



House of Commons  
Committee of Public Accounts

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# The Delays in Administering the 2005 Single Payment Scheme in England

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**Fifty-fifth Report of Session 2006–07**

*Report, together with formal minutes, oral and  
written evidence*

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## The Committee of Public Accounts

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Greg Clark MP (*Conservative, Tunbridge Wells*)  
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## Summary

The Department for Environment, Food and Rural Affairs (the Department) and its Agency (the Rural Payments Agency) spent £122 million implementing in England the European Union land area based single payment scheme which replaced production based Common Agricultural Policy subsidies. The aim was that farmers would comply with European Regulations on land management during 2005 and 96% of the £1,515 million due to claimants would be paid out by the end of March 2006. The single payment scheme was not a large grant scheme but the Department's deliberate choice to implement the most complex option for reform (the dynamic hybrid) in the shortest possible timescale (in year one of the new scheme), its decision not to implement a *de minimis* claim and the need to accommodate 46,000 newly eligible claimants, led to a series of risks which individually would have been severe but collectively were unmanageable. The risks were compounded by the requirement for digitised mapping of land in England, which Scotland and Wales already had in place. The Agency underestimated the scale of work needed, and its oversight boards lacked objective management information to enable them to assess progress effectively. As a result, only 15% of payments had been made by 31 March 2006, and some 3,000 farmers were still unpaid at the end of October 2006, the payment delays causing stress, anxiety and financial hardship in the farming sector.

The Department and the Agency sought to implement the scheme as part of a wider business change programme to rationalise systems and reduce the staff headcount by 1,800 posts. But the change programme had cost £258 million by the end of March 2006 and is expected to achieve efficiency savings of only £7.5 million by March 2009. Additionally, the Department set aside a provision of £131 million for potential disallowance of claims expenditure by the European Commission for non-compliance with European Regulations in administering the 2005 scheme in England. In February 2007 the Department obtained Parliamentary approval for a supplementary estimate of £305 million to meet the potential cost of additional disallowance on the 2005 and 2006 single payment schemes and residual liabilities on earlier grant schemes administered by the Rural Payments Agency. In their haste to have the scheme ready on time the Department and the Agency failed to adhere to basic principles of project implementation including putting in place adequate pilot testing and the development of systems to extract management information necessary to monitor progress. Given the history of implementing government information technology programmes, and in view of the wider changes being attempted, it would have been more sensible to trial the scheme in the first year and implement fully in year two.

The problems experienced for the 2005 scheme were likely to recur in subsequent years and the Agency did not expect to remedy matters fully until April 2008. In March 2006 the Agency's then Chief Executive was removed from his post but was retained on full pay while the Department determined his terms of departure.

On the basis of a Report by the Comptroller and Auditor General,<sup>1</sup> the Committee took evidence from the Department, the Acting Chief Executive of the Rural Payments Agency

<sup>1</sup> Department of Environment, Food and Rural Affairs, and Rural Payments Agency: *The Delays in Administering the 2005 Single Payments Scheme in England*, HC (2005–06) 1631

and, after a delay of some months attributable to his ill health, from the former Chief Executive, Mr Johnston McNeill, who was in charge of the Agency during the relevant period. The Committee reviewed the impact of the payment delays, why implementation failed, the Department's role, and the changes being put in place to rectify the mistakes made.

## Conclusions and recommendations

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1. The Department and the Rural Payments Agency failed to implement the single payment scheme effectively. By the end of March 2006 it had paid farmers only 15% of the £1,515 million due, compared with its target of 96%, causing significant hardship. Taxpayers will have to pay additional implementation costs. In addition to a provision of £131 million included in the Department's accounts for 2005–06, the Department has had to secure a supplementary estimate of £305 million to meet the potential cost of disallowance of expenditure by the European Commission arising on the 2005 and 2006 single payment schemes and the previous schemes administered by the Agency.
2. At the end of October 2006, some 3,000 cases for the 2005 scheme remained to be settled. The Agency subsequently managed to progress some of these outstanding payments, but 911 claimants had yet to receive anything and 2,184 claimants were awaiting a final 'top-up' payment by the time payments started to be made under the 2006 scheme on 1 December 2006. By May 2007 there were 24 claims, mostly probate cases, which remained unpaid, but the Agency was still reviewing the accuracy of a substantial number of claims already processed and making adjustments both for over and under payment.
3. There are a number of lessons to be learned by the Agency, the Department and government bodies more widely.
  - i. **The scheme is small, covering only some 116,000 claimants, but the Department made it unnecessarily complex by choosing to adopt the most demanding implementation options.** It selected the 'dynamic hybrid' option for calculating entitlement, a one year implementation timescale, and no de minimis threshold for claims. Scheme parameters should not be chosen in isolation, but with due regard to the overall complexity and risk they will jointly present.
  - ii. **Because the government sought to implement the single payment scheme at the same time as a wider business change initiative, the Agency shed too many of its experienced staff and their knowledge at a time when it needed them most.** It then spent some £14.3 million on agency staff in 2005–06 to process 2005 single payment scheme claims. Before combining projects, their interdependency and the potential for compounding risk should be assessed as well as the risks of the individual projects.
  - iii. **Implementation of the project started before the specification of the single payment scheme was finalised.** The aim was to meet the March 2006 payment deadline, but the result was that the Agency had to make assumptions on what the final regulations from the European Commission would contain. It subsequently had to make 23 substantial changes to its computer systems to reflect policy and regulatory revisions. The risk of having to make changes later in the development of the scheme could have

been given more weight in determining the implementation timetable at the outset.

- iv **Processing capacity had not taken sufficient account of the number of maps and mapping changes that would need to be processed.** The scheme was based on land area managed, and incentivised farmers and new claimants to register additional land. A proper estimate of the scale of the work should be made by appropriate modelling and testing.
- v **The Agency tested each key element of the IT scheme before introduction but testing in isolation did not fully simulate the real world environment and problems emerged later.** Failure to test computer systems completely and adequately is a problem we have often seen with government IT projects. Time should be built in to test the IT systems as a whole as well as the individual components within it to obtain adequate assurance that components are fully compatible and deliver the required business process.
- vi **Without an individual or small team processing a whole claim end to end, claimants found it difficult to obtain advice and information on the status of their claim and Agency staff were hampered in their attempts to resolve claimants' queries.** The Agency had instead decided to adopt a task based design for claims processing to enable staff in different offices to work on any tasks relating to any claim, but it did not adequately consider the customer interest in following their claims through the process and the consequent impact of the new way of working on customer service. The development of new business processes should take the customers' requirements into account in the design of the proposed system and any potential contingency arrangements.
- vii **A lack of information was the principal cause of frustration and complaint within the farming community.** Automated telephone lines provided unhelpful responses such as "there is nothing that the call centre staff can tell you about your payment". Farmers were discouraged from pursuing queries by being told that "If you contact us, this will divert resources away from the urgent tasks of completing validations and making full payments". A communications strategy should be developed which keeps all concerned but particularly customers in touch.
- viii **The Agency could not easily determine how much work remained outstanding on claims each week and how long it would take to complete them.** The Agency had deferred development of software to draw out key information on the progress of each claim to focus resources on other parts of the system it considered to be critical. Those with oversight of the project thus found it difficult to distinguish between real progress and inherent optimism within the project team. Specific measures should be developed from the outset to enable implementation progress to be assessed objectively, and make sure management information systems enable appropriate data to be tracked.



- ix **The Agency mothballed one contingency system on the basis it would have experienced the same data accuracy problems as the main system, although it would have allowed processing on a claim by claim rather than a task by task basis.** The Agency also decided not to invoke partial payments available from the end of January 2006 because it expected to make full payments in March 2006, but in the end was unable to do so. Genuine and workable contingency arrangements commensurate with the project profile and risk need to be factored into the business case and developed from the outset.
- x **The Department did not recommend specifying a minimum claim size, unlike Germany which specified a minimum claim of 100 Euros (around £68).** Adopting a similar approach would have reduced the number of claims by almost 14,000 (12%) and saved administration costs which may well have exceeded the sums claimed. In designing processes and in supporting documentation such as application forms, cost effective opportunities to simplify should be identified and implemented.
- xi **The Department and Agency established separate boards to provide technical programme management and critical challenge but there was a lack of clarity as to which Board or individual was ultimately responsible for decisions.** The challenge board took a greater role in decision making as the project proceeded, blurring its scrutiny role. The departmental Permanent Secretary at the time, Sir Brian Bender, bears responsibility for administrative failure leading to additional costs that together risk exceeding £400 million. There needs to be a clear distinction within project governance structures between those responsible for oversight and challenge and those managing the decision making process, even when a project reaches a crisis point.
- xii **The Agency's management team recognised the risks to delivery of the project, but the Chief Executive, Johnston McNeill, felt unable to show that it could not be delivered.** At issue, however, was not just the feasibility of the project, but the acceptability of the risks, which were acknowledged to be high. If Accounting Officers believe that their assessment of risk is being discounted, the proper course of action is to seek a direction from the departmental Accounting Officer or Minister concerned as to whether they should proceed.
- xiii **The structures originally set up to oversee the project included two Senior Responsible Owners, one for policy (in the Department) and one for implementation (in the Agency).** Splitting the role of Senior Responsible Owner was bad practice, and undermined the Department's ability to challenge the Agency's progress reports. Every project should have one Senior Responsible Owner so that lines of accountability and responsibility are clear. The Department should agree progress milestones with the Senior Responsible Owner, whose pay and performance bonuses should be directly linked to performance objectives and programme

delivery. Every project should have objective targets and progress data so that any corrective action can be triggered quickly.

- xiv **The implementation of the single payment scheme was subject to four Office of Government Commerce Gateway Reviews between May 2004 and February 2006, and three of these Reviews assessed the programme as “red”.** Development work on the computer system nevertheless continued and no contingency plan was invoked, despite limited confidence that the system would be ready on time. If ‘red’ reviews are to be taken seriously, departments need to be explicit about the circumstances in which they would lead to fundamental review or termination of a project.
- xv **We are disappointed that it took the present Accounting Officer, Mrs Helen Ghosh, nine months to provide the Committee with a full account (in the form requested) of the total cost to public funds of removing Mr Johnston McNeill from office as Chief Executive of the Rural Payments Agency and from employment as a civil servant.** We expect Accounting Officers to show better co-operation with such requests by the Committee.

# 1 The impact of delays on the farming sector

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1. The European Union's single payment scheme, introduced as part of reforms of the Common Agricultural Policy, replaced 11 existing subsidies which had been based on agricultural production. Farmers in England can submit a claim under the single payment scheme in exchange for complying with European Union rules requiring them to maintain their land in good agricultural and environmental condition, and to comply with EU requirements relating to animal and public health, and animal welfare. The United Kingdom chose to implement the scheme in 2005, the first year of the new scheme. The changes to eligibility meant that more farmers, such as horticulturalists and those with small numbers of livestock, were able to claim for the first time, with the result that the number of claimants increased from 70,000 in 2004 to 116,000 in 2005.<sup>2</sup>

2. By the end of March 2006, however, only 15% of the £1,515 million due under the 2005 single payment scheme (£225 million) had been paid by the Rural Payments Agency compared to its target of 96%, and 85,400 farmers (73%) had not received any payment. At 30 October 2006 some 3,000 claimants still awaited payment, four months after the European Union deadline. The Agency's Interim Acting Chief Executive confirmed that the Agency was committed to make all payments by the end of 2006, except for those complex cases where there are issues of business liquidation or probate to be resolved. At 6 December 2006, 911 claimants had yet to receive payment, of which 39 were complex cases, and a further 2,184 claimants were awaiting a 'top-up' payment after receiving a partial payment earlier in 2006. By May 2007 there were still 24 claims, mostly probate cases, which remained unpaid, and the Agency was still reviewing the accuracy of a substantial number of claims already processed and making adjustments both for over and under payment.<sup>3</sup>

3. In consequence of the Agency's failure to administer the 2005 single payment scheme, a significant minority of farmers and their families experienced stress and increased financial costs, threatening the financial viability of their businesses. 16% of farmers postponed purchases or investments and 14% delayed payments to suppliers (see **Figure 1**) with consequent impacts across the farming sector. On advice from the British Bankers' Association the National Audit Office had estimated that the delays could have cost farmers between £18 million and £22.5 million in interest and arrangement fees on additional bank loans and increased short term borrowing on overdrafts, excluding any estimate for interest foregone by farmers whose bank accounts were in credit.<sup>4</sup>

4. Staff contacted by claimants lacked the knowledge to deal with queries, partly because the Agency had adopted a business process which allocated tasks across the organisation rather than enabling staff to deal end to end with individual claims. As pressure mounted,

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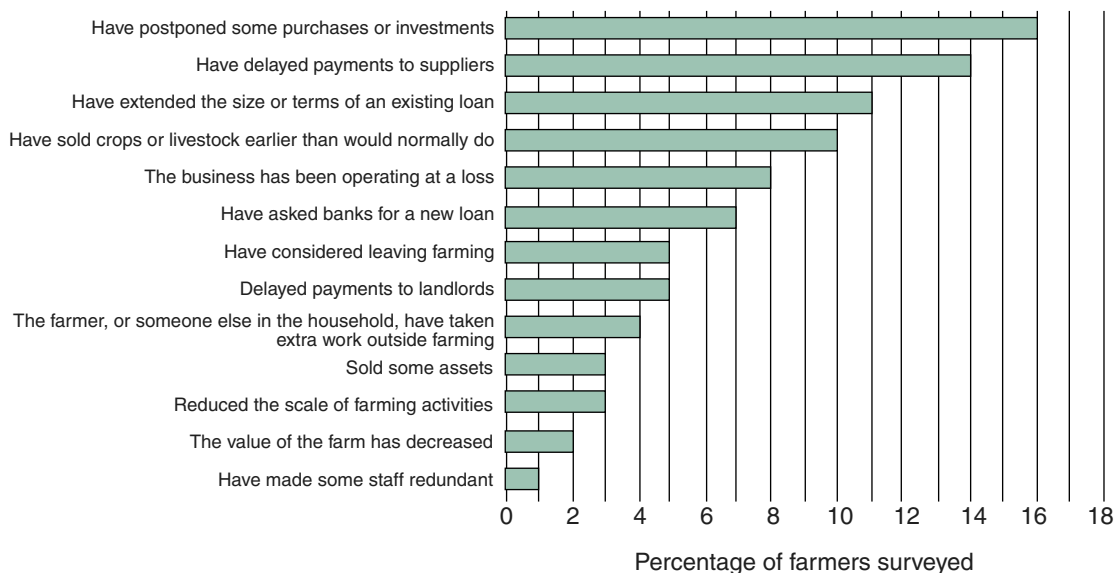
2 C&AG's Report, paras 1.1, 1.2, 2.6

3 C&AG's Report, paras 1.1, 1.7; Qq 4-6

4 C&AG's Report, paras 3.1, 3.3; Figure 4; Qq 1, 53, 66, 125, 138-144, 227

day to day communications with claimants became strained, and a lack of information on the progress of claims increased the stress and frustration amongst farmers.<sup>5</sup>

**Figure 1: Action taken by farmers to mitigate against the delays in payment of the 2005 single farm payment**



Source: National Audit Office

5. A variety of approaches had been taken at different stages to assist farmers waiting for payment, but there had been no specific focus on those for whom late payment would have the largest impact on the business. The Agency's primary priority had been those farmers with 'medium' or 'large' claims over £30,000. In practice, however, small claims were usually simpler and hence had proved easier to process. Single payment scheme funding typically represents a large proportion of family income for hill farmers, but these cases had not been given any priority unless they were 'medium' or 'large' claims. Such farmers' difficulties were compounded by the Agency's delays in processing the Hill Farm Allowance Scheme under which the Agency had made payments to only 65% of eligible claimants by late June 2006.<sup>6</sup>

6. In January 2006 the Department had considered making interim payments to farmers based on European Commission rules allowing payments of 60% of the validated element of claims. In deciding not to do so, the Department had balanced the benefits to farmers with the risk of disallowance and the effect on the 2006 scheme. It had also expected at that time to be able to make full payments in February 2006 which it believed was the farmers' preference, although the departmental Accounting Officer believed that there had been a "conspiracy of optimism" in the Agency on the achievability of the February date.<sup>7</sup>

7. In October 2006, the Agency paid £386,200 in interest to 2,559 claimants who had received payment after 30 June 2006, although a further 13,144 did not qualify for payment as their interest fell below the £50 eligibility threshold. The interest was calculated from 1

5 C&AG's Report, paras 3.7, 3.8; Qq 17, 21, 67, 68, 88, 219–220, 240

6 C&AG's Report, para 1.7; Qq 104–105, 117–119, 155–156

7 Qq 1, 25, 52, 284–285

July 2006, at 1% above the London Interbank Offered Rate. The Department defended the rate of interest as that used in other cases of maladministration, such as those determined by Ombudsmen, for example.<sup>8</sup>

8. Payments due from the 2005 single payment scheme may have to be included in a farmer's trading accounts for 2005–06 and thus subject to income tax on any profits during the period. For those farmers required to account for their payments due in 2005–06, any income tax would become payable by 31<sup>st</sup> January 2007. The Department confirmed that it would be unlikely for any farmers to find themselves in the position of owing tax on a payment they had not received. Her Majesty's Revenue and Customs would take a pragmatic view in these circumstances and be prepared to help where applicable.<sup>9</sup>

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8 Qq 102, 120–121, 126

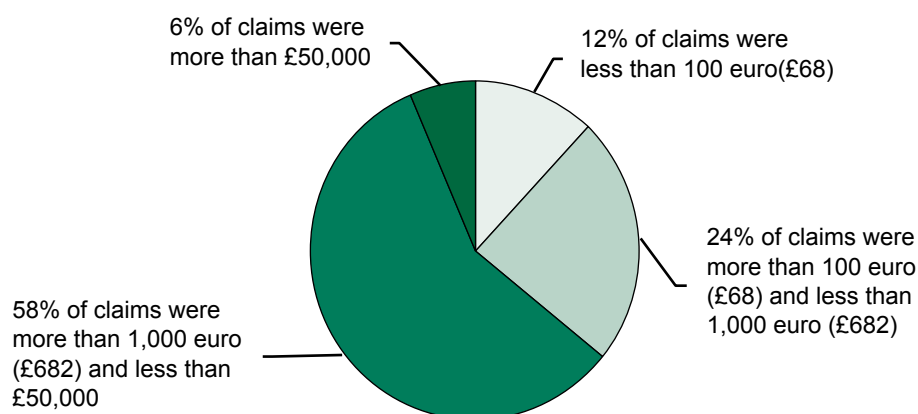
9 Qq 107, 152–154

## 2 What went wrong

9. European Union Regulations offered some discretion to Member States over how to implement the single payment scheme. In August 2004, Ministers decided to introduce the scheme in England using the most complex, “dynamic hybrid”, basis of payment, following advice from officials that the scheme was deliverable for 2005 claims. Under a dynamic hybrid rate, payments to claimants are based partly on the historic rate and partly on a flat rate per hectare. Over time, the historic rate proportion declines until payments are wholly based on a flat rate. For farmers in England who had previously received subsidies, 90% of the payment in the first year was calculated by reference to amounts received in the past and 10% on a flat rate per hectare. Wales and Scotland adopted the “static historic” rate of payment<sup>10</sup> and Northern Ireland adopted the “static hybrid”<sup>11</sup> rate.<sup>12</sup>

10. Germany was the only other European country to adopt the dynamic hybrid rate in 2005. In Germany the Federal Ministry of Food, Agriculture and Consumer Protection used its contingency scheme to make advance payments in December 2005, and final payments in April to June 2006. The German government also specified a minimum claim size of 100 Euros. Figure 2 below shows that notifying farmers in England of a minimum claim of 100 Euros would have reduced the number of claims by 14,000 or 12%, thus mitigating the increase in the number of claimants to 116,000 in 2005 compared with 70,000 in 2004 under previous schemes.<sup>13</sup>

**Figure 2: A large proportion of claims in 2005 were for a relatively small amount of money**



Base: all 116,474 claims

Source: National Audit Office analysis of Rural Payments Agency data

10 Based on average direct payment receipts of each farmer between 2000 and 2002 under previous subsidy schemes.

11 Payments are based partly on the average direct payment receipts of each farmer between 2000 and 2002, and partly on a flat rate per hectare of land.

12 C&AG's Report, paras 17, 1.7; Appendix 1; Qq 2, 3, 18-20, 188-189, 200

13 C&AG's Report, paras 1.3, 2.6; Figure 1; Appendix 1; Qq 2, 3, 18-20, 36, 50, 114, 144-150

11. Achieving the challenging timetable agreed with Ministers was made difficult because the Department and the Agency underestimated the amount of work involved. The timetable to develop the new computer system was based on assumptions on the likely policy content of the final scheme. By December 2004, however, the Agency had identified 23 changes required to be made to the system largely to incorporate changes to European Union regulations and legal clarification of those regulations, Ministerial decisions and other identified changes. Implementing the changes deferred the forecast date for making payments from December 2005 to February 2006, but pressure on the timetable also led to the Agency accepting IT components before they had been fully tested. Work on developing a digital map of farmers' lands (as required by European Regulations) commenced in 2002. The Agency did not pilot test adequately the process of registering farmers, accurately mapping their land and confirming eligibility. It had expected to record 1.7 million parcels of land but had to deal with 2.1 million parcels. Once the Agency started processing the 2005 single payment scheme a backlog of farmers' map registration forms built up, reaching 31,000 forms by September 2005.<sup>14</sup>

12. Implementation was further complicated due to the decision to incorporate the work into an existing business change programme. The computer system became a key feature of the Agency's reorganisation plans to reduce staff numbers. Processing of claims was switched to a 'by task' basis instead of using a single member of staff or small team to process a whole claim from start to finish. Overcoming the difficulties with processing claims depended on the Agency having sufficient skilled staff to resolve outstanding queries. The Agency had, however, let 1,000 experienced staff leave on redundancy terms during 2005–06 as part of re-organisation plans to reduce headcount by 1,800 posts. Under pressure to meet payment deadlines, the Agency spent £14.3 million recruiting temporary staff. It also cancelled the second wave of planned redundancies. The Agency was unable to say whether it had recruited any of its former employees to work as temporary staff.<sup>15</sup>

13. The Office of Government Commerce Gateway Reviews had raised specific concerns about the progress of the project and the June 2005 review in particular had questioned whether the project would succeed. The Department considered that the 'red' reviews did not necessitate that the project should be stopped, but instead that they should take action to address the risks identified. The National Audit Office had recommended that in future for key mission critical projects where the Office of Government Commerce had a direct intervention role, the Senior Responsible Owner should specify, in conjunction with departmental officials, the circumstances in which the results of a Gateway Review should be used to advise senior officials and Ministers that a project should be stopped or fundamentally reviewed. The Accounting Officer suggested that the Gateway process could usefully assist in judging the underlying capability of an organisation to deliver the necessary change.<sup>16</sup>

14. Despite the high risks identified from the outset in implementing the project, the Department lacked genuine workable contingency arrangements and hence in response to warning signals the Department and Agency continued to press ahead. The Department

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14 C&AG's Report, paras 2.2–2.3, 2.5–2.8; Qq 1, 2, 3, 10, 11, 12, 28, 109–112, 192, 200, 256, 275

15 C&AG's Report, para 2.9–2.10, 4.2; Qq 21–22, 44, 59, 65, 148, 249–252

16 Qq 10, 28, 42, 70–74, 157–164, 296–297



explained that the contingency computer systems available at different stages of the project would have relied on the same data such as the maps and hence would have encountered similar problems. However, 90% of the 2005 payment was based on amounts received by farmers in the past, and the number of claims at just over 116,000 was relatively small so that contingency arrangements to maintain farmers' cash flow should have been practicable.<sup>17</sup>

15. According to the Agency's financial data, the outturn cost of the project to implement the single payment scheme at March 2006 was £122 million, some £46.5 million more than anticipated with further increases likely to take account of key elements of the system deferred such as the software to extract management information. The provision of £131 million for potential disallowance by the European Commission of payments for the 2005 scheme year exceeded the project cost, illustrating the poor value for money achieved. In February 2007 Parliament approved a supplementary estimate of £305 million to meet the potential cost of additional disallowance on the 2005 and 2006 single payment schemes and residual liabilities on the previous schemes administered by the Rural Payments Agency. The business change programme (which includes the single payment scheme) had cost £258 million by March 2006 and was expected to achieve efficiency savings of only £7.5 million by March 2009. The departmental Accounting Officer agreed that expected benefits from the project and programmes had not been achieved and more costs were likely before savings arose. Nevertheless, the Agency now had a Rural Land Register, digitised maps and good customer data on which it could build for the future.<sup>18</sup>

16. Contrary to advice from the Office of Government Commerce, the Department and the Agency put in place two Senior Responsible Owners to oversee the project, one, in the Department, responsible for policy and one, in the Agency, responsible for implementation. Both Senior Responsible Owners and the then permanent secretary of the department, Sir Brian Bender, were directly involved in the programme. The Director General for Sustainable Farming, Food and Fisheries in the Department, Mr Andy Lebrecht, was the Senior Responsible Owner with oversight of the policy framework relating to Common Agricultural Policy Reform. The former Chief Executive for the Rural Payments Agency, Mr Johnston McNeill, was the Senior Responsible Owner for the implementation of the single payment scheme and the Accounting Officer for the Rural Payments Agency. The division between Senior Responsible Owners meant, however, that he had to implement policy decisions to which he had not always been party.<sup>19</sup>

17. There were two key oversight boards. The CAP Reform Implementation Board (CAPRI), responsible for programme management, was alternately chaired by the two Senior Responsible Owners, Mr Johnston McNeill and Mr Andy Lebrecht. The Executive Review Group, chaired by the Department's Permanent Secretary, considered papers previously reviewed by CAPRI, and its terms of reference were to provide a critical challenge function. Responsibilities between the two boards became blurred as the project proceeded and both took greater control of implementation, rather than one acting as a challenge to the other. As the crisis developed, documents were often prepared at the last

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17 C&AG's Report, paras 5.1–5.5; Qq 2, 10, 206

18 C&AG's Report paras 3, 15; Qq 9, 47–48, 106; Spring Supplementary Estimate, HC 293 2006–07

19 Qq 204, 244, 246, 304–306



minute and reports to senior officials were long and complex and did not routinely draw out key messages or corrective actions required, making it difficult to challenge the basis of some of the data submitted. The pressure to have systems ready in time led the Agency to defer development of the computer programme required to extract management information. Only between 20 February and 10 March 2006 did it become clear to the Agency that it would not be able to meet the target of paying claims by the end of March. In the absence of reliable management data, the project team and officials were unable to draw adequately informed conclusions and were not sufficiently alive to the likelihood of failure and its consequences.<sup>20</sup>

18. The Chief Executive of the Rural Payments Agency, Mr Johnston McNeill, was removed from post in mid-March 2006 following the failure to deliver the single payment scheme and having lost the confidence of Ministers and the Department's Accounting Officer. Many of the other senior managers in the Agency were transferred to posts elsewhere in the Department's sponsored bodies considered to be more compatible with their skills. The Department confirmed that no member of staff had received an official warning or been subject to any other disciplinary action over the project's failure.<sup>21</sup>

19. The former Chief Executive remained on leave of absence on full pay of £114,000 a year until 1 December 2006. The delay in resolving the former Chief Executive's employment status was due to his ill health and the need to establish his precise contractual and, therefore, pension and lump-sum entitlements. In 2004–05 he had received a performance bonus of some £21,000 (equivalent to some 18.5% of salary). The departmental Accounting Officer explained that the Chief Executive's performance targets had been linked to the Agency's targets and that they had not specifically included delivery of the single payment scheme. The Department confirmed that it did not make any severance payment to the former Chief Executive when his employment was terminated. He had received six months pay in lieu of notice totalling some £60,000. In addition, the Civil Service Appeal Board recommended that the Department should award Mr McNeill £60,800 compensation for failing to adhere to formal processes and providing him an opportunity for appeal to an independent adjudicator.<sup>22</sup>

20. The Interim Acting Chief Executive of the Agency had simplified the 2006 scheme application form to assist in processing claims and had also improved customer support systems. Inherent design problems within the information technology systems meant that the Agency was still not able to deal adequately with specific queries about individual claims or provide an enquiry service for callers at its local offices. The Agency commissioned consultants to review the IT system and, in the longer term, it aimed to improve its customer service by resolving potential queries earlier in the process. The Agency was developing a recovery plan which should be fully implemented by April 2008.<sup>23</sup>

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20 C&AG's Report, paras 25, 26, 5.7, 5.9–5.11; Qq 1, 10, 16, 56, 61, 203, 260–263, 267, 286, 289, 297

21 Qq 31–32, 58, 81–86, 115–116, 210, 268

22 Qq 15, 28, 33–35, 71, 165–166, 167–187, 307, 315

23 C&AG's Report, para 4; Qq 6, 17, 25, 88, 98

21. The Committee's hearing on 'Delivering Successful IT-enabled Business Change' highlighted the importance of senior level engagement and for Departments to act as an intelligent client by clearly specifying the business processes to be changed and the outcomes they want to achieve. In particular, the Treasury's New Major Projects Review Group aims to ensure that complex projects, such as the implementation of the single payment scheme, are subject to high levels of scrutiny. The departmental Accounting Officer recognised the importance of developing appropriate business processes, and of making sure organisations had the right leadership capacity and soft skills capability.<sup>24</sup>

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<sup>24</sup> C&AG's Report, paras 27–28; Qq 8, 9; Committee of Public Accounts, Twenty-seventh Report, Session 2006–07, *Delivering successful IT-enabled business change*, HC 113

# Formal minutes

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**Wednesday 18 July 2007**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr David Curry  
Mr Ian Davidson

Mr Philip Dunne  
Dr John Pugh

## **Draft Report**

Draft Report (The Delays in Administering the 2005 Single Payment Scheme in England), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 21 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Fifty-fifth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 10 October at 3.30 pm.]

