

Website www.defra.gov.uk

DEFRA REVIEW OF THE RURAL PAYMENTS AGENCY

REPORT BY DAVID HUNTER
March 2007



TABLE OF CONTENTS

Foreword

- 1. Executive Summary**
- 2. Starting Point and Long Term Objectives - What Does a First Class Paying Agency Look Like?**
- 3. The Role of the RPA Inspectorate and On-Farm Inspection**
- 4. The British Cattle Movement Service (BCMS)**
- 5. The Corporate Repositories**
- 6. Shared Services and other Corporate Issues**
- 7. Governance Arrangements**
- 8. Summary of Conclusions and Recommendations**

Annexes

- Annex A - Terms of Reference**
- Annex B - Acknowledgements**
- Annex C - Paying Agency Responsibilities**
- Annex D - Hampton Report “Reducing Administrative Burdens: Effective Regulation and Enforcement” – relevant recommendations**
- Annex E - Alternatives to present models of Defra inspections**
- Annex F - Governance – Terms of Reference**

FOREWORD

April 2006 marked the fifth anniversary of RPA's creation. It was an appropriate point to take stock of the Agency's achievements and to consider its future development. The crisis with the new Single Payment Scheme (SPS), however, changed the context very dramatically and this review found itself one among several looking at the agency.

It is important to underline at the outset what this review has *not* aimed to be. It is not an examination of what went wrong with the SPS; nor is it an attempt to advise on RPA's internal business procedures - other parties are engaged with variants of both questions and RPA has worked with independent consultants to re-appraise its scheme processes. Rather, this is an attempt to look ahead at what role RPA should in future play as part of the Defra delivery landscape: what are its key functions and how best can the agency deliver them?

RPA is an unusual body. It is a Defra agency, one part of which serves English farmers (in respect of agricultural subsidies), while another deals with livestock keepers throughout Great Britain (for cattle ID and tracing purposes) and a third deals with UK traders - merchants, abattoirs, processors and exporters - in the food industry (for storage, disposal and export subsidies.) It manages a number of Defra helplines. It has a substantial compliance function, backing up the schemes it administers and including Defra's investigation services.

Much of this work was free of difficulty or controversy. But in early 2006 the agency was evidently under considerable strain. The SPS model was not delivering as quickly as planned; resources had been drawn from most of the non SPS functions to help with the launch of the new scheme; large numbers of temporary staff and consultants were on the books; long hours were commonplace; and the agency's management capability was close to exhaustion.

With the SPS problems set to pose a major challenge to the organisation for some time ahead, one immediate question was about the extent and pace of further change that the organisation could be expected to manage. If sorting out the SPS was the agency's highest priority, did it need a period of relative stability to do this; or on the contrary was early and radical change required to make it possible? RPA had been through a period when one change programme had effectively overlain another; when it was trying to put in place a flagship scheme which was complex and still-evolving; and when both had to be completed against an aggressive timetable. There were lessons to be learned from this experience at a time when much still had to be done to meet statutory deadlines for payment of the 2005 SPS claims and to prepare for the 2006 scheme. The agency's management was also starting to form the view that the SPS could not be brought under control until the 2008 scheme year. In short, further gratuitous upheaval looked like one new risk that the agency could well do without if this latter target was to be met.

We accordingly took the view that the agency needed a period of stability if it was to stand a chance of resolving the still-substantial SPS problems. Nevertheless, we looked at a number of options for parts of the business since, in the longer run, the context could be very different. The agency first needs to get back to its core

business of processing, validating and paying subsidy claims. Once a stable, repeatable and reliable SPS system has been put in place, it may be appropriate to consider whether more radical changes in the handling of what is currently RPA business might be practicable and desirable.

In any case, a good deal of change is taking place in Defra's delivery landscape. Two new agencies with significant links to RPA – the State Veterinary Service (SVS) and Natural England (NE) – are finding their own feet. Others are impacted by implementation of the Hampton report¹. And decisions on some outstanding policy questions – not least on livestock registration and tracing – would also have a bearing on RPA.

In these circumstances, we concluded that while the broad direction of travel for RPA can be outlined, namely towards a re-focussing on its core CAP business, the agency's position should be looked at again when the SPS is operating normally, other Defra delivery agents and policies are themselves more settled and when, indeed, the longer term EU policy framework is also clearer. In broad terms, this would point to a further look at RPA in 2009 or so.

Much of the following report is not focussed on RPA in isolation but on the interactions between RPA and other Defra delivery agents. These will be increasingly important as the Government's service transformation agenda takes shape since there are several areas where effective delivery will depend on RPA working with other agencies or where the needs of different agencies can be better met through novel forms of collaborative effort than through independent ventures. Going forward, the RPA and the core department will need to make the most of these opportunities.

We have consulted widely but informally in the course of his review and we are grateful to all those, within Government and outside, who have shared their thinking with us, particularly our stakeholder group who have provided valuable input to the process on a monthly basis. And I am particularly grateful to Lee Harbord who has worked closely with me throughout the review, providing plenty of welcome challenge and support as our conclusions took shape.

DAVID HUNTER

February 2007

¹ The Hampton Report – Reducing Administrative Burdens: Effective Inspection and Enforcement 2005

1 EXECUTIVE SUMMARY

1.1 The Rural Payments Agency (RPA) was formed in 2001 by merging the paying agency functions of The Ministry of Agriculture, Fisheries and Food (MAFF) and the Intervention Board (IB). In very simple terms, RPA runs a paying function and a compliance function while collecting and managing a wide range of industry data and serving as the funding body for CAP-financed schemes in the UK.

1.2 The new agency's main aim was the operation of CAP measures in England, together with some in other parts of the UK. But since 2001 RPA has acquired additional responsibilities, for example taking over the British Cattle Movements Service (BCMS) in 2003 and merging the Horticultural Marketing Inspectorate (HMI) with the RPA Inspectorate (RPAi) in 2006. Over the period, RPA has also managed and developed important databases, such as the Rural Land Register (RLR) which is a Defra corporate asset as well as an essential component in the administration of the Single Payment Scheme (SPS) and of the England Rural Development Programme (ERDP) and its successor. But RPA's key role is as the Paying Agency responsible for the delivery of subsidy payments to farmers and land managers, and to wholesalers, processors and traders of agricultural produce.

Some starting points for this Review

1.3 In parallel with this review, RPA management has been working on a recovery programme, principally aimed at getting the SPS right. We have not attempted to duplicate any of this work by, for example, examining the detailed business processes underpinning the SPS (which were anyway separately examined by external consultants in the course of 2006) or indeed the detail of the scheme itself. Nor have we been concerned with the narrative of how or why the SPS crisis arose. Two Parliamentary Committees² as well as the National Audit Office (NAO) and Office of Government Commerce (OGC) have addressed that question. We have concerned ourselves with clarifying what RPA's long term role should be and what steps need to be taken for the agency to play that role most effectively.

1.4 At the very start of our work, the importance of addressing the SPS problems was all too clear. RPA management were coming to the view that it would take until the 2008 scheme year to put the scheme on an even keel. One question we considered was whether radical change in the agency would be required to ensure that this target could be met; or on the other hand, whether such an approach would simply introduce more pressure and uncertainty to an already fraught situation and reduce, rather than enhance the prospects of success. We examined the possibilities for radical change in a number of areas, but bore in mind that major structural change in the

² The Public Accounts Committee and the Environment, Food and Rural Affairs (EFRA) Committee

next two years would divert management energies, add to the pressures on an already-stressed organisation and put at risk delivery of a stable SPS in 2008. We have accordingly judged the desirability of specific changes against the contribution they would make to success in 2008 while not ruling some out for the longer term.

The policy context for RPA has changed since its launch

1.5 The policy setting within which RPA operates has changed since the agency's launch. Most notably, the 2003 agreement on CAP reform set the CAP on a new path by 'decoupling' aid to farmers (i.e. breaking the link between production of specific crops or animals and subsidy payments.) Over 20 separate, sector-specific schemes (about a dozen of which were significant in the UK) were replaced by a 'Single Payment Scheme.' Meanwhile, other traditional CAP measures – intervention buying, payment of export subsidies – have declined in importance. The level of work connected with disposal of older cattle has also decreased.

and it will change further over the next decade

1.6 The 2003 measures did not cover every single regime in the existing CAP but, step by step, the Single Payment Scheme is incorporating those initially outside its scope. Sugar was reformed in 2005; and proposals on fruit and vegetables and wine will be discussed over the next year or so. Moreover, the 2003 measures as a whole will be subject to a 'health check' in 2008. At this point, it is impossible to forecast with any certainty what proposals the Commission will put on the table, still less to second guess the outcome of any negotiations. But the probable direction of further reform seems clear enough: EU prices for agricultural products will be allowed to move nearer world levels; farmers will be supported by decoupled payments; surplus buying and subsequent subsidised disposal, particularly to export markets, will diminish; there will be a continued and growing transfer of funds from traditional Pillar 1 activities to rural development and environmental measures under Pillar 2. If the WTO talks revive, it is possible that reform could go further and faster – for example, leading to the complete elimination of export subsidies.

but, so far as can be foreseen, will not change so radically as to call RPA's existence into question

1.7 The pace and extent of such changes may be uncertain but a best guess for the immediate future of RPA is that the present mix of schemes – the SPS, progressively incorporating further commodity sectors, with export subsidies, a few disposal schemes and, more rarely, some intervention purchasing - is likely to remain until 2012 and very possibly over the period of the next EU financial perspective until 2020. The emphasis within and between them could well change, however, and the overall level of expenditure may decline. But a paying agency will still be needed to manage and disburse funds supporting the agriculture and food industries and promoting rural and environmental measures.

1.8 The present SPS scheme has, however, presented administrations, here and in other EU member states, with a range of challenges. The EU rules governing payments to fruit, vegetable and potato growers, the operation of set-aside and land occupation requirements, for example, are significant burdens and changes in these or other areas could materially simplify the Single Payment in ways that enable streamlining of its administration. That said, the England version of this scheme is uniquely complex and so long as a number of its key features remain - three English regions, transitional arrangements involving part historic/ part flat rate payments, difficult grazing and common land issues – its operation will continue to test RPA quite severely. RPA has no choice but to plan for this or something similar until transition to an area payment in England is complete in 2012.

RPA should focus on the delivery of CAP measures to the farming and food sectors

1.9 Even after the adoption of the Single Payment, the CAP still comprises a fairly wide range of measures supporting and protecting farmers. – direct (like the SPS), indirect (export subsidies) and supply controls (milk quotas and import licensing); some are specific to rural development and environmental objectives. Together, they constitute RPA's core business. We recommend that, going forward, the RPA should be structured around these core functions. Other areas of RPA's current business, for example livestock registration and tracing, will be impacted by policy developments elsewhere in Defra to which RPA will need to contribute over the next two years or so. But the longer run direction of travel for the agency should be to concentrate on the core business identified above.

RPA and SPS a key part of Defra's 'Licence to Operate'

1.10 The SPS is the major vehicle for financial support to the farming industry and will remain so, for the immediately foreseeable future. Even with increasing transfers of money from CAP Pillar 1 measures (traditional direct and indirect farm support) to Pillar 2 activities (support for rural development and environmental schemes), the Single Payment will for very many of its beneficiaries provide a significant proportion of their income or profit. As has been all too obvious with reactions to late payment of the 2005 claims, the scheme – and hence RPA itself – is an important part of what might be called 'Defra's licence to operate.' The department needs to have a first class paying agency in place, not just to ensure that farmers, land managers and traders get the support to which they are entitled with the minimum of bureaucracy or delay but also to ensure that the department can command the credibility with the industry that it needs if Government is to press ahead with other policy initiatives. The challenges of promoting Defra's Strategy for agriculture, however extensively refreshed, to the industry will be all the greater so long as there is persistent underperformance in delivery of this key scheme. Similarly, the UK's reputation in the European Union will suffer and our

credibility in arguments over long term CAP reform will diminish. So getting the SPS right is key for the department going forward.

A First Class Paying Agency

1.11 Before the SPS crisis, RPA had built up a generally good reputation for delivery, meeting its published targets and finding a high level of satisfaction among its customers. There is now a lot of lost ground to recover. To become a first class paying agency, the SPS will need to be a stable, reliable and repeatable scheme, making prompt payments to claimants within EU rules, and with the large majority of each round of claims being dealt with inside a 12 month period so that there is no spill-over effect into subsequent scheme years (there will always be a small minority of cases where special factors, such as probate, prolong clearance.)

1.12 RPA must improve its performance, engagement and efficiency in a number of areas. But getting back to where it was, pre-crisis, cannot be the whole story for RPA since, in the interim, expectations of the standards that service delivery from Government should meet have been raised. David Varney's report on 'Service Transformation' looks to a future where access to Government services is simplified, the processing of transactions is streamlined and the departmental systems backing up delivery are more fully integrated.

1.13 The agency is building its own recovery programme and it should be guided by the principles emerging from the Varney report. To be prompt and accurate in the payment of subsidy, though, will not be enough. RPA must rebuild its relationships with customers, with improved opportunities for direct contact between relevant personnel and the customer. Plans should be made for an eventual switch from the current paper-based SPS system to an on-line application that is to the greatest extent possible fully automated. The costs of delivery need to be reduced (and the agency needs to invest in producing meaningful management information that allows progress towards delivery to be clearly tracked.) The delivery costs of the SPS, in particular, have been unsustainably high at something like an average of £750 per claim processed for the 2005 scheme. And RPA needs to become a less reactive, more pro-active organisation in some key areas - BCMS targets for example are almost entirely responsive.

SPS will be RPA's main challenge in near future

1.14 SPS will be the Agency's main challenge in the period ahead. None of the other schemes that it operates will constitute anything like so severe a challenge, whether in terms of complexity, sensitivity or resource demands. Non-SPS payments currently total around £330 mio p.a. with export refunds at about £180 mio and disposal of older cattle at around £60 mio accounting for the bulk. In all, RPA has a little over 2,200 customers for these schemes. The SPS, in contrast, is currently worth £1.8 billion to English farmers. And while the number of claimants could

well settle somewhat below the current 110,000, RPA is likely to be dealing with a long term SPS customer base of something around the 100,000 mark. RPA is also the formal paying agency for rural development schemes in England and this work is growing – there are already 26,000 entry level Stewardship agreement holders - but they are unlikely to generate the same level of work for RPA as will the SPS in the foreseeable future.

Does a Paying Agency have to be part of Government?

1.15 RPA is a paying agency for EU subsidies. For EU purposes, a Paying Agency has to be a governmental body but it can contract out a great many of the operations involved in processing subsidy claims. At the end of the process, however, it has to take responsibility for making the payments to claimants and accounting for them to Brussels.

1.16 RPA uses a number of private contractors in different areas of its business and we considered whether any more of the agency's functions might be undertaken by the private sector. BCMS is a special case whose long term position will anyway be determined by decisions on development of a wider livestock register; and it is difficult to see that the Inspectorate, as part of the agency's compliance function, would be an appropriate candidate for transfer.

1.17 The scheme processing operations are rather different in nature and might in principle be undertaken outside government. But there are arguments against so doing. The trade and disposal schemes could be split off but there is no evident case for effectively reversing the merger that created RPA in the first place, especially when the longer term future of some of these schemes remains difficult to predict. As to the SPS, it might in theory lend itself to being contracted out; but it would be extremely risky to contemplate this while the scheme is still so fragile. As became all too clear in 2005, the risks to delivery mount when a scheme is immature and evolving. Moreover, the sharing of risk with a private contractor would be extremely difficult to negotiate, given the scale of the disallowance penalties that may be involved. In brief, there remains much to be done if the scheme is to get on to a sound footing and we concluded that it is not a viable proposition for transfer, even in part, outside of government at this stage.

RPA needs to concentrate in short term on getting delivery of SPS right

1.18 If the priority for RPA is subsidy delivery, the SPS is the priority among the various subsidy schemes it manages. It follows that RPA should be structured around, and should concentrate on, its subsidy payment roles, with delivery of a fit-for-purpose SPS as the over-riding medium-term priority. Such a focus on SPS must not, however, compromise the ability of RPA to deliver its commitments on other

schemes, notably the sizeable and politically important Pillar 2 schemes to be embodied in the new Rural Development Programme for England (RDPE).

Structural change should be judged in terms of impact on SPS

1.19 It is possible to identify parts of RPA that could in principle be detached from the agency and moved to one or more other agencies. But major structural change would inevitably divert management time and energy from the main task in hand, namely stabilisation of the SPS. We have taken the view that any such possible changes should be judged, for the moment, on whether they are likely to assist or hamper SPS delivery. They should only be recommended in the short term where they seem likely to help with SPS or, at the least, not adversely impact on it.

as should any changes in responsibilities

1.20 Similarly, any possible extension of RPA roles or responsibilities should be judged in terms of its likely impact on the core subsidy business of RPA. Taking on additional work that is a poor fit with existing RPA competences or would add to the complexities of SPS delivery should be ruled out for the immediate future.

while also taking account of RPA's position vis a vis other Defra delivery agents

1.21 RPA, though, is not the only Defra agency that has direct relationships with farmers. SVS, Natural England, the Environment Agency and others have varying degrees of engagement with farmers and, consistent with the approach to better regulation recommended in the Hampton Report, arrangements should wherever possible maximise collaboration between these bodies and minimise the regulatory burden that the department corporately imposes on the industry and itself.

