



House of Commons
Committee of Public Accounts

**Department for
Environment, Food
and Rural Affairs:
Management of
Expenditure**

Fortieth Report of Session 2007–08

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

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The Committee of Public Accounts

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

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Summary

In 2007/08, the Department for Environment, Food and Rural Affairs (the Department) received £3,617 million from the Treasury. The Accounting Officer is expected to manage these resources efficiently and effectively to deliver a range of services and operations within the funding provided by Parliament. The Department failed to allocate final budgets to each of its business areas until five months into the 2007–08 financial year because:

- planned expenditure was in excess of funds provided;
- budget holders did not declare all financial commitments from the outset; and
- the costs of unforeseen floods and the outbreaks of animal disease had to be managed.

A similar situation had arisen in 2006–07 when the Department had to make mid-year budget reductions of £170 million to avoid the risk of overspending. The late notification of the reductions had an adverse impact on performance. The Marine and Fisheries Agency, for example, had to defer its vessel decommissioning grants scheme to trawler owners intending to leave the fishing industry.

The Department's problems in managing its expenditure in the last two years result in part from the difficulties faced in sponsoring 31 delivery bodies, each with its own administrative functions. Few of the organisations are using the Department's Shared Services Organisation and their approaches to setting budgets and monitoring progress differ. Obtaining timely and realistic financial reports from delivery bodies was also difficult. A lack of awareness amongst the Department's Board Members of good financial management practice, together with cultural issues which did not prioritise financial management at a corporate level, added to the challenges.

The Department's Management Board has since put in place more rigorous financial and outcome monitoring systems. Having agreed budgets for 2008–09 that accord with the Department's allocation from the Comprehensive Spending Review 2007, the problems of 2006–07 and 2007–08 are not expected to recur in 2008–09.

On the basis of a report by the Comptroller and Auditor General,¹ the Committee took evidence from the Department on the steps taken to improve its management of expenditure and to improve the cost-effectiveness of its delivery bodies.

¹ C&AG's Report, *Department for Environment, Food and Rural Affairs: Management of Expenditure*, HC (2007–08) 309

Conclusions and recommendations

1. **Policy and operational delivery within the Department and its delivery bodies have been adversely affected by financial management failings.** In 2006–07 and 2007–08, the Department set budgets in excess of its Departmental expenditure limits in the belief that not all budgeted expenditure would materialise. As the risk of overspending became real, the Department had to make in-year cuts to the budgets of policy groups and delivery bodies, leading to curtailment of planned operations and outcomes.
2. **The Department's budget setting process did not contain sufficient flexibility to deal with events which were unforeseen at the start of the year.** In 2007, handling the floods and the outbreaks of foot and mouth disease and avian influenza required additional resources of £60 million which had to be funded by reducing budgets for other activities within the Departmental Group.
3. **The financial management failings arose largely from unwillingness within the Department's Management Board to tackle budgetary problems, and from a failure to instil a culture of tight financial management throughout the organisation.** The wider lessons from the DEFRA case study include:
 - Clear budgets should be set in advance of the start of each financial year which are consistent with the expenditure limits set by the Treasury and with the strategic objectives of the Department.
 - A suitably qualified Finance Director should be empowered to hold senior managers to account for the funds for which they are responsible by being provided with a grade and status commensurate with other Board members.
 - A taut financial management culture should be instilled throughout the organisation by employing sufficient appropriately skilled finance staff, by requiring managers to account for resources through regular progress reports, and by challenging variations in expenditure throughout the financial year so that early remedial action can be taken.
 - The financial management of resources should be scrutinised, challenged and debated regularly at the Management Board alongside delivery performance.
 - Department budgets should include realistic provision for unforeseen events based on historic experience, and commitments against such funding should be considered regularly by the Board. This will allow the need for either additional funding or for the release of funding to be identified so that action can be taken quickly.
 - The performance of Board Members and budget holders throughout the organisation in managing their resources should be incorporated into staff appraisal reporting processes. Development discussions should be used to identify any financial skills gaps for which further training may be necessary.

