



House of Commons  
Committee of Public Accounts

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# A progress update in resolving the difficulties in administering the Single Payment Scheme in England

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Twenty-ninth Report of  
Session 2007–08

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

*Ordered by The House of Commons  
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## The Committee of Public Accounts

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### Committee staff

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## Summary

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In September 2007, the Committee reported on the implementation of the Single Payment Scheme by the Department for Environment, Food and Rural Affairs (the Department) and the Rural Payments Agency (the Agency).<sup>1</sup> The Single Payment Scheme replaced previous European Union production-based agricultural subsidy schemes from 2005. The Department had chosen to implement the most complex option for reform in the shortest possible timescale, and the Agency had badly underestimated the scale of the task. This led to delays in making payments to farmers, erroneous payments and additional project and administrative costs.

Following the difficulties with the 2005 Scheme, the Agency identified 34,499 claims (some 32% of the number of claims for the 2006 Scheme year), where further errors might arise unless farmers' entitlements were properly checked. The Agency's review process has taken too long to complete, and a breakdown of the outcome was not available at our hearing. Subsequently, the Agency has estimated that there were £20 million of overpayments for the 2005 Scheme, and £17.4 million for the 2006 Scheme. In August 2006, the Agency had also identified £4.4 million of overpayments in one batch of claims. Where overpayments have been identified, the Agency has taken little action to recover the sums, with the risk that farmers may have unknowingly spent the money in the interim. Of 19 overpayments in excess of £50,000 paid in August 2006, the Agency had started the recovery process with only two of the farmers affected.

Major changes made to the Agency's IT systems have enabled most farmers to receive payments earlier under the 2006 Scheme than for the 2005 Scheme. There has been a substantial impact on the costs of the business change programme to improve the Agency's efficiency, and the total project cost is now likely to exceed £300 million. In mid 2007, staff numbers in the Agency peaked at 4,600 and are not expected to reduce to 3,500 until 2010. The Agency is still not able to offer adequate advice to farmers on the progress of their claim. It was reluctant to specify targets by when such information would be available and when payments would be made under the 2008 Scheme.

On the basis of a further Report by the Comptroller and Auditor General,<sup>2</sup> we took evidence from the Department and the Acting Chief Executive of the Agency on actions taken to rectify errors in payments under the Single Payment Scheme and to develop a more cost-effective service to farmers.

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1 Committee of Public Accounts, Fifty-fifth Report of Session 2006–07, *The Delays in Administering the 2005 Single Payment Scheme in England*, HC 893

2 C&AG's Report, *Department for Environment, Food and Rural Affairs, and the Rural Payments Agency: A progress update in resolving the difficulties in administering the Single Payment Scheme in England*, HC (Session 2007–08) 10

## Conclusions and recommendations

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- 1. The Rural Payments Agency has not yet managed to bring the administration of the Single Payment Scheme properly under control.** The extent of payment errors within the 2005 and 2006 Schemes had not been completely resolved at the time of our hearing, and data submitted subsequently by the Agency showed that nearly 20,000 farmers' entitlements for those years were incorrectly calculated. The Agency has increased its calculation of more than 12,600 entitlements by a total of £28.6 million, and decreased nearly 7,300 entitlements by a total of £29.2 million.
- 2. The Agency has been slow to investigate possible overpayments, and only began taking action to recover excess payments made under the 2005 Scheme in November 2007.** The Agency estimates that, under the 2005 Scheme, more than 10,000 farmers were overpaid by some £20 million in total. In addition, around 7,000 farmers were overpaid for the 2006 Scheme by over £17 million. The Agency and the Department had yet to determine options for recovering sums overpaid, adding to uncertainty for many farmers. In 19 cases, mainly large agribusinesses, overpayments were for £50,000 or more. Such recipients were likely to have known that they had been overpaid, and yet the Agency took no action to recover the funds quickly. The Agency should notify each farmer of the extent of any overpayment made, as well as agree a method of recovery and a deadline for when this would be achieved.
- 3. By mid November 2007, the Agency had reviewed 33,592 claims, but had failed to keep an accurate central record of overpayments made under the 2005 and 2006 Schemes.** Without such a record it would be difficult to manage the recovery process effectively. The Agency should compile an accurate record of overpayments so that the Agency's Management Board and the Audit and Risk Committee can review progress in recovering the sums owed each quarter.
- 4. The Agency's failings in implementing the Scheme have led to the risk of significant disallowance of expenditure and the imposition of penalties by the European Commission, and added to the Agency's business change project costs.** The Department's 2005–06 and 2006–07 accounts included total provisions of some £220 million for disallowance, and £70 million accruals and contingent liabilities for possible late payment penalties in respect of the Single Payment Scheme in England. The cost of the business change project, through which the Scheme was implemented, is expected to exceed £300 million, some £50 million above that anticipated at the outset.
- 5. The Agency's service to farmers is still undermined by weaknesses in its IT systems, such as its inability to provide farmers with a predicted amount and payment date to assist them with their financial planning.** Restoring farmers' confidence will depend on the Agency's ability to process claims promptly and to provide accurate information on the progress of each claim, including the likely payment date. The Agency should give higher priority to processing claims from farmers with greater dependency on the Scheme payments, for example hill farmers and those running smaller operations.

6. **The average cost of processing claims exceeded the value of over a third of the 106,000 claims under the 2006 Scheme, making improvements in the Agency's efficiency essential.** Currently, it costs around £750 to process a claim. Reducing that cost depends on greater automation in processing small, standard claims, use of e-channels and reductions in staff costs through reduced overtime and shift working. The Agency's future business plans should set targets for the implementation of its efficiency measures and the savings it expects to achieve.
7. **In preparing policy papers for Ministers, the Department had not drawn sufficient attention to all the risks to implementing the complex dynamic hybrid scheme and the likely impact on delivery timescales.<sup>3</sup>** For the future, the Department should consider whether it has sufficiently robust processes to scrutinise and challenge the underlying assumptions in its policy proposals. Utilising an external or peer challenge process would assist in providing appropriate emphasis to all risks so decision makers have the best information available to inform their choice of options.

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3 Under the dynamic hybrid scheme, payments are based partly on the average payment to each farmer between 2000 and 2002 under the previous subsidy schemes, and partly on a flat rate per hectare. Over time, the historic rate proportion declines until payments are wholly based on a flat rate.

# 1 Resolving outstanding problems with the Single Payment Scheme

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1. The Single Payment Scheme was introduced by the Member States of the European Union to replace 11 separate crop and livestock based production subsidies, as part of the Common Agricultural Policy reforms. The Rural Payments Agency (the Agency) experienced considerable difficulties in capturing and processing the data required to make the payments due by the end of June 2006 for the first year of the new scheme (the 2005 Scheme). Some 8,586 farmers had not received any payment by the end of June 2006, and there were errors and procedural weaknesses by the Agency in a number of the payments that had been made.<sup>4</sup>

2. By the 31 December 2006, almost all the outstanding payments due to farmers by the end of June 2006 had been made, except for 24 cases totalling £250,000. Of these cases, 19 could not be paid until probate had been resolved, and the remaining cases were outstanding because they were subject to divorce settlements, debt recovery or ongoing investigation. By January 2008, only nine cases, with a value of £70,000, remained outstanding.<sup>5</sup>

3. Errors occurred in the payments made by the Agency for a substantial number of claims from the first two years of the Scheme. The Agency had identified 34,499 cases considered to be at risk, some 32% of the number of claimants under the 2006 Scheme. Reviewing the status of each claim proved to be a complex and time consuming task. The process involved checking each farmer's entitlements, adjusting for any partial payments already made, and picking up any manual adjustments made at the time by staff to circumvent the deficiencies in the Agency's IT systems. The Agency estimated that each case typically took eight staff days to complete.<sup>6</sup>

4. By mid-November 2007, the Agency had reviewed 33,592 of the 34,499 cases and had expected to complete the exercise the following month. It was, however, unable to provide a breakdown of the extent or range of errors found until after our hearing in January 2008. The Agency had failed to keep sufficiently complete and reliable records on those cases where farmers had been underpaid and a subsequent top up payment made. In the absence of reliable records, it was not clear whether the Agency had correctly calculated and paid each farmer their full entitlement under the 2005 and 2006 Single Payment Scheme. The Agency was confident, however, that subsequent payments under the 2007 Scheme were correct, as farmers would have been able to estimate how much they expected to receive, and would have notified the Agency if the payment was significantly different. Very few farmers had challenged the 63,000 entitlement statements sent out by the Agency for the 2007 Scheme, although the statements covered only 58% of the 109,000 claimants under the 2006 Scheme.<sup>7</sup>

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4 C&AG's Report, paras 1.1, 1.3, 2.3

5 Qq 50–51; C&AG's Report, para 2.4

6 Q 6; C&AG's Report, paras 2.7–2.8, 3.11

7 Qq 4–6, 37, 45; C&AG's Report, paras 3.10–3.11

5. The Agency estimated that it had overpaid 10,299 farmers in respect of their 2005 Scheme claims by a total of £20 million, and 6,925 farmers by a total of £17.4 million for the 2006 Scheme. The overpayments were largely due to duplicate payments and interim partial payments which had exceeded the total sum due. The Agency did not have a breakdown of overpayments by individual farmer, but it estimated that in 4,700 cases the amounts overpaid were less than €100. Approximately 70% of cases were for overpayments of between €100 (equivalent to approximately £68) and £1,000, while in 0.8% of cases, the overpayment exceeded £50,000. Additionally, the Agency had known since August 2006 that 672 overpayments totalling £4.4 million had been made on one batch of payments. The error had arisen because of a change made to IT systems which had not been fully tested at the time. Some 68% of the overpayments had been for £500 or less, but nineteen were for over £50,000.<sup>8</sup>

6. The Agency had been slow to recover overpayments from farmers and was unable to provide reliable data on the progress made. The Agency had not finalised a strategy for recovery of the higher value overpayments as the Department intended to seek agreement with Ministers to an approach which minimised the adverse impact on farmers. Small overpayments might be written off altogether, whilst options being considered by the Department for recovering the larger sums included netting off amounts against the next year's payment, and offering repayment by instalments over a period of time. Recovery arrangements would take account of the pressures on the farming industry, such as harvest times, and the impact on farmers who were also receiving Hill Farm Allowance. There was a risk, however, that some farmers might have unknowingly spent the additional money, and demands for repayment could have a detrimental impact on their business.<sup>9</sup>

7. The largest overpayments were to sophisticated agribusinesses, whose financial systems should have enabled their senior managers to identify and return the overpayments quickly. The Agency had telephoned those with the highest overpayments as soon as it had become aware of the mistakes, and had written to others shortly afterwards. It was only in November 2007, however, that the Agency started to make arrangements to recover any of the money by issuing invoices to the farmers affected. By mid February 2008, the Agency had only issued invoices to two farmers overpaid more than £50,000, and in one of these cases the invoice had been queried and required further investigation.<sup>10</sup>

8. The Agency's review of 34,499 cases had sought to correct farmers' entitlements to minimise the risk of further mistakes when processing payments for the 2007 Scheme and subsequent years. The Agency estimated that it had amended the entitlements in some 58% of cases (**Figure 1**). The Agency increased 12,611 entitlements by a total of £28.6 million, while it decreased 7,281 entitlements by some £29.2 million. Having invested considerable resources to correct entitlements, the Agency was confident that subsequent payments would be accurate.<sup>11</sup>

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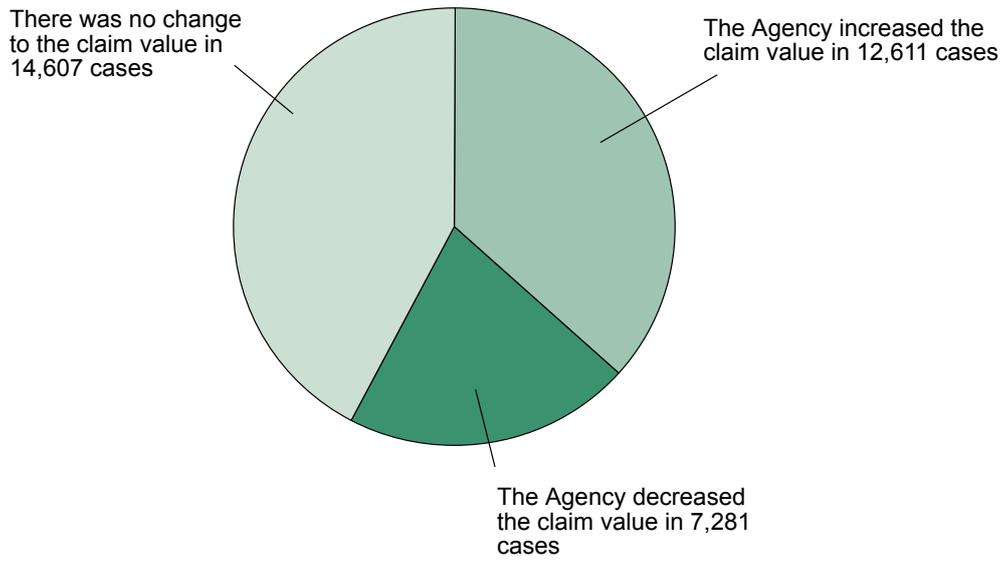
8 Qq 11, 114–117; Ev 16; C&AG's Report, paras 11, 2.9