## Witnesses

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### Monday 30 October 2006

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**Mrs Helen Ghosh**, Permanent Secretary, Department for Environment, Food and Rural Affairs, **Mr Andy Lebrecht**, Director-General for Sustainable Farming, Department for Environment, Food and Rural Affairs, **Mr Ian Grattidge**, Deputy Finance Director, Department for Environment, Food and Rural Affairs, **Mr Tony Cooper**, Interim Chief Executive, Rural Payments Agency.

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### Monday 9 July 2007

**Johnston McNeill**, former Chief Executive, Rural Payments Agency

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Third Report	Collections Management in the National Museums and Galleries of Northern Ireland	HC 109 (Cm 7035)
Fourth Report	Gas distribution networks: Ofgem's role in their sale, restructuring and future regulation	HC 110 (Cm 7019)
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Sixth Report	Gaining and retaining a job: the Department for Work and Pensions support for disabled people	HC 112 (Cm 7019)
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Nineteenth Report	A Foot on the Ladder: Low Cost Home Ownership Assistance	HC 134 (Cm 7077)
Twentieth Report	Department of Health: The National Programme for IT in the NHS	HC 390 (Cm 7152)
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Twenty-second Report	Tax credits	HC 487 (Cm 7152)
Twenty-third Report	The office accommodation of the Department for Culture, Media and Sport and its sponsored bodies	HC 488 (Cm 7151)
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Fifty-fifth Report	The delays in administering the 2005 Single Payment Scheme in England	HC 893

# Oral evidence

## Taken before the Committee of Public Accounts on Monday 30 October 2006

Members present:

Mr. Edward Leigh, in the Chair

Mr Richard Bacon  
Greg Clark  
Mr David Curry  
Mr Ian Davidson  
Mr Philip Dunne

Helen Goodman  
Mr Sadiq Khan  
Mr Austin Mitchell  
Mr Don Touhig  
Mr Alan Williams

**Sir John Bourn KCB**, Comptroller and Auditor General, gave evidence.

**Mr Jim Rickleton**, Assistant Auditor General, **Mr Phil Woodward**, Finance Director, were in attendance.

**Ms Paula Diggle**, Treasury Officer of Accounts, gave evidence.

**Ms Clare Palmer**, Treasury Representative, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### The Delays in Administering the 2005 Single Payment Scheme in England (HC 1631)

*Witnesses:* **Mrs Helen Ghosh**, Permanent Secretary, **Mr Andy Lebrecht**, Director-General for Sustainable Farming, **Mr Ian Grattidge**, Deputy Finance Director, Department for Environment, Food and Rural Affairs, **Mr Tony Cooper**, Interim Chief Executive, Rural Payments Agency.

**Chairman:** Good afternoon and welcome to the Public Accounts Committee, where today we are dealing with the Comptroller and Auditor General's Report *Delays in administering the 2005 Single Payment Scheme in England*.

We welcome Mrs Helen Ghosh, who is Permanent Secretary at the Department for Environment, Food and Rural Affairs, and Mr Tony Cooper, who is the interim Chief Executive of the Rural Payments Agency. We were to have before us this afternoon Mr Johnston McNeill, the former Chief Executive, but he has provided a sick note, claiming that he cannot come because of stress. We regret that very much, as it will severely hamper our inquiry today; he was in charge at the time. We are not prepared to let him escape his responsibilities. He will therefore be summoned back on 20 November, as soon as his sick note runs out. Mrs Ghosh, if you could make yourself available on that date to appear with him, we would be very grateful.

**Mrs Ghosh:** Certainly.

**Q1 Chairman:** As I say, Mr McNeill's absence makes this rather more difficult to handle, but we will do our best. On the subject of stress, I visited the charity Lincolnshire Rural Stress Network on Friday, and there have been three suicides among farmers in Lincolnshire this year.

One farmer, whose case I have taken up, has been waiting for a payment of £4,000 since April, but has still not received it. Another tenant farmer took the decision to close his farm business because of pressure from his bank and his landlord to pay

outstanding bills, which he could not do because of the delay with the single farm payment. A further farmer, who has cancer, has been waiting for a payment of £22,000. Members representing rural constituencies will have many such cases.

Mrs Ghosh, Why was the scheme a complete failure?

**Mrs Ghosh:** I think that there were a number of reasons for the scheme's problems, and the Report sets them out extremely clearly. There is no single issue or explanation, but I would like to highlight three or four that were particularly problematic. All concerned—Ministers, officials and the RPA—believed that the dynamic hybrid system was deliverable when the decision on it was made in November 2003.

Thereafter, I would highlight four key areas. I believe that the agency's adoption of a business process that allocated tasks across the organisation, rather than dealing end to end with individual customers who were able to assemble the data associated with the claim, was a key feature of the problems, particularly those that I observed in the latter period.

As the National Audit Office Report highlights, problems with the mapping were probably one of the key challenges. There was a vast increase in the number of mapping changes, which had either not been previously reported or were produced—incentivised—by the new scheme. I am sure that we will come back to that.

There were problems about testing the IT against a real business process. Again, the Report highlights that. Clearly, there was not a proper—what I would

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call model office approach—to testing. Management information was one of the very early victims of time and resource pressure. That meant, as I think the Report says, that there was a conspiracy of optimism in the Agency in terms of the achievability, in the end, of full payments starting in February 2006.

**Q2 Chairman:** As the National Audit Office Director who wrote the Report said, this was a “can do” organisation that could not do. Those problems were not insurmountable. There were 4,000 staff; there are 116,000 farmers in England. That works out at 30 applications per staff member.

This was not an impossible task. The Welsh, Scots and Irish performed much better, although they had simpler schemes. The Germans had the same hybrid scheme as we did, and although they had some problems, they were nothing like what went wrong here. What is wrong with the civil service? We are 10 years on from the passport fiasco. We have been told that staff are better trained, but here we had another organisation hiding bad news, with poor IT and no contingency plans. Why is it so difficult?

**Mrs Ghosh:** There are issues about the organisation’s capacity to respond to the very specific and, as it turned out, extremely challenging demands of the Single Payment Scheme—the new scheme—on top of the existing change programme. The examples you cite of other countries that have paid are ones that have gone for either pure historical models or static hybrid models. In the case of Germany, you are right. It made partial payments much sooner than we did. The jury is still out on whether it will have some of the same problems as us in terms of disallowance.

I have asked myself the same question about the proportion of staff to claimants. The programme is very different from other large-scale IT-based change programmes across government. The issues that required a high level of IT and organisational change included the fact that we had to produce—back to mapping—a digitised map. That was a requirement. We started working on it in 2002. We were required to finish it by the end of 2005. That could not have been done by people manually; it required an IT system. We had the challenge of bringing 11 schemes into one scheme. Again, that required a large-scale IT system.

**Q3 Chairman:** But was there a mismatch between the policy people and the operational people?

**Mrs Ghosh:** There was not a mismatch, in the sense that when one looks back over the various discussions with Ministers and, indeed, the negotiations in Brussels, one sees that the RPA team were present at every turn. The issue is whether, at that stage, they recognised, and DEFRA officials recognised, the challenge—the scale—of what was in hand, particularly in relation to things such as the digital mapping and the IT and communications issues associated with bringing farmers alongside on that and other aspects of the SPS.

**Q4 Chairman:** Mr. Cooper, when the Report was written, 8,500 farmers were still waiting. I understand that 3,000 farmers are still waiting for a payment that should have been made between December 2005 and June 2006. Is that right?

**Mr. Cooper:** The figures are just about right.

**Q5 Chairman:** When will the 3,000 farmers be paid? Some of them are small business men. How can they live in these circumstances?

**Mr. Cooper:** We have a dedicated team in an office and they are now addressing those claims to clear them as quickly as possible. A number of them are particularly complex and difficult to resolve, and we are working our way through those issues. Some require additional information from the customer, and some require—

**Chairman:** When will they be paid?

**Mr. Cooper:** We are aiming to clear the claims as quickly as possible.

**Chairman:** When will they be paid?

**Mr. Cooper:** There are different groups that will be paid. There are some—

**Chairman:** When will they be paid? These are small business men who rely on the payments. When will they be paid? I have now asked you five times.

**Mr. Cooper:** They will be paid within the next two months, but some cases, such as probate cases, will have to be—

**Chairman:** They will be paid within the next two months. That is the answer I was looking for.

**Mr. Cooper:** There are probate cases that may not be paid for a couple of years.

**Q6 Chairman:** You had better give us a note on what exactly is going to go on in the light of the 3,000 farmers who still have not been paid.<sup>1</sup> What is in store for farmers with the 2006 scheme?

**Mr. Cooper:** The position will improve for 2006. We have made a number of changes that will help and we are of course aiming to make payments within the payment window.

**Q7 Chairman:** Mrs Ghosh, why has it taken so long to resolve the former Chief Executive’s position? Is he still suspended on full pay six months on?

**Mrs Ghosh:** He is. We recently made him an offer with which I believe the Committee is familiar. When he was first suspended—

**Chairman:** No, the Committee is not familiar with that.

**Mrs Ghosh:** Sorry. Possibly the National Audit Office is. We have made him—well, actually, I would not describe it as an offer. We have asked, or suggested, that he should leave the organisation on the minimum contractual terms. That is, we have not offered any form of compensation. We have asked him to depart on the basis of his contractually entitled pension and lump sum, not in any way enhanced for future years between now and 60.

My human resources director is discussing that with both Mr McNeill and the departmental trade union side representatives. It took us some time to reach

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<sup>1</sup> Ev 39



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that point, first because of Mr McNeill's ill health and the duty of care that we had towards him, and secondly because of the need precisely to establish his contractual and, therefore, pension and lump-sum entitlements, but we hope that that will be resolved shortly.

**Q8 Chairman:** Okay. Lastly, Mrs Ghosh, following the fiasco, what confidence can we have in your Department, or in its capability to achieve business change in the future?

**Mrs Ghosh:** I think that you can have a great deal of confidence.

**Q9 The Chairman:** I have some figures to put to you. Your Department spent £250 million on efficiency improvements that were supposed to come out of the scheme, but you will save only £7.5 million by March 2009. That is explained in paragraphs 14 and 15 on page 5. What confidence can we have in the future in an organisation that spends £250 million to save £7.5 million?

**Mrs Ghosh:** We learned a lot of lessons during the process. Both your Report and the forthcoming Office of Government Commerce report, which gives a parallel but slightly different analysis of events, particularly in respect of lessons learned, have taught us, and, I believe, will teach other Government Departments, a great deal about the importance of developing an appropriate business process, of ensuring that the IT that is built to deliver the process is adequate, and of ensuring the organisation's capacity in terms of leadership and soft skills.

The work that Tony is doing covers all those things. He and the team are looking at how to move the business process from an unsatisfactory one closer to a customer-facing one. He has a team of consultants from Gartner who are looking at the IT, and we absolutely understand the point about leadership and soft skills in taking this forward. Also, communication with stakeholders is important. A lot was done through the SPS process, but even more is being done now to keep customers—particularly farmers—in touch.

**Q10 Mr. Curry:** Mrs Ghosh, the crisis did not burst upon you unexpectedly. Every single warning light was flashing red years before we actually reached the present debacle. Yet it was as if the team—you were not there, so it was not your team, and in fact when we resume, our old friend Sir Brian Bender might well find it agreeable to join us again—was on a rope bridge across a ravine. They could see that in front of them the rope was giving way and the bits were not holding together, yet the decision at each stage when there was a decision to take was to press ahead.

For example, there was a choice about maintaining the contingency programme. The programme was abandoned. There was a choice about installing equipment to provide management information, but the choice was made not to do so. That was extraordinary, and the result now and throughout the crisis was that almost nobody was ever able to tell anybody what was happening, and Mr Cooper is

in exactly the same position this afternoon. That has certainly exacerbated the crisis. Who took the decision to press on regardless each time attention was drawn to a red light?

**Mrs Ghosh:** There are several issues in that. Clearly, the most obvious red lights were flashed through the OGC gateway process. As you well know, that process is intended to highlight risks and suggest that a team take action to mitigate them. The two or three gateways in 2005, shortly before my arrival, are striking. In both January and September that year, there were reasonably positive things being said about the programme, although there were still lots of risks. The June 2005 gateway was very gloomy, and a great deal of thought and action followed on from it.

The point about red lights and gateways is not to stop, but to see a risk and do something to mitigate it. One can see the responses that the RPA project team, DEFRA officials and Ministers took at each stage. In some cases, they involved descoping things that probably should not have been descoped. You cited management information.

I have thought carefully about the contingency issue and the problems around what one might call the parallel contingency that was being developed. Towards the end of that period, in about summer and autumn 2005, it was clear in many ways that there were more problems about pressing ahead with that contingency than there were, as it turned out, in deciding that the main contingency would be partial payments.

The original contingency—others more technically skilled than I can describe the IT structure—essentially tried to replicate the main RPA IT application system. It was some way behind the main RITA system in its development. By summer 2005, we had already started to load data into the RITA system and, with all sorts of risks involved, we would have to have loaded that on to the contingency system.

A lot of the problems were not with RITA and data, but with mapping. It is not at all clear to me that the contingency system being developed was in any true sense of the word a genuine contingency. Once we had the Commission's permission to go ahead with a partial payment system, we started to sink our money into that.

**Q11 Mr. Curry:** Let us consider that a little. The three things that seem to come together to make such a problem—leaving aside the question of getting rid of staff just at the moment when they might be needed—were the change programme, the requirement for digital mapping and the number of new, unexpected claimants.

Foot and mouth disease showed us that the Department did not know where quite a lot of this land was, so digital mapping was very urgent. The Department also maintains—I have read the evidence that Lord Bach and Lord Whitty gave to the Select Committee on Environment, Food and Rural Affairs last week—that farmers should have given details in their integrated administration and

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control system forms about parcels of land that were not claimable and therefore, perhaps, were not included in the forms.

The consequence was that you found yourself having to deal with somewhere between 30,000 and 40,000 claims that you had not bargained on. I know that in my constituency farmers have received five letters relating to five fields, which all relate to an alteration in those fields of less than 0.1 of a hectare. Was no modelling done to assess the volume of claims likely to come forward?

**Mrs Ghosh:** May I just draw a distinction between the number of claims and the number of mapping changes? The number of claims—as it turned out, about 116,000 to 120,000—was at the upper end of what the RPA was expecting, so it was not so much the number of claims that was the problem but the number of mapping changes. You are absolutely right—I am sure that you know more about it than I do, and Andy is, of course, our expert on the subject—IACS should have flushed that out. We started the digitised mapping process as far back as 2002, and we were trying to flush out accurate maps from farmers from that year and sending out reminders. Of course, that was on the IACS forms and people should have been sending them in. Possibly, we did not do enough to encourage them to do so.

I believe that we did test/model the mapping and mapping responses in 2002 from a couple of our local offices. We discussed that with the Environment, Food and Rural Affairs Committee recently and we did not do as we perhaps should have done and piloted a pilot of the SPS mapping. As you know, the SPS as it emerged—the dynamic hybrid—incentivised people to find land.

**Q12 Mr. Curry:** Because people were being asked to deliver the most complicated scheme on offer in the shortest time scale on offer against departmental reorganisation, a new computer model, new claimants and new powers of digital mapping. It is not entirely surprising, given the other programmes with which we are all familiar, that it did not work impeccably, is it?

**Mrs Ghosh:** No, and I think that that point is well brought out in the Report and the OGC report.

**Q13 Mr. Curry:** It is a pity that Mr McNeill is not here, but who reported to him in the RPA? Who were his line managers? How many did he have?

**Mr. Cooper:** I believe that he had five or six.

**Q14 Mr. Curry:** What bothers me is that it seems incredible that either people did not realise that this could not be delivered or they did and the information did not get to where it mattered. Were the line managers not giving him an accurate impression of what was going on?

**Mr. Cooper:** I struggle to give that answer.

**Q15 Mr. Curry:** I shall ask him again—I am almost giving him notice of the question. I shall reserve that question for him because one suspects that there

must have been something wrong embedded in the organisation that meant that it was not providing that flow of information. Who ran the RPA?

**Mrs Ghosh:** Johnston McNeill ran the RPA.

**Q16 Mr. Curry:** I ask the question because we have a director-general, and if have read the Report right, the chairmanship of the common agricultural policy regional impact group alternated between Mr Lebrecht and Mr McNeill, and we have the executive review group. What sort of things came up for discussion? Were decisions taken, and if so by whom? On what basis were decisions taken?

**Mrs Ghosh:** The kinds of structure that were developed to oversee the change programme initially, and then the SPS within it, were not unlike the project supervision structures that you get for any big project of that kind. I entirely appreciate that towards the end of the process, which was when I arrived at DEFRA, there was probably beginning to be a blurring of responsibilities between what one might call the programme board—again, a usual feature of any well-run project, which included policy interests as well as the agency itself—and that thing called the executive review group. However, by late 2005 and early 2006, we were clearly at crisis point in trying to understand the likelihood of full payments going out.

It was then the case that the programme board, jointly chaired by Andy and Johnston McNeill, was analysing the data and assembling the choices that would come forward to Ministers, and I was chairing the executive review group, which was there to challenge it. It was difficult to challenge on the basis of some of the data that were coming forward, although we did our best, and we had an excellent non-executive—

**Mr. Curry:** I understand that some of the documents for this came forward at the last minute.

**Mrs Ghosh:** Again, that is an excellent example of how organisations behave when in crisis and under pressure. As you remarked earlier, the management information was not as good as it should have been in predicting how long tasks would take to complete and therefore how long payments would take to come out. I think that there was some element at that stage—I do not know whether Andy would agree—of all hands to the pump. However, had we said to Johnston McNeill, “You decide,” I am not clear that the outcome would have been better.

**Q17 Mr. Curry:** May I ask one further question in this round, Chairman? I shall turn to where we are now in a little while.

Did anyone evaluate the cost to your programmes of the change programme itself? Let me tell you what I mean. In Yorkshire, the farmer could take his IACS form to the Northallerton office and someone there would scan through it, or have a quick look, and say, “Fred, that seems to be a little out of kilter with last year. Are you sure about it?” There was some customer service. There is no customer service now. It is a date-stamping organisation, and nothing

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more. Not a single person in that office or anywhere else can tell farmers where they are at any particular moment.

I doubt whether anyone understands the scheme in its entirety. It was all shunted up to Newcastle, a place that had difficulties in the past. In retrospect, do you think that you have moved away from the idea of delivering a service to the customer? Has this not become entirely process driven, particularly with the now amended programme, which deals with tasks rather than forms? Then, someone could identify what was happening.

**Mrs Ghosh:** Had we gone for a more customer-focused business process for SPS—Tony is doing some work to try to make it appear more like that, even though it is difficult to get the IT to work in that way—then, for example, the farmers in your constituency would have been able to ring the RPS or go into the office and ask how their claim was getting on, and someone would have been able to answer them. Although that may be something that we cannot achieve in the short term, it is our ambition. In that sense, we are extremely strongly committed to improving customer service.

Again, we have discussed within the Department whether we could deliver something that looks like the new improved SPS—like the previous office network, with the previous level of face-to-face communications—but it would almost certainly not be at a cost that the Department could afford. We went for the change programme to achieve the rationalisation of offices on the back of advice from this Committee. There were problems with confusion, overlaps and terrific diseconomies of scale, but we will be trying to work towards combining the best of that. I am slightly committing Tony to this, but it may involve a greater element up front—not necessarily of physical face-to-face contact to help the customer, but to eradicate some problems before they begin. I think other parts of Government are finding that can be a good way to operate.

**Chairman:** My colleagues are time-limited, Mrs Ghosh. Could you try to make your answers a little shorter?

**Mrs Ghosh:** Certainly.

**Q18 Mr. Mitchell:** It is no coincidence that we had a unique mess: we had a unique system—one that was used only in Germany, where its effect was cushioned by making interim payments in December 2005, which we did not. I was a Member of the DEFRA Committee when all that was being considered, and I seem to remember that the Department was warned that the system would be difficult and complicated. My first question is, therefore, who decided that it would be done in that way?

**Mrs Ghosh:** Clearly, Ministers decided that it would be done in that way, but they recognised at the time that it would be very complicated. However, for reasons that I shall ask Andy to go into, they believed that it was the best way to deliver what they saw as the policy gain to be got out of the CAP review. As I said earlier, all the parties were in the

room at the time, and they all believed that the scheme was deliverable. I do not know whether Andy wants to say more about the dynamic hybrid system.

**Mr. Lebrecht:** Just to say that it was an option within the CAP reforms that were agreed.

**Mr. Mitchell:** But it was an option taken by no one else. It has worked in Scotland and Wales; it has worked everywhere else, apparently, but not here.

**Mr. Lebrecht:** Ministers thought that it was right for England because we had a sustainable farming and food strategy. They were very focused on the fact that the historic way of paying the subsidy linked back to the period 2000–02, and they wanted to use the opportunity of reform to change the nature of the payment and make it a payment for land management—in other words, to get more back for society from the payment than would be delivered under the historic payment.

**Q19 Mr. Mitchell:** In that case, they must have attached more credibility to the Rural Payments Agency than you say was justified. You give the impression that the system had recognised deficiencies, yet it attaches enormous weight to efficiency.

**Mr. Lebrecht:** If I may explain, I think that Ministers understood at the time that that route was more risky than going down the historic route, but they accepted that because of the benefits it would deliver in terms of the wider policy environment. What did happen, though, was very close discussion with the RPA and its IT suppliers as to whether the system would be deliverable.

**Q20 Mr. Mitchell:** As usual, they all exuded confidence?

**Mr. Lebrecht:** The advice was that it was deliverable—admittedly with more risk. Ministers went into it with open eyes, but certainly the advice was that it was deliverable.

**Q21 Mr. Mitchell:** Yes, but if it is clear that the system is difficult and has unique problems, and if the agency is not in the best of condition to function well, why take those risks and at the same time introduce a business change programme? It was called business change, but it meant redundancies—it would lead to a mass change of staff. It seems daft to do all that at once.