- The budgetary performance and cost effectiveness of delivery bodies should be scrutinised in a consistent and rigorous way, taking account of organisational maturity and risk.
4. **The Department's financial management challenges arise in part from the number and variations in scale of the delivery bodies used to achieve its objectives, as well as the significant variations in financial management skill and practice within those bodies.** The Department should look to rationalise its organisational structure to identify efficiency savings which might arise from, for example, greater sharing of financial and other areas of administrative expertise. It should devise an action plan setting out how administrative costs can be reduced and by when.

1 Learning the lessons from past difficulties in managing expenditure

1. The Department for Environment, Food and Rural Affairs (the Department) is responsible for tackling climate change and maintaining our natural environment. Along with its agencies and non-departmental public bodies, the Department delivers a range of different services and operations. Most of these activities are funded by the taxpayer, and the Treasury set the Department an expenditure limit of £3,617 million for 2007–08. The principal objective of the Department’s Accounting Officer and Management Board was to manage the resources efficiently and effectively within the funding provided.²

2. In May 2006, the Department’s Management Board recognised that, as a result of poor financial management, the Department faced a significant risk that it would exceed its expenditure limit in 2006–07. The Department instigated a series of budget reductions to generate £170 million in savings, but the mid-year timing of these reductions had an adverse impact on policy delivery within the Department and its delivery bodies. The Marine and Fisheries Agency, for example, deferred a vessel decommissioning grant scheme aimed at reducing over-fishing by helping trawler owners to leave the industry, and the Veterinary Laboratories Agency reduced its scientific surveillance work.³

3. In 2007–08, the total cost of the Department’s approved business plans exceeded its resources by some £66 million, and in April and May 2007, certain Policy Groups within the Department declared financial commitments above the agreed budget allocations. The risk of overspending was compounded further by a number of unforeseen events, including floods, and outbreaks of foot and mouth and avian influenza, which required additional expenditure of some £60 million. A series of meetings with senior managers was required to agree budget reductions. This meant that final budgets were not allocated to Policy Groups until August 2007, five months into the financial year.⁴

4. At the start of 2006–07 and 2007–08, the Department’s Management Board agreed budgets which exceeded the funds available, because in previous years budget holders had typically over-estimated their budgeted expenditure. The Board, therefore, believed that the excess budgeted expenditure would not materialise. The difference between the Departmental Expenditure Limit and actual expenditure had declined in recent years, however, and in 2005–06 the underspend was less than £1 million (**Figure 1**). Senior officials were not sufficiently aware of the impact of changes in financial practices within the Department which had led to the tauter budgeting.⁵

