q1100 David Taylor: But you were surrounded by very highly paid consultants and IT specialists. Are you disappointed that they did not alert you to one of the implications of the de-scoping that has caused such a problem?

Sir Brian Bender: I am disappointed that we did not get the right management information. De-scoping contributed to it, but I think there was more to it than that.

Q1101 Chairman: Were you disappointed that Accenture, which would have understood how the system worked, did not say, "We are a bit disappointed that you have taken out the management information system because how will you know what is going on?" We have the benefit of hindsight, but the reason that we are paying people a lot of money to give quality advice is to flag up some of the practical implications. Given that you were going into new territory, a new way of working, a new organisation with fewer people and a brand new policy I would have thought it would be rather good to know that you would get some accurate feedback about what was going on to measure progress because it was fairly key to the advice that you would be able to give to ministers to guide them on what to say. The fact is that they ended up by saying things and had to eat a great deal of humble pie at the end because basically the RPA was flying blind.

Sir Brian Bender: I might not have chosen those words, but I do not argue with the general sense of what you say; that is to say, when you are trying to

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set up a programme and trying to monitor it you need to have reliable management information. It turned out not to be reliable enough.

Q1102 Chairman: Let us draw matters to a conclusion. With the benefit of hindsight, we now have a situation in which this arm's length agency managed to lose £21.5 million worth of its customers' money; it caused endless problems for the cash flow of the rural economy in England; it put Defra in line with a possible disallowance of up to £131 million; and it blew a gigantic hole in the cost-saving programme, to which you personally were committed. I think the latest estimate indicates that you might be lucky to get a saving of £7.5 million. The department in which you used to be in charge is now committed possibly to two further years of difficulty with the RPA and having to spend more money on the staff than it set out to do. With all of that and the benefit of hindsight, who should accept the blame for what happened?

Sir Brian Bender: If you set up an executive agency to implement things ultimately the chief executive of that agency is the accountable person. I certainly felt a sense of responsibility as well as deep dismay when I heard Margaret Beckett's statement in March, but it seems to me that if you set up a structure where there is a body responsible for implementation and is accountable for it, whatever shortcomings there might have been in the oversight arrangements with hindsight—I believe that there are a number of lessons to be learned in all of that, some of which will come out in the NAO report and some of which in due course will come out in the report of the OGC—ultimately it comes down to the RPA leadership.

Q1103 Chairman: That is where the buck stops?

Sir Brian Bender: I do not know whether you will find this helpful or not. Before this hearing I gave thought to what I believed went wrong. What do I think of the lessons of this? I think that the Subcommittee has discussed and know what went wrong. I think that there are a number of lessons. First, there is the lesson referred to by Helen Ghosh, with which I agree, that with the benefit of hindsight we should have pressed ahead sooner with interim payments. Second, with hindsight I would have done more to satisfy myself about the corporate leadership capability of the RPA's top team for the very reasons that Sir Peter asked me about earlier, and in particular within that what was going on when I thought I was giving signals in the department. Third, to pick up Mr Taylor's line of questioning, I would want to ensure that more was done to be clear that the RPA understood fully the task it had taken on and keep checking that it was providing as frank and open an assessment as possible and not a misleadingly rosy picture. Plainly, that is linked to the quality of the management information. Fourth, there are plainly questions arising on the quality of the independent processes, including the Gateway review process, in helping us spot these issues. But ultimately I return to the point that if you set up arrangements in which there is an arm's length body that has accountability then to

blur that accountability by backseat driving or saying someone else is responsible is the wrong answer. That is not to say there is no responsibility anywhere in the headquarters department, including the Permanent Secretary on whose watch a lot of this happened. I share in that and do not shuffle off that responsibility.

Q1104 David Taylor: But the feelings of deep dismay never developed into regret and resignation?

Sir Brian Bender: There is a lot of regret and heart-searching about what I would have done differently. I have had a lot of conversations with people currently in Defra and the independent quality assurance person about what she felt. Her very clear view—I checked with her last week—is that there were senior management failings in RPA. There was discussion with one or two people still in RPA just after the disaster in March. Therefore, there is a lot of regret about what happened and a number of things I would have done differently with hindsight.

Q1105 Sir Peter Soulsby: You have talked about this as being an arm's length organisation, but it was one with which, quite understandably, you were actively engaged on a monthly, weekly and perhaps daily basis at some stages. This was a structure that you had set up; these were people you had appointed and you were actively engaged with them. You have given us no suggestion that ministers did anything other than act according to your advice. You made the appointments and set up the management and reporting structures. All of the crucial decisions were taken on your advice. Frankly, if you were not responsible who was?

Sir Brian Bender: First, the advice to ministers on these issues usually went from the joint chairs of the CAPRI board. Again, that is not my shuffling off responsibility, but that advice went directly from Johnston McNeill and Andy Lebrecht. Particularly in the course of 2005 ministers had very regular discussions with RPA and the department and were able to challenge, ask questions and form their own views. This was not a question of the Permanent Secretary holding his arms around all of it and saying, "Come on, minister, take my advice", in the best Sir Humphrey sense; it was an attempt to set up a set of governance arrangements with accountability for policy in the department and delivery in the agency. As I have said several times, this was governance that the OGC and others certainly during my time were praising, but the question we have discussed is: why did it go wrong? In terms of who is personally responsible certainly a lot did happen on my watch, but I come back to the point that as late as January the agency did say that this would be done.

Q1106 Chairman: Did Mr Lebrecht not have some responsibility in this because he was jointly sending out signals from the RPA and seemingly swallowing hook, line and sinker that it would all be all right on the night and it was not?

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Sir Brian Bender: I think I remember your asking Mark Addison and various people what sense of responsibility they felt. I would be surprised if any Defra member of the Executive Review Group did not feel some sense of shared responsibility in all this, because we were part of a process that led to this situation with all the features you described a few minutes ago.

Q1107 Chairman: Thank you very much for subjecting yourself to a further line of questioning. I think we are better advised on some of the factors. The reason we have asked you to come back is that

clearly we keep findings things out as we go along. Because various key people have been removed or have moved on from their posts it has been quite difficult to move our inquiry forward at the speed we would have liked. Certain matters have come up subsequently that it is important to review, and you have been very helpful in that context. I thank you for the obvious time and trouble you have taken to prepare thoroughly for our inquisition and for coming back once again to answer our questions.

Sir Brian Bender: Thank you, Chairman. I will look at the transcript with the department to see whether there are points on which I can help the Sub-Committee further in the light of the questions.

Supplementary memorandum submitted by Sir Brian Bender KVC (RPA Sub 18)

1. Q1022—Following an analysis of the Arable Area Payments Scheme by the NAO, the PAC's report on 15 July 1999 was critical of the variations in efficiency between MAFF's Regional Service Centres and urged action to improve consistency and control costs. Around the same time, the European Commission had signalled its concerns about the way in which UK paying Agencies were organised to administer Common Agricultural Payments. The "Modernising Government" White Paper of March 1999 also provided real impetus to improve levels of service to farmers and traders, increase the extent to which government departments were joined up, increase the volume of information transmitted electronically and improve risk management.

2. Against this backdrop, in August 1999, PriceWaterhouse Coopers was commissioned to review MAFF's CAP Scheme administration. The report was presented to MAFF in January 2000 and recommended that the CAP payment functions of MAFF and the Intervention Board be brought together within a new CAP Payment Agency to rationalise and improve the way in which payments were made. Drawing parallels with the banking and insurance industries who had implemented similar approaches in dealing with high volumes of processing activities, the Report's vision for the new organisation was based on integrating the IT systems to provide a consistent level of service to the Agency's customers. This involved centralising the processing of claims, computerising as much of the processing as possible and separating customer contact from processing work. The Department agreed with the report's high level recommendation and the RPA was established in October 2001.

3. Q1055—Further to the Department replying to a separate access to information request which asked to see details of the contract between RPA and Accenture, Lord Rooker wrote to Michael Jack on 18 October to make him and the Committee aware of the request and offered to share the information if the Committee required. The Committee accepted the offer and Defra provided the information on 8 January. As agreed, rather than repeat this information here, Schedule 2 (the Authority's requirements) and also Schedule 3 (the contractor's service solution) details the testing requirements in the Accenture contract.

4. Q1058—Sir Brian Bender held regular meetings with senior management of Accenture in 2004 and (until his departure) 2005. The purpose of these meetings (at which RPA were present) was to discuss the company's performance in meeting the requirements of the contract and preparing for SPS delivery, focusing on particular issues such as the timetable for future releases, the problems with the mapping, the capability of the Accenture team and the relationships with RPA. On at least two occasions (March and July 2005) the records show that discussion covered the RPA's productivity in using the IT.

5. It should also be noted that from the outset, RPA's productivity was monitored in other forums including during the regular CAP Reform Implementation (CAPRI) meetings at which Accenture attended as the senior IT supplier. As an example, attached is a paper used for analysis at the CAPRI meeting on May 2004 which shows that RPA was aware of the risks to productivity and what counter measures the Agency were putting in place to make improvements (pages 5–8, risks 566, 567 and 163). I would be grateful if you could treat this document in the same confidential basis as the Committee has done with the Executive Review Group papers.

January 2007

Monday 15 January 2007

Members present:

Mr Michael Jack, in the Chair

Mr David Drew
James Duddridge
Lynne Jones

Sir Peter Soulsby
David Taylor
Mr Roger Williams

Witness: Mr Johnston McNeill, former Chief Executive, Rural Payments Agency, gave evidence.

Q1108 Chairman: Can I welcome Mr Johnston McNeill, the former Chief Executive of the Rural Payments Agency, to this final evidence session with the Sub-Committee on the Rural Payments Agency inquiry. Mr McNeill, can I thank you for coming before the Committee. We kept our side of the bargain, which was that we made no publicity, although I think there were odd leaks from sources outside the Committee, but I think by and large we managed to keep the hordes of the media away and we are looking forward very much to talking to you about the events surrounding the single farm payment issue. Can I for the record say that this is an official meeting of the Sub-Committee. Gurney's will record our words and the words will be made public on Wednesday on the Committee's website, and at the conclusion of these proceedings we will be issuing a press release formally announcing that you have been here and the terms upon which whatever you say will be published as part of the evidence of the Committee. I do not think I need necessarily remind you of what has happened but perhaps it is worth refreshing our memories that as a result of the late payment of the single farm payment, as the National Audit Office report attested, farmers lost something like £21 million, the Department of Environment, Food and Rural Affairs went singularly over its budget and has now had to cut back on some of its areas of expenditure, the rural economy was, to say the least, disrupted, a lot of farmers suffered considerable stress as a result of the difficulties with various aspects of the process of applying for their single farm payment and to date, Mr McNeill, you are the man who has borne the entire burden in responsibility terms of what has happened, you lost the confidence of the Secretary of State and you were removed from your post. How do you feel, with the benefit of hindsight, about what happened?

Mr McNeill: Chairman, before I answer that question could I just say that I deeply regret that we in the RPA and I as Chief Executive were not able to make payments to farmers in the targeted timetable and that I am saddened by the consequences that have flowed from that and the injury to farmers by not having had those payments. I apologise unreservedly for that. Before we start these proceedings, Chairman, I think I should make that clear. The decision was taken by the Permanent Secretary, obviously, in agreement with the Secretary of State, on 15 March that their confidence in me as Chief Executive no longer was sufficient and as a consequence of that I was stood down. We have

various expressions to explain what happened, Chairman. One is "stood down", one is that I am "on gardening leave" and the other is, I suppose the most accurate one, that I was suspended. At the time of being stood down by the Permanent Secretary, certainly in the meeting with the Secretary of State, I was thanked for my honesty and frankness in explaining the circumstances to her, and in the meeting with the Permanent Secretary it was noted that I had given 110% over the years since my appointment in 2001, and certainly since 2003 I had given 110% to make this work. As it happened, Chairman, and I am sure we will come to it, at the eleventh hour we realised it was not going to work.

Q1109 Chairman: Why?

Mr McNeill: I think Mark Addison summed up quite fairly the position that he found when he took over as Chief Executive. There were two issues in what has been described as "gumming up". One is that the final stage of the process of making payments is where payments in batches of 100 are assessed using a small part of the software of the RITA system, where they are assessed over six checkpoints until they meet those requirements. A sample of those 100 is assessed. What we were discovering was that if there was a certain level of failures the whole batch was rejected and had to be checked individually. The difficulty was that we had large numbers of batches that were failing that very final check. This came to light about the end of February because we had started making payments, I think, by 20 February, and we started to realise that batches were not going through and I was personally involved, along with Alex Kerr who was the Director of Finance then, and Gill Robinson, who headed up the internal audit and also the RPA's Assurance Working Group, in a detailed analysis, along with, of course, Defra Legal, Sally Lewis and others, in looking at first of all could we bypass those six checks in that we certainly felt some of that work had been done before. There were issues here about statistical analysis, what the real meaning was of these failings, looking at the whole picture, and we engaged in a number of activities to identify was this really of substance and what was the materiality of these failures. We were approaching the stage, where, following a number of analyses or pieces of work that were undertaken, we were coming to the conclusion that we could bypass those checks and in fact that happened. They moved from six to two and now to one with Legal approval, but at the time I was there we were not quite at that stage; we were

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some days off it, and so I had to report to the Secretary of State on 14 March, I think it was, that those batches would not go through. The second problem with those batches, of those *circa* 40,000 claims that had cleared level two validation—30,000–40,000 claims, I cannot remember the exact number—was that a large percentage of those were small claims and so in terms of the target of achieving the bulk (as Mark put it in, generously considering that to be 51%) that was not likely to happen because, and I cannot remember the exact figure, the percentage of the total value of the CAP fund that could possibly be paid in processing these *circa* 40,000 claims was significantly less than that. Had we even had all those batch payments through, which we felt we would be able to do in a few days, we felt it was going to be unlikely that that would help us achieve the 51% target. The second problem, where the “gumming up” I think really does come into play, was the level two validations. This is where, with the task-based approach which the Committee has heard of on a number of occasions, we were endeavouring to clear various categories of task on claims. We did not have, as I think the Committee is now well aware, a claims-based picture as to which tasks related to which claims. We did have management information on the various categories of task and as a consequence we were able to initiate fixes through Accenture in some cases. In other cases, using what my group would call the resolution centre, who were the best experts we had on the scheme and the best experts in understanding how we could process these tasks without suffering disallowance or incurring the wrath of the Commission, what we did was that we had been working at the tasks category by category with a view to getting them resolved and as a consequence more of our payments through. The gumming up occurred, Chairman, because as we cleared tasks in a number of cases they generated yet more tasks. You cleared up an issue relating to land of a certain farmer and the interface with other farmers and you clarified what the ownership issue was. By doing so the system may well produce one or even more tasks relating to another issue about another interface and whose land was that and where were the proper interfaces. Were there checks, for example, that had been done against the Rural Land Register, and so in fact at times, despite having diverted pretty much all of the RPA staff we could onto resolving SPS level two tasks, it became increasingly clear that this was going to be a slower process than we had anticipated. Unlike the old schemes, Chairman, where we would have had good information and previous experience on which to model the profile of performance that we would expect, this being a brand-new scheme, of course, it was extremely difficult to project performance and being the first year of this new scheme it was extremely difficult to have perhaps the same level of accuracy in the modelling of what progress we might expect to make. Hence Brian Bender, I believe quite rightly, made the comment in his second visit to meet you that the RPA’s ability to assess its performance,

including tasks, was not as good as it might have been, I would accept that criticism, mainly because it was a new scheme and it was a new way of working.

Q1110 Chairman: I want to read out a quotation from one of our witnesses, Lord Bach, and seek your reaction to it. When Lord Bach came he said the following: “On Thursday, 9 March, we were given advice that the bulk of payments would be made by the first few days of April, not the end of March but the first few days of April. On the 14th, five days later . . . we were told that there was no chance at all of such a thing happening, that the bulk of payments would not be made anywhere near by the end of March and, of course, as you know, they were not. I frankly have to say that I do not think that that was satisfactory from senior civil servants whose job is to tell ministers the truth.” That is strong stuff from a former minister. Why do you think he said that? He feels he was led well and truly up the garden path and he uses the term “senior civil servants”, implying that there was more than one source of information who imparted this message to him. Who do you think he was talking about and do you agree with what Lord Bach said?

Mr McNeill: I can certainly understand Lord Bach’s frustration. I can assure you it was mirrored certainly by the senior civil servants in the team that we had at the Rural Payments Agency. Lord Bach was in regular contact with the RPA Director of Operations who briefed him regularly, I think, towards the latter end of this process.

Q1111 Chairman: For the record, who was that?

Mr McNeill: That was Ian Hewett, who gave evidence to you at the same time as I think Simon Vry was here. Simon has also met with Lord Bach on a number of occasions and reported on progress, usually all with the perspective of systems development and the Change Programme in terms of the delivery of the IT. Ian was providing stats to Lord Bach, as I recollect, and actually pointing to the number of tasks that were outstanding, and I certainly think Lord Bach was aware, as indeed most of us were, of the importance of clearing those level two validations to enable us to move to payment of claims, and so the figures were provided and in actual fact it was those figures that eventually made it clear that we were not going to be able to clear the tasks at a sufficient rate to push ahead.

Q1112 Chairman: Lord Bach quotes 9 March and he quotes, as you do, 14 March. On 9 March he was confident that the payments could be made; by the 14th we are not. What changed between those dates?

Mr McNeill: It is difficult for me; I have not actually seen the reports that went to Lord Bach, whether those reports came from the RPA or from the policy side of Defra who were also kept fully informed of progress.

Q1113 Chairman: Why would you not have seen those reports?

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Mr McNeill: I might have seen them at the time, Chairman, but of course I am no longer an employee of Defra and as such my access to records is rather limited. I have been able to access some of my own records but I have not got these reports.

Q1114 Chairman: The reason I ask that question is to try and establish, as we will do throughout our detailed inquisition on this, who was actually responsible for briefing ministers about what was going on in the project, if you like, in its inception stage and then the reality of the delivery of the payments. Were you the person who told ministers what was going on or were there other channels of communication and information upon which they could draw?

Mr McNeill: General reports on progress in terms of developing the system and our progress towards SPS were produced jointly, from my recollection, in the main by Andy Lebrecht, who was the Director General, and myself. We were joint chairs of the CAP Reform Implementation Board. Often additional or other reports would also go forward, having had the feedback from the CAP Reform Implementation Board meeting which went to the Executive Review Group, which was chaired by Brian Bender, and to ministers on progress. Where it was strictly a matter of reporting operational issues those reports would in the main have flowed directly from the RPA, stating as a matter of fact things like how many tasks would have been outstanding, *et cetera*. In terms of expectations and this issue of had we raised Lord Bach's expectations, I can only say that in any dealings regarding this programme, which I am sure the Committee is well aware now was a high risk programme from its start in 2001, I was taken on to manage this process, this top-ten, high risk, IT-enabled Change Programme, made all the more risky by the CAP reform with a review in 2003. My recollection is that we made it clear to ministers that this was high risk all the way through this programme. I agree it must sound surprising that within a matter of days we may have moved from a higher level of optimism to having to say, "This is proving to be extremely difficult", at the eleventh hour. I can only say it came as something of a shock to us. We thought, having defined entitlements at the start of February, having started payments on 20 February and shown that the system worked on an end-to-end basis, with the progress we had made on clearing level two validations, our optimism was somewhat raised that we had finally crossed the last fence and were on the home straight, and, as I say, it came as something of a very serious shock to us when we suddenly discovered that there were serious issues arising.

Q1115 Chairman: You were talking about the reporting route up the tree to ministers and you implied that factual information about what was going on went direct from somewhere in the RPA to ministers. I am anxious to understand first of all who was the recipient within Defra of the information from the RPA and why there was this seeming split in the responsibility between what you as the Chief

Executive might be saying, I presume to somebody in Defra, and these other channels of communication that were going also to somewhere in Defra. Who was gathering this information together and what was being done with it?

Mr McNeill: As I recollect, Chairman, we circulated the performance information on the operations, how many tasks had been cleared that week, and we had profiles identified which were shared with Lord Bach. I attended numerous meetings, certainly RPA senior management attended meetings on a weekly basis with Lord Bach, and certainly towards the approach to the target of achieving payments he was also receiving, as I recollect, daily reports, as I have mentioned before, and profiles explaining our anticipated performance. I think those reports were accurate, I think they demonstrated that that we were running into trouble, and we were desperately trying to find some way round the difficulties that we were experiencing. Where it was an operational issue the reports would have flowed from the management information system that we had on the operation side looking at the clearance rate of level two validations, *et cetera*, and as a consequence the operational performance would have flowed straight through to Lord Bach's private office.

Q1116 Chairman: So Lord Bach's private office was the principal point of receiving all of this information?

Mr McNeill: Yes, and they would then, one presumes, make sure that Lord Bach was aware of these papers. Certainly at meetings Lord Bach had the papers with him where he was aware of the reports.

Q1117 Chairman: Did ministers have access to anybody, if you like, who was not part of the process but who understood clearly what you were engaged in, because ministers' private offices are not experts in the way that complex systems operate? They are administrative receiving units for hundreds, if not thousands, of pieces of paper, bits of information, telephone calls, emails and everything else, and they filter things out for ministers. They do not give advice to ministers.

Mr McNeill: As I recollect, Chairman, if the information was for the attention of Lord Bach we sent it to his private office and they would make it available to him. As I say, at the meetings we had with him he had the information in front of him and had obviously studied it in some detail. He was obviously very close to what was going on.

Q1118 Lynne Jones: Did I hear you correctly when you said that the reports "demonstrated we were running into trouble"?

Mr McNeill: The reports clearly demonstrated progress against the various profiles that would enable us to achieve the targets, so towards the end when we started to—I mean, it was a short period of time when we realised we were not going to get the volume of claims through, so it was not over months, but literally over the very short timescales that I have been referring to it became very apparent that the

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system was clogging up but the number of level two validations coming through had reduced dramatically.

Q1119 Lynne Jones: So I did hear you say that the reports “demonstrated we were running into trouble”?

Mr McNeill: As I recollect, the operational information was clear. It was the same information that we, at the RPA were looking at. We did not hold anything back. We always made sure that the same information went through, and we were concerned about it and we put that on.

Q1120 Lynne Jones: I remember seeing reports and there seemed to be ever more tasks outstanding.

Mr McNeill: Absolutely.

Q1121 Lynne Jones: Is that what you are referring to?

Mr McNeill: Yes.

Q1122 Lynne Jones: And yet you were confident on 9 March and you then had a shock when it was not working. That does not seem logical to me, that the reports demonstrated you were running into trouble and more and more and more tasks, and yet you were shocked between 9 and 14 March when it did not work as you expected.

Mr McNeill: Two things had come together. One was that we had analysed the 30-some thousands of claims, I cannot remember the exact figure, between 30,000 and 40,000 claims, that had cleared level two validation, and we had done a lot of analysis of that. We had discovered that those claims, as I said, represented lower value claims—had they been at the top end of the claims then we would have made the 51%, but we realised that in fact the system was selecting smaller claims, probably because, if it was a matter of one field or a pony paddock the claim may well have flowed through without a lot of difficulty, whereas a claim involving a substantial number of fields and interfaces with other farmers could attract much more difficulty. We realised then that the way in which the tasks were being generated or cleared was producing clear claims which were of relatively small value, or a high percentage were of small value, so we realised that, even though we were getting large volumes of claims through, we were not getting as much in percentage volume terms as we wished. The second thing is that there were, as I recollect, a number of fixes and a number of approaches that were being developed which were supposed to clear large batches of claims. It was the case that where we could find a systems approach to clear off a batch of claims as opposed to staff having to call them up one at a time and deal with them, that reduced the workload substantially and you could then have a very dramatic reduction, and that had happened in the past and we had anticipation that some of those would also assist us.