9 Qq 9, 46; Ev 16

10 Qq 11, 119, 122–123; Ev 16

11 Q 37; Ev 16

**Figure 1: The change in claim values following investigation by the Rural Payments Agency (number of claims)**



*Source: Supplementary memorandum by the Department for Environment, Food and Rural Affairs*

## 2 Providing a cost effective service to farmers

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9. Our previous Report highlighted the impact on farmers of the problems encountered by the Agency in implementing the Single Payment Scheme. The Department had not fully appreciated the difficulty of implementing a dynamic hybrid scheme in a tight timescale, and Ministers might have taken a different approach had the Department made this clear at the time. Two other European Member States, Finland and Germany, had chosen to implement the same scheme by taking a more measured approach over a longer period of time. The Department recognised that the scheme appeared to be running more effectively in these countries.<sup>12</sup>

10. The Department had provided for a total of £348 million in its 2005–06 and 2006–07 financial accounts to cover future liabilities for disallowance by the European Commission. The Department had made provisions of £222 million in respect of the Single Payment Scheme in England, and additional provisions of £92 million for non-Single Payment Scheme expenditure. The Department also made provisions of £34 million for the Scheme in Wales, Scotland and Northern Ireland. The Treasury had set aside £270 million to fund the disallowance provisions, and the balance of £78 million would be financed from the Department's resources over three years. On top of this, the Department had reported accruals and contingent liabilities of £70 million in respect of late payment penalties relating to the 2005 Scheme in England.<sup>13</sup>

11. The Agency's IT system was rigid and task based and had proved unsuited to processing farmers' claims. In the haste to have the system operational, the Agency had scoped out key project modules, such as the development of software to generate management information on the progress of each claim. Staff have not had the necessary tools to process payments adequately or the information to answer farmers' queries on the progress of their claim.<sup>14</sup>

12. The proportion of farmers satisfied with the performance of the Agency in 2007 had increased in comparison to the previous year, but the improvement was from a low base. The Agency had paid most farmers earlier for the 2006 Scheme than for the 2005 Scheme (**Figure 2**), but farmers in England had not received the same quality of service as farmers in Wales, Scotland, and Northern Ireland. Paying agencies in those countries had made full payments for the 2006 Scheme to the majority of farmers in December 2006, whereas, in England, the Agency did not start making payments until February 2007. The Agency was not able to notify farmers of when they could expect to be paid. Whilst the Agency's systems showed the work outstanding on a claim, there was insufficient information to predict the payment date.<sup>15</sup>

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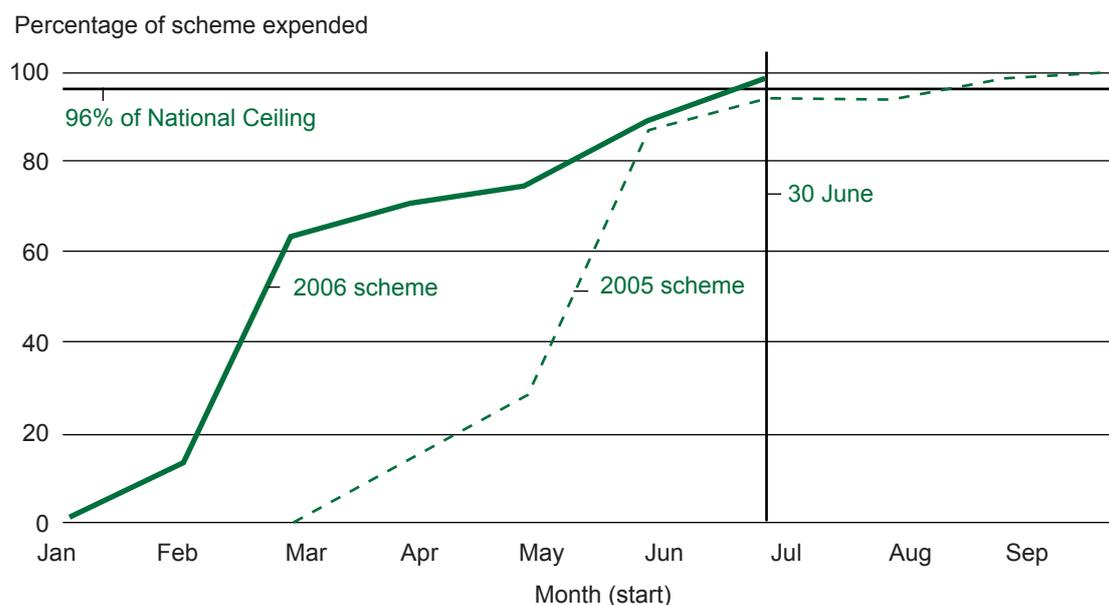
12 Qq 20, 22–23, 110–111, 129; Committee of Public Accounts, *The Delays in Administering the 2005 Single Payment Scheme in England*

13 Qq 63, 126, 130, 136; Ev 16

14 Qq 14, 72, 102

15 Qq 14, 41–42; C&AG's Report, paras 10, 12, 3.2

**Figure 2: The Agency paid 98% of funds for the 2006 Scheme year by the end of June 2007**



Source: C&AG's Report, Figure 4

13. Restoring farmers' confidence in the Single Payment Scheme will depend on the Agency's ability to process claims promptly, and to provide accurate information on the progress of each claim. During 2007 and 2008, The Agency's IT systems had been re-engineered and underpinned by new software. The number of off-line databases was reduced from 90 to 13 and a testing environment for new software introduced. This "Model Office" had allowed new software to be trialled and staff to be trained before implementation on the live system. The Agency was confident that the system worked properly and that there would be sufficient flexibility to accommodate any policy changes made by the European Commission.<sup>16</sup>

14. The modifications to the IT systems increased the implementation cost of the Single Payment Scheme. The implementation costs and the costs of the Agency's associated business change programme totalled £258 million by May 2006, when the original change programme was closed. In 2007–8, a further £22.8 million was spent on IT changes. Further spending on IT was planned, comprising £19.5 million in 2008–09, and £13.4 million in 2009–10. This would take the total costs of putting the Scheme, and the associated business change programme, into effect to more than £300 million. Between January 2003 and March 2008, Accenture received around £122 million from the Agency for IT support and development. The Agency expected further expenditure of around £10.5 million in 2008–09 and £9.5 million in 2009–10. The original procurement of systems from Accenture had proved inadequate because the risks of failure rested solely on the Agency. New partnership arrangements with Accenture had, however, enabled the Agency to spread risks more equitably, such that if Accenture failed to deliver, they carried a share of the financial risk.<sup>17</sup>

16 Qq 47, 69–72, 82, 150

17 Qq 9, 15–18, 93–109, 149; Ev 16; Committee of Public Accounts, *The Delays in Administering the 2005 Single Payment Scheme in England*

15. The Hunter review estimated that it had cost the Agency, on average, £750 to process each claim.<sup>18</sup> Around 42,000 claims may, therefore, have cost more to process than the value of the claim itself. Improving efficiency and reducing costs in processing claims is therefore critical. Staff costs had been high because of the resources required to correct errors in farmers' entitlements. At its peak in mid 2007, the Agency employed 4,600 staff, overtime was being worked and shift working was deployed in all offices. Staff numbers have since fallen to around 4,200 people, and only one site continues to rely on shift working. Where few changes occurred on a claim year to year, the payment process could be automated further, leading to staffing efficiencies. The Agency has a target to reduce its resource requirements to 3,500 staff by 2010. The Agency had accepted the recommendations made in the Comptroller and Auditor General's report, and plans to improve the cost effectiveness of its service through the introduction of an e-channel electronic processing system.<sup>19</sup>

16. In 2007, the farming industry was badly affected by flooding and by animal movement restrictions imposed as a result of Foot and Mouth Disease and Bluetongue disease. The Agency had made a payment of £12.5 million to relieve hardship amongst hill farmers affected by the movement restrictions. It had also made special arrangements in the most severely affected areas to help farmers dispose of fallen stock. The rules of the Single Payment Scheme permitted advance payments to be made in exceptional circumstances, but the Agency did not make advance payments for the 2007 Scheme year because the claims had not been sufficiently validated at that time and to do so would have risked disallowance by the European Commission.<sup>20</sup>

17. The ability of farmers to predict their payments under the scheme is important for their forward planning, and to avoid inequalities whereby farmers paid earlier than others have a better bargaining position in the market. The Agency had made an initial payment under the 2007 Scheme to 80,000 of the 106,000 farmers by January 2008, representing some 60% of the scheme's funds. The Agency had given priority to claims linked to the Hill Farm Allowance, as these farmers could not receive the Hill Farm Allowance until their Single Payment Scheme claim had been cleared. The Agency also recognised that claims involving common land had been delayed, and it was now giving such cases more priority. Complex, high value claims were, however, likely to take longer to process. The Department has not yet agreed target deadlines with the Agency for processing 2008 claims, but plans to do so and to publish them in the Agency's business plan. Its aim is to pay farmers as quickly as possible.<sup>21</sup>

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18 *Defra Review of the Rural Payments Agency*, Report by David Hunter, March 2007, available online at [www.defra.gov.uk/corporate/delivery/executive/rpaob/hunter-review-070319.pdf](http://www.defra.gov.uk/corporate/delivery/executive/rpaob/hunter-review-070319.pdf)

19 Qq 19, 55–58, 73–80; Qq 59–61, 87–88

20 Qq 33–36

21 Qq 36–40, 52–53

# Formal Minutes

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**Monday 2 June 2008**

Members present:

Mr Edward Leigh, in the Chair.

Mr Richard Bacon

Paul Burstow

Mr Philip Dunne

Mr Nigel Griffiths

Mr Austin Mitchell

Mr Don Touhig

Phil Wilson

Draft Report (*A progress update in resolving the difficulties in administering the Single Payment Scheme in England*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 17 read and agreed to.

*Resolved*, That the Report be the Twenty-ninth Report of the Committee to the House.

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

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

[Adjourned till Wednesday 4 June at 3.30 pm.]

## Witnesses

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**Wednesday 23 January 2008**

*Page*

**Mrs Helen Ghosh**, Permanent Secretary, Department for Environment, Food and Rural Affairs, and **Mr Tony Cooper**, Interim Chief Executive, Rural Payments Agency

Ev 1

## List of written evidence

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Department for Environment, Food and Rural Affairs

Ev 16

# List of Reports from the Committee of Public Accounts 2007–08

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First Report	Department for International Development: Tackling rural poverty in developing countries	HC 172 (Cm 7323)
Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
Seventh Report	Excess Votes 2006–07	HC 299
Eighth Report	Tax Credits and PAYE	HC 300 (Cm 7365)
Ninth Report	Helping people from workless households into work	HC 301 (Cm 7364)
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322 (Cm 7364)
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71 (Cm 7364)
Twelfth Report	Coal Health Compensation Schemes	HC 305 (Cm 7364)
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131 (Cm 7364)
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85 (Cm 7365)
Fifteenth Report	The Pensions Regulator: Progress in establishing its new regulatory arrangements	HC 122 (Cm 7365)
Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176
Eighteenth Report	Improving corporate functions using shared services	HC 190
Nineteenth Report	BBC Procurement	HC 221
Twentieth Report	HM Revenue & Customs: Helping individuals understand and complete their tax forms	HC 47
Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157
Twenty-second Report	Improving the efficiency of central government's use of office property	HC 229
Twenty-third Report	Report on the NHS Summarised Accounts, 2006–07: Achieving financial balance	HC 267
Twenty-fourth Report	The privatisation of QinetiQ	HC 151
Twenty-fifth Report	The cancellation of Bicester Accommodation Centre	HC 316
Twenty-sixth Report	Caring for Vulnerable Babies: The reorganisation of neonatal services in England	HC 390
Twenty-seventh Report	DFID: Providing budget support to developing countries	HC 395
Twenty-eighth Report	Government preparations for digital switchover	HC 416
Twenty-ninth Report	A progress update in resolving the difficulties in administering the Single Payment Scheme in England	HC 285
First Special Report	The BBC's management of risk	HC 518
Second Special Report	Evasion of Vehicle Excise Duty	HC 557

# Oral evidence

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## Taken before the Committee of Public Accounts

on Wednesday 23 January 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Angela Browning  
Mr David Curry  
Mr Philip Dunne

Mr Austin Mitchell  
Geraldine Smith  
Mr Alan Williams  
Phil Wilson

**Sir John Bourn**, Comptroller and Auditor General, and **Mr Philip Gibby**, Director, National Audit Office, were in attendance.

**Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### A PROGRESS UPDATE IN RESOLVING THE DIFFICULTIES IN ADMINISTERING THE SINGLE PAYMENT SCHEME IN ENGLAND (HC 10)

*Witnesses:* **Mrs Helen Ghosh**, Permanent Secretary, Department for Environment, Food and Rural Affairs and **Mr Tony Cooper**, Interim Chief Executive, Rural Payments Agency, gave evidence.

**Q1 Chairman:** Good afternoon and welcome to the Committee of Public Accounts, where today we are considering the Comptroller and Auditor General's Report: *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*. We welcome Helen Ghosh, who is the Accounting Officer for the Department for Environment, Food and Rural Affairs; and Tony Cooper, who is Acting Chief Executive of the Rural Payments Agency. I think this is your first hearing, Mr Cooper on this; am I right in saying that?

**Mr Cooper:** I came to the one in October.

**Q2 Chairman:** Okay. Perhaps I could start with you, Mr Cooper. In December 2007, if you look at paragraph 7, on page 5, apparently you still did not have any idea whether the payments made for the 2005 and 2006 Schemes were right or not. That was in December 2007 and we are talking about payments made for 2005 and 2006; is that right?

**Mr Cooper:** We have done a lot of work to make sure that on the basis of the 2005 and 2006 Schemes that payments are correct, and that rolls forward into the payments that we are making for the 2007 Scheme.

**Q3 Chairman:** I am sure you have done a lot of work. Apparently, an officer from the National Audit Office suggested to you that you produce a memorandum for this Committee which could have informed us whether the payments made for 2005 and 2006 Schemes were right or not. I think I am right in saying that no memorandum has appeared?

**Mr Cooper:** We have not been able to provide the information yet.

**Q4 Chairman:** Why not?

**Mr Cooper:** The analysis that has been done has not yet come up with figures that are accurate.

**Q5 Chairman:** When is it going to be done?

**Mr Cooper:** Work is currently going on to resolve the questions over the—

**Q6 Chairman:** I am sorry, Mrs Ghosh, this is not good enough. This is the Committee of Public Accounts and this is a very serious matter. We are now talking about payments made a very considerable time ago. What I suspect is that this review will actually show up very large amounts of mistakes and it is in your interests that this information is not made available to this Committee.

**Mrs Ghosh:** I am very happy, Chairman, to volunteer the information to the Committee as soon as possible, which I think will be a matter of weeks rather than any longer than that. It is actually a very complex issue because it is an inter-relationship, in terms of checking the entitlements of individual farmers, the impact on accuracy of the partial payments we made at the time, and the fact that because of the much-discussed with this Committee problems with the IT system there were changes made manually. All of that produces a set of errors some of which amount to overpayments, some of which amount to underpayments, as the Report itself finds, for a complex set of reasons, but I entirely understand, and I can assure you we are not seeking to hide anything. We just do not want to give the Committee something that is inaccurate. When we have taken those figures to our Minister we will guarantee that we will give you a note on what are the latest and best figures we have on it.<sup>1</sup>

**Q7 Chairman:** When do you think that note might turn up?

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<sup>1</sup> Ev 16

## DEFRA and Rural Payments Agency

**Mrs Ghosh:** What would you say, Tony?

**Mr Cooper:** I think it is going to be two or three weeks before we can get to figures that are reliable.

**Mrs Ghosh:** So if we could set a three-week target and commit ourselves to that, we would be happy to do so.

**Q8 Chairman:** Normally permanent secretaries undertake to deliver the note in two weeks. I will give you three weeks, fair enough—

**Mrs Ghosh:** Splendid, thank you.

**Q9 Chairman:** But we want to have it as part of our Report. Why does it need to go to the Minister, by the way; it is just a factual statement?

**Mrs Ghosh:** It is indeed a factual statement, however there are issues which we have started to discuss—and we are happy to share this with the Committee—about when you have identified what the levels of overpayment are by groups of customer, what your strategy is for recovery. On the one hand, clearly in terms of Europe, and indeed the taxpayer, we have a responsibility to get the money back. Equally, we are extremely concerned and keen that we minimise the impact on customers. I think it is true to say from the initial work that we have done, that the proportion of customers who, for example, have been significantly overpaid looks quite small. It is in the 80%<sup>2</sup> of people who look as though they are going to have overpayments of less than £1,000, so I do not think, except in some exceptional cases, we are talking about large repayments to a large number of farmers, but clearly ministers have a real interest in how we now move forward to get the money back, as I know the Committee will have.

**Chairman:** I want to ask about overpayments in a moment but unfortunately we will have to break for a division.

*The Committee suspended from 3.37 pm to 3.43 pm for a division in the House.*

**Q10 Chairman:** We are quorate now so I think we shall start again and, Mrs Ghosh, you were starting to talk about overpayments.

**Mrs Ghosh:** Yes and the nature of recovery.

**Q11 Chairman:** And the nature of recovery. If we look for instance at figure 2, in paragraph 2.9, which you can find on page 11, which deals with overpayments, this is just for one period, I think it is August 2006, and I was very surprised when I saw this figure because there were six overpayments of between £100,000 and £290,000. I was staggered by how so much money could be made in overpayments and how it could still not be claimed back. Presumably these are not poor struggling family farmers, they are agri-businesses and they have been sitting on over £100,000 for all this time, and this is only for one month, so presumably there are many more businesses sitting on a lot more money which has not yet been claimed back?

<sup>2</sup> Note by witness: Further work has identified that some 70%, rather than 80%, of overpayments are for less than £1,000.

**Mrs Ghosh:** I will hand over to Tony but there was a particularly bad run where, among other things, we had paid people twice.<sup>3</sup> I believe it is the case that all of those people know the position and we have arrangements, but I will hand over to Tony on that.

**Mr Cooper:** This was something that happened about eight weeks after I arrived. Our priority was to make payments, and in an effort to release payments to farmers who had not had a payment, there was a change made to the IT system, and the consequences of that change clearly had not been fully tested and resulted in, in effect, double payments being made to this set of people. We telephoned the ones that were the highest overpayments and we wrote to the others to alert them, so they all know about it.

**Q12 Chairman:** Can I stop you there. My personal view is that we should know as well, the public should know, and I would ask you to provide us with a note of what these businesses are that are receiving these overpayments and have been sitting on this money for so long.<sup>4</sup>

**Mr Cooper:** That information is available.

**Q13 Chairman:** I think we should know what is going on.

**Mrs Ghosh:** Certainly.

**Q14 Chairman:** Let us move on from overpayments now. We know that apparently at the moment 61% of farmers are satisfied. That still leaves a considerable proportion that are not. How do you intend to increase the farmers' satisfaction with your outfit? It may of course have been altered by the lowering of expectations that you have even achieved 61%. It is not necessarily a good figure.

**Mr Cooper:** I recognise that we are starting from a low base. We had a number of difficulties, as you are very familiar with. The arrangements that we are putting in place, we declared the intention to provide a case worker for every claimant that we deal with, and we have done that. What we have not done is actually supported the processors with the tools they need to be able to provide the sort of service that we would like to provide. There are two things that I think really wind farmers up. One is the timing of payment and the other is our ability to give them answers to their questions. On the timing of payment, we are clearly getting better at that and payments are flowing now for this year. On answering their questions, then I would accept that we are not yet doing a good job at that. We are training people, we are giving them the relevant experience and providing them with better tools that they will need, but there are still shortcomings and there are still things we need to do, and I think recovering the sort of service that we need to give farmers and improving that is going to take a period of time; it is not going to happen overnight.

<sup>3</sup> Note by witness: In practice, there would not have been two payments, but a single one for roughly double the amount that was properly due.

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**Q15 Chairman:** We know, Mr Cooper, that your recovery plan is going to cost us £40 million. That is what is already estimated. Can you give us a reassurance that it will not cost more than that? This is the recovery plan of £40 million mentioned in paragraph 4.6, on top of the £250 million that you have already spent.

**Mr Cooper:** The £40 million is an additional investment to improve the way we work, the case workers' arrangements, and also to upgrade the IT solution, to modify it to make it support case workers as opposed to task-based working. Significant investment has already been made out of that £40 million and some of the benefits are starting to come through now.

**Q16 Chairman:** This is all very interesting but I did not actually ask that question. I wanted a reassurance from you that we are not going to be asked to spend any more than the £40 million.

**Mr Cooper:** We have no plans. The £40 million is spread over three years.

**Q17 Chairman:** Of course this is on top of the £250 million?

**Mr Cooper:** Yes.

**Q18 Chairman:** I think that this is an extraordinary state of affairs. You have handed out £300 million,<sup>5</sup> if my calculations are right, to just 120,000 farmers. That is just £2,500 per farmer. You have 4,000 people in this agency, and from paragraph 3.8 we know that 2,000 are just doing this work and no other, so 2,000 full-time officials are handing out £2,500 to 120,000 people. It is staggering non-value for money, is it not? It would have been a lot better if you had paid each farmer £3,000 or £4,000 and just got on with it, frankly, would it not.

**Mrs Ghosh:** You quote in the Report the question of the value for money of the current arrangements, and I think Tony and I would completely agree that although the value for money is getting much better, there is more value for money to be achieved.

**Q19 Chairman:** You can say that again.

**Mrs Ghosh:** If Tony represents the demand side in terms of investment and improvement, I represent the supply side. We are not planning in our CSR07 spend to spend any more than the money we have already given him and there are a number of other priorities. The greatest reassurance we can take, as Tony said, is that the system is now working and we are now at the stage of having paid 80,000 of our 106,000 applicants. We have already paid them this year, which shows how far the system has improved. I am in danger of using a technical phrase but we will also be able to give them "definitive entitlements" and therefore we will have worked to clear out the problems with old data. Tony said we started from a low base. We are at a much higher base now and we can really work to drive through the value for

money, including for example things like e-channels which again will get far more value for money out of the system.

**Q20 Chairman:** Sorry, but none of that negates what I am putting to you, that you employ 2,000 full-time people to hand out to just 120,000 people £2,500. One of the reasons why you got into this appalling mess is that you made the scheme much more complicated than other countries. Have you learned about what other countries have done? I think Finland is mentioned in this Report. We can read about Finland and Germany in paragraph 3.4 and I specifically asked the NAO in a follow-up question to look at benchmarking across Europe. It says: "However in Germany and Finland, the dynamic element will not be achieved until 2010 and 2011 respectively." You could have had a much simpler system.

**Mrs Ghosh:** Indeed, and we discussed with the Committee when we came in October of the year before last why ministers took the decision that they took then to move straight to the dynamic hybrid system and the fact, indeed, that had they known the challenges in the Agency they might well not have done so. The comparator there with Finland and Germany is effectively at the moment with countries operating a static hybrid scheme. We have clearly got a long way to go to catch up with them, but I hope that evidence we have got of the improvement in payment rate and accuracy shows that we have invested in the right way and that we are going in the right direction.

**Q21 Chairman:** Mr Cooper, we were astonished that your predecessor seemed to have very little contact with the Permanent Secretary and virtually no contact with the Secretary of State so, Mrs Ghosh, are you meeting Mr Cooper?

**Mrs Ghosh:** As you know from the Report, we have set up a different and much more streamlined governance arrangement. Mr Cooper reports directly to the Director General of the Food and Farming Group, who obviously reports to me. The Director General of the Food and Farming Group chairs the Oversight Committee for the Agency, which again gets a very positive write-up in the NAO Report. Tony and I have regular catch-up meetings. Until last summer I was having monthly or six-weekly meetings with the European Head of Accenture to make sure the IT was being provided appropriately, and Tony very regularly meets both with Jeff Rooker and with Hilary Benn, so I think the visibility of the Chief Executive and a much clearer governance arrangement is proving its worth.

**Chairman:** Thank you. David Curry?

**Q22 Mr Curry:** Mrs Ghosh, you have just said something really quite interesting. You said that had the Minister at the time known the challenge—

<sup>5</sup> Note by witness: We are unclear how the £300 million figure has been arrived at. Net annual payments in England under the SPS total in the region of £1.5 billion.

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*Mrs Ghosh:* --- Had she known, yes.

**Q23 Mr Curry:** --- which implementing a very complex scheme in year one would have posed, she might not have done it. You make it sound as if it is entirely reasonable that the Minister would not know of the situation in the Agency which is charged with delivering the policy. That is rather extraordinary, is it not? She should have known and if she did not she was incompetent and took silly decisions.