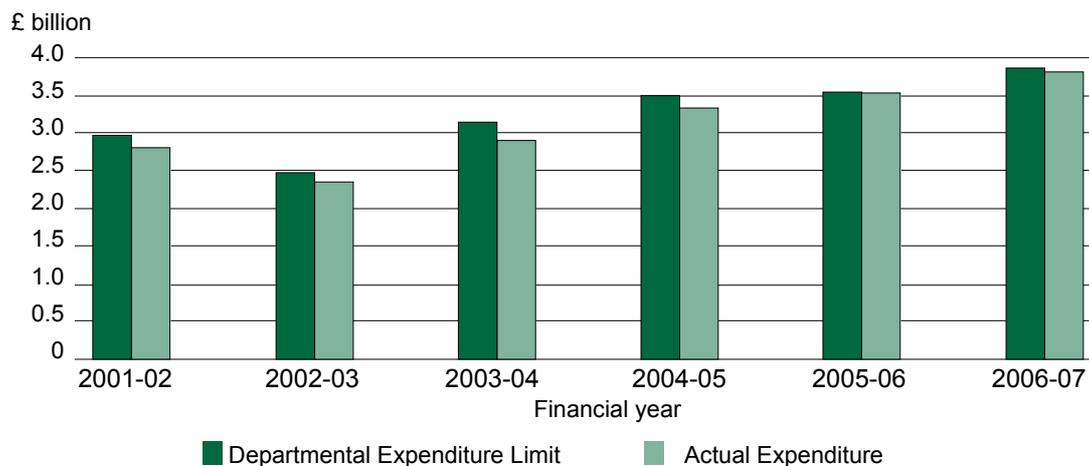
2 Q 57; C&AG’s Report, para 1

3 Qq 1–3, 41; C&AG’s Report, paras 1.4, 2.6; Appendix 2

4 Qq 2, 13, 28–29; C&AG’s Report, para 2.7

5 Qq 3, 28–29, 35–41; C&AG’s Report, paras 1.3, 2.5, Figure 3

Figure 1: The Department's actual expenditure came close to its Departmental Expenditure Limit in 2005-06



Source: C&AG's Report, Figure 3

5. The absence of a Finance Director with Management Board status contributed to Board Members' lack of awareness and understanding of the effective management of expenditure. Until April 2007, the Departmental Finance Officer had reported to the Director General of the Service Transformation Group. Subsequently, the Accounting Officer replaced the Finance Director and some members of the finance team. She upgraded the Financial Director role to a Director General with a place on the Department Board, reporting directly to her. The Finance Director is now empowered to hold each part of the Department to account for their budgets. He is supported by 27 fully qualified accountants in the Department and 29 in training, as well as a further 48 accountants in the Department's agencies. The Accounting Officer and Management Board intend to undertake the Treasury's on-line computer training course to improve their understanding of good financial management.⁶

6. The Management Board's monitoring of financial performance had been hampered by difficulties in obtaining timely and realistic monthly profiles of expected expenditure from delivery bodies. Following the change in Finance Director, however, the Department introduced more robust arrangements to collect financial performance data from all parts of its operations on a timely basis. Delivery bodies now submit monthly financial data direct to their associated sponsor team in the Department.⁷

7. Following the introduction of a Financial Management Improvement Programme for 2008-09,⁸ the Department has agreed budgets in accordance with the Comprehensive Spending Review 2007 allocation. The Accounting Officer does not expect the problems of 2006-07 and 2007-08 to recur in 2008-09. Better project management, leading to closer management of expenditure by teams, is expected to reduce the likelihood of resources being significantly over- or under-spent. The Department has been innovative in applying project management techniques to implement policy related topics, but has not applied

⁶ Qq 13, 16; C&AG's Report, para 2.16

⁷ Qq 8-9, 13, 16-18; C&AG's Report, para 2.8

⁸ The Financial Management Improvement Programme aims to improve financial management capabilities across the Department, and to achieve faster preparation and completion of its annual accounts.

these techniques effectively to internal projects and procedures. The Management Board has now put in place more rigorous financial and outcome monitoring systems. Intensive business case development for new projects means that before approving an activity the Management Board is aware of the expected outcome, its risk and costs, and the impact on customers. Senior responsible officers for budgets would be told that their key objective was to manage finances effectively.⁹

9 Qq 2, 4, 12–13, 42, 50, 57, 62; Committee of Public Accounts, Twenty-seventh Report of Session 2005–06, *Lost in Translation? Responding to the challenges of European Law*, HC 590; Fifty-fifth Report of Session 2006–07, *The Delays in Administering the 2005 Single Payment Scheme in England*, HC 893

2 Resources to deliver the Department's work

8. Lord Haskins's Review,¹⁰ published in October 2003, recommended that the Department should define more clearly the difference between policy and delivery functions, and devolve more of its responsibilities to local and regional organisations. At October 2007, the Department had 31 delivery bodies and 27 advisory and tribunal non departmental public bodies (**Figure 2**). Over two-fifths of the Department's resources were used by delivery bodies. The Department's nine executive agencies, whose responsibilities include making rural payments to farmers and carrying out rural inspections, are constitutionally part of the Department, but are run semi-independently. The Department's non-departmental public bodies were established independently to allow them to question existing policy and to provide objective advice in developing new policies.¹¹

Figure 2: The 'Family' of organisations sponsored by the Department for Environment, Food and Rural Affairs

DELIVERY BODY	FUNDING RECEIVED IN 2006–07
Nine executive agencies	£657 million
Nine executive non-departmental public bodies	£985 million
Six levy funded boards	—
Two public corporations	£56 million for British Waterways. The Covent Garden Market Authority generated a surplus without any subsidy from the Department
Five private sector companies	Over £150 million
In addition, the Department sponsored 27 advisory and tribunal non-executive non-departmental public bodies, most of which employed one or two people.	