**Mrs Ghosh:** Of course, the business change had already begun, and the issue was whether to suspend the business change—

**Mr. Mitchell:** So why not suspend it?

**Mrs Ghosh:** As I said earlier, various elements in the business change were in a sense supported—were necessary to deliver something that looked like the SPS. The criticism in relation to there being a lot of experienced staff overall is valid. Various supporting mechanisms were put in place to try to transfer the knowledge of departing staff, and when it became clear that there was a haemorrhaging of experienced staff, a number of them were asked to stay on. So it was recognised relatively early on that we should not haemorrhage experienced staff—

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Department for Environment, Food & Rural Affairs and Rural Payments Agency

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**Q22 Mr. Mitchell:** Too late. Is it not the height of folly to have been firing experienced staff—making them redundant, getting rid of them—at the same time as you were introducing a programme that is acknowledged to be complicated and unique in an agency that is acknowledged to be overstaffed and somewhat inefficient?

**Mrs Ghosh:** That is why the agency cancelled the second wave of voluntary redundancies that it had been aiming for. I should say—

**Mr. Mitchell:** It is also why it brought in temporary staff to fill the gap at enormous cost.

**Mrs Ghosh:** Indeed it did. That is a lesson that we have learned.

**Q23 Mr. Mitchell:** Did the people who got fired in the first round come back?

**Mrs Ghosh:** No, I think that we simply extended their period of employment with the agency.

**Mr. Mitchell:** They must have been gibberingly grateful.

**Mrs Ghosh:** I assume they were.

**Q24 Mr. Mitchell:** I wonder whether there was not a legacy of mistrust for farmers, who certainly ripped you off in the foot and mouth and BSE compensation schemes. Therefore, the rules were defined more strictly and the payments were more grudging than they would otherwise have been—farmers were not going to rip you off again.

**Mrs Ghosh:** I can assure you that there was no element of grudge or seeking not to be ripped off again in terms of our relationship with farmers. Again, that is a balance that we have to strike, as I know as accounting officer. The one issue that the agency has to be well aware of is disallowance risk. That is the kind of risk-based consideration that the agency has made and will have to continue to make on payments.

**Q25 Mr. Mitchell:** But if you do not want to alienate farmers, why not make interim payments?

**Mrs Ghosh:** As I said, we had the interim payment IT and the Commission rules ready. Of course, the rules would have limited us to paying 60% of the validated elements of claims. In January 2006, I, in my capacity as chair of the executive review group, looked with Ministers in a lot of detail at the business case for making partial payments, in terms of the effect on farmers that the Chairman referred to at the beginning, the risks of disallowance and the effect on the 2006 scheme.

We concluded at that stage that, on balance, and on the basis of the management information that we had, we should not make an interim payment because it then looked likely that we would be able to make full payments from February, and a number of stakeholders said that they would rather that we made full payments in February. It was a balance of judgment. As I have said elsewhere, perhaps one thing I regret is that we did not make interim payments.

**Q26 Mr. Mitchell:** Why did no one know until very late that things were going wrong? Was the former chief executive, whom we will be seeing—I am grateful for that—being unduly optimistic? Were his reports misleading the Department and Ministers?

**Mrs Ghosh:** I would not say that there was any intent wilfully to mislead the Department; I think that they were over-optimistic. There is a more important underlying point, which we have discussed with the DEFRA Committee. I suspect that there was no one in the agency who really understood the end-to-end impact of the business process. Lord Bach—

**Q27 Mr. Mitchell:** But if he did not understand it, who did?

**Mrs Ghosh:** I think it comes back to how you design the business process in the first place, combined with the issue of fear of disallowance and the amount of checking that you do. What happened right at the end was that we pressed the button in February and payments started to go out. As you know, they went out very slowly. When that became clear, Johnston McNeill departed and Mark Addison went in. He looked at what was happening, and it was clear that in the business process was built a very, very high level of checking and validation that meant it was extremely difficult, essentially, to get payments out—what Lord Bach referred to as “gumming up”. That bit of the process was not understood and had not been tested.

**Q28 Mr. Mitchell:** When did the bells begin to ring? When did everybody decide, “We’d better rush some payments out to these poor buggers—the farmers?” Paragraph 22 on page 6 states: “Despite limited confidence that the system would be ready on time, development work on the computer system continued”. You have in paragraph 27 a chief executive who is issuing over-optimistic reports, you have a computer system that is not up to the job, a Department that is undergoing—shall we say—a redundancy package, and a scheme that is uniquely difficult with a lot of mapping problems. Farmers were producing that bit of land just over the fence that they had forgotten about in the initial application. With all the people producing extra bits of land, I am surprised that allotment holders have not produced claims. In the light of all that, when did the alarm bells begin to ring at ministerial level?

**Mrs Ghosh:** As I said earlier, clearly a lot of warning bells were rung by the gateway reviews in 2005—in particular, the June 2005 review, which is quoted at the back of the Report.

**Mr. Mitchell:** I thought you said earlier that that was not a significant warning.

**Mrs Ghosh:** No, I said it was a significant warning, and the agency and the Department took action to respond to the criticisms made. Again, as the Report makes clear, it seemed, right up to March, as the payments were going out—by then, I of course was on the scene—that we would still succeed in getting payments out by the end of March, as Ministers had committed to, although that was on the basis, one now realises, of over-optimistic interpretations of perhaps inadequate management information.

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The button having been pressed in February, and the wheels having begun to grind more and more slowly, it became clear only in the middle of March that we were very unlikely to hit the end-of-March target, let alone the end-of-June target. Johnston McNeill came and explained that to Margaret Beckett, and she made a statement on 16 March. It was only at that stage that it became absolutely clear that we would not be able to make the payments by the end of March.

**Q29 Mr. Mitchell:** Was there panic?

**Mrs Ghosh:** There was action rather than panic.

**Q30 Greg Clark:** Mrs Ghosh, you have described to Mr. Mitchell a situation in which the process that you had designed was so complicated that only one person really understood it, and he forgot it.

**Mrs Ghosh:** It was not Schleswig Holstein, I hasten to add.

**Q31 Greg Clark:** On the subject of Mr. McNeill, you described the offer or proposal that has been made to him. I have read the statement that the Secretary of State made to the House on 16 March, but in neither your evidence today nor in the Secretary of State's statement is there any explanation of the reason behind his removal. What was the official reason given to Mr. McNeill for removing him from his post?

**Mrs Ghosh:** The explanation given by me to Mr. McNeill at the time was that there had been a loss of confidence between Ministers and him in terms of delivery of the scheme, and therefore a significant loss of confidence in terms of his relationship with stakeholders, and that, on those grounds, it would be better if he moved aside and a fresh pair of eyes looked at the situation.

**Q32 Greg Clark:** So Ministers had lost confidence. Had you lost confidence in Mr. McNeill?

**Mrs Ghosh:** I had myself lost confidence.

**Q33 Greg Clark:** You had lost confidence in him as well, yet the problems had been ongoing for some time, as we know, and in the previous financial year, ending 2005, Mr. McNeill was paid a bonus.

**Mrs Ghosh:** Yes, because in the previous financial year, as with most chief executives of Executive Agencies, his bonus was linked to achievement of Agency targets and the agency had achieved 100% of its targets. Therefore, he received a bonus in that year.

**Q34 Greg Clark:** Can you remind us how significant that bonus was?

**Mrs Ghosh:** For 2004–05, it was £21,062.25, which represented 18.5% of Mr. McNeill's salary.

**Q35 Greg Clark:** So one year Mr. McNeill does so well he is given a bonus; the next, he is out on his ear because he has lost the confidence of Ministers, presumably on the basis that he was over-optimistic in his assessment. Is that the source of the—

**Mrs Ghosh:** On the basis that it had become clear by then that delivery of a major change programme had been put at risk and, indeed, was in deep problems.

**Q36 Greg Clark:** Do Ministers bear any responsibility for this?

**Mrs Ghosh:** As Andy said, it was their decision to go for the dynamic hybrid scheme, but that was on the advice of both the Agency and officials that, although there were risks in it—

**Q37 Greg Clark:** No, I am talking about the administration of it, because it cannot be fair to sack Mr. McNeill for the choice of the scheme. It must be the administration of it.

**Mrs Ghosh:** No, Ministers played what one might describe as an exemplary role—

**Q38 Mr. Mitchell:** Is that why Willie Bach is not in the post?

**Mrs Ghosh:** No, no, in the sense that Ministers regarded their role as a strategic supervisory role. They did not try to get down into the detail or to second-guess day-to-day operational issues. They had regular reports from the agency and from the various bits of the Government's process.

**Q39 Greg Clark:** You were just on that, Mrs Ghosh. The OGC looked into the matter, and it said in January 2005 that the review team project was under strong leadership and had visible ministerial support.

**Mrs Ghosh:** Absolutely.

**Q40 Greg Clark:** Presumably, if Ministers were commended for their support, it was uncritical support. They just looked on approvingly and did not question.

**Mrs Ghosh:** It was not uncritical support.

**Q41 Greg Clark:** Then why did they not uncover some of the problems earlier on? Since they did not, why do they not bear the same responsibility that Mr. McNeill bears?

**Mrs Ghosh:** Ministers could not reasonably be expected to get into the details of the issues that I have described as presenting problems, particularly in the latter six or nine months of the project. Ministers assured themselves through face-to-face meetings with agency officials and through visits to Reading—I went to Reading with Lord Bach on a couple of occasions, and I think that Lord Whitty before him also went there—and other sites to talk to staff and see at first hand the problems and issues. That was their involvement, and strategic decisions went back to them.

**Q42 Greg Clark:** You say that they could not have known about the problems until towards the end, but the OGC gateway review in June 2005 stated clearly—I assume that Ministers saw it—“Our assessment is that the current plan to implement payments in February . . . would require a very fair wind to succeed.”

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**Mrs Ghosh:** Yes.

**Chairman:** I think that you have probably got as much as you can on Ministers, Mr. Clark. You will not get any more.

**Q43 Greg Clark:** Okay, but on the officials, I am interested in the statement in January 2006, which I assume the Minister gave absolutely in good faith. When he stated that payments would be made in February, was he advised to say that by officials?

**Mrs Ghosh:** He made that statement following the discussions that I described about whether, on the basis of the management information that we had, we should press the button for an interim payment or whether we had sufficient confidence that we could go for full payments starting in February. The advice that was given to Lord Bach, which he challenged and we debated, was that, on balance, the business case went in favour of holding on, pressing the button in February and going for full payments.

**Q44 Greg Clark:** Can I ask you about the Gershon efficiency savings for the Agency and the Department? According to the Report, the RPA has a target to reduce its headcount by 1,000 posts by 2005–06, yet at March 2006 you had 1,351 temporary staff and 838 casual staff. Have you simply replaced permanent staff with even more temporary staff?

**Mrs Ghosh:** To some extent, that is indeed what happened, although we would have to do an analysis of post-for-post transfers. Under the Gershon efficiency targets, my Department must achieve 2,400 staff savings by the end of March 2008. The original planning assumption was that 1,800 of those would come from the RPA as a result of the process of change and streamlining through the SPS. As you said, the agency has not produced the net numbers, although there have been 1,000 departures from it.

I assume that Tony would agree that the RPA is unlikely to be able to make any staff savings through 2007–08, so the Department is replanning its efficiency proposals. The rest of the Department will achieve its efficiency plans—indeed, it will overachieve—so we will do the best we can to make up the shortfall elsewhere in the Department.

**Q45 Greg Clark:** I trust that the £14.5 million spent on agency staff to process the 2005 SPS claims will be netted off the overall efficiency savings that the Department is claiming under the Gershon review.

**Mrs Ghosh:** Ian Grattidge will correct this if it is wrong. We have two Gershon efficiency challenges: £610 million in cash, and the headcount. We will undoubtedly achieve the £610 million reduction.

**Mr Grattidge:** It has been forecast that we will achieve that. The headcount side is the problem.

**Mrs Ghosh:** It is causing problems.

**Q46 Greg Clark:** You will be netting off both the cash expenditure and the increase in the—

**Mrs Ghosh:** Indeed. That comes through in the resource funding that we have to give to the Agency.

**Q47 Greg Clark:** In terms of the contingent liabilities, the Report makes it clear that £131 million is the best estimate that you have. Is that still correct?

**Mrs Ghosh:** That is the amount that we have made either contingent or provision for in the 2005–06 accounts. For the reasons described in the Report, that is a reasonable estimate of the disallowance that we might have to pay as and when the various audit and European processes have been gone through. What we are required to do for the purposes of our 2005–06 accounts is to make reasonable provision and that is what we have done.

**Q48 Greg Clark:** On page 20, in paragraph 4.3, your latest estimate of the implementation costs of the SPS is £122 million. The provision that you are making for the prospective penalties is more than the entire cost of the administration of introducing the scheme. This must be the worst value for money project on record in Whitehall.

**Mrs Ghosh:** As I said, we made what might be described as a prudent estimate of the disallowance. We very much hope—I am happy to have expert European negotiators in my Department—that it will be considerably less than that in the end.

**Q49 Greg Clark:** But the prudent assumption that you have made is greater than the entire cost of introducing the scheme.

**Mrs Ghosh:** That is undoubtedly true.

**Q50 Mr. Touhig:** Mrs Ghosh, of the four nations of the Union, why did England alone mess up on the scheme?

**Mrs Ghosh:** As we said earlier, and as Andy described, for clear policy reasons English Ministers decided that they wanted to go for the dynamic hybrid scheme rather than the pure historic scheme or the static hybrid scheme—that is what happened in Northern Ireland, I think. They had different policy considerations; we had the policy considerations that Andy described.

**Q51 Mr. Touhig:** You knew best, you thought?

**Mrs Ghosh:** No. It supported the clear objectives that Andy described for CAP reform in England.

**Q52 Mr. Touhig:** In Wales, we had interim payments. Farmers in my constituency tell me that that helped to ease the problem and also helped their cash flow. You decided not to do that until you were forced to. Arrogance again, is it not? You knew better.

**Mrs Ghosh:** Not at all. To go back to late 2005, we were getting clear signals from stakeholders that they would prefer us to go for full payments rather than interim payments. There were a number of other good reasons for that about the impact of interim payments on processing the 2006 scheme. We considered issues such as the impact on cash flow when we were considering whether to go for an interim payment in January 2006, but again the business case and the feedback that we were getting from customers was that if we could make a full

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payment in February, that was what we should do. That is what we started to do and then the business process did what we now know that it did.

**Q53 Mr. Touhig:** I do not hold any particular brief for farmers, but I do hold one for anybody who I think is being done down by the system, and you have done down quite a large number of farmers with your mismanagement, have you not?

**Mrs Ghosh:** The Report speaks eloquently about the impact of—

**Mr. Touhig:** What the Report does, if you look at paragraph 4.2 on page 20, is tell you that the “review of the savings forecast from the introduction of the single payment scheme and the wider change programme indicate that a significant proportion is unlikely to be realised”.

**Mrs Ghosh:** Indeed.

**Q54 Mr. Touhig:** I had a member of staff who used to take risks at red lights and jump them. When I took him to task about it and said that that was dangerous, he said that I was a conformist. If you look at page 43, there are more red lights than you will see travelling between here and the M4, yet you ignored them. All these warnings and you just ignored them.

**Mrs Ghosh:** We did not ignore them. This was a project where, effectively, from making the announcement in July 2004 that we were going to go for a 2005 dynamic hybrid scheme, we had a clear timetable to which we had to stick. We also had a political commitment to making payments as early as possible in the in the December to June payments window. In the face of those two things, it was not the case that we ignored red lights; it was the case that the project team in consultation with officials and Ministers had to think of ways around the red lights. I do not mean around red traffic lights, as that is an unfortunate analogy, but ways of mitigating and managing the risks, and that is what they did.

**Q55 Mr. Touhig:** If it related to motoring you would be a serial offender. What do you think the word “waste” means?

**Mrs Ghosh:** It means spending money on something that is worthless.

**Mr. Touhig:** My dictionary says, “to consume or expend thoughtlessly, carelessly or to no avail”. That is precisely what you have done, is it not?

**Mrs Ghosh:** As previous members of the Committee have pointed out, in the sense that the benefits have not been realised and that there will be some more costs before there are savings, yes. But there have been some positives to come out of this. We have a digitised map, a rural land register and good customer data. There are things that we can build on for the future and we will be supporting Tony and the team in doing that.

**Q56 Mr. Touhig:** In your early remarks when you responded to the Chairman, you referred to a conspiracy of optimism. I have spent 27 years in newspapers and publishing, 20 years as a councillor and 12 years in this place, during which time I have

heard some gobbledegook excuses, but that is a classic—I will dine out on it. What do you mean by a conspiracy of optimism?

**Mrs Ghosh:** I was quoting either from your Report or some OGC material. What it means is that because the agency had the can-do attitude that your Report describes and management information was not as full as it should have been, it was possible for all members of the project and indeed officials to look on the bright side of the information they were getting. That is what I mean by a conspiracy of optimism.

**Q57 Mr. Touhig:** I am certainly glad that Mrs. Touhig rather than anybody from DEFRA manages the Touhig family finances, otherwise I would be bankrupt by now. Has anybody in DEFRA been sacked or suspended because of this?

**Mrs Ghosh:** Other than the Chief Executive, no.

**Q58 Mr. Touhig:** Why do you think senior civil servants are protected in that way?

**Mrs Ghosh:** I do not believe that senior civil servants are protected. The principle of the establishment of executive agencies under the Next Steps programme was so that there would be a clear distinction between delivery and policy development. In that case it was clear that the “Senior Responsible Owner” for the project was Johnston McNeill. For the reasons that we have discussed, there was a clear failure of project delivery and of confidence at that point in the process and so he was indeed suspended.

**Q59 Mr. Touhig:** You spent £38.9 million on severance pay to reduce your headcount by 1,000 and £14 million on agency staff. As I say, I was a councillor for 20 years and if that had happened in local government, officials such as you would be telling Ministers to surcharge councils and prosecute them. Yet you people get away with it. Magic, is it not?

**Mrs Ghosh:** That is the nature of the financial and parliamentary system in which we operate.

**Q60 Mr. Touhig:** Can I just clarify a point made earlier? Are you absolutely certain that nobody has left with a redundancy payment who has been re-engaged?

**Mrs Ghosh:** I think Mr. Mitchell raised that.

**Mr. Touhig:** He did.

**Mrs Ghosh:** I cannot answer that without checking through HR records. Given the nature of some of the HR records, I am not absolutely sure that I will be able to answer, but I am happy to try and find out.

**Mr. Touhig:** Perhaps you might do a bit of a trawl and let us know?<sup>2</sup>

**Mrs Ghosh:** We will see if we can do a trawl. It might be anecdotal rather than data based.

**Q61 Mr. Touhig:** I notice that you have been in post since November 2005 and in 1995 you were in the Cabinet Office efficiency unit. Did you learn anything?

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**Mrs Ghosh:** I learned a great deal about the capacity of organisations to deliver and that one of the most difficult challenges is to check on that from the outside.

**Q62 Mr. Touhig:** Will you bring that background knowledge and experience to bear on resolving this issue?

**Mrs Ghosh:** The experience that I had there and later in the Department for Work and Pensions, as well as most recently in Her Majesty's Revenue and Customs, has indeed enabled me to take some of the action I have this year and to support Tony and the team in going forward.

**Q63 Mr. Touhig:** Do I take it that you will personally be very hands on in supporting the agency in trying to resolve this matter?

**Mrs Ghosh:** Both I and Andy Lebrecht will be very hands on in a positive and constructive way. The agency is at a stage in its development where it needs that kind of support and hands-on approach. As its capacity and capability develops and improves over the coming years, we will be able to step back, but just at the moment I think that this is the time—

**Mr. Touhig:** But you are DEFRA's Accounting Officer.

**Mrs Ghosh:** I am indeed, so I have a responsibility.

**Q64 Mr. Touhig:** DEFRA is a word in Welsh, did you know?

**Mrs Ghosh:** What does it mean?

**Mr. Touhig:** It is spelt slightly differently because we Welsh like more Fs in our words, but it means wake up. Is not that what you have to do?

**Mrs Ghosh:** We have to wake up? We have woken up.

**Mr. Touhig:** Well, we will see.

**Q65 Mr. Khan:** In relative terms the single payment scheme is not a large grant scheme is it?

**Mrs Ghosh:** No, it is not.

**Q66 Mr. Khan:** When you read the findings of this Report and all the failings, are you, as the Permanent Secretary, embarrassed by what it tells you?

**Mrs Ghosh:** I am concerned about what it tells me because it tells me that there is quite a steep hill to be climbed in terms of getting the capability of the organisation to where it should be, and I am very concerned for the reasons that the Chairman so eloquently described at the beginning about the impact of our failure on customers. Margaret Beckett, David Miliband and Jeff Rooker have made clear their regret about that.

**Q67 Mr. Khan:** Are you embarrassed by your predecessors—not just the permanent secretary, but other people in positions of power—who have allowed this to happen?

**Mrs Ghosh:** What I am always keen to do is to learn the lessons of events. That is what we are learning.

**Q68 Mr. Khan:** Was the Rural Payments Agency unfit for purpose between May 2004 and March 2006?

**Mrs Ghosh:** Subsequent events suggest that it was.

**Mr. Khan:** Unfit for purpose?

**Mrs Ghosh:** Unfit for purpose.

**Q69 Mr. Khan:** The Report highlights a number of failings. Are any of the failings in the report new to you, bearing in mind your relative newness to the Department?

**Mrs Ghosh:** No.

**Q70 Mr. Khan:** Presumably when you took over you realised that there were problems and you will have read the gateway reviews.

**Mrs Ghosh:** Yes.

**Mr. Khan:** Are there any things in this that you are not aware of?

**Mrs Ghosh:** The NAO Report? Did they come to me as a surprise? No, they did not.

**Q71 Mr. Khan:** So nothing in this Report is fresh to you?

**Mrs Ghosh:** In the sense that naturally a large proportion of my time since my arrival at the Department has been spent either handling this issue or considering it and, for example, working on and giving evidence to our Departmental Select Committee on the subject.

**Mr. Khan:** So nothing is new to you in this Report?

**Mrs Ghosh:** The main recommendations in this report did not surprise me.

**Q72 Mr. Khan:** If you go to appendix 6, figure 11 on page 44, there are four red lights: May 2004, January 2005, June 2005 and May 2006. Leaving aside May 2006 and the fact that there were some positives in the comments by the Office of Government Commerce, and bearing in mind what we know—the Chairman has talked about some of the personal tragedies as a consequence of the failings—do you think that our gateway review system is effective?

**Mrs Ghosh:** I know that the Committee has obviously made recommendations about the gateway reviews, which I believe the OGC will be happy to accept. I think that my interest—and that of my predecessor, Sir Brian Bender—is to ensure that we can use the gateway process more broadly to identify the issue of broader change capability.

**Q73 Mr. Khan:** Until it is made more broad, is it ineffective?

**Mrs Ghosh:** It is highly effective in the terms within which it is currently asked to perform.

**Q74 Mr. Khan:** Would you accept that there are failings in the current review system?

**Mrs Ghosh:** You make recommendations to that effect and I think I would say, as I have said to OGC colleagues, that for me as an accounting officer it would be very helpful if the gateway process could also assist us with judging the underlying capability of an organisation.



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**Q75 Mr. Khan:** In answer to a colleague who asked whether anyone had been sacked or suspended as a consequence of the present shambolic state of affairs, you said nobody, save for the former chief executive being suspended. Has he been suspended? Was the act to remove him from his post?

**Mrs Ghosh:** He was removed from his post.

**Q76 Mr. Khan:** It was an administrative act, not a disciplinary act. Is that correct?

**Mrs Ghosh:** That was an administrative act, not a disciplinary act.

**Q77 Mr. Khan:** So the answer to my colleague's question is that nobody has been sacked or suspended, not even the former Chief Executive?

**Mrs Ghosh:** I was taking the question in the spirit, rather than in the letter. Again, I have to operate as an Accounting Officer and as a senior civil servant within a legal structure. The previous Chief Executive of the Agency is a serving civil servant, so the employment law that applies to civil servants applies to him.

**Mr. Khan:** He has not been suspended. That is what I am trying to get to.

**Mrs Ghosh:** He has been removed from his office, and as has been widely reported, since then, as I said, there were initially some health issues. We have now made an offer to him, and until those issues are resolved, he is a serving civil servant still.

**Q78 Mr. Khan:** We have about six minutes to clear all questions, so shorter answers will help me and the Committee, I am sure. The next question is: it has been seven and a half months now since he has been on leave—we shall call it leave: the usual word. It will be some time more before you agree his terms of leaving.

**Mrs Ghosh:** Not very long, I hope.

**Q79 Mr. Khan:** Why the delay?

**Mrs Ghosh:** As I described initially, there were some health issues where I had a duty of care. We then had to establish, because his employment history was quite complex, the contractual basis on which he was employed. We then had to calculate the nature of the offer that we would make, and we have now made it.

**Q80 Mr. Khan:** Can you get any clearer case of a Chief Executive in a Department not being able to do his or her job than this example? It has taken eight months to get to where you are and you still have not reached the end.

**Mrs Ghosh:** As I said, I have to operate within the employment law in relation to permanent civil servants. To sack a permanent civil servant on the basis of performance requires certain pre-actions in terms of management of poor performance, which for reasons that we have been discussing did not apply in this case.

**Q81 Mr. Khan:** That leads me on to my next question, which is: does the Chief Executive have sufficient power to make decisions by himself or herself without a senior management team helping

him or her? What I find surprising is how he is the only person on leave, and nobody else who he would talk to on a daily basis or in the weekly meetings has been disciplined in any way at all. Have others been moved sideways or moved out of the Department?

**Mrs Ghosh:** They have been moved—I think this comes back to an issue about capability for the particular task ahead of them—with, I think, one exception. Tony now has a completely new top team, and the other people involved have been moved to posts that are more suited to their skills.

**Q82 Mr. Khan:** Have any of those been in any way disciplined? Are there any blemishes on their record?

**Mrs Ghosh:** I think your Report is quite a good blemish on their record.

**Mr. Khan:** No, it is not, because nobody is named.

**Mrs Ghosh:** Just to come back to this, I would be happy to share with you the rules within which we have to operate. A disciplinary offence requires certain levels of proof at the time.

**Q83 Mr. Khan:** Capability is one of the reasons you can dismiss, but linked to that is competence.

**Mrs Ghosh:** Poor performance. Indeed, you can do that, but you have to go through quite a long process of warning. This is just under normal employment law, but it also applies to civil servants.