Q1123 Chairman: Can we go back, because, following the line of Lynne Jones’s inquiry, I saw some of the reports which I understood to be

authored by you in which you were reporting to ministers in the previous September and the months before that about the mounting number of tasks, and I remember seeing in one report a figure of something like 440,000 tasks, and then by September it had gone up to 720,000. I have to say that the thing I found amazing was that there did not seem to be any sense of concern that this mounting tide of tasks was increasing. There was a sense of somehow it would all be all right on the night. What I find difficult to understand is why the growing awareness that you were not going to make it took such a long time to dawn whereas for lay people,—and I put my hand up and say I do not fully understand all the systems that were involved—with the benefit of hindsight and with the benefit of looking at the evidence, the tide of undone work and the inability to monitor the progress of that work seemed to be pointing in the direction of catastrophic failure and yet it was a bit like the king is in his altogether and nobody said anything.

Mr McNeill: The position regarding the number of tasks was the subject of, I would say, probably daily discussion within the RPA, and the RPA operations team, largely based at Northallerton, were working pretty much day and night identifying how we could reduce these tasks. Some tasks could be removed by a simple system fix, in some cases in very large numbers, and often we would run an overnight process and a large number of tasks would have disappeared, with perhaps a corresponding small number of additional tasks being raised, so in actual fact it was not as if these were evenly weighted tasks. For some categories of task, as I say, it was identified that there would be fixes to resolve them, and so the general view from the RPA operations team that was working on this and was very close to it, and their consultants who were working with them, was that this was do-able. They were putting forward projections and they were doing projections from optimistic to totally pessimistic, and even at a totally pessimistic level it was still coming forward, certainly to myself as Chief Executive and in papers that we were then sharing with CAPRI and others, that this still should be do-able. Then, of course, once we had cleared *circa* 40,000 claims through level 2 validated we were in a position where we felt sure we would be able to get them processed and through this final stage of this batch authorisation in a matter of days, that gave us some level of confidence that that was going to work. As I say, on further reflection and as time went on we started to grow increasingly apprehensive that that would not be the case.

Q1124 Chairman: Just for the record, when we talk about a level two validation, does that mean that the claim was effectively ready to go to the final point at which the remaining checks would be made before the actual money was paid out?

Mr McNeill: Yes. Once it has cleared level two validation the claim goes through the batch authorisation process. They are put in in batches of 100 and there is a quality assessment. I cannot remember the numbers now. Think it was four

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perhaps were taken out and checked against six criteria. If they passed then the batch went through. Then the file was sent across to Oregon, our financial system, which has been used to make payments under the previous regime of CAP schemes for some time. That was an upgrade that we put in, I think, some two or three years ago. Then the cheque is issued to the customer or a BACS payment is made, which is more likely to be the case these days.

Q1125 Chairman: In terms of the process that was involved with the checking part after the level two validation, what was the focus of those checks? Was it designed to avoid disallowance as a principal objective, or was it there for other purposes?

Mr McNeill: The checks and issues that were raised were based on the system design which was to make sure we complied with scheme rules and avoided disallowance, so where the system said, "I have got a problem here. There is a task. I just cannot let this go through automatically", then it had to be reviewed, or alternatively that category of task had to be considered by the resolution centre team based at Northallerton where we put as much expertise as we could on the job, and they would say, "We can fix this by an IT fix where we can, say, do another sub-routine and check this out and get those through", or they would issue desk instructions to the staff working in the RPA offices, and say, "We would like you to focus on this task grouping and we would like you to follow these desk instructions and that will enable you"—we believe that they would have tested that and piloted that—"to clear these tasks as quickly as possible, and by that means they would reduce the tasks.

Chairman: Let me ask one thing which seems so fundamental to this whole process. Why did you not have an end-to-end test of this system with real live farmers' data?

Q1126 Mr Drew: Take 20 farmers.

Mr McNeill: This issue, I thought was quite well covered, Chairman, by Accenture in their evidence where they spent some time on it. I think part of the difficulty was that whereas we were able to generate data to put in testing for other parts of the new system, and indeed did do that, the difficulty—and I am not an expert in this area but I read the discussion at the time—was that because this was a new scheme we had not run it, we did not have a set of data from previous experiences that we could put in and properly and effectively test the system until we had run the scheme, so we were in a sort of catch-22 situation. I think Accenture covered that point and that was certainly the advice I was receiving.

Chairman: There are two things that come out of that. I do not think Accenture did cover that terribly well, and maybe it is my lack of understanding of the way that complex systems operate.

Mr Drew: They would only have done that if they were commissioned to do it.

Chairman: Let us have a little quote because we have now had the documentation which lays down what Accenture was supposed to do, but let me just continue my recollection of what Accenture said.

They effectively tested each part of the system. They then said that the system was stable, and the impression I gained was that because they had tested individual components of it and all of them worked they then assumed that the whole thing would work. The document that we have seen, which lays down their agreement as to what they should do, is the RPA IT applications agreement, and I quote from it, "The system integration test will concentrate on proving the system requirements and end-to-end business processes, including end-to-end work flow. It will test the whole system and the integration into the other authority work programmes". That says to me they were authorised to do it, but the reality is that they did not appear to do it in a way that you could say, "Here are", as Mr Drew says, "20 real farm applications", because you have made clear that as we were coming towards the end of 2005 you had got level two validated claims which could go onto the system, but for whatever reason nobody decided to have a real evidence run to see if it worked.

David Taylor: They were more than authorised to do it. They were commissioned to do it, they were expected to do it and they were contracted to do it.

Q1127 Chairman: So why did they not do it and why did you not ask for it to be done?

Mr McNeill: I am sorry, Chairman. I can only suggest that I inquire further and respond to you formally. I have not got that information to hand at this moment in time.

Q1128 Chairman: But come to the simple piece of information. You made it very clear in your earlier statements that we were dealing here with a novel process, a complex process, a process where you were learning as you went along, a process where you were heavily reliant on experts telling you about things, and where your reputation was on the line with ministers because you kept assuring them that it would work. If I had been in that position I think I would have wanted to have something to reassure me at some stage before I knew I had to go live for real that it would work. I ask the simple question: why no test?

Mr McNeill: On that specific issue, Chairman, I am sorry, I will have to refresh my mind and come back to you. On the issue of the system working, as Accenture have said, and indeed it is proven by the fact that we issued cheques on 20 February, the system did work.

Q1129 Chairman: But the point is that at one time there was a clear expectation that payments would begin in 2005. Ministers eventually decided that they were going to do that, and Lord Bach, when he came before the Committee, rather told us to go and take a running jump because we had the temerity to suggest it would not happen on time. Effectively the only moment, going back to what you said, that you knew the system was not going to deliver was when the thing gummed up, and that is the bit that none of us can understand, why there was not some kind of evaluatory process with all the six checks and

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everything else to see if it actually worked before you had to put through the thousands of claims by which time had gone through this level two validation.

Mr McNeill: When I say the system did not work I am not saying the IT solution, RITA, did not work. RITA did work. We were able to define entitlements, part of the RITA solution, and we were able then to make payments, part of the RITA solution, through the batch authorisation process and pass the files in for payment through the separate financial system. The difficulty here was not with RITA not working. When I say “the system”, it was the operation that had to be gone through by the business to clear level two validations. The system said, “I have all these issues I am not happy with. I cannot pass these because you have built in all these controls that must be complied with for you to avoid disallowance and to process these claims properly, but my difficulty is that these do not make sense to me. There is a problem with them”, and therefore it was throwing out large numbers of issues or tasks—

Q1130 Chairman: But that is so fundamental to a new system, to put some data through it that would have shown that, because the basic message is that when you came to try this thing in February with real live data, because you wanted to make certain it would work, going back to what you said before you said that you thought it would be all right notwithstanding the fact that it was not until February that you actually ran the thing for real, in February it did not do what it said on the tin. Given the fact that you then nailed ministers’ colours to the mast of a payments schedule, basically you were stuffed. What I do not understand is why somebody did not try what you did in February a bit earlier.

Mr McNeill: The answer I provided, which was my best understanding at this time, was that we did not have a complete block of data to test the volume going to go through the system until we actually had run the system to that stage. I think that is what Accenture were saying basically. Our previous scheme’s data was not going to be suitable for that purpose. We had done testing of that particular piece of work but we did not have a block of actual data from the claims on SPS because this was the first year we had run the scheme and the first time we had run through it.

Q1131 Chairman: Hang on a sec; maybe I am being a bit dim here, but towards the end of December 2005 you must have had a series of farmers’ claims, the forms, the maps, where everything had gone past this level two validation, in other words a pile of things where you were saying, “We are basically happy to pay against this”, and then they went forward into the system for a series of further processes to validate those claims so that they could then go through to the payment bit, right, so to say you did not have the data does beg the question as to what was going on as you were ticking through the claims in 2005. That is the bit I really do not understand. There must have been a pile of forms

somewhere that were okay to proceed to the point at which you paid them. Were there forms in the way I have described?

Mr McNeill: I suppose with the old system we would have had a file with a form in it and the various sheets relating to a claim literally in a file, but I am afraid not. This was an electronic system.

Q1132 Chairman: So what you are saying then is that you did not actually know, because the claims were split up electronically, right? There was one heroic moment where you attempted to bring them all together and in February you had a few checks and then it stopped.

Mr McNeill: Hence the expression “gumming up”, yes, Chairman.

Q1133 Chairman: And nobody thought that you could run any kind of test before then?

Mr McNeill: My best recollection at this time, some 10 months after I left the RPA, is that the particular element had been tested but the end-to-end testing I was advised was not possible. That is my best recollection.

Q1134 David Taylor: Advised by whom?

Mr McNeill: In discussions with the programme office and the team that were working on it, in the discussions afterwards about why had we not tested this through.

Q1135 David Taylor: Was it an RPA person or an Accenture person?

Mr McNeill: I cannot recollect the details. Obviously, it was an issue of why had we not seen this as the first question you would ask when you find yourself in this situation.

Q1136 Chairman: I appreciate that these are events of a little time ago, but we have been active in this field for the best part of a year now and I think we have got reasonable recall as a committee about what people have said to us about this, so let us go back within the joint memory of, say, the last year. When you were designing this whole process and sitting down with Accenture we have got a paragraph here which says that there was supposed to be an end-to-end test. Did you not have any discussion with Accenture about how they were going to reassure you that the process they were involved in designing and which your own IT people were also involved in was actually going to work?

Mr McNeill: There was a testing regime that was agreed by the RPA Programme Board with Accenture that was put in place. We had quality control checks on that from people such as Karen Jordan, who was close to the testing side of things. We had others, like OGC, looking at the testing regime, and nobody said to me at any time, “This testing regime is not going to work or is unsatisfactory”. We knew that the testing regime, as indeed it can always be, could have been better. You could arguably never do enough testing of a system but no-one ever said to me, “This testing regime is

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faulty. You should review that”, or, “You should hold back now or modify it”, or whatever. That discussion never took place.

Q1137 Mr Williams: When you were first appointed in 2001 one of your priorities was the Change Programme, the main thrust of which was reduction in staff working in the RPA from, I think, 3,500 to 1,900. How many were actually made redundant? How many posts were lost in the RPA?

Mr McNeill: I am sorry, Chairman, again, I just do not have those figures to hand, but they are easily obtainable from RPA and Defra. That was a part of the Change Programme. Reading through the various transcripts I think it might just be useful to mention that this Change Programme was about producing efficiencies, not by still having people tapping stuff into computers and checking claims but by making this system internet accessed where farmers would make their applications on line. In fact, Chairman, for four years we ran an e-IACS pilot on the applications scheme and Ben Gill, the then President of the NFU for example, made his application on line, where we were testing out customer perceptions on e-IACS, so we never actually envisaged that we would end up with a system that still had our staff processing claims. The intention was to have a particularly user-friendly system where customers could come on line and could process their claim, a bit like the Inland Revenue, and in fact we spent a lot of time looking at the Inland Revenue system, and that is where we anticipated efficiencies. The efficiencies were not realised because, of course, first of all we had delay with the 2003 CAP reform, which meant that we could not implement the initial programme. Secondly, we had the unfortunate situation where, with the decision that we went for the 2005 scheme, we had to put in a number of manual work-arounds and that is where Accenture said to us, “Right; this is the scope at this moment in time. If you want all this done we are going to have to take more time”. The timetable was fixed and after the review in the start of 2005 we were projecting, as you say, Chairman, through to February 2006 as the start of payments, some 12 or 14 months later, and that was the most significant review up to that time. In between those times every time a change request came up or a significant amount of additional work or rework was required to the system because the policy was delayed by, as Accenture have said, almost a year, what happened was that we had to look at the scope of the programme with Accenture and decide what had to be removed and what, whilst desirable, may not have been essential, and what we could do to strip this down and de-scope the programme to get it delivered. That also meant manual workarounds that also impacted on the number of RPA staff there. The original vision of the programme was one of the reasons I did not apply for this job initially. It was after the closing date that I was approached by consultants and asked would I apply for the job. I had considered it and decided that it was very high risk. There were others who were closer to the planning, Jane Brown, Head of the

Regional Service Centres (MAFF) and George Trevelyan, who was Chief Executive of the Intervention Board, who I felt were probably closer to it than I was. I was asked to apply and I took on the job.

Q1138 Chairman: Who asked you to apply?

Mr McNeill: The recruitment consultants. I did not put in an application within the closing date. I was approached and said no, I was not really interested, and they were very persistent in saying, “You should apply for this job”. I said, “There are other candidates”, and they said, “You should apply for this job”. I said that given that I had spent six years in my previous position—I had hoped to move on after three, Chairman, but you may recollect that the Meat Hygiene Service went through a series of turbulent times with e-coli, BSE, *et cetera*, *et cetera*, so I felt I had been there a long time. I took on the job on the basis that I had been there for three years, and then I was asked in 2003¹ by the then Permanent Secretary, Brian Bender, to stay and finish the job. I have to say I was not that enthusiastic because I felt that I had spent another three years there and we had gone through foot and mouth disease, we had taken on the British Cattle Movement Service, we had achieved a lot and I felt I had done a lot, and actually I thought at that stage perhaps rather than spend another two or three years somebody else would be better to take over, but I was asked to stay and so I did, but the original intention was, and it still is as I understand it, to take this system that we have now, which I think we all accept is chunky, clunky and generally not as good a piece of work as it should be, again because of the sub-optimal decisions we have had to take to get it to deliver on time or, I am afraid, as it turned out, not deliver on time, as opposed to our legacy system because it is now in much better shape to still move towards that objective of e-enablement.

Q1139 Mr Williams: When the Single Farm Payment scheme was first considered, were people considering then that people should be able to apply electronically?

Mr McNeill: On the SPS?

Q1140 Mr Williams: Yes.

Mr McNeill: No. There was a note which went to Lord Whitty from Brian Bender following discussions at ERG²—I actually came across it recently—and it was put to him that we could not possibly take on SPS and continue with the e-enablement programme, with the SPS being internet accessed, *et cetera*; it was just a bridge too far, and e-enablement was de-scoped. I seem to recollect that Lord Whitty was concerned about that because, of course, he had been involved, as I recollect, with this concept that this Change Programme was about savings³ through e-enablement.

¹ Correction by witness: 2004.

² Executive Review Group.

³ Note by witness: “in delivering CAP scheme payments”.

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Q1141 Mr Williams: Lord Whitty says that in retrospect he thinks it is probably true that it was not sensible to have reduced the staff by that much. The decision had been made by senior management in the RPA and with Defra at a much earlier stage. As I understand it, even though the e-enablement scheme was jettisoned, the staff continued to be removed from the RPA.

Mr McNeill: Yes. There are a number of points worth noting. One is that we had to take decisions. We have obviously got a business plan, which was agreed with the board⁴ and indeed with Cabinet Office and Treasury in terms of it being funded. Ministers had to take decisions as to which RPA offices were to close. A number of options were put to them and they decided on which RPA offices should remain and which offices should close. In some cases we had little choice. Cambridge had to close because it was demolished. It was a PPP/PFI buyout where a new office block was built and there was no longer accommodation for the RPA staff in any event, so it was Hobson's choice for us; that office had to go. There were other offices, such as Crewe. The Regional Development Service had been set up at this stage and RDS wished to take on the experienced staff that we had at Crewe, which, after all, from a trade union perspective, our perspective and indeed a public purse perspective made eminent sense rather than making them redundant. There were job opportunities here and so those staff were transferred to RDS and Crewe disappeared. We did shut other offices because we also had to make decisions fairly early on in this process and that was where the investment in infrastructure was to be made because we had to put in new pipes, new computers, we had new Sun systems delivered into Reading, and we had to decide where that very substantial cost was going to be made, and so for a relatively small number of RPA staff in Nottingham it was clear that that decision for the short term was perhaps not such a wise one. The other fact is that we had, in consultation with the unions, made it clear that staff were going to be potentially redundant, and indeed had indicated which offices were going to be closed, and obviously staff started to make plans. I can only assure you that Hugh MacKinnon and my Director of Human Resources went to Nottingham and we actually asked him to stay for a short time longer, some months, and, in the words of Hugh MacKinnon, whom I spoke to recently, he felt he was lucky to get away without being lynched as a number of staff there had made their plans and had decided to move on, quite rightly. It was not as if staff were desperate to stay on. Having had the situation put to them and having decided to take an early retirement package they wanted to leave. The other important fact in this is that in the meanwhile we had taken on the British Cattle Movement Service. We had 450-plus staff based there. We had a call centre, we had experienced staff that we could divert to this work. We had them hooked into our infrastructure because they were going to be part of the RPA. We asked to take over the British Cattle

Movement Service, Chairman, because we had gone through, and I think Brian Bender touched on it but he may not recollect all the detail, serious reputational damage at the RPA because of the very high—and I am talking hundreds of thousands of anomalies that existed on the British Cattle Movement Service database. Before April 2003, I think it was, the British Cattle Movement Service was the responsibility of a Grade 3 within the Defra core department. We were very concerned that every time we went to cross-check bovine claims against that particular database we were running into serious problems where we could not make payments because the BCMS database reported animals were not there or did not know where they were. It is a well documented piece of work. We therefore took the view that rather than spend large sums of money piping up offices where we had staff that quite rightly had made plans to move on, we would be much better making that investment into the British Cattle Movement Service and we would be much better preparing those staff to work with us. As a consequence we now have a virtual call centre where we can seat 350 staff on telephones to deal with any crisis that might arise, avian 'flu or whatever. We have staff there that are multi-skilled who can assist us in CAP scheme management. The big skill they have, of course, is that they are well used to talking to farmers, and if I am perfectly frank, Chairman, that is about the best skill that the staff in the offices we closed had. They were used to a claims-based way of working which was completely different from the task-based way of working that we had put in for SPS. They certainly had a skill in dealing with customers and that was I think the biggest attribute they could have brought to us. The RPA/BCMS I think has proved to be an exceptionally good merger. The other thing about the SPS scheme is that we have moved from a raft of CAP schemes, I think it was nine agricultural schemes, spread out throughout the year which kept staff busy all of the year, into one annual scheme. This creates a massive cyclic issue in terms of staff planning and that was the other reason we wanted to make the investment in BCMS, because BCMS can back off from their own core work to assist us during peak times and then move back into it, and from a longer term savings/efficiency point of view it made sense to do that.

Q1142 Mr Williams: But having decided to go from an electronic scheme, although not implement an electronic scheme, to a task-based scheme, what assessment did you or the RPA make of the capacity of the staff that you had there to complete the task?

Mr McNeill: The decision to go task-based was made in 1999 following the PwC report. It was made two years before I came on the scene. It was never up for further decision; that decision had been taken. No-one ever said it was not possible. It was something that I never even raised because I was handed a case saying, "This is what has to be put in. Do it", so in terms of the work I never actually got to see what assessment had been done about the ability of staff to transfer from a claims-based to a

⁴ Note by witness: "CAPRI and ERG".

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task-based system of working. I have to say, as you, Chairman, and others round the table have noted, our RPA staff are totally dedicated. RPA staff were working double shifts on this piece of work night and day, at weekends, and I can only give them full credit for their commitment. I do not think they would have had any problem in taking up a task-based scheme. My point is that for those offices that we said would close they had certain skills but they did not have the experience of task-based working. They would have had to retrain. Interestingly, when we went to see the Passport Office as a lessons learned experience the RPA team was told that where staff had stayed working and had worked previously with the old paper-based approach to issuing passports many had found it extremely difficult to work simply on the screen and deal with things on that basis, whereas new people coming in did not have constantly to think about the old paper based system or were not constantly deflected by the old system of working, and that was, I think, a fair comment.

Q1143 Mr Williams: So you are implementing a task-based scheme but it must have been clear to you that good customer relationships with the farmers was essential if the new scheme was going to proceed, and yet you seemingly lost the staff that could address both those issues.

Mr McNeill: Yes. On reflection I ask myself why that did not cross my mind. I had had little experience of working with CAP scheme management prior to taking up the post, but I remember that we spent a lot of time going round the RPA offices talking to staff. I remember sitting listening to one of the RPA operatives at a very early stage talking to a farmer, and, to be perfectly frank, it was an excellent service. It is the old bank manager in your local bank type of relationship able to sit down and almost on a one-to-one name basis, and I do not mean that inappropriately, and it really was an excellent service. However, as I say, our decision had been made.⁵ It did cross my mind, "This is going to be a hell of a cultural shock to customers to move to this new way of working", but then, of course, we were not looking at that relationship continuing with people on a task base. We were looking at internet access. We had the statistics which showed that a very large percentage of farmers, particularly after foot and mouth disease, had internet access. They had used it effectively during the FMD crisis to communicate and lots of them had computers and internet access because they have got children and families use them, and we had all those statistics. What we were aiming for in this e-enablement programme was that they would not be phoning us as such; they would be going on the internet and the system would tell them where things were wrong in their CAP applications.

Q1144 Chairman: Who was the author of the Change Programme?

Mr McNeill: As I recollect, the initial authors of the Change Programme were PricewaterhouseCoopers.

Q1145 Chairman: So they would have been the ones to have made the recommendation to the Permanent Secretary?

Mr McNeill: I was not about at that time, Chairman, but there was a board set up; I think it was the R2K Restructuring Board. I think Jane Brown, in her role as the Head of MAFF Regional Service Centres, chaired that, and indeed it was Jane I spoke to at the time of the advertisement for the job, and she had indicated that she was interested. I think at that time she was chairing that board, yes, and then a paper would have gone from the board, I would imagine, to the Permanent Secretary and senior Defra colleagues and then to ministers.

Q1146 Lynne Jones: Can I just come in on this business? I can understand what you are saying about farmers having been used to this cosy one-to-one relationship, but there would not have been a problem had there not been so many problems. We have had evidence from the Central Association of Agricultural Valuers and farmers about their frustrations at not being able to get answers about the whole mapping exercise. They would go through several bits of correspondence, maps being faxed out, they would get it nearly all right and then all of a sudden it would all unravel again.

Mr McNeill: Yes.

Q1147 Lynne Jones: The farmers were basically tearing their hair out about this. Surely you must have been aware that this was going on and that there was nobody who knew what was going on with any individual claim. We are talking about, going back, a process between 2003–04 up to the point when you decided to outsource that particular exercise. Did you not think, "Is there something wrong with this system in that we have not got anybody who really knows what is going on and is this task-based approach the right approach? Did you ever query who had made the decision and whether it was the right decision?"

Mr McNeill: A part of the vision was that we would deal with customers through a customer service centre.

Q1148 Lynne Jones: But nobody knew the answers, nobody knew what was going on to be able to deal with the customers.