Source: C&AG's Report, paragraph 2.2 and appendix 1

9. The effective management of budgets and expenditure depends to a large degree upon the Department's oversight of its 'family'. Each organisation sponsored by the Department has a clearly defined purpose, but varies in the extent to which they adopt good financial practices. For example, nine out of 19 finance directors reported that their organisation had not developed alternative budgets based on different assumptions to provide senior managers with information on the financial implications of budgetary decisions when setting their 2008–09 budgets. Only five reported that their 2007–08 budgets had been fully profiled over each month of the year to enable monitoring of progress, and different approaches were taken to challenging variances between budgets and actual income and expenditure.¹²

10 DEFRA, *Rural delivery review. A report on the delivery of government policies in rural England*, 2003

11 Q 48; C&AG's Report, para 2.2

12 Q 5; C&AG's Report, paras 3.9–3.13

10. The level of departmental scrutiny of its delivery bodies depended upon their maturity and organisational risks. The Department had introduced a policy of ‘earned autonomy’ whereby long established, well run organisations were given greater opportunities to operate independently, albeit within a standard framework of financial information and reporting. More recently established bodies, such as the Marine and Fisheries Agency, had been managed directly by the Department until their systems and staff were sufficiently experienced. The Department was also developing a standard framework to scrutinise the performance of each organisation and to compare cost effectiveness across its delivery bodies.¹³

11. In April 2007, the Department established a Shared Services Organisation to provide administrative support to its ‘family’ organisations. The shared services approach was expected to deliver economies of scale. The largest benefits would come from migrating to the shared services centre those organisations with large transactional volumes which would otherwise need to upgrade their financial systems. In its first year of operation, the shared services organisation had focused on the stabilisation and improvement of services to its initial customers, including the Department, the Animal Health Agency and Natural England. The Department was examining which delivery body should migrate next to the shared services. All executive agencies are expected to utilise the Department’s Shared Services Organisation unless a better value alternative can be found. The Department was still to explore the feasibility of opening the service to other organisations, such as the National Forest Company or the Horticultural Development Council.¹⁴

12. Further efficiency savings would depend upon rationalisation of the number of organisations sponsored by the Department. Some reductions had followed the Haskins Review and, in September 2007, the Department announced that five levy boards would merge into a single body from April 2008. A further review by the Department was underway to explore the scope to rationalise the number of bodies involved in tackling climate change, including the Carbon Trust, Energy Savings Trust and WRAP.¹⁵

13 Qq 15, 21, 53

14 Qq 51, 60–61; Ev 9 (?)

15 Qq 5, 19

Formal Minutes

Monday 23 June 2008

Members present:

Mr Edward Leigh, in the Chair.

Mr Richard Bacon

Mr Paul Burstow

Mr Ian Davidson

Mr Philip. Dunne

Mr Austin Mitchell

Geraldine Smith

Mr Don Touhig

Draft Report (*Department for Environment, Food and Rural Affairs: Management of Expenditure*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 12 read and agreed to.

Resolved, That the Report be the Fortieth 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 25 June at 3.30 pm.]