*Mrs Ghosh:* The findings of the NAO's last Report, and indeed at the hearing, reached the conclusion that the Agency had not itself recognised the problems that they were facing. As you know, until the very last minute, indeed once payments had started to be made, they believed they would be able to achieve the deadlines that ministers had set. I think the lessons that this Committee and the NAO set out in their earlier Reports demonstrated that the capacity of the organisation to advise ministers—and I think we put them right—and indeed the connection between the policy and operations in the Department meant that ministers were being told it was possible when it was not in fact possible. The point I am making is that had ministers at the time been told it was effectively impossible—and I think it is very difficult to discuss counter-factuals—they may have made a different decision, had they known the difficulty.

**Q24 Mr Curry:** Right. Are you an aficionado of the Oxford Farming Conference?

*Mrs Ghosh:* I did not go this year but I have been for the last two years.

**Q25 Mr Curry:** I ask you the question, and this might sound slightly curious, because over the last few weeks when I have met senior people from the agricultural industry—Oxford is far too grand for me so I very rarely go—they report musings which they attribute to you: “Is there any point at all in supporting a British livestock industry?” They do not say this as if it is some irony or joke. Knowing the state of the industry and some of the difficulties it has been through, they actually do think that the Government has more or less confirmed it would be a good idea to wind it down. This is a very good occasion for you to be able to dispel any illusion they may have.

*Mrs Ghosh:* I absolutely deny that.

**Q26 Mr Curry:** But you are clearly familiar with it?

*Mrs Ghosh:* I am entirely familiar with it and I was completely and utterly baffled by it. I could not think where the idea had come from. It certainly had not come from me. The answer I gave at the time, and I would give to the Committee, is if the farming community believes that Defra does not support farming as an industry, I think it simply has to look at our record: the amount of people we have within the core department and in our agencies working with and alongside the farming community; the amount of money we put into research; the commitment we have made to follow up Don Curry;

the work over the years, for example, on getting British beef back in the European market following BSE, hundreds and hundreds of millions of pounds, hours and hours of negotiating in Europe. Many of my best brains work on the food and farming side. I think it is one of those cases where it may be that some members of the farming community are out of sympathy with the policies of the Government in areas of farming. I think the idea that Defra is not committed to the success of the farming industry is mad.

**Q27 Mr Curry:** Well, I am delighted that you have had the opportunity to state that.

*Mrs Ghosh:* I am delighted too.

**Q28 Mr Curry:** I think your analysis of the reasons may be accurate as well, if I may say so, particularly when it comes to things like NVZs. Mr Cooper, there are a couple of things for you. I am sorry they are both slightly technical but they are very important. I do not expect you to answer this now but I would like you to collect the information and give me a substantive answer. It is to do with the treatment of people who farm on common land. There is a real problem here. There are thousands of acres which are subject to historic grazing rights. The problem is that the methodology that you have for allocating entitlement to tenant farmers is causing huge consternation and appears to be ignoring established practice under the old IACS system. Let me illustrate what I mean. In my constituency I have the Chatsworth estate, and what happened there was that the agents for the Duke of Devonshire confirmed the grazing rights he had agreed with the tenants to the Government Office. The tenants themselves are now being required to notify them and the RPA is refusing to recognise these rights and will not accept confirmation by the agents of the Chatsworth estate. That means that some tenants now find themselves entirely denied the right to the Single Farm Payment despite the fact they have enjoyed the right historically. Secondly, it has always been historical practice on the moor to remove sheep for periods of the year for environmental purposes and for management—lambing and tupping for example. This was recognised previously. The RPA has now decided that there should be no entitlement unless the sheep are on the moors for a continuous 10-month period. Not only does this deny sensible environmental and management practices but the Government's own environmental stewardship schemes require sheep to be removed off the moor. Finally, the RPA is applying a ratio between cattle and sheep to calculate livestock units which is entirely different to the ratio used in the 1965 Commons Registration Act, which is the basis for management of the uplands. We do need to sort some sensible pragmatic way out of this, do we not?

*Mr Cooper:* We do.

**Q29 Mr Curry:** I would be very happy, if you could assemble your experts, I will bring just one, and let us try and thrash it out. I have tried to talk to the

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Minister but I think the Minister is so surprised at being reappointed that he has not really recovered from the shock! We do need to sort this one out; can we do so?

**Mr Cooper:** I would be very happy to meet and have that discussion. It has already been raised with me.

**Q30 Chairman:** No, I do not want meetings and all the rest of it. This is formal evidence so you either give the answer now or you give a formal note.

**Mr Cooper:** If I could respond formally.<sup>6</sup>

**Mr Curry:** I am sure the Chairman would love to have a formal note.

**Chairman:** You can have a meeting as well.

**Q31 Mr Curry:** That would be a very good basis on which to have a meeting. Can I ask you another question, Mr Cooper, and this is about the way you deal with farmers. I am sorry to bring individual cases but individual cases are sometimes emblematic of what is happening. There is a farmer in my constituency called Mr Tennant and he appealed. He had an appeal because you accepted that it was under the "obvious error" provisions. The appeal was accepted and he was delighted; he thought it was very reasonable. Two months later, without any explanation, the agent got a phone call to say the appeal had been reversed. No explanation, no documents, absolutely nothing, and there has been no progress in trying to get any explanation for it. This is not reasonable. When there is a formal appeal procedure, and a man has been through the appeal procedure and the appeal procedure has found him right; that has got to stand. He cannot expect a phone call two months later saying, "Sorry chaps, we got it wrong." I am prepared to give you the details and I am sure the Chairman would love it as an illustration for the record.

**Mr Cooper:** If I can respond because I am aware of the situation. I am extremely disappointed that it reached the stage one appeal. When it reaches that stage it is normally considered very, very carefully and a conclusion is drawn, and I was surprised when I learned that the decision had been reversed. In principle, though, you would expect us to change a decision if we find that we have made an error in that judgment on the decision. Sometimes it benefits farmers; sometimes it does not.

**Q32 Mr Curry:** But you would not expect an interval of two months?

**Mr Cooper:** I would not and I certainly would not normally expect it of the very experienced people that I have working on the appeals.

**Q33 Mr Curry:** We will pursue that. Can I ask finally, because I suspect the Chairman is about to send one of his *billet-doux* around, last year now, as you know we had a couple of circumstances of foot and mouth disease and Bluetongue. I am not yet aware that those may have an impact upon the ability of farmers to fulfil the requirements to be eligible for payments. Could we have your assurance

that even though this was limited (although we have a horrible feeling that Bluetongue is going to be around) that you will be able to respond sympathetically and in an informed way where farmers through no fault of their own have not been able to meet conditions which they would normally meet simply because of restrictions imposed by Bluetongue and foot and mouth disease.

**Mr Cooper:** Believe it or not, we try and interpret all the regulations as sympathetically as possible.

**Q34 Mr Curry:** I represent North Yorkshire, and foot and mouth disease was in Surrey and Bluetongue was in Suffolk, if I remember rightly, and yet agricultural activity in North Yorkshire was virtually brought to a halt, predominantly because of a Bluetongue zone which meant that you could not have all the normal movements from upland to lowland, which effectively ground to a halt.

**Mrs Ghosh:** As Members will know, ministers have been extremely sympathetic in terms of arranging for the impact of floods and indeed the impact of animal disease. We have to operate within European rules so there comes a point where we cannot be as flexible as we might want to be. As Tony says, we try to interpret the rules flexibly.

**Q35 Geraldine Smith:** Speaking of European rules, do they allow in exceptional circumstances for Single Farm Payments to be made earlier? I understand that on 19 October there were European countries that were eligible to access payments because of exceptional circumstances.

**Mr Cooper:** There was a provision to make advanced payments in that period. I think only two Member States took advantage of that. We were not in a position to do that, we had not validated the claims, and it is a requirement that you take a claim to a certain point in validation before making the advance payment.

**Q36 Geraldine Smith:** Because we certainly did have exceptional circumstances: we had foot and mouth, Bluetongue and flooding over the summer, so I think farmers in a lot of areas were in dire straits and would have appreciated being able to access that money earlier. Who was responsible for that failure then because of the claims?

**Mrs Ghosh:** Can I dip in. I do not think there was any failure. As the Report I think makes very clear, we are now beginning to start payments (although the 2008 Scheme will be better a regular cycle of application by the farmers; checks and validation by the Agency; and payments) and clearly we started making payments this year in December, and we are well advanced now. We will be looking next year to get (I hope) to a stable position so that farmers will have year-on-year predictability. It was not a failure; it was just not something that was built into the cycle of checks that we had established, as Tony says. We would have lost a great deal of taxpayers' money, probably more than we were paying out in terms of risk to the fund, if we had started making payments in the October. There is no failure; it just was not something that was predicted in the cycle of work

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that the Agency was doing. Of course the Government did make a payment of £12.5 million very successfully through the Agency to hill farmers specifically to help meet some of the impact of foot and mouth and also made special arrangements to people in the most stressed areas in terms of movements of fallen stock; so we did things.

**Q37 Geraldine Smith:** Mr Cooper, I think you have had a positive influence and things are beginning to move now, so I appreciate that, but farmers are very sceptical and they need their confidence restored. They have been through some horrendous stories with the Single Payment. Are you confident that you are sure you know where all the overpayments are now?

**Mr Cooper:** I am on an individual claim basis. I am not when I am trying to roll it up to an overall figure to give to the Committee. We have to send out entitlement statements as part of the payments of 2007 and we have sent out 63,000 of those and we have had very, very little comeback in terms of people saying, "You have still got it wrong," so that, again, gives me a degree of confidence. We have spent a huge amount of time and effort and resources in making sure that the entitlements are correct, and that is the basis on which the payments are made. We are almost at a point where we have caught up on what happened in 2005 and 2006, and therefore I am much more confident that what we are paying is accurate and that we are in a position now to move forward with improvements and attend to the shortcomings of the service that we give.

**Q38 Geraldine Smith:** What percentage of payments have been made already? I think you did mention that.

**Mrs Ghosh:** We have paid to 80,000 claimants, which is out of 106,000, so slightly less than 80% of claimants have received their payment. It is about 60% of the fund because obviously if some of the larger payments are yet to go out—and they often are later to go out because they are more complicated—the two percentages are not entirely accurate.<sup>7</sup>

**Q39 Geraldine Smith:** I know of some farmers in my constituency that have received the payment. Can I be confident that all farmers in the constituency will have received it? Do you work by regions or areas?

**Mrs Ghosh:** I will hand over to Tony but we work by types of payment. Clearly we focus on—and this was discussed by the Committee before—not the smallest payments but the middle-sized payments, in the sense the people who need the money most in terms of their cash flow. It does not necessarily mean that everybody in a single region will have got payments. The target we have set Tony, and we have said publicly, is to have all payments by the end of March.

**Mr Cooper:** It is to have paid 75% by March and 90% by the end of May.

**Mrs Ghosh:** Thank you, sorry.

**Q40 Geraldine Smith:** One of the problems you can have is farmers at market where whoever has got the money is king and they can buy the animals, and the people who are still waiting for their payment may be in dire straits with cash flow problems so they may have to sell their animals cheaply, so it makes a huge difference that there is some equality here.

**Mrs Ghosh:** Indeed, and what we need to get into here is a regular and predictable flow. The people who have now had their payments this year have had them, on the whole, less than 12 months after they received their payment last year. We were obviously later than we would have wished last year, so in cash flow terms they have benefited. What we need to do is to get to a stage where we have a regular 12-month process so that it is predictable. Did you want to say something about the order in which we pay?

**Mr Cooper:** Only to say that we take much longer to process a complex, high-value claim. It does take a number of months to process that claim. We actually start work on all claims but we do give priority to some. Obviously if it is a stress case we have to give priority to that, but we also give priority—or we have done this year—to SPS claims that have a link to Hill Farm Allowance, on the basis that they cannot be paid Hill Farm Allowance until we have cleared the SPS claim. We have also tried to address things like on commons because again we know where the bottlenecks are now, and by clearing that sort of work we can then unblock other payments that are due to people.

**Q41 Geraldine Smith:** If I rang your office, would you be able to tell me approximately when a constituent will be paid and how long it would take?

**Mr Cooper:** At this stage we would now be able to tell how much work is outstanding and the nature of the work that is outstanding.

**Q42 Geraldine Smith:** Would you be able to say for example, "Oh, that will be paid in the middle of February," or, "That will be paid by . . ."

**Mr Cooper:** When Mrs Ghosh describes the ability for the Agency to be more predictable in its performance, then I would be very cautious about giving a date.

**Q43 Geraldine Smith:** Can you not appreciate the problems that that causes to farmers then because cash flow is so important to them? If even an MP rings up and is told, "We really do not know when that claim is going to be processed", I do not think that is good enough.

**Mrs Ghosh:** That is one of the elements of the recovery plan and some of the IT investment we are putting in. As Tony said at the beginning, they do not yet have but they are rapidly developing the tools to provide that kind of customer service so they can see the end-to-end case, and that is one of the forthcoming IT changes.