Mr McNeill: I accept that. We launched the customer service centre on 14 February⁶, and I was there and I spent pretty much three or four days a week there for the next five or six weeks, when we realised we were running into serious problems. The difficulty was that the customer service centre was based in Newcastle and I have to say that there was a resistance on the part of some staff in Newcastle, in fact a number of staff in Newcastle, to take up the posts in the customer service centre which we had not anticipated.

⁵ Note by witness: "before I joined the RPA".

⁶ Note by witness: 2005.

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Q1149 Lynne Jones: It is not surprising if you have to deal with a load of justifiably angry farmers.

Mr McNeill: I accept that point, but part of it was a cultural thing. There were a number of customer service centres in Newcastle and they were not seen as particularly high quality jobs, and of course there has been a trend over some time now where customer service centres are outsourced to India or wherever, and I think there was concern on the part of RPA staff that this was going to be a retrograde step in terms of their future, so we had some difficulty getting staff in Newcastle where the customer service centre was based as part of our organisational design. That was problem number one, so we had to man the customer service centre with a number of temporary staff under the supervision of those RPA staff that we could get to supervise it. In addition we brought expertise in from the British Cattle Movement Service in Workington, which is not that far away from Newcastle, and we had them work with the customer service centre. The other thing was that the initial vision was for, I think, a 100-seat RPA customer service centre that went nowhere near what we required to meet our customer base.

Q1150 Lynne Jones: I think we understand what the original vision was, and you said somebody had made the decision to go down this route and therefore you inherited it, but it was quite clear it was not working. It was a bizarre situation where you had nearly 4,000 staff to pay out 120,000 claims, which was only about 20–30 claims per member of staff which could have allowed a cosy one-to-one relationship. Did you not at some point say to yourself that there was something going wrong with the system and was that decision to go down the task-based route the right one? Did you feel that you had not got the power to change anything?

Mr McNeill: The 4,000 staff are not just working on SPS claims, they are paying out other CAP and trader claims. There are trader schemes, *et cetera*, in Newcastle, 300 or 400 staff there. There is the BCMS, 400 or 500 staff there. There is an inspectorate of 450 staff, *et cetera*. They are not involved in claims and processing. I think it has been identified by everyone that the whole CAP procedures are complex and time-consuming if you are to avoid disallowance and SPS, which was supposed to be a simplification, has proved to be—I think it has been quoted by a number of people—one of the most complex CAP schemes that we have ever had to deal with.

Q1151 Lynne Jones: Did you ever query your inherited system?

Mr McNeill: Not the Customer Service Centre. What we did do was enable it to be expanded quickly using the facilities at the British Cattle Movement Services Centre.

Q1152 Lynne Jones: Not so much the Customer Service Centre but the inability of those operatives to actually have access to the information that their customers needed.

Mr McNeill: Yes. The difficulty with the Customer Service Centre was people were working off a question and answer brief on the screens in front of them, a customer asked a question and RPA staff tried to find a match on the screen, they were not scheme experts. Indeed, how could they be scheme experts or, indeed, how could that Q&A be comprehensive when this was a brand new CAP scheme. Policy detail on SPS was not clear until the end of 2004 quoted by Accenture as a matter of fact, a matter of record, if you look at ministerial announcements. The fact of the matter is it was very difficult to get a SPS Q&A brief because it was the first year of the SPS scheme and there were new customers we had never dealt with before, some 40,000 of them, and existing customers who were very keen to talk to us about new land and other issues and, indeed, about the SPS scheme. We developed a Q&A working with Defra policy colleagues but the trouble was that farming is a complex business, every farmer has perhaps a different mix, different questions, novel issues that they want to raise and then we had to escalate those to Defra policy advisers and, indeed, in some cases to Defra lawyers for advice. It really was quite difficult. Particularly in the first year of SPS we knew it was going to be very, very painful and, indeed, we were very worried about our customers. We had statistics about the numbers of Customer Service Centre calls we were receiving, the numbers of people who were hanging up, and we were monitoring that certainly on a daily basis. Eventually we had to go to the Department and ask for—I think Brian Bender mentioned it in his evidence—additional funding to put on some external call centres from BT and others to cope with what we could see was going to be a massive spike of SPS work that had to be dealt with.

Q1153 Lynne Jones: You did not think, “There is something wrong with the system we are operating, it is too chaotic to carry on like this”?

Mr McNeill: Unfortunately, at that stage it was probably too late. What was the option? We could not go back to a claims-based approach for SPS, we had no way of doing that.

Q1154 Lynne Jones: It was what Mark Addison did in the end.

Mr McNeill: I do not think so. We in the RPA had concluded early on that the task-based approach was not satisfactory. Accenture had already briefed that for the 2006 scheme that in actual fact we wanted to move back to a better understanding of the relationship between SPS tasks and SPS claims. The work that we had initiated on batch authorisations, and I think it is fair comment, came to fruition⁷ and the RPA were able to release those 44,000 SPS claims and payments because the RPA were able, with Defra legal agreement, to remove those barriers and those six checks became two. Once they went down to two batch authorisation checks that money went out to RPA customers.

⁷ Note by witness: “shortly after my departure”.

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Q1155 Lynne Jones: So you were already pressing for those changes, are you saying?

Mr McNeill: Certainly in terms of the legal discussion. Gill Robinson, who is the head of audit, led the Assurance Working Group that was working with Defra legal to get this cleared.

Q1156 Lynne Jones: Sorry, what legal discussions?

Mr McNeill: The legal advice to the RPA is provided by Defra, the RPA do not have their own lawyers, so if the Defra lawyers said to us, as was the case, “You do this and you will suffer disallowance”, the RPA obviously cannot do it.

Q1157 Lynne Jones: So you were just so focused on the idea of the disallowance that you were not getting on with the customer service?

Mr McNeill: No, on the contrary. As I have said, Gill Robinson, working with the statisticians I mentioned earlier, working with her auditors, was looking at the reasons these claims were failing batch authorisation with a view to getting those checks removed proving that in actual fact it was belt and braces to the satisfaction of Defra lawyers.

Q1158 Chairman: Let me ask this question. You have put a lot of emphasis on the newness of this scheme. If we go back to the introduction of IACS, that was as novel a scheme in its own way as this one was but I do not recall there being anything like the kind of problems that there were with this. There were some difficulties with the mapping but they were quite quickly resolved. In the days of IACS there were many more schemes than by definition when we went to SPS. I think that is the bit where if you are looking for a benchmark to say “We are running into problems”, you would look back at the previous very complicated scheme on paper and say, “How come that went as smoothly as it did whereas we are into a mounting tide of difficulties on this new one?” You would have expected somebody at some point to have said, “This does not feel right”.

Mr McNeill: Chairman, Bill Duncan, who unfortunately retired and has left the RPA, was a lead player at the time of the introduction of the IACS schemes. In fact, I think he was awarded his OBE for his tremendous efforts in that area. Bill was the lead player who the RPA fielded in the discussions with our Defra policy colleagues, and you will have seen some of the quotes attributed to Bill about this particular scheme. I have spoken to Bill at length, he is now retired and living in Scotland, and he assures me that he felt what we ended up with was much more complex than IACS. I remember a discussion even before his retirement, “Had IACS been as bad?” and I am afraid it is a bit like the good old days, there were many problems with IACS, Chairman, and many issues which took them some two or three claim cycles to resolve.

Q1159 Chairman: But if it was more complex, and that is quite an interesting observation, and you had got somebody like Bill Duncan who had a lot of

experience of the previous system—It is probably Mr Duncan ringing you with some further information.

Mr McNeill: Sorry, Chairman.

Q1160 Chairman: You would have expected somebody in the senior echelons of Defra to have said, “Um, maybe we are trying to do too much in too short a timescale”.

Mr McNeill: The particular issue I wanted to discuss with Bill and it was Bill Duncan and Hugh Mackinnon who had the best CAP expertise that we had to offer. Hugh Mackinnon was the RPA Director of Operations and had been involved in CAP scheme management for some 30 years; Bill Duncan likewise. They were the two people that we favoured to discuss what could and what could not be done. What has been said is true, Chairman, they never said, “This can’t be done”, but I have spoken to both of them at length and they are both clear they repeatedly said, “The more complex you make this, the more high risk this is going to be”.

Q1161 Chairman: But when this programme was initiated and the design was evolving, the complexity was becoming clearer, who at the top of the office was saying, “Don’t worry, this is the chosen course, it will be all right”?

Mr McNeill: Chairman, David Hunter is quoted as saying that “the RPA will do what the RPA is told to do”, and I have to say I do believe there was a significant element of that. We were an Executive Agency and we were there to do what the Department (Defra) wanted and if they wanted that delivered we had to deliver it. I have spoken to Bill about it and he is quite clear that he certainly was very keen, as indeed were the NFU and others, that we should keep this as simple as possible from an implementation point of view.

Q1162 Chairman: In spite of this mounting tide of complexity there was never a time when you were responsible as the Accounting Officer that you had a scintilla of doubt, or even a serious doubt, that you felt you should have got hold of the Permanent Secretary or even ministers and said, “I’m going to try and do it but you have got to realise that this may not be do-able within the timescale that you guys are indicating that you want the Change Programme implemented and SPS introduced and other things as well”?

Mr McNeill: The RPA change programme since 2001 before SPS/CAP reform started was high risk. I think it has been generally acknowledged from a number of people who have given evidence here that SPS added yet more to that risk. We have OGC reports at the back of the NAO report.

Q1163 Chairman: Indeed.

Mr McNeill: We have OGC and RPA reports which have red all over them. We were reporting at the time of the SPS policy discussions, “This is increasing the risk.”. Did we ever say no?

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Q1164 Chairman: Why I am—

Mr McNeill: I understand the question.

Q1165 Chairman: Why I am asking this question is because, and we will probably come back to it at the end but let us face up to this, this is about accountability. Here we have got mounting complexity and problems, there are a lot of red marks, you are absolutely right, and yet onward sailed the ship heading towards the iceberg. What I want to know is who was on the bridge? Who was saying, “Keep going”? We are going to talk in a minute about the choice of payment model. There must have been a point certainly in 2004 when there was some flexibility about changing course or delaying the process of actual payment to give you a bit more time to try and evolve, explore, understand and ultimately deliver this high risk programme. The message I am getting is that from the top of the office, the top of Defra, the message to the RPA was clear: “You will deliver within this timescale”. Who at the top was telling the boat to sail on?

Mr McNeill: Chairman, when the Commission were notified in July 2004, possibly August 2004, that we were going for SPS in 2005 that was that fixed and there was no turning back. That is my best understanding of the situation. I think it was the case that we made it clear to the Department that this was do-able, extremely high risk but do-able, but also at the time we were saying that in 2003 we did not have the full details of what this scheme actually looked like. It took until the end of 2004 until the SPS policy was clear and, as Accenture noted, the devil was in the detail. What we said was, “If you can tell us by the end of 2003 what this is and we can get Accenture started to build this without coming back and changing”—I think Accenture quoted 60 change requests that came through, largely policy driven, 21 significant policy changes. At the time we asked the question, “When will the SPS policy be clear?” we were advised it would probably be clear and we would be able to push on by the end of 2003 but it was 12 months later. That was what increased the risk dramatically.

Q1166 Chairman: When you talk about “risk”, because the Office of Government Commerce attempt to quantify risk, what is your quantification of the risks at the beginning and then subsequently as difficulty mounted? Have you got your own McNeill risk score?

Mr McNeill: The difficulty was that one date was the target. As Mark Addison noted, once ministers had announced the target of starting payments in February, the bulk of payments had to be out by March 2006.

Q1167 Lynne Jones: That was from your advice though. That was what you told ministers.

Mr McNeill: On the contrary, that target was set for the Agency. We were keen to go for the EU requirement which was that payments be made by the end of June 2006, but obviously that was

unacceptable because we had been setting new track records on payments for the previous CAP scheme for some time.

Q1168 Lynne Jones: If they were to be completed by the end of June they would have had to have started somewhere.

Mr McNeill: The CAP/SPS payments window opens at the start of December and you can legally pay out on CAP payments until the end of June.

Q1169 Chairman: Let us wind the clock back a bit because what you have just said is quite significant. You said that as the Chief Executive of the Agency you would have preferred to have gone for a payment window at the maximum point, that was June 2006. Did you at any one time communicate in writing to the Permanent Secretary, the Secretary of State or a minister, something that said, “I would prefer to do that”?

Mr McNeill: The setting of targets was an issue an issue that arose between the Agency and Mark Addison’s Ownership Board unit. He headed up the Operations/Ownership Board unit function and when we were setting those targets, and I remember the discussion when I was involved in setting them, it was made quite clear that would be totally unacceptable politically, that you could not have a new SPS scheme, when old schemes were paying out pretty much as the window opened in December, and expect our customers to be able to wait—

Q1170 Chairman: So it was a political decision that the tighter timescale was the preferred one?

Mr McNeill: That was certainly the advice I received.

Q1171 Chairman: Can I be very clear. I want to be very clear on this. When you were talking about the Ownership Board, can you confirm for the record that you actually told the Ownership Board that you would have preferred to have paid out in June 2006?

Mr McNeill: No, I did not say that, Chairman. What I said was that the targets for the Agency were a matter for discussion between the Ownership Board support unit, which was a part of Mark Addison’s responsibilities, and the RPA Agency.

Q1172 Chairman: You were the head of the Agency.

Mr McNeill: Yes.

Q1173 Chairman: I am not quite getting it clear between the Ownership Board and the Agency and you as the Chief Executive. You have just expressed to us a preference that you would have personally liked to have gone to June 2006, but you said there was some discussion between the Agency and I presume other senior people than yourself.

Mr McNeill: Yes, Chairman.

Q1174 Chairman: And the Ownership Board—

Mr McNeill: Sorry, Chairman, no, not the Ownership Board. There is a secretariat or a support group that provides support to the various Ownership Boards for Executive Agencies within

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Defra and it is the communications between the Chief Executive and the Agency senior team and the ownership board unit as to what targets might go forward to the Ownership Board and then to Ministers.

Q1175 Chairman: What I am trying to understand is the input of the Agency's representatives into the process of deciding what the payment window or timetable was going to be. You made it very clear to us a moment ago that your personal preference would have been for June 2006, is that right?

Mr McNeill: Had it been possible, yes.

Q1176 Chairman: Had it been possible?

Mr McNeill: Yes.

Q1177 David Taylor: Had it been politically possible?

Mr McNeill: Yes.

Q1178 Chairman: When you say had it been politically possible, the impression I am getting is that the timetable was handed down to you with no discussion as to, "What do you think, Mr McNeill, we could do?" Do you understand why I am asking these questions?

Mr McNeill: I do, Chairman. Perhaps it would help if I explained. The legal payment window for SPS 2005, as you know, Chairman, is from the start of December 2005 to 30 June 2006. Facing what we faced it was a subject for discussion at the time of putting forward the targets to the Ownership Board, *et cetera*, and I was present at the discussion with the Ownership Board unit, the secretariat or the support service to the Board, on would it be possible to move the SPS payment targets. Our targets previously had been to make CAP payments at the start of the payment window, but obviously with this being a new SPS scheme with the associated risks, the learning curve, the Change Programme and all the rest, we did have a discussion, which I was present at, as to whether it would be possible⁸, and we were advised it would not even be considered because obviously, and quite rightly—I can understand the point of view—it was the case that farmers had an expectation having had the payments made, particularly for the last few years, almost as soon as the window opened or very shortly after. It would be financially unacceptable, as indeed the difficulties we have experienced with SPS demonstrate, for farmers to wait until June for payment. That was the only point I was trying to make, Chairman. Legally the window is from December until the end of June but expectation and political understanding of that expectation is that farmers expect to get their money at the earlier stage.

Q1179 Mr Drew: If we could go on to the dynamic hybrid model, whose idea was it?

Mr McNeill: I think I am right in saying that I had practically no input into that discussion. We fielded a number of the best people that we could for that policy discussion.

Q1180 Mr Drew: Take me through the policy discussions. At what level were the policy discussions taking place, who was involved in them and who made the decision?

Mr McNeill: The policy discussions, as I mentioned earlier, involved Bill Duncan and Hugh Mackinnon from the RPA. They were dealing with David Hunter from Defra who, I think it is fair to say, was working to Andy Lebrecht, was taking the lead in much of this work, as Andy was, of course, working closely with ministers on it. I was not involved. I had no input whatsoever bar providing the best expertise the Agency could, officials who had been through the McSharry reforms, IACS, *et cetera*.

Q1181 Mr Drew: This changes the whole dynamic of the way in which the Single Payment System is going to work. This goes for the most complicated model possible. You have got to deliver this and yet you were not privy to those discussions which actually said, "Look, Johnston, this is what we want to do".

Mr McNeill: No, my expertise was not in that area. I explained before that when I took up the position I had not 30 years of CAP experience, I did not have CAP expertise whatsoever, so I played to our best strengths and fielded the best people we had. They were feeding back to us, the RPA Executive Board, on a regular basis, we were taking sessions on our Executive Board, they were feeding in initially that it looked like the historic model was going to be it and that gave us great relief, of course, but then it became clear that there was a move to this much more complex system.

Q1182 Chairman: Could you just explain when in timetable terms that move from historic to another model started to evolve.

Mr McNeill: I am sorry, Chairman, I do not have that information to hand. Perhaps by perusing the Executive Board minutes I might be able to identify where we started to grow concerned about the increased complexity.

Q1183 Mr Drew: But you did not have any say at all on the decision of the model?

Mr McNeill: Personally?

Q1184 Mr Drew: Personally.

Mr McNeill: No.

Q1185 Mr Drew: No-one from the RPA?

Mr McNeill: I was never involved in a discussion as to the policy development and where it was heading, only to say at meetings, *et cetera*, that the more complex the solution the more difficult it was going to be for the RPA to implement and the more risk was involved.

⁸ *Note by witness:* "to move the bulk of payments to the end of June 2006".

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Q1186 Mr Drew: So when Margaret Beckett announced this decision on 22 April, how much prior knowledge did you have of that decision?

Mr McNeill: We would have had the knowledge from the feedback from Bill Duncan and Hugh Mackinnon who would have been saying to us, “This is the line that is going to ministers. This is the way it is looking and this is likely to be what is going to be announced”.

Q1187 Lynne Jones: There were people in your Agency who had some input?

Mr McNeill: Absolutely. I have mentioned three times Bill Duncan and Hugh Mackinnon who had been involved in the previous CAP regimes. Hugh Mackinnon was our Director of Operations, he dealt with 21 CAP schemes on a daily basis, and had done for 30 years, and was now a senior civil servant. Bill Duncan headed up our Central Scheme Management Unit, he was our expert on all those schemes and had been involved, as I mentioned earlier, in the McSharry reforms, IACS, *et cetera*.

Q1188 Lynne Jones: I have been trying to find the record of it. We did have some information from the NFU about a meeting at which both Defra and the RPA people were present and one of them was attributed with the comments, in effect, that it would be catastrophic to go down this particular route.

Mr McNeill: Yes.

Q1189 Lynne Jones: Yet that view does not seem to have been conveyed to ministers. I cannot remember who it was. Andy Lebrecht is Defra, is he not?

Mr McNeill: Yes.

Q1190 Lynne Jones: Does anybody here remember who it was? It was Bill Duncan. Bill Duncan expressed the view that it was a crazy choice to make.

Mr McNeill: Yes.

Q1191 Lynne Jones: Did he say that to you? Did he say that as the representative of the RPA he was telling them this was a daft choice to make but he was being overruled by other people? Were you aware of any such discussion? Were you aware that was his view?

Mr McNeill: Absolutely. We had Bill Duncan and Hugh Mackinnon—Hugh Mackinnon was a standing member of the RPA Executive Board—and we would have feedback from Hugh at least on a weekly basis, if not through emails in the interim, at EB on this issue, which was extremely important to us: what is this SPS scheme going to look like and how complex is it?

Q1192 Lynne Jones: So your guys were telling the people that you thought this was a daft decision to make in the first year at least.

Mr McNeill: At RPA EB we would discuss the consequences. We would have Alan McDermott (RPA IT Director) telling us about the IT consequences, we would have Alex mentioning difficulties perhaps relating to finance and the cost of developing that and we would have Simon Vry

telling us about the relationship with Accenture and what would happen there and the increased complexity and the risk. Round the table⁹ we would have discussions and we would ask Bill and Hugh to continue assisting Defra in this but to make it clear that we felt this was increasingly high risk, which they did.

Q1193 Lynne Jones: Did you never seek, as Chief Executive of that organisation, to perhaps talk to the Permanent Secretary about these severe concerns within your Agency from experienced staff that this would not be deliverable?

Mr McNeill: We at the RPA never said it was not deliverable, we accept that. We said it was still do-able. Nobody ever told us it was not do-able. Accenture in their records do not say, “We told them it could not be done”. That has never been said. Karen Jordan never said, “This cannot be done”. OGC did not say, “This cannot be done”. It was do-able, it was just increasingly risky because of the increased complexity.

Q1194 David Taylor: It was daft but do-able.

Mr McNeill: It is not for me to say. If ministers wanted to go down that road in the timescales that they indicated, my job was to say if I, as SRO and RPA Accounting Officer, had any information I could have put forward in an objective way of some standing that said this was not do-able I most certainly would have done so. I had a good working relationship with Sir Brian Bender, who I respected greatly, and continue to do so, and I would have been able to have had that discussion without any difficulty.

Q1195 Lynne Jones: But high risk implies it is a high risk of it not being do-able. If it is 70% of risk, that is a 70% likelihood that it is not going to be do-able and a 30% likelihood that it is going to be do-able.

Mr McNeill: Chairman, there has been evidence in front of this Committee that we quoted probabilities as low as 40% in terms of reporting on risk.

Q1196 Chairman: I come back to the risk which the Agency attached to the processes which were being considered by ministers. I would like to know whether the representatives of the Agency, when you were comparing and contrasting the different ways in which the Single Farm Payment System could have been introduced, ie historic, hybrid or something else, and did ministers and/or Lebrecht and/or Bender have a quantifiable risk rating according to the choice of system. Looking at the timetable there must have been a window of opportunity from when ministers agreed to adopt the Single Payment Scheme under the reform, which was in June 2003, as opposed to 12 February 2004 when Margaret Beckett announced the choice of the dynamic hybrid. There was roughly a six month window of discussion opportunity. During that

⁹ Note by witness: “at the RPA Executive Board”.

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period did the RPA quantify the various risks or the risk profile in a way that ministers would have known it was X% for this and X% for that?

Mr McNeill: The team that was fielded by the RPA was the best team we had on policy, and that was Bill Duncan and Hugh Mackinnon. They were feeding back to Defra the response from the RPA Executive Board, which involved Simon Vry, Brian¹⁰, myself and others, and making it clear that it was increased risk with increased complexity. Once the decisions had been taken, such as the announcement that this was going to be a dynamic hybrid, we sought as quickly as possible to understand the implications of that and, indeed, as I recollect, produced a number of impact assessments. I notice that Accenture say they were not consulted in 2003 as to the consequences, I am sorry, I spoke with Simon Vry on that and particularly remember sessions that we had with Accenture. I think part of the difficulty here is that Accenture's lead partner at that time, Barry Prince, is no longer with Accenture. Following a review of the RPA change programme by Accenture Head Office in America, a chap called David Hunter, I am afraid Barry is no longer with Accenture and a new person has been put in. Certainly my recollection is we did have those discussions, we had to understand what the systems development issues were relating to that, we would have been foolish not to. We started to look at what would be the impact of the policy as we understood it at the time but, Chairman, the policy continued to develop and, in fact, continued to develop until the end of 2004 at which stage we even had the OGC at the start of 2005 saying in their reports, "Stop the policy changes". It was something of a moving target as to what the impact or the risk was. It was difficult to pin down the moving target because the SPS policy was changing as we moved on until we reached the end of 2004. We did supply impact assessments. We were giving the best estimates of risk that we could at that time.