However, changes should also look to a more stable future

1.22 In the longer run, there could be scope for more radical action. Three developments over the next few years will largely determine the range of future options for RPA. First, progress with the SPS: once there is a stable system in place and it is working smoothly, it would be appropriate to reconsider whether the mix of RPA responsibilities looks right for the period ahead. Second, the outcome of the 2008 health check of the 2003 reforms should give some clarity as to the direction of any further CAP reform and therefore to the possible scope of changes in CAP support systems. Third, work within the department - on development of the corporate registers for land, animals and customers, on the Shared Services Organisation and on the business model that Defra wishes to adopt for the longer term – and a general maturing of the delivery landscape will provide a different background against which to review the options for any structural changes in RPA.

1.23 In those circumstances, it might be possible to consider afresh whether discrete elements of RPA's work might be merged with other work in the department or elsewhere.

Meanwhile, some specific actions called for

1.24 Consistent with the need not to destabilise RPA over the next 18 months, some re-orientation of parts of the business would be appropriate.

BCMS role is changing

1.25 BCMS manages the Cattle Tracing System (CTS) which logs the birth and subsequent movements of cattle in Great Britain. It provides a service to Defra and to the Devolved Administrations.

1.26 When EU support of the livestock farming sector largely took the form of headage payments, CTS data provided an important cross check on claims under the bovine schemes. With decoupling of support, however RPA's subsidy operations now have limited interest in the CTS data (essentially, through cross compliance requirements for cattle identification. The main importance of that data for the future will lie in its contribution to animal disease prevention and control, not to subsidy operations.

The future of CTS depends on some key policy decisions

1.27 Some important policy issues that will shape future movements recording requirements have still to be resolved. The Madders report received in June 2006 proposed radical changes in the basis for determining which cattle movements should be reported to CTS and which ignored. Acceptance of his recommendations would lead to a major change in procedures that could only be phased in over two or three years. CTS is a GB system and it would be desirable for a common approach to be adopted across GB with effective links to NI systems.

and should be addressed in the context of wider veterinary concerns

1.28 Meanwhile, Defra work on development of a more comprehensive Livestock Register – extending to sheep and other species – was 'paused' pending review of the main options and their affordability. That work is about to be re-started and it will make sense for the development of CTS and related systems to be taken forward in the context of a comprehensive livestock registration and movements policy. BCMS needs to be an active participant in this work and some strengthening of its management will be necessary to help it play a full part in this work and in its governance as well as improving its focus on existing responsibilities, for example by sharpening its own performance targets. In the longer run, the wider requirements of the Livestock Register will determine the role of BCMS.

RPA and the Defra helplines

1.29 RPA currently accommodates and manages 17 helplines of differing size and complexity at Workington, covering both Defra and RPA interests. RPA does not however have the capacity to provide a substantial emergency helpline in the event of (say) an animal disease outbreak and alternative arrangements have been put in place against such a contingency. While the CTS and TSE surveillance helplines should stay with BCMS as part of RPA, and the SPS one with RPA as well, the agency is not the right body to continue managing others that have no connection with its main businesses..

1.30 The Defra helpline provision needs to be streamlined. It should be treated as a Defra corporate asset and managed by professionals in the field of customer contact business.

RPA and the Defra Shared Services Agency

1.30 As are several other departments, Defra is establishing a Shared Services Organisation (SSO) in response to the Gershon review recommendations on seeking efficiency savings across the business. The SSO will be able to provide agencies, as well as the core department, with a range of transactional services in a number of corporate service areas - Human Resources, Estates, Finance and Procurement. RPA's central services function is substantial, at around 700 of the current 4500 staff. That figure is, however, somewhat misleading as a significant proportion is in reality closely linked to different operational parts of the business and perhaps 150 work in areas that could be taken on by the SSO. Consistently with our argument that RPA should concentrate on its core subsidy delivery business, we see advantages in the agency obtaining a range of these services from the SSO, so far as is compatible with EU requirements for RPA's status as an accredited paying agency. There would also be efficiency gains from such an approach.

1.31 The SSO, though, is at an early stage of its development and the migration of responsibilities to it will need to be phased over a significant period of time and managed with care. But the agency should commit itself to maximising use of the SSO from the earliest practicable date.

The Corporate Databases

1.32 RPA maintains two large databases, the Rural Land Register (RLR) and the Customer Register (C-Reg.) RLR came under great pressure in 2005 but now appears to be working smoothly. Two significant requirements will bear upon its future.

1.33 First, the information it contains on land parcels is currently mapped on to a 2001 Ordnance Survey map; it will need to be transferred to the more up to date 2006 map, which process may in turn generate new problems. There could for example be changes in the measured area of

individual SPS claims, and if large numbers of such changes – even relatively small ones - prove to be required, these could represent a significant challenge to address. There would be equally severe implications for other delivery partners and in particular Natural England and the Forestry Commission, which use the Rural Land Register as the basis for their agreements with large numbers of customers. A pilot began in February 2007 to establish how complex the work is likely to be, and what mitigations might be needed to reduce the business impacts of change.

1.34 Second, work on the Livestock Register will involve mapping livestock and their keepers, some of which information will overlap with material in RLR and the Customer Register. Consistent with the need to simplify and improve relations with customers, it will be important to avoid or minimise the duplication of information sought from farmers. To that end, Defra should ensure that the two systems are built in such a way as to communicate with one another, allowing information to be shared and looking ahead to the possibilities for further streamlining of the department's interface with farmers, in the longer run through the Whole Farm Approach. For similar reasons, a degree of commonality needs to be established as between the different sets of customer information held by RPA and the SVS, and indeed other parts of the Defra family. Meanwhile, consideration should be given in the related exercises on development of new livestock movement rules and the building of a livestock register to whether key data can be collected from the industry in a single exercise rather than in two or three which risk duplication and adding to the burdens on farmers.

The RPAi

1.35 The RPA Inspectorate (RPAi) undertakes a wide range of on-farm inspections to support the claim verification process, not just for SPS but also for Rural Development Programme measures; it checks cattle identification for the CTS; and it inspects a range of off-farm premises in connection with the various trader-related schemes.

1.36 We considered whether, in the light of the Hampton Report principles, the Inspectorate should be merged with their counterparts in other agencies to form a single on-farm inspection body or be otherwise re-brigaded with them. On balance, there did not seem to be any advantages from such an approach which could not be obtained by better co-ordination or collaboration between the existing agencies. But specific efforts need to be made to take that joint working forward and Agency Chief Executives should be charged with doing so.

RPAi should adjust its approach

1.37 At the same time, RPAi should in cooperation with Defra policy colleagues look afresh at its approach to on-farm inspection. There is a perception in the farming industry that too inflexible and prescriptive an

approach is being taken, particularly in the new area of cross compliance. At the same time, inspections are relatively lengthy and resource intensive. Only a small proportion of farms are physically inspected each year and while still meeting EU requirements RPAi should aim to reduce the burden of those inspections. It should put more emphasis on giving advice to farmers to secure compliance. RPAi should work with other delivery agencies to enable inspectors to adopt this more rounded, outcome focussed role.

Governance of the agency and its relationship with Defra

1.38 Changes have been made in the governance of RPA since this review was launched. The Ownership Board has been replaced by a Strategic Advisory Board and a separate, temporary Oversight Group established. The new arrangements are still bedding down but, with other arrangements in place in the agency itself, are aimed at clarifying responsibilities which had become blurred in the 05-06 period. It is now much clearer than before that lead responsibility for delivery of RPA's commitments rests with the agency's Chief Executive. The presence of various customers – from the department, Devolved Administrations and the industry – had tended to divert the former Board from 'ownership' to 'customer' issues while not providing a suitable vehicle for holding the Chief Executive to account for his delivery obligations. Separately, the Executive Review Group (like the OB, chaired by the Permanent Secretary) had concentrated on delivery of the SPS. The combination, with the additional pressures flowing from slippage in the SPS project, led to an insufficient focus on longer term, more strategic issues. We welcome these changes.

1.39 Separately, arrangements have been made at working level to improve the dialogue between the agency and the core department. A new division, with staff from both and reporting to both, has been established to join up the policy to delivery of the SPS. We think this is an important step, having heard comments from a number of places that the core department had less understanding of delivery issues than it should, while the agency had less feel for policy considerations than was once the case.

1.40 While we welcome this development, the SPS experience strongly suggests that Defra needs to address the wider question of strengthening delivery skills in the core department. It is striking, and regrettable, that core Defra staff have been loath to accept secondment to RPA. In the longer run, senior 'policy' officials will need to have the kind of delivery experience that equips them for holding delivery agents and chief executives to account. There is a balance to be struck in the department/delivery agent relationship between challenging the delivery body and leaving it the autonomy it expects to have to do its job. Its autonomy has in reality to be earned by its track record; but the department will not be competent to judge its claims to that autonomy if senior staff lack meaningful delivery experience. Delivery experience is one of the key areas for development of staff under the Policy Skills for Government

agenda. Defra management should accordingly ensure that more policy staff spend time in the agency as part of their career development.

Conclusion

1.41 The proposals in this report are relatively modest but they will nonetheless add to RPA's agenda over the next 18 months to two years. In broad terms, RPA management will need to steady the ship while tackling the legacy problems from the 05 and 06 SPS scheme years. Until these are resolved, it will not be possible to put the scheme on a stable footing. But in parallel, RPA will have to redefine its place among Defra's delivery agents and partners at a time when the roles of, and interactions between, these bodies are themselves changing. RPA needs to raise its performance in some areas – getting a better handle on management information, sharpening some of its targets and, in line with the rest of the department, bearing down on its running costs. Alongside that, it will be engaging in closer collaboration and more tightly focussed collaboration with other delivery bodies, not just as regards on-farm inspections but in areas such as the collection and exchange of business information drawn from the industry and the development of the Whole Farm Approach. The corporate objective for Defra is to simplify and streamline the channels by which the industry accesses the services for which Defra is responsible, reducing the burdens on the industry and integrating the delivery of those services in a modern, coherent and efficient fashion. If the department is to meet those objectives – and, indeed, to respond positively to the messages on service transformation from the Varney report - there will have to be more joint working across agencies and less by way of stand-alone, tailor-made or duplicatory exercises.

1.42 A summary of key specific recommendations follows chapter 7 with an indication of who should be charged with taking the work forward.

2 STARTING POINT AND LONG TERM OBJECTIVE

2.1 At the start of this review, we thought it would be useful to ask ourselves a few questions that might inform our general approach. These were on the lines of: what is an agency for (as opposed to any other form of delivery mechanism); what is this particular agency for; what key considerations should apply in the case of RPA over the next couple of years; and what sort of RPA should we looking to have in place once the SPS crisis had been brought under control?

What's an Agency for?

2.2 Agencies serve a variety of purposes and no two will be exactly alike. They are in general not policy-making, regulatory or levy-raising bodies but rather execute the policy that departments lay down and depend on the parent department for funding the bulk of their running costs. To paraphrase a view expressed by another department, they will typically offer the core department three benefits:

Focus – they have a relatively narrow range of responsibilities and are free to concentrate on them (whereas core departments will often be under a range of competing pressures that constantly re-define priorities).

Expertise – they have knowledge and skills specific to a particular area and can develop those skills in greater depth than would be possible in the core department (partly because agency staff include specialists who tend to stay longer in post than do their policy counterparts).

Customer engagement – their expertise gives agencies credibility with customers and fosters a depth of engagement with them which core departments would in general struggle to match.

2.3 In the case of RPA, we might ask: what is it that Defra wants RPA to focus on; where does the Agency's expertise lie (and by extension, are there limits to what it is sensible to ask of the agency); and how effective is its customer engagement?

What is RPA's core business?

2.4 RPA was set up to manage a range of EU-financed subsidies to the agriculture and food industries (and, indeed, the fish industries.) If there were no CAP, there would be no need for the RPA – more precisely, if there were no subsidies, EU or national, payable to these industries and no import or export licences and no supply controls like set-aside or milk quotas, there would be no need for most, if not all, RPA activities. Most of the non subsidy work remaining - such as the corporate databases, the helplines, the residual inspection and investigation work - could be accommodated elsewhere in the department without the need for a free-standing agency. BCMS is perhaps a

case apart. Cattle ID and tracing would have to continue as part of HMG's contingency planning against animal disease outbreaks but its future would have to be found in the wider context a broadly-based livestock register.

2.5 So, while some of RPA's functions would continue if farm and other subsidies disappeared, most would be on a much smaller scale. Equally, some of those functions closely connected to the business of calculating and paying subsidies – as a register of who is farming which land in any given year, the RLR is particularly critical to the SPS – are not *inextricably* part of the subsidy processing business and could continue to operate elsewhere in the Defra family.

2.6 We concluded that RPA's core business is the payment of subsidies (in practice, a range of subsidies and not just the SPS.) The relationship of its non-subsidy activities to this core business is uneven, with some being more closely integrated than others, and we wanted to look critically at them to see whether they made sense as part of RPA's total package or whether they would make sense as part of a future RPA.

What does this mean for the RPA's business model?

2.7 At its simplest, two things. First, that payment of subsidies to English farmers and GB food businesses should be the main strand of RPA's activities for the foreseeable future. Second, that the SPS will be the dominant scheme, both in terms of money disbursed and the agency's resources needed to deliver the scheme.

2.8 We concluded that the business model for RPA should be built around the subsidy processing and verification business. The extent of other business taken on by RPA should be judged critically against its contribution to delivery of the subsidy schemes, especially the SPS, and against the skills which RPA possesses.

Which leads to some assumptions about this review

2.9 We have tried then to look at RPA with a number of starting points in mind, drawn from the analysis above and intended to ensure a degree of consistency in the approach we take. These are:

Priority for the SPS. The main focus of RPA must be on its subsidy work and on the SPS in particular. On present evidence, it will take until 2008 to stabilise the scheme, that is to say to get in place a system which is stable and repeatable, which is well understood by claimants and which delivers payments in a timely, accurate and uncontroversial fashion. We have accordingly had a presumption against recommending action that introduced new elements of risk to delivery of the SPS.

Avoidance of unnecessary disruption. Radical internal restructuring of the agency would be a high risk option that diverted energy from the

main job in hand. Certainly, some parts of the agency are relatively self contained and it is possible to conceive of them being hived off to other owners or as stand-alone businesses. But the key question for us was whether any such moves would help or hinder delivery of the SPS in the short to medium term.

Critical examination of any new burdens. We applied a similar test to work which might be transferred into RPA. This is especially relevant to RPAi which, post Hampton, had been identified as the core of an 'agricultural' thematic regulator. Having taken on the Horticulture Marketing Inspectorate in April 2006, the RPA was when this review started, under consideration as a potential home for the Plant Health and Seeds Inspectorate, although we now understand that this has been ruled out by Defra Senior Management.

Optimal alignment. Defra resources will be scarce in the coming years and it will be important for efficient delivery of departmental objectives to ensure that the available resources are aligned as well as they can be in relation to delivery outcomes, avoiding duplication and making a genuine contribution to corporate outcomes.

Playing to strength. RPA staff possess a very varied range of skills but it is important to recognise their limits and that there are areas to which those skills do not readily transfer. There is increasing specialisation in a number of service sectors and the core department needs to recognise that a balance has to be struck between buying in some of these skills from the market and upskilling members of the present workforce.

Maintaining complementary skills. For the core department and the agency to work well together, there has to be a certain level of informed, mutual understanding on each side of the boundary. Both need to understand the constraints and processes that operate in the other. It would be a mistake so to streamline the RPA operation that it lost all feel for political priorities and thus any ability to contribute to the policy making process. While policy will always remain with the department, there needs to be a continuous and informed dialogue between RPA and Defra as to how best policy objectives can be translated into delivery.

Customer engagement. Who are the customers of RPA and what are they looking for? RPA runs a lot of schemes in addition to the SPS and it deals with a substantial number of non-farmer customers. And the agency also does a certain amount of work on behalf of NE. The SPS crisis having damaged the organisation's relationship with its farmer customers and caused concern among others, the organisation going forward has to rebuild those links and restore confidence in the sector.

Departmental reputation. RPA is an important part of Defra's 'licence to operate.' Successfully paying subsidies in conformity with EU and

UK rules, while remaining within budget and headcount commitments and minimising or avoiding disallowance, is a large part of Defra's reputation with its wider customer base and with other public bodies. RPA's ability to deliver on Pillar 1 and Pillar 2 schemes is critical to Defra's standing.

The longer term perspective. It is inevitable that, with the period of recovery for the agency stretching until at least 2008, the emphasis will be on short term issues and that is where the RPA Interim Chief Executive is devoting his energies. In the longer run, however, some of those options that seem inappropriate now may well merit reconsideration. We have therefore tried to avoid reaching conclusions that would prejudice options for the future.

And about the need to see RPA in a wider context

2.10 RPA is one among several delivery agents in the Defra group. In the wake of the Hampton report, a number of changes in agency roles have been made or are under examination. We have tried to bear in mind the particular expertise that RPA, and its predecessor bodies, built up in dealing with farmers and traders over a long period, and we have tried to position the agency in such a way as to exploit that expertise for the future.

Does RPA have to be in the Public Sector?

2.11 We received no representations for RPA to be re-incorporated into the core department or to assume a radically different identity. We did however give some thought to whether parts of the business might be privatisable or be contracted out. RPA is not a commercial business in the sense that its customer base can be increased or that any goods or services are being sold on commercial terms, so contracting out, rather than outright privatisation, would be the more realistic option.

2.12 For EU purposes, a paying agency has to be a governmental body but the relevant law seems to allow the possibility that many of its processing operations could be undertaken by a private body provided that, at the end of the process, it is a government body that takes responsibility for the payments made. Annex C contains a brief summary of the legal position as we presently understand it. RPA is also, of course, a *funding* body in that it is responsible for drawing down from the EU the monies to be paid in the form of the subsidies managed. This distinct responsibility would have to rest with the state.