<sup>7</sup> Note by witness: Latest figures as at 11 February show that 88,967 claimants (83.4%) under the 2007 SPS had received some £1.026 billion (70.8%)

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**Q44 Geraldine Smith:** When can our farmers expect the same quality of service that people get in Wales, in Scotland, in Germany? When can they expect that standard of service?

**Mr Cooper:** We would hope that in the scheme year of 2008 that we will deliver a service where we can be much more confident about the timing of payments and much more confident about the ability to express if there is work outstanding what is the work that needs to be done.

**Q45 Geraldine Smith:** Going back to the complexity of the scheme, that seems to have been a major problem, do you feel that you have got to grips with that? Do you feel that farmers know if they have been overpaid, because the scheme is so complex to start with?

**Mr Cooper:** The experience I have had is that farmers do tend to know how much they should expect and they are pretty quick to tell us when we have got it wrong. We need to speed up the process of making sure that that payment is then corrected.

**Q46 Geraldine Smith:** What sort of arrangements do you make to deal with hardship? If someone has received an overpayment and they think they have got more money than they have, they spend it.

**Mrs Ghosh:** Yes, and indeed we can be flexible, although we have to keep within the European rules and clearly we need to make sure, particularly with NAO colleagues sitting here, that we protect the funds. We have to make reasonable efforts to get overpayments reclaimed but we have a variety of different ways of doing it. We can offer people to be netted off their next year's payment, we can offer repayment over periods of time, or one-off cheques, and we take into account things like harvest times and the more sensitive customers such as people receiving the Hill Farm Allowance. We have got a good range of discretions which we can use. We can just write off very small overpayments for example.

**Q47 Geraldine Smith:** Mr Cooper, what other things can you do to restore confidence within the farming community? It really has been so severely dented with what has taken place in the past.

**Mr Cooper:** I think achieving payments in a shorter time-frame than we have been able to do in the past is going to restore confidence, and providing information to them that is accurate, and on the telephone being able to answer their questions, is the sort of thing that is going to restore their confidence.

**Geraldine Smith:** I sincerely hope you do that.

**Q48 Mr Dunne:** Mrs Ghosh, you were appointed to your present role in November 2005.

**Mrs Ghosh:** Yes.

**Q49 Mr Dunne:** And Mr Cooper bravely took up the poisoned chalice of his role in May 2006. I see from the introduction to the agenda for this session that Mr Cooper is still described as the "Interim" Chief Executive. Could you explain why that is and when you are intending to put the poor man out of his misery and give him a proper job?

**Mrs Ghosh:** I hasten to add he is receiving a proper salary! This is to do with the arcane rules about Civil Service appointments. At the time when Johnson McNeil left the organisation, as you know, Mark Addison stepped in and did a lot of the groundwork on which Tony then built. I was extremely keen to get the recovery programme going quickly and to appoint someone who had very good operational experience, so rather than go through the whole process that is required under Civil Service Commissioners' rules, I had informal discussion with colleagues across Whitehall and we identified Tony. It is only because he has not gone through a formal and open competition that I cannot call him the Chief Executive because the Civil Service rules do not allow it. We are going to be launching a proper competition in a month's time or so and I very much hope that Tony will apply, but that is obviously for him to decide.

**Q50 Mr Dunne:** Should you not have considered doing that a little earlier? It will be some two years that he has been in this limbo, and you are not starting a proper process for another month.

**Mrs Ghosh:** I have to say he has not behaved like a man who is in limbo, and I think the improvements he has brought about in the Agency show that he has been entirely committed to success. I think it is a technicality rather than in any way having affected the substance.

**Mr Dunne:** Mr Cooper, we see from the Report at paragraph 2.4 that you have completed all bar 24 outstanding claims for 2005, and those were all held up by probate and the equivalent. I am pleased to say that the final payment to a farmer in my constituency was made, I believe, in November last year. I should just remind the Committee, Chairman, that I am a recipient of Single Payment and that would be declared in the Register of Interests.

**Mr Bacon:** Well, it would be if they had paid it!

**Q51 Mr Dunne:** In paragraph 3.3 it refers to 115 farmers who have still received no payment from the 2006 year. Could you please update us with where you are, both on the 2005 and 2006 cases?

**Mr Cooper:** For 2005, there are still nine cases that have not been paid, with a total value of the order of £70,000. Eight of those are in probate and there is one that has a legal issue which we are working through. The eight in probate obviously have to wait until we can include those cases. For 2006, we now have 76 cases that have yet to be paid. There are 53 in probate and we are working through the balance, with a total value of about £300,000. We have ten of those cases that are ready for payment which will be made in the next couple of weeks.

**Q52 Mr Dunne:** Thank you. In answer to Geraldine Smith's questions, I think you indicated in relation to 2007 that you currently expect to pay 75% by March 2008 and 90% by May 2008. Did you indicate to the farming community that you would be making payments from as early as January 2008? Have you made any such payments yet for 2007?

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**Mr Cooper:** We have made those payments. The targets we have are published and obviously we try and do better than those targets. Thus far we have made payments; we have paid in value just under 60% of the fund's value.

**Q53 Mr Dunne:** In terms of numbers of farms, do you have a percentage for that so far?

**Mrs Ghosh:** It is the 80,000 figure that I mentioned. 80,000 claimants have already received their payment.

**Q54 Mr Dunne:** For 2007?

**Mrs Ghosh:** For 2007.

**Q55 Mr Dunne:** What is your target for 2008 and your work planning in terms of getting payments made, because it seems that it has taken you three years to get to a position, which remains worse, in terms of the payment cycle, than when you started this whole process? I well remember that it was expected under the old system that everybody would be paid within the year, ie before the end of December in the year for which payments were made, and you require information I think by May in order to make payments. It seems quite inexplicable that it could still be taking more than six months to process these claims.

**Mr Cooper:** We have to achieve this year's target first of course, but the next stage will be to agree targets, and we do not agree them until late February. The process of agreeing them requires us to make our estimate of what is going to be possible. We will be in a better position than this year so we would expect to see further improvements, and our endeavour will always be to pay as quickly as possible.

**Q56 Mr Dunne:** You have to agree it with whom?

**Mr Cooper:** We have to agree targets formally with ministers before they are published in the April business plan.

**Q57 Mr Dunne:** Are ministers not setting you a target of seeking to get payment within the year?

**Mr Cooper:** The approach that we take is to offer first of all what we believe is achievable, based on some evidence of productivity, of our capability, and other aspects of work that have to be completed.

**Q58 Mr Dunne:** Is it an unreasonable expectation for you to get your organisation sufficiently efficient to be able to pay within a year, as many other countries, as we have heard are doing already?

**Mrs Ghosh:** If I can come in, Tony. Ministers have consistently taken the view that they need to give coherent, consistent and reliable messages to the farming community as customers. I think what they have done consistently is announced to Parliament what they regard as realistic and achievable targets for payment dates, because setting unrealistic targets which we then fail to meet, in terms of the impact on small businesses, would be far more damaging. Every year they have set Tony a more challenging target and when we have looked at 2007

performance my policy team, working with Tony, will make recommendations on how far that could be further improved for 2008. Obviously, again, they have to consider value-for-money issues in terms of how much better performance we can afford in terms of the overall budget of the Department.

**Q59 Mr Dunne:** I urge you to look at setting a target for December 2008 for payment for 2008. You raise value for money and that takes me on to paragraph 3.9 where it says the Hunter review estimates that the average cost for processing the 2005 claims was £750. Does it strike you as acceptable that some 42,000 claims were for less than the cost of the administration of the claim for that year, roughly 36% of all claimants?

**Mrs Ghosh:** I will ask Tony to talk about the value-for-money point. As I said earlier, of course we are trying to improve value for money. Nonetheless, we do have to operate within a scheme which gives entitlements, and obviously this is an issue that may arise in the CAP health check later this year, down to very small amounts of money. I would have thought it is almost impossible for some of those payments to be made at less than the cost of administration. I think there will always be cases where it costs us more to pay the money to the claimant than the amount of the Single Payment that they get. Nonetheless, we are trying to drive it down.

**Q60 Mr Dunne:** Mrs Ghosh, that was because the Department decided that you would have a minimum payment of zero, and you would not have a cut-off threshold that many other countries decided to adopt, so you have set that rod for your own back.

**Mrs Ghosh:** But even so, at any realistic cut-off point, it may be that until we significantly improve our efficiency that it costs you more to make the payment than the entitlement that the farmer has, but Tony knows more in detail about the value-for-money issues.

**Mr Cooper:** The smaller claims tend to be the easier claims to process, and where a claim has few changes from the previous year, then the opportunities for us to automate that processing and therefore reduce those costs come to the fore. The costs that were identified by David Hunter for the last year are probably higher, and the costs are higher because, in effect, we have been processing more than one scheme year in the one period. We have been correcting 2005, we have been paying 2006, and we have also been paying 2007. If I give an example, my staffing in the middle of the year, when it peaked, was 4,600 people. We were working overtime and we had shift working in all of my sites. At this point in time we have about 4,200 people, there is very focused and limited overtime in the sites, and there is only one site now that has any shift working, so what you will see is the costs coming down.

**Q61 Mr Dunne:** Do you anticipate that to come down much more rapidly over the present year as all the problems of the past are put behind you?

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**Mr Cooper:** I would expect them to continue. Our target is to reduce to 3,500 staff in the year 2010.

**Q62 Mr Dunne:** Thank you. A final question, if I may, is in relation to the EU fine. I have been trying to work my way through the paragraph on page 12 and 13 to understand what the total fine is going to be. I would ask you, Mrs Ghosh, if you would just clarify for us where we are in terms of discussions with the EU, how much you are expecting you are going to have to be paying and, more significantly, what impact that is having on your budgets, not only in this Agency but across the Department for the current year and the next year.

**Mrs Ghosh:** Certainly and I shall try not to get deep into the—

**Q63 Mr Dunne:** Perhaps you could write a note if you cannot answer now.

**Mrs Ghosh:** No, I was going to say there are very complex issues here about near cash and non cash, which Treasury colleagues would be able to explain in more detail. The overall picture is this: in our 2005–6 and 2006–07 accounts we have made provision for around £220 million disallowance in relation to the Single Payment Scheme. The total provision for EU disallowance is about £348 million but that relates to a number of other schemes like the Fruit and Vegetable scheme. We have no indication from the EU yet in relation to disallowance for the SPS as to what the final figure may be. The figures we have put in our accounts as provision are our best estimate, based on recent experience, so for example the kind of response they have made to issues around pre-SPS on satellite audit.<sup>8</sup> That is our best estimate of the overall cost, but we, as yet, have had no indication from the Commission as to what the actual disallowance will be. Looking forward into CSR07 we have done two things. First of all, the Treasury has given us a ring-fenced figure of around £270 million. This is against the overall disallowance of £348 million, not just the £220 million that relates to the SPS. We are also making provision, when we think about our budgets for the three years, for the difference, which is £78 million. Depending on the outcome—and clearly we shall argue the case right up to the courts to minimise the disallowance (but we have to provide for realism in thinking about our spending in the period)—we are looking at an impact of around £78 million on the rest of our budgets, because we have got ring-fenced money from the Treasury which, if it turns out not to be needed, it will simply go back to the Treasury, and we have to finance the difference from the rest of our budgets.

**Q64 Chairman:** Mrs Ghosh, if we could have slightly shorter answers.

**Mrs Ghosh:** I am sorry, Chairman, it is a very complex picture. It is £78 million across the CSR07 period because we do not know when a final conclusion will be reached, so that is £78 million spread.

**Q65 Angela Browning:** I was very tempted to bring a bundle of case work, and in fact my case worker almost insisted on it, but I have resisted the temptation. Let us look at page 5, at the top of the page on the left-hand side and the bottom of paragraph 2 there is quite an emphatic statement here at the end of that paragraph. It says: “The Agency made a commitment . . .” and it goes on to say that it would “. . . implement its recovery plan by April 2008.” Mr Cooper, can you tell us today, hand on heart, that by April of this year, in three months’ time, you will have implemented that policy?

**Mr Cooper:** Can I tell you what I said at the time which was it would take 18 to 24 months to get the Agency into a stable position; that has now been turned into “by April 2008”. Will we have recovered sufficiently to be able to provide a stable service? I believe, yes. Will there still be room for improvement? Yes, indeed. My view is that we will get to the point in April where we can start to make sure that we are paying on time but also then start to address some of the other shortcomings of the organisation. We spoke earlier about overpayments and our ability to get the information—

**Q66 Angela Browning:** If I was asking you to reply in a yes or no answer, would it be yes or would it be no?

**Mr Cooper:** It would be yes to the extent it would get us to a certain point.

**Q67 Angela Browning:** Do not qualify it; just tell me yes or no.

**Mr Cooper:** There is further improvement to be made.

**Q68 Angela Browning:** Normally a commitment is a commitment, is it not; it is usually a yes or no.

**Mr Cooper:** It is. We will have achieved what we set out to achieve in the recovery plan by April.

**Q69 Angela Browning:** Can I move on to the final sentence there where the Department agreed to provide this extra £40 million to help the Agency recover and make changes to its IT and processes. In layman’s language, can you tell me what are the major changes you have made to your IT systems that will enable you to do this?