Chairman: I am mindful that James has been waiting very patiently to come in and I would like him to come in and then Peter.

James Duddridge: I will come in on the issue of special advisers later.

Chairman: Okay, fine, as long as you are happy.

Sir Peter Soulsby: You have been talking about risk, and we have been talking about risk, but when you were discussing risk were you talking about risk in terms of not being able to deliver on time or were you discussing risk in terms of what in fact happened, a catastrophic failure?

Q1197 Chairman: Can I add to that because having been a minister the normal form, which I gather has not changed significantly, is that the minister when they have to make a decision gets a note and the risks are quantified and there is a paragraph when it comes to the recommendation, "Ministers should be aware that . . ." I am trying, and I think Peter and my colleagues are trying, to understand upon what basis was it still decided that it was within the realms

of achievable risks to go ahead with the most complex model where policies at the time to go down the dynamic hybrid decision road were not fully taken against a background of a Change Programme that was evolving, against the background of a new piece of IT architecture which had to be designed, in other words the number of unknowns was increasing with the passage of time, and yet at the beginning of the process the message I am getting is that the decision to go down the dynamic hybrid route was taken as a matter of principle without looking at this mounting tide of risk and saying, "Have we got the risk/reward ratio right?"

Mr McNeill: To the best of my recollection we were not asked to undertake sophisticated models of what actually each part of this new scheme or each dimension of this new scheme was going to be in terms of risk. The issue which I believe was quoted through the evidence that you have is the question was "is this do-able", and that would seem to have been the issue. I do not recollect us constructing any models. We fielded people to advise as to whether we felt it was do-able. Can I just tell you where we were at that time, Chairman? We were developing a new system for 21 schemes. In terms of SPS there were nine separate schemes, bovine and arable schemes. Some of those schemes were quite complex. Together that was a massive piece of work. Initially, Chairman, we had been sold the concept by Accenture that we were going to have a generic end-to-end process system for a claim to pay with separate rules where we could tailor the scheme almost without having to bundle miles of code and rewrite and all the rest, but I am afraid it quickly became apparent that with the packaged Oracle solution that we had been sold by Accenture, which we were attracted to because our financial system was Oracle and that would remove the risk of the interface between the processing system and the financial system which pays out the cheques, that would not turn out. So we were in a position with Accenture where they had nine schemes to develop and it was quite apparent that this was probably not such a profitable contract, and you have discussions about were they making money and all the rest. The fact was it became clear at this price if they could not use that generic model this contract was probably under-priced. With SPS along came the option of saying, "We will not build those nine schemes, we will build one scheme. It might be complex and it might be more difficult, but when you add it up and look at it in terms of resources and in terms of time and everything else, compared to nine separate schemes to develop and the risk of getting any one of those wrong, it is actually not unattractive". That is my recollection of the discussions that we had with Accenture and others. They felt, as I recollect, that this was do-able, that we already had a programme office in place. That was another one of the reasons why we were not violently opposed to the idea of going for SPS in 2005. We had a world class supplier on the books, we had gone through an OJEC procurement at considerable cost, we were in contract with Accenture, CAP reform was covered

¹⁰ Note by witness: delete "Brian" and insert "Alex Kerr and Alan McDermott".

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in the contract because we had recognised that whilst the CAP reform was going to come along although, as Brian Bender noted, no-one expected it to be so fundamental and such a massive change, but it was there, it was covered, so we did not have to do another OJEC procurement, we had been through the learning curve with Accenture, so when we looked at this, even though it was complex and all the rest, we at the RPA thought, "We have a team sitting here now ready to do this". One of the big concerns, Chairman, in all these IT developments is keeping the right people, keeping the right expertise, particularly with your suppliers. If you let them walk off to another job you do not see them again, they could be there for two or three years on another programme. We had a team, we were in contract, we had gone through the OJEC procurement, one scheme was considered, even complex, to represent something we could achieve and that was why we said it was do-able. What we were not clear about at the time we were being asked those recommendations was that they were going to take until November 2004 until we fully understood what this scheme looked like with the added complexity that was built on and built on down to things like fruit and veg, which might sound simple, Chairman, but has proved to be inordinately complex and difficult to reflect in the system's development.

Q1198 Lynne Jones: On that point, one of the changes was when Margaret Beckett announced that there would be three regions rather than two. You are complaining that there were all these policy changes but did you have Bill Duncan or anybody else in there actually saying, "Well, hold on a minute, do you realise this is going to increase the risk"? Did you attempt to keep things more stable and to stop those changes?

Mr McNeill: I do not think we had the slightest doubt¹¹. I have spoken to Bill Duncan, to Hugh Mackinnon and Simon Vry, I do not think there was any doubt that we probably almost on a daily basis were making the point, "You keep making this more complex". We were looking at a programme here that had red lights all over it.

Q1199 Lynne Jones: Who were you making that point to?

Mr McNeill: The points were being made at CAPRI where Accenture were asking when they would get the actual information to enable them to get on.

Q1200 Lynne Jones: That was between you and Andy Lebrecht. You were the most senior people on CAPRI.

Mr McNeill: Andy Lebrecht and I joint chaired CAPRI. He was the SRO for policy, I was the SRO for operations.

Q1201 Lynne Jones: If you were discussing it in CAPRI how did that message get to ministers? When Margaret Beckett announced that there were going to be three regions, not two, did she know that

the staff responsible were saying, "This is making it less likely that we will be able to deliver and more likely that we will be in non-compliance with EU regulations"?

Mr McNeill: I cannot comment on that, I do not know what Andy Lebrecht said to Margaret Beckett. I do not know. I would have certainly thought he must have done.

Q1202 Lynne Jones: So the RPA *per se*, you and your people, were not saying that to ministers?

Mr McNeill: In my time in the RPA I met Margaret Beckett twice, and the second time was when I was dismissed.

Q1203 Lynne Jones: Okay, well when you were talking to the other ministers were you or your staff expressing any concerns about the deliverability?

Mr McNeill: If you were to look at the reports that went to Lord Whitty and the OGC reports and other information and if you looked at the discussions at the CAPRI board, the reports which I gather now some senior officials¹² at CAPRI say they did not quite understand, which were of an agreed format, I do not think we could have said it any clearer.

Q1204 Lynne Jones: So nobody told you that they could not understand your reports?

Mr McNeill: Absolutely not. Those reports were developed by the CAPRI¹³ Board. We are talking about a number of directors-general and, indeed, the DRG permanent secretaries. I find it extremely difficult to know how any experienced senior management could not understand the reports. It really does surprise me.

Q1205 Lynne Jones: You would have expected Andy Lebrecht to report to his seniors in Defra that these reservations were being expressed at CAPRI?

Mr McNeill: And the concern about the increased risk. I accept fully we never said, "This is not do-able" but we did make it clear that the more complex, the more risk.

Q1206 Lynne Jones: Did you express the view, "Why do they keep changing these policies? Why has she made that decision? Does she realise it is going to make it more and more difficult to deliver?"

Mr McNeill: I have had, bar two meetings, practically no contact with Margaret Beckett.

Lynne Jones: But did you ask?

Q1207 James Duddridge: I am surprised the Secretary of State only had two meetings with you. I understand her special adviser, Sheila Watson, who has moved with her to the Foreign office, was heavily involved and, in fact, there are some indications that the special adviser might have been chairing some of these meetings. Could you explain what the role of the special adviser was and what interaction you had with that particular special adviser, Sheila Watson, and perhaps other ministerial special advisers?

¹¹ Note by witness: "that Defra knew of the increased risk".

¹² Note by witness: Defra senior officials.

¹³ Note by witness: CAPRI/ERG Boards.

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Mr McNeill: Yes. In terms of Sheila Watson, my recollection is that she often attended the weekly briefing sessions that took place with Lord Bach and sat beside him, or close to him, and was sent all of the associated papers, the reports *et cetera*, that related to the programme where we were on progress towards delivering SPS.

Q1208 James Duddridge: So everything that went to Lord Bach would have also gone to Sheila Watson?

Mr McNeill: Certainly for the meetings that she attended with Lord Bach, as I recollect, and I am sorry but we are going back 10 months now, she was obviously well informed and had the papers, yes. Whether she received every paper or every submission that was put up, I am sorry, I could not say that, but certainly it was made clear to us that she had a particular interest in this and was to be kept informed.

Q1209 James Duddridge: Were you aware that Sheila Watson particularly was pushing the dynamic hybrid model?

Mr McNeill: Because I was not involved in the discussions about which policy, I do not know that.

Q1210 Sir Peter Soulsby: Can I just try once more my question about risk because I want to pursue that? Mr McNeill, can I just try it again with you. When you were talking about risk at the time, were you talking about risk of catastrophic failure or were you talking about risk of not being able to deliver on time?

Mr McNeill: We never said this was not do-able.

Q1211 Sir Peter Soulsby: So all along it was whether you could get it by the timetable that had been set; there was never any serious discussion about the prospect that it might not just deliver at all?

Mr McNeill: We had developed a contingency on the basis that, indeed, there was a second system relating to partial payments that had been developed on the basis that we discovered there was some fundamental problem¹⁴ but, as it was, up until the eleventh hour we thought we were going to do this. When we started payments and they had gone through¹⁵ we thought we had done it, and it was obviously a shock to us to discover we had not. The fact was that were it to prove not do-able we had a contingency system being developed and, indeed, a partial payments option. We had prepared for that event¹⁶. We had reported, I think fairly accurately, up to certainly CAPRI and ERG, and from there to ministers, progress in a very fair way in terms of it being down to us to discuss the number of tasks being cleared on almost a daily basis.

Q1212 Chairman: I think the thing I struggle with is that you made it very clear to us that it was high risk at the beginning and it got riskier as time went on because of the unfolding nature of the policy, but in spite of that the message that was going through the

various channels of communication still convinced ministers they could go ahead and by 12 February 2004 confirmed to a waiting world that the dynamic hybrid model had been chosen notwithstanding the risk messages from you. The risk messages that you put forward were never quantified as a percentage of hitting it because you said that it was do-able and you also quoted as a high risk the figure of 40%; which said there was a 60% chance of it not happening and a 40% chance of it happening. Did you ever try and quantify for the benefit of Defra what you meant by "risk"?

Mr McNeill: Yes. I do not know if you have seen the reports, Chairman, I can only imagine you have, but we had a very sophisticated risk assessment model that was included in all of the papers that went to CAPRI and then to ERG. Have you seen that, Chairman?

Q1213 Chairman: I personally have not seen that one.

Mr McNeill: It was developed by Angus Ward of Bearing Point who was the programme manager for the programme, and I have to say it was a particularly sophisticated approach to assessing risk.

Q1214 Chairman: Did it generate something in statistical terms that as a layman dealing with risk matters I would understand?

Mr McNeill: I would say it was not that complex. I have to say the presentation of it would have been easy to understand.

Q1215 Chairman: Let us come back then to the results that it delivered. When you said that the programme was high risk at the beginning and then got riskier, can you quantify for me what the numerical assessment of risk was as this complexity grew?

Mr McNeill: No, Chairman. This is similar to the question you asked before, "Did we turn round and say 'This is 40% likely, this is 30% likely' or whatever", no, we did not do that.

Q1216 Chairman: So if you had such a sophisticated risk model how is it that I cannot, if you like, feel, touch, have something tangible to enable me to understand what you mean by the term "risk". I am anxious to understand the decision making process but against a background where you were sending out a message which you communicate linguistically to us that it was high risk at the beginning and got worse, that Defra still felt comfortable with the reassurance, to pick up your own phraseology, that "it was do-able". By definition, if the risk was increasing it was becoming less do-able; still do-able but less do-able. In other words, there was an increasing probability that something would cause the wheel to fall off. Yet on went Defra flat out, an announcement, "This is the way we go", no awareness that the policy was going to admit a whole raft of new customers, the people you identified who had never had any dealings with the RPA, larger numbers of very small claims coming in, none of the

¹⁴ Note by witness: "with RITA".

¹⁵ Note by witness: "the RITA system".

¹⁶ Note by witness: "of RITA failing".

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other practical problems. The message I am getting is that the decision makers were blind to the implications of what you were saying. Is that a fair assessment?

Mr McNeill: I do not necessarily think that is fair, Chairman. The CAPRI Board, of which I was joint chair with Defra DG Andy Lebrecht, (and to the best of my knowledge he attended pretty much all the meetings, he did not send somebody else), had frank discussions about the complexity and risk involved in the dynamic hybrid approach and, indeed, as then, the risk model I am referring to was once what exactly was involved in the SPS scheme became clear. The risk assessment model was more valid in that it was not a moving target of, "Oh, by the way, we will add this, we will add this and we will add this". I believe there was an open, frank and assured reporting of what we understood the risk to be. I have to accept, Chairman, it was not as mechanistic or perhaps as sophisticated as the one you are suggesting. In the dynamic timescale we were talking about I think that may have proven difficult for us. I certainly believe that there was no doubt, and in discussions with Hugh Mackinnon and Bill Duncan, who were our lead players in the policy process, and, indeed, Simon Vry, who was reporting from a RPA change programme perspective as to what was do-able, that anyone should have been left in any doubt that this was a high risk programme.

Lynne Jones: The trouble is you could have a situation where it is high risk, a 99% risk of failure, but then you say it is do-able and it seems everybody disregarded the worry about risk because you were always saying it was do-able.

Chairman: It is a bit like saying you are going to win the Lottery because the odds of winning the Lottery are 20 or 30 million to one but it is still possible you might win.

Q1217 David Taylor: What is the difference between "do-ability" and "possibility"? As the Chairman has said, possibility can be vanishingly small but as long as it is non-zero it is possible.

Mr McNeill: This Department understood that this was a high risk, one of the top high risk programmes in government, before this started. It then introduced, mid-way through, a massive change where I had two officials who were adamant they made it clear this was going to increase risk, and the more complex it was, the more risk, but that it was still possible to do it.

Q1218 Chairman: I think we are going to have to move on because we could be here all night discussing this. I will summarise it, and tell me if I am wrong because we must make certain our understanding is correct. You signalled clearly in your judgment, and professionally, what the risks were to the CAPRI Board, therefore to the senior officials in Defra, and one must assume that they accurately transposed that information in recommendations to ministers. So, from this

discussion can we conclude that Defra were aware of the risks and at a senior level and at ministerial level they accepted the risks and what they meant?

Mr McNeill: I cannot comment on the last part, Chairman, I was not involved in the discussions. All I can say is—

Q1219 Chairman: But by definition ministers communicated that they wanted the dynamic hybrid model against a background of all the information that you had given them about the project and the change in policy and the complexities that were involved and against the background of the Change Programme. You had communicated professionally throughout all of this and your two key people had said there were mounting risks. If all of that information was parcelled up in language which Defra senior officials could understand and which ministers could understand and ministers made their decisions, by definition that says to me that at the top of Defra they accepted the risk message from you but, nonetheless, took the decision to go down the route they did.

Mr McNeill: Chairman, again I really do not want to comment on what happened with ministers, I was not there.

Q1220 Chairman: They took the decision.

Mr McNeill: I can only say that we fielded people who I have affirmed with them made it clear what the increased complexity added to risk.

Q1221 Chairman: By definition you provided Defra with information as part of their decision making process and Defra did not come back and disagree with your risk profile, did they?

Mr McNeill: I do not think there was any doubt they understood that increased complexity was increased risk.

Chairman: So if they understood it, and if they understood it and the decision was made on the basis of the information supplied, they must have accepted it. I cannot come to any other conclusion.

David Taylor: They must have accepted the risk.

Q1222 Lynne Jones: Did you not give them the cop-out by saying it was do-able? Did you understand the risk?

Mr McNeill: At the time this was being announced we had a certain understanding of what the policy was going to be. It took until nearly a year later before we had all of the information we needed to do a full, thorough impact assessment.

Q1223 Lynne Jones: All the time you were telling them it was do-able despite all of that.

Mr McNeill: Not all the time. Yes, we continued to find ways in which we could deliver the programme, I have accepted that, Chairman. We never turned to them and said, "This is not do-able". In fact, we made payments but, unfortunately, at the fifty-ninth minute of the eleventh hour we had a problem which meant that we could not continue to get the cheques out of the door.

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Q1224 David Taylor: At what point were Accenture selected and contracted to adapt and provide the IT systems?

Mr McNeill: I have got the date here, Chairman. 31 January 2003 was the initial Accenture contract and then the revised CAP Reform contract was about 12 months later.

Q1225 David Taylor: That will do. That is perfectly adequate for the purpose of the question I am about to ask.

Mr McNeill: Sorry, it was shortly after May 2004.

Q1226 David Taylor: Okay. Were you aware from your contacts with Sir Brian in 2003 of the concerns that there were that he made public in 2003 on “the quality of the people they were putting in for testing”? That was his quote. Were you aware of that concern in your role as Chief Executive in mid 2003?

Mr McNeill: Absolutely, Chairman. The briefs for Sir Brian Bender’s meetings with Accenture were developed by the RPA. I saw every one of them and attended a number of the meetings personally. I would often have a pre-meeting with Brian, either I or Simon Vry mainly. We developed the brief, we supplied it to Brian in line with best practice from the OGC where they encourage contact at the highest level.

Q1227 David Taylor: So you fed him that comment to an extent?

Mr McNeill: Absolutely. I am not suggesting that he followed our line *verbatim*. We went through the major issues of concerns we had with Accenture and Brian was able to explore that with Juan Dominic from Accenture on a regular basis.

Q1228 David Taylor: Thank you. Also, his further comment that the regret he had about Accenture’s performance were issues around delays, that was his quote, presumably delays in delivery compared with the plan?

Mr McNeill: It depends what stage you are talking about. We had particular difficulties with Accenture at the start of the change programme to do with business process re-engineering, which we never actually paid for. It moved on to concerns about the quality of the Accenture staff we had in terms of the design and build of the new IT system. Then we had concerns about the quality of the IT testing regime and the number and quality of the Accenture staff in the testing regime, and so it went on. It depends what particular stage you are referring to.

Q1229 Chairman: Could I just be very rude and interrupt for a second. Mr McNeill, you have been very patient and we are about two hours into our questioning. Do you need a little break?

Mr McNeill: Unless the Committee wants one, Chairman, I am happy to continue.

Chairman: As long as you are we are happy to carry on asking questions, but I just thought we ought to take into account, as they say, the natural processes and ask the question.

Q1230 David Taylor: You will have read the NAO report, I am sure.

Mr McNeill: Yes.

Q1231 David Taylor: You may recall that they observed that Accenture fell short of expectations in the early stages of the new programme and that the OGC, who will crop up later again in questioning, expressed concerns in January 2005 over significant weaknesses in Accenture’s management of their testing team. Were they observations which at the time you found to be accurate?

Mr McNeill: Yes, indeed. Those would have been some of the briefing that would have gone to Brian Bender for his discussions with Accenture.

Q1232 David Taylor: Earlier on the Chairman referred to the RPA IT Applications Agreement, the details of which we have, and he quoted one section in that and I will quote the immediately following paragraph: “The user acceptance test will enable the end user to execute the software that has been proven through the previous testing in a production like environment. The test will prove the functional requirements and the end-to-end processing of the system in combination with the procedures, and the links to external organisations.” You were the user, were you not, you were the most senior person within the user agency?

Mr McNeill: I was the senior responsible owner. As I recollect in PRINCE methodology, the user was Hugh Mackinnon and then Ian Hewett.

Q1233 David Taylor: So they would have been the—

Mr McNeill: The senior user, yes.

Q1234 David Taylor: They would have been the ones that signed off the acceptance test as the user of the system to comply with the contract within which Accenture were working?

Mr McNeill: Yes. The way it worked was the senior user was the business and, as I recollect, that was the Director of Operations, which was initially Hugh Mackinnon and then Ian Hewett. They would have been close to the findings of the testing regime and when the system was rolled out they would have accepted that it was fit for purpose.

Q1235 David Taylor: I am paraphrasing very, very heavily indeed but Accenture said to the effect, “We gave them what they wanted. We gave them what they specified”, in other words that RPA and Defra in a sense designed the business process which underpinned the whole system and signed that off. Would that be correct?

Mr McNeill: Certainly Accenture were working to a fixed price and a fixed specification as they have stated in their evidence, that is correct. From that point of view, from the first contract to the revised contract my understanding was we specified what our requirements were and they worked accordingly.

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Q1236 David Taylor: So the RPA did, under your leadership, did take on the whole design of the business process and also the IT specification and one presumes, therefore, accepted the risk that went with that?

Mr McNeill: I am not sure about the design aspect of that. My specification was, "This is a scheme and we require this to happen". In terms of the actual design of the system I would need to take advice, Chairman, but I am not sure that we designed the design, I think that was down to Accenture.

Q1237 Chairman: Our understanding was that Accenture did, if you like, some core functions but the Agency's own IT people did some other work that was bolted into it.

Mr McNeill: Having read Accenture's evidence, I think what Accenture were saying that there were many aspects to the whole package in the RPA that made up the system. For example, Chairman, the finance system was ours, we operated that, we did not use Accenture, it was an Oracle based package, we did an Ili upgrade and made sure it was pretty much state of the art. That was nothing to do with Accenture. I have to say this was a point of some concern on Accenture's part in that we did these pieces of work without engaging them. Accenture's work was delivering RITA, the RPA IT application, and we specified that initially for the nine schemes, although there was this concept of generic end claim to pay processing with the rules engine, we moved from that to where they were going to have design a scheme.

Q1238 David Taylor: Accenture deny that their systems failed, they say that in essence their operations were successful but the SPS patient died. We are still struggling with putting our finger on quite where the responsibility might lie.

Mr McNeill: If I can just comment on that. The difficulty with the Accenture system, and I think there was some comment made in the NAO report to a breach of contract letter, and—

Q1239 David Taylor: I was about to come to that. What breach of contract did RPA allege against Accenture in the month of February?

Mr McNeill: The difficulty was not that the system did not work, the difficulty was its availability to our staff and the fact that the system kept falling over.

Q1240 David Taylor: Is that not why it is working or not working?

Mr McNeill: That is a fair point, I suppose. The difference was that when the system worked it did actually work as in you could process claims through the system. If it fell over there were a number of issues in there, one was its reliability and availability to our staff and there was a service credit issue which meant that we could go for breach of contract, in other words, "The system is here, it does work when it works but the fact is it is not reliable". We addressed that. Another issue we had with the Accenture systems, possibly as a result of the chops and changes that had been made to the system, was

they were incredibly heavy on computer processing power. At one stage we were considering buying yet more computers, more hardware, to run the systems so heavy were they which is usually a sign, I was advised at the time, I think by OGC, of perhaps poor coding. It was something that would have been addressed in time by revisiting code structure and discovering why. That type of issue did arise.

Q1241 David Taylor: What would merit the description "the system is working" is not a fleeting moment when the system does as was expected of it but that there are issues of stability and accessibility and timeliness and all those sorts of things and they are wrapped in with any reasonable understanding of what is meant by a working system, are they not?

Mr McNeill: I accept your point fully. Are Accenture correct in saying the system worked? If you want to take the view that we put in a claim this end, went through a number of processes, including business interactions, and a cheque came out that end, then the answer is the system¹⁷ worked. I take your point. If you are saying it only did that for two hours a day or it was not reliable or it was incredibly inefficient in terms of the amount of processing power then I can understand you might say it did not really work.