2.13 The future of BCMS is discussed in a later section of this report and one option is that cattle tracing work will form part of a new entity with both private and public sector participation. The Inspectorate is part of the agency's compliance function which sits more naturally within government than without. But the subsidy processing work – the calculation and verification of claims – could in principle be undertaken by a private body. Again in principle, the export subsidy and disposal scheme operations could be handled separately

from the SPS but it would be premature to think of separating them at this time when the longer term future of both, perhaps especially of export subsidies, is something that could in the next year or two be the subject of significant policy changes. And it would go against the grain of domestic UK policy for service transformation to start splitting up an existing agency into smaller parcels of work, thereby increasing the range of bodies with which the food industry has to work.

2.14 The major question as regards contracting out is the SPS. RPA already makes use of private sector contractors in parts of the SPS processing operation – for example, in mapping and in aerial surveys. It could in principle delegate a great deal more work to the private sector but a commercial business contemplating whether to take on a contract to process SPS claims would doubtless wish to consider very carefully the risks – financial and otherwise - that were being transferred to it. They are substantial.

2.15 One of the important lessons to be learned from the problems that befell the 2005 scheme is that the risk to successful delivery is increased when the scheme is itself immature, unstable or still evolving in key particulars. The present position is far from stable. There are questions to be resolved on the basic entitlements of a significant number of farmers; compensation payments for sugar and dairy producers are not yet fully integrated; other sectors have yet to be brought into the EU scheme; and some changes may be introduced after the promised ‘health check’ of the scheme at EU level in 2008. Moreover, the position on disallowance – financial penalties that the EU may impose for shortcomings in the administration of the scheme – is still developing. Given the potentially large scale of such penalties, running into tens or hundreds of millions of pounds, and the relative immaturity and complexity of the scheme, the sharing of risk with a private contractor would be an extremely complex matter to negotiate. In these circumstances, it did not seem to us that the SPS is at present stable enough to constitute a viable proposition for transfer, even in part, outside of Government.

What will a first class RPA look like?

2.16 We concluded that RPA should remain as an agency and as the accredited English paying agency under EU legislation. In theory, another body could be identified or created to take on the latter role but, having briefly reflected on the possibilities, we saw nothing obvious to be gained from the substantial disruption the change would entail. More narrowly, RPA should focus on its subsidy paying roles – the receipt, validation and payment of, along with the accounting for, those claims for aid under either Pillar 1 or 2 of the CAP made by farmers in England and, insofar as the trader schemes are concerned, in UK.

2.17 One part of the remit for this review, however, was to help identify ways in which RPA should become a ‘first class paying agency.’ What should that mean?

2.18 It goes without saying that the minimum requirement is for valid claims to be paid quickly and accurately, within the deadlines and subject to the other conditions laid down in the relevant EU legislation. As a benchmark, this must mean that where payments have to be made within a defined window, payments should start on, or very shortly after, the first day of any such window.

SPS Timetable

2.19 The SPS will be the biggest and most high profile scheme with which RPA has to deal in the foreseeable future. Getting the SPS right must be the agency's highest priority.

2.20 Key to delivery of the SPS will be a compression of the time period occupied by each scheme year – many unresolved issues still persist from the 2005 scheme and continued working on this overhang has eaten into the time when 2006 claims should be processed. RPA need to establish a target timetable for dealing with a stable SPS and streamline the validation processes accordingly. The key phases in any two year cycle will have to be something like:

Y1

December/ March – pay Y1 claims

Y2

January /mid March – prepare Y2 claim forms (i.e. pre-populate as far as possible)

end Mar Y2 - issue claim forms

May/ end October – process Y2 claims

December/ March pay Y2 claims.

2.21 It will not be possible to move rapidly to this position. RPA should however set and publish targets for improving performance over the next two years. June 07 is the deadline for completion of 06 scheme payments; the agency should aim at steadily improving on this target so that 07 claims are paid by March 08 and 08 claims start to be paid in December of that year. In the period since this review was launched, the EU has agreed provisions to allow advance payments of claims (i.e. payments can in certain circumstances be made in the period between 15 October and the opening of the formal SPS payment window in December.) English farmers make the point that they are increasingly disadvantaged by slow payments, not only in comparison with farmers in other EU member states but also in comparison with farmers in other parts of the UK. Given the particular features of the English SPS system, it is hard to see that RPA can quickly reach the position where significant numbers of advance payments can be made. But RPA should be invited to explore the scope for such action once the sort of timetable identified above is deliverable.

2.22 This timetable implies that a little over 20,000 claims per month will on average have to be cleared in the June/October period. RPA management

will have to decide what staff numbers and what processes are needed to achieve such a throughput but it is worth noting that the rate of clearance required is only something a little over 10 per month for each of the 1900 or so staff currently engaged on claim processing work. In reality, productivity per processor will have to be somewhat higher since that total includes a number of support staff, not directly engaged on processing. As the legacy problems from the 05 scheme year are resolved and the system beds down, it will be for decision what balance to strike between staff numbers, the speed with which validation of claims is completed and the priority, if any, to be given particular categories of claimant (there is, for example, some attraction in giving priority during the next couple of years to the largest claims in order to make rapid progress towards the statutory target for payment.)

Customer relations

2.23 In any case, the agency will need to re-build the customer relations that were badly damaged in 2005/06. RPA's current move towards a claims-based approach (i.e. away from a task-based approach which was considered to have exacerbated the processing of the 2005 SPS) should help in that direction. RPA needs to put in place arrangements which provide a better measure of genuine contact between the agency and its customers than became the norm in the 05/06 period. It would not be unreasonable for claimants, certainly those above the smallest category, to be assigned to individuals or teams of processors who in turn are empowered to deal directly with them to resolve issues with their claims. At a more strategic level, RPA needs to reactivate its customer engagement through regular stakeholder meetings. The high-level forum that used to exist had not at time of writing, met since March 2006, those regular contacts which have taken place since then having focussed on immediate, very specific issues arising from the SPS.

E channel

2.24 Eventually, however, the scheme should be based on e-channel access. At this point, and until the scheme is stable, it would not be credible to commit to a mandatory e-channel; and in any event a transitional period will be required. But in line with wider Government commitments to e-enablement, it should be recognised that the ultimate objective should be for SPS to become an e-channel only scheme, supported by processing arrangements that minimise the need for personal scrutiny of claims.

Costs

2.25 In the meanwhile, RPA management will need to reduce its running costs, especially where the SPS is concerned. SPS accounts for about half of RPA's total expenditure and delivery costs for the scheme have been unsustainably high. Management information was a casualty of the increasing pressure to deliver the 05 scheme and it is difficult to separate SPS costs clearly from total RPA costs. But, with these qualifications, the direct costs of administering the 2005 claims has been estimated at something like

5.5p per £ of subsidy delivered or £750 per claim; inclusive of development costs, the figures would be about 50% higher. Costs tend to be high in the first years of a new scheme's life and the one-off problems experienced in 2005 added greatly to running costs but, that said, costs look likely to remain significantly above the delivery costs of the production-linked schemes that the SPS replaced for at least the next two years. RPA management will as part of its recovery programme for the organisation be looking to drive those costs down but the size of the challenge should not be underestimated. This is a complicated scheme based upon nine or so different sorts of entitlement – three flat rate ones linked to regions of England and six others - all of them tradeable, all of which have to be recalculated annually and matched with a claimant's land parcels (which may themselves vary significantly from year to year.) With a long tail of small claims, for many of which the processing cost will exceed the eventual subsidy payment, efficiencies will be hard to find.

Conclusion

2.26 RPA should remain an agency and concentrate on its core business of paying subsidies and administering related CAP measures. The RPA recovery programme should be focussed accordingly and, while SPS processing costs need to be driven down, it has to be recognised that the scheme will remain an expensive one to deliver at least over the next two years.

3 RPA INSPECTORATE AND ON-FARM INSPECTION

3.1 At the risk of some over-simplification, RPA comprises two main businesses: a processing function dealing with claims from farmers and others for payment of various subsidies; and a compliance function which verifies the accuracy and legitimacy of those claims. RPAi is a key element of the compliance work. Its remit has expanded and it provides services to both Defra and other delivery agents. At the start of this review, the possibility of further expanding its role had been under separate consideration; and questions were put to us as to whether there were alternative structural arrangements that would better focus delivery of inspection. RPAi's relationship with other delivery bodies was also relevant, as was the perception which farmers had of RPA's purpose and approach.

RPAi Size and Costs

3.2 With over 10% of the workforce, and running costs of c.£ 23 mio p.a., (just under 9% of RPA's total running costs), the Inspectorate is a significant slice of the Agency. It is also a distinct one. Inspectors form something of a specialised and self-contained cohort and are the one part of the agency which has extensive face-to-face dealings with customers at their place of work. Whether it is the right size, doing the right job and whether it should remain as part of RPA or move elsewhere are all questions to be considered.

3.3 RPAi complement has remained broadly stable through the recent crisis. There have been periods when a significant number of vacancies were being carried but the Single Payment Scheme (SPS) crisis did not of itself lead to increases in the numbers of inspectors required. The current total of staff (including support) is around 500 Full Time Equivalents, about 400 of whom are involved in frontline inspection delivery. The non-farm element of its work is significant: in practice, fewer farms than other premises are visited each year (about 12500 compared to 12800) but the time spent on farm visits tends to be substantially longer.

RPAi Activity.

3.4 Where CAP schemes are involved, the proportion of claimants subject to detailed checks is generally set down in EU legislation. In all, RPAi inspects for some 70 such schemes, many of them very small in relation to the agency's overall business. For the most part, verification relies on paper checks but some claims are subject to detailed examination and physical inspection of premises, records and practices to confirm that the terms and conditions of the relevant schemes have been met. RPAi also checks animal movement records and identification for the Cattle Tracing System.

3.5 RPAi's work on CAP schemes is audited by the Commission, the European Court of Auditors and the UK Certifying Body. Shortcomings in procedures or performance identified by the auditors can lead to financial

corrections (in effect, the EU declines to finance a percentage of EU expenditure).

3.6 The non-farm businesses inspected are various. They include slaughterhouses, food processors, cold stores and warehouses which are also potentially subject to inspection by other public bodies, including local authorities, Her Majesty's Revenue and Customs and the Health and Safety Executive. We have not attempted to look at the relationship between RPAi and these other authorities where the non-farm inspections are concerned. The food industry have not signalled any specific concerns with the off-farm inspections (and have generally commented that satisfactory levels of service have been maintained in the trade schemes as a whole despite the problems elsewhere). This chapter is therefore principally about RPAi's on-farm work and its relationship with farm inspection work undertaken by other parts of the Defra family.

RPAi and the Hampton Report .

3.7 The Hampton Report recommended a reduction in the number of bodies charged with regulating the farming industry. It proposed the conflation of Defra's regulatory bodies into four 'thematic' regulators, among which the RPAi was to serve as the core of an 'agricultural' regulator. The Government accepted the Hampton recommendations and Defra continues to work on their implementation. Some steps have however already been taken.

3.8 As part of the post-Hampton changes, the 70-strong Horticultural Marketing Inspectorate (HMI) merged with RPAi on 1 April 2006. Its main work is the enforcement of marketing standards for fruit and vegetables at wholesale and retail level. HMI's also undertake a certain amount of data collection and price reporting. 'Intervention' in the classic CAP sense – the purchase and storing of surplus products - does not apply in the horticultural area but there is occasional destruction of crops in glut periods. HMI's will be involved with supervision of such destruction.

3.9 While there is some comparability between HMI and other RPAi work – put simply, checking that certain measurable standards are being observed – the similarities are not in practice great and overlaps are very limited. SPS payments to horticulturalists, for example, do not require specialist HMI staff to be involved in any on farm verification work and HMI staff are mainly active in shops and markets where other RPAi staff rarely go. Taken as a whole, then, HMI work has only a limited connection with RPA's mainstream activities.

3.10 RPAi though has a substantial training programme which its management is keen to expand to maximise the opportunities for multi-skilling. Over time, the HMIs may then merge rather more completely with the rest of the Inspectorate but this will be a gradual process.

RPA re-organisation

3.11 Other changes have had some impact on RPAi's position in the Agency. The Defra Investigation Service (DIS) – which deals with investigation and preparation of cases that may lead to court proceedings - was transferred to RPA at the beginning of 2006. These staff (29 in total of whom 26 carry out actual investigation work) provide a service to the Department as a whole; indeed, about 85% of the cases investigated come from outside RPA. Internal re-organisation in the summer of 2006 resulted in the DIS being brigaded alongside the Inspectorate and RPA's counter fraud unit, all of them reporting to a new Compliance Director.

3.12 So the RPAi and other compliance functions with which it is grouped do more than simply support other parts of RPA. HMI, Investigation and counter-fraud work are services to Defra; and a proportion of RPAi resources is spent on inspecting the ERDP schemes on which Natural England (NE) now takes the lead (in fact, the inspection requirement for the latter looks to be broadly similar to that for the SPS – around 60 man years for the ERDP with a further 8 on Hill Farm Allowance (HFA).)

Other Defra work has been considered for transfer to RPAi

3.13 When this review started, the possibility of merging the Plant Health and Seeds Inspectorate (PHSI) with RPA was still open. The PHSI is about 100 strong. It is a regionally-dispersed organisation, principally concerned with ensuring the health status and quality of plant material, especially that in trade between the UK and other markets. There is, however, very little connection between this work and other RPAi activity. Consistently with our view that RPA should not take on work unconnected with its core business, we advised against such a merger and Defra senior management subsequently decided to rule it out.

RPAi has to operate in a wider departmental context

3.14 Nevertheless, RPAi's substantial non-RPA business begs the question whether it still belongs with the agency. It is one of several Defra bodies that carry out inspection work on farms and, at present, the department has a rather limited view of how all this activity adds up. Questions were raised with us as to whether there could be better collaboration between Defra delivery agents which might in turn lead to a more efficient use of resources and thus potential savings. We therefore tried to see RPAi in this wider context.

3.15 There was also the need to consider the impact of various reviews that had been recently undertaken. In addition to the Hampton report noted above, these included: the Eves Report on the Animal Health and Welfare Delivery Landscape; and the Madders Review of Livestock Movement Controls. We also took into account Janet Purnell's report on the future of the PHSI.

The Strategy Refresh.

3.16 RPAi is a part of Defra's 'licence to operate' and failure to meet delivery targets hits Defra's reputation hard. Meeting inspection targets is critical to

the whole grant making process – some inspections should be completed before the payment window can open, but perhaps more importantly, inspection is an important safeguard for EU and UK funds. Failure to get it right can lead to significant disallowance, the bill for which can cost the Exchequer sums not far distant from the current running costs of RPAi.

Is RPAi about advice, compliance or enforcement?

3.17 Farmer perceptions of RPAi appear to be more negative than those they have of other agencies. The claim is made that other enforcement agencies generally look to ensure compliance through advice and encouragement whereas RPA tend to concentrate on inspection *per se*, with little flexibility being exercised as to whether or not breaches have occurred. Since the customer experience and perception is important, there are clearly questions worth examining in relation to the policy guidance given to RPAi and how this shapes contacts on the ground. RPAi Management is aware that this is an important issue and are looking at the potential for a more constructive engagement with farmers while ensuring that inspectors do not fall foul of the EU Regulations within which they operate.

Is RPAi delivering?

3.18 One final point. The Inspectorate did not meet its targets in 2005 and it faced criticism from some quarters that, when push came to shove, RPA interests were accorded priority over those of other customers. This raised understandable tensions between RPAi and those to whom it provides a service. 2006 was much better, with RPAi meeting all its targets for the 2006 scheme year, including those connected to non-RPA business. It is vital for RPA's standing in the Defra family that it continues to do so and it must be resourced appropriately.

3.19 RPAi inspects in connection with a large number of farm-based schemes. The following paragraphs 3.20-32 summarises the inspection requirements for the main ones.

Single Payment Scheme (SPS)

3.20 The SPS requires two 'types' of inspection – for Land Eligibility and Cross Compliance. EU Regulations require that 5% of applicants (approximately 6,000 in the 2005 scheme year, slightly fewer this) be subject to a land eligibility inspection with a further 1% (1,200) requiring a cross compliance inspection. EU rules determine the structure of the sample, with specific proportions drawn from each quartile of the claimant population. RPA select farms primarily on the basis of a risk matrix covering a range of factors from size to past history; a small random element is also included. EU rules set out the factors to be taken into account in determining risk but member states have some discretion as to the relative weight to be given each of them. The initial check for land eligibility is based on scrutiny of remote sensing information (i.e aerial photography), with about 2000 claims then being subject to physical 'on the spot' inspections. In addition, the random

selection (just over 1%)is subject to an on the spot inspection. Some 200 of the 1200 subject to cross compliance inspections receive both land eligibility and cross compliance checks.

3.21 EU rules prescribe the windows within which inspections should take place. The start date is 16 May and the closing dates are 30 September for Land Eligibility and 31 December for Cross Compliance. It should be noted, however, that RPAi are looking at the potential for starting inspections earlier based on data received for the previous scheme year. This is a practice, we understand, adopted by some other Member States and has the virtue of allowing inspections to be spread out over the course of a calendar year thus improving the prospect that all inspection targets will be achieved.

3.22 Land eligibility inspections aim to confirm the area covered by SPS entitlements and that it is being used for permitted purposes.

3.23 Cross Compliance inspections covered 16 Statutory Management Requirements (SMRs) in 2006, with a further three coming into force in 2007. Each SMR has specific and unique inspection requirements. In addition, there are 17 standards covering Good Agricultural and Environmental Condition (GAEC). Approximately 200 of RPAi's inspectors are trained in the full range of land eligibility and GAEC cross compliance requirements. Inspections for the SMRs are undertaken by specialist agencies such as SVS and EA which, together with VMD, are Competent Control Authorities in their own right and are thus responsible for their own set of SMRs. BCMS also provides a cross-compliance check service to the GB agencies.