Witnesses

Wednesday 19 March 2008

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Mrs Helen Ghosh, Permanent Secretary, and **Mr Stephen Park**, Interim Finance Director General, Department for Environment, Food and Rural Affairs

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List of written evidence

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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 (Cm 7366)
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176 (Cm 7366)
Eighteenth Report	Improving corporate functions using shared services	HC 190 (Cm 7366)
Nineteenth Report	BBC Procurement	HC 221 (Cm 7366)
Twentieth Report	HM Revenue & Customs: Helping individuals understand and complete their tax forms	HC 47 (Cm 7366)
Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157 (Cm 7366)
Twenty-second Report	Improving the efficiency of central government's use of office property	HC 229 (Cm 7366)
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
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Twenty-seventh Report	DFID: Providing budget support to developing countries	HC 395
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Thirtieth Report	Management of large business Corporation Tax	HC 302
Thirty-first Report	Progress in Tackling Benefit Fraud	HC 323
Thirty-second Report	Reducing the cost of complying with regulations: The delivery of the Administrative Burdens Reduction Programme, 2007	HC 363
Thirty-third Report	Ministry of Defence: Major Projects Report 2007	HC 433
Thirty-fourth Report	Increasing employment rates for ethnic minorities	HC 472
Thirty-fifth Report	Housing Market Renewal: Pathfinders	HC 106
Thirty-sixth Report	HM Treasury: Making Changes in Operational PFI Projects	HC 332
Thirty-seventh Report	Leaving the Services	HC 351
Thirty-eighth Report	Nuclear Decommissioning Authority—Taking forward decommissioning	HC 370

Thirty-ninth Report	Preparing to deliver the 14-19 education reforms in England	HC 413
Fortieth Report	DEFRA: Management of Expenditure	HC 447
First Special Report	The BBC's management of risk	HC 518 (Cm 7366)
Second Special Report	Evasion of Vehicle Excise Duty	HC 557 (Cm 7366)

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 19 March 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Ian Davidson
Nigel Griffiths
Keith Hill

Mr Alan Williams
Phil Wilson

Mr Tim Burr, Comptroller and Auditor General, National Audit Office, was in attendance.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance and gave oral evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS: MANAGEMENT OF EXPENDITURE (HC309)

Witnesses: **Mrs Helen Ghosh**, Permanent Secretary, and **Mr Stephen Park**, Interim Finance Director General, Department for Environment, Food and Rural Affairs, gave evidence.

Q1 Chairman: Good afternoon and welcome to the Public Accounts Committee. I apologise for the late start. Today we are considering a very important subject, the Comptroller and Auditor General's Report on the Department for Environment, Food and Rural Affairs and its management of expenditure, or rather non-management of expenditure. We welcome Helen Ghosh, who is the Accounting Officer of the Department for the Environment and Stephen Park, who is the Department's Interim Finance Director General. We know, Mrs Ghosh, that you were not entirely responsible for this but we have to question you anyway because you are *in situ* as it were. We know that you are making sterling efforts to set things right. I have to ask you about what went wrong. I suppose the story is set out briefly in paragraph 10 of the executive summary. I am going to ask you why your Department was unable to set budgets within the funds available to you from the Treasury for the financial year 2006–07 and 2007–08.

Mrs Ghosh: To deal with 2006–07 first, I think the Report gives an excellent, though as you say, quite brief account of the issues around setting the budget. They were, I would say, the failure of the Department to realise the impact of a progressive disappearance of under-spend in our budgets over a number of years and an assumption, as we went into 2006–07, that similar under-spends would occur and that therefore over-programming was a safe thing to do. We had managed our expenditure in 2005–06 I think to within £1 million but we had deferred some expenditure into 2006–7 on the basis that, as it were, something would come up and people would not spend the budgets that they were set. Having done that, we were then hit by a number of spending pressures that we had not anticipated and one with which this Committee is very familiar: more funding required for the RPA (Rural Payments Agency) recovery programme. We had an outbreak of bird flu, which was about £10 million, and a number of other pressures.

Q2 Chairman: Presumably it would be wise in a busy department like yours, which is hit by events all the time, to have contingency arrangements for this kind of problem.