Q1242 David Taylor: I think we have done to death the process-based and claims-based problems that were created by that but I do have one particular question which is at a level of detail. Because it was a hybrid system and, therefore, 10% of the payment was based on the three areas that Margaret Beckett announced in the April or so, did that not mean that in essence every claim had to be in before any claim could be paid, that element of the 10%, so that we knew what the areas were? Do I misunderstand that?

Mr McNeill: No, you are quite right. To define entitlements we had a cake and we needed to know how many people wanted what section of it, I agree. What happened in the end, and there was extensive legal advice taken on it, was that we looked at the number of claims, some of which were fully through the validation process, others which had not quite made it through, and we took a view that we were able to define the entitlements.

Q1243 Chairman: In that context, why was the mapping system such a source of failure? There were a number of letters, and I was looking at one only today to refresh my memory. In one case it was taking something like almost two years to sort out problems. When we had evidence from the Central Association of Agricultural Valuers they brought us examples of where they as professionals had worked out the correct maps but seemingly the system in the example shown to us was utterly incapable time after time of producing a validated set of maps. Why did that go so catastrophically wrong?

Mr McNeill: It is an area of difficulty that I personally spent an inordinate amount of time on. I would suggest, whilst I try to answer it, that there are

¹⁷ Note by witness: RITA.

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people in the RPA who could give you this in detail that would explain it. There were a number of issues. The volume of maps was a problem, ten-plus times the number of IACS 22s or requests for changes to maps that came through. We had the issue of 40,000 new customers who wanted land maps, so there was a volume issue. There was also a systems issue. The RLR¹⁸ rolled out, as I recollect, towards the end of 2003 and there was an issue about the clumpiness of the system, the system was incredibly slow. I remember in that quarter the Ownership Board was in Exeter and Ian Watmore, who now heads up the Cabinet Office Performance Unit, noted to the RPA Ownership Board that were it his system he would put his fist in it, so appalled was he at the slowness of the response of the RLR system. I do not know if you remember the TV series *Knight Rider*, Chairman, but the staff called it the *Knight Rider* system because a little bar would come up whilst they were waiting for the RLR system to figure out what it was they were trying to map, *et cetera*. We had appalling problems with the RLR system there which had to be resolved. Then there was the issue moving forward from that, Chairman, that we were advised by lawyers, by Defra legal again, that the SPS scheme EU Policy interpretation required us to send every customer a set of RLR maps, which we did at the start of 2005, before they made their application under SPS. So we sent out all our maps detailing our understanding of customer holdings, and that created an absolute plethora of issues and requests that came forward about the RLR maps and that added to the difficulties where people had not seen all of their RLR maps and being aware that the SPS scheme was land-based farmers wanted to make sure that every boundary was right and every fence was right, *et cetera*. Another issue was the tolerance level we worked at on the system—we could have gone for a lesser tolerance—so we ended up with issues which were called “slithers” and this was where the boundaries were slightly out and you had a little slither between the two, whose land was it, *et cetera*. If we had gone for a broader tolerance we would have probably got away with a lot fewer problems. The difficulty was this was a major investment, a national asset, and the view at the time was that we needed to make sure that the system was as good as it could be, so that was a problem.

Q1244 Chairman: And it was Defra’s lawyers who set all these parameters?

Mr McNeill: No, I am not sure about the tolerance one, Chairman, I cannot recollect where that came from. I am sure there are others in RPA who could advise you. I cannot recollect that. The issue that the Defra lawyers were clear about was to avoid disallowance we had to send out the RLR maps before the SPS claim process started. At the same time where changes were made to the maps, Chairman, we sent out an actual note of the changes. We would send a map and say, “These are the fields that we have changed” but we would not show the other fields in the way the system operated. That

caused great concern to people who thought their other fields had disappeared, but if you read the letter RPA it is quite clear that the correspondence was about the fields you have adjusted as opposed to us sending all the maps yet again. That created difficulties. A lot of the queries were coming through the Customer Service Centre which just was not equipped to deal with mapping issues in terms of the fact they could not see the map on the screens, they were working on a Q&A brief, so they were of little help and, again, you had the cultural problem.

Q1245 Chairman: So this was another failure of this task-based system not being fit for purpose.

Mr McNeill: I am not sure it was task-based, Chairman. It is a failure of a move from where you used to be able to phone up John or Gill or somebody in your local office perhaps and explore these particular problems, you now came through this new route into the organisation and they were not set up to deal with you. We always knew, and I think it was the case, it was going to be a first year problem and I suspect as we rolled into the second year of SPS the number of letters in MPs’ postbags was greatly diminished; at least I would hope so. We have now done it. There was a separate issue from this, Chairman, but which was related which was there was a linkage between the actual land and the fields the customer registered. You may recollect we sent out customer registration forms with the initial SPS applications and that created difficulties as well. There were also issues about the customer database and the land database as well. I suggest, if it helps the Committee, that the RPA be asked about this and I suggest in the first instance if you ask Simon Vry, he gave me a contact number to refresh my own memory on this, and I am sure he can put a note up to the Committee to assist you.

Q1246 James Duddridge: In late 2004 the RPA identified about 23 changes to the IT system. The question I was going to ask—I think I need to ask you a prior question—was what discussions did you have with the Permanent Secretary and ministers about your alternative choices? Given I was quite surprised that you had only met Margaret Beckett twice perhaps you could put into context what access you had to ministers and the Permanent Secretary generally and then specifically in relation to those alternatives in 2004?

Mr McNeill: I was very pleased to be able to work closely with Sir Brian Bender in his role as Permanent Secretary of Defra. I had a series of bilaterals with him, one a month. Brian was very close to the programme, he took an in-depth personal interest, as I am sure you have seen when he has given evidence here, chaired the Executive Review Group and, indeed, the RPA Ownership Board. I think our working relationship was very sound. He was particularly keen, and I think it is an important point which he himself has made, that the policy side and the operational side should work closely together, hence the creation of CAPRI

¹⁸ RLR: Rural Land Register.

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Board¹⁹ which was joint chaired by Andy Lebrecht and myself. I read that, Chairman, whether rightly or wrongly, as the issues we²⁰ attempted to resolve more on a verbal basis and in meetings and discussions rather than engaging in some form of memo warfare where “You are doing this and you realise this is going to do that”. Our relationship was more of discussions at CAPRI Board and frank discussions. I had a number of discussions with Andy Lebrecht about particular SPS issues and concerns about policy delays, complexity, *et cetera*. I do not think you will find that minuted, Chairman, because the relationship was supposed to be one of working together to deliver the end product.

Q1247 James Duddridge: We talked about the role of Sheila Watson in hopefully keeping the Secretary of State up to speed, but Margaret Beckett in 2005 was described in various places as “bloody livid” or in other places “angry” at the delay that was caused, yet her ministers and her special adviser had been kept in the loop throughout. Was this anger or being bloody livid more about PR or was it a genuine anger and confusion coming out of the Secretary of State’s office in your view?

Mr McNeill: I remember that quote, I cannot remember what the issue was.

Q1248 James Duddridge: She was telling the NFU Conference on 21 February that she was “bloody livid with the situation”, namely the two month delay.

Mr McNeill: Yes.

Q1249 James Duddridge: That rather surprised me because she had all the information coming through her minister, through her special adviser, what was she livid about?

Mr McNeill: I think we were in similar confusion at the time and very concerned that we had staff who were working their socks off and, indeed, consultants working very hard, the whole RPA team working very hard to get this done and it was not very helpful in terms of staff morale.

Q1250 James Duddridge: It strikes me as a bit of pointing of fingers. The RPA initially developed a stop-gap claims-based back-up system to make payments and that cost about £8.4 million. Why was that abandoned at the end of 2004? What was the rationale for that?

Mr McNeill: We engaged with Xansa and Sunguard, two suppliers we had worked with on our legacy systems for some time, and they developed our legacy systems to enable us as a last resort to come off RITA (the Accenture system), and do the entitlements calculation and to work through to payment. We had a particular resistance to doing that because a major problem was the bulk uploads and downloads of data between systems, particularly when you had a very old legacy system and a fourth generation or whatever it was new system. This was one of the reasons why we took our

time in reaching a decision to outsource the mapping to Infoterra, a similar problem downloading RLR files to them for them to update with the IACS 22s and then put back into the new RLR system. Our Director of IT and, indeed, others were very, very concerned that this might not work for us. As it was, thankfully, after some testing we were able to make it work. The reason we decided not to go ahead in 2004 with the contingency system was that we had had the delivery of the functionality to enable RITA SPS level one, level two validations working through to entitlements which had been tested. It was working, we had got them through and used them. In actual fact, the functionality that was left in the contingency package, RITA was ahead of it in some respects. Also we had done more testing on where RITA went from there through the RITA batch authorisations into customer payments. We had this contingency horse riding alongside the RITA development but, in actual fact, the RITA system was out first and we were satisfied that the contingency did not add any value. As we said, the actual RITA system did work. Can I just make one point. There was a serious tension with the contingency because Accenture and others, and Karen Jordan, I recollect, was giving advice that we needed to be extremely cautious here. Karen Jordan now chairs the Cabinet Office Audit Committee and has had tremendous experience with Transco and other large organisations in programme management. Karen Jordan—Helen Ghosh mentioned Karen—was very heavily involved in the programme of providing assurance to us and insight to us as to the best way ahead and, indeed, providing assurance to Brian Bender and Helen Ghosh. There was a concern²¹ that you could deflect excessive effort, resources and expertise into building a contingency and as such the main programme, what you are trying to build, suffers. Accenture had that particular concern and voiced it regularly.

Q1251 James Duddridge: I would like to turn on to your responsibility as the Accounting Office. I am fascinated by the lines of accountability. Did you ever speak to Brian Bender about considering getting a formal ministerial instruction in relation to the introduction of the Single Payment Scheme because of the risks of disallowing of value for money? In retrospect, is that something you wished you had done?

Mr McNeill: No. I have made it quite clear here, Chairman, and Brian and others have quoted the same, we never turned and said, “This is not do-able”. As I said, only at the fifty-ninth minute of the eleventh hour did we discover we had a problem which did not make it do-able. We thought we could do it with the elements of risk associated, of course, but we thought it was do-able.

Q1252 James Duddridge: Can I ask about the nature and number of informal meetings you had with the Permanent Secretary just in the final months of 2004 and the early part of 2005?

¹⁹ CAPRI: Common Agricultural Policy Reform Implementation.

²⁰ Note by witness: Andy Lebrecht and I.

²¹ Note by witness: “expressed by Helen Ghosh, the OGC and Accenture”.

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Mr McNeill: When Helen Ghosh took over from Sir Brian Bender and, indeed, when Mark Addison stood in for a brief period we continued with the monthly bilaterals which lasted about an hour. They were particularly frank discussions about where we were and what was happening. There was useful feedback from what was going on at the top of the office because, after all, we were based in Reading and were not as close to things that were happening in Nobel House in London, so it was very useful in that respect and also gave me an opportunity to give a very frank and thorough briefing as to where we were.

Q1253 James Duddridge: Did special advisers sit in on those meetings?

Mr McNeill: No.

Q1254 David Taylor: It is the sixth anniversary this month of your appointment as Chief Executive of the predecessor body to the Rural Payments Agency and shortly after your appointment you appeared before our predecessor committee, the Agriculture Committee, and acknowledged that you were persuaded against your instincts into the job and one of the concerns you had was the IT background that you did not have. Would that be fair?

Mr McNeill: I think that was the situation, yes.

Q1255 David Taylor: The high priority for you at that time, February 2001, was to avoid flying blind. In the land of the blind the one-eyed man is king. Was your one-eyed man Alan McDermott, appointed on a very generous contract shortly afterwards? Was he the person that you saw as your backstop on IT matters, an area that you say was not a solid part of your CV?

Mr McNeill: Yes. We went to quite significant effort to find the best person to fill the post of IT Director for the business. We went through a large recruitment organisation. As I recollect, we had some 30-plus applications. I had those analysed by a consultant from PA Consulting to split down those applications. This was personally, such was my concern about getting the right person. I looked at those in some detail with the consultant who was very experienced in IT and development programme management. We went through that and what became clear was that of that batch of applications, I do not know if it is standard in the industry, and this was after extensive advertisement, I seem to recollect, in *Computer World* and all of the international magazines, *et cetera*—

Q1256 David Taylor: But he was there for five years and what surprised me about this whole saga is that is a bit like the poem Macavity the Cat, that whatever happens he is not there, and yet I would have expected that he would have been at the core of what was happening in relation to the SPS system. Were you satisfied with his performance in regard to this?

Mr McNeill: Sorry, yes I am rambling on about the appointment. The point I am trying to make is that it certainly seemed to me and, indeed, the panel that

appointed him with external advice that he was the best candidate and certainly he had the experience. The point I was trying to get to was he had the experience of actually taking a programme from conception, in our case the enabling model, *et cetera*, and delivering it, and had done that in TNT, in an international environment, and from that point of view certainly appeared to be the strongest candidate. Alan joined us and played a full and, I felt, extremely valuable role in the organisation. He was not the only expert we had in IT, we had Glenn Rogers who came from California, a senior partner in Accenture, brought in not through Accenture but brought in separately to assist us.

Q1257 David Taylor: But if he was the only expert in the IT area, something that was at the very core of the do-ability of SPS, I would have expected his views and recommendations to have been more apparent in the evidence that we have heard and the records that we have inspected. His presence does not seem all that obvious to me.

Mr McNeill: I think I have explained the process of considering what the impact of the various policy options were, that was where Hugh Mackinnon and Bill Duncan would come back to our RPA Executive Board.

Q1258 David Taylor: I am thinking about the IT side now.

Mr McNeill: Alan sat on the RPA Executive Board, he was a RPA director, and he would input. As Hugh would talk about it from an operations perspective and Simon would talk about it from a programme management perspective, so Alan would talk about the IT consequences and what they meant.

Q1259 David Taylor: So Alan would have said, “Johnson, it is do-able”?

Mr McNeill: Yes.

Q1260 David Taylor: “Tough but do-able”.

Mr McNeill: Absolutely.

Q1261 David Taylor: Do-able meaning a non-zero prospect of it happening. It could be vanishingly small but it is do-able.

Mr McNeill: There was obviously concern on the part of the RPA Executive Board that as we increased complexity so we increased risk, that was the doubt. The question was, “As we now stand with our understanding of this, is this do-able?” and the answer round that table unanimously was, “This is do-able”. On that basis I did not discount it as an SRO saying, “This is not possible”.

David Taylor: I am surprised he lasted five years.

Q1262 Lynne Jones: I understand that Simon Vry was the officer who had most contact with Accenture. What contact did Alan McDermott have with Accenture? Was his role not to brief you on what was going on with Accenture?

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Mr McNeill: It was from a technical point of view. Simon Vry is not an IT technical expert. Simon Vry was a programme director, again within the PRINCE methodology, or a Managing Successful Programmes Methodology (MSP), the OGC framework in which we worked. Simon was a programme director and he was also responsible for the management of the contract between Accenture and the RPA in terms of contract management and, indeed, would have been behind the notice that was served at the latter stage of the process for breach of contract. Alan was responsible for the IT technical issues, the design authority *etc*, he was heavily involved in that, understanding what Accenture was putting forward, assessing whether he felt that was the right solution, *et cetera*, assessing testing regimes and that sort of thing. Technical issues would have been within Alan's expertise.

Q1263 Chairman: Can I just ask this question. We have got the benefit of hindsight. What was it that these experienced, well-paid experts missed? What we now know with the benefit of hindsight is that when it came to delivering the system did not. What we know is that there were all kinds of continuing delays that were being built up. I just find it difficult to understand what it was that they missed. With the benefit of hindsight, what did they miss that did not enable them to say, "Ooh, that looks a bit nasty at the end of the pipeline, this thing is not going to do what it is supposed to do"? What gave them this fundamental belief that it was still do-able right up until the eleventh hour and fifty-ninth minute?

Mr McNeill: I can assure you in my current position I have pondered this at length and I am certainly of the view that it was our ignorance of the consequences of taking a task-based approach to a claims-based system. For example, we could not even prioritise larger value claims. If we had wanted to hit the target—I am not suggesting politically it would have been acceptable—if we could have had a claims-based process we could have hit all the biggest claims instead of the smallest ones, as opposed to a large percentage of the smaller ones that the system selected.

Q1264 Lynne Jones: That is not the consequence of a task-based system, that is a consequence of an IT system that cannot do what you need to do with a task-based system.

Mr McNeill: Yes. I accept the point. If we could, and that was the intention, certainly plans were afoot in my time there, we needed to move this back to where we could get it to a claims-based process. What we did not understand, and I think it was a lack of experience of working with it, was the consequence of the task-based system, the fact that clearing tasks produced new tasks so you ended up with this horrendous situation of people working double-shifts, working away trying to clear things up, fixes going in, and yet you ran a process, and I think—

Q1265 Chairman: Your reports are unbelievably optimistic. You can see the statistics. As I say, one report shows 440,000 and two months later we are

up to 720,000. To my lay reading that says mounting problems. The other side of the point is this: when we went to Germany and talked to them about what they did, the penny had dropped with these guys that because they had got lots and lots of little claims they had to have a *de minimis*, they had to have some cut-off to keep out the tiny claims and some way of dealing with the priority issues. They spotted that and they had four different IT systems with 18 or 19 different *laider*, so 18 or 19 RPAs, four different systems, but they did two things, one they had *de minimis* and, two, they had interim payments, and they got it right.

Mr McNeill: I cannot speak about the German system.

Q1266 Chairman: Did you not go and talk to them?

Mr McNeill: We went to talk to and had feedback from a grouping of paying agencies about what others were doing but, of course, some were not implementing in 2005, they were implementing in 2006.

Q1267 Chairman: Can I just ask about who was running the show because according to the NAO they said on the basis of what you told them that where CAPRI was concerned you felt that the Board had come to supersede your role as the responsible officer for the project. Did you ever feel that Mr Lebrecht was running the show and was trying to dominate what was going on and push you into the background?

Mr McNeill: No, I did not feel that at all. I had a very good professional working relationship with Andy Lebrecht, he was the SRO for SPS Policy delivery. Within this methodology of SROs we had two and that is not usual. He was the SRO for SPS policy and I was the SRO for SPS implementation.

Q1268 Chairman: Was there a conflict at all between these two processes?

Mr McNeill: The only tension was when we were pressing Defra policy colleagues for when we would get decisions to enable us to push on and build this new SPS system and when we would get the policy clarification we sought. The Countryside Landowners' Association (CLA) make the point, and I think it is a fair one, that once the Defra SPS policy was decided certainly my experience was we found it difficult to get the speed of response that we wanted from the policymakers.

Q1269 Chairman: Can I just be clear about this because the language you are using rings true to the type of language that was being discussed when we investigated the disposal of refrigerators. There was a great argument within Defra about whether it was the gases in the fridge system or the polyurethane in the fridge door that was actually covered by the new directive. Let me just be entirely clear: in terms of interpreting in the British context, or the English context to be absolutely accurate, the policy which the Council of Ministers had agreed, were the delays

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within Defra in translating into the English environment the policy decisions which had been agreed by the Council of Ministers?

Mr McNeill: For us, in terms of the SPS policy issues, the devil is in the detail so we were interested in the *minutiae* in some respects of the policy. Once the policymakers had taken the decision, the Council of Ministers had interpreted it, developed it, *et cetera*, my only point is we ended up, as the CLA have mentioned, with a relatively small number of experienced people from the Defra policy side who could work with us in making sure we got the proper interpretation for implementation of SPS 2005.

Q1270 Chairman: Let us be absolutely clear. Are you suggesting that Defra's interpretation, translation, from Council of Ministers' decision to English application was a slow process?

Mr McNeill: Well, it took over a year.

Q1271 Chairman: It took over a year.

Mr McNeill: Yes, from when we expected the decision from the end of 2003 it was the end of 2004²². Whether that is slow or not, I cannot comment. It is a complex issue.

Q1272 Chairman: That was why I phrased my question in the way that I did. Our time is drawing to a conclusion and I want to return to the area of accountability. Let me see if I can sum up what you have told us because I am sure we could probably spend another hour looking at lots of detail but let us come back to where I think we are. You have described to us that Defra was, if you like, a knowing and well-informed customer of the RPA, it knew what it wanted, it told you what it was expecting from you and it decided the timetable. You sent back up the line all the messages about the system, the risks, in every aspect you kept your principal customer fully informed of everything that was happening, and that dealt with the technicalities, the resourcing, the timing. In other words, from the Defra ministerial team to the Defra senior management, if I have understood you correctly, they should have been left in no doubt as to exactly what was happening, why it was happening, what was not happening and what the risks were, they were a knowledgeable, well-informed customer. Is that a fair summary?

Mr McNeill: I think that is a fair summary, yes.

Q1273 Chairman: Right. The only person who is excepted and has had to deal with the element of accountability on this is you and yet we have just agreed that all of the other people in Defra, ministers and senior officials, were exceedingly well-informed from the information which your Agency provided and, therefore, had a good factual basis upon which to make any decision and all the decisions that they had to make in deciding to move to the Single Payment Scheme. The message I am getting is that there is an element of shared responsibility in terms

of the decision making process, but in terms of accountability you are the person who has had to pay the price of losing their job. Is that fair?

Mr McNeill: If I could just pause for one moment and go back to your question earlier about my response and my suggestion in discussions with OGC. The fact of the matter was papers were put to CAPRI, I jointly chaired it with Andy Lebrecht of Defra, so every other meeting I was chairing it, I was the joint chair, then it went to ERG where I was a member but chaired by Sir Brian Bender, and decisions were taken there and then in many cases it went to Defra ministers. If I was an arm's length agency where I was the Accounting Officer and senior responsible owner I would not expect that level of contribution from the Department, I do not think. I could expect an oversight, a board every quarter or whatever. We were having these meetings almost weekly with DG's and the Permanent Secretary and decisions were being taken on a regular basis by CAPRI/REG. Papers were being escalated to Ministers. This was noted by the OGC who also noted this was a discussion I had with them and it did not come from me. Where they expressed concern to me at the time, that Bob Assirati, who was the Deputy Chief Executive of the OGC²³ at that time, headed up, I think I am right in saying, pretty much every one of those OGC reviews of the RPA change programme and SPS preparations and that was why we held them in some esteem. The report of the team that Bob put forward made the point that there should have been one owner, and I do not disagree with that. If you want to hold somebody responsible you let them get on with it and you supervise it. We also had people like Karen Jordan, appointed by Brian Bender, now Chair of the Cabinet Office Audit Committee, seriously experienced in project management, in audit and systems testing, *et cetera*, who was involved extremely hands-on. Only by looking at some papers recently can you see how often Karen was inputting into what should be done to make this right, *et cetera*. She was a Defra appointment and a very experienced person almost in a non-executive role looking at it. My only point is this: we had two SROs and we had that whole chain so, yes, I share your concerns that I seem to be in the frame for it and I am the one who has had to carry the can.

Q1274 Chairman: With this shared ownership of the management, you have just mentioned about the Executive Review Group being chaired by Sir Brian Bender, the CAPRI Board was jointly chaired by you and Andy Lebrecht.

Mr McNeill: As a director-general of Defra.

Q1275 Chairman: When it came to the key decisions being made there was an element of joint ownership.

Mr McNeill: At CAPRI where I joint chaired and at Executive Review Group where I was a member of the Board. I did not disagree with the decisions that were being made but it was almost by committee when you look at the governance arrangements.

²² Note by witness: "before SPS policy was approaching finalisation".

²³ Correction from OGC: Programme Engagement Director.

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Q1276 Chairman: But if that is the case then all of the partners, you could argue, should accept some degree of the responsibilities for what did not happen as much as what did happen. If Karen whatsername was that good you are left asking why some of the things were not spotted. I suppose I am looking to see whether you feel that others also have a degree of responsibility that they should accept for what has occurred because they were part of the decision making process and they were as well-informed as you were about what was happening or what was not happening, what the timetables were, what the resourcing issues were, what the practicalities were. They had some degree of responsibility for the decision making process.

