House of Commons

Public Accounts Committee

A second progress update on the administration of the Single Payment Scheme by the Rural Payments Agency

First Report of Session 2009–10

Report, together with formal minutes and oral and written evidence

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The Public Accounts Committee

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/pac. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Sîan Woodward (Clerk), Emily Gregory (Senior Committee Assistant), Pam Morris and Jane Lauder (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

This is the third time in three years that we have taken evidence on the £1.6 billion Single Payment Scheme in England administered by the Rural Payments Agency (the Agency) and the Department for Environment, Food and Rural Affairs (the Department). On the basis of a follow up report by the Comptroller and Auditor General, we examined the progress made in addressing our previous concerns and the capacity of senior managers in the Agency and the Department to resolve matters.[1]

Oversight of the Single Payment Scheme is a singular example of comprehensively poor administration on a grand scale. The paucity of good management information in the Agency and the complacent oversight by the Department have acted to obscure the true situation for far too long. A focus over the last two and a half years in bringing forward payments to farmers has enabled the Agency to bring its deadline forward by nearly seven weeks, but this is still six weeks off the deadline it had planned and a long way short of the standards set in Wales, Scotland and Northern Ireland. In the meantime, there has been negligible attention to the protection of tax payers' interests. Despite all the assurances previously given to this Committee, the Agency has spent £350 million on a cumbersome IT system that can only be supported at huge cost and which is increasingly at risk of becoming obsolete. The data held in the system remains riddled with errors and efforts to recover overpayments have been slow, disorganised and haphazard.

The root cause of this debacle has been poor leadership within the Agency and a lack of attention by the Department. Each claim costs over six times more to process in England than Scotland and yet the Chief Executive received a performance bonus in 2008–09. The Department was not able to demonstrate an adequate grasp of the costs of administering the scheme. There has been a high turnover of expensive senior management appointments in the Agency and it appears to have been reluctant to face up to the problems by taking the firm action required to turn the organisation round.

Responsibility rests with the Accounting Officers to resolve this misadministration. We are very concerned at the absence of progress to date and we look to the Departmental Accounting Officer to take personal responsibility for this scheme, develop an action plan and to report back to us regularly on progress. We expect to receive the first progress report by the end of January 2010 and to see clear evidence that our concerns are being properly addressed.

1 C&AG's Report, *A Second Progress Update on the Administration of the Single Payment Scheme by the Rural Payments Agency*, HC (2008–09) 880

Conclusions and recommendations

1. **The Departmental and Agency Accounting Officers have failed to get to grips with the issues, resulting in a lack of any clear progress in addressing our concerns. This is wholly unacceptable.** In the circumstances we have no option but to put the Department on report. We insisted and the Department agreed to provide this Committee with a clear action plan by the end of January 2010 that would explain how they have addressed all of the National Audit Office's recommendations and would provide evidence of what progress they had made. We recommend that the Department sends us a progress report on a three monthly basis thereafter, and that these reports should be validated by the National Audit Office so that we can avoid the Accounting Officers having to appear before us again on this issue.

2. **The Agency paid out over 96% of funds for the 2008 scheme nearly seven weeks ahead of the European Commission deadline, but this is still a long way short of their targets and the standards achieved by other countries.** The progress has also been at the expense of improvements in efficiency or accuracy. We recommend that the Department and Agency agree more challenging targets for any new systems they introduce, but in the interim the focus should now be on reducing the costs and improving the accuracy of the payments made.

3. **The £350 million IT systems are cumbersome, overly complex and continue to soak up large sums of money.** The work required to keep the systems operational have moved above and beyond what was originally specified in the Agency's Recovery Campaign and, with £84 million expenditure on Accenture in the last two financial years, the high spending looks set to continue. The Department should prepare a business case to establish whether it would be better to invest in a new IT system instead.

4. **Neither the Department nor the Agency were able to give the Committee a satisfactory explanation of the costs of employing Accenture consultants to maintain the Agency's IT system, though they had paid Accenture £84 million in total over the last two financial years.** We therefore asked them to write to us to provide details of the number of consultants involved in Scheme work, the role they play, and their costs over the last 6 years. We expect the Department to provide this analysis in the action plan and progress report they have promised to send us by the end of January 2010.

5. **Many of the IT software and hardware packages used to process claims have already fallen out of support, thereby increasing the risk of a system failure.** Earlier action would have allowed the Agency to avoid this situation arising but now that it has, the Department and Agency should prepare a risk assessment so that critical systems can be supported but further expenditure can be minimised until we know whether an alternative system would be more appropriate.

6. **Inaccurate data in the Agency's systems, weak management information and poor record keeping hinder effective administration.** The Department's commissioning of an external organisation to develop an action plan to tidy up claimants' data does not go far enough. The Department should commission an external organisation to tidy up and clean each claim in readiness for any new system, thereby freeing up the Agency to process 2009 claims.

7. **Rather than put their energies into tackling the high processing costs, the Department and its Agency have muddied the issue by looking for ways to understate the true figures.** This Committee takes a dim view of such 'smoke screen' tactics, which seem designed to play down the seriousness of a situation by questioning the facts of a National Audit Office report when there are no strong grounds to do so. The Department and the Agency should acknowledge the full scale of their processing costs, including the annual costs of the bespoke IT system. The Treasury should reiterate to all public bodies the need to be transparent about the full costs of their processes and systems and to measure performance on the basis of all relevant cost elements.

8. **The average cost of administering each claim by the Agency in 2008–09 (£1,743) is around six times the amount in Scotland.** This difference is partly explained by the decision to introduce a more complex scheme in England but, even taking that into account, the administration costs are unacceptably high. The time is right for a much more fundamental re-think of how much is being spent on administering claims by the Agency. The Department should draw up clear plans of how it will reduce IT, staff and other administrative costs in the Agency and should set firm budgets and improvement targets for each of these three cost elements. In drawing up its plans, it should consider how to reduce overheads and whether to develop alternative IT systems or to contract out some functions.

9. **The Agency's overpayment recovery has been woefully slow, haphazard and ineffective, with only around £25 million recovered compared with around £90 million overpaid.** Farmers have received letters out of the blue with baffling calculations to ask for repayment. Recoveries are typically made by offsetting the sums from subsequent payments but there is a high risk of inequitable treatment. Systematic recovery depends on tidying the data and we recommend that the Department tasks an external organisation with recovering overpayments where it is cost effective to do so.

10. **Poor leadership at the top of the Agency combined with the frequent turnover of senior managers in recent years have contributed significantly to the Agency's administrative problems.** The Department should assess the Agency's management capability, reduce the demands on the organisation by considering the transfer of other responsibilities elsewhere and, if necessary, appoint someone with experience in turning around failing organisations.

11. **Despite the ongoing problems with this scheme, the Department assessed the Agency's performance positively in 2008–09 which enabled the Chief Executive to receive a performance bonus.** Remuneration of senior management should be more closely aligned with the organisation's operational performance, including its success in addressing this Committee's concerns.

12. **The Department failed to scrutinise the Agency's governance rigorously, assessed the Agency's performance over-optimistically, and failed to hold the Agency to account for key areas of performance, such as overpayment recovery and IT operational risk.** The Department should introduce a new target regime which focuses on all the Scheme's key risks, and uses a new and comprehensive set of metrics to aid proper monitoring of performance. A clear and robust service level agreement should be introduced between the Department and Agency based on the new targets to formalise their respective responsibilities.

1 Progress in administering the scheme

1. The Single Payment Scheme entitles farmers to claim payment for maintaining their land in good agricultural and environmental condition subject to complying with the relevant European Union regulations. The sums involved each year are considerable, with payments to farmers in England through the 2008 Single Payment Scheme amounting to £1.63 billion. The Rural Payments Agency (the Agency) administers the scheme on behalf of the Department for Environment, Food and Rural Affairs (the Department).[2]

2. The implementation of the scheme in England in 2005 was beset with problems. We reported previously how the Department's decision to introduce the most complex model available for the scheme alongside a wider business change programme in the Agency caused considerable problems and resulted in many payments not being made before the European Commission's deadline of 30th June 2006. We reported again in July 2008 on the continuing errors made by the Agency in processing claims and the need for more urgency in recovering overpayments from farmers. The follow up examination from the National Audit Office in October 2009 is one of the most damning reports that this Committee has received and shows this scheme to be a case example of misadministration.[3]

3. Since the initial problems with implementation, the focus of the Department and the Agency has been on improving the service to farmers. In April 2007 the Department allocated £40.1 million to the Agency for a three year Recovery Campaign which involved a fundamental redesign of the IT systems so that customers could expect to receive earlier and more accurate payments. The changes have had limited success in bringing forward the timing of payments to farmers. As **Figure 1** shows, the Agency managed to reach the European Commission target of 96.14% of payments under the 2008 scheme by 13th May 2009, nearly seven weeks ahead of the end of June deadline. The Agency has not managed however, to reach the target set out in its Recovery Campaign to make 96.14% of payments by value by 31st March 2009. The timing of payments remains a long way behind the standards set in Wales, Northern Ireland and Scotland. By the end of December 2008 the Agency had paid out 59% of funds compared with between 76% and 87% in the other home countries.[4]

4. At a previous hearing on the Single Payment Scheme in January 2008 we received assurances from the Accounting Officers for the Department and the Agency that the problems with this scheme were being resolved and that good progress was being made in recovering overpayments.[5] We received no satisfactory explanation of why so little progress has been made in the last two years,[6] although the findings from the C&AG's report[7], and

2 C&AG's Report, para 1.1

3 Qq 74, 104 and 161; Committee of Public Accounts, Fifty-fifth Report of Session 2006–07, *The Delays in Administering the 2005 Single Payment Scheme in England*, HC 893; Committee of Public Accounts, Twenty-ninth Report of Session 2007–08, *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*, HC 285; C&AG's Report, para 2.15

4 Qq 12, 55, 70, 73, and 75–76; C&AG's Report, paras 2.2, 2.9, 2.16 and 2.18

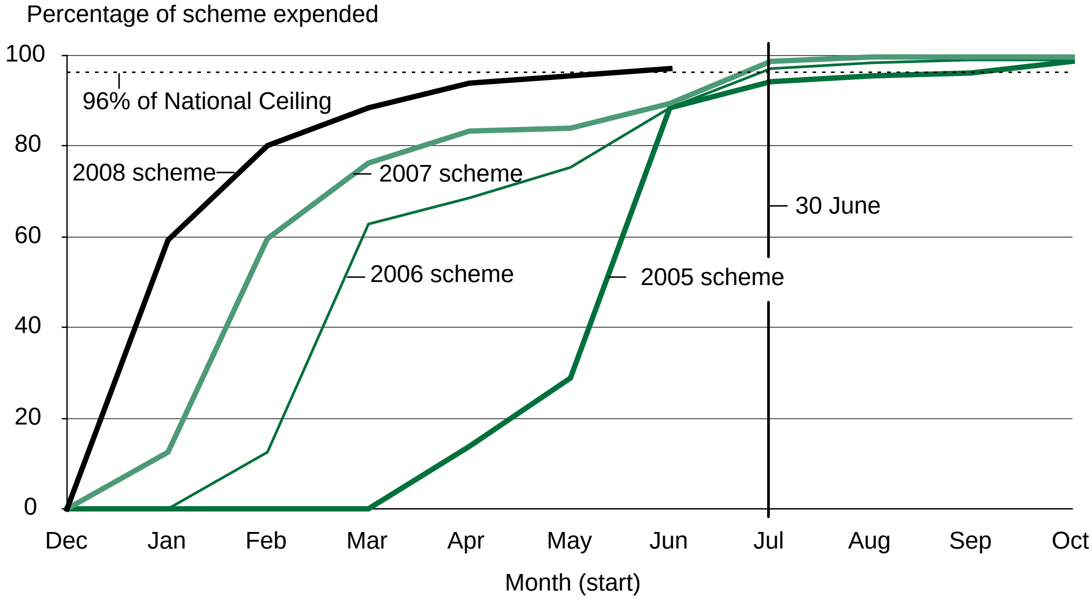
5 Qq 19, 37, 65–68, 71 and 146; Committee of Public Accounts, *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*

6 Qq 8–9, 69 and 70

7 C&AG's Report, para 17

the acknowledgement from witnesses at our hearing on 26th October 2009 established that the Department and Agency had significantly underestimated the scale of the work needed to resolve the problems.[8]

Figure 1: Payment of Scheme Funds by the Agency



Source: C&AG's Report, Figure 5

5. The original IT system was fundamentally flawed. At the January 2008 hearing however, the witnesses indicated that the IT faults had largely been rectified and that the four upgrades in the Recovery Campaign would resolve outstanding issues quickly.[9] It is true that the systems are more stable than previously, but a review by Gartner in 2009 established that system design has improved very little.[10]