3.24 In total some 60 man-years of effort are required to deliver these inspection programmes but the actual commitment of resources in the inspection is, given the windows noted above, very seasonal. Average inspection times are substantial, averaging about 20 hours for Land Eligibility and for Cross Compliance 40 hours. These times include travel, dossier preparation and writing-up time, this latter work being carried out by inspectors themselves due, in part, to staff reductions within RPAi at clerical and junior management level.

Rural Development Programme for England (RDPE), Hill Farm Allowance

3.25 RPAi undertakes inspections in respect of the ERDP schemes – e.g. the Entry and Higher Level Stewardship schemes, the Organic scheme - and the Hill Farm Allowance. The various Rural Development schemes are concerned with preservation and enhancement of features on the land, as well as farming practice, and physical inspection is thus unavoidable. They are all essentially area payments. Inspections aim to confirm an applicant's compliance with the specific management requirements contained in his or her individual agreement with the department.

3.26 RDPE inspections are selected by RPA and NE on a similar basis to that for the SPS; 5% of the beneficiaries in each RD scheme are selected for inspection each year. RPAi undertakes the bulk of inspection work but for

some specialised features – e.g. Sites of Special Scientific Interest (SSSIs) NE staff will visit. Some compliance inspections undertaken by RPAi may lead to follow up visits to look at scheme management issues. Including HFA, the inspection resource requirement is currently about 70 man years. New agreements entered under the RDPE schemes will be subject to cross compliance inspections in 2007.

Cattle Tracing System (CTS) - Cattle Identification Inspections (CII)

3.27 RPAi inspects livestock businesses for compliance with CTS rules. The more general position of the British Cattle Movement Service (BCMS) which manages the system is dealt with in the next chapter of the report.

3.28 Farmers are required to apply for a cattle passport within 27 days of an animal's birth and to report all movements of cattle, both on and off the holding, to BCMS. Similar requirements regarding movement reporting apply to dealers, markets and abattoirs. A growing but still minor proportion of applications and movement reporting is now done electronically.

3.29 RPAi inspects records, farms and other premises in England, the Devolved Administrations being responsible for their own territories. Nevertheless, Cattle Identification Inspection (CII) is the largest single piece of work undertaken by RPAi, covering 10% of all cattle kept. Some 6000 herd inspections take place, absorbing 120 man-years of effort (the average inspection time for CII being 25 hours).

3.30 The number of inspections is determined by EU rules. An 'accredited' database, backed by inspections that confirm errors or shortcomings do not exceed certain levels, would permit lower coverage of cattle keepers, namely 5% of herds. But CTS has never been formally 'accredited' by the EU, in part because of continuing gaps in the data and shortcomings in farm records found on visits. Where compliance is poor, the regulation provides for an *increase* in the rate of inspection above 10%.

3.31 Furthermore, CTS accreditation is ruled out by the computer systems currently underpinning movement reporting in the UK. There are separate systems in NI and GB and EU paying agency rules lay down that, where a member state has more than one such database, information should be freely transmissible between the several systems. That is not the case in the UK, given systems incompatibility between APHIS in NI and CTS in GB. This incompatibility will need to be addressed before Brussels would consider accreditation of the UK tracing system. Clearly there would be advantages in reducing the level of inspections required since halving it would save 60 man years (and over 10% of RPA costs.)

3.32 That said, the hard fact remains that the GB rate of compliance is not good compared with that in other Member States with accredited databases and the prospects for a sufficient degree of early improvement are equally poor. Improved targeting of CII inspections is picking up a substantial level of

breaches. All in all, the present level of inspection looks likely to be required for some time ahead.

Other On-Farm Inspection

3.33 RPAi is far from being Defra's only on-farm inspection presence and, as noted earlier in this paper, the Review Team has taken note of the work of other inspection agencies. The key players and their main inspection functions are listed below:

- **State Veterinary Service** - TB and Brucella Control programmes, BSE Eradication programme, Animal By Products Inspections, National Feed Audit, Welfare Inspections, Residue Sampling (For VMD), Surveys for BR Melitensis (sheep and goats), Salmonella (Poultry), other suspect notifiable diseases – e.g. scrapie, FMD, SVD, CSF and Bluetongue. Also, from 1 October 2006, SVS took on the Dairy Hygiene Inspectorate as part of Defra's response to Hampton. These various inspections take place to implement domestic and EU animal health and welfare legislation and to meet animal health requirements to enable trade with other Member States and exports to third countries.
- **Environment Agency** – Enforcement of a range of environmental regulations impacting on farm businesses. Compliance inspections are integrated through the Integrated Regulation of Agriculture Project. These inspections take place on the back of domestic and EU legislation.
- **Egg Marketing Inspectorate** – Undertakes a range of inspections on their own behalf and for others (e.g. Food Standards Agency, SA, SVS, VMD) covering labelling and traceability of foodstuffs, animal welfare, food quality, food safety and hygiene and consumer protection.
- **Local Authorities** – Their farm inspections aim to ensure that public health and animal health and welfare controls are met, including livestock identification and disease control measures – control of Animal By-Products, TSEs and OFFC. Rights of Way inspections also take place.

3.34 These other inspection bodies are, like RPAi, primarily concerned with enforcing standards laid down in domestic or European legislation. But the fundamental approach is different from that on RPA subsidy schemes. Where breaches or shortcomings are found, advice on corrective action is given and only in severe or persistent cases would financial penalties be sought. Even then, they could only be imposed through the courts and not by

administrative action (and in some cases, it would be for the local authority to take any case.)

3.35 In contrast, RPA is concerned with verification – is the producer or processor acting in accordance with the claims made in support of a subsidy claim? If not, and if the failure is sufficiently serious, RPAi is required to exact financial penalties by administrative action – the payment is reduced by a percentage varied according to the severity of the breach. The risk of such financial penalties being imposed is a real and significant concern among farmers but it raises a more fundamental question. What is Inspection for?

RPAi is about managing risk and securing specific land management outcomes

3.36 As Hampton argued, every inspection programme has to be justified; and, in effect, every inspection has to have a reason for it taking place and a benefit to the agency that organised it.

3.37 RPAi inspections have a range of detailed purposes but the common theme is that they aim to manage risk – to deter fraudulent claims for subsidy, to exclude ineligible ones or to ensure that cattle data is of the right quality to assist in tracking animals in the event of a disease outbreak, for example. But they are also in place to help achieve some particular outcomes – in the case of cross compliance, adherence to certain minimum standards of farming practice. The question is how best to combine these several purposes.

but it's more about verification and enforcement than advice

3.38 The range of potential roles for the RPAi is thus quite broad – from advice through verification (inspection per se) to enforcement (imposing financial penalties or in extreme cases prosecution.) The general pattern of most Defra inspectorates is to emphasise their advisory roles but for a number of reasons, mainly to do with guarding against subsequent audit and disallowance, RPAi inspectors are actively discouraged from giving advice. They inspect and report what they find. Breaches are recorded, with inspectors given little or no latitude regarding interpretation. (In fact, the reporting requirements laid on inspectors are substantial – inspection reports are lengthy and detailed, running over many pages.)

3.39 We think there is a case for re-looking at the emphasis of RPAi work. What matters most is surely the outcomes achieved, most critically the extent to which land is kept in accordance with the cross compliance conditions. Those outcomes might be best achieved, and the farmer's customer experience improved if, outside the enforcement framework, RPAi could find ways to offer more to the industry by way of straightforward advice on compliance. RPAi Management recognise the potential benefit from such work and are looking at ways to deliver it without breaching their statutory responsibilities.

What is the farmer's experience?

3.40 The individual farmer can face a multiplicity of inspections by different authorities and by different parts of Defra during the course of the year, most with little or no notice being given by the inspector. Farmers generally accept that a degree of regulation is inevitable (and, where animal or plant health is involved, desirable) but they still look critically at the total burden and ask whether Government has got it right. Their complaints tend to focus on lack of co-ordination, duplication and, especially in the case of RPAi work for subsidy purposes, inflexibility and excessive precision. They ask: why don't the authorities, with any degree of consistency, coordinate their visits to minimise the impact on farm businesses; couldn't the different agencies share information with others or multi-task their inspectors so that, where possible, one inspector effectively covers several schemes and thereby reduces the total number of visits; and how is it that the conditions of the SPS are spelled out in such detail and applied with such rigour?

Do RPAi inspections meet Hampton criteria . . .

3.41 The Hampton Report, having recognised the practical burdens, argued for some underlying principles to govern inspections work. If properly followed, they would address most of the concerns above and we have had them in mind in considering the issue. Put simply, how does the sum of present inspections regimes stack up against the requirement to be risk-based, proportionate and non-duplicatory?

3.42 The scope for consolidating inspection visits is perhaps less than may first appear. For a start, many small to medium sized farms would struggle to manage the demands of two or three different inspectors calling at the same time, wishing to inspect different parts of the farm business or its records. But the scope for collaboration and the sharing of information that reduces the total inspection burden does not seem to us to have been explored in any very thorough way. To take a straightforward example, checking for the presence of eartags and recording their numbers is not an especially technical task (although cattle handling skills should never be underestimated) and there seems no reason why the information gathered by one agency – say, the SVS - should not routinely be shared with others – say, the BCMS side of RPA. Some steps are already taken - RPAi for example briefing BCMS which may, on the basis of inspection findings, need to impose movement restrictions; but more joining-up could be done.

3.43 We learned about moves by the Environment Agency in respect of its on-farm inspection activities. The core principle is 'one farm, one visit' so that the range of the agency's interests in the one farm can be covered at the same time. Farms are selected for inspection on the basis of well-developed risk criteria. RPA do not at present have a similar programme but there would seem to be real merit in their attempting to develop one. The process of selecting farms for inspection in the three main areas where RPA are concerned – SPS, ERDP schemes and CII – is risk based but not integrated and a farm may well be selected for three (or even more) separate

inspections in the course of the year. There would be benefits to the agency as well as to the farmer if those farms which fall for inspection under more than one scheme in the course of the year were to be identified at a suitably early stage so that the work for all three schemes could be done in a single visit.

especially as regards proportionality . . .

3.44 As to the proportionality of inspections, it is striking just how much time some of the RPA inspections appear to take. Land eligibility inspections essentially confirm the use, size and field boundaries of land parcels in a farmer's SPS claim. It is hard to see that this really requires an average of some 20 hours of inspectorial time per claim visited. It seems reasonable to query whether the checking of field boundaries need be quite so exact and time consuming as that figure implies. Cross compliance is self-evidently a more complicated matter but an average of 40 hours per inspection seems on the face of it equally hard to justify.

3.45 Indeed, the cost of some inspections is bound to exceed the subsidy at stake. The SPS has a long tail of small claimants, many of them with claims of under 100 euro, and the costs of visiting, inspecting and reporting on many of these will be far greater than that. Of course, some of the smallest – e.g. the so called 'pony paddocks' - can often be dealt with very quickly but others will still involve a disproportionate amount of time and cost. The room for manoeuvre as far as the smaller claims in the inspection sample is concerned is limited by EU rules – a certain percentage of cases has to be drawn from the smallest quartile of claims – and we understand that previous attempts to introduce a simplified approach for small claims made little progress. But with the structure of the SPS claimant population being significantly different from that of the claimants under the schemes it replaced, this would be a good opportunity to revisit the issue.

and the detailed application of the standards set down?

3.46 One of the drivers for the length of inspections is the policy instructions given to RPA. For each of the cross compliance standards, detailed descriptions exist of what is and is not acceptable and inspectors are expected not merely to apply them but to produce reports that show that they have been applied in a thorough and consistent fashion. This is no light matter and a number of those we spoke to questioned whether the present situation had ramified beyond what had originally been expected: cross compliance was now so extensive and detailed that, taken at face value, the burden was disproportionate for both farmers and inspectors. Taken as a whole, they argued, the inspection process and the reporting of it looks ripe for some streamlining.

3.47 There does seem to be an issue here about the general approach that RPAi is perceived to be taking. Complex scheme prescriptions, policy guidance and concerns about subsequent audit have combined to the point where SPS inspections, even though they involve only a small fraction of

claimants, are seen by many as overly punctilious and by smaller farmers as positively threatening. Some go so far as to say that it reflects an approach which presumes they are guilty of a breach somewhere until they have been proven innocent and genuine anxiety is caused as result.

3.48 It is understandable that farmers are nervous about inspections when the single payment can be a significant part of their income and the judgements or inspectors can lead to reductions in it. They also feel that farm management requirements, particularly for cross compliance, which have been drafted in the comfort of a government office do not take full account of practical difficulties in the field.

3.49 On the other hand, farmers do have to recognise that the introduction of these standards is intended to drive up 'environmental performance' standards, at least as regards poorer performing farms. The requirements were drafted to give as much guidance as possible to both farmer and inspector and to minimise the scope for doubt or dispute; and the expenditure of large sums of public money is an incentive to secure some specific outcomes.

3.50 It seemed to us that some farmers had been confused by the signals they had received. They were told that the SPS was intended to deliver environmental benefits but that its introduction did not presage a more draconian approach by Government. There is a fundamental tension between, on the one hand, assuring the industry that we intend to proceed with a light touch and, on the other, having a clear policy to raise standards with a financial penalty falling on those who fail to comply. Farmers, or at least a substantial minority of them, do not quite know where they presently stand.

Is there scope for more emphasis on advice and on outcomes?

3.51 The industry accordingly claims that it would welcome more by way of personal or informal guidance from inspectors. This, though, would have to be provided without prejudice to an inspection: evidence that a clear breach had been knowingly overlooked could have serious consequences if it were later uncovered by EU auditors. That said, there is clearly some scope for the agency and its inspectors to consider what forms of engagement with the industry – information events, discussion groups, etc - might help in increasing farmer understanding of what is required of them. There could be a modest shift in the balance of RPAi effort towards advice and briefing of farmers about what is needed and away from pure enforcement as such.

3.52 It seems to us that there is scope for two things here. First, the Inspectorate should be ready to think in terms of the outcomes at which cross compliance is aimed. They are experienced in looking at farm businesses and 'reading' the landscape. It would be reasonable to encourage them to exercise a little more informed discretion. Very minor failures identified in the context of an operation where the farmer is clearly trying to do what is require a little more flexibility or a readiness to exercise a measured judgement in applying the standards

3.53 In the light of the discussion in this section, we recommend that:

RPA should examine the scope for rationalising its main inspection samples so that the number of farms to be inspected is kept as small as possible and any individual farm is only subject to a single inspection in the course of a year;

RPAi and policy leads should look critically at the cumulative burden of inspection requirements for the SPS, including at the reporting procedures involved, and set an agreed target for reducing the total time and cost of such inspections. We would suggest that an initial target of a 10% reduction in time and costs should be achievable without unacceptable risks arising.

In parallel, RPA should review the emphasis of the Inspectorate's work and seek to develop an advisory role aimed at assisting farmers and land managers to better understand and meet the scheme requirements.

The Views of Inspection Bodies

3.54 In looking at the RPAi, and the issue of on-farm inspection more generally, the Review Team felt it important to hear from all those agencies and bodies who conduct inspection, and to allow for an exploration of the issues, especially with regard to reducing the regulatory burden and better coordination of inspection activity. We therefore organised a workshop at the Defra Innovation Centre, Reading. Attendees were from RPA, RPAi, SVS, the Environment Agency, PHSI (and Janet Purnell who reviewed them), Egg Marketing Inspectorate, Local Authority bodies (LGA, LACORS), Natural England and various representatives from core Defra responsible for RPA sponsorship, Cross-Compliance, Animal Health and Welfare (including identification and movement) and Better Regulation.

Is the present overall approach to inspection coherent . . .

3.55 Not surprisingly given the diversity of those attending the workshop, many differing views were expressed about what could be improved in the current network of Defra inspections carried out on farm. The key areas identified were:

General

- perceived lack of strategic direction or oversight from Defra – the department did not attempt to take a comprehensive view of how the various inspections stacked up or the consequent burdens on farmers;
- Inspection activity not well coordinated between inspection bodies;
- Failure to influence the EU on drafting of regulations, with resultant rigidity in requirements that do not always reflect practical conditions;

Processes

- Inspection processes differ across bodies; some more burdensome than others; not clear that scope for harmonisation had been explored;
- Lack of information sharing by inspecting bodies leading to duplication and inefficiency;
- Incompatibility of IT systems, and a general lack of investment in IT equipment (the desire to move away from paper-based inspection is not always matched by the availability of technology or resources to acquire it);
- Difference in risk matrices used by inspection bodies;
- Silo mentality (limited efforts by different inspectorates to collaborate/ liaise);

Customer perceptions

- Failure to focus on the customer's needs (e.g. too many inspectors coming down the farm track at different times, sometimes duplicating work already done by others – eartag checks being a case in point);

And on cross compliance in particular:

- Frequency of changes in some requirements – farmers not as clear as they want to be about what is acceptable;
- Tension between pursuit of desired outcomes and fear of subsequent audit leads to inflexible or excessive expectations on the part of inspectors.

3.56 It was striking that none of the participants saw Defra as having any real corporate ownership or knowledge of its diverse on-farm inspection activity. While farmers and others queried why differing authorities inspected for identical or closely similar material, the extent of actual overlaps in responsibility, requirements or interests had not been properly mapped; in consequence the scope for collaboration or burden sharing had never been properly explored. The WFA team started some work in this area a while ago and are about to undertake some pilot exercises. The results from these should be shared with Chief Executives of relevant inspection agencies so that best practice can be employed in future programmes.

and if not, is there a case for any relocation of RPAi . . .