**Mr Cooper:** I suppose there are some big chunks. I have mentioned case working arrangements, and that has been a complex re-engineering of some of the way in which the systems have operated, so that is one aspect that has absorbed quite a lot of funds. An example is at the moment if a farmer phones up and says, “How much was I paid?” the processor is unable to tell them because they do not have the information in front of them.

<sup>8</sup> C&AG’s Report, *Department for Environment, Food and Rural Affairs, and the Rural Payments Agency: A progress update in resolving the difficulties in administering the Single Payment Scheme in England*, HC 10, p 13.

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**Q70 Angela Browning:** So have you had a lot of rewriting of software?

**Mr Cooper:** We have.

**Q71 Angela Browning:** And are you confident that that software now works and the system that the Government has devised?

**Mr Cooper:** We are. As I say, we have changed the system to make it do what we now require of it. The final piece of that in terms of the case working will be delivered in April of this year. The benefits will take time to roll through. In addition, we have put in place and addressed some of the recommendations that were made in the last Report around testing arrangements, about management information, and about putting in place what we call a “model office”, where we can bring together the people who are going to use the system, write procedures for the staff as well as the IT technicians, so when the system is introduced into the live environment to the users they are trained in it, they have got instructions on how to use it, as opposed to what was happening when I arrived, which was none of that.

**Q72 Angela Browning:** I will not take up the Committee’s time on this. From what you have told me it sounds very encouraging, but it does sound to me that within the Department there should be some major investigation as to how the initial software was commissioned, because it sounds to me as though whoever was responsible for that clearly did not do a good service either to the farmers we have heard about or in terms of value for money.

**Mrs Ghosh:** Indeed and, as we have discussed previously in the Committee, the issue was that Accenture as IT provider provided what the Agency asked for it, and it asked for a very rigid, task-based system which does not, as Tony has implied, fit with a customer-based system nor indeed have the flexibility to respond to policy changes. That is essentially the work that Tony has been leading to improve the IT.

**Q73 Angela Browning:** Right, thank you. Could we now turn to page 7 where the National Audit Office has been incredibly helpful to you in giving you at paragraph 17 a list of things that they feel would help you as specific recommendations. I hope you will understand that I have something else I want to ask you before my ten minutes is up, so could we canter through this, and I would be grateful—and I do not mind which one of you replies—to have a yes, no or maybe answer to this. Let us start: 17a?

**Mr Cooper:** We would agree.

**Q74 Angela Browning:** 17b?

**Mr Cooper:** We would agree.

**Q75 Angela Browning:** 17c?

**Mrs Ghosh:** Yes we agree, and there is the work that the policy link team into the Agency is doing, an excellent example in the sugar scheme, and obviously we are working very closely together on the CAP health check.

**Q76 Angela Browning:** Okay. 17d?

**Mr Cooper:** Agreed.

**Q77 Angela Browning:** 17e, and there are several sections in (e), let us take the first one, the off-the-shelf bespoke software?

**Mr Cooper:** We will do that wherever we can. There are very few off-the-shelf packages that will deliver the Single Payment Scheme.

**Q78 Angela Browning:** Okay. Off-line systems?

**Mr Cooper:** Agreed.

**Q79 Angela Browning:** Aligning the systems to business needs?

**Mr Cooper:** Agreed.

**Mrs Ghosh:** Yes.

**Q80 Angela Browning:** And ensure the system specifications retain their flexibility?

**Mr Cooper:** Yes.

**Q81 Angela Browning:** That sounds very encouraging. Will all that be in place by April 2008?

**Mr Cooper:** No.

**Q82 Angela Browning:** So when I asked about your commitment, is it that what the National Audit Office has picked up as recommendations, which you clearly agree with, are things you had not focused on as part of that commitment by 2008 until the National Audit Office helped you out with this very helpful page?

**Mr Cooper:** There is a combination. If I take the one about off-line databases. When I arrived, I think there were something of the order of 90 systems that were off the main IT system. We have moved some of that work onto the IT system and we will reduce that down. We now have about 13 and we have a plan where some of those will move—we have already moved some of them and some we do not need now—so I agree with it, but it cannot all happen in a very short space of time.

**Q83 Angela Browning:** If you were to come back this time next year those recommendations with which you have agreed would most likely be implemented?

**Mr Cooper:** Many of them would be progressed if not implemented.

**Mrs Ghosh:** The table on pages 24 and 25 of the Report is quite a useful summary of when the key changes will come through.

**Q84 Angela Browning:** Right, so you think you are going to meet that timetable?

**Mr Cooper:** I would expect to.

**Q85 Angela Browning:** Hope to, will do?

**Mrs Ghosh:** Expect to.

**Q86 Angela Browning:** Is this a commitment or is this an aspiration?

**Mr Cooper:** There are some unknowns in here. I am always cautious until we do the detailed work. We do not know what is going to come out of the

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changes from the CAP health check. There may be some significant changes which could put us slightly off-track on some of these changes that we are making.

**Q87 Angela Browning:** Let us move quickly to page 17. I think Mr Dunne asked you about this question of the Hunter review and the £750 average cost to process and you indicated that you hoped to drive that down. You have got a target for reducing the staff to 3,500 by 2010. What actually is your target in terms of the processing costs per application?

**Mr Cooper:** I do not have one. What we need to do is look at some benchmarking and arrive at a view. I could say that there should be a year-on-year reduction. One of the issues I face is that if the level of subsidy starts to fall or the number of customers starts to fall, then I may need fewer staff, but my overhead costs might continue to be high. I need to look at that and form a judgment on whether that would be a good measure or whether it should be a measure of a sum of money for every pound that we pay out on subsidy. There could be different measures which we would want to look at.

**Q88 Angela Browning:** You do not think it would be better to focus on a figure as a target in order for people to try and meet that target? It is very comfortable of you to say we hope it will be year-on-year reductions, but if you had actually gone into the detail of it and set a realistic target, it would be something that people would have some idea as to whether they were getting close to it or not. Would that not help drive down your costs?

**Mr Cooper:** It would potentially. One of the difficulties I have had is that there is a limited amount of understanding of what the Single Payment Scheme is and how it is administered and the consequences. You might expect us to know very clearly what our capacity is and what the end-to-end process is, but it has taken a long time to get to grips with that. We do not have a wealth of experience, for example, on productivity. How do you drive productivity? How do you arrive at it? I will set targets.

**Q89 Angela Browning:** I am sorry to be rude and interrupt you but my time is really up and I still have a last thing, and it concerns the fact that £1.45 million has been spent on overtime in order to get to where you are now from existing staff working in other sectors than just Single Farm Payment. Have you made any analysis of the impact departmentally on what it has meant to those other processes to take staff on that scale away from the work that they are doing?

**Mrs Ghosh:** In terms of achieving your other targets, I believe that it has had little or no impact.

**Mr Cooper:** All of the other services that we provide have been maintained at the level at which they were previously administered.

**Mr Curry:** It is obviously overmanned!

**Q90 Mr Bacon:** Mr Cooper, it says that you were Group Programme Director for the NHS Connecting for Health and also involved in the Pension Credit with DWP. From when until when were you in NHS Connecting for Health?

**Mr Cooper:** I was there for two years immediately prior to joining the RPA.

**Q91 Mr Bacon:** So from May 2004 until you joined the Agency?

**Mr Cooper:** That is right.

**Q92 Mr Bacon:** You got out, well done! As did Accenture, interestingly, they got out of the NHS IT as well but they are still the main consultant on this, is that right?

**Mr Cooper:** They are, that is right.

**Q93 Mr Bacon:** When it says on page 20 at paragraph 4.6 that: "The cost for the implementation of the recovery plan is estimated to be £40 million between 2007–08 and 2009–10", that is £40 million to Accenture, is it, or some of it is to Accenture? How much of it is to Accenture?

**Mr Cooper:** Some of it is to Accenture, so we—

**Q94 Mr Bacon:** How much?

**Mr Cooper:** In terms of total IT development activity we have now spent £79 million with them in total.

**Q95 Mr Bacon:** £79 million.

**Mr Cooper:** Since the contract was let in 2003.

**Q96 Mr Bacon:** £79 million since it started. How much more do you expect to spend with them up to and including this figure in paragraph 4.6?

**Mr Cooper:** I would need to give you a note on that.<sup>9</sup>

**Q97 Mr Bacon:** You do not know how much you are spending with your main IT contractor.

**Mr Cooper:** I do.

**Q98 Mr Bacon:** Or how much you are planning to spend.

**Mr Cooper:** Over the period of contract on IT development, in terms of contract we expect to spend about £120 million by 2010–11.

**Q99 Mr Bacon:** That is another £41 million on top of the £79 here.

**Mr Cooper:** Which will include some of that £40 million.

**Q100 Mr Bacon:** Since the gap between £79 million and £120 million is £41 million, and you are only spending part of this £40 million, where is the rest of it coming from, another pot?

**Mr Cooper:** No. One of the things that I did in the RPA was I brought together projects into a Projects Directorate and I also brought together the expenditure that was incurred in the organisation on various projects. There is an assumed level of

<sup>9</sup> Ev 17

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expenditure in various areas but I have been able to pool that money. The £40 million is an additional investment over and above what we had already planned. I think at the time it was assumed to be £15 million, from memory.

**Q101 Mr Bacon:** You are called the Rural Payments Agency, that was the name of the Agency from its inception, was it not?

**Mr Cooper:** It was, yes.

**Q102 Mr Bacon:** Presumably the main task of the Rural Payments Agency is to make payments and yet, as we just heard in answer to Geraldine Smith earlier, at the moment you are not able to tell farmers when they will get paid and you are also not able, because of the way in which the system was set up, “rigid” was the word Mrs Ghosh used, to tell any farmer who phones up how much they have been paid. Making payments is your core business, it is in the title of your Agency, and you cannot tell people when they are going to get paid and you cannot tell people how much you have paid them. You employed a consultant to help you design this system, a rigid system, that cannot do these things. Why then would you extend the contract?

**Mr Cooper:** The payment information goes out separately from the caseworker, so the caseworker takes a call and—

**Q103 Mr Bacon:** It sounds like the tearoom here where if you order scrambled eggs on toast, the scrambled egg comes from one place and the toast comes from another, they never arrive together.

**Mrs Ghosh:** They will come together.

**Q104 Mr Bacon:** They will downstairs if you ask in advance for them to come together, but they are not always both hot.

**Mrs Ghosh:** Part of the payments programme is that they should come together. Just to pick up that point, what we are now doing through a different kind of contract with Accenture from that which pertained to the build of the RITA system is genuinely to have the kind of partnership you describe. In other words, they work with us on the business process, they share the risk if they fail. Historically, on the RITA system the problem was there was not a real partnership, they were told what to do, they were not invited to comment, and they delivered—

**Q105 Mr Bacon:** How did you buy a consultancy from somebody on that basis?

**Mrs Ghosh:** We were not buying consultancy from them, we were buying an IT system from them.

**Q106 Mr Bacon:** They are one of the world’s major IT consulting firms. Whether you are buying IT systems or consultancy --- By the way, there are shelf loads of advice stretching back many years from the Audit Commission, the Cabinet Office’s own scrutiny unit when they had the Efficiency Unit years ago, and Sir John has published many reports on buying IT.

**Mrs Ghosh:** Yes.

**Q107 Mr Bacon:** How could you so late on as this recently buy an IT system? You went along and said, “Hello, we are from the Payments Agency, we want to make payments”. How did you buy an IT system that could not tell you about your payments?

**Mrs Ghosh:** Tony will tell you how we are taking forward.

**Q108 Mr Bacon:** That was not the question.

**Mrs Ghosh:** I am trying to avoid—

**Q109 Mr Bacon:** With respect, I sit here week after week and I listen to civil servants giving me answers to questions I did not ask. My question, had it been, “Will you ask Tony, Mr Cooper, to tell us how we are going to take this forward”, then I would have expected your answer to be, “I will tell Tony to tell you how we are going to take this forward”, but that was not the question. How can you create a payments system and buy a payments system from an IT contractor that does not tell you about your payments, that was my question?

**Mrs Ghosh:** The answer, I think, is contained in the NAO’s and this Committee’s previous Reports because the procurement of the IT system and the design of the business process was inadequate. That ground has been gone over both by this Committee and by the EFRA Select Committee. Looking forward we will bring the two things together.