6. The National Audit Office estimated that IT expenditure on the scheme had reached some £350 million[11] although the Department and the Agency indicated that a large part of this sum was on day-to-day operations rather than expenditure under the recovery campaign. Whatever the purpose of the expenditure, the costs of this IT system are unacceptably high and continue to add up. The Agency remains heavily reliant on its main contractor, Accenture, to keep the IT systems operating and had paid £84 million to Accenture in total over the least two financial years. The Department and Agency were not able to provide the Committee with a satisfactory explanation of these costs, nor were they able to convince us that they could achieve a competitive price for any subsequent contract renewal.[12]

7. As a result of the considerable IT expenditure the Agency has ended up with a cumbersome system that is difficult to maintain. The two main systems supporting the

8 Q 7

9 Q 71; Committee of Public Accounts, *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*

10 Q 7; C&AG's Report, paras 2.3–2.4

11 C&AG's Report, para 2.8

12 Qq 1, 6–7, 37, 39, 50, 129 and 158–159; C&AG's Report, para 2.4 and 2.10

scheme, RITA and Oregon, have been heavily customised such that ongoing maintenance, repair and upgrades are likely to be expensive and challenging. At least 29 out of 54 software and hardware elements of the scheme will no longer be supported by the end of 2009. The Agency has estimated that it will cost around £12 million to support RITA and Oregon until 2012, but it is still exploring options to procure extended support. In the meantime, it is difficult to assess the seriousness of the risk as the complexity of the systems makes it difficult to determine the extent of interaction between them.[13]

8. The data held on the IT systems continue to contain inaccuracies which undermine the credibility of the Agency and thus the Department. Whilst the inaccuracies might appear relatively small in relation to the total scheme payments of £1.63 billion, some of the overpayments to farmers were considerable and are likely to be repeated each year until corrected. The Chief Executive had previously assured us in January 2008 that he was much more confident that subsequent payments by the Agency would be more accurate.[14] Yet the Agency estimated that its overpayments since February 2008 had amounted to £25 million.[15]

9. The Agency underestimated the extent of the data inaccuracies and despite our previous concerns over the level of overpayments, neither the Department nor the Agency had subsequently given sufficient attention to the issue. The Department has since commissioned Deloitte to establish the likely extent of debt arising from overpayments and will report the outcome of their work to our Committee by the end of January 2010.[16]

10. Progress in recovering overpayments has been slow, disorganised and haphazard. The Agency is likely to have made overpayments of between £55 million and £90 million but had only recovered some £25 million.[17] The exercise to recover overpayments did not effectively begin until January 2008 and the Agency did not commence recovery of even straightforward duplicate payments made in August 2006 until April 2008, some 20 months later.[18]

11. Even with such a slow start to recovering overpayments, the approach adopted by the Agency has been unacceptable. Letters arriving out of the blue with baffling calculations have caused concern and anxiety for farmers and necessitated further work to try and check the amounts due. Farmers had little option other than to agree on a 'without prejudice' basis to avoid holding up payment of the remainder of their 2008 claim. We would be surprised if the average ex gratia payment to farmers of £250 reflected the stress and anxiety experienced and additional costs they might have incurred as a result of the uncertainties.[19]

13 C&AG's Report, paras 2.6–2.7

14 Q 37; Committee of Public Accounts, *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*

15 Q 9; C&AG's Report, paras 3.3, 3.7, 3.9 and 3.17

16 Qq 8–9, 68 and 160–161

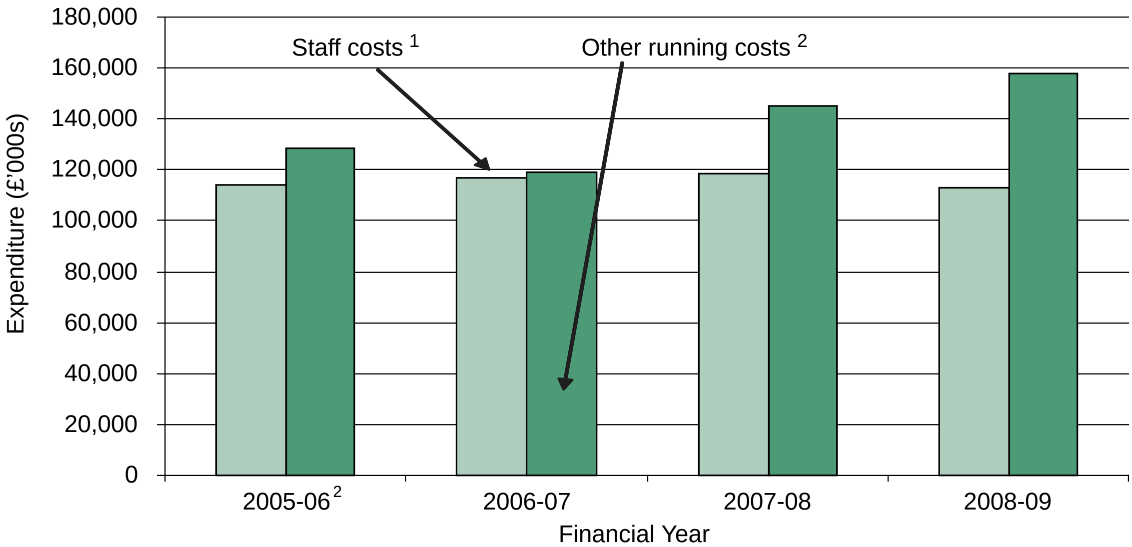
17 C&AG's Report, para 3.3

18 Q 49; C&AG's Report, paras 3.3, 3.7 and 3.10

19 Qq 49 and 134–135; C&AG's Report, paras 11, 3.7, 3.10 and 3.18

12. In 2008–09 each claim cost, on average, £1,743 to process, compared with just £285 per claim in Scotland. This difference is partly explained by the decision to introduce a more complex scheme in England but, even taking that into account, the administration costs are unacceptably high. Staff numbers working on the scheme have decreased by approximately 470 full time equivalent posts since 2006–07 but we cannot see how these reductions have led to the improvements in efficiency claimed by the Department. Drawing on the figures reported by the Agency in its financial accounts each year, total staff costs for all its schemes have reduced by some £0.9 million between 2005–06 and 2008–09. This has been more than offset by an increase in other running costs of £29 million over the same period (see **Figure 2**). In addition, on the basis that 72% of the Agency's IT costs are on the single payment scheme, the National Audit Office established that amortised and running cost expenditure on IT has remained broadly constant at around £63 million a year between 2005–06 and 2008–09.[20]

Figure 2: Staff and other running costs incurred by the Rural Payments Agency



Notes: [1] Permanent and Agency staff costs
[2] The figures for 2005-06 were restated to include the costs associated with the Horticultural Marketing Inspectorate which merged with the Agency on 1 April 2006.

Source: Rural Payments Agency Annual Accounts for 2005–06, 2006–07, 2007–08 and 2008–09

20 Qq 1–5, 16, 55, 68–70, 73–74, 76 and 116; C&AG's Report, paras 2.12–2.13

2 Leadership capability and oversight within the Department and the Agency

13. There have been serious shortcomings in senior management oversight of the scheme within the Agency: the objectives of the Recovery Campaign were not adequately defined; there was no effective strategic plan setting out how the Agency would determine the extent of overpayments or monitor the recovery of sums owed; and there was an absence of decisive action by the Management Board. Despite these shortcomings the Chief Executive of the Agency received a performance bonus of around £11,000 in 2008–09.[21]

14. According to the 2008–09 financial accounts of the Agency,[22] the salaries and bonuses of senior managers in the organisation amounted to £845,000–£890,000 in 2008–09, compared with £757,000–£792,000 in 2007–08. The high costs partly reflect the two changes in Chief Operating Officer in 2008 as well as changes in Finance Director and Human Resources Director. A further change is expected when the contract for the current Chief Operating Officer expires in March 2010.[23]

15. The Accounting Officer for the Agency has been in post since May 2006 but he has found it difficult to recruit and retain experienced managers. The recruitment difficulties may be due in part to the reputation of the Agency, but we do not understand why the Department could not have sought to recruit individuals who specialise in turning around organisations in difficulty.[24]

16. The Departmental Accounting Officer confirmed the validity of the National Audit Office's calculation of £1,743 for the average administrative cost of processing each claim and yet offered an alternative cost of £700 per claim. The Department was unconvincing in its explanation of why its interpretation was more reliable than that provided by the National Audit Office. The Department's refusal to acknowledge the full extent of the costs involved in administering claims was disappointing and did not instil a sense of confidence that it would take decisive action to reduce costs in future. Similarly, the Department failed to grasp the significance and seriousness of the Comptroller and Auditor General's qualification of his opinion on their 2008–09 financial accounts, regarding it as simply a technical issue, whereas the £92 million disallowance by the European Commission confirmed that this expenditure had not complied with the scheme rules and thus Parliamentary intention.[25]

17. Previous assurances by the Department and the Agency proved over-optimistic and earlier confidence that matters were being addressed were clearly misplaced. For example, the assurances previously given to this Committee on resolving the data inaccuracies were

21 Qq 81–84; C&AG's Report, paras 2.9, 3.7 and 4.2

22 Rural Payments Agency Annual Report 2008-09, page 27

23 Qq 24–25, 92, 95–98 and 101–102; C&AG's Report, para 3.12

24 Qq 18–21, 77–79, 85–91, 93–94, 98–100 and 103–104

25 Qq 2–6, 9–10, 39, 50, 111, 116–119 and 142; C&AG's Report, para 2.13

evidently made without a proper understanding of the work still outstanding.[26] This misplaced confidence was apparent again at our hearing in October 2009. It is understandable that the Accounting Officers for the Department and the Agency want to focus on the positive progress made, but their explanation that efficiency gains are being realised and that payments are being made much quicker is not adequately borne out by the facts.[27]

18. There were further assurances that the appointment of Deloitte would resolve the uncertainties over data inaccuracies so that remedial action could be taken within three months of the hearing, and that further efficiency gains are being made through staff reductions at the Agency's offices in Reading. In view of the past record of misplaced confidence in resolving the problems with this scheme, the Committee insisted and the Departmental Accounting Officer agreed to report back on the progress made before the end of January 2010.[28]

19. Considerable responsibility must lie at the Department's door, as it failed to spot ongoing problems despite running two oversight boards. The Department has used Ministerial targets and management information to scrutinise Agency performance but has not engaged adequately with the issues raised previously by this Committee. The different working groups established to negotiate potential disallowance costs with the European Commission will help to mitigate previous mistakes but they also indicate a tendency by the Department not to focus adequately on resolving the ongoing problems. After three and a half years the Department commissioned another review of the Agency in September 2009 to determine what is actually going on. This review is due to be completed by March 2010 and is a late response to longstanding issues.[29]

26 Q 37; Committee of Public Accounts, *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*

27 Qq 1–2, 9, 11–12, 70–73 and 75–76; C&AG's Report, para 17

28 Qq 9 and 160

29 Qq 144–148; C&AG's Report, paras 16, and 4.7–4.9

Formal Minutes

Monday 30 November 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Paul Burstow
Mr Douglas Carswell
Rt Hon David Curry
Mr Ian Davidson
Nigel Griffiths
Rt Hon Keith Hill
Mr Austin Mitchell
Geraldine Smith
Rt Hon Alan Williams

Draft Report (*A second progress update on the administration of the Single Payment Scheme by the Rural Payments Agency*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 19 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the First 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 till Wednesday 2 December at 3.30 pm

Witnesses

List of written evidence

List of Reports from the Committee of Public Accounts 2009–10

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Oral evidence

Taken before the Committee of Public Accounts

on Monday 26 October 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr David Curry
Mr Don Touhig
Mr Alan Williams

Mr Amyas Morse, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General and **Mr Phil Gibby**, Director, National Audit Office, gave evidence.