3.57 All those attending the workshop recognised the imperfections in the current regulatory regime and accepted the need for change with Hampton principles leading the way. They all believed that the status quo was not an option or the longer term. Through a series of team exercises attendees came up with a series of suggestions – alternative delivery models - for ways the situation might be improved. They are summarised at Annex E to this report.

3.58 While views differed, those with practical experience of inspection activity did not see great attractions in some of the more radical options. In particular, the costs and disruption of either building a single, new 'inspections' agency or transforming one or two existing agencies to absorb work taken from all the others would be highly unwelcome. It was hard to see how the benefits could be calculated in terms that showed a significant improvement over the current situation.

such as merger with the SVS . . .

3.59 To be specific, the possibility that RPAi might merge with SVS had been aired in some quarters. We understand that this has now been rejected by Defra Senior Management on the grounds that SVS is a new organisation finding its way and should not be burdened with additional management responsibility beyond the mergers already agreed as part of the Hampton Report. As far as RPAi is concerned, this seems entirely right. It should also be noted that, in the scheme of things, RPAi's on-farm footprint is not so great that it would add significantly to SVS' on-farm presence. That being so, the potential synergies from merger would be small.

or splitting RPAi functions across agencies. . .

3.60 The suggestion has also been made that RPAi's work might be split up a different way, with inspection for the 'good agricultural and environmental condition' standards passing to Natural England. (The 'statutory management requirements' are already largely handled by other agencies; land eligibility will remain with RPAi.) The argument runs that NE is primarily concerned with environmental outcomes and that there would then be some logic in brigading inspection responsibilities for GAEC with the agency that owns the relevant outcomes.

3.61 NE is, of course, a new body and it has plenty of challenges to face in its early life. Transferring the inspection work would also require a transfer of inspectors since NE does not have the staff of its own to take on such a new responsibility. There seems limited merit in embarking upon this sort of upheaval at this point. The process required would inevitably absorb a measure of management time which in the case of the RPA would be better spent on the SPS. And there would then need to be some added complexity in the whole business of SPS inspections as RPAi started to work with another delivery agent (for whom it would itself continue to act in respect of the ERDP schemes and HFAs.) It may be worth re-visiting this possibility at a future date when NE has bedded down and the SPS is in a more stable condition; but for the moment the case for dispersing some RPAi functions is not strong.

or is some other attempt at better co-ordination called for?

3.62 However, discussion with other inspecting agencies revealed a strong sense that the 'direction of travel' should be towards some better oversight and integration of inspection activity. While the status quo had a number of

downsides, there did seem to be scope for value to be added through some greater degree of coordination.

3.63 Eves recommended the creation of a 'Chief Enforcement Officer' or a 'Chief Compliance Officer' role within the SVS, focussing on the range of AH regulators at work. There is an obvious read-across to questions about wider collaboration between inspectorates.

3.64 Our work has concentrated on RPA and we have not attempted to look in depth at the full range of what might be possible across the delivery agents as a whole but there does, at the least seem to be a strong case for a more active approach to be taken by each of the agencies. We considered whether the best or only way to take this kind of work forward would be to charge an individual in the core department with responsibility for promoting better collaboration between the inspection agencies or, indeed, to assume a more prominent role as a kind of chief enforcement or compliance officer for the Defra family. On balance, this seemed to be an unnecessary step, at least at this juncture. In the first instance, it might be better to charge Chief Executives of delivery agencies with taking the work forward and requiring them to demonstrate each year that appropriate efforts had been made to advance better collaboration in the inspection field.

3.65 We are therefore inclined to recommend:

that Chief Executives of delivery agencies with inspection functions should be charged with seeking more by way of cross agency working aimed at better collaboration and reducing the inspection burden on farms, and be required to report annually on their efforts to do so.

The Whole Farm Approach (WFA)

3.66 The Whole Farm Approach has a connection with all this. The WFA is a mission-critical Defra programme that embodies a number of the Transformational Government, Hampton and Better Regulation objectives. When fully implemented, it will:

- Promote desired behavioural changes in farmers by improving their access to relevant advice and guidance and their understanding of regulatory requirements;
- Provide a structured evidence base for targeting enforcement on the basis of risk;
- Avoid repeated collection of data;
- Improve the efficiency and co-ordination of on- farm inspection activities ;
- Reduce the burden of administration for farmers.

WFA has a role to play in better regulation . . .

3.67 One element of the WFA programme is a project aimed at the integration or co-ordination of on-farm advisory and enforcement visits in order to improve value for public money and reduce the burden on farmers. The project is also reviewing the processes whereby enforcement visits are targeted in order to ensure a clear focus on strategic priorities and accurate targeting through evidence-based risk. The project has suffered from a lack of engagement at appropriate senior levels and is currently undergoing a refresh, with the aim of re-engaging senior management across the Defra family and winning commitment to identifying and implementing real opportunities for change.

but it is at an early stage of development . . .

3.68 The programme has reached that phase in its development where it now needs to make significant improvements in functionality in order to win a rapid increase in its customer base, e.g. the inclusion of new applications of particular interest to farmers and the Defra family, of which links to transactions and payment processes are perhaps the highest priority. Achievement of these improvements will be challenging within the available budget. The WFA team is however developing an approach that will, inter alia, honour commitments on delivery of features such as surveys and censuses and provide some limited additional functionality.

and WFA should not be transferred to RPA in the foreseeable future.

3.69 Before the problems created by the SPS, the Programme Board had recommended that responsibility for WFA should pass to RPA at some point in the relatively near future. Our general view is that, so long as the Agency remains preoccupied with sorting out the SPS, it would be unwise to transfer significant blocks of work to it. WFA is an evolving programme which could deliver important benefits to Defra and the Defra family in due course but it will require a good deal of management commitment over the next year or two if it is to make the hoped-for progress. It is manifestly not key to RPA core business and the distraction of management attention that would inevitably follow its transfer should be avoided.

For the sake of completeness, we therefore recommend against taking forward any plans for the transfer of WFA to RPA in present circumstances.

Conclusion

3.70 RPAi should stay with RPA. Its remit should not be further extended into non-core RPA business, nor should responsibility for the Whole Farm Approach be transferred to RPA to link up with RAI work. RPAi management should however actively engage with other agencies to identify the scope for a greater degree of joining-up in inspection work across the Defra family and all

Defra's Agency Chief Executives should be tasked with making concrete progress in this area.

4 BRITISH CATTLE MOVEMENT SERVICE (BCMS)

4.1 BCMS is wholly based at Workington. It manages the Cattle Tracing System (CTS) which logs the birth, movement and death of individual cattle in Great Britain. It issues paper cattle passports which should accompany animals when they are moved. BCMS also manages the Animal Movements Licensing System (AMLS), based on information supplied by local authorities, and the Eartag Allocation System (ETAS) which controls the specific numbering system used for individual cattle identification. Originally a free-standing service, BCMS was merged with RPA in 2003.

4.2 The Workington site, though taken to house BCMS alone, now also accommodates a significant number of RPA SPS processors (many loaned from BCMS) and some 17 different contact centre/ helpline facilities covering RPA and Defra interests. About 900 RPA staff now work at Workington, split between BCMS, SPS processing and the various helplines.

4.3 CTS data provided some important cross checks against claims under the old headage premium schemes that RPA administered. These are, with few exceptions, no longer required and the question arises whether BCMS will belong with RPA in the future. CTS data remains important for the State Veterinary Service (SVS) and for TSE surveillance purposes but there is work proceeding on cattle movement rules and on livestock registration in general that impacts on both SVS and RPA. This section accordingly concentrates on how BCMS will fit into this still-developing landscape.

What does BCMS do?

4.4 EU legislation requires all member states to introduce computerised cattle tracing systems. BCMS became fully operational in 1998 before merging with the RPA in 2003. It registers births, deaths (approximately 2.9 million of each per annum), and imports of all cattle in Great Britain (Northern Ireland having a separate, previously-established system). It tracks the movement of cattle until they are slaughtered or exported, recording around 14 million animal movements each year. There are approximately 10 million cattle alive in GB at any one time and BCMS maintains records for these and the 90,000 or so registered cattle keepers in England and Wales. CTS, and the associated passport, is underpinned by compulsory cattle ID (ear tagging) and farm records.

4.5 BCMS is governed by its own management board, chaired by RPA's Director of Operations (who also has management responsibility for all of RPA's sites); and it includes representatives of the Scottish and Welsh departments as well as practising farmers.

4.6 Although the present arrangements have been in place for eight years, non-compliance with the requirements of the scheme still persists. For example, animals not registered within 28 days of birth are separately categorised with a 'notice of registration' (NOR's in the jargon) and while they can be used for some purposes such as breeding or milking, their carcasses

will not be allowed to enter the human food chain. Some 40,000 NOR's exist and a steady trickle of new cases comes forward each year. In the vast majority of cases, these animals have no commercial value and it is hard to understand why producers fail to register births and incur the financial burden of looking after them, often until they reach slaughter age and weight. Moreover, failure to comply with cattle ID and movement rules is a breach of the cross-compliance requirements attaching to SPS payments, so producers risk incurring another, unnecessary penalty.

4.7 BCMS has also to pursue anomalies or gaps that appear from poor movement reporting. The present system requires movements on and off premises to be separately reported but it does not require the 'exporting' premises to specify the planned destination of animals. Only if both origin and destination report the movement is a full movement history maintained but for a significant number of animals the information is incomplete. BCMS has worked hard to drive down the number of these anomalies but it has stood between 300-400,000 at any one time over much of the last year. In practice, BCMS makes a number of approaches to the last known keeper of the animals but after 12 weeks or so the animal is simply removed from anomalies list. Many of these animals are known to have been on-farm deaths but the location or movement of others is simply unknown.

4.8 BCMS also manages the Animal Movement Licensing System (AMLS) that deals in the bulk reporting of movements of non-bovine animals. Responsibility for this was passed to BCMS from core Defra last year and from 1 January 2007 BCMS will lead on the sheep and goat inspection regime that will mirror the Cattle Identification Inspection (CII) work they already carry out (see below). BCMS have an enforcement role for all species covered by CTS/AMLS, working with the policy leads at Defra and in the Devolved Administrations in Scotland and Wales, vets, the police and local authorities.

Costs and Management

4.9 BCMS' relationship with RPA Headquarters is through its line management chain and core central services (Human Resources, Security, Health and Safety etc). Policy in respect of its cattle functions is however determined by the relevant policy leads in core Defra and the Devolved Administrations – it has service level agreements/concordats with all three setting down the level of service it provides. The BCMS complement was over 400 before the SPS crisis occurred but around half of this number was switched to SPS processing and BCMS numbers remain at about half pre-SPS levels.

4.10 Government funded the £20m start up costs of CTS. Running costs are currently about £23.4m, roughly the same amount as for the RPA Inspectorate. The Government's original intention was for industry to fund the running costs of CTS by charging for the passports issued but, for a variety of reasons, including relatively high costs and poor service in the early years, charging was never introduced. On current figures, a charge of around £8.25 per passport would be required to cover BCMS costs. This is not, in itself, a

large sum compared to sale prices - it is less than 2% of the market price for fat cattle – but it is nonetheless significantly greater than it would be if the system were fully e-enabled. One estimate we heard was that, in such a scenario, the cost might fall to something more like a quarter of that figure. That may be a fairly rough estimate, but there is no doubt that the cost would be significantly reduced in this way; and indeed further reduced if the system moved away from reliance on the current, paper passport.

4.11 Policy in this area has however evolved since the launch of BCMS. Defra is, at the time of writing, still engaged in a consultation of the industry aimed at exploring the scope for ways in which the industry and Government can jointly share some of the costs and responsibilities for animal health and welfare. It remains to be seen whether legislation will be taken forward to introduce a levy or other means by which the costs can be shared.

Why was BCMS created?

4.12 BCMS was established in the wake of the BSE crisis in 1996. The EU had then severely restricted the sale of British beef, banning the export of meat and live animals and requiring older animals (which were most at risk of BSE) to be kept out of the human food chain. It set down a series of pre-conditions for relaxation of the export ban, including the introduction of a cattle tracing system. The system thus started life with a dual purpose. It was intended to ensure that older animals were not slaughtered for human consumption; and for disease control purposes it provided information on the whereabouts of all cattle in GB. Thus, if one animal were found to have BSE (or, for that matter, any transmissible disease), animals with which it had previously been associated could be traced and isolated to limit the spread of disease. Traceability became a key issue in the post-BSE beef market but in the event, the main EU restrictions were not lifted until March 2006.

Why was BCMS merged with RPA?

4.13 BCMS was initially set up as part of core- Defra. It was subject to a Better Quality Service (BQS) Review, published in November 2000, which concluded that BCMS:

- a. should assume Agency status;
- b. should be retained within the public sector;
- c. should achieve efficiency gains through internal restructuring;
and
- d. should remain on the Workington site (an important consideration, as RPA is the major employer in an otherwise depressed area of the country.)

4.14 Ministers announced that they would be looking carefully at how BCMS could best work with the paying agencies in England, Scotland and Wales, to ensure effective interfaces with each other and with their farming customers.

The outbreak of Foot and Mouth Disease early in the following year, however, effectively put that consideration on hold.

4.15 When it eventually took place, evidence was available from cross checking GB cattle subsidy claims against the CTS database. These had thrown up a significant level of inconsistencies which adversely affected payment of premium to a large number of farmer customers and in turn highlighted the need for continued close working between the GB paying agencies and BCMS. It also raised questions as to whether potential synergies between BCMS and RPA systems were being fully exploited to provide a better service to all those who used the database.

4.16 Ministers concluded that there were strong strategic and organisational arguments for a merger which duly took place on 1 April 2003. It was also felt that merger would help both organisations meet their respective business objectives by drawing on each other's skills and experiences while improving services and efficiency through investment in significant e-government initiatives.

4.17 Very shortly thereafter, however, the fundamental policy context changed. In June 2003, the EU agreed to replace around 20 production-linked farm support schemes, including all the livestock headage premia, by the Single Payment. As a result, information on cattle numbers kept would be irrelevant to subsidy payments to livestock farmers except in a small number of cases involving claimants of Hill Farm Allowance. Ministers decided that the new scheme would start to operate in England from the 2005 scheme year and from that point the original rationale for linking BCMS with RPA ceased to apply. For RPA, the only significant operational link to remain once the SP was in place was on enforcement: it is RPA inspectors who check a proportion of cattle farms to see that cattle ID requirements are being met.

4.18 The place of BCMS within RPA accordingly needs examination. But there are some prior questions to be addressed in connection with the policy platform on which the department is to move forward.

What do we want a tracing system for?

4.19 The original motivation for CTS was to improve our ability to respond to disease outbreaks. In particular, knowing where infected animals have been, and which other animals they have mixed with and possibly infected, is critical to containment. That requirement remains. The incidental benefit of tracing information for subsidy purposes has now fallen away. In these circumstances, it follows that decisions on the future of CTS should be driven by veterinary rather than any other considerations. But this starting point raises a number of questions about policy and governance of the work.

The Madders Review

4.20 First, policy as regards cattle movement reporting. The present rules, at least in theory, are highly restrictive. In light of increasing concern as to

whether the rules are right – and, indeed, whether they are being properly followed – Defra commissioned a well-respected dairy farmer, Bill Madders, to review them. His Review of Livestock Movement Controls was published in June 2006.

4.21 The Review made 21 recommendations to simplify animal movement rules, covering a range of species in addition to cattle. They have been welcomed by farmers who have called for early implementation. The main recommendation aimed to reduce the range of notifiable movements within individual businesses (a single business may comprise a number of different land parcels, not necessarily contiguous and possibly spread over a considerable distance.)

4.22 Madders proposes a radical overhaul of the way land used by businesses is identified. Livestock farmers would, on the basis of professional advice, identify all land parcels and buildings which are farmed as a single unit and are thus linked epidemiologically, i.e. the regular movement of personnel, livestock and machinery between the parcels suggests that each effectively carries the same disease risk. That unit would be registered with Government as a single entity; and movement within it would not thereafter need to be reported.

4.23 The Madders package as a whole would radically change the basis on which animal movements are reported and recorded and thus have a significant impact on BCMS as custodians of the data. As experts in the way the system works, BCMS will need to be engaged in the development process at a suitably high level.

4.24 There is then an outstanding set of policy questions to be resolved. The present CTS is increasingly expensive to maintain but investment in it could prove wasted if the system itself is to be fundamentally amended. But CTS is only part of the wider livestock identification and movements control picture. The department has separately been looking at the parallel options for other species and what is done for cattle will have to be seen in the context of what is wanted (and what can be afforded) for the wider livestock register.

The Livestock Register Review

4.25 In the wake of the Foot and Mouth disease outbreak, the National Audit Office criticised the IT systems in place to identify and track animal movements. The CTS has also been criticised by the European Union and has not been ‘accredited,’ with the result that CII inspections have to be kept at a relatively high level (10% of farms each year).

4.26 Following the NAO criticisms, Defra began a programme to upgrade the relevant systems but that programme was paused as a result of financial difficulties in the Department and doubts about the ability of the RPA to deliver any major changes following the problems surrounding the SPS. The Department has looked at the options for reducing the costs of any changes and for providing greater security of delivery of the project.

4.27 That review recommended a different approach to collection and management of the data, namely a model under which third parties, such as breed societies, collect the data as part of a commercial relationship with farmers and then pass the data to Government. The benefit of this approach would be a reduction in central costs, shared delivery responsibilities and the integration of data collection into farmers' normal business processes. Such an approach has been welcomed both by industry and the Office of Government Commerce. Transition to this new model would have to be phased. Current CTS IT systems will then have to be maintained and will require investment on at least a 'care and maintenance' basis.