Mrs Ghosh: Indeed, and that is why, as we look forward to the CSR 07 period and the budget for 2008–09 and beyond, we have set aside a £50 million departmental unallocated provision, precisely for this kind of event. That was I think the problem going into 2006–07. As I have said to my own departmental select committee, obviously we very much regret the fact that we had to withdraw around £170 million of funding from bodies in-year. As I have said to the EFRA Select Committee, the alternative would have been, and it would have given them more time to plan, to set lower budgets earlier before the financial year had begun. In the end, the outcome would have been the same for them, but the point is that they embarked on the year expecting to have money and then did not, and again I think the Report gives an excellent account of the kind of impact that had. In the present year, on the provision for programme, we were not over-programmed in terms of our programme spend; we had some over-provision, which we then worked to and have indeed succeeded in bringing down, on the administration spend side. So, by the end of the year we will have recovered the over-provision on administration spend. This year of course we have also had to absorb around £60 million of spend, again from the unexpected—though as you say, Chairman, in some senses that is what our Department is about—on a combination of floods, foot and mouth and bird flu. Again, we will have absorbed that within the programme spend.

Q3 Chairman: Do you think it should have taken so long to remedy these problems?

Mrs Ghosh: We effectively began to remedy these

 Department for Environment, Food and Rural Affairs

problems at the beginning of 2006–07. I think there was a cultural issue, as I said, in terms of being a Department that historically had under-spent, not more than other government departments as the Report says, but that had relatively speaking under-spent, and moving the mindset of the management board into a world where money was tight. I would say over the two years of my time we have got ourselves to a much better place where the culture of the Department's financial systems, thanks to the Financial Management Improvement Programme that Stephen has led, for CSR 07 are better, our skills throughout the Department are better, and the budgets that we have set are realistic.

Q4 Chairman: So we are not going to have these problems in 2008-09 then?

Mrs Ghosh: We are not going to have these problems in 2008-09.

Q5 Chairman: That is a straight answer. Appendix 1 lists the 31 delivery bodies that you are responsible for. It is really a very long, mixed list. Do you think this adds to your difficulties? Perhaps some rationalisation might help? Are you setting about a rationalisation?

Mrs Ghosh: As the Report said, just to take a couple of examples, on the question of the industry levy boards, the agricultural levy boards, the Meat and Livestock Commission and so on, we have already done some rationalisation. Obviously that is not an area on which we have to spend, but it does take, as it were, administrative and managerial time and therefore resource, and the new body will be set up in April. We have recently launched on the back of thinking about our budget for 2008-09 a review, to use the rather dreadful term, of the landscape on delivery bodies on climate change. I was in front of the Committee recently with Tom Delaney of the Carbon Trust. We are looking at that whole range of bodies—WRAP, Carbon Trust, Energy Savings Trust—to see if there is not some possible rationalisation there. Otherwise, we would say that our delivery bodies, particularly our NDPBs, are there with a clearly defined purpose and rationalisation beyond the Hampton rationalisation we are already doing in some areas would not necessarily produce more effective outcomes for customers.

Q6 Chairman: So the British Potato Council is going to go on, is it, and things like that?

Mrs Ghosh: Within the new future structure around levy boards.

Q7 Chairman: Do you think it would be helpful if you had more non-executive directors on your management board, more people who can question what you are doing rather than just barons from one side of the Department, people perhaps with outside private sector experience?

Mrs Ghosh: We have three non-executives. My board, as again the Report says, has eight executive members, chaired by me, and currently three non-executive members, with a fourth vacancy. Two of

the three non-executives have private sector experience. The chair of our audit committee, who has a Unilever finance background and Poul Christensen, who is a businessman, a farmer and Deputy Chair of Natural England, are both non-executives and perform an extremely useful and challenging challenge function. The third is Alexis Cleveland, who is from within government; she works in the Cabinet Office on service transformation, and brings change experience from The Pensions Service. We have a fourth vacancy which we are in the process of filling, again where we will be looking for private sector experience.

Q8 Chairman: Mr Park, you are getting a grip on this now and you are going to stay within your expenditure limits for 2007–08 are you?