**Q84 Mr. Khan:** Have any warnings been given?

**Mrs Ghosh:** Yes, because they have been moved out.

**Q85 Mr. Khan:** Right, so on the disciplinary files of the people who have been moved out, there will be evidence of them being warned about their conduct, capability and poor performance.

**Mrs Ghosh:** No, because the evidence is post hoc.

**Q86 Mr. Khan:** So what?

**Mrs Ghosh:** What we have tried to do in the RPA is to get a fit-for-purpose senior leadership team in, and that is what we have done. In the case of the—

**Mr. Khan:** My question is specifically about—

**Mrs Ghosh:** In the case of some of the senior leadership team below Johnston McNeill, it was clear that there was no wilful issue about poor capability.

**Mr. Khan:** It is called incompetence.

**Mrs Ghosh:** No, it was simply that they were in some ways not capable of understanding the challenge that was there. That is why moving them to jobs more suited to their skills is a perfectly appropriate thing to do.

**Mr. Khan:** With the greatest respect, that is waffle. Nobody who is incompetent does it wilfully. They are incompetent. They may need better training, or may need to be disciplined or moved out, but they are incompetent.

**Mrs Ghosh:** They have been moved out.

**Mr. Khan:** Right. But there are no blemishes on their record, according to you.

**Mrs Ghosh:** Well, the blemish on their record is that they have been moved out, following a Report like this, and similar Reports from the DEFRA Select Committee.

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**Q87 Mr. Khan:** I do not think we are making much progress here. In answer to one of the previous questions, you referred to Ministers being responsible for deciding the dynamic state of the hybrid system.

**Mrs Ghosh:** Yes.

**Mr. Khan:** Mr. Lebrecht subsequently confirmed that that was hardly surprising, bearing in mind the advice that that was what we should go for. Would the people who advised Ministers to use the dynamic system, in hindsight, give the same advice again? Have you spoken to them?

**Mrs Ghosh:** Yes, they would give the same advice.

**Mr. Lebrecht:** Just to be absolutely clear—Ministers asked us to give advice on a number of options. We analysed those options and the Ministers took a decision on the basis of that analysis. It was entirely objective in that sense. I would not want you to have the impression that officials were pushing Ministers.

**Mr. Khan:** No; until you gave your supplementary answer, the impression that had been given by Mrs Ghosh—I do not know whether it was intentional—was that the dynamic system was the Ministers' fault.

**Mrs Ghosh:** No. I never said it was their fault; I said that they took the decision. As both the report and I said, the decision in itself was not the cause of the problems that subsequently arose.

**Q88 Mr. Khan:** The Report tells us that the application form for the single payment scheme was difficult to understand and complete and that the staff who were contacted by the farmers lacked the competence and knowledge to deal with queries. Have those two things now been changed?

**Mrs Ghosh:** Yes, I think that the 2006 application form is much shorter and that the customer support systems that we have put in place are much better.

**Q89 Mr. Khan:** What consultation did you have, Mr. Cooper, with farmers and those stakeholders when you improved the systems?

**Mr. Cooper:** When it came to the application form, we spoke to our regular stakeholder meeting. We have simplified it where we can, although there is a limited amount that could be done with the form in the current year.

**Q90 Mr. Khan:** I am afraid that my time is up. My final question is for Mrs Ghosh. Are you satisfied that you have sufficient tools at your disposal to deal with staff who are incompetent and who perform poorly?

**Mrs Ghosh:** Yes, but we are always looking for ways of streamlining and speeding them up.

**Mr. Khan:** I do not understand what you mean. That must surely mean that you are not happy with the tools at your disposal.

**Mrs Ghosh:** No, I think the tools are fine—

**Q91 Mr. Khan:** The way civil servants operate is fine?

**Mrs Ghosh:** I think that the basic principles of the way we operate in relation to poor performance are exactly the same as they are in the private sector. In

departments, what we have to be clear about is that we use the most streamlined process for getting from A to B that we can.

**Q92 Mr. Dunne:** Mrs Ghosh, is it the case that the chair of the ownership board of the RPA has changed from the Permanent Secretary, which is you, to some other official?

**Mrs Ghosh:** It has indeed. What we are trying to do in response both to our own analysis and to some of the criticisms made here and in the work of the Office of Government Commerce is to streamline and simplify the governance arrangements. Andy now chairs the ownership board—he might want to say something about this—and is proposing a significant shake-up of its membership. Into that ownership board reports what one might regard as a straightforward agency board that Tony chairs.

**Q93 Mr. Dunne:** Without casting any aspersions on Mr. Lebrecht, is that not a downgrading of that board?

**Mrs Ghosh:** Not at all: it is to make clear the accountability and the link through into the policy side of the department for which Andy is responsible and to create a much shorter end-to-end process when it comes to decision making. I assure you that I am still fully engaged in both reports on the management of the RPA and in decisions about taking forward the SPS.

**Q94 Mr. Dunne:** There is currently a review of the whole of the operations of the RPA going on within the Department, is there not? Is it correct that that is being undertaken by an official called Mr. David Hunter?

**Mrs Ghosh:** It is, although with a great deal of support. We appointed Corven, which is quoted in the Report and which has worked in a number of contexts in the past where large-scale recovery was needed within organisations. David Hunter's review is working very closely with that external group, and some of the conclusions that Corven has made will be picked up by David. There is also a significant amount of external stakeholder involvement in what David is doing.

**Q95 Mr. Dunne:** Before we get on to the external, could you just clarify whether Mr. Hunter was a consultant who helped to design the single payment system in the first place?

**Mrs Ghosh:** He was one of the officials involved in the debates—

**Q96 Mr. Dunne:** So, do you think it appropriate that he should be masterminding this review?

**Mrs Ghosh:** Do you want to take that?

**Mr. Lebrecht:** David Hunter was my director for European affairs, so he was involved in the negotiations in Brussels on the 2003 reform, and then in helping Ministers to take decisions about implementing that.

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**Q97 Mr. Dunne:** Given the seriousness of the crisis in the RPA, should you not have introduced a completely independent review of what happened?

**Mrs Ghosh:** Effectively we have, through the participation of Corven, but let us be clear. What David Hunter is reviewing is not what has gone on, as there are many wise heads looking at this, including the NAO and OGC, but—

**Q98 Mr. Dunne:** How to put it right; but you relied in part on his advice in setting up the original system.

**Mrs Ghosh:** No, what he is looking at is whether the RPA's current functions, structure and future plans are appropriate. So, is the range of responsibilities that the RPA currently carries out too broad or should it be a more focused agency? The systems we have for—

**Mr. Dunne:** Mrs Ghosh, if you will excuse me, I have a short amount of time, so perhaps we could move on.

**Mrs Ghosh:** He is not looking at the SPS. He is looking at the scope of the RPA. We decided that someone who knew something about the background was the right person to lead, but I can assure you that the review will not, in any sense of the term, be an inside job.

**Q99 Mr. Dunne:** Mr. Cooper, I should like to ask you a question. I believe that you have an IT background. Having been in post for a number of months, is it your assessment that there is a case for rebuilding the RPA system from scratch, rather than patching and fixing?

**Mr. Cooper:** That would be a very radical thing to do, given the investment that has already been made. I am asking Gartner Group to take a considered look at the IT—not only the IT in the SPS, but all the IT in the RPA—and come back with a recommendation on what we should do.

**Q100 Mr. Dunne:** I put it to you that there are numerous examples of Government IT systems that have to be replaced, replaced and replaced. Only last week we had the Child Support Agency in here, which is now being scrapped, primarily as a result of IT disasters. Are there lessons to be learned from other agencies?

**Mr. Cooper:** Inevitably there are. The system that we have in place for the SPS is not the same as for the Child Support Agency. Each one has to be looked at on its own merits and weighed against the type of claim and the processing that has to be done.

**Q101 Mr. Dunne:** Mrs Ghosh, could I ask about the decision to pay interest to farmers at such a low rate and at such a late stage? Who made that decision?

**Mrs Ghosh:** David Miliband made that decision.

**Q102 Mr. Dunne:** Thank you. Why was it decided to pay at only 1%, rather than at the statutory right-to-interest rate, which I understand is 8% above the base rate?

**Mrs Ghosh:** I think that you were involved in the advice on that, Andy. The Treasury may be able to help. That was probably the maximum—

**Chairman:** The Treasury officials are shaking their heads.

**Mrs Ghosh:** We can let you know the answer to that, but I take it that that is the standard rate of interest in such circumstances.<sup>3</sup>

**Q103 Mr. Dunne:** Mr. Touhig might be able to enlighten us on this, but I understand that the interest on payments that have not been made in full to Welsh and Scottish farmers has been backdated to the beginning of the year, rather than to the beginning of July.

**Mrs Ghosh:** In our case, we were absolutely clear that a payment had to be made within the payment window—that is, that it was not outside the statutory limit. Any payment made for late payment before then would effectively be *ex gratia*. We would have had to apply to the Treasury for novel and contentious cover, and I very much doubt that we would have got it, since we were still within the statutory payment window when we made the payments. That is why we went for 1 July onwards.

**Q104 Mr. Dunne:** Mr. Chairman, I probably should have reminded the Committee of my declaration of interest, in that I am a farmer who has not yet received my full payment. Did the Department decide to give priority to paying those with small entitlements over those with medium or large entitlements?

**Mrs Ghosh:** We have taken a variety of approaches at different stages and in response to need.

**Mr. Lebrecht:** The priority was primarily to pay the medium and large claims, in preference to the small claims.

**Mr. Dunne:** Table 8, on page 27 of the Report, suggests that farmers who were entitled to less than £30,000 were given broadly similar priority, whereas those who were entitled to the more significant amounts—admittedly that group was small in number, but the impact on their businesses was significant—have received much less priority.

**Mr. Cooper:** One of the factors that comes into play is that the smaller claims tend to be simpler claims and go through the system more easily, with less work for the processor to do.

**Q105 Mr. Dunne:** Do you think with the benefit of hindsight that it was right to make that decision, given that there were approximately 41,000 new claims, a significant proportion of which were for less than €1,000 and therefore likely to be for people whose businesses would not be significantly affected?

**Mr. Cooper:** The priority was given to the higher value claims and the middle—

**Mr. Dunne:** If that is the case, you did not make a very good job of it.

**Mr. Cooper:** No, it is a quirk of the numbers.

**Q106 Mr. Dunne:** I have a final question. The impact on DEFRA's budget has been very significant, as we have heard from other Members.

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There are several instances of problems emerging. For example, in respect of the veterinary services, we understand that the TB cullers are being culled; last week, Natural England announced that it is having to make cuts to maintenance programmes in the countryside; VisitBritain has had £2 million cut from its budget; and a number of hill farm allowance payments have not yet been made in full. Is that a pattern that we should expect to see as we go forward to next year? What is the impact on other budgets within DEFRA?

**Mrs Ghosh:** Can I just clarify a point that I think Lord Rooker has been discussing in the House of Lords today? Let us be clear: the contingent provision that we had to make for disallowance—the £131 million—has had no impact on our in-year budget, so that is not an explanation for the budget restrictions that we have had to make, the £200 million that we have had to find this year.

Of that £200 million, only about £20 million was needed to give Tony more support in taking forward the '06 scheme. So only £20 million of the £200 million has anything to do with problems at the RPA. The other causes of the £200 million shortfall are various. They range from spending that we had to carry forward from the previous year, particularly around changes to the end-year flexibility schemes. We had to spend £10 million in respect of avian influenza. There were a variety of other things. But only £20 million of the £200 million is ascribable to resource costs at the RPA.

I think that we are now in a much better planning position than before. We have given commitments to the various delivery bodies that we will give them much earlier notice of their budgets for 2007-08, and we are working on that as we speak. Thanks to Tony's work, we have a much better understanding of what the likely resource requirements of the RPA will be. I should say that, contrary to statements made about the SVS, the SVS budget will go up next year. Those statements were very misleading.

Of course, we regret the in-year cuts that we have had to make to some of our other bodies. In the case of Natural England, we will in many ways be making them up. We regret that we had to do it at the last minute. We will be much better placed for next year.

**Q107 Mr. Dunne:** Are you aware that if some farmers have not received their payments in full for 2005 by the end of this year, they will be paying tax to the Treasury on income that they have not received from DEFRA?

**Mrs Ghosh:** I am not aware of that, but we can certainly look into it.<sup>4</sup>

**Q108 Chairman:** Did I hear you right? Did you say that you took a decision to pay larger and medium-sized farmers before smaller farmers? Why on earth did you do that?

**Mr. Cooper:** By smaller farmers, we are talking of a value of less than €1,000.

**Mrs Ghosh:** On the basis that they would be unlikely absolutely to make or break in terms of business. The people on whom there was likely to be the greatest business impact would be those with medium and larger farms.

**Chairman:** I understand.

**Q109 Helen Goodman:** Mrs Ghosh, in March one of my constituents came to see me at my surgery and said, "The Rural Payments Agency has lost 5,000 hectares from Cotherstone moor. How is that possible?" How is it possible?

**Mrs Ghosh:** Because of the various problems that the agency had with mapping. It was a very complex process to a very precise level of detail, carrying forward the principles that we had under the integrated administration and control system, or IACS. Your constituent's experience was matched by those of a number of other farmers. We are now fighting our way to a position in which the maps are much better. The figures that we have had for map changes in relation to the 2006 scheme are much smaller.

**Q110 Helen Goodman:** In answer to Mr. Curry, you gave the impression that you thought the changes in the maps over the period of this shambles were in part the responsibility of the farmers. Is that your view?

**Mrs Ghosh:** As the Report itself says, I think, it was undoubtedly the case that, for whatever reason, some of the changes to maps under the previous IACS system, once the digital mapping process was going forward, were not being reported to us, although we were encouraging farmers to do so. Perhaps that is just human nature.

**Q111 Helen Goodman:** Mrs Ghosh, have you read the case studies?

**Mrs Ghosh:** I have indeed read them.

**Q112 Helen Goodman:** What they indicate is that the farmers corrected, sometimes several times, the maps that they were sent but they were repeatedly sent back by the RPA. Was that their responsibility or the responsibility of officials in the RPA?

**Mrs Ghosh:** I am entirely happy to take responsibility on the part of the agency for that. The point that I was making, and which is attested, is that there were undoubtedly previous mapping changes, before the SPS, which, in the normal course of business, we should have been informed about, but we were not. Farmers were therefore, perfectly understandably, because of the incentives of the system, informing us under the process of the SPS. I was simply saying that that made the process even more complicated for us.

**Q113 Helen Goodman:** So do you think it was a mistake to change the size area against which people could claim under this scheme as opposed to the previous ones?

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**Mrs Ghosh:** I think it is exactly the same.

**Q114 Helen Goodman:** It is smaller than in some of the other countries, is it not?

**Mr. Lebrecht:** No, the minimum area in respect of a claim is 0.3 hectares. That is the highest that the minimum can be set at.

**Q115 Helen Goodman:** Earlier, Mrs Ghosh, you said that nobody had been sacked or disciplined for the shambles in the RPA, yet in July the Secretary of State told the House that a number of people in the Newcastle office had been sacked. What were they sacked or disciplined for?

**Mrs Ghosh:** They were sacked for what one might regard as straightforward bad behaviour. I apologise for using a generalised term.

**Q116 Helen Goodman:** So you do not think it was part of the shambles that managers in the RPA did not get a grip on that behaviour earlier and that it went on for weeks and months?

**Mrs Ghosh:** Tony, of course, was Chief Executive by then, and he issued a press notice explaining this. Clearly, it signals some kind of failure in terms of management of that kind of behaviour. I do not think it was in any way relevant to the problems around the SPS. Would you like to comment on that, Tony?

**Mr. Cooper:** It was an isolated situation in that particular office, and perhaps the experience of managers was a factor. That is one of the reasons why I put in place newly appointed managers in all of our offices.

**Q117 Helen Goodman:** Mrs Ghosh, you said that payments had been made in accordance with the business needs of farmers. Could you therefore explain why hill farmers, who are among the poorest farmers in the country and who are often tenant farmers, have had so much worse payment records than other farmers?

**Mrs Ghosh:** Yes, I know that Ministers are concerned about this. Partly to give farmers at least some confidence for the future, David Miliband has announced that the same scheme will operate next year. I understand that we are currently at a stage where about 94% of eligible hill farm allowance claims have been paid. Tony's staff are working very hard to try to—

**Q118 Helen Goodman:** Sorry, you are not answering my question. My question was: if your payments were meant to be prioritised in order of business need, why did the hill farmers do so badly?

**Mrs Ghosh:** I will hand over to Andy because, as I understand it, there is a link to the SPS which requires some kind of prior clearance through the SPS. He understands the HFA better than I do.

**Mr. Lebrecht:** I think the question is about SPS as much as the HFA. Ministers had to decide how to prioritise. Basically, the question was about claim size: do we prioritise very small ones, large ones or those in the middle? The judgment was that the important thing was to get as much money out to

farmers across the country as a whole as we could. Therefore, we prioritised the medium-sized and larger farms. Where hill farmers had medium-sized or large farms, they will have benefited from that prioritisation, but if their farms were smaller, that will not have been the case.

**Q119 Helen Goodman:** I am sorry, but that is not the understanding that I have been given by the National Farmers Union, my colleagues or the hill farmers that I have met. I understood that the hill farming scheme was different and that there were particular problems with processing it., but you do not appear to know about that.

**Mr. Cooper:** In the cases that have not been paid yet, we are suffering from some difficulties in clarifying issues about commons. I have a team of people working on that.

**Q120 Helen Goodman:** I want to pick up on what Mr. Dunne said about interest payments. The estimate in the report is that farmers will have received interest payments of some £20 million because of late payment. What interest payments have you made to them under the scheme since July?

**Mr. Cooper:** We have made only one payment thus far.

**Helen Goodman:** You have made only one interest payment to one farmer?

**Mr. Cooper:** No, no.

**Mrs Ghosh:** No. One batch of payments.

**Q121 Helen Goodman:** What did that come to?

**Mr. Cooper:** I do not have that information.

**Mrs Ghosh:** But we can certainly let you have it.<sup>5</sup>

**Q122 Helen Goodman:** Another thing that comes out of the Report is the significant level of underpayment to farmers. What have you done about that?

**Mr. Cooper:** We are reviewing the cases where we are aware of underpayment or overpayment. If there is an underpayment, we have to adjust the underlying entitlement. That is a lengthy process because, for whatever reason, it was not anticipated that entitlements would change in the first year.

**Q123 Helen Goodman:** When will that be sorted out?

**Mr. Cooper:** It is ongoing; a large number of cases is being reviewed and we are continuing to work through them.

**Q124 Helen Goodman:** Roughly how many cases do you think there are?

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<sup>5</sup> *Note by witness:* Interest payments were made in the week commencing 2 October to customers who had received SPS 2005 monies after the 30 June EU regulatory payment window, under conditions set out by Defra's Secretary of State, David Miliband. In his statement to Parliament on 22 June, he announced that he had authorised RPA to make the interest payments at LIBOR + 1%, calculated from 1 July, subject to a minimum interest payment level of £50.

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**Mr. Cooper:** The overall number—not underpayments, but the overall number of cases that have to be reviewed—is about 27,000. It has dropped to 20,000 over the last two months.

**Q125 Helen Goodman:** It costs the RPA about £1,000—as much as £2,000 if we include the wider business restructuring costs—to process every single claim. Have you made any estimate of the costs to the farmers in terms of their time?

**Mrs Ghosh:** We have certainly made some estimate of the impact of delays, as we do on an ongoing basis, of the impact on farm incomes of the level of indebtedness, of cash flow and of delays to the SPS. Yes, we are making those sorts of estimates.

**Q126 Helen Goodman:** Why do you believe that 1% over LIBOR is the rate that farmers are having to pay to meet the interest that they have to pay the banks?

**Mrs Ghosh:** One of my colleagues has pointed out, although we are happy to do a fuller letter, that we have followed the precedent set in ombudsman cases. We are treating it as a case of maladministration and paying the same interest rate that is paid there.

**Q127 Helen Goodman:** You spoke earlier about deciding not to make partial payments at the same time as the other countries, on the basis of a business case.

**Mrs Ghosh:** Yes.

**Helen Goodman:** Was that a business case for DEFRA or for the farmers?

**Mrs Ghosh:** It included a business case for the farmers. It reflected discussions we had had with farmers as stakeholders and with some of the banks, so we were looking at both the cost to DEFRA—

**Q128 Helen Goodman:** You did a business case for the farmers, but you do not know what their interest payments were and you do not know how much time it has taken?

**Mrs Ghosh:** No; we used the evidence that we had from banking representatives who were used to working with farmers and representatives from the NFU, the CLA and the Tenant Farmers Association. We used the evidence we had on what would be the likely business impact of either a partial payment earlier or a full payment later. The conclusion reached, on the basis of that broad business case, was that was the way we should go.

**Q129 Helen Goodman:** Mrs Ghosh, I am sure you will agree that this is a most unfortunate episode.

**Mrs Ghosh:** We do.

**Q130 Helen Goodman:** And you want the RPA to behave in a much more client-oriented manner. Have you considered changing its statutory basis to give it a duty to assist the farmers?

**Mrs Ghosh:** The RPA has no legal existence outside the Department. As an Executive Agency, it is simply part of the Department.

**Q131 Helen Goodman:** In that case, would you consider giving yourself a legal duty to assist the farmers?

**Mrs Ghosh:** I think that we assist farmers in a wide variety of ways, through many activities of DEFRA. Obviously, if Members of the House wish to suggest such an amendment in an appropriate Bill, we would consider it.

**Q132 Helen Goodman:** Do you think that this is a good example of DEFRA's assistance to farmers?

**Mrs Ghosh:** I do not think it is a good example of DEFRA's assistance to farmers, but there is a wide range of other areas in which we sponsor the farming industry. We provide support, for example, through Don Curry's excellent activities, and we provide advice of all sorts and argue the case of farmers both in the EU and elsewhere.

**Chairman:** All right.

**Q133 Mr. Davidson:** Can I ask about the scale of overpayment? What is the latest estimate of that, and will it all be recovered?

**Mrs Ghosh:** Because we have agreed your National Audit Office estimate—

**Mr. Davidson:** Just give me a figure. Do you have a figure?

**Mrs Ghosh:** We are working on the range that the NAO suggested, which is probably in the area of £6.5 million.

**Q134 Mr. Davidson:** Will it all be recovered?

**Mrs Ghosh:** Again, I shall hand over to Tony, but where payment has been made—

**Mr. Davidson:** Time is short. If you are handing over to Tony—

**Mrs Ghosh:** We can recover overpayments through SPS payments next year.

**Mr. Davidson:** That is a yes, then.

**Mrs Ghosh:** That is a yes.

**Q135 Mr. Davidson:** Fine. The second point is that our experience of investigating payments to farmers, particularly on things such as foot and mouth and BSE, has led us to believe that there is a substantial amount of fraud, particularly in situations in which there is confusion. How much fraud do you estimate there has been by farmers in this scheme?

**Mrs Ghosh:** Very little. It is not susceptible to fraud in the same way.

**Q136 Mr. Davidson:** Ah, well, that is interesting. I remember maps on which barns were located in the North sea, according to the Ordnance Survey. Farmers and maps start alarm bells ringing for us. Are there sanctions if fraud is discovered?

**Mrs Ghosh:** I turn to my people who are experts in the scheme. I am sure that there are.

**Mr. Cooper:** There are penalties that would be applied if something untoward were established during a physical inspection or the likes.

**Q137 Mr. Davidson:** You can assure us, therefore, that there will be a system of examining to ensure that fraud has not occurred, that there will be

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sanctions, and that if fraudulent claims are found to have been made the money will be clawed back in arrears?

**Mrs Ghosh:** The whole process of EU disallowance and inspection provides a cast-iron incentive for all that you describe, so the answer is yes.

**Q138 Mr. Davidson:** I would rather not rely on the EU systems for preventing fraud, because I am aware of the non-existence of Slovakian animals already. They are integrated into the EU right away by being able to defraud it. That is not quite what we had in mind. May I ask about the impact of this on farmers? We heard from the Chairman at the beginning about some individual tragedies, which we all regret. I want to try to clarify the scale of this. In part 3 of the report, we are told: "Five% of farmers confirmed that they had considered leaving farming." I presume that that is an accurate assessment from your perspective as well. How many have done so?

**Mrs Ghosh:** I am not aware that any have.

**Mr. Davidson:** None?

**Mrs Ghosh:** We do not keep data; all we know are the data of people who make claims under the SPS, and slightly fewer have made claims this year.

**Q139 Mr. Davidson:** But the survey says that 5% of farmers confirmed that they had considered leaving farming. That of course means that 95% have not considered leaving farming, and we do not actually have evidence that any have. Is that correct?

**Mrs Ghosh:** No, the data that we collect are through such things as the farm business survey. That is where we get that kind of data.

**Q140 Mr. Davidson:** Right, but you do not have any that would lead you to believe that anybody has left farming as a result of this?

**Mr. Lebrecht:** We collect the data on an annual basis, and in general people leave farming year on year, but we have not seen any evidence of anything that would be ascribable to this.

**Q141 Mr. Davidson:** Okay. We also have the note here that says that 20% of farmers surveyed said that delayed payments had been a cause of increased stress. Presumably the corollary to that is that for 80% it had not been. Does that seem reasonable to you?

**Mrs Ghosh:** It seems mathematically reasonable.

**Q142 Mr. Davidson:** Thank you. Okay. Similarly, in paragraph 3.2 we are told: "The majority of farmers responding to our survey said that delay in receiving payment had not caused them to take action to save or raise money." I am listening to some of my colleagues, and I have listened to some reports, and you would have thought it was the apocalypse. Yet the report indicates that a majority of farmers have actually taken no action as a result of the inconvenience. Can you help me balance those two things?

**Mrs Ghosh:** I think that you are absolutely right. There are some positives that come out of the survey published in the report—the positives of the negatives, as it were. What we have done is, as I have said, looked at some of the cash flow and indebtedness impact on farmers in various sectors. Sector by sector, it will be very different, given all sorts of other external factors. That does not suggest to us that the impact on indebtedness or cash flow overall is significantly different or that the percentage variation between 2005–06 and the previous year is much different from normal. To support Andy's point, it does not suggest that the SPS has had a significant effect on the industry as a whole as opposed to individuals.