4.28 Defra officials plan a pilot to test the possible new way of collecting data which will inevitably involve BCMS (because of interfaces with the existing systems.) However, while the pilots are in progress, it will be important to minimise any non-strategic investments in those systems. It follows that there would be logic in bringing BCMS and livestock pilot streams together.

4.29 If the pilot is successful, it would pave the way for a new kind of public/private sector partnership entity serving SVS and other corporate needs. In these circumstances, the most sensible course would be to bring BCMS into the scope of this work which is then subject to governance arrangements that involve all the main interested parties in the Defra. The question of where this entity might ultimately be housed would be for decision when we have a clearer view of its shape, scope and linkages with the range of our delivery agents.

4.30 The building of some new IT services combined with care and maintenance of existing systems will be a costly business and will need to be considered alongside Defra's wider Information Service requirements, and the overall financial constraints it is required to operate within. It is impossible at this stage and before the pilot work has been done to estimate the detailed costs and benefits; but the logic of proceeding in this way seems clear enough. If nothing else, the collection of cattle data from a relatively small number of sources as opposed to collecting it from a very large number of individuals would promise both better quality data and significant cost savings.

4.31 Even if funding for the new IT solutions is found, there is no doubt that CTS will be required to continue for the short-to medium term. It will require additional investment to keep going. It will also need to be managed in the short term to keep up with requirements placed on the UK by the European Union. BCMS will therefore have an important role to play in the short term but will also need to be at the heart of the development process for any new solutions.

4.32 It has to be acknowledged, however, that CTS will never, in its current state, be formally accredited by the EU. A key accreditation requirement, noted elsewhere in this report, is that where member states operate more than one computerised cattle database, each should be able to exchange

information with the others. CTS and the NI system, APHIS, cannot do this. Defra is therefore in something of a bind: it will need to keep CTS running while developing a new system and it will not be possible to reduce the current costs of CII work. One lesson to be drawn from the CTS experience must be that any future system should indeed be compatible with any other UK systems so that this obstacle to accreditation at least is removed.

How reliable is CTS and animal movement reporting more generally?

4.33 With the substantial weakening of the subsidy link, the value of CTS data has to be judged against the veterinary objectives it is intended to meet. The system has to track animal movements as quickly and accurately as possible, in a way that is simple and straightforward. It has to offer benefits to farmers and others involved in the industry, such as abattoirs and markets, so that they actively support the system, reporting timely and complete information.

4.44 But cattle do not constitute a self contained part of the livestock industry – farmers, markets, abattoirs and processors frequently handle other species alongside cattle and information on the movement of these other species comes to BCMS from local authorities as part of the AMLS that BCMS manages.

4.45 The key question is whether, taken as a whole, the systems in place give Government vets sufficient up to date information on where animals are for them to respond successfully to a significant disease outbreak. The efficacy of our animal ID and movements regulations is not within the scope of this review but we do have to consider how BCMS/ CTS fits with possible policy developments in this area. It is for veterinary colleagues to determine just what our requirements should be.

4.46 CTS has come a long way since its launch but gaps remain in the information it holds and the quality of information from local authorities on animal movements is very variable.

4.47 There is also some evidence that CTS records regarding premises and cattle keepers are not fully up to date. SVS staff report that information drawn from CTS – the address or name of a cattle keeper, the number of animals kept – can be wrong, often in trivial ways but occasionally in more serious ones (such as there being no recent history of cattle fanning on the site) that waste significant amounts of time.

4.48 As to on-farm records and identification, they constitute the largest single category of failures that RPA inspectors find in the course of their cross compliance inspections. Many of these will be relatively minor breaches of the rules (on even the best - run farms, cattle will lose ear tags and the loss may not be immediately noticed or remedied) but the picture suggests that the motivation to comply is not as high as it might be.

4.49 Separately, a suspect case of FMD in 2006 (swiftly proved negative) revealed a very mixed picture on movement information in two abattoirs. That where the suspect was identified had good records which allowed full tracing; but another in the area that was briefly subject to restrictions had much poorer records. It also became apparent that the relevant local authority had been failing to report to AMLS the movement of non-bovine species to this second abattoir. We were told that failures of this latter sort were by no means rare.

4.50 The current problems, then, come from several sources: the design of some rules; the failure of some operators in the industry to observe others; and the commitment of local authorities to meeting their obligations. The underlying impression given is that some within the industry don't set enough store by the data to make the effort required to comply with CTS requirements. That said, there are some points worth making about BCMS's own performance.

BCMS Performance

4.51 From mid-2005, substantial numbers of BCMS staff were moved to assist with SPS processing . At one point, over 200 individuals from all levels in BCMS were transferred and the senior management of BCMS was reduced to a single Grade 7.

4.52 Notwithstanding this upheaval, performance – as measured against pre-established targets - held up surprisingly well. Indeed, some data we saw for part of 2006 showed that six out of ten indicators were 100% met and three others were at 99.5% or better. On the face of it, this is exceptional, given the reduction in staff numbers. However, it might equally be argued that the performance targets themselves were not stretching. For example, one of the targets fully met was for the issue of identity documents 'following receipt of a valid entry on to CTS.' But the target was the somewhat modest one for 90% of documents to be issued within 14 working days. In practice, performance is much better than that, even though we heard expressions of frustration from the industry with these sorts of turnaround time, and there does appear to be scope for setting some more demanding targets for BCMS. The objective must be for the data it holds to be nearer to real time information (while recognising that there will inevitably be some lags in the system.) We recommend that BCMS review its current targets accordingly.

4.53 Whether those targets are the right ones is a further question. What the department wants of CTS is as complete and accurate a picture of where livestock are as is reasonably possible and the present targets make a rather limited contribution to driving up performance in this area. In the longer run, a cheaper and more rapid service will only be possible by a shift to electronic delivery of data and a 'paperless' system but that will not be possible so long as our system remains unaccredited. In the meanwhile, BCMS should set itself some more demanding targets for increasing use of the e option that already exists.

4.54 Against this background, how might BCMS best position itself to fulfil its crucial role in the short to medium term?

The future for BCMS

4.55 There is no longer a subsidy-driven reason for CTS. But we must have a cattle tracing system (and a movements recording system for other species), not simply to satisfy EU requirements governing trade in cattle and beef but as an essential component of our ability to respond to animal disease outbreaks. BCMS as a business clearly has to continue in being. The lack of strong links with the rest of RPA, and the limited management attention that RPA will be able to give it over the next couple of years, might argue for it to find a new home.

4.56 That being the case, who is best placed to be BCMS' long term owner? Who has a critical business need for the information it collects? Defra's response to animal disease outbreaks is led by the vets, and in particular by the State Veterinary Service (SVS). It has the biggest stake in the information BCMS manages and at first blush might appear best placed to manage BCMS. We concluded however that both short term and more strategic considerations argued against any such move in the immediate future.

4.57 The SVS, though a long-established part of the department, has only recently been given agency status. It has a large ongoing agenda (not least in contingency planning) and is currently engaged in a substantial business reform programme of its own which will not be complete for some time yet. Absorption of BCMS would, in our view, pose a very substantial challenge to the organisation at this juncture in its development (and one lesson we have learned from the SPS crisis must be that introducing change when a separate change programme has yet to work through is a high risk venture.)

4.58 There are also some questions about future-proofing change wherever possible. With hindsight, the move of BCMS to RPA in 2003 came at just the wrong moment: the ending of the bovine subsidy schemes meant that RPA was a much less suitable destination for BCMS than had originally been thought. Now, with substantial work in prospect on both livestock tracing rules and the building of a new Livestock Register, it is far from clear exactly what kind of cattle tracing system will be needed in two or three years' time. There would be risks in changing management responsibility for BCMS now, only to find that further change is required at some relatively early point in the future. The costs of such changes would also be substantial. Those familiar with the sort of organisational change involved advised us that the whole process could well last 18 months and take considerable senior management time. In present circumstances, we concluded that it would be premature to re-brigade BCMS with another part of the department. Rather, it would be better to complete work on Madders and the Livestock register and then see how BCMS fitted into the picture.

4.59 It may be worth making one distinct point here. In discussing a possible new location for BCMS in the Defra delivery landscape, we were not making

an assumption that the business should be physically relocated from Workington; and when talking about the Workington site we have tried to be scrupulous in distinguishing the different sets of activity there from one another. The non-BCMS activities are not subject to the same considerations as BCMS.

4.60 The question remains as to how to proceed with BCMS. We concluded that there were two strands of work to be taken forward. First, BCMS's own local management needed strengthening. The appointment of a site head at Workington will have helped in this regard but, if BCMS is to play an effective part in discussions with Defra and the SVS about future policy developments, some further strengthening will be required. RPA management needs to balance two competing demands: on the one hand, this is not core business for RPA and it should not be allowed to distract senior management in RPA from their longer term priorities; on the other, RPA needs to ensure that BCMS has the right leadership to allow it to play a constructive part in the discussions that will take place on both responding to Madders and developing the Livestock Register. It will also need to protect its own interests in terms of, for example, continuing investment in the current CTS – unless and until it is replaced, that system needs to keep working

4.61 Second, there are questions about the governance of these last two workstreams. It seems to us that while a number of the key issues are essentially veterinary ones and that animal health policy colleagues need to be in the lead, BCMS must be part of the governance of this work. BCMS has experience and expertise that will be highly relevant to the new work and it needs to be captured.

TSE Surveillance

4.62 For completeness, it is worth recording here RPA's role in running arrangements for TSE surveillance. EU rules require the UK to test certain classes of fallen livestock for TSE's (transmissible spongiform encephalopathies such as BSE and scrapie.) RPA arranges the sampling of brainstems and the collection and disposal of carcasses – about 210,000 adult cattle and some 30,000 sheep and goats last year. RPA manages the TSE surveillance helpline by which these animals are reported; and details for cattle are cross checked with CTS and downloaded to the database maintained by VLA. The close links between this work and CTS make it sensible to keep the two together as the work on livestock registration develops.

Conclusion

4.63 BCMS is not part of RPA's core business. It should however remain with RPA over the two years or so ahead during which time new livestock movement rules and a new Livestock Register will be developed. BCMS management should be strengthened both for its role in the governance of this new work and to minimise the demands that it makes on RPA senior management. At the day-to-day level, BCMS performance targets should be

sharpened e.g. to improve turnaround times on existing work and to increase utilisation of e channel reporting.

5 THE CORPORATE DATABASES

5.1 RPA manages two large databases, the Rural Land Register (RLR) and its Customer Register (C-Reg). Both are corporate assets, of interest to or used by other parts of the Defra family in addition to RPA. Both are material to the processing of SPS claims. Both will require some level of investment over coming years if they are to remain serviceable. The question is how to ensure that they continue to meet the needs of RPA and those of the wider family; and how does Defra ensure that it gets best value from investment in these areas, given projects under way elsewhere in the family. This section concentrates on the RLR which will bring some of these issues into sharper focus over the coming months.

The Rural Land Register (RLR)

5.2 The RLR supports a number of farm-based schemes and its principal function is to store information on land parcel boundaries and changes in them. It was built on the basis of an earlier register compiled for administration of the old production linked schemes and is essentially a digitised map of land in England that is subject to a claim for support under CAP Pillar 1 or Pillar 2 schemes. Claimants identify the boundaries of their land and deduct from the total those areas which are ineligible for the particular scheme being claimed. The boundaries of claimed land are mapped and the enclosed land identified as individual parcels (single fields, for the most part.) The area of each parcel is calculated and the data stored. Some 2.2 million parcels are now registered and it is estimated that about 88% of the rural area in England is on the register. The RLR does not cover ineligible or land not claimed for subsidy purposes. Permanent premises – milk parlours, battery sheds, greenhouses – are, with few exceptions, ineligible for aid and therefore not included.

5.3 RLR is used by Natural England as the map on which agreements with Stewardship scheme entrants are based and by the Forestry Commission for claims under the England Woodland Grant Scheme.

5.4 RLR is critical to delivery of the SPS. Farmers hold entitlements, expressed in terms of a value for individual hectares. The farmer ‘activates’ those entitlements according to the number of hectares he or she is farming in any scheme year. *Ownership* of the land is not key; *occupation* of it is. What matters for the CAP schemes is that the land is at the disposal of the claimant for a specified period in the scheme year. The precise payment to a claimant is determined by the eligible area, its location (i.e. in which of the three different scheme regions in England it falls) and the extent to which those hectares are covered by the subsidy entitlements that the claimant holds or the scheme year. There are complications where common grazing rights, set aside obligations or fruit, vegetable and potato land is claimed ; but the underlying principle at least is straightforward.

5.5 The entitlements are tradeable assets that owners may sell or lease at will, so the size of individual claims may vary, sometimes significantly, from year to year.

5.6 It is perhaps worth emphasising that a Rural Land Register of some sort would have been required, whatever form of SPS the UK had chosen to introduce. All options under the EU Regulation create subsidy entitlements for producers

expressed as hectares with a value attached, which entitlements are only activated according to the number of hectares the producer has available in any scheme year.

SPS 2005

5.7 Problems with the RLR were a significant part of the difficulties experienced in the 05 SPS scheme year, with a high level of complaints made about the availability or accuracy of maps showing the areas under claim. The volume of amendments to RLR entries requested was several times that experienced in preceding years, and the number of parcels registered rose from 1.7 to 2.2 million. Many of this half million came from the 40,000 new customers attracted by the scheme. Some established customers (lowland sheep and dairy producers for example) had not previously been required to register land and were now doing so for the first time. And some of the land being newly registered by established farmer customers of RPA should have been registered before, the old schemes having required most claimants to register all their land, whether or not it was material to the specific claim in hand. For a period, this combination of factors swamped the RPA teams involved.

5.8 But the problems seem to have been very much a one-off generated by the start of the new scheme. Certainly, there was no recurrence of problems on this scale in 2006 and no recurrence of complaints on the same scale either. The level of mapping amendments sought fell back to manageable levels – indeed, it ran at about 3% of 2005 levels. All the mapping work for RLR has now been brought back in house, having been outsourced to specialist contractors for part of 2005-06 to help cope with the pressure on the Register.

The RLR Position in RPA

5.9 The RLR is a stand-alone system, that is to say it is not part of the main RPA RITA system but is run separately and feeds into RITA. The staff numbers required to support it varied sharply over the 2005-06 period but at end 2006 stood at some 23 digitisers with 60 support staff (the latter group providing services that would be required whoever or wherever the digitising work itself was done.) Digitisation work is part of an integrated process which may be triggered by the notification of boundary changes or trades in either or both of land and entitlements, all captured by means of form RLE1.

5.10 Given the characteristics of the RLR work – a relatively small team, working on a system separate from RITA, and with the work itself now on a stable basis – two questions perhaps arise. Is the RLR work is appropriately located in RPA; and what is its relationship with Defra's central project covering capture of spatial information, SPIRE, and with other work involving land and location information such as the mooted Livestock Register?

5.11 RLR is not a service uniquely staffed by civil servants nor one that uniquely supports RPA business. A number of the staff working on RLR are specialists provided by outside contractors who work alongside officials. The RLR underpins the English Rural Development Programme – the Stewardship schemes and Hill Farm Allowance, for example - on which Natural England lead and those schemes

are likely to grow in importance over the coming years. Technically, RLR could be located elsewhere in the Defra family while continuing to provide services to RPA and others.

RLR will be updated

5.12 There are however arguments against disrupting the present arrangements at this time. While RLR is in much better shape than it was a year ago, it is not static. It is built on a 2001 Ordnance Survey map, some of the data in which was originally collected five or more years earlier (the rural areas are infrequently re-surveyed). EU rules formally require member states to use the most up-to-date map available for scheme purposes and there is a more up-to-date OS mapping available as OS publishes updates to the base mapping every six weeks. These updates are now available through SPIRE and could be provided to RPA as a new version, say for the scheme year or as regular dynamic updates. The latest mapping has benefited from technical advances by way of positional accuracy improvements (PAI). Updating RLR may however prove contentious if, as a result, claimants have to be advised that their fields are in fact marginally smaller than the areas that have been accepted for a number of years. With RLR so close to the heart of the SPS and the requirement to update it being so close at hand, complete separation of RLR from RPA at this time would pose risks to delivery that should be avoided. Nevertheless, RLR relies on input from specialised contractors working inside RPA and the agency will continue to look for best value from external contractors of this sort.

5.13 Given that the new OS mapping is dynamic and can be frequently updated, RPA may need to select a new version date (and perhaps a regular update interval to which to upgrade their mapping and RLR data.) But this version should be agreed with other Defra family members so as to maintain a degree of consistency across the family. There is a potential and important link here with SPIRE. With RPA's agreement, SPIRE will hold a copy of the RLR to enable others across the family to access that data. In these circumstances, it would make sense for the SPIRE team to work with RPA on the mapping upgrade. There would be both some economy of effort and assurance of consistency if RPA were to rely on SPIRE as the source of OS map updates.

5.14 RPA is running a pilot to get a better handle on the problems that seem likely to arise from a transition to the new map. In many cases the changes may well be lost in the rounding to the nearest 0.01 ha (the degree of accuracy to which the scheme works at parcel level) and earlier work suggested that the scale of any problems could be relatively limited. But other parts of the UK have already upgraded and encountered problems on the way, so it would be premature to take too optimistic a view at this point.

5.15 RPA will nonetheless have to make the move. It remains to be seen how quickly it can be completed but it might just be possible to do so in time for the 2008 round of SPS applications. There will meanwhile be knock on effects for other users, with stewardship agreements having to be updated in parallel and RPA should work in close liaison with Natural England to ensure that there is minimal impact on NE delivery from the changeover.