Mr Marius Gallaher, Treasury Officer of Accounts, HM Treasury, gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

A SECOND PROGRESS UPDATE ON THE ADMINISTRATION OF THE SINGLE PAYMENT SCHEME BY THE RURAL PAYMENTS AGENCY (HC 880)

Witnesses: **Dame Helen Ghosh DCB,** Permanent Secretary, **Ms Katrina Williams,** Director General, Food and Farming, Department for Environment Food and Rural Affairs and **Mr Tony Cooper,** Chief Executive, Rural Payments Agency, gave evidence.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's second progress update on the administration of the single payment scheme. We welcome Dame Helen Ghosh back to our Committee; she of course is the Permanent Secretary at the Department for Environment Food and Rural Affairs; also Tony Cooper, the Chief Executive of the Rural Payments Agency and Katrina Williams, Director General of Food and Farming within the Department. I have to say that we are very frustrated in the Committee with all this. Given that we have to cover the entire public sector spending of over £600 billion, to have to look at this a third time, especially as it is a critical Report, I shall go into it in a moment but various undertakings were given to us by you, Mr Cooper, amongst others, and here we are back again. I agree there has been some limited progress in the timing of payments to farmers. By the way, our frustration is as nothing compared with the farming community's; they are the people running small businesses. There is a very expensive IT system, continuing errors, so we have invited you back, I am afraid, to try to convince us that this time you are really going to get on top of this. We do not want this to be knocked into the long grass for the long, long period where we do not meet because of the general election. Later in the meeting I will be asking you to report back to us on your review and how you are going to get a grip on this before the spring. I want to speak on figure 3, which you can find on page 16, which is the cost of all this. As you know, we have to place a lot of reliance on the National Audit Office; the whole strength of the system depends on there being agreement between the National Audit Office and the Department about the figures given to us so we do not spend a lot of time arguing about that. Reading the National Audit Office Report, we understand that it costs the best part of £1,700 per claim but we heard the Minister, Jim Fitzpatrick, on the *Today* programme no less, saying that he did not accept the figures for a start, that the Permanent Secretary of Defra and the Chief Executive of the Rural Payments Agency would be giving evidence to the Committee of Public Accounts later that month and answering fully. However, he said he did not recognise the figure of £1,700 per claim. He said that it had gone down from £750 to £700. Why this difference?

Dame Helen Ghosh: If I may, speaking on behalf of the Department as a whole, I should emphasise first of all that we do not argue with the figures which are quoted in the Report. I signed it off in accordance with the facts in the Report and it is up to the C&AG to reach conclusions and make recommendations. The two figures are just different. The £1,700 figure includes all the IT spend in a given year, which would include both ongoing costs and new investment. The £750 to £700 strips out those sorts of costs and other overheads and gives what the Hunter review and indeed the Agency felt was in management terms a more useful idea of the marginal costs of dealing with each claim. We are not arguing with the figures, we are just saying that there is an apple and a pear there because the figure of £1,700 has one set of costs and £700 has another. I should say that we are absolutely agreed, as are our Ministers, that whichever figure you take it is too high.

Q2 Chairman: Let us go into this in some detail. If you see in figure 3 this figure of £75,680 for staff costs and you divide this by 106,000 claimants you get staff costs of £710 already. You are not trying to convince this Committee, are you, that when we add up the cost per claim we should just look at staff costs? How can you seriously argue that the

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

administrative cost of each claim should not include the considerable cost of the bespoke IT system and other major overheads? It must do.
Dame Helen Ghosh: We are not arguing that there is not a valid figure, the £1,700, which includes that. It is just that, if you take the example, if we were to set Tony a target which was based on that figure, it would include, for instance, investment required to implement the CAP health check. Therefore you could have a figure, the £1,700, going up year on year whether or not Tony and his team were more efficient. As I am sure we will explore, in terms of the number of staff working on SPS and the running costs of the organisation, actually they are both going down. That is not to say we do not want to minimise the IT costs, particularly of doing up the old system.

Q3 Chairman: I do not want to go on and on about this but would you not accept that, given that we are going to spend a lot of time talking about the IT and all the rest of it, the considerable IT costs should be included when calculating the cost of each claim? It is elementary, is it not?
Dame Helen Ghosh: But we would not want to set it as a benchmark target on its own for pushing down.

Q4 Chairman: I think we are getting closer and closer.
Dame Helen Ghosh: Yes, we are.

Q5 Chairman: What does the Treasury say about this? What do you have to say about how such costs should be estimated? This has relevance for other departments. We do not want to start having an excuse coming from departments that the claim is only so much because we are only going to include the staff costs. We want to include everything: the overheads, the IT, everything. What do you say about this because you want to keep a grip on this as far as other departments are concerned, do you not?
Mr Gallaher: Certainly we do but we would understand the number that the Department are taking in the sense that the IT costs are upfront initial costs which do not form part of the normal running costs of meeting each claim and handling each claim. We can see the case for excluding them but at the same time in this Report we can also see where the National Audit Office came to their figure, which includes those costs. So we are not disputing the accuracy of either figure, but we can see where the Department quite understandably would measure their future improvements against that cost without the upfront IT costs being included.

Q6 Chairman: When I read paragraph 2.10 I am just wondering whether the Department's lack of attention to IT costs and other overheads is symptomatic of lack of interest on the part of your Department in proper cost control. It says in paragraph 2.10 "The Agency has nevertheless spent £84 million on the firm's services" that is Accenture "in the last two years according to its accounting records. The expenditure on Accenture is against a forecast spend reported to the Committee of Public Accounts of £36 million for the same period. There are over 100 Accenture contractors working full time for the Agency". This is incredible. We are only talking about 106,000 farmers for heaven's sake.
Dame Helen Ghosh: This is an apples and pears issue again. As I understand it, the £36 million is the figure for recovering the IT and we have had a number of discussions in this Committee about the faults with the initial commissioning of the IT. The £84 million is ongoing IT spend. The £36 million that we were predicting there is how much we would need to spend on the recovery programme.

Q7 Chairman: I hope you are finally going to get a grip on this. This is amazing. The average cost of these contractors was over £200,000 per person. You have loaded on to the farmers in England a much more complex system than happens in any other EU country, let alone Ireland and Scotland and now you have this £200,000 per person. It is staggering.
Dame Helen Ghosh: Accenture, just like contractors in any other government department, are employed to provide an IT service. The number of contractors, because it is effectively in that element of privatised service, is not extraordinary. Clearly, and again we have explored this in previous hearings, we would rather not be spending so much in terms of correcting what was a fundamentally flawed IT system. Some of that £84 million is as much ongoing day-to-day IT costs and also, I suspect, investment for the future.

Q8 Chairman: When you come back to us later we want to get a grip on this ongoing expenditure. Mr Cooper, you gave various assurances to us. Looking at the evidence of our last Committee hearing you told us "We have spent a huge amount of time and effort and resources in making sure that the entitlements are correct, and that is the basis on which the payments are made. We are almost at a point where we have caught up on what happened in 2005 and 2006, and I therefore am much more confident that what we are paying is accurate and that we are in a position now to move forward with improvements and attend to the shortcomings of the service that we give". This has not proved to be the case, has it?
Mr Cooper: I would certainly accept that I underestimated the level of work and the complexity involved in putting right some of the elements that were wrong. At the time when I last came here a considerable amount of work had been done on the entitlements. Partly as a result of that work and partly as a result of the work that we do reviewing cases, we now have a much better understanding of the extent of the work which was needed. There are something in the order of nine million different entitlements spread across roughly the same number of hectares and when I came to this Committee to the best of my knowledge at that time we had reviewed and resolved many of the errors which had been identified. What we did not do at the time was review the case in its entirety. I accept that I certainly underestimated what was involved in this highly complex area.

Q9 Chairman: In fact things are not actually improving very much at all. Look at paragraph 3.3 for instance. Is this satisfactory? "Since February 2008 the Agency estimates that a further £25 million has been overpaid to farmers." Are things getting better at all?
Dame Helen Ghosh: May I just put this in context? It is reassuring that the Report itself confirms that 98% of payments made by the RPA are indeed accurate. That is not to say that the impact on individual farmers of the over and indeed underpayments in some other cases, and the £90 million that we are talking about as the maximum estimate that the NAO puts in on overpayments, represents a lot of grief for a lot of farmers and we absolutely apologise for that. Clearly what we need to do, which is why we have started and indeed we have Deloitte already working hard on this, is to look at the stock of debt we have outstanding now. We are very happy to report back to the Committee on this. They are, as we speak, doing an analysis of precisely what the standing of that is so that at the end of three months we will be able to have a plan for them and for us about what we do with that amount of money. However, 98% of our payments are accurate, which is the level of accuracy that the EU is looking for.
Mr Gibby: Just for clarification, may I say that it is 98% by value not 98% of payments.
Dame Helen Ghosh: Yes, I am sorry; not of payments. It is 98% by value, which is accurate and which is in the table.

Q10 Chairman: How does that relate to this number?
Mr Gibby The Agency has been checking about 57% of claimants to make sure that the claims are accurate and that is where the work is still going on.
Dame Helen Ghosh: And that is where the work is still going on in relation to that.

Q11 Chairman: Just looking at value, I imagine it is a lot easier to process large claims. You could very quickly get to a large proportion of the value. What I am interested in is the number of presumably smaller farmers who are not being paid quickly. That is what worries me.
Dame Helen Ghosh: Yes. Again, and thank you for acknowledging this in your introduction, in terms of the speed of payment to the vast majority of farmers, it is getting much quicker. Again, I do not say for one moment that this does not cause a lot of pain.

Q12 Chairman: Stop there. You say it is getting much quicker. That is rather a loose statement. Let us look at paragraph 2.18. You set out with an objective to accelerate the timetable by three months and you have actually accelerated by four to six weeks. If we read paragraph 2.18 we see "By the end of December 2008, 59 per cent had been paid in England, against 87 per cent of scheme funds in Wales, 83 per cent in Northern Ireland and 76 per cent in Scotland. Many of the farming industry representatives we contacted raised concerns that payments for farmers in England lagged behind those to farmers in the other home countries and in Europe. In our survey, 23 per cent said that their payment was later than expected". That is not a very good either, is it?
Dame Helen Ghosh: The comparator which I use, and again this Committee has explored at length the issue about the choice of a more complex system for policy reasons than that used in the other countries you referred to, the comparator I was referring to is how many farmers were paid in December 2007 compared with December 2008 and certainly with farmers in 2006. So in 2008 65% of farmers were paid in December and only 47% in December 2007. We have always said that what we would be seeking in the 2008 scheme was effectively stability. We could not justify the investment to make it faster, quicker than we did in the 2008 scheme, which is something Tony said from the start. However, undoubtedly farmers are receiving their money more quickly and the majority of them are receiving the payments on an annual 12-month cycle, which in cashflow terms must be what they want.

Q13 Chairman: You have this review. Why did you only commission this review in September 2009 at a point where the NAO's Report was already well advanced?
Dame Helen Ghosh: The NAO Report is entirely accurate that we announced it in September 2009, but we had started planning it in the summer, partly in response to ministerial concern and frustration at the fact that we could not get a grip on the overpayments issue, which was clearly causing grief for a lot of farmers, and partly because of a number of the issues which were arising out of the NAO audit of our accounts.

Q14 Chairman: We have had years of failing and we do not want just another review of a review. Please look at paragraph 19 where there are various recommendations. Can you write to me by the end of January saying exactly what you are going to do and preferably accepting these recommendations by the NAO and acting on them such as stabilising the current position, developing alternative options that could be used to process payments and resolving the management issues? Can you undertake to do all that?
Dame Helen Ghosh: I can indeed undertake to do all that.
Chairman: No doubt if you do not we will be back here for a fourth time.

Q15 Mr Curry: Can you remind me of the date of the agreement on CAP reform which gave rise to this new system?
Dame Helen Ghosh: I will turn to my colleagues who will remember the date.
Ms Williams: The reform was agreed in June 2003.

Q16 Mr Curry: I think we all accepted, given that England had chosen to adopt the most complex scheme on offer and to implement it in the shortest time possible, when it would have been much more intelligent to try to give longer time, that it is not fair

to make comparisons with Scotland, Wales and Northern Ireland, all of which opted for different schemes, right?
Dame Helen Ghosh: Yes.

Q17 Mr Curry: What is not acceptable is that we are now in 2009 and the place is still a total mess. Mr Cooper, how would you evaluate your leadership and man management skills?
Mr Cooper: What I would look at is some of the areas that we have improved. I will accept that we have not progressed overpayments as quickly as we should have done but last December we did pay 69,000 farmers and we have reduced our staffing numbers from 4,600 to about 3,500. Our customer satisfaction levels appear to be improving; even from the review which NAO have completed it has doubled up to 76%.

Q18 Mr Curry: I am sure the Duke of Westminster is delighted. Is it right to say that you are probably a systems man? Looking at your biography, which is only three lines here, it says you "held a number of Senior Civil Service positions in the Department for Work and Pensions and the National Health Service with responsibility for large scale programmes involving business and IT change". So you are a systems man.
Mr Cooper: I would not like to claim I am a systems person now. Technology moves on very quickly. I would say that yes, I have done a fair amount of business and IT change in my career.