**Q143 Mr. Davidson:** Okay. Time is short. Table 4 on p. 18 suggests that 99% of farmers have not made any staff redundant, 98% of farm values have not decreased, 97% of farmers have not reduced their farming activities, and 97% have not sold any assets. It is perhaps not the complete and utter crisis in agriculture that we were led to believe earlier. Is that fair?

**Mrs Ghosh:** I feel this is a debate that you should have with your colleagues. I agree that some statistics show that the impact on farming as a whole is not so negative, but going back to the Chairman's point, on some farmers it has been.

**Q144 Mr. Davidson:** Absolutely. I accept that completely, but we have a note indicating to us that 84% of farmers have not postponed some purchases of investments. That indicates that it is perhaps not as disastrous as we were led to believe.

On p. 27, chart 8 details the range of claims. Some acreages upon which payment is being made are the equivalent of a large garden, are they not? How did we come to take the lowest possible size of ground and decide that payments would be made upon that, rather than on a much larger area, which would have been possible where we had discretion? That would have cut down a large number of the claims and, presumably, made the system a bit less inefficient.

**Mrs Ghosh:** I understand that we could not have gone for a figure above 0.3 hectares, that is, a third of Trafalgar square. We could have gone for a cost minimum, that is, you would not pay anybody anything below €100. I guess that that would be the group at the top.

**Mr. Bacon:** The 14,000.

**Mrs Ghosh:** But those 14,000 might well have said, "I want my money".

**Q145 Mr. Davidson:** The limit was €100, so we had to pay everybody above that. Is that correct? That would have chopped out a substantial number.

**Mrs Ghosh:** To go back to Tony's point, they would probably have been quite simple cases.

**Q146 Mr. Davidson:** What is the cost of processing a simple case? Am I right in thinking that some cases cost more to process than the people involved receive?

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**Mrs Ghosh:** I am sure that was the case.

**Q147 Mr. Davidson:** Why, in that case, did you do it?

**Mrs Ghosh:** Because the farmers have a legal entitlement to the money.

**Q148 Mr. Davidson:** Let me be clear. The farmers have a legal entitlement to money above €100 but not below €100? But we gave 14,000 farmers—12% of total claimants—money that we were not legally obliged to give them, but chose to do so in circumstances where it cost us more to pay them the money than they were receiving, and at a time when we were sacking staff yet having to recruit temporary staff? I do not see the logic of that position. Can you clarify that for me?

**Mrs Ghosh:** My understanding is that even if we had made the decisions, we would have had to do all the work to establish the entitlements, so it would not have saved us any labour. Andy would like to explain that.

**Mr. Lebrecht:** In 2005, as well as making payments we were establishing every farmer's entitlement, so we would have had to do that for everybody, even if their holdings were very small. What we were entitled to do is not pay less than €100, and we chose that we would make the payment.

**Q149 Mr. Davidson:** May I clarify the question? Somebody who would have received from yourselves less than €100 does not seem to be a farmer who requires that subsidy to keep him going. Given the questions of the size of acreages involved, surely taking a larger acreage would have allowed you to reduce a substantial number of these small claims? There is something in the report saying, if I remember correctly, that we had the opportunity to have the minimum size of 0.3 acres, but that we went for 0.1 acres. Have I picked that up wrongly?

**Mr. Lebrecht:** There are two separate points. We could not have chosen to go above the minimum claim size of 0.3 hectares. Separately, in designing the mapping system, we chose to define parcels down to a level of precision of 0.1 hectares.

**Mrs Ghosh:** Which the Germans did too, according to the table on page 28.

**Q150 Mr. Davidson:** Given the options that you had, you could have done this in a way that would have made it simpler or produced fewer cases. Is that correct?

**Mr. Lebrecht:** Given the decision by Ministers to go for an area payment, I do not think that we could have had fewer applicants. There is probably some learning to be done on the subject of whether we can make the mapping system simpler.

**Mrs Ghosh:** Yes. One of the actions that Mark Addison took when he came in as the interim chief executive before Tony was not to try to correct to the very precise level of mapping that had previously been going on. That was one of the ways in which we began to get more claims through the system.

**Q151 Mr. Davidson:** Fine. All the map references are within the land mass of the United Kingdom, I take it?

**Mrs Ghosh:** We very much hope so.

**Mr. Bacon:** You can never be sure, Mrs Ghosh.

**Mrs Ghosh:** No. We have found cows out in the North sea, I believe.

**Q152 Mr. Bacon:** I was surprised by one of your earlier answers, when you said that you did not hear about the issue of paying tax on payments that have not been received. Are you seriously saying that you and the Department have not received any correspondence on that, and that you have not heard about it? I think that Mr. Dunne asked the question. I had heard about it, and until recently, when I read the NAO Report, I had not been taking a global interest other than that which I have on behalf of my constituents. Have you really not heard about it?

**Mrs Ghosh:** No. I personally really have not heard about that.

**Q153 Mr. Bacon:** Do you think that it is wrong in principle?

**Mrs Ghosh:** Can you explain? I do not understand.

**Mr. Bacon:** Let me ask my question, then you can answer it. Do you think that it is wrong in principle that farmers should have to pay tax on income that they have not received because they have not been paid by the Government?

**Mrs Ghosh:** I cannot comment without consulting colleagues from Her Majesty's Revenue and Customs. Obviously, a very particular taxation system applies to farmers and this is no doubt part of that complexity.

**Mr. Bacon:** You do not need to talk to HMRC to answer my question, which is whether you think that it is wrong in principle—

**Mrs Ghosh:** I do not know whether it is wrong. I have worked in HMRC so I know that I would be putting my life on the line if I were to say that a tax in these circumstances would be wrong. It might be entirely logical.

**Q154 Mr. Bacon:** Would the Treasury like to comment, please? Is it the case that farmers are expected to pay tax on money that they have not received?

**Ms Diggle:** I, too, would need to get HMRC's advice.

**Mr. Bacon:** I would like a detailed note on this, because it seems extraordinary.<sup>6</sup>

**Mrs Ghosh:** Certainly.

**Q155 Mr. Bacon:** I will move on because we do not have much time.

Mr. Cooper, will you turn to page 27 please? Did I understand that you said earlier that you gave higher priority to the high value cases?

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**Mr. Cooper:** To the middle and high value ones, yes.

**Q156 Mr. Bacon:** You will see, if you look, that for the cases above £100,000, where it says that there were 1,269 claims, there is a clear dividing line on the right hand side, and above that line nearly three fifths of the cases were paid by 30 June in full, with 46% below that line. It gets steadily worse going downwards. How can your statement that you gave higher priority to higher value cases be correct if it resulted in lower payment for higher value cases?

**Mr. Cooper:** The higher value claims are smaller in number.

**Mr. Bacon:** Yes. It is 1.7% of the total. There are only 1,971 in total between the £100,000 value and the £2 million to £3 million value.

**Mr. Cooper:** Those cases tend to be the more complex and harder ones to work through, so the processing staff struggle to get through the number of associated tasks. There is therefore often a delay in making those payments.

**Mrs Ghosh:** I think the point is that whatever your policy priorities—we tried to focus on the people who really needed the money—it is the simplicity or non-simplicity of the case that will make the difference to how fast the money gets out. Obviously, we have a strong incentive to get money out.

**Q157 Mr. Bacon:** May I ask about the gateway reviews? It says on page 9 that the NAO recommends that red reviews, in particular multiple red reviews, should be reviewed in terms of how they are dealt with when it comes to future guidance to the senior responsible owner and bringing them to the attention of the Permanent Secretary. Were you and your predecessors made aware each time there was a red review?

**Mrs Ghosh:** Indeed.

**Q158 Mr. Bacon:** When there was a double red review, did you tell Sir John Bourn or your predecessors?

**Mrs Ghosh:** No.

**Q159 Mr. Bacon:** Why not?

**Mrs Ghosh:** We were not required to do so.

**Q160 Mr. Bacon:** On the contrary, you are required to do so. Is that not the case, Mr. Williams? Did we not have an agreement with Sir John Bourn and the Cabinet Secretary that when there was a double red review the National Audit Office and the Comptroller and Auditor General would be informed every time? Was that not explicit, clear and on the record?

**Sir John Bourn:** Yes.

**Mrs Ghosh:** Yes. I think it was the other way about.

**Q161 Mr. Bacon:** Was the NAO informed every time that there was a double red review?

**Mrs Ghosh:** The NAO writes to us, as I understand it.

**Sir John Bourn:** I have no reason to doubt, since the decision was taken that we would get all the red reviews, that we have not got them.

**Q162 Mr. Bacon:** You have had them then?

**Sir John Bourn:** Yes.

**Q163 Mr. Bacon:** Has the Chairman of the Committee been informed each time there was a double red review?

**Sir John Bourn:** I wrote to the Chairman on the first batch of red reviews a little while ago and I shall write to him again with the subsequent batch.

**Q164 Mr. Bacon:** One of the things that you said about red reviews, Mrs Ghosh, was that one should not misunderstand them. To paraphrase you, they were not saying, “You should stop”, but “Here are some clear risks. We have to deal with them.” In what circumstances—this is reflected in recommendation 32a—would it be appropriate for a senior responsible owner to notify Ministers or you, as permanent secretary, that a project should be stopped?

**Mrs Ghosh:** When the risks that he or she was seeking to mitigate were clearly unmitigatable, if there is such a word. I can think of examples. Something like the Child Support Agency reform is just such an example. It became clear that the reform programme and the new scheme were not going to be delivered on time. That debate happened. Ministers at the time made announcements to the House about delays. That is a good example of that happening.

**Q165 Mr. Bacon:** Could I take you back to the position of Mr. Johnston McNeill? You said that you had a duty of care to him as an employer. You said that you had to find out the basis of his contractual entitlement and that there were problems with his health. You made it sound as if you could not deal with the basis of his contractual entitlement until his health issues were sorted out.

**Mrs Ghosh:** No.

**Q166 Mr. Bacon:** Presumably, you have a copy of his contract. Could you not have just looked at it?

**Mrs Ghosh:** Again, I think that this was a misunderstanding—sorry, a misunderstanding on our part, not yours. Johnston McNeill, as a result of a variety of jobs that he had carried out at the Meat Hygiene Service and then as first chief executive of the RPA, did not have a fixed-term contract. He was in fact simply a straightforward civil servant, so he had the same contract that I have and that Tony has.

**Q167 Mr. Bacon:** So to get rid of him as an employee, you would have to go through the normal legal processes that you would for any straightforward civil servant.

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**Mrs Ghosh:** Indeed you would.

**Q168 Mr. Bacon:** That would include—I have just got this off the Department’s website—putting in writing the reasons why you are considering getting rid of him, having a face-to-face meeting and an appeals procedure if necessary.

**Mrs Ghosh:** Yes.

**Q169 Mr. Bacon:** Has any of that happened?

**Mrs Ghosh:** In terms of the discussion that my human resources director has had with him—she has obviously been having discussions about the grounds for his departure—

**Q170 Mr. Bacon:** When did that start?

**Mrs Ghosh:** If I can go back to my point, we are not making him any offer of compensation; we are simply saying—

**Q171 Mr. Bacon:** You have been paying him £114,000 a year since 16 March. Today is the 220th day since 16 March, so you have paid him £71,523 so far, have you not?

**Mrs Ghosh:** You have done the calculation, and I am sure that that is the case.

**Q172 Mr. Bacon:** Yes I have, and you have paid him for doing essentially nothing. I would have thought that your duty of care to him as an employer was to sort the problem out. You have left him hanging on the end of the branch.

**Mrs Ghosh:** No. Absolutely not.

**Q173 Mr. Bacon:** Admittedly he is being paid money, but you have not sorted the problem out?

**Mrs Ghosh:** No, we have not sorted the problem out, in the sense that he has not yet departed from the Department. We have been in close contact with him in terms of our duty of care as an employer, about other options for his employment and, in particular, about the terms for his departure.

**Q174 Mr. Bacon:** When you say other options for his employment, are you saying that he may continue to be employed at public expense?

**Mrs Ghosh:** No. Again, we have been talking to him to ensure that we have explored all options in terms of supporting him in getting other roles.

**Q175 Mr. Bacon:** You mean giving him a reference?

**Mrs Ghosh:** I have not been asked to give him a reference.

**Q176 Mr. Bacon:** What does supporting him in getting him another job mean, then?

**Mrs Ghosh:** When any employee leaves the Department, we clearly have some discussion with them on the subject of what they are going to do next. As a good HR director, my HR director will have been having negotiations with him about the terms of his departure.

**Q177 Mr. Bacon:** When did these meetings start? It is now 220 days. Take me through the first 50 days from 16 March until 4 May. What happened in those first 50 days?

**Mrs Ghosh:** I would be happy to give you a day-to-day, blow-by-blow account on that. The discussions clearly began in terms of the duty of care that we had towards him as an employee from the moment he and I had the discussion about his departure. My professional HR director then made clear to him what support would or would not be available from the Department. Again, I will be happy to give you a timeline on this. He was on sick leave for a considerable time. We investigated the basis on which he was employed and got the pensions team to give us quotes for the departure terms.<sup>7</sup>

**Q178 Mr. Bacon:** I have not had the chance to interview Mr. McNeill, so it is a bit unfair to condemn him in absentia, although we did see him during the previous mapping case three or four years ago. However, I think the behaviour of your Department to him as an employee has been inadequate. You have left him hanging for 220 days. I would not have thought that was fair to any employee. Has he lodged a grievance against you?

**Mrs Ghosh:** No.

**Q179 Mr. Bacon:** He has not. Who decided to pay him his bonus?

**Mrs Ghosh:** I imagine that, for the previous year, when the RPA hit all its targets, my predecessor, Brian Bender, did.

**Q180 Mr. Bacon:** Who set the targets?

**Mrs Ghosh:** We have just gone through this process with Tony. The targets are set in agreement with Ministers.

**Q181 Mr. Bacon:** I see. So you are saying the Ministers set them?

**Mrs Ghosh:** The Ministers set the targets for the Executive Agencies on advice from—

**Q182 Mr. Bacon:** You say that you are not making him an offer, but you will give him his statutory entitlement. What will be the value of his statutory entitlement?

**Mrs Ghosh:** The statutory entitlements, as offered to Mr. McNeill, are a pension of £12,000 a year—

**Q183 Mr. Bacon:** Yes, but do you pay it in a lump sum? Do you roll it all up, as the Foreign Office does? What do you do?

**Mrs Ghosh:** It would consist of a lump sum for which Mr. McNeill has qualified through his own payments into the pension scheme—

**Q184 Mr. Bacon:** But your Department has to pay the Cabinet Office for that, doesn’t it?

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**Mrs Ghosh:** Indeed it does.

**Q185 Mr. Bacon:** So what is the total value? We have seen with Foreign Office severance payments that it amounts to many hundreds of thousands of pounds. What is the total value of Mr. McNeill's statutory entitlements?

**Mrs Ghosh:** The total value of his statutory entitlements is—

**Mr. Bacon:** What will it cost the Department?

**Mrs Ghosh:** It will cost the Department, on an ongoing basis, a pension of £12,000 a year—

**Mr. Bacon:** No, I am talking about the total value, not—

**Mrs Ghosh:** It depends how long he lives. I am referring to the actuarially calculated figure.

**Mr. Bacon:** Indeed, but we have just received a note from the Foreign Office on this very subject, and it has been able to identify, for each ambassador who was let go, the total cost, including the payment made to him and the payment made—

**Mrs Ghosh:** I could do that calculation for you on the basis of whatever the actuaries advised. It would be a pension of £12,000 a year and a one-off lump sum of £42,000—

**Q186 Mr. Bacon:** Could you send us that in a note as well?

**Mrs Ghosh:** Certainly, but I do not know how to translate it actuarially.<sup>8</sup>

**Q187 Mr. Bacon:** Could you send it in a note to us and add on the total value of payments made to Mr. McNeill from 16 March until he ceases his employ, plus the total value of bonus payments that were made to him during the four years, which I think is about £62,000?

**Mrs Ghosh:** Fine.

**Chairman:** Mrs Ghosh, your last questioner, you will be relieved to hear, is Mr. Alan Williams.

**Q188 Mr. Williams:** We are told that the finalisation of the design of the scheme in England was late. How late was it, approximately?

**Mrs Ghosh:** You mean between the point at which the EU adopted the regulation and the point at which we announced it?

**Mr. Williams:** Between when you had expected to be making the final decision to go ahead and when that actually happened.

**Mr. Lebrecht:** Ministers announced the design of the scheme in April 2004.

**Q189 Mr. Williams:** All I am asking is how long the delay was.

**Mr. Lebrecht:** That was not a delay. However, there was a delay between then and the following October. There were further refinements to the EU rules in relation to the scheme, plus some elaboration of the policy domestically, so in effect the final design of the scheme did not come through until late 2004.

**Mr. Williams:** So how many months was the delay?

**Mr. Lebrecht:** It was between April and November, so it was seven months.

**Q190 Mr. Williams:** That was quite a significant time and was, I suggest, a significant factor in what went wrong subsequently. We understand that because of the late finalisation, the IT development started late and had a shorter time for completion than was expected and less time to test. That is correct, isn't it? That is what the NAO tells us?

**Mrs Ghosh:** Yes.

**Mr. Lebrecht:** That is correct.

**Q191 Mr. Williams:** So the administrative mess-up at the beginning put us in a position in which a key element in what was to be delivered had to be dealt with in a shorter time than needed and without adequate tests. Is that correct? The NAO thinks it is.

**Mr. Lebrecht:** That certainly put additional pressure on the scheme, yes.

**Q192 Mr. Williams:** But on a key part of it, on something that was at the core of it—the IT system. If the IT system was made more fallible by the initial delay, surely that means that the initial delay contributed very significantly to all the ultimate problems?

**Mr. Lebrecht:** I think that that is patently right, but I would not want you to be misled. We originally finalised the scope of the design in summer 2004, on the basis of certain assumptions. We had to change those assumptions at the end of 2004 because of the changes in legislation that I defined. Those changes led Ministers to announce that we would not be delivering in December but in February. The total delay contributed by the policy delay was two months. It certainly was part of the problem, but—

**Q193 Mr. Williams:** The figure that we are given in table 5 on page 21 says that, originally, the IT scheme was intended to cost £27.5 million. It eventually cost just over £50 million, almost doubling the cost. What caused that?

**Mrs Ghosh:** That was because the original contract did not cover developing the SPS scheme.

**Q194 Mr. Williams:** Why not?

**Mrs Ghosh:** Because the SPS scheme did not exist. It did not happen. Note 2 to that table reads: "The increases in the Accenture contract are largely due to changes in the scope of the work required." Actually, that means "Build us the SPS". That is the main difference.

The way that the contract with Accenture was drawn—again, I think that the OGC will have some comment on this—was not as a partnership or risk share. Effectively, we transferred all the risk to Accenture. It has not made money out of the contract.

**Q195 Mr. Williams:** That is where I am going next. How much of the increase in cost from £27 million to £50 million is, in your opinion, attributable to the IT firm?

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**Mrs Ghosh:** The difference between £27 million and £50 million is attributable to the fact that we asked it to build the SPS system—the RITA system—and, on a card rate basis, that is what it did. I am sorry that I cannot remember the name of the consultant, but we have looked at the effectiveness of the contract, and we have been told that it effectively had to deliver on a fixed rate. Had we paid on an input basis—person-hours put in and materials—we would have paid about twice that. That was an effective fixed rate. Whether it was an effective partnership is something that OGC will be commenting on.

**Q196 Mr. Williams:** The NAO tells us that the performance of the main IT contractor fell below standard initially. Whose fault was that? Was it the contractor's fault? Was it a consequence of the delays or of the changes that you made in your specifications? What was at fault?

**Mrs Ghosh:** The concern of my predecessor, Brian Bender, and indeed the agency team, was essentially that the leadership on the Accenture side and the people it was putting on it were not good enough. Brian then instituted, and I have carried on, regular meetings with the top brass of Accenture.

**Q197 Mr. Williams:** So if in fact the fault was Accenture's, did it have to meet any penalty requirements?

**Mrs Ghosh:** It would have to absorb the additional costs of redoing the work. As I said, it was a fixed-rate contract, as far as we were concerned.

**Q198 Mr. Williams:** So the extra cost would have been the total—you tell me the sum.

**Mrs Ghosh:** I cannot give the precise sum. I am simply saying that, according to the analysis that we had done, it would have cost us twice as much to build the SPS system as it has in fact cost us. That was because of the way that we structured the contract.

**Q199 Mr. Williams:** I have one final question. Paragraph 4.2 states that “the Department's and Agency's forecast of £164 million of savings between 2005–06 and 2008–09 is optimistic.” Since the outside consultants estimate that the £164 million saving is now £7.5 million, “optimistic” is the understatement of the year, is it not?

**Mrs Ghosh:** That is largely explicable because of the people issues: we could not make the headcount cuts that we were expecting to make. Obviously, in the light of the recovery work that Tony and the team are doing—the Corven support—we must continue to invest in people and, possibly, some IT fixes. That is why Corven is giving the estimate that it is.

**Chairman:** Thank you. Other colleagues have supplementary questions, Mrs Ghosh, but as you are returning on 20 November with Mr. Johnston McNeill, we will hold them until that time, when Members can return to the issue. Mr. Cooper, we would like you to return as well on 20 November, please. Your other two colleagues do not need to come back.

Mr. Johnston McNeill will be ordered to attend the Committee. If we receive another excuse, we will report him to the House of Commons for wilful refusal to attend the Committee.

Thank you.

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**Monday 9 July 2007**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr David Curry  
Mr Ian Davidson  
Mr Philip Dunne

Ian Lucas  
Mr Austin Mitchell  
Mr Don Touhig

Sir John Bourn KCB, Comptroller and Auditor General, Tim Burr, Deputy Comptroller and Auditor General, and Philip Gibby, Director, DEFRA study team, National Audit Office, were in attendance.

Paula Diggle, Treasury Officer of Accounts, was in attendance.

## REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

### The Delays in Administering the 2005 Single Payment Scheme in England (HC 1631)

*Witness:* Johnston McNeill, former Chief Executive, Rural Payments Agency, gave evidence.

**Q200 Chairman:** Good afternoon, and welcome to the Public Accounts Committee, where today we reconvene our earlier hearing on the Comptroller and Auditor General's Report, *The Delays in Administering the 2005 Single Payment Scheme in England*. We welcome you to our Committee, Mr McNeill, and we are sorry that you have been ill during the past year. We are grateful to you for appearing before the Committee, so that we can try to get to the bottom of what went wrong with the scheme.

Paragraph 17 of the Report states, "The timetable for the implementation of the Single Payment Scheme became very tight following required changes to the original specification of the computer system." My first question is whether it was ever realistic to try to implement the scheme in time for the 2005 scheme year. I ask that by way of summing up.

**Johnston McNeill:** That question was first asked when the proposed Single Payment Scheme (SPS) for 2005 was going to be on an historical payment basis, which would have been the most straightforward method of payment. However, from mid-2003 until early 2004, there were further discussions between the Secretary of State, Ministers, the National Farmers Union and others as a result of which the system and the scheme developed into what became known as the dynamic hybrid. That in itself was bad enough.

At that time, we took stock of whether Accenture, our IT supplier, could still meet the requirements, and it felt that it probably could. After all, it was already contracted to us to develop 11 schemes, so the possibility of instead producing one scheme was an attractive idea for them. In addition, they felt that it had already substantially climbed the learning curve in working with us. We had our rough times, but we moved along quite well, and it felt that it would be possible to put the SPS scheme in place.

The SPS scheme continued to develop. As the NAO Report notes, there were some 21 major policy changes that resulted in some 63 change requests to Accenture during the period up to early 2005. The

Office of Government Commerce made the point at the time that the requests for ongoing changes of SPS policy must come to an end. It said that it was not possible to continue writing a system to deal with the SPS scheme unless that stopped.

To answer your question, it was death by a thousand cuts. We started with something that we felt was relatively straightforward given the historical data, and moved to something that was more complex. The system developed over nearly a year, until it became so complex that we were delivering elements of it on a just-in-time basis. To be frank, I suspect that that was a major part of our eventual downfall.

**Q201 Chairman:** Okay. So in Scotland, Wales and Northern Ireland there was the static hybrid system, which was much simpler, while in England we had the dynamic hybrid system. Presumably that was a ministerial decision.

**Johnston McNeill:** I was not involved in discussion with the then Secretary of State—I met her only twice during my time at the Rural Payments Agency. However, I have read the evidence from the NFU and other organisations, and from their personal discussions with the Secretary of State it was apparent that she was particularly keen on the dynamic hybrid system.

**Q202 Chairman:** You were running the Agency, and the Department, which the Committee has already questioned, was responsible for policy, so the word came down that the Department wanted to go for the more complicated system. As you rightly said from your reading of the NAO Report, the more complicated system was imposed on your Agency, which was going through a business change operation and other difficulties. Why did you not notify the Permanent Secretary in late 2004 that, in your view, as accounting officer, the scheme was not deliverable?

**Johnston McNeill:** The Agency repeatedly reconsidered its position, as further SPS policy direction and information became available. It discussed where it stood with Accenture and spent a

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lot of time with the programme board to consider whether delivery was still possible. The Agency had to take decisions about, for example, what could be descope from Accenture's work, so that it could continue to focus on delivering the facilities that the Agency would need in order to make payments. That meant sacrificing some of its work. For example, the Report mentions that some of the management information that we should have had was one of the casualties of our discussions.

The Agency was tasked to deliver. It was clear from the discussions that the delivery of SPS 2005 was a major objective for the Department and that it had to happen. Funds were made available, and we had to put in place a number of manual work-arounds. We had to say to the Department, "This can no longer be developed by Accenture, because it's too risky in terms of IT development. We're going to have to put in a manual work-around to deal with it."