RLR has links with other parts of the Defra family

5.16 Quite separately, there will be mapping work on the planned Livestock Register which needs to be factored into the picture. Is there, for example any significant overlap with RLR; or could the LR map build on existing RLR data?

5.17 As noted elsewhere, the LR will aim at capturing a very specific mix of information. For livestock tracing and disease control purposes, the SVS needs to know animal ID and location, together with the identity/address of the owner or keeper of the animals concerned. And the LR map will need to support SVS activities across GB, not just in England. Customer and land data is integral to the SVS business reform programme, and SVS will register customers and the location of units or premises where livestock are kept. At a later point, if it is agreed to adopt a Madders-type approach, a further exercise will be required to create livestock management units based on these units or aggregations of them.

5.18 The Livestock Register will be a very different proposition from the RLR, and not just in geographical coverage. Geographical information will be critical but it will in many cases be different from the geographical information in the RLR. In any case, if Ministers accept something like the Madders approach, the 'units' to be mapped for SVS purposes will not necessarily coincide with those mapped for SPS use, although they may do so in a sizeable proportion of cases. The SPS has no interest in the specific activities taking place on land in individual claims, beyond confirmation that they are eligible activities, and so land with stock will not be distinguished from other land. Some premises containing stock – such as pig sheds or battery units – are not eligible for SPS support and hence will not be part of an SPS claim. And the calculated area of an individual parcel in the RLR is irrelevant for disease control purposes.

5.19 In effect, all SPS claimants with stock – not just cattle - will need to figure on the Livestock Register, together with some non-SPS claimants. Until more work has been done on the LR, not least on the units which are to be the basis of reporting location and movements, it is impossible to identify the extent of any overlap. In any case, it seems clear that the LR and RLR will need to be distinct data sets. But the risk is that the department, through two different bodies, will seem to be asking for information from producers, some of which will duplicate what has already been captured for other purposes.

A More Collaborative Approach?

5.20 In the light of the service transformation agenda, this a point worth emphasising. While the Livestock and RLR datasets will be different, they will both rest on the same underlying OS mapping and – at least potentially – they could share some common building blocks where both require land parcel boundaries.

5.21 There is clearly a great deal of work ahead on the Livestock Register and other land/ livestock data capture issues over the next two years or so but Defra must ensure that it is closely co-ordinated with that on the RLR. Defra has already invested in a certain amount of IT architecture in this general area in support of the development of SCIMS (Strategic Customer Information Management Service) and

in a platform (the Whole Farm Approach) which are both intended to simplify and improve channels of contact between the department and the industry. At the least, the systems that support the new Register must allow communication of data between it and the RLR. Better still, the new Register should to the greatest extent possible look to extract as much information and value as it can from the (soon-to-be) updated RLR.

5.22 Given the wider interests across the family and the benefit from establishing a clear strategic direction for this sort of cross-cutting work, Defra could go further than this. Development of the LR is a major task that will take two years or so to complete; but the update of RLR should be completed in shorter time. Corporately, Defra needs to look joined-up in its approach to the industry and most farmer customers would draw little distinction between approaches from one part of the department as opposed to another. From their perspective, it would make sense to be asked for information on land and its uses once and once only, whichever part of the department needs it. There is accordingly a case for the core department to work with RPA and those taking forward the work on the LR to establish whether there is a way in which, once the RLR is on the new OS map, data on land boundaries and parcels can be captured and updated in a single, integrated exercise serving the several family interests collectively. It might concentrate on capturing a basic level of information which could then be manipulated or aggregated separately by any of the delivery agents for specific business purposes.

5.23 Some questions similar to those on the RLR arise on customer registration. RPA has a Customer Register and a system of so-called Single Business Identifiers (SBI). One driver for the original work on the SBI was EU concern to ensure that businesses were properly and uniquely identified for scheme purposes so that, for example, what were in effect single businesses could not circumvent scheme rules (e.g. limiting the number of certain animals on which subsidy could be claimed) by trading under several different identities. Other parts of the Defra family have developed their own systems for identifying their particular customer segments. However, the SCIMS project has the potential to address these issues at GB level by creating a single identifier, or by using existing Government-wide identifiers to link existing identities, so that delivery bodies could continue to track changes in customer details through existing systems.

Conclusion

5.24 There are questions here which go well beyond the scope of the present exercise but the fundamental issue is simple enough. If the department is to get best value from its assets, including business information, it will need to ensure that common systems are used across the family to identify those businesses and make it possible for information to be freely shared across the delivery agents. And wherever possible, a single exercise should replace the several that might otherwise be required. There is scope for taking forward the RLR, Livestock Register and related work in ways that do this; the Livestock Register project should be closely aligned with updating of RLR to test whether a single approach to capture of land data for the Defra family is practicable.

6 SHARED SERVICES AND OTHER CORPORATE ISSUES

6.1 The Gershon Review required Defra to look at achieving efficiency savings across its business, including the rationalisation of back office functions. In response to Gershon Defra established a Shared Service Programme to examine what savings might be made across the Defra business. In November 2006 the Defra Management Board approved the setting up of a Shared Services Agency (subject to HM Treasury and Cabinet Office approval) to deliver certain corporate services to Defra and its wider family – which would include the RPA.

6.2 The Shared Services Agency (SSA) will provide a range of transactional services for Defra in areas such as human resources, estates, finance and procurement. As well as providing these services to Defra the SSA will provide support to a number of other Defra ‘family members’ including Natural England (and others including the Department for Education and Skills). It was intended at the outset that Defra agencies such as RPA would receive these transactional services from the SSA although the precise timetable for transition was unclear.

6.3 The SSA is currently in its establishment phase and, on current plans, intends to go ‘live’ from April 2007. It is likely to remain within the Defra family until 2009 at which time it will migrate to become a fully-fledged agency in its own right.

SSA and RPA

6.4 A preliminary discussion has taken place between the SSA and RPA representatives about what services the SSA could provide to RPA in the future but a great deal more work needs to be done, and it will be some time before any business arrangement could be formally effected.

6.5 In the context of this review, this timetable seems sensible and is consistent with the overriding objective of stabilising the Single Payment Scheme. In light of that clear objective it would not be sensible to devote too much senior management time to discussions with SSA although working level engagement should be continued. This will enable RPA, in time, to determine which of the services it currently provides might be provided by the SSA.

6.6 On the face of it there could be advantages to RPA and Defra as a whole in rationalising central services – it is consistent with Gershon and wider Government policy aimed at diverting more resources to front line services. However these decisions will need to be made in the medium to long term once the RPA, and specifically the SPS, is on a stable footing and the Recovery Plan is in place. It will be for the RPA Chief Executive to determine the level of resources and services needed to achieve RPA objectives. But such a rationalisation might help RPA achieve the sort of

efficiencies anticipated in its original Change Programme although the figures would need to be revisited to take account of changing business priorities.

Contact Centres

6.7 RPA operates customer service centres at Workington and Newcastle. These include:

BCMS helpline – Helps callers with questions on cattle movement, applications, location issues and provides front line service for transactions with CTS;

Defra helpline – to assist callers with a range of queries about the Departments work, including those relevant to RPA work such as CAP reform policy etc;

Pets helpline – to assist callers by providing information on approved routes and carriers, qualifying countries, and quarantine rules;

ETAS helpline – to assist callers with ear tag registration and ordering problems and to check details on the Ear Tag Allocation System (ETAS);

NFSS helpline – to register animal keepers for the National Fallen Stock Scheme (NFSS);

TSE Surveillance helpline – to notify all animals that have died or been killed on farm that must be tested for BSE or scrapie (i.e. fallen cattle over 24 months of age; all goats aged over 18 months; a sample of sheep aged over 18 months);

Livestock Movement helpline – to assist callers with enquiries on movement of cattle, sheep, pigs and goats;

Livestock Identification helpline – to assist callers with enquiries on identification of cattle, sheep, pigs and goats.

In addition to helpline services, BCMS handles and responds to correspondence on cattle tracing for the whole of GB.

RPA also has a Customer Service Centre (CSC) based in Workington and a Document Management Unit (DMU) based at its Newcastle office.

6.8 The CSC is the main point of contact for all RPA farmer enquiries, including all in respect of the SPS, except those relating to cattle tracing, TSE surveillance and animal movement which are dealt with at Workington. The CSC is also responsible for the registration of all customers and allocates

them a new “Single Business Identifier”, to enable better identification of a customer in RPA systems and records.

6.9 While it is entirely logical for RPA to be responsible for contact centres concerned with its own core business, we do not believe there is a sensible basis for RPA to continue to manage other contact centre/helpline facilities for other parts of the Defra business, including the main Defra helpline. This is an unnecessary distraction for RPA senior management when they have more pressing issues to deal with. Discussions had taken place with Defra in respect of additional helpline support required in the event of an emergency such as a major animal disease outbreak but it was agreed that RPA did not have the necessary resource or skills to provide that level of support and alternative arrangements were put in place.

6.10 As a result we recommend that responsibility for all non-RPA/ BCMS - related helplines passes back to core Defra who have recently undertaken a review of contact centres in the Department and its agencies. That review noted that the Department did not have a clear strategy for the day to day management and development of contact centres resulting in customers accessing a broad range of products via uncoordinated channels. As a result the review made a number of recommendations to enable customers to receive a consistent level of service through improved coordination, the sharing of assets, reduced cost and risk, and management of customer demand.

6.11 RPA staff currently staffing the non-RPA helplines have a great deal of skill and expertise, and modern equipment to enable them to play an important role in taking this work forward. Therefore we recommend that those resources at Workington operating the non-RPA helplines are retained and are factored into future management arrangements for contact centres following the implementation of the contact centre review. Immediate day-to-day management should pass from the RPA to core Defra, possibly the Contact Centre Unit, as soon as is administratively possible, pending final decisions on the way forward. One option which may be considered would be for call centre functions to be managed through the SSA, but we appreciate that a great deal of work needs to be done before decisions can be made about this.

Conclusions

6.12 RPA should commit itself to using the emerging Shared Services Organisation and work with the SSA to identify to the maximum practicable extent of its use. RPA should also aim to pass management of the Defra helplines back to the core department, retaining management only of the SPS and BCMS lines.

7 GOVERNANCE AND RELATIONSHIP TO DEFRA

7.1 Although serving customers across GB, and working closely with the Devolved Administrations, RPA is a Defra agency. The crisis with the SPS was a problem specific to England, the DAs administering their own variants of the schemes, and it raised some questions about the governance of RPA that was then in place, such as:

- Were the formal arrangements right;
- Were they correctly focussed;
- Did they avoid duplication of roles, both as between Defra-led bodies and between them and the agency's internal management structures?

7.2 While not strictly part of the governance as such, it is also worth asking whether the day-to-day arrangements for liaison between Defra and the agency sufficient and satisfactory.

Governance pre 2006

7.3 Whatever else, there was no lack of visible governance in the 2004-05 period. There was an Ownership Board, chaired by the Defra Permanent Secretary, and Executive Review Group, similarly chaired and addressing implementation of the SPS, and a CAPRI (CAP Reform Implementation) – Programme Board – a jointly chaired body overseeing the RPA Change Programme as a whole. RPA had its own Management Board (and a separate MB for BCMS.) RPA also had an Industry Forum for regular exchanges with farming and other external stakeholders.

7.4 The agency's framework document prescribed some of the membership of the OB: the Chair was the Permanent Secretary, and at least one independent member and some representation of the Devolved Administrations was required. In the 2005-06 year, the Board had 11 members - three from the department, three from the DAs, four independents and the RPA Chief Executive. In practice, however, there was a very strong customer element in all this with two of the independents and five of the official members being in one way or another customers of the RPA.

7.5 It is easy enough to see how this mix came about, in part at least through the merger process of the former Intervention Board with the MAFF Regional Service Centre network, but the result was such that the Board had more the look of a customer forum than a body focussing on ownership and delivery responsibilities. With hindsight, it can be seen that the board did not have enough direct experience of 'delivery' in the sense of identifying and meeting customer requirements, particularly with a large and complex IT-based programme.

7.6 The CAPRI Board was jointly chaired by a senior MAFF official and the RPA Chief Executive. It comprised a number of officials from both organisations, together with one independent and representatives of the main

contractors engaged on the Change Programme. An Executive Review Group, chaired by the Defra Permanent Secretary and comprising key senior officials from the Agency, the department and the main contractors, was introduced in 2004 to concentrate solely on implementation of the SPS.

7.7 There was thus no lack of governance around RPA and its key programme. But there was a significant degree of overlapping membership across the groups with agenda that also to a degree overlapped. It is not easy to see that the several groups had clearly distinct roles or made clearly distinct contributions to oversight of the RPA business. There was inevitably some repetition - indeed, much of the material on SPS went through two or three iterations for the different groups, with sometimes only one or two new participants in each discussion.

7.8 In these circumstances, some loss of focus was perhaps inevitable. Moreover, the information presented did not make it easy for these groups to be clear about the extent of progress towards delivery of the SPS by its revised target date (i.e. payments to start in February 2006, with a substantial volume completed by end March): the task-based approach being adopted meant that estimates were given of the number of individual tasks outstanding but there could be little clarity about the speed of dealing with those tasks, especially when there were significant demands for re-working of tasks that appeared to have been completed.

Recent Changes

7.9 The picture has, however, been changed since this review started. Corven – consultants who looked at RPA's business processes when this review was being launched, commented on, inter alia, the governance of RPA and noted the lack of focus that was risked by the arrangements described above. In the light of their comments, Defra senior management made a number of significant changes. The Ownership Board was replaced by the Strategic Advisory Board (SAB); the CAPRI Programme Board was wound up with the conclusion of the Change Programme; and the Executive review group was replaced by an Oversight Group (OG). All are chaired by the Defra Director General to whom the RPA Chief Executive reports in the first instance. The terms of reference for the SAB are at Annex F.

7.10 Membership has been streamlined. The Chief Executive is a member of both new bodies. The SAB has six other members, three Defra officials and three outsiders, the latter with a range of experience of customer service and delivery in the private sector. The OG has three Defra officials, two from the agency in addition to the CE and an independent (a former official in one of the Devolved Administrations.)

7.11 We welcome these changes. The new arrangements should ensure that the distinct bodies have distinct roles without obscuring the Chief Executive's responsibilities – he is accountable for delivery of all RPA programmes, and the Defra chair will, with the SAB, hold him to account for that. The OG concentrates on the SPS and will take into account specific

policy, as opposed to delivery, considerations. This is intended to be a temporary group, and once the SPS is stable, it can be stood down.

7.12 The new arrangements do not give the Devolved Administrations a place on the SAB. RPA though continues to provide services to a range of businesses outside England and it will be important to ensure that their interests are not overlooked. The RPA Chief Executive has arrangements in place for regular quarterly meetings with the DA's (meeting in their capitals in turn) and these should be maintained. In the event that issues from these meetings need escalation to more senior levels, the appropriate forum for further discussion will be the regular monthly meetings that the Chairman of the SAB has in his DG capacity with senior agriculture officials from the DA's.

7.13 It will be important for the dialogue between the agency and the department to be informed and challenging. The SPS project was complex and high risk, with key features of the scheme being resolved as the underpinning systems were being built. Additions to the complexity of the scheme inevitably added to the risks of delivery. In such circumstances, the delivery agent needs to articulate the risks clearly and, if necessary, to advise on policy choices that significantly increase those risks. Equally, the core department needs to ensure that it understands those risks and the mitigations that can be put in place alongside them. The key point here is that the delivery agent needs to engage critically with the process of policy formulation and the governance bodies should ensure that this happens. The boundary between the core department and any one of its delivery agents cannot be absolutely fixed but we formed the impression that too much of a gap had been allowed to emerge between Defra and RPA over recent years. Arrangements have been made to address this and we discuss the point later in this chapter.

Relations with others

7.14 There is still an area of concern among some stakeholders regarding the relative priority that RPA gives to its several workstreams. In particular, there is concern that the SPS will remain an absolute priority, to the disadvantage of other commitments or customers. They ask whether, when push comes to shove, RPA will continue to divert staff from other work to SPS processing, with scant regard for the timetable needs of that other work. In addition, they ask what process and what forum would be involved in resolving any clashes of priority.

7.15 RPA has a range of SLAs in place with other agencies and it would clearly be unsatisfactory if RPA were to re-assign some of the resources covered by those SLAs without discussion and agreement with the other parties concerned. While itself a key part of Defra's 'licence to operate,' RPA has also to support the work of others in a similar position. In part, this is a question of resource and RPA needs to be adequately resourced to meet all of its commitments to other delivery partners in a timely fashion. Where conflicts arise, they will be best handled on a bilateral basis and by the RPA's internal governance arrangements; but a mechanism needs to be put in place so

that, if necessary, the SAB can resolve any which threaten to have a serious impact on wider Defra business.

7.16 Relations with the industry will remain the responsibility of RPA. The point has been made to us that, although there are regular and highly technical meetings between RPA and producer interests on progress with the SPS, the agency's long-established Customer Forum has not met for almost a year. Industry interests saw merit in reviving this meeting on a regular basis to allow for a more strategic exchange of views on where and how the agency is proceeding; we agree.

Relations with Defra

7.17 Linked to questions about governance of the agency, although not strictly a governance issue, is the day-to-day relationship between the department and the agency. A point made to us on a number of occasions was that, for all the formal *governance* in place, *communications* between the department and the agency were less effective than they should have been. Specifically, the ability of the two parties to share views on policy and delivery questions with one another had diminished over time as fewer and fewer individuals in each organisation had real experience of working in the other, working level contacts between officials in the two had thinned out and – as the pressures for delivery of the SPS mounted - management information in RPA deteriorated. It became effectively impossible for anyone at any given point to give an authoritative view on the extent to which the process of claim validation had been completed. With the task-based processing system in place, and a growing backlog of work, this was all but inevitable. Meanwhile, the quality of day to day exchanges of information with the department declined: questions could not be answered and RPA staff were directed to concentrate their efforts on dealing with processing and to avoid responding to working level enquiries.