Q19 Mr Curry: If your leadership and management skills are first class why have we had four chief operating officers in three years? Mr Simon Vry was in post from March 2006 to July 2007 and then he was given the boot, was he not? The Department claimed he was only going to get statutory redundancy pay but he ended up with £95,652. Mr Taylor was brought in from 11 June to 30 April the following year, less than a year, then he probably went on gardening leave and he was awarded £63,000, all of which indicates that they were able to substantiate a claim for unfair dismissal in one shape or form. Right? Then Mr Burton came in and he was an interim manager, as were some of the others. We now have Mr Steve Pearce, who has been on a temporary basis for a few days over a year and I note from your annual report that all payments, including VAT, were made directly to his company. So I take it you were employing a company. How long do you expect him to stay?
Mr Cooper: Mr Pearce has a contract until next March. He is an interim.

Q20 Mr Curry: Why? First of all you have two whom you then get rid of in short order. Then you have two interims; one stays a few months and I understood he then got another job. Then you have Mr Pearce, who has been there for a year, employed on a temporary basis for a whole year, earning roughly twice what you earn, pretty well twice what you earn. If this happened in any private company, would you not think there was something wrong with the chief executive that he could not keep a stable top management team?
Dame Helen Ghosh: The role is the chief operating officer and it is a particularly challenging task. Taking the Agency operations from a position where, putting it crudely, it was pretty broken and unable to make payments to farmers, to a position where we are able to make payments and have reduced staff numbers, putting in place all of the mechanisms which are needed to make all of that happen, then that chief operating officer role is a very, very challenging role.

Q21 Mr Curry: So if it is particularly important, I would have thought, that there should be some stability in it, would you not? You have had four in three years. Something has gone wrong, has it not?
Dame Helen Ghosh: May I clarify one point and I suspect we may need to write to the Committee on this point?[1] Simon Vry in fact was engaged by the RPA before those dates you have described. He was not there for a short period of time. He had in fact been working on the project for quite a long time.

Q22 Mr Curry: And he was dismissed.
Dame Helen Ghosh: No, he was not dismissed

Q23 Mr Curry: Why did he walk away with £95,652?
Dame Helen Ghosh: That is the factual point on which I would want to get back to you because I have to confess I am surprised by that.

Q24 Mr Curry: It is in the accounts.
Dame Helen Ghosh: He has come from the private sector and he worked on the project and the conclusion reached—I suspect it was by Tony's predecessor—was that, given that he could show continuity we kept him on knowing that it was for a very short period of time. May I just back what Tony said? In fact in other parts of the Agency's operations we have a history of replacing interims with permanent people: so Tony himself, the FD, the HR director. The COO has proved particularly difficult.

Q25 Mr Curry: With respect, if you look at the little footnote with two asterisks, Mr Andrew Good, Robert Kendall and William Burton were employed on a temporary basis through recruitment agencies. You seem to have had the most terrible difficulties in recruiting able people, willing to stay or able to work with you, whichever way round you want to look at it. What was the problem?
Mr Cooper: It was not a problem. When I arrived I wanted to change the management team that existed at the time and the interims were a quick fix to that.

Q26 Mr Curry: It was quite a long fix, was it not? One has been here for a year.
Mr Cooper: As you said, there is a need to have a balance between stability—

[1] Ev 16

Q27 Mr Curry: And instability.
Mr Cooper: —and some continuity, with the people engaged at the top of the organisation.

Q28 Mr Curry: We are now into the post reform generation of chief operating officers, are we not? These are not inheritees from the old system.
Mr Cooper: The third chief operating officer that I had, Mr Burton, went off to become a chief executive in another organisation.

Q29 Mr Curry: I appreciate that but am I not right that equally you had a customer director who was paid off in March last year with about £300,000?[2]
Mr Cooper: I do not think so. We have advertised for a customer compliance director.

Q30 Mr Curry: You must admit, perhaps you do not, just looking at it from the outside, when you look at this instability in the senior management structure, you think something is wrong and one instinctively then looks to see where the leadership is coming from and there is clearly a problem.
Mr Cooper: The organisation posed a number of challenges and it required some pretty good people to come in at short notice and do some pretty rapid work.

Q31 Mr Curry: And then go out again at short notice. This sounds like Lady Bracknell; it is like the business of the parents where to lose one meant . . . Could you not quote that?
Dame Helen Ghosh: It looks like carelessness. I could indeed quote that. There is a general issue here possibly for the Committee which is that actually—and we have used them in the core department as well—getting in an interim for a short period of time to sort things out at a price you simply could not afford in terms of the normal salary of civil servants can be the right thing to do in some circumstances. I think Tony is describing that at least in one of these cases.

Q32 Mr Curry: Let us continue on that theme and let us look at the system of outdoor relief for Accenture, which is very interesting. How many consultants from Accenture worked in the RPA in 2007, 2008 and now and how much did their daily fees total in each of those years? I understand you can easily get around £3,000 a day for some of these characters. Do you have anybody earning that sort of amount at the moment?
Mr Cooper: No.

Q33 Mr Curry: On fees? Anybody earning £2,500 a day from Accenture?
Mr Cooper: No. May I explain that the way the Accenture contract operates is through a fixed price? When we agree an upgrade to the system, to adopt, for example, the health check changes, we agree a fixed price and then it is for Accenture to determine how many people they need to deliver that. The number of people that they use through the development lifecycle will vary from month to month.

Q34 Mr Curry: Do the Accenture consultants—these are not just people who are checking the computers, these are consultants—sit in on senior management meetings?
Mr Cooper: I have had the senior person in Accenture sit in my executive group meetings. I try to arrange for them to be a strategic partner of the organisation. I have tried to get them to be part of the resolution of the problems that we faced and therefore they have sat in and left the meeting at any time when there is a potential conflict of interest.

Q35 Mr Curry: So you can let me have what I asked for over the last three years. I would like to know how many consultants from Accenture worked in the RPA in each of the last three years, I would like to know their role and I would like to know the daily fee which you paid for them.[3]
Dame Helen Ghosh: Can we just be clear? That is not the way the contract works. It is not that I am hiring a group of consultants on a daily fee. We agree with Accenture, as I understand it from Tony's description, on the payment for that bit of work. If you have to put 100 people on it, it is that price. If you have to put 200 people on it, it is that price. We would not know that fact. We just know what the price is and we would know the benchmark.

Q36 Mr Curry: Mr Cooper said that when he came to the Department the computer thing did not work.
Dame Helen Ghosh: Indeed it did not.

Q37 Mr Curry: And the people responsible for the computer system were Accenture.
Dame Helen Ghosh: Right. The people responsible for the fact that the IT system was not as good as it should have been, were the people who commissioned it as much as Accenture and we explored that previously. They asked for a closed box, task based model developed not in partnership and that is what Accenture provided.

Q38 Mr Curry: You have gone back to a task base now, have you not, because the overpayments issue is being dealt with on a task based basis?
Mr Cooper: What we have arrived at is more of a hybrid arrangement. Sometimes it is necessary to work on individual activities, sometimes it is sensible to bring people together into a team and sometimes it is possible to do the whole case working. We work in a range of ways.

Q39 Mr Curry: The total cost then for the computers from start to finish, the IT, where are we, £300 million now?
Mr Cooper: The total spend for all IT is, calculated slightly differently from the NAO Report, in the region of about £285 million, but that includes all of the IT that we buy from IBM and Steria. To date, in

[2] Ev 19

[3] Ev 17

terms of the sum of money that we have paid for the system and for some support work that Accenture have done, it amounts to £148 million and that figure does not include VAT, which we recover.

Q40 Mr Curry: There is a little outpost of your empire called the Rural Land Registry, is there not?
Mr Cooper: It is an integral part.

Q41 Mr Curry: Have you had any internal audits done on that recently?
Mr Cooper: I would guess—

Q42 Mr Curry: Could we see them; could we see what they say?
Dame Helen Ghosh: Is this in relation to the mapping process?

Q43 Mr Curry: Yes. We all know there has been a mapping problem but as that is a fairly distinct area of the department I just wondered whether that would give us a little epigram of the management.
Mr Cooper: I believe that there has been an internal audit report fairly recently.

Q44 Mr Curry: Might we see it?
Dame Helen Ghosh: I am afraid I am unaware of what the precise rules are on internal audit reports but, subject to those, we would be happy to share it.[4]

Q45 Mr Curry: At no stage have you asked senior management to slow down payments because it all looked too easy.
Mr Cooper: No.

Q46 Mr Curry: You have answered no. I wanted that reassurance.
Mr Cooper: What I would like to explain is that in the process of making payments, we have ensured that the payments can be batched up successfully and issued successfully and last year that was done at a pace which was pushing at some of the constraints that we have. Some of those constraints were moved this year.

Q47 Mr Curry: May I turn to the experience of farmers now because it is not really working out? Overpayments. As you know, when farmers were told they had overpaid, in order to be able to get the subsequent year's payment there was a deduction of the alleged overpayment, subject to it being evened up. They had little choice but to say okay because otherwise they did not get their payment. So the farmers got an incentive to say yes and to accept, until the actual figure was worked out, a payment from which the alleged overpayment had been deducted. Okay up to now?
Dame Helen Ghosh: The only thing I would say is that of course, if you look at the excellent account in here of how we went about recovering overpayments in 2008, clearly in some cases we stopped the overpayment recovery so we could make payment. So we did not do what you described. We did actually just go ahead with payments in some cases.

Q48 Mr Curry: Sorry, hang on. That is the experience in my constituency. I have a land agent called Mr Windle whom the National Audit Office have consulted, at my suggestion.
Mr Gibby: We have indeed.

Q49 Mr Curry: We have a list of cases where people have been overpaid, allegedly; they have got their money only by accepting that should be deducted. Sometimes those deductions have proven to be wrong and months have elapsed; in some cases they have not received an explanation of how the RPA arrived at the sum they were alleged to have overpaid. That is not acceptable. Mr Windle is a reasonable man. He is not some raging lunatic. If you work at Skipton auction market it is quite difficult to be radical. "The simple fact of the matter is that we can trust nothing that we receive from the RPA. So many mistakes have been made that we have to check everything with a fine toothcomb to ensure that it is correct. This impacts upon the size of the invoices we have to send to our clients who ultimately have to pay for our time". Ms Williams, you told us that the reform was agreed in 2003. It is now 2009 and you still get a judgment like that. Quite frankly it is simply unacceptable.
Dame Helen Ghosh: May I just say: and we agree.

Q50 Chairman: What is the cost of the IT? Was it the figure you gave us of £285 million? Look at paragraph 5. What we see is that according to the NAO we spent £500 million on this. What is the cost of this?
Dame Helen Ghosh: The NAO Report—and, again, we are not challenging what the NAO Report says—made its estimate of £350 million, that is £130 million between 2007 and 2009, on the basis of percentage scaling up. They have just taken the overall costs and then assigned them to the SPS.

Q51 Chairman: Very, very expensive. There are only 106,000 farmers. I have already quoted you a figure of £200,000 per person and I am told that we have 100 Accenture staff on this and even the starting salary for a graduate is £17,000 a year. You are employing 100 of these people to process the claims of just 106,000 farmers—there is some argument about this—at a total cost of the best part of £500 million.
Dame Helen Ghosh: Tony quoted a different figure for Accenture.

Q52 Chairman: This is just an object lesson on what goes wrong in Whitehall. You develop the most expensive, the most complex scheme you can possibly find. You then pay the private sector oodles of taxpayers' cash to try to sort it out and it goes on. You really have to get a grip on this, do you not? You cannot go on employing 100 Accenture staff. We are not talking about the entire benefit system, huge complexity, millions of claims. We are talking about

[4] Ev 18

106,000 farmers. We might just as well divide up the £84 million and send them all a cheque. It would be a lot cheaper and easier in the end.
Dame Helen Ghosh: Indeed it might be, but it is a highly complex scheme which requires some skill.

Q53 Chairman: Which you created.
Dame Helen Ghosh: I did not personally create it. There were very good policy reasons for going for the option which was a hybrid scheme. Our Ministers did not feel that you could live with a situation in perpetuity where people were getting a subsidy based on how many sheep or how many cows or what they had been producing historically, which is basically what the historic subsidy system does. Some of the people receiving money in other Member States from the CAP have nothing to do with farming any more whatsoever. We did not feel that was a fair or acceptable approach, as we have discussed in this Committee before. However, we and the Agency underestimated the complexity of introducing a dynamic hybrid which was intended to introduce the move effectively to a decoupled scheme over a period of time. I should say that if you listen to the current commissioner, Mariann Fischer Boel, something that is more like a dynamic hybrid scheme is the way that Europe is moving. It is just that we were a first mover and have discovered how difficult it is.
Chairman: I am sure Accenture will be delighted to hear that.
Mr Curry: There will be delegations coming to see how we screwed it up.