**Mr Cooper:** During spring we expect the payment information to be available.

**Q110 Mr Bacon:** Mrs Browning asked about the £750 and I was going to ask if you had a target for reducing it and you have made it clear that you do not, and I agree with Mrs Browning it might be a useful figure. I would like to go back to what Mrs Ghosh said about ministers not realising this was a challenge. You said, Mrs Ghosh, “Ministers were being told it was possible when, in fact, it was impossible”. What you are basically saying is that ministers were being given duff advice.

**Mrs Ghosh:** Because of the capacity of the Agency to understand.

**Q111 Mr Bacon:** You are completing my sentence but could you just confirm that my sentence is correct, ministers were being given duff advice?

**Mrs Ghosh:** Yes, as I have said at the previous hearing.

**Q112 Mr Bacon:** Do you know how much pleasure I get out of hearing a civil servant say “Yes” when answering a question like that. Thank you very much.

**Mrs Ghosh:** I do know.

**Q113 Mr Bacon:** Great pleasure. Overpayments: I would like to ask about these payments the Chairman referred to on page 11. You said, Mrs Ghosh, “We can write off smaller payments”.

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*Mrs Ghosh:* Yes.

**Q114 Mr Bacon:** It says there on that particular payment plan there were 672 overpayments, none of which has yet been recovered. If you add up the 253 and the 205 payments, which between them were either less than £100 or less than £500, you get 458 payments, some 68%, in other words over two-thirds of the total. That is a relatively small amount. Have you considered writing any of that off or are you doing it on a case-by-case basis? When will that chart be zero because you have either recovered it back or written it off?

*Mrs Ghosh:* As I said, before we look at the whole overpayment and, indeed, underpayment analysis that Tony and the team are doing we need to agree with ministers exactly what our policy is. I have given some indication of the kind of criteria we use. In terms of the particular group of people in this table, Tony, what action have we taken?

*Mr Cooper:* In November we started to make some recoveries. The larger ones we have actually telephoned.

**Q115 Mr Bacon:** This was one payment run, so it would have all happened overnight?

*Mr Cooper:* It did.

**Q116 Mr Bacon:** When did that happen?

*Mr Cooper:* That was August 2006.

**Q117 Mr Bacon:** When did you know that there had been an overpayment? More or less immediately presumably?

*Mr Cooper:* Yes.

**Q118 Mr Bacon:** Why was that, because double the amount of money had gone out of your bank account than you had expected?

*Mr Cooper:* Yes.

**Q119 Mr Bacon:** When did they know from you that you had overpaid them?

*Mr Cooper:* The highest ones we telephoned straight away and alerted them.

**Q120 Mr Bacon:** And then you followed that up with letters. In August 2006?

*Mr Cooper:* It may not have been August.

**Q121 Mr Bacon:** When was it?

*Mr Cooper:* I do not have the date.

**Q122 Mr Bacon:** Was it much later? The reason you might have difficulties now is they have received the money and spent it, is that right?

*Mr Cooper:* I do not know the date, I can let you know the date, but we wrote to them quickly after the overpayments occurred.<sup>10</sup>

**Q123 Mr Bacon:** Obviously it would have been after. I am just thinking about a situation in which it could have been before that you wrote to tell them you had

made an overpayment before you made any payment at all. Is it the case that some of these people may be in difficulties because having received the money they then spent it, it went into their businesses and they made commitments on the basis of it before you told them that it had been an overpayment, like happens with HMRC and tax credits?

*Mrs Ghosh:* Yes. This comes back to the point that with the very largest people, generally very sophisticated agribusinesses, they knew what their entitlements were and they would have seen coming into their accounts two identical payments<sup>11</sup> and I think the experience of the Agency is most of them thought, "Aye, aye, that must be a double payment, there's something strange here". The concern that ministers have is for those people who might not be so on the ball for whom, although it is a relatively small amount of money, it could still have an impact, they might not have worked it out, and that is why we need to be very careful, flexible and sensitive in getting overpayments even of small thousands back from them. That is the policy we need to agree with them.

**Q124 Mr Bacon:** I am running out of time but I would just like to ask one more question following from what Mr Dunne asked you about the European Commission. In your answer to Mr Dunne you gave a number of figures, including the £348 million which was the overall provision and that included fruit and veg, I think you said.

*Mrs Ghosh:* Yes.

**Q125 Mr Bacon:** Perhaps you can send us a note on that. I did not think fruit came into the CAP, did it?

*Mrs Ghosh:* Yes, there is something, and I am getting out of my depth here, called—

**Q126 Mr Bacon:** Speaking as a representative of pig farmers, I thought fruit and pigs were outside the CAP completely.

*Mrs Ghosh:* I will send you a note. They are still leftover.

*Mr Bacon:* The thing is, the figures you mentioned did not include the £292 million at the bottom of page 12, paragraph 2.16. It says there that the potential correction is now some £292 million whereas you mentioned £220 million, £270 million, the gap of £78 and the total provision of £348 million. The NAO Report, which you agreed, says the provision is £292 million.

**Q127 Chairman:** You are going to send us a note on that.<sup>12</sup>

*Mrs Ghosh:* Yes, indeed, and it may be something to do with the debate going on about the late payment penalty on which we have reduced the figure.

*Mr Mitchell:* Obviously a lot of the problems were caused by the fact that we adapted a system that was over-elaborate in the first place, the dynamic hybrid

<sup>10</sup> Note by witness: The claimants concerned were written to on 6 September 2006

<sup>11</sup> Note by witness: In practice, there would not have been two payments, but a single one for roughly double the amount that was properly due.

<sup>12</sup> Ev 18

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model. You said in answer to the Chairman that was a decision of the ministers and in answer to Mr Bacon you said it was on the advice of the Department. I can remember, because I was on the Environment, Food and Rural Affairs Committee at the time, that the then minister, Margaret Beckett, appeared before us full of confidence when we said this system had been complicated and gave us a dose of land of hope and glory and Britain can make it.  
**Mr Curry:** England, not Britain. Scotland, Wales and Ireland have got—

**Q128 Mr Mitchell:** Yes, that is right. Ministers do not do things like this without the Department advising them, so the Department got it wrong in going for too complicated a system and our problems stem from that.

**Mrs Ghosh:** This Committee's reports have excellently summarised the problems that arose as a result of—

**Q129 Mr Mitchell:** Yes, the Department got it wrong?

**Mrs Ghosh:** The advice that ministers got that a scheme this complex was deliverable on the timescale they had set, given the choices that the Agency made about business process, proved to be wrong.

**Q130 Mr Mitchell:** Let us move on to the consequences. There has been talk of fines and penalties from Europe, which makes me a bit upset. I see at 2.13 there are deductions: €81.7 million plus €19.6 million, a total of €101 million. Is that the total extent?

**Mrs Ghosh:** We have only made late payments in the first year, the 2005 year. This is expressed in euros and we have had some negotiation with the Commission about it. The latest figure I have for late payment penalties, ie after June, is £56 million, but in 2006 we got no penalty for late payments.

**Q131 Mr Mitchell:** Are these figures wrong?

**Mrs Ghosh:** These are in euros. I am just trying to do the euro calculation.

**Q132 Mr Mitchell:** What exchange rate is it all calculated at? The exchange rate has changed, has it not, the euro has gone up and the pound has gone down, particularly over the last year.

**Mrs Ghosh:** I am sorry, I should have bought my glasses. There is a footnote which Tony has drawn my attention to: "The €81.7 million deduction was equivalent to £55.3 million . . ." They then added on £13.3 million, but I believe it is the case that as a result of effective negotiation by my team we have now gone back down to a figure of around 56.

**Q133 Mr Mitchell:** The next question was what exchange rate was it calculated at. Was it the exchange rate in the year that the crime was committed or the exchange rate in the year it was agreed what the penalty was going to be, or the prevailing exchange rate now, because they are all different?

**Mrs Ghosh:** I do not know the answer to that. I will let you know the answer.

**Q134 Mr Mitchell:** If we pay now at today's exchange rate we would pay more.

**Mrs Ghosh:** I do not think the Treasury would allow me to pay, or rather to reach a settlement—

**Mr Mitchell:** You have to pay at the exchange rate, do you not?

**Mr Curry:** No, it is held in euros. All the cash is held in euros.

**Q135 Mr Bacon:** The euro has gone up and the pound has gone up. Let us move on.

**Mrs Ghosh:** I am told it is all paid in euros, so it is whatever euros at the time. The exchange rate, therefore, does not make any difference.

**Q136 Mr Mitchell:** Okay. How does that compare with the other figures which we have, and Mr Bacon has just referred to them, in 2.16, that there was a provision and contingent liabilities set aside of £139 million for 2005–06 and in 4.2 we see a potential £153 million in 2006–07? What is the relationship between those calculations of potential liabilities and the actual figures?

**Mrs Ghosh:** If I could just go back. These figures are in some senses shifting figures because we are at any one time making our best estimate of what the likely outcome will be. We get some new example, for example a Commission response to an issue that has got nothing to do with the SPS, and we revise our provision. I think the simplest thing is just to say to the Committee the amount of provision we have made over the two years in our accounts is the £348 million figure.

**Q137 Mr Mitchell:** But not actually paid, of course.

**Mrs Ghosh:** Not actually paid. We have to make provision for a repayment later on and then we argue the case.

**Q138 Mr Mitchell:** Services expenditure and value have been cut to either allow that contingency to be paid or to pay extra penalties.

**Mrs Ghosh:** As I was saying to Mr Dunne, we have received from the Treasury additional provision in our CSR 07 settlement which amounts over the three years to £270 million and the difference will be met—

**Q139 Mr Mitchell:** So the cuts are not labour contingent. The cuts in British Waterways, therefore, are not due to penalties to Europe?

**Mrs Ghosh:** No.

**Q140 Mr Mitchell:** Okay. What is the basis of the rationale for withholding payments? Is it they are not paying their money over to the farmers or is it the usual principle of screw the British at every opportunity?

**Mrs Ghosh:** What the Commission and the Court of Auditors need to do is to make sure, in the same way that the NAO does for the British taxpayer, that they are protecting the funds that the European taxpayers have paid.

## DEFRA and Rural Payments Agency

**Q141 Mr Mitchell:** They are not protecting the taxpayer by this enforcement.

**Mrs Ghosh:** Indeed they are because we are getting a repayment from Europe for the payment we make to farmers. If they feel, for example, that we have not done rigorous enough checks, for instance some of the disallowance relates to making interim payments in that first year, then they are—

**Q142 Mr Mitchell:** Sorry, Europe is making a lot more than that because you are getting less payment than you are due to pay.

**Mrs Ghosh:** I am sorry, I do not follow the question.

**Q143 Mr Mitchell:** It is a deduction which is paid by the taxpayer.

**Mrs Ghosh:** Yes, it is paid by the British taxpayer.

**Q144 Mr Mitchell:** Yes.

**Mrs Ghosh:** They are defending the European taxpayer in the CAP payments made by them to us, the British.

**Q145 Mr Mitchell:** Big deal! Can I talk about the overpayments. It seems curious to me that you are so kind and gentle towards farmers who have been overpaid to the tune of over £100,000 in six cases, £100,000 to £290,000, and in 17 cases of £50,000 to £100,000. Why have these people been allowed to keep the money when the Treasury is so prompt to screw people who are overpaid on tax credits, vulnerable people, poor people, who are overpaid and are on tax credits?

**Mrs Ghosh:** The answer is that they will not be allowed to keep the money.

**Q146 Mr Mitchell:** But they have been. They have had the money and the interest on it for two years.

**Mr Cooper:** One of the reasons that we were not able to recover was because we wanted to be certain that we were not going to recover money and at the same time give them some more money and then take it back. We had to get to a point where we understood what the overpayment was and what the overall position for that particular farmer was, and that is the position we have reached now.

**Q147 Mr Mitchell:** Mrs Ghosh made the point it might be difficult for somebody who is not getting much extra money to know that the money has been put into their account, but if somebody is getting £100,000 duplicated in their accounts they know that something has gone wrong. They did not tell you, did they? They did not rush forward and confess and say, "Here is the money back", did they?

**Mrs Ghosh:** No, they did not rush to the door.

**Q148 Mr Mitchell:** Okay. A lot of the cause of this problem, it seems to me, is the fact that the poor old Agency was going through the Gershon efficiency savings and shedding staff at a time when it was taking on an increased load to make these payments and it ended up hiring people back, bringing in casual

workers, paying a lot of overtime, and in the end had a bigger staff. Have the Gershon efficiency savings been applied to the Department since this fiasco?

**Mrs Ghosh:** No. The Gershon efficiency headcount savings, which we had previously agreed with the Agency, we renegotiated. The Gershon efficiency target for Defra, that means the core and its agencies, by April next year is to have reduced by 1,400 staff rather than 2,400. In fact, as it turns out, as Tony has said, by the end of this year they will have made some reduction so they will have contributed, but we have not forced them to do so.