7.18 This was unsatisfactory in itself but it was part of a wider problem from the division between the agency and the department. In the last year, Defra has sought to close that gap between department and agency by putting in place a team which reports jointly to management on both sides. We welcome this a means of ensuring that the two sides have a common understanding of the issues and options, both for delivery and policy. It will be important, however, to ensure that this team is adequately resourced and that there is appropriate continuity of expertise within it. The relationship between Defra and RPA needs to be worked on through this team - and more widely.

7.19 It was put to us by a number of contacts that Defra had, in the course of establishing the agency, taken too simplistic a view of the policy/ delivery split. There had been a tendency for the core department as a whole to keep its distance from delivery issues, partly because it recognised RPA's experience in getting schemes up and running (as it had shown in the early days of the BSE crisis) but partly because senior and middle ranking staff in the core department wanted to concentrate on strategic policy issues rather than their delivery implications. The SPS experience threw this gap of understanding

into sharp relief and one comment made to us was that, with hindsight, it was surprising that the agency's management had not pushed back harder in the face of the accumulating demands made of it. Put another way, the delivery agent should have been able to exercise greater control over the timetable against which it had been asked to deliver and the policy side should have been ready to give greater weight to any such concerns. This kind of dialogue should have been part of the process for holding the agency to account for its delivery; but it failed to take place because the core department lacked sufficient experience of major programme delivery.

7.20 This concern connects with a question about staffing within the agency. We were struck by the difficulty that RPA has found in trying to attract good quality staff from the core department on short term attachment to the agency. Given that hands-on experience of delivery should be a positive addition to the CV's of Civil Servants, and that there are clear benefits to both agency and department of such interchanges, we recommend that the department take a more pro-active role in finding and placing staff to work in the agency on a short term basis. This would fit very appropriately with the Professional Skills for Government programme. A number of outside contacts commented that, in a private sector environment, helping to turn round a problem business would be seen as an important career opportunity, but the core department had not succeeded in creating a similar approach to delivery opportunities among its own staff. This is an area where we believe that the agency Chief Executive should be supported by the department and ways found to give good quality staff with policy backgrounds experience of the delivery business. Such experience would be a valuable investment in the collective management skills of the department that could be drawn upon if and when comparable programmes have to be launched in the future.

Conclusion

7.21 The governance of the agency had become confused. Several bodies had been established but their roles had started to overlap and the individual focus of each had become blurred. We welcome the changes introduced in the last year as they seem to us to clarify roles and responsibilities and to bring in some new and necessary external skills. It will be important, however, to ensure that RPA going forward meets its commitments to other delivery partners and maintains full and open communication with the department at a day to day level. For its part, the department needs to give greater priority to development of delivery skills in its senior management cadres.

CONCLUSIONS

The key recommendations of this report are as follows:

For Defra

RPA's paying agency functions should remain as an agency and as part of Government.

RPA should be focussed on its core function of paying CAP subsidies and administering some related CAP measures. These include subsidies to farmers (the SPS) and to traders (export refunds and disposal subsidies) and administration of supply controls (milk quotas) and import licensing.

No major structural changes to the agency should be attempted that would increase the risk of not delivering the 2008 target for a stable SPS. In particular, BCMS the RPAi and the RLR should remain with RPA.

RPA should not in the next two years take on additional responsibilities that do not support the core function. In particular, WFA should not be transferred to RPA in this time.

The Defra helplines should be removed from RPA management.

The changes in governance of RPA over the last year should be embedded.

The Chairman of the SAB should keep the policy and delivery relationship in RPA's area of business under review. Defra should build on the joint RPA/Defra division introduced last year by arranging short term postings of policy staff to RPA.

In holding the RPA Chief Executive to account for delivery of his schemes, Defra should ensure that an informed and realistic dialogue takes place around the practicalities of delivery, and that the agency is empowered to advise Ministers directly on the risks to delivery arising from policy variables and timetable pressures.

For RPA

The agency's immediate priority is getting the SPS sorted. Substantial challenges remain and the agency should focus on getting a stable scheme in place for the 2008 scheme year. The target for that year must be to get the end to end process from application to payment compressed as nearly as possible within a 12 month period. In the slightly longer term, the application process should be via e channel and the agency should commit to this. The Chief Executive should report regularly to Ministers and senior officials on this.

RPA management must re-build the agency's relationships with farmer customers; whole case working should be re-introduced in a way that enables farmers to have meaningful contact with the processing operation.

RPA must ensure that the agency delivers its commitments to other members of the Defra family, e.g. on inspections for Natural England and the payment of Pillar 2 schemes.

The RPA Chief Executive should strengthen the management of BCMS and sharpen BCMS performance targets.

BCMS should be fully engaged in Defra work on development of a comprehensive Livestock Register. Veterinary considerations should drive development of cattle tracing and movement reporting requirements.

RPA should commit to using the planned Defra Shared Services Organisation for a substantial proportion of its corporate services.

For Defra, RPA and other agencies

The mapping on which the Rural Land Register is based should be updated; Defra, the SVS and RPA should work collaboratively to find ways in which land and livestock data can be collected effectively and without multiple approaches to farmers.

RPAi and other inspecting agencies should join up more and Chief Executives be specifically tasked on these lines; RPAi should do more by way of advice to farmers on cross compliance; a target should be set to reduce the time taken on land eligibility and cross compliance inspections – an initial target of 10%.should be considered.

For RPA in the longer run

If the 2008 target for SPS is met, the RPA Chief Executive should make recommendations on future organisation of the agency.

Annex A

Rural Payments Agency (RPA) Review – Terms of Reference

Context

1. The RPA is now in its fifth year of operation. The world in which it operates has changed significantly in that time, and its tasks and functions have developed and expanded in consequence. The Agency has taken on the significant change task of delivering CAP Reform through the Single Payment Scheme, become the operational delivery body for the Livestock ID programme, the Defra Customer Register, and the Land Register; has taken over running of a number of Defra help-lines, and has absorbed the British Cattle Movement Service. It is no longer a relatively straightforward paying agency, but a multi-faceted delivery body.
2. Accordingly it is timely to take a detailed look at the kind of body we now require the RPA to be, and to consider whether it possesses the infrastructure and skills to deliver what we are asking it to. We should also look at how Defra itself manages the relationship, in terms of tasking and accountability – and consider whether present governance arrangements are fit for purpose.

Terms of Reference

3. The Review will address the following questions:
 - a. What should be the core functions and responsibilities of the RPA going forward, taking into account the new strategic context and operating environment as outlined below? What will the RPA's role be within the Defra family, and what relationships does that imply? This should be considered in terms of overall coherence of function, and within a timeframe of five to ten years and will include:
 - i. Mapping present and planned RPA activities;
 - ii. Considering whether the RPA should be engaged in these activities, or can they be better placed elsewhere;
 - iii. Defining the relationship the RPA should have with Defra and other delivery bodies with respect to these activities;
 - iv. Developing a business case for shifting any activities which are to be moved to a new body.
 - b. Is the balance of SPS delivery and other RPA priorities in 2006/7 adequately reflected in its current business targets?
 - c. What does RPA require in terms of management structures, culture and organisation, skills and capacity to deliver successfully?
 - d. What does a first-class paying agency look like, and how can we support RPA in achieving that status?
 - e. What level of funding is required to support the RPA in delivering

the range of functions and activities for which it is now responsible and the delivery of on-going efficiencies?

- f. Is the present Defra governance of the Agency as owner, policy sponsor and corporate sponsor adequate to provide clear and prioritised tasking, and to hold it to account for delivery?
- g. What does Defra need to do immediately, and in the medium to longer term, to help the Agency to strengthen its capabilities, including in terms of the management of IT suppliers, and any immediate personnel, management or succession issues?
- h. Are there any generic conclusions Defra can draw from this review concerning policy/delivery partnerships, and the skills required on both sides to make these effective?
- i. Do present governance arrangements, including the RPA Ownership Board, provide the appropriate means of assurance for Defra with respect to performance management, and prioritisation of tasks for the RPA?
- j. Reviewing, and where necessary making recommendations, to Scottish and Welsh Ministers about services which RPA delivers on their behalf.

4. The Review should consider the following RPA activities and functions as being within scope:

- a. Delivery of paying agency business as usual in terms of making payments, livestock tracing, inspections and enforcement, consistent with maintaining status as a UK paying agency.
- b. Delivery of the Single Payment Scheme to timetable and within disallowance targets, and including the new EU sugar regime.
- c. Costs of implementation of this and other deliverables; for 2005/6, 2006/7 and in projected future budgets.
- d. Delivery of stated efficiencies through the RPA Change Programme – in terms both of staff and funding.
- e. Participation in the Defra Shared Services operations.
- f. Delivery of and governance and operation of the Defra livestock register, customer register and land register to timetable and within appropriate budgets.
- g. Operation as the agricultural thematic regulator under Hampton.
- h. Overall financial management of the Agency, including the delivery of stated efficiencies in headcount and budgets.
- i. Operating culture of the organisation, including governance and performance management, relationships with suppliers and stakeholders, and management capacity and skills.

Conduct of the Review

5. The Review will be led by David Hunter, Director of European Union and International Policy Directorate, and overseen by a small steering group chaired by Defra's Chief Operating Officer, Andrew Burchell. This group will include Professor Georges Selim, non-executive on the RPA Board and chair of their Audit and Risk Committee, and Karen Jordan

from National Grid and a non-executive member of Defra's Audit and Risk Committee and member of the CAP Reform Implementation Programme Board. The review will start in April 2006, and should be complete before the end of 2006. Full consultation with government stakeholders and interested parties will be built into review processes.

Annex B

Acknowledgements

The Review Team are very grateful to those people who attended a monthly 'internal' (i.e. within Government) stakeholder Group and offered comment and challenge to the process. That group was made up of representatives from the following bodies:

Core Defra
Natural England
The Devolved Administrations
Forestry Commission
HM Treasury
Office of Government Commerce
Environment Agency

In addition the Review Team are grateful to those individuals and organisations listed below who have provided comments and other contributions throughout the review process:

Defra Policy Divisions
State Veterinary Service
Mark Addison
Plant Health and Seeds Inspectorate
Janet Purnell (Reviewer of Plant Health and Seeds Inspectorate)
The Rural Payments Agency (including the Trade Union Side)
The Rural Payments Agency Inspectorate (including the Trade Union Side)
British Cattle Movement Service
The Land Registry
Central Association of Agricultural Valuers
Agricultural Industries Association
Agricultural Law Association
Corven
National Farmers Union
Country, Land and Business Association
Tenant Farmers Association
Meat and Livestock Commission
Food and Drink Federation
David Eves (Reviewer of Defra Animal Health and Welfare Delivery Landscape)
The Local Government Association
Local Authorities Coordinators of Regulatory Services
Department for Communities and Local Government
IBM
UK Co-ordinating Body

Annex C

PAYING AGENCY: RESPONSIBILITIES

Article 6 of Council Regulation (EC) No1290/2005 of 21 June 2005 on the Financing of the Common Agricultural Policy sets out rules for accreditation, and withdrawal of accreditation, of paying agencies and coordinating bodies.

The key responsibilities for a paying agency, on top of the actual function of payment, are to provide guarantees that:

- a) the eligibility of requests and, in the framework of rural development, the procedure for allocating aid, as well as their compliance with Community rules are checked before payment is authorised;
- b) accurate and exhaustive accounts are kept of the payments made;
- c) the checks laid down by Community legislation are made;
- d) the requisite documents are presented within the time limits and in the form stipulated by Community rules;
- e) the documents are accessible and kept in a manner which ensures their completeness, validity and legibility over time, including with regard to electronic documents within the meaning of community rules.

The Regulation states that, with the exception of the *payment* of Community aid (e.g. Single Farm Payment), the 'execution of these tasks may be delegated'. RPA could therefore simply carry out the actual payment transaction, with all the associated checks, returns to the Commission, etc., being undertaken by somebody else. The Regulation does not stipulate which non-State bodies might carry out one or other of these tasks. It would presumably be the Member State (with additionally in the UK's case the Competent Authority and UK Coordinating Body) to decide and ensure appropriate accountability. The Competent Authority comprises the four UK Agriculture Ministers collectively responsible for accreditation of any paying agency. Its secretariat is the Co-ordinating Body which collates information to be submitted to Brussels and looks to ensure harmonised application of the relevant EU rules and guidelines.

Annex D

THE HAMPTON REPORT

The Hampton principles are set out below, those in bold being of most interest in the context of the RPA Review, and the Review's examination of inspection and enforcement activity:

Regulators and the regularity system as a whole, should use comprehensive risk assessment to concentrate resources on the areas that need them most;

Regulators should be accountable for the efficiency and effectiveness of their activities, while remaining independent in the decisions they take;

All regulations should be written so that they are easily understood, easily implemented, and easily enforced, and all interested parties should be consulted when they are being drafted.

Businesses should not have to give the unnecessary information, nor give the same piece of information twice;

No inspection should take place without a reason;

The few businesses that persistently break regulations should be identified quickly, and face proportionate and meaningful sanctions;

Regulators should provide authoritative, accessible advice easily and cheaply;

Regulators should be of the right scope and size, and no new regulator should be created where an existing one can do the work; thematic regulators are discussed as being the Environment Agency, Animal Health Thematic Agency (based on the SVS), Agriculture Agency (RPAi), Natural England, Food Standards Agency, Health and Safety Executive; and the Local Better Regulation Office;

Regulators should recognise that a key element of their activity will be to allow, or even encourage, economic progress and only intervene when there is a clear case for protection.

When new policies are being developed, explicit consideration should be given to how they can be enforced using existing systems and data to minimise the administrative burden imposed.

Annex E

The following possible alternatives to the present model of Defra inspections were identified at the workshop with stakeholders:

A Single National Inspectorate

- One body for all on-farm inspections – merge current providers
- Common approach to risk based inspection

Organised by risk (economic, environmental and social)

- All inspection activities classified by risk type
- Separate on-farm delivery channels for each risk type

Organised by type of customer

- Segment the farm population (e.g. livestock v arable, size, etc)
- Separate delivery channel for each segment

Organised by theme (Hampton approach)

- Group delivery bodies into themes
- Merger and acquisition and transfer activity until each theme is in one body

Local delivery model

- All inspection work devolved to and delivered by local authorities

Tiered model

- General primary inspection conducted through single or range of providers
- Primary inspection used as a key alert for specialist referrals

No change

- Maintain status quo in all respects

Status quo with central coordination

- E.g. Whole Farm Approach with a chief regulator within Defra (depending on where WFA is managed in the long term)
- E.g. FSA-style audit and publicity

Status quo with rationalisation

- E.g. tidy up delivery bodies improve coordination and other arrangements

Annex F

Terms of Reference for Strategic Advisory Board

1. The Board has a strategic advisory role. The Board advises the Defra sponsor/owner of the RPA, (the Director General for Food and Farming) in his capacity as owner. The Board will provide supportive challenge to both sides in the policy delivery relationship.
2. The Board considers and advises the owner on:
 - the strategic direction of the agency;
 - the strategic alignment of the RPA with Defra as set out in its corporate plan and beyond;
 - the strategic implications of annual tactical decisions;
 - the overall ability of the RPA to manage finances, audit, plan and deliver efficiencies;
 - the impact of Defra/RPA strategic investment in estates, systems and people;
 - significant disallowance issues.
3. The Board monitors RPA performance at high level through:
 - the top level RPA balanced scorecard;
 - the RPA top ten risks
4. The Board advises the Defra owner on agreeing and/or updating the following governance and business documents:
 - the RPA Framework document;
 - the terms of reference of the Strategic Advisory Board;
 - the RPA corporate (strategic) plan; and
 - the RPA business (annual tactical operations) plan including Ministerial targets with auditable measures.
5. The Board's agenda and minutes will be published on the Defra website. The Board may convene sub-groups, from which it will receive regular reports. It will normally meet at least 4 times a year, at least once annually at an RPA site (on a rotational basis whenever possible), but otherwise the rhythm of its meetings will reflect the requirements made upon it. Board members will also be available to Defra/RPA on key issues related to their specific experience

Skills and experience mix for the Strategic Advisory Board

1. In order to deliver the role of advising the Defra owner in his capacity as owner the skills and experience mix needed for the RPA ownership board is considered to be as follows:

- Defra ownership (including awareness of the Defra total internal customer ask of RPA);
- Defra and wider governance of delivery and change programmes;
- Defra Finance;
- RPA CEO;
- Chair of RPA Audit and Risk Committee;
- Management and information systems;
- Business change implementation;
- Retail finance transactions with large customer groups/ paying agency;
- Business experience, change and delivery experience outside government;

2. The overall balance of the board should contain a strong non-executive element. Board members will embody more than one experience/ skill, enabling the total mix identified above to be delivered while keeping the board small and tightly focused. Deputies will not usually be accepted; occasionally other attendees may be asked to attend to present on a specific issue.

Current Board

Andy Lebrecht	-	Chair, Defra MB owner
Tony Cooper	-	RPA CEO, change
Andrew Burchell	-	DG COO, governance of delivery, change
Ian Grattidge	-	Defra finance
Mike Segal	-	Defra SCS owner (delegated function)
Georges Selim	-	Non executive, Corporate Governance, Internal Audit, Risk Management (Chair RPA Audit and Risk Committee)
Katie Davis	-	Non executive, MIS, change
Philip Nunnerley	-	Non executive, Retail finance, change