The Department was aware throughout the process of the need for additional funding for manual work-arounds, of the discussions at the CAP reform implementation board and the Executive Review Group and of the tough decisions regarding what would have to be stripped out to deliver the core functionality and to make SPS payments. The Agency never arrived at a position in which the people and organisations involved—Accenture and the raft of top consultants, the RPA team, DEFRA's Permanent Secretary and the Director-General—said that the SPS scheme was no longer deliverable.

**Q203 Chairman:** So it was a slow-moving train crash? Was there was no point, either in late 2004 or early 2005, at which you felt that your advice to the Permanent Secretary had to be that the Agency could not deliver? We know that the Agency could not deliver in the long run, so there is not much point in going over that now; we want only to draw some lessons on how we can avoid such a situation in the future. You said that you met the Secretary of State twice. When did it become apparent that you could not deliver? Was it late 2004 or early 2005? You finally left the Agency in March 2006.

**Johnston McNeill:** It became apparent that the SPS scheme was not going to be delivered in the timescales set by ministers. The OGC undertook a review in February 2006, following which the Agency had an amber light, one of the few that it received. The OGC was reasonably confident that the Agency could deliver the scheme. We defined SPS entitlements on 14 February 2006, and moved from that point to begin SPS '05 payments on 20 February 2006. It became apparent between then and the 10 March 2006, when I wrote to Lord Bach—a period of some 20 days—that the Agency was running into a problem with the speed of clearance of level 2 validations. In other words, the team could not get the payments through the system. The IT was working, so the just-in-time approach had worked, but the Agency could not get the payments through the system fast enough to enable us to meet the target of making the bulk of SPS '05 payments by the end of March 2006.

**Q204 Chairman:** To what extent were you consulted? That is important, because you were running the Agency. To what extent were you consulted about the policy decisions? Are you telling us that you were not consulted and that you were told to get on and do it?

**Johnston McNeill:** I had no discussion with the Secretary of State—

**Q205 Chairman:** Or with the Permanent Secretary about whether the scheme was deliverable.

**Johnston McNeill:** The discussion took place at director general level, with Andy Lebrecht. The Agency fielded Bill Duncan, who was involved with the McSharry reforms and who had worked on CAP for 30 years, and its director of operations, Hugh MacKinnon, who also had 30 years experience of managing CAP schemes. Those were the two most experienced people that the Agency had to interface with the policy people and to consider the operational impact.

Those discussions started in June 2003, but the policy continued to develop for a further year after the announcement of the dynamic hybrid scheme in early 2004, which involved one set of difficulties and challenges that led to consideration of the implementation issues. The policy continued to develop for practically a year after that.

**Q206 Chairman:** It must have been obvious that the Scheme was going wrong. I think that you had about 4,000 staff. There were only 116,000 potential claimants—farmers—in the country, so there was a very high ratio of staff to farmers. Leaving aside the fact that there are always problems with computer systems and the scheme is complicated, why did you not put in place contingency plans and back-up manual systems, which could have taken up some of the slack?

**Johnston McNeill:** A number of SPS '05 manual work-arounds were put in place. Many CAP schemes are done by automated processes. We cannot take things off-line and start to work on paper systems. I am afraid that that is just not allowed. The disallowance that would flow from that would be substantial—potentially anything up to 25% of the fund value. I am afraid, therefore, that that was not an option.

We developed a contingency scheme to replace RITA (RPA Information Technology Application) for the Single Payment Scheme, if that did not work. Once RITA had developed to a stage at which we felt that the contingency was no longer required, we dropped that scheme with the agreement of the Executive Review Group and the Department. Then we developed a contingency so that we could make partial payments. That system was used to make payments to farmers after I departed in March.<sup>9</sup>

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<sup>9</sup> *Note by witness:* Not all 4,000 RPA staff work on SPS processing. The RPA has many other schemes and responsibilities, including, BCMS (British Cattle Movement Service) (400+ staff), Inspectorate *et cetera*.

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**Q207 Chairman:** Paragraph 5.13 on page 24 of the Report is about the relationship between the Department and Accenture. It seems that this was down to the Permanent Secretary. You were having to rely on the Permanent Secretary to improve relationships with Accenture. Should you not have rolled up your sleeves with Accenture to try to improve relationships there?

**Johnston McNeill:** That is simply not the case. The best practice guidance of the Office of Government Commerce is that relationships with the IT contractor take place at an operational and at a Chief Executive-managing director level, which was where I was. The Permanent Secretary or the accounting officer of the Department are encouraged to meet their counterparts in the organisation with a view to ensuring that the IT organisation puts in place the correct and right quality of resources and the right people, and that that piece of work is seen as important.

There were regular meetings at all levels between the RPA and Accenture. The Permanent Secretary met monthly with Joan Dominic, who was the Accenture director with responsibility for Europe operations. I also attended regular meetings.

**Q208 Chairman:** So, when it says here that the Department confirmed the introduction of monthly progress meetings, which you just confirmed, that was on top of what you were doing.

**Johnston McNeill:** That was outlined in best practice. We put that in place as soon as the contract with Accenture was signed.

**Q209 Chairman:** You talked briefly about what was going on in March 2006. Did you have any notification from your policy makers or superiors before March 2006 that they appeared to have lost confidence in you and your Agency? Was there a process going back some time, or was it like a bolt out of the blue for you?

**Johnston McNeill:** It was a bolt out of the blue. I have had box one markings in all my time as a Chief Executive in Government. That is 'outstanding'. I have had my bonus awards in full. There was never any discussion or correspondence about my performance mentioned in either the informal bilaterals with permanent secretaries or otherwise.

**Q210 Chairman:** To sum it up, who is to blame for this? Clearly, a lot of grief has been caused. Payments that were due to farmers were not made. Whom should we hold responsible? Is it the people in your Agency who were charged with administering this or was it the fault of the policy makers who were trying to introduce something too complex at too short notice?

**Johnston McNeill:** Since the decision in 2000, before I even joined the organisation, to implement the PricewaterhouseCoopers recommendations to move to a new way of managing CAP schemes, this has been defined as one of the top 10 high-risk programmes in the Government. To then take it and use it to bring about one of the biggest changes in

CAP in living memory was a major challenge. It made the risk much greater, as was identified by the OGC and NAO Reports.

I do not believe that anyone has tried to do anything but their best to deliver this, using the best expertise that they could acquire—be it consultants or contractors. Therefore, I do not think that anyone was negligent. It was always high risk, and it was made more high risk. I have been held to account in my responsibility as Chief Executive of the Agency, and I have read the Report of the Environment, Food and Rural Affairs Select Committee, which is much more comprehensive than my performance perspective. The Report suggests that others should also be held to account.

**Chairman:** All right, thank you very much. Mr David Curry.

**Q211 Mr Curry:** Am I right in making the following statement? The Government chose to introduce the most complex scheme on offer—the United Kingdom was alone in that—in the shortest time made available by the European Union, against the background of a departmental reorganisation which involved members of the Department being dismissed, with the possibility of tens of thousands of claimants who had not previously claimed agricultural support, in the absence of complete digital mapping and with a computer model using a task-based approach that had not previously been tried. Is that fair as a background statement?

**Johnston McNeill:** Just a couple of points. It was not the Department that was undergoing the reorganisation, it was the Agency.

**Mr Curry:** That is what I mean.

**Johnston McNeill:** I am just being clear. And the digitised system, the rural land register, was actually developed and in place. Apart from that, yes, the theme of that statement is certainly correct.

**Q212 Mr Curry:** Right. We had the DEFRA Permanent Secretary here, although she was not in place at the time, and we discovered a wonderful consensus that you were to blame for it all.

**Johnston McNeill:** I have noticed that myself.

**Q213 Mr Curry:** All my instincts tell me that I should be suspicious that you are the fall guy. When you ran the Department, you presumably had departmental heads Reporting to you.

**Johnston McNeill:** There is an Agency and a Department. I am not trying to be pedantic—

**Q214 Mr Curry:** I am now talking about the Agency. You had people in the Agency responsible for different aspects of its work, Reporting to you.

**Johnston McNeill:** Absolutely. I had six senior civil servants Reporting to me.

**Q215 Mr Curry:** Who have all somewhat disappeared from sight since, I understand—

**Johnston McNeill:** I am sorry, that is simply not the case, despite what you might have gathered from discussions with the Department. The Director of Operations is still in post, the Programme Director

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is in post, only now he is the Chief Operating Officer, and the Legal Director is still in post. The IT Director had planned to move on while I was there, and the replacement was already pretty much signed up. The team is pretty much the same.

**Q216 Mr Curry:** Do you regard the information that came up to you, as the Chief Executive, as incomplete and unsatisfactory to enable you to Report back to the Department that things were not going as hoped?

**Johnston McNeill:** No, I do not believe that. The RPA senior management team worked incredibly hard to try to get this piece of work achieved. I do not believe that there was ever anything but full and frank Reporting to myself and the Department.

**Q217 Mr Curry:** What was the coupling between you and the Department? What was the management structure that you Reported to? I understand that it did not always have the same chairman.

**Johnston McNeill:** No. The governance arrangement was that a board called CAPRI, the CAP Reform Implementation board, was set up by Sir Brian Bender when he was Permanent Secretary. It was chaired jointly by Andy Lebrecht, a Director-General in the core Department, and me as Chief Executive of the RPA. It reported to a board chaired by the Permanent Secretary, Sir Brian Bender, called the Executive Review Group. The Reports would go up jointly to Ministers and the Permanent Secretary from Andy Lebrecht and me. That was the piece of work relating to the delivery of the SPS. Those were the normal governance arrangements for the Agency—the Agency had responsibilities other than the CAP payment.

**Mr Curry:** Yes, I appreciate that.

**Johnston McNeill:** That was the normal governance arrangement of a Minister's advisory board or, as DEFRA called it, an ownership board.

**Q218 Mr Curry:** Do you feel that that management system had built into it the antennae to sense when there was a problem and respond to it?

**Johnston McNeill:** With the non-executive directors, particularly Karen Jordan, and the expertise at those meetings—at the Executive Review Group we had Andrew Burchill, the DEFRA Director of Finance; Mark Addison, the Director-General responsible for operations in DEFRA; the Permanent Secretary, and Angus Ward from BearingPoint, one of the top consultancies—there was a robust challenge of the papers that went to them and all the reports. I was never left in any doubt that they had a close and good understanding of what was going on.

**Q219 Mr Curry:** So we have the slightly curious situation that you say that the people Reporting to you did their jobs perfectly well and you have no complaint about them; that you yourself did your job well and have a track record of getting high marks in your work, and that the management structure was sufficiently flexible and effective to detect what was happening, yet we had a train crash.

Train crashes do not happen by spiritual intervention; they happen because something goes wrong. The signals were working, the engine driver, fireman and guard were there, the lamps were working and even the ticket inspector was on the train, but it crashed. What went wrong?

**Johnston McNeill:** And you had a full raft of overview from the Office of Government Commerce and other auditors. The National Audit Office Report makes the point—I think it is fair comment—that our inexperience of dealing with a task-based approach to processing CAP claims caused us significant difficulties all the way through, not least with the customers' reaction when we started to reduce that way of working.

**Q220 Mr Curry:** Because they never knew where any claim was in the process.

**Johnston McNeill:** Yes. And we moved away from a high-class service, with one-to-one contact at regional level with staff that customers had perhaps worked with over the years—not in any inappropriate way. So it was a significant culture change, coming through a separate customer service centre. I think it was the fact that it was the first time we had actually operated a brand-new scheme on a brand-new system, using a brand-new technique, and we had not got the experience to profile out what would be a normally acceptable progress of clearing up the tasks as they were raised.

**Q221 Mr Curry:** Right. The one thing that the Government have huge experience of is computer schemes that go wrong. After all, your catastrophe was minor compared with the tax credit debacle, which is still going through MPs' surgeries right across the country. Given that so many of the elements were high-risk because of no experience, who at any stage said to the policy makers—I suppose that that is a euphemism for the Secretary of State—"A huge amount could go wrong here"? Are you conscious that anybody said that?

**Johnston McNeill:** All I can say is that you have had the Permanent Secretary, Sir Brian Bender, here talking openly about 40% confidence levels, which was a less than an even chance of the project being delivered, about 50% confidence levels being sought to try to give us some more reassurance and about a 70% confidence level as a probable peak. We Reported to the Department that this was extremely high risk. We monitored the risk very carefully. I do not know whether the Committee has had a chance to see the risk Reports, which were top class. They were assessed by the OGC and found to be in line with best practice. We noted that.

**Q222 Mr Curry:** But the Department—

**Johnston McNeill:** The Department was fully aware. As the Permanent Secretary himself said in evidence to the EFRA Select Committee, the risk levels were less than evens for delivery.

**Q223 Mr Curry:** Yes, but even though that was so, the Department sat there and watched it.



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**Johnston McNeill:** That is not the case. Sir Brian Bender was fully engaged, and we were all working to try to identify the best way and the means by which to deal with the matter. I have mentioned the discussions with Accenture, the manual work-arounds and the ways of working that we were looking at to see how we might resolve things. We were working very hard together, in partnership, trying to find out what else we could do to improve the level of confidence in delivery.

**Q224 Mr Curry:** But the problem seems to be that, somehow, a train crash happened with none of the passengers realising. At some stage, somebody must have said, “Things are going badly wrong; we’re not going to be able to deliver.” Somebody presumably said to Ministers at that time, “This is the point at which you need to bail out.” In fact, the Department removed the management system from the programme, didn’t it? At one stage it cancelled the actual bit of the computer programme designed to identify things going wrong.

**Johnston McNeill:** No. First, I was the one who informed the Secretary of State at the meeting on 15 March—having written to Lord Bach on 10 March, and having started payments, as I say, on 20 February—that I could see that we were not, unfortunately, going to be able to make the bulk of payments by the end of March. That resulted in the meeting on 14 March, which resulted in my being stood down on 15 March. Eventually, it became clear that, unfortunately, despite the fact that we had defined entitlement and payments had started, we were not going to achieve enough to get the bulk of the payments out.

**Q225 Mr Curry:** So trying to sum up again, because I must finish, if you could identify one crucial thing—the pea as in *The Princess and the Pea*—would you say that it was the task-based computer system? Would you also say that instead of that being ascribed to personal failure by you, it should more effectively be described as an institutional failure by DEFRA?

**Johnston McNeill:** There has not been, in any of the Reports I have read, and nor is there in the NAO Report, any personal criticism of me. In the Office of Government Commerce Reports, the leadership on the programme was constantly noted and praised; the relationship with staff was identified as being excellent. I am not aware of any personal criticism of me whatsoever. I maintain the point that we tried our damndest within the RPA and DEFRA to deliver this. We worked pretty much seven days a week, particularly in the last six months, and it did not happen. Whether you want to call it institutional failure, I do not know, but certainly our inexperience in dealing with a task-based approach was a fundamental factor.

**Q226 Mr Curry:** Finally; the matter is still going on now, because it is still not right. I am still getting letters from the people who act on behalf of farmers, who claim that even simple things that are supposed to go right are not going right, and that there are

huge misunderstandings between the people at the RPA and the farmers out in the sticks. This train crash was not just a derailment, it was a fairly heavy pile-up.

**Johnston McNeill:** I do not see this quite as a train crash.

**Q227 Mr Curry:** I am following a trains analogy.

**Johnston McNeill:** Sorry; the train was not destroyed. You now have a rural land register that was built as part of the investment and that contains 2.4 million parcels of land. It is one of the biggest—and to be frank, it is heading for being one of the best—in Europe. We have gone through hell getting the additional land loaded on, because farmers had not told us about the additional level before and because we had 40,000 new customers. It is now pretty much there. Things are back down, as I understand it, to about 10,000 changes a year to the RLR, which was the historic level. You have got customer registration, and it is the first time in the whole of DEFRA’s history that there is one registration system for all the customers of the whole organisation. It has been built; it is in place; and it works. Again, we went through hell with 40,000 new customers and all the information that had to be put in. That work is now complete.

RITA, the RPA information technology application that delivers SPS, was used again this year, and it will be better next year. The optical character recognition was used this year for the 2006 scheme—we could not use it for 2005, because it was too much of a challenge for the IT system, which could not maintain it. You have a document management unit, which means that all the correspondence that flows around the RPA is electronic. That is in and is working very well. It is not a train lying at the bottom of a ravine, because many aspects of the programme are there now.

Yes, we went through hell in the first year: 40,000 new customers, lots of land we had never heard of before, even though we should have under previous common agricultural policy schemes, and all the other challenges that we faced including delay in policy. We just did not make it at the last fence. For that I, if I may take this opportunity to do so, apologise profusely. We worked our damndest to get it done, and it did not happen at the eleventh hour. I apologise for that, but many good things have been delivered, and the investment is still there to be seen.

**Chairman:** That is a very full and fair answer, Mr McNeill, from your point of view. Thank you.

**Q228 Mr Dunne:** I am interested, Mr McNeill, that you referred to your meetings with the Secretary of State. You, I think, identified that you had one meeting on 14 March, the day before your role was suspended. Could you tell us when your first meeting was with the Secretary of State?

**Johnston McNeill:** I am sorry; I cannot recollect that date. It was a brief informal meeting, where I was actually at an Executive Review Group with Brian Bender and was asked to join him in a meeting with

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the then president of the NFU—I think it was Mr Bennett—to discuss certain issues regarding SPS 2005.

**Q229 Mr Dunne:** Do you remember what month that was?

**Johnston McNeill:** I am sorry, I cannot remember, but I recollect that that was the first time I met the Secretary of State.

**Q230 Mr Dunne:** So you had no direct Reporting relationship. It was always done through the Department. Did you receive queries from the Secretary of State or any responsible Ministers direct, as to progress of the single farm payment?

**Johnston McNeill:** All the Reports that were sent to the top of the office were also copied to the Secretary of State's private office as they were to Lord Whitty initially, and then to Lord Bach's office. We had regular meetings with Lord Bach. At the latter stages of delivering this, he was obviously so concerned that we were having pretty much daily contact with him, updating him and sending him the operational stats in terms of the number of tasks that were being cleared on a daily basis—and the graphical representations of that and so on.

**Q231 Mr Dunne:** Thank you. There was significant anxiety from representatives of the NFU in particular about the level of errors or matters that were not being correctly transcribed into the computer systems. I forget the technical term that you were using at the time. I believe that you were producing weekly Reports, which were made available to the NFU, from about October or November 2005 onwards. Would you care to comment on the Reports that you passed up to the Department, the escalation of error messages and, in particular, the extent to which items were being cleared off the error messages list? The impression that I got from reading the NFU transcripts was that errors were materially misstated.

**Johnston McNeill:** I can assure you, Chairman, that there was never any intention on the part of the RPA to misstate any information going forward to Ministers. For example, we copied in all of the OGC Reports untouched. We were not under any obligation to do so, as they are normally for the Chief Executive's eyes only. We forwarded on untouched all Reports from independent consultants and others, and other information went up, again, without any influence being applied to it. I was not aware of that problem.

I am sorry, but this happened some time ago. I cannot quite get my mind on exactly what you are referring to. It could be that we were Reporting on the clearance of level 1 validation strikes around that time. I can only think that your question is about that, but I am sorry that I just cannot remember the details. We are talking about events of 15 months ago.

**Q232 Mr Dunne:** Indeed, we are. One of the issues that caused a lot of problems was the mapping exercise, which you touched on earlier. Is it the case

that the mapping exercise was initially done on a two-dimensional basis, rather than a three-dimensional basis?

**Johnston McNeill:** I am sorry, but I just cannot respond to that level of technical detail. All I can say is that I understand that the rural land register was built to a very high standard. In fact, the criticism has been that perhaps the tolerance levels that we were working to were too high, although now that the investment has been made, that criticism has gone away.

**Q233 Mr Dunne:** Table 5 on page 21 of the Report states that the costs of the rural land register increased from an estimate of £6.8 million to out-turn costs at the end of March 2006 of £16.1 million. The footnote says that those costs covered the mapping exercise, so there was a significant increase in its cost. My point is that most fields are not perfectly two-dimensional—most are three dimensional. If you are determining historic claims and you measure hectareage or acreage on a two-dimensional basis, you will obviously get a different measure than if you were to measure on a three-dimensional basis. Many of the complaints that I have received from constituents are about land that was incorrectly mapped because the Agency did not take a three-dimensional measurement. Are you familiar with that issue?

**Johnston McNeill:** I am familiar with the issue, obviously. In terms of actual surface area, if a field is flat, that is one thing; if it has a hill in the centre, that is another thing. To the best of my knowledge, we were able to take account of that with the mapping system that we were using.

**Q234 Mr Dunne:** From your recollection, was that issue raised with you as a problem?

**Johnston McNeill:** I do not recognise it as having been a significant issue. I was about to say that the reason for the additional cost is that we originally mapped 1.7 million parcels of land, but, on conclusion of building the rural land register, the actual number of parcels of land was 2.4 million. In addition, we had some 100,000 IACS22s notifying us not only of additional land but of changes to land that farmers wished to make us aware of. Those changes may or may not have interfered with the area measurement, but farmers wanted to take the opportunity to reaffirm particular boundaries, to identify additional fence lines or whatever. I am sorry that the issue of taking a three-dimensional view of a field does not spring to mind as something that was ever raised with me at an industry forum or elsewhere.

**Q235 Mr Dunne:** I am surprised to hear that, because many of the complaints coming to me are about that.

**Johnston McNeill:** It may well have been an issue for some of your constituents. All I can suggest is that, obviously, there are still experts in the RPA who would be happy to address the issue for you.

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**Q236 Mr Dunne:** With the benefit of hindsight, do you think that it was appropriate to undertake a complete remapping of England in the midst of all the other changes that were being made?

**Johnston McNeill:** There was absolutely no choice. It was an EU requirement that the UK have a digitised mapping system for 2005. It had to be done. It was then attached to the change programme, and there was a move to a task-based approach following the PricewaterhouseCoopers review. It was something that just had to be put in place.

**Q237 Mr Dunne:** Did Scotland and Wales undertake the same exercise?

**Johnston McNeill:** Scotland and Wales had actually prepared a digitised map some years earlier.

**Q238 Mr Dunne:** They already had one?

**Johnston McNeill:** They had one. They had made the investment some considerable time before. We were still using paper maps when Scotland had a digitised map system.

**Q239 Mr Dunne:** Do you think it was appropriate that the maps should be handled by one office of the Agency while the claims were handled by another office?

**Johnston McNeill:** Actually, we had this debate at some length at the time. We started by having a mapping unit at each office, so that we could bring local knowledge and context to bear in dealing with farmers on mapping applications. The difficulty that arose from that was in the performance that was required and in obtaining a sufficiently centralised approach. At the end, we had to bring in Infoterra, the mapping organisation that had put the original 1.7 million maps on the system under contract, to deal with the large and unexpected additional demand for mapping. At that time, it was decided that it would be much better to have things in one place where they could be supervised and where Infoterra staff could work closely with our staff.

**Q240 Mr Dunne:** Did the need to achieve Gershon efficiency targets have any bearing on the fact that it was managed, as you say, on a centralised standards basis rather than on what would perhaps have been a more efficient basis from the farmers' point of view?

**Johnston McNeill:** It was not a Gershon issue as such. There was an issue with local contacts and with the ability to deal with inspectors who were based at local offices where problems might arise regarding the maps. Clarity was sought on where fence lines were and so on, to enable the mapping to be put in place. When a farmer raised a query that required an inspection, the inspector was able to go back and sit beside the mapper, and explain the issue and how it had been resolved. That was an advantage.

Quality of jobs was another issue. Moving to a task-based approach in the organisation involved moving away from people who could deal with complete claims, with the job satisfaction and direct customer contact that that carried with it. The decision to do that was taken as a result of the PricewaterhouseCoopers' Report. The attempt was

made to ensure that other quality jobs were available in offices, along with chances for promotion and experience.

**Q241 Mr Dunne:** With the benefit of hindsight, would you have recommended that the Gershon exercise be put on hold for your Agency, until the problems were sorted out?

**Johnston McNeill:** The unfortunate situation was that to get the PricewaterhouseCoopers' programme from 2000 through the Treasury, and to get funding in place, the overarching business plan had to be delivered, with efficiencies based largely on Gershon. The Department's efficiency objectives were largely placed on the RPA's shoulders.

**Q242 Mr Dunne:** Is that a yes or a no?

**Johnston McNeill:** The answer is that, because the money had been paid by the Treasury, we could not get away from the Gershon responsibilities. We sought the efficiencies and benefits that the Gershon review was supposed to produce in the following financial years.

**Q243 Mr Dunne:** Clearly, however, there were no benefits in terms of achieving SPS delivery on time and on schedule. It ended up costing the Government more than £300 million. That could be said to have been short-sighted.

**Johnston McNeill:** On cost overruns, we started out to build a three-bedroomed house but it became a five-bedroomed house. Changing any major programme midway has nugatory expense, so we obviously had to spend money that we did not see the benefit of. We achieved a lot nevertheless, as I mentioned.

In relation to the other parts of the £300 million that you mentioned, they came after my time, but there were disallowance issues and the Department decided that an interim payment would have to be made to get funds to farmers. With that came a disallowance cost, but we knew about that in January 2006, because it was a subject of discussion with the Permanent Secretary and others while I was there.

**Q244 Mr Mitchell:** You agreed, I think in answer to the Chairman, that England uniquely adopted an over-complex system that was difficult to implement. Is that correct?

**Johnston McNeill:** I am not sidestepping that question, but as I was not involved in the discussions with the Secretary of State and was not close to the political imperatives that were being met by the decision, I cannot really comment.

**Q245 Mr Mitchell:** Nevertheless, it was a complex system.

**Johnston McNeill:** Absolutely. We can agree on that.

**Q246 Mr Mitchell:** Were you consulted on whether to adopt that system or another, and on whether the RPA could actually carry it out?

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**Johnston McNeill:** Not really. We were asked in very broad terms whether, if we went down that road, the system could be delivered.

**Q247 Mr Mitchell:** And you said?

**Johnston McNeill:** We said that it would be very high risk, and that the more complex it was, the higher the risk would be. The advice from Accenture, and the general feeling, was that it would be possible, although difficult. The more complex the system, the more the levels of confidence reduce.

**Q248 Mr Mitchell:** In giving that advice, were you influenced by the effects of the Gershon cuts on your staff and on personal contact with the farmers? Were those taken into account when that advice was given.