Q54 Mr Touhig: Dame Helen, you are the Accounting Officer for your Department which has oversight of the Rural Payments Agency.
Dame Helen Ghosh: Indeed.

Q55 Mr Touhig: It cannot be a happy experience for you coming here.
Dame Helen Ghosh: It certainly is not a happy experience to come here and to have to continue to discuss less than perfect service to farmers. On a number of occasions I have celebrated with Tony and in the Department the speeding up of payments which, for the majority of farmers, has been a big improvement in customer service from a very low base. I continue to be concerned, as Accounting Officer, for the value for money issues. I should say, as the Report makes clear, that the RPA is reducing its staff numbers and we are setting year by year efficiency improvements. Their budget has gone down and their staff number has consistently come down.

Q56 Mr Touhig: It is all there. We follow that. Indeed. It is not a happy experience for you or your colleagues. Is it worth all this grief?
Dame Helen Ghosh: It depends what you believe that the alternative is.

Q57 Mr Touhig: Do you wake up at nights thinking "Why the hell am I doing this"?
Dame Helen Ghosh: Do you mean in my job in general or this particular bit?

Q58 Mr Touhig: Why the hell am I doing it so far as the Rural Payments Agency is concerned?
Dame Helen Ghosh: As an historian I would go back and say that clearly the decisions taken around 2004 and 2005, because they were over-optimistic about implementation, were indeed the wrong ones.

Q59 Mr Touhig: Do you wake up thinking "Why am I doing this with the Rural Payments Agency"?
Dame Helen Ghosh: No, I wake up and think that we need to do something about this, which is my natural tendency.

Q60 Mr Touhig: Perhaps if you did wake up in that frame of mind you might show some leadership and be motivated to do something about one of the worst debacles I have seen since I have been on this Committee.
Dame Helen Ghosh: I have to say that I have been extremely motivated in doing it. As you know—and, again, we have explored this at previous hearings—I took action to replace the senior leadership of the Agency and to ask Tony to come and I think he has had a very significant impact on the service to farmers.

Q61 Mr Touhig: I hope for Mr Cooper's sake that it is not like the case of Henry VIII losing wives with their heads going off. After years of this scheme being in the mire, have you at any time considered scrapping it and starting from scratch?
Dame Helen Ghosh: Indeed we have.

Q62 Mr Touhig: And why have you not done that?
Dame Helen Ghosh: I referred a moment ago to the problems with an historic scheme which essentially freezes in aspic the subsidy people got in the past. The legal problems with Europe and practical problems of reverting to historical bases, let alone the fact that a lot of people who are currently getting a payment would not get a payment, are practically insuperable.

Q63 Mr Touhig: I think it was England, Germany and Finland who adopted the most complex scheme imaginable.
Dame Helen Ghosh: Indeed.

Q64 Mr Touhig: The Germans did have some problems but they have resolved those. You singularly failed to do this with this scheme.
Dame Helen Ghosh: No, I do not think actually they have yet done what we have done.

Q65 Mr Touhig: I beg to differ from the previous Report. Do you think they have not improved it?
Ms Williams: As I understand it, Germany is still in the process of implementing the dynamic hybrid system. They have not got to the end of that process yet.

Q66 Mr Touhig: So you do not think there is anything to learn from what the Germans and the Finns have done in this matter. You said you rejected the idea; for all sorts of reasons scrapping it was not a solution and starting again, but is there nothing to learn from their experience?
Dame Helen Ghosh: There certainly is a lot to learn from it when you come to the CAP reforms which are now going through. Clearly we had a very good experience, led by Katrina and her team working very closely with Tony, on the CAP health check which introduced simplification and we were working absolutely hand in glove so that there would not be disruption. We have to take forward those sorts of lessons into the next phase of discussions about the CAP reforms in 2013.

Q67 Mr Touhig: Can we turn to page 7, paragraph 16, where the C&AG says "Efficiency has not improved, the IT systems are expensive and cumbersome, and the information in those systems is still inaccurate. The additional £304 million staff costs, the £280 million set aside for disallowance and penalties, and the £43 million anticipated irrecoverable overpayments, shows scant regard by the Department and its Agency for the proper management of public funds". I have never read such a damning indictment. Dame Helen, have you?
Dame Helen Ghosh: I would not like to comment because I am sure the Committee sees a much wider range of reports of this kind.

Q68 Mr Touhig: I am sure as the Permanent Secretary of a major department you must have read other reports. Have you ever come across, in your experience—I put this question to your colleagues as well—such a damning indictment of failure of management?
Dame Helen Ghosh: I am not going to comment on the affairs of other departments. After the 2006 problems we consciously and our Ministers consciously, because this is what customers were saying, focused on speeding up payments. That is what we did. We gave a lower priority—perhaps too low a priority—to things like overpayments. We also focused on the smooth introduction of change because the SPS and CAP as a whole are constantly changing. So we had the CAP health check, we had different fruit and vegetable schemes, we concentrated on a smooth transition for those and putting good arguments on disallowance. Meanwhile the RPA is actually more efficient, its running costs have gone down year on year, its staff costs have gone down year on year and that is also true of the Department. There are 3,000 fewer people working in Defra than there were in 2005-06 and our running costs have gone down from something like £350 million to £300 million. Because I feel so strongly about this and I know my Ministers do, I reject the idea that we have not been focusing on value for money.

Q69 Mr Touhig: Shall we come to that? The Report reminds us that your Department and the Agency have given a number of assurances to us in the past that there would be improvements. Indeed the Report tells us that you said that the problems with the original implementation of the scheme were largely resolved. That is wrong. It goes on to say that progress was well under way to rectify mistakes and recover overpayments. That was wrong. Indeed the Comptroller and Auditor General says in the Report that he considers that this Report demonstrates that there is a long way to go and that progress has been slow and costly.
Dame Helen Ghosh: I would only make one comment on that. As I said at the beginning, we accept that while concentrating on one thing, we probably did not concentrate on other things that we should have concentrated on, but overall there have been efficiencies and we have continued, again as this very good account shows, and we did recover £16 million of overpayment in 2008. We were not sitting on our hands, even while we were doing CAP health checks, new regimes and arguing about disallowance. We were paying attention and we were focused.

Q70 Mr Touhig: The Report also says that the Department does not adequately engage with the issues highlighted in earlier reports about this scheme.
Dame Helen Ghosh: I hand over to Katrina because she is very much our linchpin with the Agency.
Ms Williams: Yes, it is true that we were very focused on improving the service to farmers. That was something which this Committee has talked about many times. We had work to do to limit the potential for disallowance arising from the schemes and we knew that a reform of the CAP was in train which offered opportunities to simplify matters and we secured some important simplifications to the scheme. It also presented some risks and working with the Agency to get ourselves through those negotiations was a very important feature of last year. We are now in a position where we can move forward to look at the issues around cost and efficiency although the Agency has met its efficiency targets in each of the last two years.

Q71 Mr Touhig: Frankly you are painting a pretty optimistic picture but it is just not reflected in this Report which is rather damning. The Report also says that the assurances you have given in the past have proved optimistic and the Department still does not have a grip on the issues being faced by the Agency. Until the Department and the Agency address the ongoing weakness in managing the scheme, there is a high risk that costs will continue to rise and that the errors and inaccuracies will increasingly become embedded within the data.
Dame Helen Ghosh: That is precisely why we commissioned the work that we commissioned in the summer, which is to look, in a fairly root and branch way, at the systems in the Agency. I should say that we are not going to sit on our hands until March 2010.

Q72 Mr Touhig: I should not think there is any more room to sit on your hands because that is what your Department and the Agency have been doing over the last few years.
Dame Helen Ghosh: We have absolutely not, as plenty of good evidence in the Report demonstrates.

Q73 Mr Touhig: I beg to differ. May I just take you back now? In October 2006 I asked you what a conspiracy of optimism was. You said "What it means is that because the Agency had a 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". Do you think you have been presiding over a conspiracy against the British taxpayer now these last two years? The waste is so unbelievable. The sheer failure of your Department to get to grips with this. The number of senior people who have been chopping and changing. You have had more changes that people have had cooked dinners. It is just remarkable that this is continuing. You come here today and, fine, there are some good points and it is right and just that you make those points, but really you should all be hanging your heads in shame. Is nobody going to take the blame for this? Surely it cannot go on. We see more of you than we do of anybody else.
Dame Helen Ghosh: I have already explained to the Committee and given apologies for things, in particular in relation to service to individual claimants, for example on overpayments, that we are not doing well enough. I can assure you that we feel extremely strongly the points about value for money. Although we have consciously given higher priority to the payments to farmers than some elements of the value for money, that is something we are very much turning to now. We have to administer a legally based scheme and that is what we have to continue to do. We need to drive down the costs and we have the plans in place to do that.

Q74 Mr Touhig: With great respect, how can you sit there and talk about value for money. Look at page 7 of the Report. I did quote it. " . . . shows scant regard by the Department and its Agency for the proper management of public funds". I have never seen anything more damning of a department.
Dame Helen Ghosh: I would say in response that what we have done is to focus on the importance of speeding up the money to farmers. We have paid what in my view was a reasonable sum, subject to the points we earlier discussed about IT costs and starting from a very poor place, a reasonable sum to achieve that end. We would ourselves acknowledge that it is too high and therefore we needed to take action to continue to bring it down. We have been taking action to bring the costs down as the running costs of the Agency and indeed the running costs of the Department demonstrate.
Mr Touhig: I think we will be coming back to this; I really do. I am very saddened that we will be coming back to it but I am just struck by the complacency that you and your colleagues show. You are really not getting to grips with this. You do not even admit that you are not getting to grips with this. It is fine for senior civil servants to sit before Members of Parliament and say how sorry they are for some failure that has cost the taxpayers millions of pounds, but it is not your bucks which have been hit, it is the British taxpayer's. Really and truly you would demonstrate more concern if you actually solved this and you have not demonstrated that you are going to solve it, neither you nor your colleagues.

Q75 Chairman: When are you going to catch up with the Welsh and the Irish and the Scottish? I read paragraph 2.18 to you. You keep saying that you are concentrating on trying to make progress. This would appear to be your defence today, that you have tried to make progress in bringing forward the payments, but I put to you right at the beginning of this hearing that in fact you were going to bring forward the payment by 12 weeks and you have only managed at best six weeks. I am concerned for the farmers as well as the cost to the taxpayer. I want you to give some sort of assurance to me, some hope to farmers in England that they are going to get their payments as quickly as their colleagues in Wales and Scotland and Ireland. Surely you can do that or at least give us an idea how much you are going to try to catch them up. This appears to be your main defence, that you are speeding things up, when actually you are barely speeding things up at all.
Dame Helen Ghosh: We have significantly speeded things up from the 2005 scheme and we speed them up year on year. The question for the taxpayer is: how much more money do you want to invest on speeding up payments? Once you have reached a situation where the majority of farmers are getting an annual payment annually, then there is a real question in terms of value for money of how quickly you continue to speed up the payment. Any business which can operate broadly on a basis of getting a payment on an annual basis in cashflow terms can plan. I do not believe there is any argument in England for saying we would pay everybody in December, for example, which is why we have not reflected that in our ministerial targets. That would require an enormous investment.

Q76 Chairman: I am not asking for that. How about 83%, which is what it is in Northern Ireland or 76%, which is what it is in Scotland? I am not asking for 100%.
Mr Cooper: May I explain that last year by the end of January we had paid over 90,000 farmers? There are some high value claims which take longer to clear but by the end of January we had paid over 90,000 of the farmers. This year, as an example of where we are driving towards efficiencies, the processing that used to be done in Reading, which accounted for about 13% of the case load, was stopped and was redistributed across the other sites with no increase in staff at those sites. That is a further demonstration that we are actually pushing towards efficiencies and driving down the costs.

Q77 Mr Bacon: May I start with Mr Cooper? Like Mr Curry, I have been looking at the Rural Payments Agency Annual Report and I was struck by the number of changes of staff. Can you just confirm that you started, according to your CV, as interim chief executive of the RPA in May 2006? You have been in the RPA steadily since then, have you not?
Mr Cooper: I have.

Q78 Mr Bacon: When did you become permanent rather than interim?
Mr Cooper: June last year; June 2008.

Q79 Mr Bacon: So in essence you have been acting as chief executive since May 2006.
Mr Cooper: I have.

Q80 Mr Bacon: So three and a half years, give or take. Mr Johnston McNeill, who was suspended and eventually sacked, was paid a salary of £113,850 plus a bonus which he got in 2006. Can you just tell the Committee what your salary is?
Mr Cooper: My current salary is £134,000.

Q81 Mr Bacon: In the annual report it refers to salary and allowances for you of £140,000 to £145,000 so am I to take it that there is a bonus on top of the £134,000?
Mr Cooper: That is correct.