Mr McNeill: Chairman, from where I sit there is no doubt in my mind that we kept the Department fully informed. OGC reports to me as RPA Chief Executive were circulated untouched. Those are for the chief executive but they were always shared. I am unaware of any piece of information that was ever withheld from the Department, therefore I can understand your point of view.

Q1277 Lynne Jones: The OGC recommendation of one person being put in charge, presumably if that had been you and you had the last word and you could have overridden all these other people, would you have done things differently?

Mr McNeill: No, Chairman. I made the point that I do not necessarily disagree. I was looking at this as a system and I was left in the situation as SRO where there were all these other committees taking these decisions.

Q1278 Lynne Jones: So the fact that you were not in charge, although at the time you think you would not made anything different, did you feel you were lulled into some kind of complacency because all these other people were sharing the responsibility?

Mr McNeill: I can assure you that complacency was something that we did not feel at that time. I had a team that was working round the clock and I was heavily engaged.

Q1279 Lynne Jones: You were working round the clock but you were just working on a treadmill that was not getting anywhere.

Mr McNeill: Well, it did get to the eleventh hour and fifty-ninth minute, unfortunately. Had the payments gone—

Q1280 Lynne Jones: Not getting where it should.

Mr McNeill: Had the payments gone through it would have been satisfactory.

Q1281 Chairman: When the decision was communicated to you by Helen Ghosh that your services were no longer required, what did she tell you? What were the reasons that she gave?

Mr McNeill: I do not believe at that meeting she went into the loss of confidence issue, *et cetera*. My recollection, and I do have a note of it, was that she said to me that I was to be stood down following discussions with the Secretary of State the previous

day, that I had been totally professional and had given 110%. I was to speak to no-one, hence I have spoken to no-one since that day.

Q1282 Chairman: You just received this message and said, “Thank you very much”, you did not say, “But could you explain this to me”, because as far as I understand you had an unblemished assessment record as a chief executive.

Mr McNeill: Yes.

Q1283 Chairman: Box one ticks all the way through, is that right?

Mr McNeill: Pretty much 11 years of it, yes.

Q1284 Chairman: You never received any kind of written warning, appraisal or other indication of poor performance?

Mr McNeill: A full bonus every year, give or take one or 2%.

Q1285 Chairman: Box one ticks, doing a fantastic job, pat on the back, “Well done, McNeill, for good and faithful service” and when it comes to 14 March you were stood down, no reasons given. Did you not ask why?

Mr McNeill: I was expecting correspondence, which I have yet to receive. I was dismissed on 1 December.

Q1286 Chairman: So you have had no formal communication from Defra explaining in words of a limited number of syllables easily understandable reasons as to why you were stood down?

Mr McNeill: No, but I have read Helen Ghosh’s comments in the various—

Q1287 Chairman: If somebody has not delivered and you are going to be stood down, one of two things happens, you are either going to be redeployed or that is it, the curtains come down and the job ends. The enquiring mind, because clearly you have got one, usually would suggest you would ask why.

Mr McNeill: I was expecting some formal correspondence detailing that, as one would do. I am a Chartered Fellow of the Chartered Institute of Personal and Development and as an employee one would expect to receive a statement of the concerns of your employer and to have the normal opportunity of some disciplinary hearing, possibly an appeals process, and the possibility of appeal outwith that. The fact of the matter is I have received two letters from Defra, both of which are about two-thirds of a side of A4. The first one tells me the grounds on which they intend to dismiss me and part company with my services and the second one does dismiss me. I have had no disciplinary hearing, no statement of the case against me. I am still unaware, when I read third party in various reports, as to why I am in this position. I have an unblemished track record, I have been through BSE, the E.coli crisis, the Phillips Inquiry, praised for work that I and the Meat Hygiene Service have done, and even in this job in the time of BCMS we have managed to have the beef ban lifted because the BCMS records are now some of the best in Europe and that means there

15 January 2007 Mr Johnston McNeill

is proper traceability which meant that the FEOGA auditors were very pleased and were able to recommend we could move to the lifting of the beef ban. I can list any number of other successes in my time at the RPA. The one thing that unfortunately did not get delivered, not due to any lack of any effort and it is with deepest regret to the customers who have suffered, was that we were not able to make the SPS payments in the timeframe defined by ministers.

Q1288 David Taylor: On Tuesday 14 March 2006 you told the Secretary of State that all the payments would not now be made in line with the expectations. Was that at a face-to-face meeting?

Mr McNeill: It was, yes.

Q1289 David Taylor: What was her reaction, very briefly?

Mr McNeill: The Secretary of State was obviously concerned by that. I think more visibly affected were others round the table, they were obviously very concerned.

Q1290 David Taylor: From who?

Mr McNeill: I had left that meeting. We were asked to leave the room. I raised this issue about the legal concerns about the batch authorisation *et cetera* and Donald Macrae, the legal director, was called in and we left at that stage. I think there was some considerable sympathy around the table that at the eleventh hour we found ourselves in that position. I would not say the Secretary of State displayed any particular emotion. She thanked me for my honesty, that was the only thing I remember.

Q1291 David Taylor: She was not obviously “bloody livid”?

Mr McNeill: Not from where I was sitting, no.

Q1292 Sir Peter Soulsby: You have told us several times in your evidence that you believed throughout it was do-able right up to that last minute. Did anybody, and from what you have said I think I know your answer to this, ever question the fundamental do-ability of the project with you as opposed to whether it was going to deliver on time?

Mr McNeill: No.

Q1293 Sir Peter Soulsby: Nobody ever questioned your belief that it was fundamentally do-able?

Mr McNeill: Accenture never said it was not do-able, they gave evidence to that effect. The OGC never said it was not do-able, in fact their final assessment before implementation was Amber and we had improved dramatically up to that stage. The RPA operations team I still felt were going to pull it off and that was the basis of the RPA operational reports. No, nobody. I was with Karen Jordan after we started SPS payments and the general perception was that because the system worked for some SPS payments we anticipated that it would work for the rest. The answer is if you can find someone who told me SPS 05 was not do-able I would like to meet them.

Q1294 Chairman: Mr McNeill, thank you very much. You have been patient with the Committee. I am glad you agreed after our discussion to come before us. I think it has been very helpful for us to have an insight from your perspective as to what occurred. I hope you feel you have had a fair hearing in terms of the questions we have asked. I am sure many of the farmers will read with interest your unequivocal apology for what occurred. There may be one or two points of further detail that we might want to correspond with you about. Thank you very much indeed for coming and putting on the record your version of what occurred.

Mr McNeill: Thank you, Chairman.

Supplementary memorandum submitted by Johnston McNeill (RPA Sub 19)

Letter from the Committee Assistant to Johnston McNeill

As the Clerk said to you, the Sub-committee was unable through a lack of time to ask about the decision not to recommend part payments to ministers in January 2006. We would be very grateful if you could address the following questions in writing. Please feel free to add any further information you think that the Committee would find useful:

- What was your role in the meeting(s) in January 2006 that decided not to advise Ministers to make partial payments, and what view did you express? How was the decision finally made?
- What advice and assessment were Ministers given in January and February 2006 about the respective chances of success of opting for an interim payment at that stage or pressing on for full payment in February 2006, as planned? What information was that assessment based on?
- Do you agree with Helen Ghosh that in retrospect ministers should have been advised at that point to agree interim payments?

More generally, if there are any supplementary points you wish to make to expand on your evidence please feel free to send it to us. You mentioned to the Clerk that you would like to make a further point on Mrs Beckett's reaction to the two month delay to the start of payments in February 2006 that was decided at the turn of 2004–05. The Sub-committee would also be glad to receive that information.

Letter from Johnston McNeill to the Committee Assistant

Here are my comments to the questions in your note of the 16 January.

I was involved as C/EX of the RPA and as joint chair of Capri and a member of the Executive Review Group chaired by the permanent Secretary. I shared the view with all of the others present (and in line with OGC thinking and that of Karen Jordan the non—exec) that all things considered it would be better to press on with full payments. No person disagreed with that view. The decision was taken by Ministers after a full briefing was given to Lord Bach including a full assessment of the various risks for the options. My recollection is that all options carried very substantial risk.

A very major concern about making interim payments was the level of disallowance that would be incurred if interim payments were made against un—validated SPS claims. After my departure the decision was taken to make Interim payments and provision was made for the financial impact which would then follow in terms of disallowance. I have to say I do not recognize the figures. At the time of the decision the level of disallowance was considered to be much greater and in the 10 to 20% of the whole CAP payment.

I would not be surprised if Defra wanted to keep the estimate low as the Commission read all SPS related papers and reports with great interest and Defra have a negotiating position to establish and maintain. Something which has not come out to date which was well known to all at the time was that to err in making Interim Payments in the first year may attract some sympathy in the first year of a new CAP scheme but to repeat the mistake in the second or subsequent years would incur serious EU wrath and significantly increased Disallowance. So to proceed with Interim payments for the 06 SCS scheme is likely to prove very expensive in disallowance terms.

Another major consideration at the time and reflected fully in briefing was that to deflect staff from making full payments on RITA to making interim payments would obviously slow down the making of full payments but would also run one scheme process into the next years scheme process making the task of making 06 SPS payments a very major challenge and as a consequence raising the need to make yet more Interim Payments and so on with each year incurring disallowance for payments against unvalidated claims.

Given hindsight I understand Helen's comment that we should have agreed interim payments but I am not convinced the full impact of doing so in Disallowance terms to the public purse has been fully stated. The potential cost was considered to be much greater in my time. Whilst the RPA failed to make the "bulk" of claims by the end of March 2006 it was still very possible that continued focus on the RITA full payment would get the payments out by the end of June 2006. As RPA staff were deflected in volume onto partial payments we shall never know.

It was an Accounting Officer/Minister call. Make partial payments and most certainly incur major disallowance and cost to the public purse or keep the faith with RITA—with the strong possibility of full payments delayed until end of June with the subsequent political backlash from very unhappy farmers.

It has been noted by others but Stakeholders were very clear they would much prefer full SPS payments even if later in the payment window.

On the point on Mrs Beckett's reaction to the two month delay I should note that we at the RPA were very surprised at her reaction given:

The delay was a clear consequence of Ministers/Policy Makers not defining SPS policy in the required timeframes and adding to SPS complexity with apparent disregard of the ongoing increase in risk to successful delivery;

That given the many detailed briefings Lord Bach had been given by RPA and senior Policy colleagues she seemed to be unaware that the RPA had moved heaven and earth to get SPS delivered even in the delayed timetable proposed;

That she should be in public be so unsupportive of RPA staff that were working very hard—as noted by many giving evidence—to deliver SPS.

January 2007

Written evidence

Memorandum submitted by Dr Matthew Flinders, University of Sheffield (RPA Sub 03)

1. The Committee's inquiry into the Rural Payments Agency provides a welcome and timely case-study into a central challenge of modern governance—the control and accountability of delegated public bodies by central departments.

2. The centrifugal pressure of wave upon wave of public management reforms since the 1980s has seen the establishment of a highly fragmented and complex bureaucratic system within the United Kingdom. As a result, the delivery and regulation of most public services have been delegated beyond direct day-to-day ministerial control (see Diagram 1).

3. There is now an extensive literature on the problems associated with large-scale delegation and this body of work has been reviewed in an article accompanying this submission.¹ There are, however, three key issues that I would invite the Committee to consider in the course of its inquiry. These are the control and accountability frameworks, informal levers of control and blame shifting.

4. The main challenge of agencification for the centre is retaining the minister as an “intelligent customer”. Put another way, how can the minister and their officials know that the information they are receiving from the agency is a fair and true reflection of the current situation? Some departments employ fairly large agency shadowing bureaucracies to provide their minister with an independent flow of information that can be used to assess that received from the agency. However, the financial costs of agency-shadowing bureaucracies can off-set the economic benefits of agencification while also distracting the focus of senior staff within the agency from their core tasks.

5. The Committee might, therefore, focus on the agency-departmental link, the role of the sponsoring team or Fraser Figure and the mechanisms in place within the department to maintain the Secretary of State as an “intelligent customer” *vis-à-vis* the agency.

6. Case study research from other incidents involving executive agencies (Prison Service Agency, Benefits Agency, etc) clarifies the role and importance of informal control mechanisms by departments over non-departmental bodies that are supposed to enjoy a high-degree of operational independence. This informal control by ministers and senior officials can often frustrate senior officials within agencies and, once again, prevent them from focusing on their core tasks. In light of this the Committee might consider collecting information on the frequency of meetings and telephone calls between the agency chief executive and ministers/officials during 2005 and 2006. This might help clarify lines of accountability and responsibility and prevent blame-shifting between key actors.

7. The convention of individual ministerial responsibility to Parliament was designed to ensure parliamentary scrutiny of a far smaller and simpler state system than the one that exists today.² The creation of agencies and other forms of hybrid or “para-statal” bodies (not to mention public-private partnerships) has blurred the lines of accountability that used to be (in theory at least) fairly clear. In this context blame-shifting—the tactics employed by both politicians and bureaucrats in order to avoid or deflect personal responsibility for errors or omissions within their respective spheres—can become highly problematic.³

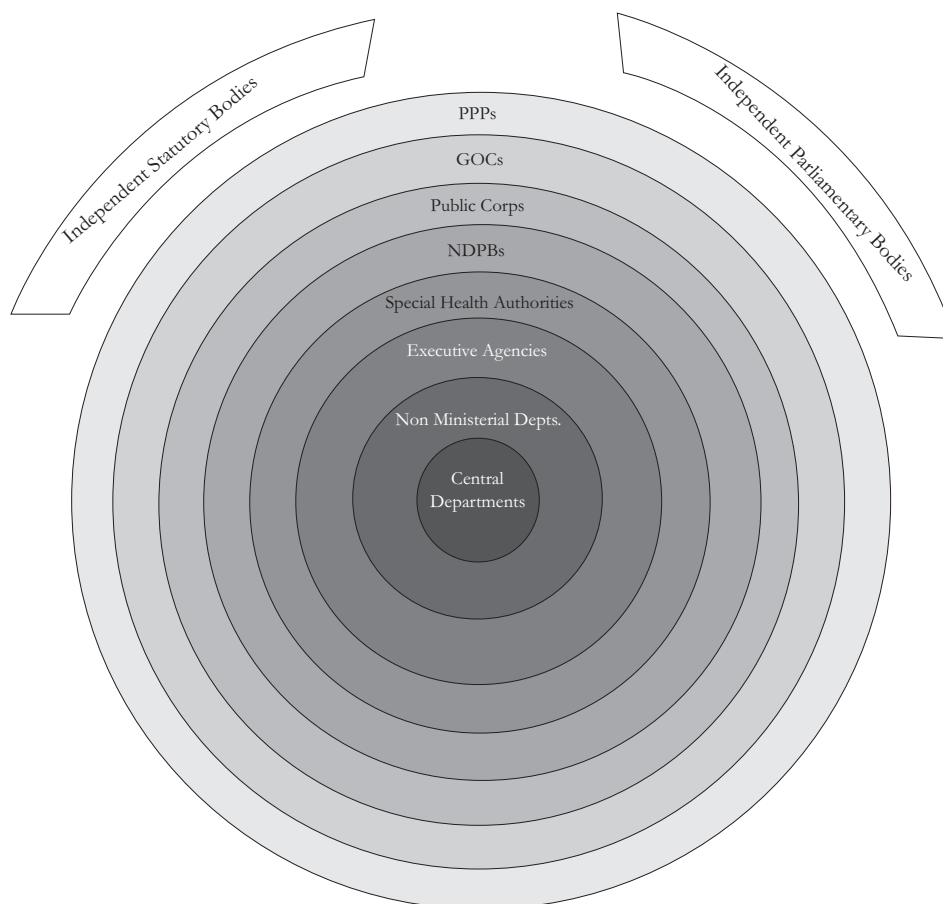
8. The issue of blame shifting is obviously highly pertinent in relation to the Rural Payments Agency in light of the departure of Mr Johnston Mc Neill as its Chief Executive. Although serving agency chief executives are bound by the Rules on Civil Servants Appearing before Select Committees (the Osmotherly Rules) officials who have retired or for one reason or another have left the civil service are no longer subject to such limitations when appearing before select committees.

¹ Flinders, M (2004) “Distributed Public Governance in Britain”, *Public Administration*, 82 (4), 883–909.

² Flinders, M (2004) “Icebergs and MPs: Delegated Governance and Parliament”, *Parliamentary Affairs*, 57 (4), 767–784.

³ Hood, C (2002) “The Risk Game and the Blame Game”, *Government and Opposition*, 37, 1, 15–37.

Diagram 1 The Russian Doll Model: Delegated Governance in Britain 2006



April 2006

Memorandum submitted by Barclays PLC (RPA Sub 04)

1. We were pleased to respond to your previous request for information on the impact that the delay in Single Payments would have on farmers' cash-flows and to estimate the cost that the industry would incur through additional borrowing.

2. I note that the Committee's focus on this occasion centres on how the current situation came about and the lessons that can be learned about the relationship between DEFRA and its agencies. I do not feel that we are well placed to add to the Committee's understanding of these issues.

3. I would wish however to reiterate my remarks in our November submission with regard to the support that Barclays is providing to the agricultural industry at this difficult time. We continue to provide additional facilities for all our farming customers who still await their Single Payment, subject to the usual canons of good lending. We will continue to do so until all Single Payments are received.

4. I am also pleased to report that, under the auspices of the British Bankers' Association, we have met with Lord Bach on two occasions, in December and March to discuss the current situation. This has provided us with a valuable opportunity to explain to the Minister the impact that the delayed payments is having on our customers and the actions that we have taken to assist them.

Agricultural Policy Director

April 2006

Memorandum submitted by Farm Crisis Network (RPA Sub 05)

1. In December we tried to convey an impression of English farmers' experience of the introduction of the Single Farm Payment alongside that of their colleagues elsewhere in the UK and in Wufrtemberg in Germany. In the light of your Committee's further enquiry and as an update, we would make the following comments:

A. Distress

2. We pointed to the fragile state of many farms as the reality underlying the reform process. This is still the truth, and makes an indefinite delay in receipt of a considerable part of the year's income calamitous for many. It is not only the financial hardship and the agony of facing creditors, it is also the message that seems to come with all this—"you belong to a group that no longer really matters".

3. An indication of people's travail is that calls to FCN's helpline in the period January–March 2006 were 46% up on the same period last year. There are also reports of a number of suicides related to the single payment situation.

B. What has happened?

4. Also, in December we pointed to the fact that three processes were going on simultaneously in England—reform of the CAP, digitisation of maps and re-organisation of the RPA.

(i) Reform of CAP

5. Much has been said about the complexity of the English version of the Single Farm Payment. Perhaps it should have been purely historical in year one.

(ii) Maps

6. The map process seems to have been incapable of holding onto correct information it already had, or of not ignoring information it had apparently just digested. We also wonder if there was a basic flaw at the outset in that it appeared to be only about the cropped and farmed land at first and the need to get the "wild bits" mapped only emerged later. It was also very unhelpful to get people who were trying to get the map back to where their old maps had been to fill in IACS 22 forms.

7. It took the author of this paper 22 months of fairly persistent effort to get a correct map attached to an Entry Level Stewardship application form. The frustration and work this must have caused within the RPA must have been immense.

(iii) Re-organisation of the RPA

8. As an organisation trying to work with RPA staff at all levels, FCN has had a sort of ringside view of this. There must be two questions. The first is whether it was wise to try and completely change all the working systems of the Agency at the same time as the other two processes were going on. The second is whether the direction of the change was right. It has not always been easy to discern what was meant to be happening, but it appeared that the idea was that everything related to each farm would be on one perfectly functioning computer system which staff at a number of centres would dip into and take up the "task" at the top of the list without reference to where the farm was, or to who did the last "task" in relation to it. Another group of people would deal with the "customers" and try to locate what was happening where to the "tasks" relating to the callers. It all seemed similar to the system which enabled BT to expand upwards of twenty visits in the process of installing a telephone line at the Farm Crisis Network office!

9. Certainly the severing of the RPA's local links with "customers" has made the situation harder for callers and farm support organisations. It will certainly handicap the RPA in its attempt to re-build relations with farmers and restore confidence after the present debacle.

10. We would like to end by saying that the RPA has many capable, experienced staff with farmers' welfare at heart. For them these experiences are stressful and demoralising.

April 2006

Memorandum submitted by NFU Cymru (RPA Sub 06)

1. Thank you for your letter of 3 April 2006 inviting NFU Cymru to submit evidence to the extended inquiry into the Rural Payments Agency, which is being conducted by EFRA. The implementation of CAP Reform and the execution of Single Farm Payments has been implemented on a devolved basis and as a consequence SPS payments to farmers in Wales have very largely been made by Rural Payments Wales. Generally, farmers in Wales have been shielded from the shortcomings of the RPA's handling of the SPS with the exception of those farmers who straddle the Wales/England Border. At the beginning of this month (April 2006) 95 border farmers had not received payment because of the RPA's failure to validate the "English" element of their SPS claim. EC Regulations dictate that there may be only one paying agency and the RPA's failure to validate these claims means that Rural Payments Wales—a division of the Welsh Assembly Government—is unable to authorise payment pending clearance from the RPA. Whilst the number of claimants is relatively small compared to those awaiting payment in England, the delay for those concerned is causing equal and significant financial hardship.

2. NFU Cymru's understanding is that a number of offices in England are dealing with cross-border farmers rather than a single dedicated office with the result that it is difficult for Rural Payments Wales to make contact with the particular RPA office dealing with the claim. Presumably, the call centre is having a similar communication problem which could be addressed by the establishment of a centre for dealing with cross-border cases and to which the call centre could also make referrals. This approach would ensure that there were staff both in England and Wales dedicated to resolving any queries/clearing for payment those cross border cases currently outstanding and which appear currently to be in the vacuum of "no man's land"!

3. Our English NFU colleagues who will be providing EFRA with further written and oral evidence are better placed to describe the circumstances, which lie behind this fiasco.

April 2006

Memorandum submitted by Agricultural Industries Confederation (AIC) (RPA Sub 08)

SUMMARY

Alongside the direct impact on growers, the delays in delivery of the Single Farm Payment have impacted on the business of AIC members who have been a significant source of extended, interest free credit.

AIC has been an RPA Stakeholder Forum member and has therefore received regular updates on the RPA change programme and the subsequent amendments required as part of the CAP reform package. During these meetings concerns were often expressed at a lack of information on policy issues and a delay on policy decisions, both at UK and EU level.

These concerns, expressed from within RPA, went as far as suggesting that timescale targets were being compromised. A game of "catch-up" was therefore being played, and lost.

AIC sought, in early 2005, a commitment to interim payments, at least as a contingency measure against timescale failures but also as a measure to ensure the industry continued to operate—the subsequent delays have served to highlight the damage which is being done to the agricultural industry.

SUBMISSION

1. The Agricultural Industries Confederation (AIC) is the primary trade association for the agricultural supply industry, representing around 300 companies involved in animal feed and fertiliser manufacture and distribution, seed, feed materials and agrochemical distribution and the purchase of combinable crops from farm.

2. Members have been particularly affected by the delayed delivery of single farm payments. Many members are experiencing an increase in the level of outstanding farmer owed debt as the supply industry is used as an unofficial source of extended borrowing by farmers. In addition there is increasing concern as to the longer term impact on the financial position of members through any reduced level of farm production as a result of delayed payments.