**Q149 Mr Mitchell:** To me it demonstrates the daftness of the whole Gershon principle that you end up paying more and more overtime. In terms of overpayments, you have been pioneering the Northern Rock debacle with the fund. Could I come back to this point about Accenture. From what you were saying to Mr Bacon, Accenture were responsible for the fact that the systems were inadequate in the first place so you are now paying them more to update those systems. Are you fining them in any way? Have they been penalised in any way?

**Mrs Ghosh:** Just to correct your interpretation. They built what the Agency at the time asked them to do, that was what they did, and they provided a system which met the spec they were asked to produce and they actually provided it at a very cheap rate if you benchmark the cost against similar development. What they are now doing in the contract that Tony has negotiated is absolutely bearing the risk, so if they fail to deliver or, indeed, if we fail to deliver our targets in terms of payments they suffer financially, so they have their hands in the blood.

**Q150 Mr Mitchell:** Are you satisfied that if there is any change in the system introduced by the Commission, which is quite possible and, indeed, likely, the system can cope?

**Mrs Ghosh:** Yes. That is one of the objectives of the greater flexibility in the IT system. My policy people are working very closely with Tony to make sure we do not agree to anything, for example in the CAP Healthcheck, that could have significant operational problems for us.

**Q151 Chairman:** Mrs Ghosh, that concludes our inquiry. I see that you studied Medieval Italian history.

**Mrs Ghosh:** I did.

**Q152 Chairman:** Have you found that Dante and Machiavelli have been useful to you in your career?

**Mrs Ghosh:** I should say, Chairman, that I studied a much earlier period of Italian history which was the 6<sup>th</sup> Century when the Ostrogoths were raging around Italy, so I leave it to the Committee to decide whether there are any parallels between what I do now and the Dark Ages in Italy.

**Mr Mitchell:** There are lots of Visigoths around at the moment.

**Chairman:** Thank you, Mrs Ghosh and Mr Cooper.

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**Supplementary memorandum submitted by the Department for Environment, Food and Rural Affairs**

Questions 2–9 (Chairman): *SPS 2005—review of errors in claims and payment adjustments arising from this review*

The NAO's report (para 2.7) referred to a review of some 34,499 cases to determine whether the Single Payment Scheme (SPS) entitlements originally allocated to claimants were accurate. This note provides the results, to date, of that review and the consequential impact that this and other factors have had on payments under both the 2005 and 2006 SPS.

The latest data extracts show the following changes in 2005 claim values for the 34,499 cases reviewed<sup>1</sup>:

<i>Change in claim values</i>	<i>Claimants—No</i>	<i>Claimants—%</i>	<i>Change—£m</i>
Claim value increased	12,611	36.5	28.6
Claim value decreased	7,281	21.1	– 29.2
No change to claim value	14,607	42.4	
<b>Total</b>	<b>34,499</b>	<b>100.0</b>	<b>– 0.6</b>

The reasons for the changed values included human error in either omitting or manually inserting data (eg national reserve awards) from the various systems the Agency had to calculate entitlements and the results of both additional checks, particularly on land data, and inspection activity carried out in the normal course of business.

In many cases, changes in claim value did not automatically give rise to an over or under payment. For example, some corrections took place after a partial payment had been made, but in time to ensure that the balancing sum was adjusted to reflect the revised full claim value.

We have not kept separate data for cases where a top up payment was required after review of a claimant's entitlements. Nor can such data now be readily identified given the large number of partial and manual payments which have been made over the same time period.

However, some data on overpayments is available. In addition to the review of entitlements, the overpayments occurred for a number of reasons, including the run of "duplicate" payments referred to in para. 2.9 of the NAO's report and the issuing of partial payment which proved to be greater, following eg the application of penalties, than the final sum due. In total, the overpayments are currently estimated to be:

<i>Scheme year</i>	<i>No. of overpayments</i>	<i>£m</i>
SPS 2005	10,299	20.0
SPS 2006	6,925	17.6

\* taking account of overpayments occurring in both years the total number of claimants involved is 14,243

From the work done so far in approximately 4,700 of these cases the amount concerned is less than €100 and will be written off. In some 70% of cases the overpayment amounts to less than £1,000 while in 0.8% it amounts to over £50,000. A plan to recover these payments is being implemented.

Questions 10–12 (Chairman): *Specific overpayments*

Details were requested of the 23 cases referred in paragraph 2.9 and figure 2 of the NAO's report as having been overpaid more than £50,000 as a result of an erroneous payment run in August 2006 when claimants received nearly double the amount due. Names and addresses are provided in the Annex to this Memorandum in respect of 19 of the cases. The remaining four have been reviewed and the overpayment is now believed to be below £50,000.

It should be noted here that while all nineteen cases were all written to on 6 September 2006 and some telephoned around then, the RPA explained in all cases that the claimants should await an invoice before making repayment. Given the priority attached to making outstanding payments, invoices only started to be issued in November 2007.

For the current exercise, wherever possible, invoices are only being issued once it is confirmed that there are no other outstanding actions on the claimant's account for any scheme year. Given many claimants have been affected by more than one issue that might affect the sums due (changes in entitlement values, manual payments, partial payments and penalties), this is currently a very complicated and time consuming process. To date, invoices have been issued for only two of the 19 cases, one of which has been queried and will need to be reviewed again.

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<sup>1</sup> Additional cases to review will be identified as a result of eg appeals by claimants and on-farm inspections.

Questions 28–30 (Mr Curry): *Common land issues raised by David Curry MP*

First, in respect of tenants claiming SPS support in relation to common land registered under the Commons Registration Act 1965, we understand that the tenants are not registered commoners, but exercise a right to graze the common under the terms of their tenancy agreements. In cases where a structural grazing surplus exists on common land and the common owner has chosen not to claim for it under SPS, it is possible for the excess to be distributed between tenants with legitimate agreements wishing to claim subsidy. However, it is incumbent upon the RPA to ensure that such claims are legitimate and so it is possible that evidence may be sought from owners or tenants to establish the basis for their grazing rights.

Establishing eligibility to claim SPS support can at times involve a complex process. It is standard practise for the RPA to verify the eligibility of tenants to claim SPS (on behalf of commons owners) from the details provided on the tenancy agreement(s) involved. Copies of agreements can be provided by the tenants themselves or the agent for the Duke of Devonshire in relation to Chatsworth Estate. In the case of Chatsworth Estate, the claims concerned have not been rejected but are currently under review by the RPA.

The requirement for rights to be exercisable over a piece of land for a period of at least 10 months flows from the EU rule governing the SPS that land used to support payment claims must be at the claimant's disposal for a designated 10 month period during the year (the 10 month rule.) Where a grazier is legally restricted in exercising rights of common so that he cannot satisfy the 10 month rule (eg where a local byelaw restricts grazing to the summer months, or the registered right is declared to be exercisable for only eight months each year), he is not eligible to claim payment under the SPS. However, where a grazier is entitled to graze all year round but chooses to remove animals from the grazing, whether because of local custom or to meet the terms of an environmental agreement his SPS claim will be unaffected. Following pressure from the UK and others, the 10 month rule will be replaced by a one day (for instance, 15 May) rule from the 2008 SPS which should in many cases help to avoid this problem arising in future.

Finally, in respect of the calculation of livestock units (Lu), grazing rights are converted into Lus to take into account the different types of animals with rights to graze and the numerous variations of how rights have been entered onto the 1965 registers. The values used for calculating livestock units are 1.0 Lu for a cow and 0.15 Lu for a sheep. It is accepted that these values do not always reflect the local customs or practise as recorded on the common land register. However, these values have become the accepted standard since the inception of farming subsidies under the Integrated Administration and Control System (IACS) introduced in 1993. Since then, they have continued to provide the most reliable indication of the overall grazing pressure, experienced on common land, across England.

The values are applied to each entry in each register to enable the RPA to calculate a maximum value with which the apportionment of individual claims can be made. It is not possible to consider changing this methodology due to the need to apply an approach that is consistent across all English common land.

Questions 93–100 (Mr Bacon): *Payments to Accenture*

Accenture is one of several IT contractors employed by RPA. Others include IBM and Xansa. Total spend to all such contractors between 2004–05 to the end of financial year 2007–08 will be approximately £210 million.

Total spend with Accenture from January 2003 until the end of financial year 2007–08 will be approximately £122 million. Some £90 million of this sum is in respect of IT development, with the balance relating to business support, delivery of the live RITA service, model office and management information. The £79 million mentioned by Tony Cooper at the hearing (Q94) referred to spend on IT developments up to and including the 2007 SPS, but not preparation for subsequent year schemes.

Additional funding from Defra

The additional funding of £40.1 million from Defra for the recovery campaign is for the period 2007–08 to 2009–10. In addition, Tony Cooper mentioned in his evidence (Q.100) that RPA had already planned investment of around £15 million. The actual figure was £15.6 million for IT changes around known policy developments for this period. The breakdown of this investment is as follows:

	2007–08 £m	2008–09* £m	2009–10* £m	Total £m
Defra bid	16.8	13.5	9.8	40.1
RPA budget	6	6	3.6	15.6
TOTAL	22.8	19.5	13.4	55.7

(\*Funds for 2008–09 and 2009–10 remain to be confirmed but are likely to be lower than bid).

This funding is being managed as a single pot to achieve the improvements described on page 21 of the NAO report.

Spend on Accenture for IT development from the £55.7 million is expected to be approximately £32.6 million (£12.6 million for 2007–08, £10.5 million for 2008–09 and £9.5 million for 2009–10) The estimate for 2009–10, in particular, may change as the content of future IT releases is defined. In addition some elements of the work may be put to competitive tender and Accenture will be free to bid for this work should they wish.

In addition to these development costs Accenture will, from the £55.7 million, receive up to £7 million for business support and project delivery spread across the three years.

#### IT developments outside the recovery campaign

In this period there will also be other IT work outside the recovery campaign to which Accenture will contribute. This will include re-architecture of IT systems, upgrading the Rural Land Register. Costs around this work are not clear as yet.

As part of the renegotiated contract, from 1 September 2007 Accenture receives a managed service fee of £14 million in total until 2009–10. This covers the costs of architecture support, management of delivery, technology and infrastructure management, release planning and management services etc. As mentioned in Helen Ghosh's evidence (Q.109) the new contract also includes risk-reward mechanisms around costing and delivery of IT releases.

#### Questions 124–127 (Mr Bacon): *Reconciliation of disallowance figures*

Paragraph 2.16 of the NAO's report refers to a possible overall correction of for the Single Payment Scheme of £292 million. This comprises:

SPS Provisions	£222 million
SPS Accruals	£ 63 million
SPS Contingent liabilities	£ 7 million

Both the accrual and contingent liabilities figures relate to late payment penalties under the 2005 scheme.

In her evidence Mrs Ghosh (Q.63) referred to a total provision (so not including accruals or contingent liabilities) for EU disallowance of £348 million. This comprises:

SPS Provisions	£222 million
Other CAP scheme provisions	£ 92 million
Provisions for Devolved Administrations CAP expenditure	£ 34 million

Of the £92 million for other CAP scheme provisions, £55 million relates to the arable crop payments referred to in the case study at figure 3 on page 13 of the NAO's report. The fruit and vegetable scheme referred to at Q.63 and Q.124 is aid paid to Producer Organisations. Accruals totalling £17 million were made in respect of this aid in the Department's 2005–06 accounts.

## Annex

**List of claimants overpaid more than £50,000 as a result of  
an erroneous payment run in August 2006**

<i>Business Name</i>	<i>Address</i>		
Mr D Harriott	Broomhurst Lodge	Lyminster	W Sussex
Dennis & Son, TR	Woolpots Farm	York	N Yorkshire
Harrison Farms (Kilham) Ltd	West End Farm	Driffeld	N Humberside
Eastnor Castle Farms	The Estate Office	Ledbury	Herefordshire
Ashworth, M J	Scotney Court Farm	Lydd	Romney Marsh
Rayner Ltd, C	Oldbury Farm	Great Wakering	Southend On Sea
Ben Burgess Farms	Howe Hall	Norwich	Norfolk
Cridmore Farm Co Ltd	Cridmore Farm	Newport	Isle Of Wight
Sayers Farms	Carswell	Plymouth	
Donald Racey & Sons Ltd	Bruces Castle Farm	Huntingdon	Cambridgeshire
Ralph Coward	East Grange Farm	York	N Yorkshire
J A Frater	Goswick Farm	Northumberland	
A J Beavan & Partners	Black Hall	Knighton	Powys
St Clairs Partnership	St Clairs Farm	Corhampton	Southampton
Anthony Hartley Ltd	Turner Hall	Broughton In Furness	Cumbria
R E & R M Beedles	Middle Shadymoor Farm	Shropshire	
J C Salmon & Son	Trevemper Farm	Newquay	Cornwall
A G Viner & Sons	Smokedown Farm	Faringdon	Oxfordshire
E J Buxton	Teddesley Home Farm	Penkridge	Staffordshire