Q82 Mr Bacon: That is what? Eleven thousand pounds?
Mr Cooper: Yes, eleven or twelve.

Q83 Mr Bacon: So £134,000 is your basic salary and a bonus of £11,000. Has that bonus been paid?
Mr Cooper: Yes, it was paid for last year.

Q84 Mr Bacon: It was paid for the last financial year. Calendar year or financial year?
Mr Cooper: Financial year.

Q85 Mr Bacon: You have been in the post for three and a half years, which is long enough to get a grip; you are the chief executive and it is your job to marshal all the resources and build the management team around you to do it. It is in the light of the fact that you have been there three and a half years that I think this page of the number of staff who have come and gone, the four chief operating officers and so on, is so interesting. Andrew Good was an HR professional. Is that correct?
Mr Cooper: That is correct.

Q86 Mr Bacon: In the notes to the accounts it says that the cost to the Rural Payments Agency, because he was hired through a recruitment agency, was £195,900 in one year and in the preceding year £263,000. Presumably the discrepancy is because in one case it was for a full year and in the other it was not. Is that right?
Mr Cooper: That is right.

Q87 Mr Bacon: So the total cost of him was £459,799. Robert Kendall was the finance director on an interim basis. Is that right?
Mr Cooper: That is correct.

Q88 Mr Bacon: You paid him £103,106 and in the preceding year £249,000, a total of £352,757. That is correct, is it not?
Mr Cooper: That is correct.

Q89 Mr Bacon: So those two alone, the HR function and the finance function, paid for on an interim basis, cost your Agency £812,000 for two years and then they went. If you add on Mr Burton, who cost £148,000 for what looks like five months and 12 days, you get to £40,000 short of £1 million. Mr Burton started on 19 May and he finished on 31 October. That is correct, is it not?
Mr Cooper: That is correct.

Q90 Mr Bacon: You now have this chap, Mr Pearce, and it says that he is paid directly through a company, which he presumably owns; payments were made directly to his company. It says that he was paid £255,000 to £260,000. Do you know the exact amount?
Mr Cooper: No, I do not.

Q91 Mr Bacon: But he is the chief operating officer.
Mr Cooper: He is.

Q92 Mr Bacon: And he is contracted until March 2010 you said.
Mr Cooper: That is right.

Q93 Mr Bacon: What I do not understand is why all these people are coming and going at enormous expense without delivering a turnaround. Interim chief executives exist in order to deliver turnaround. They might, although they are very expensive, be worth it. You could make a value for money case saying that they were worth it if you could demonstrate tremendous improvements but all you have demonstrated is the expenditure of a lot of my constituents' and the constituents' of my colleagues hard-earned taxes. You have not demonstrated a turnaround at all. I have an organogram here of the RPA and indeed it has the chief operating officer on it and then you are above it as chief executive. There is also an operations director. I do not understand why you would have a chief operating officer who, by the sound of the title of the job, is fairly fundamental to the successful running of the business, as a temporary person. Why would you do that?
Mr Cooper: I would much rather have a permanent person.

Q94 Mr Bacon: Why do you not hire a permanent person? There is a credit crunch. There is a situation at the moment where it is easier than it has been for a long time to hire skilled staff who are looking for secure jobs.

Mr Cooper: I am in the process of aiming to recruit a permanent person to my management board and the difficulty I may have—maybe not in the current climate—is getting somebody who is suitable.

Q95 Mr Bacon: When did Jacqui Marshall become your HR Director?
Mr Cooper: I think she joined in December last year.

Q96 Mr Bacon: December 2008. When did Robin Moulson become your Finance Director?
Mr Cooper: In June or July last year, 2008.

Q97 Mr Bacon: June or July 2008.
Mr Cooper: Yes.

Q98 Mr Bacon: I have looked at their biographies on the website of the RPA. "Jacqui is delighted to join the Agency and is keen to get involved with all people related issues." "Robin is keenly looking forward to working with the staff of RPA on both current challenges and on those which lie ahead, and is expecting this to be both an exciting and demanding responsibility". It all sounds very recent as though they had just joined—I will not say a sinking ship. Where is the problem? You have had three and a half years to do this, to attract and retain a coherent top management team. That seems to me to be part of the root of all your problems. Where is the problem in doing that?
Mr Cooper: The problem is perhaps around the level of risk people see in the Agency.

Q99 Mr Bacon: Do you mean the risk to their CV?
Dame Helen Ghosh: Indeed.
Mr Cooper: Potentially. An organisation which is struggling, an organisation which is under fairly continuous scrutiny, then not everybody will choose to join a turnaround opportunity, not everybody is particularly keen to join.

Q100 Mr Bacon: For many years we have had in the private sector famous company doctors, David James, now in the other place, the House of Lords, is one and there have been many others over the years. They do achieve remarkable things. The reason they will not join your Agency is because they do not think the job is doable, do they?
Mr Cooper: I think that the people who have joined the organisation believe that it is doable.

Q101 Mr Bacon: But you have just said that they do not join. Mr Pearce is off in March next year, is he not?
Dame Helen Ghosh: He is a professional interim, which is why he is off in March next year.

Q102 Mr Bacon: He is all you have been able to get. He is the fourth chief operating officer. He is the third inside one financial year and he is off. Are you going to get another one from April 2010 or are you going to extend his contract?
Mr Cooper: I may look to extend it, depending on what happens.

Q103 Mr Bacon: You are paid £134,000 a year, you are getting this chap for £260,000 a year, a lot more than you, but you are the boss, you are the chief executive, you must be able to run this thing and you are having to get in somebody else, a chief operating officer, to do the running because you do not seem able to. That is what it looks like.
Dame Helen Ghosh: Many organisations have a chief executive in Tony's position and a chief operating officer who is looking at the system. For example, they are doing lots of work in the Agency on applying lean management techniques. There is a broader issue here which perhaps the Committee should look at in a broader context which is that this is a challenging organisation with a turnaround problem, lots of progress but lots still to do. Attracting interims, even though you have to pay them more than any Civil Service salary would ever be, can be a solution to that for a quick fix. Tony has tried on at least one occasion to attract a really good chief operating officer at the kind of salary we can afford to pay and it is very difficult, even in credit crunch time. I do not think this is unique to Defra.

Q104 Mr Bacon: I do fully accept that. There are many histories of company doctors doing amazing turnarounds but you have been at it for three and a half years. Mr Touhig quoted to you the NAO conclusions after three and a half years of that and it is one of the most damning reports that I have ever heard. May I turn to Accenture and the cost of Accenture? There is this reference to the 100 full time contractors and you explained how you understood them to be paid for. Accenture have said to a journalist, pertaining to our rates, that our hourly rates are market relevant and competitive and were agreed by the RPA. Are Accenture paid by the hour?
Mr Cooper: No, not for their IT work.

Q105 Mr Bacon: What are they paid by the hour for? Are they paid by the hour at all in their relationship with the Rural Payments Agency?
Mr Cooper: If we employ somebody to undertake a project or to support some work in operations, then potentially yes, we would pay a rate.
Dame Helen Ghosh: It might assist the Committee if we sent to you the kind of benchmarking data we would use. There are companies like Gartner which do good benchmarking and it would be good to know.

Q106 Mr Bacon: Have you used Gartner in relation to this?
Dame Helen Ghosh: We used them at the beginning of this process and they were the people who advised us that we should not scrap the existing RITA system but build on it because the value for money of not doing so was worse. They are specialists in the field. We will send you some benchmarking information against Mr Curry's points as well, whether Accenture are more or less or about the same price you would get against other benchmarks.

Q107 Mr Bacon: Could you also send us an explanation of the expenditure on Accenture so far? I asked you about this last time you appeared in front of us. The figure you gave us was £79 million for the total cost of Accenture, but when your note arrived it referred to a figure significantly larger than that, £122 million, because the £79 million you quoted did not include the preparation costs for work going forward. I would like to understand the £84 million in relation to the £122 million which you quoted in your previous answer. Is the £84 million all on top of the £122 million you have spent in the last two years?
Mr Cooper: Would you like me to send you a note to explain the figures?

Q108 Mr Bacon: Yes, if you could it would be very helpful. Dame Helen, could you just say, for the avoidance of doubt, who is actually responsible for overseeing the identification and the recovery of overpayments?
Dame Helen Ghosh: Under the normal Next Steps agency rules it is, in the first instance, for the chief executive of the agency to take responsibility for the operational activity involved. Clearly, as part of the Department, it is ultimately for me as Accounting Officer, where there are losses to the taxpayer that follow, to ensure that we are minimising those losses to the taxpayer and maximising our recovery.

Q109 Mr Bacon: May I ask you about the resource accounts and the provision for the disallowance.
Dame Helen Ghosh: Certainly.

Q110 Mr Bacon: What is the actual amount that you have paid to the European Commission? I know that they proposed a disallowance of £131.7 million. What was the actual amount we ended up paying?
Dame Helen Ghosh: We have made no payment to the European Commission in relation to the SPS 2005 and 2006 because debates are still ongoing.

Q111 Mr Bacon: You have made a provision. Is it £246 or £280 million?
Dame Helen Ghosh: We have made provision of £270 million. We paid in 2008, which is why we had a technical qualification on these grounds, £92 million for a variety of historic and associated disallowance. We have not yet paid anything in relation to the SPS.

Q112 Mr Bacon: Do you mean for 2005 and 2006?
Dame Helen Ghosh: For 2005 and 2006. We have made about 5% provision for 2005-2006 and 2% for subsequent years. Two per cent is what you expect. The historic schemes were always about 2% and that is the guideline figure that the EU operates on.
Ms Williams: However, we are still in discussion with the European Commission about what the disallowance will be for 2005-2006. We do not know the outcome of that yet. I should say no other Member State has yet got to the point where it knows what its situation might be on disallowance or not for the first years of the scheme.

Q113 Mr Bacon: When you make a payment, is it an actual payment that you make to the Commission that goes into their funds? Or is it netted off from money they would otherwise pay to you?
Dame Helen Ghosh: I do not know how it works technically. Is it netted off?
Mr Cooper: It is netted off.
Dame Helen Ghosh: It is netted off but it is the same impact.

Q114 Mr Bacon: You still take the hit. I do not suppose the Treasury gives it.
Dame Helen Ghosh: No. In CSR07 the Treasury has indeed given us £90 million, £90 million and £90 million over three CSR years to cover our provision. We have had to top that up but £270 million of that is additional provision from the Treasury.

Q115 Mr Bacon: May I return to this question of costs? You gave a description of it being a case of apples and pears between the National Audit Office's figure and yours.
Dame Helen Ghosh: Yes.

Q116 Mr Bacon: You seem to be saying that the staff costs, which were just one element—figure 3 which the Chairman quoted—were the thing to consider and that somehow IT costs should be left out of that. You called them the one-off start-up costs. In actual fact the IT costs, like many other costs, like accommodation costs, all the costs of running an organisation, have to be taken into account surely in coming up with a figure for the cost of the scheme. The IT itself is only going to work for so long; it is going to be depreciated over a number of years, it will need updating, replacing and so on.
Dame Helen Ghosh: The point I was making and was probably not making as clearly as I should have done was that what that figure includes, as I understand it from our discussions with the NAO, is anything you spend on IT in that year, which might be investing for the future, for example either post the health check or in the run-up to the CAP reform. Of course it is quite right that is a perfectly valid thing to stick in your costs, but if we were to say, as I suspect the Committee would like us to do, we wish to set not just an overall efficiency on running costs target for the Agency but a specific, dealing with an individual case target, you would not want to set one which potentially made it impossible for the Agency to achieve a reduction simply because in that year you had to do a lumpy bit of IT investment. What you need is to find a figure which is the right balance between the absolutely marginal cost of the staff sitting at the desk using the IT and something which has an element of renewing IT, keeping it up to date and so on. For a target it is probably neither the £1,743 nor the £700 figure: it is probably a bit more than £700.

Q117 Mr Bacon: Although of course the fact that it is such clunky IT because it has been designed and redesigned so many times is one of the reasons we have to have more staff than we probably otherwise would.

Dame Helen Ghosh: Yes.
Mr Gibby: May I just clarify where we stand on IT costs? The IT costs we have worked out are amortised IT costs. It is not the actual cash cost that is spent that year, it is pro rata over the life of the scheme.
Mr Morse: It is accrual accounting, which is entirely appropriate.
Dame Helen Ghosh: In which case it would be much more difficult to bring the figure down since you are accruing it over the life of the scheme.