3. AIC has been a member of the RPA Stakeholder Industry Forum since its inception. We have therefore been involved with developments under the "change programme" which was instigated as a result of the RPA's creation and the need to rationalise and modernise a number of different IT operating systems. As a member of the Forum we were therefore aware at an early stage of the potential problems which arose from the need to introduce a revised CAP structure into the ongoing change programme.

4. RPA staff were aware of the opportunities as well as the risks. The Minutes of the Forum from September 2003 record the RPA's hope for a "... simplified and less bureaucratic approach to payments." The RPA aim remained "... to make the schemes as simple as possible, with all payments being made much quicker." However at the next Forum meeting in December 2003 it was made clear that the longer the delay on decisions (both in terms of Commission delays on implementing rules and Defra delays on the system for the UK), then the greater the risk to deliverability.

5. What was clearly identified at the time was that policy determination was in the hands of Defra and whilst RPA, as the delivery agent, had an input into the decision making process, it was not a jointly managed approach. Defra was marked as the senior partner. Reports to Forum meetings at the end of 2003 and through 2004 highlighted a degree of concern at the lack of decisions on policy implementation, within both the Commission and Defra. It is concerning that a decision on the IT system for delivery (RITA) was not taken until late October 2004.

6. As part of the change programme a time line schedule of milestones and targets was produced by RPA and updates relating to it were given at Forum meetings. This programme or schedule was subsequently amended to take account of the CAP reform measures. Presentation of the High Level Schedule at the Forum meeting of November 2004 saw many of the critical milestones for development of the SPS delivery system as under threat. Although specific reasoning was not recorded the RPA did indicate that they were still awaiting a number of policy decisions from Defra and were pressing both Ministers and officials for

resolutions. It is clear therefore that a game of catch up was already being played, and lost! RPA indicated they were therefore having to move forward on the basis of policy assumptions in the absence of determined policy.

7. We believe the views being expressed by the RPA during the critical development phase, and the concerns expressed about delays in policy decisions and the fact that these delays carried through into the programme are at odds with the position more recently expressed by Defra. In the Question and Answer document produced by Defra and carried on the Defra website on 16 March, following the Secretary of State's announcement on the removal of the RPA Chief Executive, the impression is given that there were no concerns over the timetable and the advice from RPA was that the timescale was achievable. The information above indicates the warning signs were there at a sufficiently early stage.

8. From early in 2005, AIC made calls to both Defra and RPA, at separate meetings with officials of both, for an interim payment system to be developed. Our concerns were twofold. Firstly there was a concern that the delay in payments from their more normal December period to end-February onwards, would have a detrimental impact on operations within the agricultural sector, would imbalance cashflow, forcing some farmers to market grain at a time which was not fully of their choosing. Additionally it was felt likely, based on previous experience, many growers would look to input suppliers to carry some of their additional debt through extended, unarranged credit.

9. Secondly the enormity of the original change programme within the RPA was recognised and it was felt that the complexities of the entitlements system determined by Defra would generate a high level of risk that delays would occur. Although the High Level Schedule had some time contingency this was no more than a limited amount. Our view was that an interim payment contingency would ensure that should there be unforeseen difficulties, the industry would at least see a proportion of the payment made. We accepted that this might only apply to those with an entitlement history under IACS but felt this would cover the vast majority of people for whom the payment was a crucial part of their income stream.

10. We believe the serious problems that have been encountered signal a more far reaching problem which we believe is being established by Defra in its desire to divorce policy and delivery. The situation we have been left with indicates that either communication channels between Defra and RPA have not been sufficiently well structured, or there has been an unwillingness within policy circles to accept the concerns they have been presented with. In either case there needs to be an urgent review of the structure under which Defra relates to its agencies, particularly in relation to new policy work which as a delivery aspect.

April 2006

Further memorandum submitted by Barclays PLC (RPA Sub 11)

1. Thank you for your e-mail requesting clarification of what is meant by a "viable business" and to what extent additional cost of borrowing has caused otherwise viable businesses to become unviable.

2. In broad terms and in the context of current circumstances, I would define a viable farming business as one that is likely to be in a position to service its liabilities to its lenders, and ultimately able to repay its debts.

3. In the event of a farming business facing difficulty in servicing its debts, our specialist Business Support Team provides specially trained managers who are able to support and help farmers to deal with financial stress. They will work with such businesses to help them to achieve a lasting solution.

4. In our submission to the EFRA Committee in November 2005, I estimated the additional interest charges that would be incurred on additional borrowed money for three farm types, as shown below:

	<i>Three-month delay</i>	<i>Six-month delay</i>
	<i>£</i>	<i>£</i>
1,000 acre cereals farm	1,500	3,000
100 cow dairy farm	200	400
1,000 ewe upland sheep farm	300	600

5. Any additional cost inevitably reduces farm income, and in a period where farming businesses have seen significant cost increases due to higher energy prices, additional interest charges are clearly unwelcome. However, given the current historically low rates of interest charged on borrowed money, and the magnitude of the additional cost in relation to other farm expenditure, in practice the additional borrowing cost due to late receipt of the Single Payment is very unlikely indeed to cause an otherwise viable business to become unviable.

Agricultural Policy Director

April 2006

Memorandum submitted by Iosis Associates (RPA Sub 13)

INTRODUCTION

1. This paper is primarily a set of views on the general public sector problem of which the RPA fiasco is just one manifestation. In some sectors of public administration this paper applies to the whole of the UK, but in other sectors Scottish and Welsh devolution brings some mitigation to those member countries of the UK (that is clearly the case with Single Farm Payments).

THESIS AND INITIAL COMMENTS

2. The thesis of this paper is that:

- (a) major new Policy initiatives in service delivery to the public and to businesses (Specific Policies) are conceived by the Executive on the basis that IT and its broader and significantly more complex cousin ICT⁴ can be harnessed in a relatively short period of time to support, and in some cases be the main enabler of, new or significantly enhanced service delivery channels;
- (b) across the Civil Service, many Departments of State are not organised or equipped to implement and operate the major new or significantly enhanced methods of service delivery required by the Executive;
- (c) the Executive, although it commissions Support Policies to show how IT and ICT can be harnessed by public services⁵, has not ensured that the Departments of State required to deliver services are organised and skilled for successful service delivery using advanced IT and ICT methods;
- (d) the relationship between Departments of State and their Executive Agencies is not clear, and may well contribute to the failures and poor performance witnessed;
- (e) deployment of the large scale systems, both organisational and technical, required for the new or significantly improved service delivery channels, is largely an engineering task, not simply an administrative one; and
- (f) Treasury financial rules do not facilitate the major investment needed to deliver “administrative process re-engineering”⁶ as the public sector’s foil to the private sector’s “business process re-engineering”.

3. Although not directly relevant to the EFRA Committee, the relationship between the ODPM and Local Authorities demonstrates initiatives and problems similar to those found between the Executive and the Departments of State. By contrast, the PTEs⁷ and Transport for London have very different legal and governance regimes from those of the Local Authorities, and have been and continue to be very successful in service delivery—albeit at a significant financial cost.

4. First I must state that as far as Defra and the RPA are concerned, I am today an observer from a distance, albeit with a family interest in both rural affairs and government’s oversight of the horticulture section of the food chain,⁸ plus personal contact with growers and farmers at the local Farmer’s Market and via a local butcher’s shop where the owners also have a livestock farm. Thus, on the specific topic of the RPA and its SPS, my information comes almost entirely from published sources.⁹ In other areas of public administration my experience includes a great deal of both direct and indirect contact with the public sector, at both central and local government level, and currently I’m working with a small trade association for businesses specialising in ICT products and methods.

DEFRA’S RPA IN CONTEXT

5. Events have unfolded quickly since the RPA admitted that they were unable to make the bulk of the SPS payments by the promised end of March date or indeed make more than a small proportion of those payments. Unusual in this case, and very welcome, has been both Defra’s quick response in shaking up the RPA and reorganising some of its people-centred processes, and also the positive input from the organisations representing the hard pressed recipients—in particular the input from NFU and CLA. Unusual, that is, by comparison with the response to other systemic failures in the public sector when “reform” agendas go awry or when transaction volumes rise beyond the capacity of “*ancien regime*” systems to cope with them. However, the recent response by Defra must not allow their long term massive failure of oversight of the RPA to be pushed into the background.

⁴ ICT is Information and Communications Technology, in which information security and function have equal rank.

⁵ Support Policies are developed within Cabinet Office.

⁶ A phrase coined by Prof Ohyama of Japan’s METI in the context of the Japanese (voluntary) citizen registration smart card scheme.

⁷ Passenger Transport Executives.

⁸ From WWII to his retirement in 1971 my father worked for Ministry of Food and then MAFF, and at the end of his career was Regional Horticultural Marketing Inspector for Yorkshire and Lancashire.

⁹ Requests under FOI to the RPA have so far yielded only a confirmation of the list of information that I requested, and an enquiry to the CLA (Country Landowner and Business Association) is still awaiting a response.

6. The RPA fiasco is not unique within the public sector—we can all list spectacular failures in a number of central government departments, but there are also programmes that suffer from one or more of:

- (a) being baulked (eg Government Connect from ODPM),
- (b) running very late (eg the Youth Justice systems),
- (c) security breaches leading to fraud (eg HMR&C's Tax Credit on-line service),
- (d) a troublesome launch (eg at end April 2006 the new VOSA MOT Certificate system),
- (e) being in danger of fading without delivering (eg seamless travel by public transport, and in particular the electronic ticketing method referred to as the "ITSO method"¹⁰), or
- (f) delivering a significantly flawed service (eg the journey planning section within Transport Direct).

7. I contend that there will be further failures or instances of poor performance (perhaps in the ID Card project) unless there is a process of "administrative process re-engineering" in the public sector to complement the "business process re-engineering" that has happened in many areas of commerce and industry. The seeds of that re-engineering have been sown, but often they do not germinate (there is none of the finance that they must feed on).

8. Fiascos such as that afflicting the RPA are not simply a result of failures in the present elected administration, for there were similar problems whose gestation was pre-1997, and perhaps the trend was there as far back as the 1980s when the rapidly growing capacity of IT systems brought the promise of automating much more public administration in a "win-win" manner: better services at lower cost. My own first contact with the EFRA Committee mentioned the similarities with the passport issuing fiasco in 1998, where a system planned at least three years before ran into difficulties in the face of rapidly increasing demand, just as the passport issuing staff were learning to use it. Arguably the new computer and printing systems installed for issuing passports were initially under-specified, ie they could not handle a high enough volume of applications, but at the same time managerial errors and a catastrophically timed policy change compounded the problem. For more information on the 1998 passport system problem see the Annex to this paper.

9. On the previous page the term "*ancien regime*" is used advisably, in an echo of a comment heard on 26 April 2006 on BBC Radio 4 in relation to the failure to deport foreign criminals when they are released from prison. It was said that two "Victorian" administrative systems (prison system and immigration service) had become overloaded and could neither expand nor adapt. Further explanations in the media showed that a manual records system was being used in the prisons, with a prisoner's file having to physically go with the prisoner as he or she is moved from goal to goal, and that in the last 10 years the number of foreign prisoners has increased from 3,000 to 10,000. That is an example where, as part of a natural process of using emerging Best Practice, a national IT system should have been installed to handle all prisoner records, linked to a deportation control system—after all, the Home Office handles both tasks.

10. It is worth noting that close to government there is a success story: the BBC has redesigned its programme production systems to deliver content equally over the broadcast networks and on-demand over the internet, and also to provide large amounts of supporting information and user response channels, in a coordinated manner, on its web sites.¹¹

TOP-DOWN ANALYSIS

11. Any enquiry about a specific service delivery failure or inadequacy needs to look at:

- (a) the linear relationship between the responsible persons in the Executive (a Secretary of State and his or her Ministers), the applicable Department of State, any involvement of an Executive Agency of that Department, and related suppliers of goods and services to the public sector, and
- (b) all other intersecting relationships, both within UK government and external to it.

12. Overall, if we are to start to understand how and why multiple service delivery failures and inadequacies occur across broad swathes of government, it is common factors in the workings of government that have to be understood:

- (a) commonality in the linear relationships from the Executive all the way through to suppliers, and
- (b) commonality in the intersecting relationships, particularly with Cabinet Office and with the Treasury.

¹⁰ www.itso.org.uk.

¹¹ Notable, however, is that listener response to its Radio 4 news service is very difficult—there is no email address or web response page for the Newsroom—but the Today programme does have its own email address. By comparison, for Sky News (TV) there is simply news@sky.com

13. This paper is primarily about the common factors internal to UK (sometimes just English) government, but one common complication caused by an external relationship will be included: EC regulations changing during development of a service—the published material states that this affected the SPS.¹²

14. A Specific Policy for service delivery passes down the linear chain from the Executive all the way to suppliers. Such a Policy directly mandates delivery of a particular service or closely related group of services:

- (a) In recent years, governments of both hues have made policy decisions (sometimes are required to make them because of EU legislation) that are implemented by way of large scale administrative systems. They may be completely new systems, or replacements for, or major changes to, existing systems. Typically the systems have significant IT or even ICT content, and are intended to process large volumes of transactions with either the public or business or both.

15. Analysis shows two classes of intersecting Policy:

- (a) Realising that Specific Policies of the type described above will require new methods of working, and also realising that natural development in other areas of public administration (particularly in local government) will increasingly use ICT methods, the Executive has also made policy decisions relating to the methods to be used to develop and operate large administrative systems. These policy decisions are mediated through Cabinet Office before being passed on to the service delivery Departments. In this submission this type of Policy is known as a Supporting Policy.
- (b) New developments of administrative systems and methods, or major changes to existing ones, require development funding and operational funding for “administrative process re-engineering”. Here Financial Policy applies.

16. Each individual Government Minister has a clearly understood responsibility, whether as Secretary of State, etc, within Cabinet; or as a Minister within a Department. A Secretary of State and the associated departmental Ministers take a Specific Policy from Cabinet to the Department, and the Civil Servants have the duty to implement that Specific Policy—but individual Ministers do not dictate how their Department organises itself to implement the Policy.

17. Clearly the Civil Servants have a duty to keep Ministers advised on progress with both implementation and then operation of the service. And it should not matter whether implementation and operation is wholly within a Department, or is devolved to an Executive Agency.

18. Equally clearly there is a common problem across many Departments of State, leading to failure or to inadequate service delivery, with Ministers unable to avoid those problems and sometimes not knowing about them until too late. With the individual Departments of State wholly contained within the Civil Service, it has further become clear that an across the board change of methods of working by the Civil Service is required if the problems are to be resolved. However, it is that problem of methods of working in the Civil Service that has caused the development by the Executive of Supporting Policies; the vehicle used for this is the Cabinet Office, which takes on board a Supporting Policy so that its civil servants can add considerable technical content.

19. Note that Cabinet Office is both closely allied to the Cabinet and also carries some responsibility for the Civil Service—it is headed by the person who is both Cabinet Secretary and Head of the Home Civil Service. That is relevant to the core problem faced when trying to understand the problems of service delivery: Cabinet Office itself is likely to be afflicted with the problems that affect spending Department performance.

CABINET OFFICE AND SUPPORTING POLICIES

20. Two questions immediately arise:

- (a) Are the civil servants in Cabinet Office themselves using methods of working that produce excellent results when developing Supporting Policies?
- (b) Do those departments that are implementing Specific Policies also implement Supporting Policies?

21. On the Cabinet Office methods of working my experience is very variable:

- (a) OGC work, resulting in publications on methods of working [2], is excellent as far as those publications go but it does not go far enough; also there is a very clear new draft Civil Service Code [3];
- (b) CSIA work on Information Assurance [1] is excellent, albeit not always entirely clear [5] and now somewhat dated,¹³ particularly so in its failure to look forward to the need for rapid growth in service delivery across the internet to home and office;¹⁴

¹² EC regulation problems are known to have affected at least one other Agency, namely the DVLA—but in that case there has been no immediate effect on the public or on businesses, although there may be “identity theft” problems later, plus additional costs to the public purse.

¹³ The documents were published in 2002–03; technology, and the Information Security standards (where DTI has been a consistent supporter and initially a prime mover), have moved on since then.

¹⁴ The speech [6] by e-Govt Minister Jim Murphy to the mid-March Smart Cards and e-Govt Conference organised by the Social Market Foundation refers, as does EC policy dating back at least five years.

- (c) development of common methods and components for secure transactions across the internet between citizens and businesses on the one hand and local or central govt servers on the other hand has not even started, due to a failure to consider information security and function together and a perceived lack of any relevant mandate;¹⁵

22. Cabinet Office itself provides a related, enabling service where IT and ICT methods are to be used for service delivery, and also has to ensure that related components are available from suppliers—this is the Government Gateway that is the interface to the government intranet to which central government servers are connected. GG is seriously flawed—it is accepted that it is a very good firewall, giving protection against attacks originating on the internet, but it is almost useless as a registration and authentication system for users of on-line services, and a request by Government Connect for it to be enhanced in order to provide a robust common registration and strong authentication system for local government officers has been rebuffed;¹⁶

23. In the list above the OGC work on methods of working and the CSIA Information Assurance work are most relevant to the current problems with service delivery. The GG problem can partially be mitigated on a department by department basis, albeit at a cost both financial and requiring diversion of scarce technical personnel. The lack of a common and secure transaction method across the internet will affect service not yet operational.

24. The OGC and CSIA outputs are just as applicable to the internal working methods within Cabinet Office as to those service delivery departments at which the Support Policies are directed, and the variable experience of Cabinet Office methods is directly related to the way in which different sections apply the Support Policies. OGC output can be summarised very briefly as:

- (a) Do not do something unless you know what you are doing.
- (b) Report truthfully and completely on your work, equally so for both positive and negative reports.

25. Personal experience of Cabinet Office handling of ICT matters (my direct experience ceased about a year ago but may be about to be renewed) was that there was a serious shortage of technical skills in Cabinet Office, and that nothing was being done about it.¹⁷ Reports reaching me more recently suggest that the situation is still patchy.

26. As for the reporting of Cabinet Office ICT discussions in technical Working Groups, it is very difficult to know about that, but the notes of technical meetings at which external volunteers were present did not completely reflect the problems discussed. The impression given is that there is a deference culture which inhibits delivery of quality—and that is regularly echoed in the media as we hear calls for a change of culture throughout our public administration.

SERVICE DELIVERY DEPARTMENTS, SUPPORTING POLICIES AND FINANCIAL POLICY

27. Once we look at the effect of Supporting Policies on Departments of State trying to implement Specific Policies for delivery of services, the situation is very poor.

28. Personal experience of DfT is that the Information Assurance Support Policy does not trickle down to the rule books used by staff developing, or commissioning the development of, service delivery using ICT methods. However, recently DVLA has told me that it has implemented that Support Policy in its development of an on-line method for vehicle keepers and holders of driving licences to update their records on the DVLA's databases.

29. More generally, many of the problems with services are related to security failures and/or service quality failures. The Information Assurance Support Policy covers both information security and service quality, but is widely ignored or paid only lip service.

30. Behind the visible failures is often a failure to implement OGC Support Policies. Formal methods to manage development are simply not used or are inadequately deployed, deference is not replaced by the full and precise reporting required within an engineering project, and key personnel lack the necessary managerial and technical skills and knowledge.

¹⁵ Cabinet Office until February 2005 operated within its e-Government Unit a Smart Card Working Group that was only allowed to consider functional matters, when it should have been a joint group with CSIA; even on functional matters Cabinet Office declared itself unable to develop a transaction method for common use by the Departments of State and by Local Authorities—it had neither funding nor authority. This failure will seriously inhibit the proposed ID Card being “useful to citizens” [4].

¹⁶ The plan for secure and affordable email between LA and LA, between LAs and central govt depts, and between LAs and other external organisations, is thus severely compromised; a (now former) ODPM representative has stated that confidentiality is a legal requirement when there is email traffic incorporating personal details of citizens.

¹⁷ Attempts in the e-Envoy days to get volunteers to contribute expertise free of charge were rebuffed.

MORE ON SUPPORT POLICIES

31. Support Policies are themselves inadequate, and necessary associated services have not been developed or encouraged to be created within the private sector:

- (a) Support Policies do not embrace the need to consider information security and function together.
- (b) Support Policies do not require the spending Departments to make the formal move to quality management certification (ISO 9000, etc).
- (c) Support Policies do not require major projects to appoint independent expert auditors, and to grant those auditors the right to go everywhere and see everything.¹⁸
- (d) Assessment and training services have not been established,¹⁹ neither at the project level to assist in gaining the necessary skills, nor at the organisational level to assist in planning and managing changes to methods of working.
- (e) Model contracts have not been established.

32. The OGC Gateway review process, I'm told by an associate, doesn't mandate immediate remedial action when it finds problems, and nor does it revisit the project at frequent intervals until the remedial action is completed. Instead I believe that it allows the project to roll on, and at the next Gateway will check on the remedies to past failings—that is much too late.

33. Strongly linked to the failure of Support Policies is the failure of Financial Policy to provide the necessary investment funding for “administrative process re-engineering”. Businesses can and do capitalise all costs associated with business process re-engineering, but there isn't an equivalent public sector method. Such costs are often very significant, incurred over one to two years but providing vital benefits for many years.

SPECIFICATION CHANGE

34. Specification change is regularly cited as the reason for delay and cost over-run. This can be split into two:

- (a) The first is not wilful specification change, but a basic failure to develop a complete specification early in a development programme. Ian Watmore when Chief Information Officer in eGU spoke out about this, but was not able to do anything about it.
- (b) True specification change, whether brought about by changes of UK policy, by reviews uncovering errors and omissions, or by updates emerging from the EC, is to be expected and must be allowed for. The type of project being considered here creates a single, unique system. For success the overall design of the project must emphasise modularity in the implementation, which I fear has not happened, and which generally will not be the way in which a major IT contractor operates unless specifically required to do so. The risk assessment process, if properly applied, will indicate areas of risk when specification changes arise, as well as assessing the risk that significant specification changes are going to arise; system design must be structured in a way that confines the impact of changes to self-contained areas.

EXECUTIVE AGENCIES

35. It is obvious that in the Defra/RPA case Ministers did not know what was happening in an Agency spun off from their Department—that is possibly also the case with other Departments that have Executive Agencies.

36. I confess that I do not understand how policy reaches an Executive Agency, but suspect that each Department has developed its own contractual relationships at this level—and that each Department also has its own reporting and oversight mechanisms for its Agency or Agencies. Support Policies must be applied to those relationships—which takes us back to the failure by Departments of State to implement Support Policies, updated where necessary.

SUPPLIERS

37. First, some of the Specification change material above applies to the relationship with suppliers.

38. Next, it is clear that often there is no attempt made to ensure that suppliers offering Best Practice are invited to bid for either advisory or implementation work. Too often existing suppliers with whom there are framework agreements or even existing contracts are the first ones considered when new developments are planned, and then a small list of already known suppliers might be compiled if the contract is a small one, even if they do not have and will not buy in the necessary expertise—this in my experience is particularly

¹⁸ That method was particularly successful during the development, 20 years ago, of the systems that allowed the Stock Exchange to make the transfer from face to face transactions on the floor to screen-based transactions in offices.

¹⁹ In particular, CESG has not been required to establish teams and contract assessors with ICT sector expertise, ready for rapid deployment.

the case with technical advisory work. Even more particularly, as ICT methods (requiring Information Assurance and function to be given equal rank) are more and more required for service delivery, suppliers with expertise in those areas are ignored.²⁰ There are of course initiatives to try to improve access to government for smaller and specialist suppliers, and S-Cat and G-Cat are combined into Catalist, but personally I find these methods inappropriate to bridge the gap.