**Johnston McNeill:** No. What was clear was that in those discussions with the Department, we also made the point that that would have significant financial consequences. If it wanted to deliver, obviously we would have to take numerous steps. We would have to pay Accenture more; we would have to consider, as I mentioned, de-scoping or using manual workarounds with lots of staff instead of a system. We made it clear that a lot of costs would flow from that decision.

**Q249 Mr Mitchell:** So you warned that you would have to take on extra staff—as you did—which would effectively cancel out the savings from Gershon?

**Johnston McNeill:** We said that there were likely to be significant cost implications, but yes, it would mean that Gershon would be affected.

**Q250 Mr Mitchell:** But were you saying that you could not carry it out without extra staff?

**Johnston McNeill:** We said that there would be consequences, from staffing issues to additional system cost development issues to consultancy costs, because the programme would take longer. We pointed to various areas of cost that would be incurred, but we did not go into exact detail, because it was not until the policy became clear that we were able to go to Accenture, for example, and say, “This is what we require; now here’s change request 247,” or whatever it was. Accenture would say to us, using the estimation model agreed in the contract, “That’s going to cost you £180,000,” or £250,000. So we were able to cost it as we went through and say to the Department, “This is the cost.”

**Q251 Mr Mitchell:** So your needs would be acceded to.

**Johnston McNeill:** Yes.

**Q252 Mr Mitchell:** Can you tell us from memory whether the cost of the extra staff in fact cancelled out the Gershon savings?

**Johnston McNeill:** I am sorry, I honestly do not have that information. The Rural Payments Agency would certainly have it.

**Q253 Mr Mitchell:** Your position, therefore, is that you were asked to do something and you said that you thought it could be done, although it was a high-risk strategy. But surely it is civil servants’ duty not only to do what Ministers want but to warn when it cannot be done. You seem to have failed in that responsibility—the warnings clearly were not heeded, and were therefore probably not strong enough. Should you not have said more loudly and clearly—was it not your responsibility as a civil servant to say loudly and clearly—“It can’t be done”?

**Johnston McNeill:** Based on what?

**Q254 Mr Mitchell:** Based on your knowledge of the area, the Department, the procedures and the complexity of the system.

**Johnston McNeill:** Well, let us look at that. I had an IT supplier who said, “We can do this.” I had consultants who said, “We can do this.” I had a management team that said, “This is a bit hellish, but we can probably just about do it.” I had a Department that said, “We can fund it,” so I could not say, “We can’t do this, because we haven’t got the funds.” On what basis, exactly, would I turn to the Secretary of State who had just had achieved the No. 1 major change in CAP reform and say, “We cannot do that”?

**Q255 Mr Mitchell:** The responsibility was yours, because you could carry the can. We in our turn have a Secretary of State and a Permanent Secretary saying to us, “It’s your fault,” because you said that it could be done and you did not do it.

**Johnston McNeill:** We said that it could be done, but it was extremely high risk, and it would be much simpler if you went for a much less complex scheme. That was what we were saying from day one. The fact is that it was nearly done, in that we started the payments in February. We had said that we would do that a year before, so the programme management and project management were actually very good. We said that we had to define entitlements in February 2006, and we did; that we would start payments in February 2006, and we did.

**Q256 Mr Mitchell:** Did you take any account of the fact that there were 21 policy changes in the process of doing it? Were you consulted about any of them?

**Johnston McNeill:** No. That was the problem. From the time the decision to go was taken until August 2004, when they notified the commission what way they were in fact going, we were constantly pointing to changes in policy and saying, “This is making it yet more complex, more difficult and more challenging.” Confidence levels were at 40% in the middle of 2005—that was known—but at the end of the day, it was still doable, just about.

**Q257 Mr Mitchell:** But you still went on saying that it could be done. The briefings for Lord Bach call on the Minister to carry the can, by the way, so somebody has to carry it, even though Tony Blair said that it would not be carrying the can but just moving along for further responsibilities, which

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have never materialised. The briefing for 21 September 2005 said: “all work streams remain on target to complete processing activity in time to facilitate an end-February start date for making payments.” That was your prediction six months before.

**Johnston McNeill:** At that time, those work streams probably were on target.

**Q258 Mr Mitchell:** No, that had changed, because by 23 November, the objective had changed to: “We continue to work towards full payments starting by the end of February.” In other words, “We are not saying that we are going to do it, but we are working towards doing it.” That is a much lower target.

**Johnston McNeill:** Yes, but delivering a major change programme with IT development and the introduction of various sections of system is not a linear process. A certain piece of IT has to be delivered, slotted in and made to work, then it has to be utilised having been tested out. It is extremely complex and challenging. The level of confidence can vary almost month by month. We could be worried about the testing levels, perhaps, if it has not proved as good as it might—

**Q259 Mr Mitchell:** I appreciate that, but Ministers are in a bubble, where news does not reach them that you are facing all these complex problems—

**Johnston McNeill:** I am sorry, I cannot accept that. Lord Bach was fully briefed on where we were and took a particular interest, as I think he said himself in his evidence.

**Q260 Mr Mitchell:** “We continue to work towards full payments starting by the end of February.” What caused the reduction from “we will achieve” to “we work towards” between September and November?

**Johnston McNeill:** Lord Bach was receiving regular briefings face to face from the director of operations, myself or the programme director. He was being briefed on progress certainly on a weekly basis and, as I mentioned earlier, towards the latter end he received almost daily Reports. They influenced his stance when he made comments or observations about progress.

**Q261 Mr Mitchell:** “We continue to work towards” continued through November, December and January, although by January had been added the words: “it is clear that not all claims will be fully validated by that point.” The words disappeared in February. Was it in February that it was made clear to you that there was a serious problem and that you were regarded as the cause of it?

**Johnston McNeill:** No, in February we had actually succeeded in defining entitlements and had started making payments, proving that the system worked and that all the work that had gone before would suffice. Our confidence at that stage was actually quite high. We thought, “This is very good.” It was then that we realised that it was not the system’s

problem but that we could not get the tasks through the system to enable sufficient payments. They were going through, but not fast enough.

**Mr Mitchell:** Yes.

**Johnston McNeill:** The system worked, but it was clogging up, as others have said.

**Q262 Mr Mitchell:** But between 28 February and 10 March it became clear that the whole thing had clogged up.

**Johnston McNeill:** Yes, it had clogged up. That is exactly right.

**Q263 Mr Mitchell:** Why were you not yelling out that that was happening before?

**Johnston McNeill:** We yelled out on 10 March.

**Q264 Mr Mitchell:** You were effectively called in and told by Ministers that it was clogging up on 10 March, but—

**Johnston McNeill:** No, we told Ministers that it had clogged up on 10 March. That was in a note from me to Lord Bach explaining what was happening.

**Q265 Mr Mitchell:** It was 10 March when you were told that the dissatisfaction centred on you and that you would have to go.

**Johnston McNeill:** No. That was when I informed Lord Bach that we were having serious trouble in getting level 2 validation through the system.

**Q266 Mr Mitchell:** So what happened then?

**Johnston McNeill:** Then we continued, with consultants and others, to try to identify whether there were any means by which we could get it freed up. There was another issue regarding blocked authorisations at the end, but to be frank that was pretty much dealt with by DEFRA legal. The big issue was how quickly we could get level 2 validations through the system.

**Q267 Mr Mitchell:** It looks from the Reports as though by March you were trying to shift the blame on to other people, such as the farmers, saying that there were inconsistencies in the claim data, that they were not sending back their mapping and that there were duplicate claims. By that stage you were trying to shift the blame on to the customer—

**Johnston McNeill:** I am sorry, I have no recollection of trying to blame anyone. I went straight to the Minister and explained as soon as I got word that the system was not going to deliver full payments by the end of March. That was completely honourable and correct. The first time I was aware that we were not going to achieve the target, I was talking to him in a matter of days having checked that that was definitely the case. Then we went to the discussion with the Secretary of State on 14 March and explained exactly the same to her, and she thanked me for my honesty. I was totally frank with her. I was in a position to point to the facts of the position as opposed to saying, two years earlier, “This cannot be done.” We had pretty much got there, and at the eleventh hour it failed.

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**Q268 Mr Mitchell:** So how did you feel when the responsibility was pinned on you after all the warnings you had emitted and after almost achieving it?

**Johnston McNeill:** At the end of the day, I was the Chief Executive of the organisation and I accept that I have to carry some responsibility, but there were many others involved and there was certainly a full and frank flow of information between the Agency and the Department. Others in the Department were very close to the matter, as the Environment, Food and Rural Affairs Select Committee Report notes.

**Q269 Mr Mitchell:** You say that others were involved—you said that there were six people Reporting to you.

**Johnston McNeill:** Yes.

**Q270 Mr Mitchell:** Are the others who were involved above or below you?

**Johnston McNeill:** I was thinking more of the others above me.

**Q271 Mr Mitchell:** So where would you pin blame, then?

**Johnston McNeill:** I am not in a position to pin blame on anyone. I do not think that that is appropriate. Others have looked at this and taken a view. That is for them to decide.

**Q272 Mr Mitchell:** Do you feel that you were left to carry the can, while people higher up escaped the blame?

**Johnston McNeill:** I have to carry a level of responsibility for this. I was the Chief Executive of the organisation. It goes with the job.

**Q273 Mr Mitchell:** Do you feel that other people should have carried responsibility as well?

**Johnston McNeill:** I really would rather not comment.

**Mr Mitchell:** Thank you.

**Q274 Mr Davidson:** Following up the point about mapping, do I take it that, as a result of the mapping exercise that has been undertaken, we will not in future have claims made for EU grants for sites in the middle of the North Sea, as you will be aware we had in the past? Are all these things behind us now?

**Johnston McNeill:** I had the dubious pleasure of explaining the North Sea claims to this Committee and I was quite certain I was never coming back. I sit here, hand on heart, and say that I do not believe that there are any claims in the North Sea on that system.

**Q275 Mr Davidson:** Okay. That raises an interesting point about three-dimensional mapping. Presumably, given that water moves, I am sure that the farmers would find a way of getting even more money out of the system.

The group devising the policy did not seem to be in adequate communication with the group that was going to be charged with delivering the policy as the process was evolving. Is that fair?

**Johnston McNeill:** I think that by fielding Hugh McKinnon and Bill Duncan, who were our two top people—they really had more experience than anyone else in the Rural Payments Agency in this area—we fielded the best team we could. I think the trouble is that, while one reaches agreement at EU level about what is going to happen and whatnot, the devil is in the detail. Hence you end up with the 21 major policy changes and 61 change requests to Accenture. As things become clearer, as the Commission makes things clear and as the thing evolves—I think that that was where we ran into the serious problems.

**Q276 Mr Davidson:** Right. Can I just clarify the 21 and 61 changes? Do those apply to Scotland, Wales and Northern Ireland as well?

**Johnston McNeill:** No, just to England.

**Q277 Mr Davidson:** So these were not changes coming from the EU, were they?

**Johnston McNeill:** They related to the EU's discussions regarding the Single Payment Scheme—the dynamic hybrid—which England had decided to adopt.

**Q278 Mr Davidson:** Fine. So when you were commenting on whether this scheme was able to be delivered, you were not aware at that stage that that number of policy changes and directional changes would be required. Is that fair?

**Johnston McNeill:** It is fair. Having started to ascertain as quickly as possible what the scheme would look like, we sat down with our policy colleagues at a two-day session. We went through the scheme in some detail and developed a number of assumptions as to what it would finally look like, because after all we had an IT contractor waiting to get on and we were going to be paying it whether or not it was working. We took the view that, to save time, we would sit down with the policy side, with the best expertise we could find, and spec out what we wanted.

**Q279 Mr Davidson:** So because of the general thrust adopted in respect of the scheme, you were having to second-guess how the EU would interpret various elements of the agreement, and you obviously must have made some mistakes in those assumptions that had to be revised. Is that so?

**Johnston McNeill:** I do not think that there were mistakes. The Department engaged in a number of consultations after the change from SDA to non-SDA to SDA and non-SDA rural, etc., which resulted from discussions between Ministers, the Secretary of State, the NFU and others. So things changed as a result of internal consultation between the policy makers and stakeholder groups. Also, the Commission—this was all new to it—was taking a view as to what it would accept and what it would not accept.

**Q280 Mr Davidson:** I understand that. So many of the changes that were introduced, all of which are expensive as we all know to our cost, came about

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partly as a result of stakeholder influence and stakeholder observations being acceded to by Ministers.

**Johnston McNeill:** I think this matter was discussed in some detail in the evidence given by the NFU to the Environment, Food and Rural Affairs Select Committee, for example. It is not something I was close to personally, but I have scanned it and it is obvious that there were a lot of discussions about what this should really look like in detail.

**Q281 Mr Davidson:** The NFU helped to dig the hole in the first place, and that is helpful to know.

On Accenture, we have heard repeatedly how IT contractors are grossly over-optimistic—they are also over-expensive, but that is a different matter. To what extent does that over-optimism apply here? Can we, with hindsight, look back and say that Accenture should not have said to you that this can be done, because it was obvious that it could not be done, or were the changes that were subsequently introduced so complex that no reasonable IT contractor could have been expected to cope with them?

**Johnston McNeill:** I think Accenture would argue with some force, as it has done in previous discussions in another Committee, that the system was delivered and worked. The very fact that we were able to process and make payments in February and March tends to support that.

**Q282 Mr Davidson:** As I understand it, the system worked but payments were made at a rate of 10 a week when 1,000 a week were needed. The system worked, but the difference was like that between buying a Ferrari or a Model T Ford. They both move along the road, but it depends on how fast you want to move, how much you want to carry and so on. I do not want to say that Accenture is the Model T Ford of such situations, but is that not a reasonable parallel to draw?

**Johnston McNeill:** I understand your point. We had some significant issues with system performance in terms of how many claims it could get through, its availability—it had to be brought down at night for work to be done and for modifications to be made—and so on. We had numerous discussions with Accenture about improving that. However, in terms of functionality, the system worked.

**Q283 Mr Davidson:** This system worked, but only if you did not use it to the necessary capacity. Then it was perfect.

**Johnston McNeill:** The same system has been used for 2006 claims, and I understand that the bulk of claims—96.14% or close to it—were dealt with by the end of June in line with EU requirements, so the system has worked well this year. It worked for us last year. I have no doubt—I agree with you—that the system required tidying up and needed to be less clunky. I accept that it was unreliable in some respects, but it worked and it continues to be developed.

**Q284 Mr Davidson:** So Accenture deserves some of the credit for what happened.

The notes state that when Mrs. Ghosh was with us, she described: “a conspiracy of optimism” in the Agency. Were you over-optimistic? Was her comment reasonable?

**Johnston McNeill:** No, I do not think so, nor was the comment in the NAO Report. I have asked repeatedly to see the optimistic Reports that I am supposed to have sent to Lord Bach.

What does not sit comfortably with me, Chairman, is when you tell me that we were over-optimistic, and on page 43 of the very same NAO Report you see a consistent line of red lights. That is our assessment in the RPA to the Executive Review Group in DEFRA of what we thought progress looked like. As you see, there is no shortage of red lights. It is a peculiar sort of optimism from where I am sitting.

You have had a Permanent Secretary before the Environment, Food and Rural Affairs Committee—Sir Brian Bender—who has openly discussed 40% confidence levels in the Agency, and you say that we were over-optimistic. I have asked repeatedly to see the papers. The papers that went to Lord Bach came jointly from Andy Lebrecht and me from CAPRI, and Brian Bender chaired the Executive Review Group, which also Reported to Ministers. I am not aware that we were over-optimistic anywhere. We were frank, forthright and explained the difficulties that we regularly faced.

**Q285 Mr Davidson:** I understand that. That is why I am confused. How could we have the situation that you told us about, and which was described in the NAO Report, yet Mrs Ghosh can still refer to: “a conspiracy of optimism”? That obviously implies a lack of communication and understanding somewhere. You are in front of us, so I am asking you. How do you think that could have arisen? Given that you are saying that Mrs Ghosh’s statement was not reasonable, how could she have got into a position where she was able to say that? She obviously misunderstood.

**Johnston McNeill:** Perhaps it was more suitable than reasonable.

**Q286 Mr Davidson:** That is a reasonable response. In terms of feedback, I cannot quite understand the point about how things just seem to have gone wrong apparently so suddenly at the end. Can you just clarify whether you think, with hindsight, that any particular improvements in the system of feeding back ought to have been made that would have allowed the Secretary of State or those in the Department who were making the decisions to be aware earlier; or were they also suffering from a conspiracy of optimism?

**Johnston McNeill:** No. I think the Report makes a fair observation, which I accept and which we had already come to realise as we got closer to the final systems development. In moving to a task-based approach to working we did not have a sophisticated enough understanding of the relationship between tasks outstanding and actual clearance. The work that is now being done, which in fact was

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commissioned with Accenture some time ago, is on better understanding; if you phone up about a claim, we want to know how many tasks relate to your claim. We also need to have the facility of getting those tasks attached to your claim.

To be perfectly frank, that is something of a step backward from the original concept from PricewaterhouseCoopers, which was almost to deskill the work and have tasks so that you could group the task in various categories, and issue desk instructions to staff who, with minimum training, could address those particular issues quickly and clear them off and hence get the claims through. But there is a need—and it is well recognised now—to move towards a better understanding of the relationship between those tasks and individual claims. If we had had that, we would have been able to say, “There are 20,000 claims here which have only two tasks each. Now, if we could isolate those tasks we could clear 40,000 tasks and pay 20,000 claims.” We did not have that facility, and that was an error. I accept that.

**Q287 Mr Davidson:** In terms of that error, would it have been reasonable for PricewaterhouseCoopers to have understood that situation before giving its advice on the breakdown of tasks?

**Johnston McNeill:** That side of things was one of the casualties that resulted when we were starting to de-scope the work that Accenture delivered. Accenture’s line was quite straight: “If you want this delivered and you want payments in February, we cannot do all this.” Certain parts of the work and certain parts of the scope, would have to be removed. While the sophisticated management and information system was all very well, the fact was that it was Rolls-Royce system; it was going to take a lot of work to build. It was going to have a serious impact and so parts of it, I am afraid, had to be sacrificed. On reflection, as I have said before, that was an error.

**Q288 Mr Davidson:** Did they tell you that it could not be done after they had got the money for it?

**Johnston McNeill:** No. The arrangement, as set out in the case study Report that the OGC produced, is that Accenture was on a fixed-price contract and tightly managed—perhaps over-tightly in terms of the contractual arrangements.

**Q289 Mr Bacon:** Mr McNeill, you said to the Select Committee on Environment, Food and Rural Affairs, in response to a question from Mr Duddridge, that “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.”<sup>10</sup> I think you meant by that a problem that made it not do-able. You have said that it was somewhere between 20 February and 10 March when you became aware that it was not do-able. Can you pinpoint more precisely when?

**Johnston McNeill:** Well, it became apparent that claims were moving through level 1 validation, which is a basic check on name, address and whatnot, and then level 2 validation was more complex. They were sticking in level 2 validation.

**Q290 Mr Bacon:** They were sticking? Clogging, in other words.

**Johnston McNeill:** Staff were working twilight shifts and maximising use of the system. They would clear a certain category of task only to discover that the impact of that would not be realised until the next day, because the system has to run overnight to enable you to understand the impact on the remaining tasks, or how many tasks would result. It started to become apparent that, indeed, additional tasks were being generated.

**Q291 Mr Bacon:** The doing of the tasks created more tasks: and indeed, paragraph 20 of the Report said that you were not able accurately to predict how many new tasks would be created by the performing of tasks. At what date, then, did it become clear to you, between 20 February and 10 March, that it was not do-able?

**Johnston McNeill:** The payments went out on 20 February, and it became clear that it was not do-able when we started to monitor payment performance.

**Q292 Mr Bacon:** After how many more days did you become aware that it was not do-able?

**Johnston McNeill:** I do not recollect that detail, but it was a relatively small number of days, after which the Agency went back and began investigating in detail what was happening.

**Q293 Mr Bacon:** Was it within a few days? Presumably, the situation became worse and worse?

**Johnston McNeill:** The period between 20 February and 10 March is 18 days.

**Q294 Mr Bacon:** I am not clear about why it took so long. You said to Mr David Taylor that the: “Department understood that this was a high risk, one of the top high risks” in Government. The Chairman of that Committee said that: “the scheme was high risk at the beginning, and it got riskier” and you answered that you “had a very sophisticated risk assessment model”. Later, you said: “I have to say it was a particularly sophisticated approach to assessing risk.”

I am grateful that you pointed out the Gateway Reviews, which showed that there were 16 reds in a row between December 2004 and March 2006, but no double reds. The Committee has an arrangement with Sir John Bourn that when there is a double red, a Permanent Secretary will notify him, and he will then notify the Chairman of the Committee. There were no double reds, but 16 reds on the chart on page 43 of the Report.

**Johnston McNeill:** That is not the OGC’s Report of risk, but the Agency’s. If you look, you will see that it states that it is the “Executive Group’s risk matrix”.

<sup>10</sup> Environment, Food and Rural Affairs Select Committee, 15 January 2007, HC 107-II



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**Q295 Mr Bacon:** I am sorry—you are absolutely right; the gateway review is on page 44. In fact, your assessment was still more bleak than the OGC's.

**Johnston McNeill:** Absolutely.

**Q296 Mr Bacon:** You said that you: “had a very sophisticated risk assessment model” and also that: “it was a particularly sophisticated approach to assessing risk”. However, your assessments, made over two years, marked the risk with red after red, which was a bleaker assessment than that of the OGC's external Gateway Review. How was it that you began for the first time in late February or early March—very late in the day—to realise that it was not do-able?

**Johnston McNeill:** The use of the traffic lights is confusing. Red does not mean stop. Red means that there are significant issues that need to be addressed, which means that one has to take mitigating action. For each red, we would have told the Executive Review Group what the business case, scope, schedule and resources issues were. We would go through that, and say what we needed to do about the red. We would address the issues for the month marked red, and move on.

**Q297 Mr Bacon:** I am aware of the fact that red does not mean stop. In fact, that is one of the criticisms that has been levelled at the OGC process, because a double, triple or quadruple red does not mean stop. No one will ever say that a situation is sufficiently bad that the risks of continuing are greater than the risks of not continuing. You are not responsible for the fact that red after red does not mean stop. However, given that your own internal assessment was so consistently bleak for so long, one might have thought that you, as Accounting Officer, might have said: “This is too bleak and it is not good enough, so my recommendation is that we should not continue.”

**Johnston McNeill:** We are talking about the Executive Review Group. My point is that I was sitting with the Permanent Secretary, as the Chief Executive of the Agency and the senior person responsible for the programme, and saying that we had such a level of risk. I also said that if we were to deliver, we must do this and that, and sought his and the board's agreement to proceed.

**Q298 Mr Bacon:** Having got agreement, would you then proceed?

**Johnston McNeill:** We would push on and make changes.

**Q299 Mr Bacon:** And then meet three months later and you would have another series of reds.

**Johnston McNeill:** Absolutely, because the programme was high risk, and incredibly complex and difficult.

**Q300 Mr Bacon:** I know—I think that we are all aware of that. Did it not occur to anyone at any point during the series of reds that the game was not worth the candle?

**Johnston McNeill:** What was the choice?

**Q301 Mr Bacon:** The choice, perhaps, was to stop. Are you saying that, because of EU rules, you had no choice but to continue through the digitised process?

**Johnston McNeill:** Certainly by the time that the EU were informed that we were going for SPS, there was going have to be some system in place to deal with the matter; otherwise there would be serious and significant difficulties.

In January 2006, we had a session with the then Permanent Secretary Helen Ghosh—she also mentions this in her evidence—in which we carried out a full risk assessment on all the options, and we considered whether to go for an interim payment system. That was some weeks before we ran into major problems in terms of getting the claims through the door. At that stage, we used a similar system. We put all the options on the table, so there was a checkpoint. Do we continue with this development, or do we go for an interim payment and find some other way round this? The decision was to continue with the RPA IT Application. That was despite the fact of the track record had been there previously.

**Q302 Mr Bacon:** That was the decision of the Executive Review Group?

**Johnston McNeill:** That was the decision of the Permanent Secretary, Helen Ghosh, who now says, “Perhaps in reflection, we should have done something else.”

**Q303 Mr Bacon:** One of the other things that Helen Ghosh said in evidence was that she suspected that no one in the Agency had fully understood the whole business process end to end? Do you think that was fair?

**Johnston McNeill:** That is not fair. I do not think that anyone in DEFRA, when they signed up to introducing task based working and work flow, had any comprehension what it might mean in terms of customer relations, of trying to develop a system to do it, or of trying to deal with something so complex as an SPS scheme. We were aware of the consequences of work flow and the task-based approach because we were building the system to do it. We had consultants telling us about it every day.

**Q304 Mr Bacon:** You bring me straight on to the question of why you had two SROs (Senior Responsible Owners). You had Mr Andy Lebrecht as the SRO for policy and you were the SRO for implementation. As I understand it, the whole point is to have one SRO who is responsible. That is the point.

**Johnston McNeill:** That was recommended by the OGC and rejected by the Department.

**Q305 Mr Bacon:** This notion of having two SROs, one for policy and one for implementation, is not common across Whitehall. It sounds like an attempt to drive a coach and horses through the idea of having an SRO.

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**Johnston McNeill:** We had two SROs and a Permanent Secretary directly involved in the programme on almost a daily basis.

**Q306 Mr Bacon:** You were, in effect, being responsible for decisions that you were not always party to.

**Johnston McNeill:** That is a fair point.

**Q307 Mr Bacon:** I would like to ask you about compensation. Mrs Ghosh wrote us a note in which she said that you had been offered half a year's salary, which was about £56,900, a lump sum of £42,000 and a pension of £12,000, making roughly £110,000<sup>11</sup>. That was then the subject of a dispute. We have had a note saying that the Civil Service Appeal Board has looked at your case<sup>12</sup>. Judging by the transcript of the EFRA Committee hearing, it is fairly obvious that the normal legal processes for dismissal do not appear to have been gone through. You appear to have been offered a sum of £60,792.50 as compensation, reduced to reflect the contribution that you made to your own dismissal. DEFRA is recommended to pay that amount to you. Is that an amount on top of the £56,900, the £42,000 and the £12,000 pension that you were offered?