Q118 Mr Bacon: In that case it is going to be a high figure but we would like to know what the figure is.
Dame Helen Ghosh: It is still the case that if you spend more on IT your figure will go up. Yes. I am sorry, I am not an accountant.
Mr Morse: Forgive me; not on an annual basis. If you are investing in IT in order to bring down staff costs, and there is a natural relationship between the two to achieve efficiencies, and then you amortise the IT cost over the predicted life of the programme, you arrive at the staff costs in the year and you arrive at the appropriate element of IT costs allocatable to the year. That is a fair measure of what it costs to administer the programme.
Dame Helen Ghosh: As I said earlier, we are not arguing with the figure. The argument I was on then was what would be a reasonable figure—and we are very happy to work with the NAO on this—to include as your target to bring down.

Q119 Chairman: I do not understand. You just said "we are not arguing with the figure" and "what would be a reasonable figure". Either you are arguing with the figure or you are not. It seems to me that the Comptroller and Auditor General has given a perfectly sensible explanation based on accrual accounting, taking into account what has gone before, what is going on, what is going to happen. Are you arguing with the figure or not? This is why we actually try to get agreed figures in this Committee.
Dame Helen Ghosh: I am not arguing with the figure.

Q120 Mr Bacon: The thing that amazes me is that it should cost £350 million to pay £1.6 billion. If you had to pay people £1,600 you would not expect it to cost you £350 to do it and if you had to pay people £1.6 million you would not expect it to cost you £350,000 to do it. Obviously this is on a larger scale and there are 100,000 farmers.
Dame Helen Ghosh: It is £1.5 billion every year for the comparison with the £350 million.

Q121 Mr Bacon: Yes, I understood. Even so, there are many multinationals employing 100,000 people on their staffs and if they spent £350 million paying their wages they would rapidly disappear. So I do not understand.
Dame Helen Ghosh: Yes. The CAP is a very complex scheme and we chose a very complex way of running it.

Q122 Mr Bacon: I know it is complex. You mentioned the Hunter review. Is that David Hunter?
Dame Helen Ghosh: It was David Hunter, the former director.

Q123 Mr Bacon: That is what I thought. The senior responsible owner; I think he was the senior official in Defra, was he not? I am looking at the EFRA Committee's report on this from years ago. I spent most of summer 2008 reading this. David Hunter was the senior responsible officer within Defra. That is right, is it not?
Dame Helen Ghosh: He is not in the Department any more.

Q124 Mr Bacon: He is not any more, but he was.
Dame Helen Ghosh: He is long retired. Yes, he was.

Q125 Mr Bacon: He is the same David Hunter who said that to go for the dynamic hybrid would be . . . I always get this mixed up. Bill Duncan of the Rural Payments Agency and David Hunter of Defra both gave very colourful descriptions. One called it madness and the other called it a nightmare and I always get them mixed up. It was David Hunter who called it madness, was it not?
Dame Helen Ghosh: You are now going back into what I would regard as fairly ancient history, into the mists of time.

Q126 Mr Bacon: I just want to be clear in my own mind which one said which. A very short answer because I have run out of time. Which one said it was madness and which one said it would be a nightmare to go for the dynamic hybrid?
Dame Helen Ghosh: The stakeholders supported what we were proposing.

Q127 Mr Bacon: Could you clarify which one said it would be madness?[5]
Dame Helen Ghosh: I do not remember. I will let you know.

Q128 Chairman: We have already had the joke about Schleswig Holstein in this Committee, so we will not repeat all that.
Dame Helen Ghosh: Indeed.
Mr Bacon: It seems to me that you are living that nightmare and that madness now.

Q129 Mr Williams: I know you do not want to be in the predicament you are in at the moment; no-one would wish to be in that situation. Do you have any claim against the IT contractors for incompetence?
Dame Helen Ghosh: Within the contract there are provisions for incompetence. If we go back to the beginning of the story, the problem we had with the original IT system was that Accenture indeed delivered what they were asked to deliver, but they were asked to deliver the wrong thing and the nature of the relationship was one which did not enable them to have that partnership discussion. The contract allows for non payment.

[5] Ev 18

Mr Cooper: It does. Perhaps I might give one example where something pretty fundamental was missed from the original specification, for whatever reason; I do not know. It is around the ability to change entitlements. When the system was delivered as out of the change programme in 2005-06, it did not include the functionality to be able to change entitlements or to transfer entitlements and that is a fundamental aspect of the scheme. We have therefore had to invest to retrofit that functionality into the system.

Q130 Mr Williams: You say you have an allowance for non payment but what about a penalty element? There is an element of incompetence here. They should pay for their incompetence. They should not just not be paid for not having done the job well; they should pay something in compensation for the problems they created for you and the problems they have created for the farmers.
Dame Helen Ghosh: I feel one might have a bank of solicitors breathing down one's neck. We are not saying they were incompetent in what they built. They built what they were asked to build. What they were asked to build was something which, for example, as Tony says, assumed we would set the entitlements once and that would forever remain the case and then, rather like a rocket, that bit of the system would be cast off and you would move on to the next phase, which was never going to be true. So somewhere between the specification of the business process and the checking and the quality assurance was where it broke down. There is no reason why Accenture should have known that about entitlements, for example. I do not think we believe that that was negligence on their part, subject to any points which a lawyer may wish to make to me.

Q131 Mr Williams: Does that mean you would use the same contractors in future?
Dame Helen Ghosh: Tony would be able to say more about this than I. As Tony said, we do not only use Accenture; their contract comes up in December 2011 and we will be looking over the next year, indeed as one of the phases of our review, into what is the appropriate provision thereafter with an eye to what the CAP reform in 2013 should look like.

Q132 Mr Williams: Looking at the customer end, what about the farmers? Do they have any legal case for the fact that they have had to suffer considerable stress and inconvenience? What are their legal rights?
Dame Helen Ghosh: We have made *ex gratia* payments to a number of farmers for the stress that they have suffered. Of course anyone who is paid after the legal payment window ends in June in any year does get interest at the official government rate of interest. We have paid about £5 million[6] out on that. Tony can make *ex gratia* payments which we have made and we have also paid people interest.

Q133 Mr Williams: What is the scale of the *ex gratia* payments?[7]
Mr Cooper: It is of the order of an average of £250.

Q134 Mr Williams: Two hundred and fifty pounds for stress and inconvenience; that is all they get in compensation. How did you determine this generous sum?
Mr Cooper: It is a figure on which we have based over a number of years consolatory payments that are made in respect of complaints that we have received. I may be wrong, but I think it is broadly in line with other government payments.
Dame Helen Ghosh: It is broadly in line with consolatory payments made for maladministration, if recommended by the Ombudsman. It is broadly in the same order of magnitude.

Q135 Mr Williams: To me, and I suspect my colleagues, the £250 sounds derisory. C&AG, is that a normal sort of level for the degree of messing about and financial and emotional suffering people have had to endure?
Mr Gibby: To be honest, from my understanding, it will depend on the nature of the case. It depends on the nature of the mistake made and the circumstances of it. I would find it very difficult to give you a normal figure.
Dame Helen Ghosh: We have, for quite different reasons, been looking into this a little recently and there are figures around.

Q136 Mr Williams: Where did you find the figure of £250? How did it arise? It is a very specific sum. Why not £240 or £300?
Mr Cooper: No, the £250 is an average figure. The range is from £100 to £300.

Q137 Mr Williams: So it could be even less than that.
Mr Cooper: Yes.
Dame Helen Ghosh: The point I was making, and we are very happy to let the Committee have more information because it must be public information—

Q138 Mr Williams: So what is the lowest figure? What is the range? What is the lowest figure you have paid in compensation to people who have been messed about?
Dame Helen Ghosh: I hasten to add that it is not compensation: it is *ex gratia*.

Q139 Mr Williams: It is from where I am sitting.
Dame Helen Ghosh: Yes, but legally it is not.

Q140 Mr Williams: What is the range of it?
Mr Cooper: I am doing this from memory. The lowest figure I have seen is £100.

[6] Ev 19

[7] Ev 18

Q141 Mr Williams: One hundred pounds. Gosh, it must have been given just before Christmas, must it not? One final thing. You repeated something you said right at the outset that you do not argue with the figures in the Report.
Dame Helen Ghosh: No.

Q142 Mr Williams: Have you argued with your Minister about the figures in the Report? Have you put him right because he apparently got them wrong?
Dame Helen Ghosh: Do you mean Mr Fitzpatrick?

Q143 Mr Williams: It is your duty to tell him if he got it wrong.
Dame Helen Ghosh: I can only say that we have had some conversation about this and I think he had misunderstood the nature of the briefing that he had been given.

Q144 Mr Curry: Page 31. I am not very good at organograms, I have to say. However, I was intrigued by something called the Disallowance Defence Group.
Dame Helen Ghosh: Yes, a very important thing.

Q145 Mr Curry: This is deployed to Brussels rather than Afghanistan, is it?
Dame Helen Ghosh: This is deployed to Brussels.

Q146 Mr Curry: Who is on it and how often does it meet and what sort of budget does it have?
Ms Williams: It is a small team with a relatively small budget in my group in the Department. Its main task—and it involves people from Defra and the RPA—is actually to talk to the European Commission about the scale of the proposed disallowance.

Q147 Mr Curry: It is a plea bargaining unit.
Ms Williams: I would not put it quite like that. It is a unit which is there to support the rational case.

Q148 Mr Curry: You mean to support the case for the defence.
Ms Williams: Indeed.
Dame Helen Ghosh: Indeed; yes.

Q149 Mr Curry: I would not wish to use the word rational without considering the justification for that. Do you get advice from the French on this? They would be rather good at this, do you not think? Could you hire a consultant from the French at £2,850 a day? I am sure they would be very willing.
Dame Helen Ghosh: I do not need consultants. I have an excellent team of Euro experts, including Katrina, in my team and they are very good.

Q150 Mr Curry: So the Disallowance Working Group is not the same as the Disallowance Defence Group.
Dame Helen Ghosh: It is effectively the Disallowance Defence Group working on behalf of the taxpayer.

Q151 Mr Curry: Hang on. This organogram has the Disallowance Working Group and Disallowance Defence Group. Are they not the same thing?
Ms Williams: They have become the same thing actually as we have moved from one phase.

Q152 Mr Curry: How does that relate to the Disallowance and Accreditation Committee?
Dame Helen Ghosh: That is part of the Agency. These groups are joint groups between the Agency and us.

Q153 Mr Curry: It sounds a wonderful arrangement, does it not? All these defence organisations.
Ms Williams: I would say that they are not very large.
Mr Curry: I am glad to hear that.

Q154 Mr Bacon: A couple of quick questions but you could send notes just for the sake of clarification? Mr Cooper promised to send details about Accenture and the monies which have been paid. Would you also do that going forward, the budget for what you expect to spend on Accenture in the rest of this year and the years ahead?
Dame Helen Ghosh: Yes, in 2010 and 2011.

Q155 Mr Bacon: The second thing is that you mentioned the Gartner study. Could you send us a note about that, when it was done and also what benchmarking has been done since?[8]
Dame Helen Ghosh: Yes. There are two things. There was the original Gartner study saying stick with RITA and improve it rather than scrap it, which we did in 2006/early 2007. Then what we were volunteering to send was benchmarking data which will help you look at the Accenture costs to see how they would compare with other suppliers.

Q156 Mr Bacon: This is benchmarking which you have done since. Is that right?
Dame Helen Ghosh: Indeed; yes. Gartner benchmarking is constantly updated so we will just be able to take a snapshot.

Q157 Mr Bacon: Finally, and this is the note I really want to see, the one about madness and nightmare.[9] It is my belief that the senior official in Defra said that going down the dynamic hybrid route would be madness and that the senior official in the Rural Payments Agency, Bill Duncan, said that it would be a nightmare to go down the dynamic hybrid route, but I may have got it the wrong way round. If you could write a note explaining which one said which, I would be very grateful.
Dame Helen Ghosh: I will do that and I will also put it in context.
Chairman: What does it matter whether it is madness or a nightmare?
Mr Bacon: I just want to be clear in my own mind the attribution of who said which.

[8] Ev 19
[9] Ev 18

Q158 Chairman: There is concern at your over-reliance on Accenture obviously and the contracts are up for renewal. How will you prevent Accenture exploiting the current position?

Mr Cooper: One point that Mr Curry made was that senior personnel from Accenture had been on my executive group. They are no longer on that executive group to ensure that there is no conflict over the period. We have already set off work—we started in May—to look at how we would compete the work and what the best sourcing strategy might be. That work is going to merge with some work that the Defra review of RPA is going to undertake as well and we will form a view as to how best to do that.

Q159 Chairman: I am not sure that is an answer. They do not need to be on your executive group to exploit their situation. Because it is such a difficult, complex product maybe nobody else can do it.