39. The hiring of suppliers and the contracts with them are at the end of the chain: get the methods of working right, ensure that personnel with the necessary skills and knowledge are in place, develop model contracts, and things should start to go right with suppliers. Note that I'm aware that the suppliers are not always without problems, but one intention of the Support Policies is to raise the skill levels in purchasing and in the management of the subsequent contract: a knowledgeable purchaser, coupled with in-process audit, will do wonders in this area.

REFERENCES

- [1] A catalogue of Information Assurance documents, including the ones listed below, is at: http://www.cabinetoffice.gov.uk/csia/information_for_the_public_sector
Security—e-Government Strategy Framework Policy and Guidelines Version 4.0.

Assurance—e-Government Strategy Framework Policy and Guidelines Version 2.0.

Registration and Authentication—e-Government Strategy Framework Policy and Guidelines Version 3.0.

Trust Services—e-Government Strategy Framework Policy and Guidelines Version 3.0.

Network Defence—e-Government Strategy Framework Policy and Guidelines Version 2.0.

HMG's Minimum Requirements for the Verification of the Identity of Individuals.

HMG's Minimum Requirements for the Verification of the Identity of Organisations.

Smart Cards Framework: Modernising Government: Framework for Information Age Government: Smart cards.

Also a new (November 2005) Information Assurance Governance Framework is available at http://www.cabinetoffice.gov.uk/csia/ia_governance

- [2] OGC Successful Delivery Pocketbook at <http://www.ogc.gov.uk/index.asp?id=1004620>
- [3] Draft new Civil Service Code at <http://www.civilservice.gov.uk/civilservicecode>
- [4] Speech by Home Office Minister Andy Burnham at the Smart Cards and e-Government Conference promoted and hosted by the Social Market Foundation, 15 March 2006.
- [5] Paper, dated 2003, reviewing stated security policy for UK e-Govt as found in the papers listed in [1]. In summary:

Although privacy of personal data is an essential component of the security of UK e-Gov functions (products and services), it is by no means the only component. Subjects such as quality of service, protection against all types of external threats, and proper registration of persons (eg as holders of secure tokens such as smart cards) are just as important. This study finds that e-Gov policy and guidelines encompass the complete spectrum of security requirements, but also finds that the documents are not sufficiently clear about the scope of application of the policy or about the reference standards and specifications (ISO/IEC 17799 and/or BS 7799 and/or other equivalent standards and specifications) to be used for assuring security. However, the authors believe that the intent is that policy shall be implemented across the whole of the public sector, including extending it to private sector suppliers of products and services.

Available at www.iosis.org/whitepapers/index.htm

Handle with care! It's now out of date.

- [6] Speech by e-Govt Minister Jim Murphy at the Smart Cards and e-Government Conference promoted and hosted by the Social Market Foundation, 15 March 2006.

²⁰ This problem is currently the subject of discussion between a group of specialist suppliers and Cabinet Office, as a result of a question put to e-Govt Minister Jim Murphy at the SMF Conference referenced at [4] and [6]. Existing trade associations are no help here.

PASSPORT ISSUING PROBLEMS IN 1998

40. Attempting to urgently renew a passport via the Newport passport office in autumn 1998, I was confronted by a series of problems associated with the introduction of a set of new computer systems, a new application process, and a rise in demand for passports brought about by a short term social change and a catastrophically timed policy change. The intention of the system change was to introduce machine readable passports, and with it came a change to digital printing of an image of the submitted photo: two changes at once, a story that echoes in the RPA fiasco.

41. The new systems were rolled out successively to the passport offices, with Newport being one of the first. It was later suggested to me that the systems were under specified, in that they did not have enough capacity. However, a complicating factor was that an attempt was made to cut over quickly from old system to new, with the inevitable loss of throughput as experience was gained with using the new system.

42. At the same time new application forms were introduced and the old ones were withdrawn—but in Bristol the new forms proved impossible to obtain. Post Offices that I tried did not have the new forms, and the other agents, namely Lloyds Bank branches, seemed to know nothing about them²¹ and could not get hold of them—I was even told that it took two weeks from ordering to receipt (it should have been 48 hours). After trying for a while on the 'phone, I got through to the Newport Office, where a helpful young man knew exactly what the problem was, took a form from his pile, wrote out an envelope for it—and I got it the next day. And at the same time a colleague foraging near the northern boundary of the city queued and queued in one of the super slow Super Agency Post Offices and struck lucky: they had the new forms.

43. My completed application then got stuck in a large backlog. Not only was throughput reduced, but two other factors intervened:

- (a) That year a larger than expected number of people had decided to take holidays abroad, thus swelling the number of passport applications.
- (b) A policy change was announced: no further family passports would be issued; instead every individual, down to a babe in arms, was to have his or her own passport. Panic ensued: people wrongly believed that their existing family passports were now obsolete and so they applied for whole sets of passports.

44. After putting some pressure on the Newport Office I jumped the queue: a manager found my application in the queue and had it processed quickly.

45. Only when I received the passport did I realise that I had a hybrid: new style, but with my submitted photo laminated onto it instead of being scanned and then the image digitally printed—the digital scan and print system was causing them problems, and thus a security feature had been temporarily withdrawn.

THE AUTHOR

46. The author of this submission is an independent consultant in ICT strategy and secure solution design, with particular interest in smart cards and associated secure terminal equipment. He has contributed to several European pre-standardisation and standardisation projects in this area, and was contracted in 1999–2000 to carry out a technical edit on the UK Government smart cards Modernising Government Framework.²² He has also been a Director of the ITSO²³ management company, and is currently consulting on a public sector travel concession pass project compliant with the ITSO specification and method. During the 1990s he managed a company providing technical services and equipment to the Mondex e-money card project and related banking projects.

May 2006

Further memorandum submitted by Iosis Associates (RPA Sub 13b)**RURAL PAYMENTS AGENCY: REASONS FOR FAILURE**

INTRODUCTION

1. This submission is primarily a response to a statement made on the BBC Radio 4 programme “File on Four” on 20 June. Towards the end of the programme, Michael Jack MP, Chair of the EFRA Committee, stated that he “can’t easily identify where the body is buried that tells me fundamentally why the RPA weren’t able to make their payments on time as particularly advertised by Lord Bach in January this year”.

²¹ One branch that did have some forms eventually managed to get to them in their store—but they gave me the wrong form.

²² Smart Cards Framework found on the fourth page at <http://www.govtalk.gov.uk/archive/archive.asp?librarydocs=5>

²³ Integrated Transport Smart card Organisation, responsible for developing and managing the specification and support services for the DfT-sponsored and mandated electronic ticketing method for public transport www.itso.org.uk

2. This response particularly takes information from the Uncorrected Oral Evidence (HC 1071-iv) of the 22 May session of the EFRA Committee, at which representatives of Accenture were questioned in depth.

3. In this note I point to one key failure which was particularly responsible for the very late realisation that the Accenture systems could not produce those all important lists of payments for authorisation by an RPA operative so that the data could be sent to the cheque writing process: end-to-end tests of the complete business process (including the technology) were not carried out.

4. Then I go back to a key failure in the management, one that is probably common to numerous government projects: the failure by RPA to properly assess and manage risk and report risk to the core of Defra.

5. Also another mystery is mentioned below—but I don't have a complete analysis of that one.

THE KEY FACTOR

6. Q561 (Mr Drew) produced an answer from Mr Naish that gives the key to the “buried body”:

“The way the system works when it establishes entitlement is that it needs to take the claims across the whole of England in order to make those entitlements. It is difficult to run those end pieces of the programme on a small part of the population.”

7. It ought to have been possible, during system tests, and then at any stage once some claims had been verified, to advise the system that it has a complete set of data, give it a notional sum of money in the pot, and then run “those end pieces of the programme” (“the last stages of the process”) as a test. This would probably be done by taking a copy of the dataset of verified claims to date, using a separate computer system loaded with the necessary software, and running the last stages on the partial data accumulated to date at the time of the test.

8. Thus it would have been possible to see if the entire process could be run to completion:

- if it had any problems, or even a fundamental problem, with the data; and
- if (as repeated tests were run during the build up of data to the full set of claims) the growing size of the data was going to cause any problem as the process was scaled up to the full 120,000 claims.

9. An extension to this would have been to generate test data with 120,000 records, but the evidence from the 22 May session suggests that that would have been a significantly large sub-project in its own right.

METHODS TO AVOID SUCH PROBLEMS

10. The primary way in which the customer should seek to avoid the problems found with the RPA SPS is to have in place and make use of the necessary expertise to assess and manage risk, and propose mitigation methods. Then the reporting structure from Programme Manager to Chief Executive (and in this case all the way to Defra Chief Executive) has to be through personnel who themselves are skilled in risk management, operate an environment in which the full facts are clearly seen as essential to decision making, and are accountable for failure. That requires an organisation in which personnel have a regular cycle of assessment of capability and contracts of employment that include provision for best practice methods for resolving under-performance.

11. At a recent meeting (5 May) of a group of specialist ICT²⁴ suppliers with Join Wailing, a Director in Cabinet Office e-Government Unit, I introduced the use of a contracted technical audit team as one way for a customer organisation to monitor the progress of a large project. Such teams were used successfully in the mid 1980s when the Stock Market moved to screen-based trading, using completely new computer systems. The audit team has to have access to the main delivery contractors, and the resources to undertake system tests as necessary. Such teams are used in, for example, the auditing of safety-critical industrial processes, and one was engaged to audit and test a massive update of the ticketing system of Singapore's rapid transit public transport system (the move from simple processes using magnetic stripe tickets to more complex processes using smart cards). This approach was clearly news to eGU.

12. If the statements by RPA to me in their letter of 16 May²⁵ are true, clearly the OGC Gateway reviews fail to identify serious risks of failure—on the one hand core documentation was not present; on the other hand the programme is managed in a professional manner. However, the File on Four radio programme stated that the SPS project had become stuck at one of the OGC gates, which merits further investigation.

²⁴ Information and Communications Technology.

²⁵ See my submission to the Committee on 19 May.

A NOTE ABOUT THE POSITION OF CONTRACTORS SUCH AS ACCENTURE

13. Within the 22 May session there is a sub-theme suggesting that Accenture had what is eventually described as a “moral and . . . professional obligation” (Q443) and later a “moral responsibility if not a contractual responsibility” (Q631) to guide the client towards a better solution, warn that the business process outcome may not be delivered, etc Assuming that Accenture’s answer is confirmed by a study of their contract, Accenture was right to say that they do not have such a responsibility.

14. Certainly it is possible for the relationship between contractor and customer to include giving advice on best practice, but in the end the customer makes the decision. With a contract that does not include the requirement to give such advice, the customer is liable to react very negatively if the contractor says that they should do the job differently: the contractor may then be labelled “difficult” and excluded from further work. (Personally I’m currently in that position with an organisation that is constituted as a Membership Company without shares: I was a contractor to the Company at a time when I was also a Director of the Company—unpaid as a Director, paid as a contractor.) These are business relationships, governed by business law, and the customer, in this case the public sector, has to be organised and managed in such a way that it can discharge the moral responsibility to the public. From the supplier’s point of view, the professional obligation within a supplier company may well cause personal anguish to its employees and Directors, but it is only those organisations where there is legal obligation and/or contractual obligation to warn their clients (eg advisers such as lawyers, accountants, even technical consultants) who can be taken to task if they do not issue the necessary warnings. Personally, it causes me grief if my tax monies are not spent wisely by the public sector.

ANOTHER REPEATED THEME IN MEDIA REPORTS

15. Throughout the spring of this year, media reports were indicating that throughput of the SPS team operating the claim verification stage was very low. If those reports were correct, it was easy to demonstrate that the promised payment dates would not be met, yet apparently RPA management did not take any remedial action. As reported widely, and addressed in the 22 May session of the Committee (eg Q405), a change, under the new Chief Executive, from a task-based approach to a claims-based method, including bringing mapping system technical support staff into the processing centre, dramatically improved throughput. This again suggests that RPA management was not operating its risk management and mitigation processes in an adequate manner.

Peter Tomlinson

Proprietor

Iosis Associates

July 2006

Supplementary memorandum submitted by Ms Helen Ghosh, Permanent Secretary, Department for Environment, Food and Rural Affairs (RPA Sub 20)

Letter from the Chairman of the Committee to the Permanent Secretary

I am writing to request clarification on the process behind Defra’s decision to adopt the dynamic hybrid approach for implementing the Single Payment Scheme in England.

In order to assist the RPA Sub-Committee’s continuing inquiries, we would like to know why, after all the time spent considering the CAP reform implementation decision, a further adjustment was required to identify moorland as a separate region within the Severely Disadvantaged Areas.

We also wish to receive a note describing who were the key players involved in making the original decision on the dynamic hybrid model, as announced by the then Secretary of State on 12 February 2004. Such a note should include the key dates of meetings leading up to that decision and list all ministers, Defra officials, special advisers and stakeholder representatives that were in attendance at these meetings. Please also identify who was it that wrote the submission to the Secretary of State recommending the dynamic hybrid, what input the Rural Payments Agency had in that submission, and what role Sheila Watson played in the discussions which led to the final decision being taken.

Rt Hon Michael Jack MP

Chairman,

Environment, Food and Rural Affairs Committee

December 2006

Letter from the Permanent Secretary to the Chairman of the Committee

Thank you for your letter of 13 December 2006 about the implementation of the Single Payment Scheme (SPS) as part of your inquiry into the Rural Payments Agency (RPA). I am sorry for the slight delay in replying.

You asked about the decision to adjust the Severely Disadvantaged Area (SDA) to include a separate region covering moorland. As I am sure you are already aware, the Secretary of State's oral statement on 12 February 2004 about the implementation of the 2003 CAP Reforms included the announcement that England would be divided into two regions for SPS payments. The establishment of those regions was designed to help mitigate any undue redistributive impact under the new payment system between lowland and upland farmers.

Following the February announcement, a number of approaches were made by industry representatives requesting that the Department make a further division within the SDA to identify moorland as a separate region in order to better reflect land conditions and productive capacity. After consideration, it was agreed that this refinement was in line with the original intention behind the introduction of regions and, after receiving confirmation from the main stakeholder groups that all were content, the Secretary of State announced on 22 April 2004 (Hansard, Column 23 WS) that England would be divided into three regions.

You also asked for some further information on the process leading up to Ministers deciding to implement the dynamic hybrid model. You will recall from the evidence given by both Andy Lebrecht on 15 May 2006 and Sir Brian Bender on 6 December 2006 that, following the CAP Reform deal on 26 June 2003, the Department went out to public consultation on 22 July 2003, seeking views on the options for implementing the reforms and that, by the October closing date, more than 800 responses had been received. It was clear from these responses that stakeholders held a wide range of views and there was no obvious consensus about the best way forward.

The process of policy development was both inclusive and fluid. Alongside the analysis of responses to the consultation, further discussions with key industry stakeholders were held, the impact of the various possible options was analysed by Defra and the RPA and internal discussions took place, involving Defra and RPA officials, the ministerial team and their special advisers. I attach a note responding to your specific questions at Annex A.

Helen Ghosh

Permanent Secretary,
Department for Environment, Food and Rural Affairs

January 2007

Annex A

Discussions within Defra were based on policy submissions and supplementary advice prepared by Defra officials within the Sustainable Farming and Food command in close collaboration with RPA officials, primarily Hugh MacKinnon (RPA Director of Operations) and Bill Duncan (Head of RPA's Central Scheme Management Unit). These submissions and supplementary advice were sent to Ministers in the usual method with Lord Whitty given the opportunity to comment first before passing to the Secretary of State.

A decision of principle to proceed with the dynamic hybrid was taken at a meeting on 7 January 2004 chaired by the Secretary of State and attended by other Defra Ministers and Special Advisers. Following this decision a number of subsequent discussions with Defra and RPA officials and with stakeholders took place relating to issues of detail in respect of this model.

KEY PLAYERS

- Margaret Beckett—Secretary of State
- Lord Whitty
- Sheila Watson (Special Adviser to the Secretary of State)
- Andy Lebrecht (Defra Director General of Sustainable Farming and Food)
- Donald Macrae (Defra Director General of Law and Regulation)
- David Hunter (Defra Director of European Union and International Policy) and his team
- Johnston McNeill (RPA Chief Executive) and his team

KEY MEETINGS

As referred to above, the decision to proceed with the dynamic hybrid model was taken on 7 January 2004 but leading up to that decision key meetings included:

- David Hunter chaired a series of meetings with stakeholders, including one on 8 October 2003. Lord Whitty also chaired a meeting with stakeholders on 1 December 2003. The following were generally invited to these meetings, some attended all, others occasionally.

Organisations in attendance

- Countryside Agency
 - Countryside Alliance
 - Central Association of Agricultural Valuers
 - Country Land and Business Association
 - Environment Agency
 - English Nature
 - Farm Animal Welfare Council
 - Food and Drink Federation
 - Meat and Livestock Commission
 - National Consumer Council
 - National Farmers' Union
 - National Trust
 - Royal Institution of Chartered Surveyors
 - Royal Society for the Protection of Birds
 - Tenant Farmers Association
 - Trades Union Congress
 - Wildlife and Countryside Link
- Separately, Lord Whitty discussed the issues at meetings with representatives from individual bodies, including NFU, CLA, TFA, CAAV and horticultural interests.
 - Margaret Beckett chaired a meeting with Andy Lebrecht, Sheila Watson and Defra chief economist, David Thompson on 1 December 2003.
 - A series of meetings in January 2004 at official level chaired by Donald Macrae to provide internal challenge to the policy development process. Attendees varied, but included Andy Lebrecht, David Hunter, Sheila Watson, Bill Duncan and two Defra SCS colleagues (Andrew Slade and Tim Allen) who were not involved in SPS policy development.
 - Defra's ministerial team also met on a regular basis and SPS issues were naturally discussed.

After the decision was taken to proceed in principle with the dynamic hybrid on 7 January 2004, further meetings on detailed aspects of the model were held ahead of the 12 February 2004 announcement. Key meetings included:

- 21 January 2004—Margaret Beckett, Lord Whitty, Sheila Watson and Andy Lebrecht.
- 23 January 2004—Andy Lebrecht and Richard Macdonald (NFU Director General).
- 27 January 2004—Lord Whitty, Sheila Watson, Andy Lebrecht, David Hunter and Donald Macrae.
- 3 February 2004—Margaret Beckett and Sir Ben Gill (NFU President). Andy Lebrecht, Sheila Watson and Richard Macdonald were also present.
- 4, 6 and 11 February 2004—Andy Lebrecht, Sheila Watson, David Hunter and Richard Macdonald.

January 2007

Memorandum submitted by Robert Campbell MBE, Ray Field and Jim Godfrey (RPA Sub 21)

Recently while travelling I happened to hear a "File on Four" programme on the subject of your enquiry into the performance of the RPA. I apologise for being so late in responding to your enquiry but I believe that together with two colleagues we may have some information, which could be of value to you. Of course you may well already know this information in which case I am sorry for wasting your time.

We are three farmers who were invited in July 2002 to serve with others on a "Land Scheme experts group" to advise the RPA on the development of the administration of the Land Schemes by the RPA. The group last met in November 2004 when it was disbanded by the RPA as it was established under the old IACS system. We were told that the group would be reformed under the auspices of the SPS but as far as we know this has not been done in the same form as higher level consultations were held.

We would ask you to note that under our terms of reference we are asked to keep the content and outcome of the meetings in confidence and only to publish papers with the express permission of the RPA. We would ask at this stage that the contents of this letter be regarded as confidential until we receive your advice on the powers you may have to request our documents be placed in public domain.²⁶

During our time of existence the RLR mapping system was running and we had some input into and reports of the working of this system as well as hearing and commenting on the forecasts the RPA were making concerning the implementation of the new SPS system. We were also involved in the work of the development of the e-IACS system.

Copies of the minutes of those meetings are enclosed with the exception of the final one of November 2004.²⁷ It is interesting to follow the progress of the RLR through these minutes which starts with a statement that 45% of maps were digitised by December 2002 and ends with the statement that edits would be completed by the second week in July 2004. At that time 65% of the maps were said to have been agreed and we discussed how to persuade those farmers that had received maps but not responded at all were to be persuaded to agree the maps.

²⁶ Permission has been granted by Mr Campbell to publish this letter.

²⁷ Not printed.

We also discussed at length the position of “white” or unmapped land as it was clear that the RPA had been advising farmers to correct their maps to the IACS area while the new SPS scheme and its derivatives would require the whole of the land to be mapped. The RPA was made very much aware of this problem and warned that the new SPS scheme would generate a very large number of IACS 22 modification forms.

Finally in December 2003 we dealt specifically with the apparently inexplicable variations in field areas and field numbers which the system was delivering and raised concerns as to when these were to become fixed for agreed fields.

As three farmers we have also continued our involvement with the process after the closure of the group and have considerable experience of the problems of getting maps updated and corrected throughout 2005 and up to the present. We have experiences of changes to maps being made during 2005 by the RLR without any request being made by ourselves leading to correct maps becoming incorrect and this leads us to suspect that at some stage there was a major computer fault on the system which necessitated the re-entry of data.

Unfortunately much of our experience is intuitive rather than evidenced but the enclosed time line of the experiences of one of our number gives some idea of the problems we are experiencing and though our problems are larger in scale there is no evidence that they are not representative.²⁸

Robert Campbell OBE

Ray Field

Jim Godfrey

July 2006

Further supplementary memorandum submitted by the Rural Payments Agency (RPA Sub 22)

Letter from the Chairman of the Committee to the Interim Chief Executive, Rural Payments Agency

I have just been advised that the Agency has formally put on record that there are still around 20,000 2005 payment claims as yet not finalized. I would be most grateful for a letter which I can circulate to members of the Select Committee to give them a commentary on firstly, how so many claims currently remain uncompleted and secondly, what steps you are taking and over what timescale to remedy this problem.

Finally, I would be pleased to know whether the overhand of 2005 will have any effect on your Agency's ability to meet the payment requirements set by the Secretary of State as far as 2006 payments are concerned in his recent Commons statement.

Rt Hon Michael Jack MP

5 February 2007

Letter from the Interim Chief Executive, Rural Payments Agency to the Chairman of the Committee

SINGLE PAYMENT SCHEME

Thank you for your letter dated 5 February regarding the Rural Payments Agency's (RPA) work to review 2005 Single Payment Scheme entitlements and associated payments. I am sorry for the delay in replying.

You will be aware following correspondence with Lord Rooker last year, RPA announced in September approximately 19,000 SPS 2005 claims, together with 7,700 claims with horticultural authorisations were being reviewed to identify whether adjustments were required.

Since then the RPA has either made further payments or recovered overpayments for all inaccuracies found in approximately 8,000 SPS 2005 claims and completed re-allocation of the horticultural authorisations. Despite this progress the problems experienced with the implementation of the SPS have meant that additional cases have been identified for review by either RPA or individual customers. The net result is that there is currently an estimated 25,000 cases under review and I am not able at this stage to rule out the possibility that further cases will be identified.

As David Miliband explained in his statement to the House on Thursday 22 February 2007 (Hansard column 59WS), I have set up a dedicated team within the Agency to take this work forward. However, in order to help protect the 2006 payment timetable as much as possible, I have decided those adjustments estimated to be above €100 will be treated as a priority for action before 2006 Scheme payments are made. We have written to all of our customers who have advised us that there is a problem with their 2005 entitlements to confirm our plans for prioritisation. Furthermore, my senior team and I are in regular contact with industry stakeholders to keep them informed of developments.

²⁸ Not printed.

I hope you will agree that although important to finalise this strand of work, we also need to balance efforts directed at completing the small numbers of full and balance payments for the 2005 Scheme and progressing payments under the 2006 Scheme and targeting improvements in the timetable for future year payments.

Tony Cooper

6 March 2007

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