**Johnston McNeill:** Yes. I have taken the case to the Civil Service Appeal Board and it has ruled that my dismissal was unfair. It then ruled on compensation, which initially started out significantly greater than £60,000.

**Q308 Mr Bacon:** Significantly greater than £60,000?

**Johnston McNeill:** Yes, but unfortunately it was capped at just over £60,000.

**Q309 Mr Bacon:** But that is in addition to the £110,000 that I was talking about?

**Johnston McNeill:** It is in addition to the other figures that you mentioned.

**Q310 Mr Bacon:** In addition to the £80,000, which is the cost of employing you from last March when you were removed from office until December when you ceased to be a civil servant. So, there was £190,000 or so plus £60,000, making a total cost to public funds of roughly £250,000. Is that correct? Am I in the right ball park?

**Johnston McNeill:** If you tell me.

**Q311 Mr Bacon:** I am just saying. So, £56,000 for a half-year salary, £42,000 a lump sum payment, and £12,000 a pension.

**Johnston McNeill:** That is incorrect. I have not taken my pension. If I were to take my pension now that I am 50, then, yes, I would receive a lump sum.

**Q312 Mr Bacon:** Basically, you were offered a half-year's salary and a £42,000 lump sum, which is roughly £100,000.

**Johnston McNeill:** No, the £42,000 is a pension, which I have paid into for 20 years.

**Q313 Mr Bacon:** I thought Mrs Ghosh called it a lump sum. Perhaps it was a lump sum commuted pension.

**Johnston McNeill:** Civil service pensions, like local government pensions, offer a lump sum plus an annual payment.

**Q314 Mr Bacon:** The £100,000 that Mrs Ghosh mentioned in that letter is in addition to any payment that you will get as a result of the tribunal process?

**Johnston McNeill:** Whether I proceed to tribunal or not is a matter of discussion with my solicitors.

**Q315 Mr Bacon:** The Department has already offered you some money. That was before you went to tribunal.

**Johnston McNeill:** Let us be clear about this. The Department has paid me six months in lieu of notice, because that was my contractual requirement. They could find no suitable grounds on which to dismiss me. For the record, I have had no disciplinary hearing or correspondence explaining exactly what I have done wrong, and no opportunity to appeal. I had to take it to the Civil Service Appeal Board, which is not the normal appeal process within a Department. The board ruled that I was unfairly dismissed, which I can assure you did not take long, and awarded me the maximum award—some £60,000. I am now considering whether to take further other issues, and that is a matter of discussion between me and my lawyers.

**Q316 Mr Bacon:** Have you made a decision on that?

**Johnston McNeill:** I have not.

**Q317 Mr Bacon:** I am not criticising you for getting what is legally owed to you, but simply trying to understand. Mrs. Ghosh, despite my asking her several times, has not provided this Committee with a letter, above her signature, stating the total cost to public funds. I am trying to understand what the total cost to public funds is.

**Johnston McNeill:** I have just described it as best I understand it.

**Q318 Mr Touhig:** I have just a few questions, Mr McNeill. In answer to Mr Curry, you made it clear that none of the Reports lay any blame on your shoulders for this debacle.

**Johnston McNeill:** Sorry, I did not say that. I think that I was trying to say that no one has pointed to me and said, "This guy spent three days a week on holiday," or whatever. There have been no such personal suggestions. I accept that, as Chief Executive of this organisation, I carry responsibility.

**Q319 Mr Touhig:** Yes, but in answer to Mr Curry, you said that none of the Reports said that you were responsible for this debacle.

**Johnston McNeill:** Not through personal actions, no. That was the point that I was trying to make.

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**Q320 Mr Touhig:** In answer to a question from the Chairman, I think that you said that you had been paid all of your bonuses and so forth. So in personal terms do you think that you did a good job—the best you could under the circumstances?

**Johnston McNeill:** I was asked to take on this job when I was Chief Executive of the Meat Hygiene Service. I was approached by recruitment consultants to take on the job. I was not particularly keen and could see that it was high risk. There were a number of issues, including something that has discussed here before—my, perhaps, lack of experience in IT development work and so on. I have put in new systems, but none of this magnitude. Basically, I was approached a number of times and, eventually, decided to apply, after the closing date I was given the job. Sir Brian Bender was the chair of the panel. I took the job on the basis that I would do it for three years. The point that I was trying to make was that I was then asked to stay on, which I did.

**Q321 Mr Touhig:** Until that time had your record been without suspicion.

**Johnston McNeill:** Absolutely.

**Q322 Mr Touhig:** You were just asked by Mr Bacon about Mrs Ghosh's comment when she said that she suspected that no one in the Agency fully understood the whole business process from end to end. Do you agree with that comment?

**Johnston McNeill:** I think that we would have a hard time building the system if we did not understand it.

**Q323 Mr Touhig:** You told the Chairman, at the beginning, that there were 21 policy changes.

**Johnston McNeill:** You might correct me on the number. It was 20-something.

**Q324 Mr Touhig:** What's one or two between friends—21, 22, whatever? The point that I am trying to get at is this: those changes came from DEFRA to you?

**Johnston McNeill:** Yes. That is true.

**Q325 Mr Touhig:** And that was an instruction on how it had to be done?

**Johnston McNeill:** Yes.

**Q326 Mr Touhig:** You went on to say that colleagues in your team talked about it being a bit hellish. There was only a 40% confidence level. I am trying to establish why on earth you started on this track at all, with all the red lights, which I know do not mean stop—things are not as simple as that. However, clearly you had grave concerns right at the beginning, and yet you were told by DEFRA—your lead Department—that you had to go down this track, about which you had all these anxieties.

**Johnston McNeill:** There are quotes, in evidence from the NFU, the Country Land and Business Association, the Tenant Farmers Association, in which senior DEFRA representatives commented that the RPA would do what the RPA was told to

do, and that this was a major policy initiative and success. We heard from the Secretary of State. The general line was that this had to be delivered.

**Q327 Mr Touhig:** So you were directed and this had to be done. You decided to attempt it. Did you put down reservations?

**Johnston McNeill:** Absolutely.

**Q328 Mr Touhig:** But you felt that there was a definite direction from the Department—a political direction—that this was how it had to be.

**Johnston McNeill:** And resources and significant funding were made available to push on and do this.

**Q329 Mr Touhig:** You said that you met the Secretary of State twice. When things started to go wrong and as you got into the process, did you seek to meet the Secretary of State and say, "Look, this is going desperately wrong." You were sending Reports to Ministers and so on.

**Johnston McNeill:** Contact with the Secretary of State was largely through Andy Lebrecht, who joint chaired the CAPRI board with me, and the Permanent Secretary, who chaired the Executive Review Group. I dealt directly with Lord Bach. That was the understood remit laid down by the Department.

**Q330 Mr Touhig:** As far as I can see, you had grave reservations about the whole system, which is most complex. It is delivering now, as you say, but it had failed to deliver, and many people would comment on what has gone on in the past. I cannot get my head around the fact that with all your concerns and with your previous record of being a first-class public servant, you allowed yourself to be persuaded to go down this track. You were a professional who was interviewed and given the job, but others who perhaps did not have your understanding were telling you, "You must do it this way." You were telling them, "It's going to be difficult." Why on earth did you not stop there and say, "No, this cannot be done"?

**Johnston McNeill:** To go back to my previous observation, at no time until we hit the payment period at the end of February-March 2006 did anyone say to me, "This cannot be done." That is the fact of the matter. If you can find them, I would like to meet them. The fact is that if I had said that to the Secretary of State, the first question—on which any Minister would have challenged me—would have been, "On what basis do you say that?"

Had Accenture been asked independently—do not forget that the Permanent Secretary was meeting Accenture on a regular basis—it would have said, "We think that it is doable." Had other consultants been asked, they would have said, "We think that it is doable." Where exactly was I getting the "No"? Yes, it was hellishly difficult, and yes it was going to be a major challenge—

**Q331 Mr Touhig:** Your staff were telling you that it was going to be a bit hellish; you said that your own people told you that it was going to be a bit hellish.

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**Johnston McNeill:** Yes, but they did not say that it could not be done.

**Q332 Mr Touhig:** They did not say that it could not be done?

**Johnston McNeill:** Never.

**Q333 Mr Touhig:** So despite your reservations, you felt that you had to go ahead?

**Johnston McNeill:** Yes, and we clearly identified the associated risks.

**Q334 Mr Touhig:** Have you ever before in your career been in such a position, in which you had to make such a judgment—when you had real doubts about carrying out a certain course of action, but were directed to do so?

**Johnston McNeill:** I have had situations, through periods with BSE, foot and mouth disease and other concerns, in which one has had to do things when perhaps one thought that they were not—from a public purse point of view, or whatever—quite appropriate, but that they had to be done.

**Q335 Mr Touhig:** You Reported to the Permanent Secretary and to Ministers. Did you at any time say in any of your Reports, “This is going desperately wrong. We have to stop, reappraise where we are and see how we can solve this differently”?

**Johnston McNeill:** Those discussions—“These are the problems, you’ve seen the red lights. This is how we are now going to have to move to get round them”—were regular. Discussions with the Department about needing additional funds or putting in manual work-arounds were regular.

**Q336 Mr Touhig:** Yes. I just cannot understand why, given all the concerns that you have expressed today—the difficulties, the 21 policy changes, the 40% confidence level and so forth—you ever allowed yourself to take this thing forward. It seems to me that, although you may not want to put it this way, this should not have gone ahead in the way that it did and that it was against all your best instincts and judgment.

**Johnston McNeill:** The Reports were going to the Executive Review Group, chaired by the Permanent Secretary. If, having been fully briefed as accounting officer, the Permanent Secretary was content, I have to say that it was made increasingly difficult for me to say, “I don’t think so.”

**Chairman:** There are two very brief supplementaries, because we have had a long hearing. One will come from Mr Mitchell and the other from Mr Curry. Then we shall draw the hearing to a close, if you do not mind, Mr McNeill.

**Q337 Mr Mitchell:** I have a question and an apology. The Chairman sent me a note saying that I was shouting at you, Mr McNeill, during my interrogation; I did not read it until I had finished. I

apologise; it is just a Yorkshireman’s way of expressing concern. I say that to my wife, too.

I noticed in the Single Payment Scheme briefing of 24 March, after you had gone, that an agreement had been reached with the Secretary of State on 21 March to simplify the process—only two checks being undertaken on a sample of three claims out of each batch of 50 claims, and a 2-hectare tolerance—2 hectares is more than the entire Mitchell hereditary estates—on claims. In other words, they were solving the problem by chucking money at it. Some claims that were not justified, which had they been administered under you would not have passed, were now being passed. The farmers who had complicated the system and had therefore delayed everything were being rewarded for their intransigence by a much softer regime. Is that correct?

**Johnston McNeill:** You mentioned the batch authorisations first. The decision taken after my departure, although—I had mentioned this to Margaret Beckett when we met—we had already pretty much cleared it up with DEFRA legal, was to reduce the batch authorisation process. That occurred at the very end of the system, literally before the cheque goes out, whereby a batch of 100 claims was taken and a six-point check was done. We had agreed at that stage that that was going to be changed. That was holding up some claims, but they tended to be a number of low-value claims; it was not going to make a great difference to us.

That deals with that first point, but you mentioned something else. I think that in respect of de minimis, less focus was to be made on small claims and more focus was to be made on larger claims, which would have tended to involve established customers. We had had discussions about that, but there had been resistance from ministers to going down that road before.

**Q338 Mr Mitchell:** They were getting out trouble by giving the farmers an easier ride.

**Johnston McNeill:** Yes, but the biggest step towards getting out of trouble was to move to make interim payments, but that also incurred a substantial disallowance.

**Q339 Mr Curry:** The Secretary of State might have said, “This is a damn good CAP reform. The dynamic hybrid is clearly the right way to go in England, whose agriculture is different from that of the other parts of the United Kingdom, but I do not want the gloss to be taken off this achievement. Therefore, we will have a year’s delay before we implement, as is entirely possible under the European Union rules. I want to ensure that this will go in without any problem.” What difference would such a decision have made?

**Johnston McNeill:** The final problem that we encountered in terms of running out of time was that, when we hit the problem in February and

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**Department for Environment, Food & Rural Affairs and Rural Payments Agency**

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March, we had no time left to meet the target. I still believe that we could have met the legal window of the end of June, but we could not meet the ministerial target of dealing with the bulk of payments by the end of March. If we had had more time, perhaps that would have made things more straightforward.

**Chairman:** Thank you, Mr McNeill. That concludes our hearing. This relates to a scheme year in 2005, and our original hearing was based on an NAO Report published on 18 October 2006. It is pity that we could not have talked to you earlier. I

can speak only for myself, but I think that you have been a good witness and you have defended your corner very well. This justifies the Committee's decision to persevere with you and to have you here. It is often more useful to talk to the person running these things on the ground rather than a Permanent Secretary. As in this case, we are often talking about a Permanent Secretary appointed after the event. You have put your side of the story, and it is good that we have done this in public. Thank you very much.

**Johnston McNeill:** Thank you.

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**Supplementary memorandum submitted by the Department for Environment, Food and Rural Affairs**

**Question 6 (Mr Edward Leigh): *Remaining 2005 Single Payment Scheme claims***

The Rural Payments Agency (RPA) confirmed to the Committee that the Agency aims to make all payments where the claimant has a valid entitlement by the end of 2006, except in complex cases where there are issues such as liquidation of the business or probate to be resolved. Final figures for the end of 2006 are currently being calculated so this note sets out the position on outstanding claims from the latest figures as at close of play on 6 December 2006.

911 claimants have yet to receive any payment, which include 39 complex cases. 2,184 claimants are awaiting a "top-up" payment after receiving a partial payment earlier in 2006.

In addition to the complex cases, the issues which have thus far prevented payment of the outstanding under €1,000 claims and over €1,000 claims where a top up is required are:

- Dual claims where two claimants have claimed against the same land—which are being progressed by a dedicated team.
- Commons claims which require a hectareage to be allocated where a dedicated team are aiming to complete allocations.
- Where a claim which has been validated (all tasks and queries resolved) but where entitlements have not been definitively established. A report has to be produced to allow critical analysis of each claim and reason for the entitlement issue.
- System issues where the claim has failed to batch for authorisation. We are working closely with our IT partners to resolve these claims. Claims that need to be re-worked because they have failed authorisation checks. These claims are being reviewed in order that the entitlement values are recalculated.
- Claims with registration issues where the Single Business Identifier (unique claimant registration number) is not set up correctly, eg the SBI has not been registered for the Single Payment Scheme (SPS), invalid bank account, or address details have been provided. RPA's Customer Registration department is working to resolve these issues

**Question 60 (Mr Don Touhig): *Rural Payments Agency personnel issues***

No staff who have been granted exit packages from RPA have been permanently re-engaged or re-employed following their departure from the Agency. RPA has a specific policy relating to this, which prohibits the re-engagement or re-employment of former staff who have left the organisation on early severance or early retirement terms.

However, as part of the Agency's effort to deliver SPS 2005, RPA's former Operations Director and two other former senior Operational managers were brought back for a short period of fee-paid consultancy work in support of the SPS Task Force, to draw on their immediate and in-depth knowledge of Regulatory procedures.

These arrangements began between 10 January 2006 and 21 January 2006 and had ended in all cases by 19 March 2006.

Note: the former RPA employees concerned were:

Hugh MacKinnon: from 10 January 2006 to 19 March 2006;

Bill Duncan: from 19 January 2006 to 17 March 2006;

Berwyn Williams: from 23 January 2006 to 14 February 2006.

Question 102 (Mr Philip Dunne): *The decision to use LIBOR + 1%*

The decision to use the London Interbank Offered Rate (LIBOR) + 1% as the rate to calculate interest levels for eligible 2005 SPS claimants who had not received their final claim value by the regulatory deadline was based on interest levels paid to similar cases under the former Integrated Administration and Control System (IACS) regulations.

This precedent was set following a case involving the late delivery of Arable Area Payment Scheme payments in 1995. These payments were made under IACS regulations which required all systems to be in place by 1 January 1996. Because of delays in making payments, 17% of claims had not been paid by the deadline. A review of a particular claim (Mr Minter) by the Parliamentary Commissioner for Administration found that MAFF should pay Mr Minter interest for the period his payment was delayed. The rate was set at LIBOR + 1%.

LIBOR + 1% is now the standard rate used in cases where it has been decided to pay interest to claimants who have not received their payment within the regulatory timeframe. It is also the rate used in England when EU Regulations require Paying Agencies to recover any overpayments and interest on those overpayments made to claimants.

Questions 107 (Mr Philip Dunne) and 154 (Mr Richard Bacon): *Tax implications of Single Payment Scheme*

Individual farmers are taxed in the same way as other traders. The recognition of the SPS is determined by the Statement of Standard Accounting Practice 4. The standard makes it clear that there should not be any recognition until the conditions attaching to it have been satisfied. In practice this means that SPS payments due during 2005 may become subject to income tax as part of the profits of a farmer's trade included in his accounts for a period of account ending in the 2005–06 or the 2006–07 tax year.

For those that account in 2005–06, the first income tax payment to reflect any SPS payments will be the final instalment of income tax payable in respect of the 2005–06 tax year, which is not due until 31 January 2007.

It is unlikely that any farmers will find themselves in the position of owing tax on a payment they have not received, but if it does occur, officials in Her Majesty's Revenue and Customs will take a pragmatic view of individual customer circumstances, including being flexible and prepared to help.

Questions 177 and 186 (Mr Richard Bacon): *Employment status of Johnston McNeill, former RPA Chief Executive*

From 16 March until the termination of Johnston McNeill's employment on 1 December 2006, Mr McNeill was on gardening leave whilst the problems in the RPA were fully examined and reported on by the National Audit Office and Office of Government Commerce. During that period, he was paid a basic salary amounting to £80,644.

His employment was terminated in accordance with his contractual entitlement which is six months pay in lieu of notice (£56,925) and he is able, if he wishes, to draw the pension he has accrued but actuarially reduced to take into account the longer period over which it is paid.

The actuarially reduced pension amounts to approximately £12,413 per annum plus a lump sum of approximately £42,815. An update on these figures is awaited from the Pensions Agency now that the last day of employment has been confirmed. These pension payments have not been enhanced in any way. There has not been any negotiation with Mr McNeill over the termination of his employment and no severance payment has been made.

The total value of bonus payments made to Mr McNeill over the four years from 2001–02 to 2004–05 is £62,398. He has not been paid any bonus in respect of 2005–06. Johnston McNeill's employer NI contributions between 16 March and 1 December 2006, was £9420.92.

We did not include a spreadsheet breaking down payments made to Johnston McNeill after his suspension (as Mr Bacon requested after the hearing) as we felt presenting the pay and pension received by

Mr McNeill in this format was inaccurate, as Civil Servants are not paid a daily rate, and the spreadsheet did not capture the separate pension payments Mr McNeill was entitled to as a contributor to the Civil Service Pension Scheme.

We felt that the clearest way to present the information to the Committee was the prose section.

## TIMELINE

### *14 March*

Rural Payment Agency advice to the Secretary of State was that there was no possible scenario by which the bulk of payments to farmers would be made by end March 2006. Prior to 14 March, RPA's firm advice had been that the bulk of the payments would be made by the end of March.

### *14 March*

Permanent Secretary, Helen Ghosh, recommended and SofS agreed that Johnston McNeill be removed from his post.

### *15 March*

Johnston McNeill called in—interview with Helen Ghosh, Francesca Okosi (HR Director). Advised Johnston McNeill was being asked to step down and go on gardening leave with immediate effect.

Weekly contact between HR Director and JM by phone from this point on.

### *16 March*

The Secretary of State spoke to Peter Ainsworth, James Paice and Chris Huhne to say she agreed with Helen Ghosh's recommendation that Johnston McNeill should be removed from his post as Chief Executive of the RPA.

### *20 April*

Estimate received from Pensions Agency on Flexible Early Retirement only and passed to HR Director.

### *11 May*

Defra HR asks for estimates for other pensions options.

### *1 June*

Further estimates received by Defra HR for all retirement options.

Johnston McNeill currently unwell, and is admitted to hospital. Periods of illness continue through summer, and into October.

### *18 July*

Corven Corporate Finance Ltd produced summary report for Defra on RPA.

### *17 October*

HMT confirms no need for approval from HMT for Actuarially Reduced pension.

### *18 October*

NAO Report on RPA published.

### *19 October*

Francesca Okosi writes to Johnston McNeill setting out terms of Actuarially reduced pension. Discussions continued between Francesca Okosi and Johnston McNeill's FDA representative.

### *27 October*

Johnston McNeill signed off sick, requests meeting with Francesca Okosi and FDA representative.

### *November*

Discussion between Defra HR and Johnston McNeill and his representatives.

### *1 December*

Helen Ghosh sent letter of termination of employment to Johnston McNeill to take immediate effect with contractual 6 months pay in lieu of notice and an actuarially reduced pension.

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**Correspondence from Permanent Secretary, Department for Environment, Food and Rural Affairs**

**Johnston McNeill Employment Tribunal Application**

1. On **5 March 2007**, the Department received a copy of the Notice Of Claim from the Reading Employment Tribunal. Johnston McNeill is claiming:

- Unfair dismissal.
- Failure to follow the statutory dismissal procedures.
- Failure to provide written reasons for the dismissal.
- Dismissal due to the claimant making qualifying disclosures that the RPA would not be able to meet its statutory obligations.
- Breach of contract:
  - failure to pay 18.5% of salary in respect of performance related pay
  - failure to award pay increase of 2.5-3%.
- Breach of Working Time Regulations:
  - failure to pay untaken holiday pay amounting to 31days

2. Defra has denied that the dismissal itself was unfair and:

- (a) It is denied that the reason for the dismissal was the making of a protected disclosure.
- (b) Written reasons for the dismissal were given in the dismissal letter.
- (c) There is no breach of contract as he failed to meet critical performance targets and he had no contractual entitlement to any pay increase.
- (d) There is no breach of the Working Time Regulations as he was paid in lieu of untaken holiday within the holiday year starting on 1<sup>st</sup> September 2006 and the termination of his employment on 1 December 2006.

3. The Grounds of Resistance to this claim were sent to the Employment Tribunal on **28 March**, the same day as the Civil Service Appeal Board (CSAB) hearing, with a request that the Tribunal hearing be stayed until the decision of the CSAB had been received. The hearing was stayed until **29 June** and the CSAB decision was issued on **14 June**.

4. The CSAB concluded that there had been reasonable grounds for the Department to have concluded that they had lost confidence and trust in Mr McNeill's competence, but that Defra had failed to adhere to formal processes, and in particular had not provided an opportunity for appeal to an independent adjudicator. The CSAB therefore require Defra to pay compensation—but a reduced compensation award to reflect their conclusions that Mr McNeil had contributed to his own dismissal.

5. The Employment Tribunal was advised on **21 June** that the decision of the CSAB had been received, and the tribunal asked Mr Johnston McNeill to write to them (by **10 July**) to confirm whether he wished the case to proceed to listing for a Hearing date.

6. In the light of their conclusions, the CSAB wrote on **4 July** to confirm that the Department should award Mr McNeill a compensation figure of £60,792.50 (reduced by 50% to reflect the contribution Mr McNeil made to his own dismissal).

*9 July 2006*

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In response to Richard Bacon's request for a newly formatted set of figures, please find a list of all payments made to Johnston McNeill below. It maybe helpful to remind you of when we sent this information.

- On 10 January 2007, supplementary evidence from the PAC hearing on 30 October 2006 was provided (including information on the basic salary during suspension £80,644; 6 months pay in lieu of notice £56,925 and actuarially reduced pension of £12,413 per annum plus lump sum £42, 815).
- On 25 June 2007, information was provided to the PAC on the employer's NI contributions from 16 March to 1 December 2006, amounting to £9,420.92.
- On 6 July 2007, a briefing was provided for the PAC meeting on 9 July 2007 which referred to the CSAB compensation figure of £60,792.50.
- On 10 July 2007, background information was provided on the compensation awarded by the CSAB.

It is worth noting that even if we had introduced poor performance proceedings immediately in March 2006, we would still have needed to make payment in lieu of notice amounting to £60,435.

As a note on the figures below, you will see that this includes a separate figure for his contractual 'Additional Housing Allowance', and slightly revised pension figures which have been recently updated by PPPA.



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*Contractual payments/costs*

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Basic salary during suspension (16 March—1 December)	£80,644
Additional Housing Cost Allowance during suspension	£4,972
Employers NI contribution during suspension	£9,421
Annual leave accrued 1 September—1 December (7.5 days)	£2,437
Six months pay in lieu of notice	£56,925
Six months in lieu of Additional Housing Cost Allowance	£3,510
<b>TOTAL</b>	<b>£157,909</b>

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*Compensation payments awarded by CSAB*

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Basic award reduced by 50% for contribution to dismissal	£2,392.50
Loss of future earnings (maximum ET award)	£58,400
<b>TOTAL</b>	<b>£60,792.50</b>

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*Pension payment*

Johnston McNeill has the option of drawing his accrued pension early but it would actuarially reduced to reflect the longer period over which it would be payable. He has not yet indicated any intention to draw this pension early.

As at 2 December this actuarially reduced pension amounted to £12,628.50 pa and the pension lump sum amounted to £44,387.30.

*19 July 2007*

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Following my letter of 19 July and earlier correspondence which set details of payments made to Johnston McNeill, you have asked me to write once more to confirm the total of the payments made as set out in that letter.

I can confirm that since 16 March 2006, he has received the following payments:

- £90,474—in salary costs;
- £60,435—payment in lieu of notice;
- £60,792.50—compensation payment awarded by the CSAB.

Therefore, the total amounts to £218,701.50.

To note that the pension lump sum of £44,387.30 should not be included in the payment figure, since he would have been entitled to this whether past or future, or in whatever circumstances he has left the Department as a result of contributions made under the Civil Service Pension Scheme. Our actions since 16 March would not have made any difference to this sum.

*26 July 2007*

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