Mr Cooper: There are lots of examples where there is open competition and a supplier wins and a handover is done. I have no reason to think that will not be possible with the Accenture contract.

Q160 Chairman: Dame Helen, a last question for you. We obviously cannot wait for the outcome of another review; tell us how you are going to sort out this mess for the next three months.

Dame Helen Ghosh: As I half said earlier, we have Deloitte working in particular on the overpayment issue but also other elements of financial management, including FRS23. We will take action as we go along. In particular in relation to the three-month review, we will come back to the Committee with the outcome of that review in the three months that we promised and with an action plan for how we are going to recover, or adjust as appropriate, the conclusions that we reach.

Q161 Chairman: A last question for you, Mr Cooper. Normally I deprecate parliamentary committees criticising named civil servants, but this is clearly a very serious situation. Do you wish to say anything in your defence before the Committee publishes its Report?

Mr Cooper: As I have already said, we have made a lot of progress since 2005-06. I am comfortable with that progress which has been made. Where we have not given sufficient attention is to overpayments.

Chairman: Thank you. To sum up, the Rural Payments Agency's administration of the Single Payment Scheme for paying EU grants to farmers has been a master-class of misadministration. The £304 million additional staff costs, £280 million set aside to pay the European Commission and £38 million overpayments—a massive £622 million in total—are unlikely to be recovered and all fall to the taxpayer to pay. And we have still ended up with a clunky patched together IT system. Initially farmers, many of whom rely on the payments, were paid the wrong amounts late; the Agency then had to claw back the millions of pounds which had been overpaid. Because of its shoddy bookkeeping, it does not actually know the extent of these overpayments which could be somewhere between £55 million and £90 million. Thank you very much.

Supplementary memorandum from the Department for Environment, Food and Rural Affairs

Question 14 (Chairman): Action Plan on what Departmental AO intends to do in response to each of the Report's Recommendations (by the end of January 2010)

As requested, an action plan will be sent to Committee at the end of January detailing actions planned and already taken in relation to the NAO's recommendations. Given that the RPA review will not have been completed by that point, the plan will inevitably be a working draft that will evolve over the subsequent months. However, we are happy to commit to also providing a final version of the plan when the review is complete and to share our thinking with the NAO in the intervening stage.

Question 21 (Mr Curry): Length of Tenure of previous Chief Operating Officers and Reasons for Departure

The requested information is provided in the table below:

Name	*Length of Tenure*	*Reasons for Departures*
Simon Vry (Interim)	March 2006–1 July 2007	Replaced by a permanent appointee–Mr Vry had previously been working in the RPA as Business Development Director
Hugh Taylor	11 June 07–30 April 08	Not retained by the Agency beyond probationary period
William Burton (Interim)	19 May 08–31 October 08	Appointed as a permanent Chief Executive in another organisation
Steve Pearce (Interim)	from 16 October 08–to date	N/A

QUESTION 35 (MR CURRY): ACCENTURE CONSULTANTS—DETAILS ON NUMBERS INVOLVED IN SCHEME WORK, ROLE THEY PLAY, DAILY FEES AND COSTS OVER THE LAST SIX YEARS, WITH REFERENCE TO PREVIOUS NOTE PROVIDED TO COMMITTEE AFTER JANUARY 2008 HEARING

Supplementary Evidence

The RPA's contract with Accenture provides for three different types of services.

— *Support and Maintenance of the RITA System*

There is a fixed annual fee paid to Accenture for the ongoing support and maintenance of the system. This ensures that the system is kept running and that any bugs are addressed and the system operates as designed. This agreement was put in place in 2003 and the scope of services and cost basis has largely remained the same since the start of the contract.

— *Upgrades and Enhancements to the RITA System*

In order to meet CAP regulatory changes, the RITA system may require enhancements. Such changes are provided through different projects and these are delivered on an outcome basis. RPA and Accenture enter into an agreement to deliver an upgrade to the system and this is done on a fixed price basis for each project. This agreement is not entered into on an individual day rate basis but as an overall price to deliver an outcome. RPA and Accenture have agreed to a risk sharing contract, as previously reported by the PAC and the NAO. In terms of this contract Accenture carries some of the risk and are rewarded for successful achievement against RPA objectives. This forms the majority of work performed by Accenture at the RPA.

— *Ad-hoc Consultancy Services*

Accenture occasionally provide ad-hoc consultancy services to RPA, mostly in project management services for the successful delivery of projects within RPA. These services are procured on a day rate basis as and when required through the RPA procurement process. The cost of ad-hoc consultancy in FY 08/09 was £5m (VAT inclusive), with daily rates ranging from £838–£2,095 per day (VAT inclusive). However, Accenture did undertake some key business support activities during this period on a non-chargeable basis. The average rate per person in this period was £931 (VAT inclusive).

The table 1 below shows the number of people working in each of the Accenture teams at the RPA over the last three years.

TABLE 1

Team	*FY06–07 FTE's*	*FY07–08 FTE's*	*FY08–09 FTE's*
System Support and Maintenance	21	22	21
System Upgrades and Enhancements	177	178	153
Ad-hoc Consultancy	17	25	22

NB—as per the description of how the contract works, the fees paid do not change based on the number of FTEs in each team and it is the responsibility of the supplier to staff the right number of people to complete the contracted work.

Table 2 below provides the total payments made to Accenture since the commencement of the Solution Supply Agreement (RITA Contract) until the end of FY 08–09. The total of £177.91m is gross of recoverable VAT; the net figure is circa £156m.

The figure of £122m provided to the Committee following the last hearing was a snapshot at that point in time and, therefore, included within the Table 2 figures.

TABLE 2

Financial Period	*Total Payments (£)*
January 03–March 04	19,642,781
April 04–March 05	7,752,406
April 05–March 06	29,708,088
April 06–March 07	39,406,689
April 07–March 08	46,563,870
April 08–March 09	34,832,812
Total	177,906,646 (inclusive VAT)—circa £156m* (net of recoverable VAT)

**In his response to Q.39 Mr Cooper referred to a figure of £148m which is the figure recorded on RPA's current finance system. The £156m additionally includes some payments from 2003 which were recorded on an earlier system.*

The spend to-date (31 October 2009) in FY 09/10 totals £36,201,562 (inclusive of recoverable & non-recoverable VAT). Future spend will fall into one of two categories, namely: 1) fixed and known contractual obligations and; 2) activity to support future policy change. By their nature we have a high degree of confidence in respect of future costs regarding the former, whereas the latter is subject to a number of variable factors, so figures are based on current working assumptions.

Future spend for the remainder of the Contract term (31 December 2011) is estimated as follows:

Remainder of FY 09–10 (i.e. 1/11/09—31/3/10)—£199,456 (fixed) + £2,000,000 (variable) = £2,199,456 (£2,584,361 inclusive of recoverable & non-recoverable VAT)

FY 2010–11—£3,647,346 (fixed) + £12,500,000 (variable) = £16,147,346 (£18,973,132 inclusive of recoverable & non-recoverable VAT)

FY 2011–12—£2,649,258 (fixed) + £5,000,000 (variable) = £7,649,258 (£8,987,878 inclusive of recoverable & non-recoverable VAT)

Therefore the total estimated outturn spend until Contract term is calculated at £244,653,579. The equivalent figure net of recoverable VAT would be circa £214 milion.

Question 44 (Mr Curry): Copy of Internal audit report on Rural Land Register Refresh

Attached with this memorandum are both the summary report of the audit of the RLR programme and the second interim report of the programme (the first interim report only covered the system upgrade element.)

Please note that, as with all internal audits reports, these are restricted documents and while we are happy to provide them to the Committee we request that they should not be published.

Question 127 (Mr Bacon): Quotes from EFRA Select Committee hearing on who said "nightmare" and who said "madness" in describing the Dynamic Hybrid policy

The quotes referred to at the Committee hearing were attributed to Defra and RPA members of staff during evidence given by representatives of the Tenant Farmers Association to the Efra Select Committee in 2007. That evidence can be found at the following links:

Oral evidence (Q.2-Q.8)—
http://www.publications.parliament.uk/pa/cm200607/cmselect/cmenvfru/107/6042401.htm
Supplementary written evidence (points 17–18)—
http://www.publications.parliament.uk/pa/cm200607/cmselect/cmenvfru/107/6042408.htm

Given the passage of time and the fact that both of the members of staff concerned have now retired, it is not possible to comment further on those quotes. However, it should be noted that the stakeholder meeting referred to in the evidence occurred at a very early stage of the analysis work on SPS models.

Question 133 (Mr Williams): Ex-Gratia Payments made to Farmers

The total numbers of ex-gratia and consolatory payments made by the RPA are given in the table below. Ex-gratia payments are made when, for example, an incorrect application was made as a direct result of the Agency's actions. Consolatory payments are made to reflect, for example, the distress and inconvenience arising from mis-handling of applications but which did not affect the value of scheme payment due. The average payment in such cases is generally much lower (around £200) than for ex-gratia payments.

The payments are listed in the table according to financial year in which they were made rather than the scheme year to which they relate, which will generally be earlier. First payments in respect of SPS were made in financial year 2006–07.

Financial Year	Number	Value (£)
2006–07	6	8,428.74
2007–08	9	14,595.02
2008–09	19	31,522.55
2009–10	21	50,194.59
Total	55	104,740.90

Question 155 (Mr Bacon): Gartner Benchmarking Data on SPS IT systems

The following independent review reports produced by Gartner are attached to this Memorandum:[1]

— Independent Review of RPA Information Systems Appropriateness (February 2007)

— Epsilon Release Value for Money Review of Accenture Fixed Price Estimate (May 2008)

— Zeta Release Value for Money Review (January 2009)

— SPS Systems Appropriateness Review (July 2009)

In respect of the two RITA Releases, Gartner concluded that Epsilon "does represent Value for Money", whereas Zeta "falls outside the bounds of a fair market price". RPA accepts that there were a number of contributing factors which drove the Zeta outcome, primary amongst these were: 1) a conscious decision to de-scope functionality within the release to protect CAP Health Check policy changes and; 2) commencement of the project was delayed owing to that decision making process. Notwithstanding these issues, RPA subsequently negotiated a £100,000 discount with Accenture with regard to the cost of Zeta. RPA believes that this together with the above mentioned factors provided a reasonable VFM outcome.

In response to one of the main Gartner recommendations, RPA and Accenture have revised the approach for estimating development activity costs. The new approach means that costs for any proposed activity are calculated on a bottom-up basis, a top-down basis and a functional basis to ensure a sound estimate is derived.

Additional Notes

In response to Q.29, Mr Cooper was considering Board members and overlooked the customer director referred to by Mr Curry who was not a member of the Board. The individual in question was a long standing member of RPA staff who, following agreement with the previous senior management in RPA, departed under the exit arrangements in place during the Change Programme with a package worth £337,000. RPA is currently in the process of recruiting a Customer Compliance Director on to the Agency Management Board.

In response to Q.132, Dame Helen Ghosh gave a figure of "about £5 million" for interest payments made to farmers a result of their SPS payments being made after the end of the regulatory window. The actual figure is £3.7 million.

Memorandum from the NFU

A Second Progress Update on the Administration of the Single Payment Scheme

I hope you do not mind my writing following the SPS evidence session the Committee held with Defra and the RPA last week. I wanted to put the record straight on one small point made by Dame Helen Ghosh during the session.

The Committee touched briefly on the SPS implementation model chosen by Defra for England. Dame Helen seemed to regard this as ancient history, but the NFU remains convinced that a great deal of the ensuing chaos and waste of public funds can be traced back to the complex "dynamic hybrid" model chosen by Defra, together with the decision to introduce it at the earliest date possible.

The point I would like to pick up on is Dame Helen's insistence, in answer to Q126 of the evidence session, that stakeholders supported the dynamic hybrid that Defra was proposing.

The NFU did not support it. We had based our own proposal on four criteria: simplicity; minimising redistribution of existing support; ensuring the payment went to the working farmer; and market focus. Based on those criteria, the NFU's view was that the individual historic option was the right way forward. Our submission to Defra at the time raised concerns about the administrative complexity of a hybrid approach. Any such complicated system would be likely to lead to appeals, expense and delay.

That said, it is also true that we recognised that the historic model would at some stage have to be modified; the greater the time gap, the less justifiable a link between current support payments and historic subsidy receipts. The latest EU agreement on SPS now allows for a gradual breaking of the link between a

[1] Not reproduced here.

farmer's historic receipts and his current payments in a way that does not involve the inclusion of 40,000 new "pony paddock" claimants. If we had gone for a simpler approach in 2005, we would now have been able to make a change that did not involve a major re-work of the IT and mapping of new land.

I trust that sets the record straight, at least as far as the NFU's stance is concerned.

2 November 2009

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