Mr Park: I am getting to grips with the issues and, yes, we will stay within the expenditure limit.

Q9 Chairman: If you are so good at your job, why are you leaving?

Mr Park: I was appointed into this role in an interim capacity to address the issues within the Department. It was always the intention that a permanent successor would be appointed.

Q10 Chairman: How long have you been in this job?

Mr Park: I arrived here 10 months ago.

Q11 Chairman: When are you leaving?

Mr Park: The date of my departure is not yet agreed but my successor has accepted the offer.

Q12 Chairman: Is it a good moment to leave at a key moment in this implementation programme? Mrs Ghosh?

Mrs Ghosh: I think it is a very good time. It is not that it is a very good time for Stephen to leave because he has done a wonderful job, but the permanent successor we have recruited, again from the private sector, will be joining us in mid-May. Stephen is committed to staying with us long enough for us to close our accounts early, which we are committed to do, and is, in true professional spirit, committed to staying with us until we know that is happening. By the hand-over period, we will already have had almost one quarter's experience of managing our budget for 2008–09 and we should have time for a good hand-over between Stephen and the permanent replacement. We think that is the best time that we could have picked.

Q13 Chairman: Mr Park, why should we have any faith in your improvement programme when we had a Treasury review in 2005, all sorts of lessons were apparently instilled into your Department, and yet this mismanagement happened after this Treasury review. Why should we hope to expect anything better from your present review?

Mr Park: The Report very fairly sets out not only the issues in the previous year but also the actions that we have taken in 2007-08. A number of those actions are intermediate steps to proving that the outcome will be good by the end of the year, and so

Department for Environment, Food and Rural Affairs

we now have a much more robust month-end process. We are seeing the benefits from that in the way that the information goes to the management board and the way that the board uses the information. We have completed the interim resource accounts based on the December quarter end; the NAO has been reviewing those accounts and is satisfied with the progress that we are making to resolve those outstanding issues. We have also put in place a number of qualified accountants within the Department to make sure that we embed financial management across the decision-making process. Finally, as part of the renew programme, we are improving the financial management training and development across the Department. This is not a superficial fix. This is working within the Department to ensure that the processes remain in place and are built on in 2008–09 and beyond.

Q14 Chairman: That is wonderful. May I ask the Treasury, please, to look at paragraph 1.5? Does it not worry you that it tells us there that in 2005: “the Treasury undertook a review which identified the need to embed financial awareness across the Department with fully trained and accountable budget holders”. Do you not feel frustrated from the point of view of the Treasury that apparently all this work was wasted on this Department?

Ms Diggle : It is certainly worrying that we did not spot everything, but then it is very hard to spot every problem that might crop up, but I am satisfied that Defra is now putting in hand a programme to put things right.

Q15 Mr Williams: When will you have a set framework in place to monitor all your delivery bodies in a consistent way?

Mrs Ghosh: We are well down the track of having that framework in place. As the Report I think makes clear, and particularly with our largest and biggest spending delivery partners, whether it is RPA, Animal Health within the Department or Environment Agency and Natural England outside the Department, actually the dialogue between the departmental owner of the body and the body is a very active one. There is active engagement on budget setting and targets for coming years. We adopt what we call an earned autonomy model so that when have a well-established, long established and obviously well run organisation, of which the Environment Agency is obviously one, then we do not breathe down their necks all the time but we do maintain a framework of financial information and reporting. We now have regular performance discussions not only between officials but also now between the Secretary of State and these bodies. In some other cases, given the youth of some of our bodies, we do more hand-holding. I think that the developments and improvements we have seen, for example in the Marine and Fisheries Agency is a good example of that. It is horses for courses and the sponsorship team within the Department and in the organisation will have a slightly different relationship, depending on the maturity and the risks, frankly.

Q16 Mr Williams: How far is your fundamental problem a lack of financial specialists? You seem to be rather deficient in qualified accountants. When do you hope to remedy that?

Mrs Ghosh: In the core Department, i.e. in as it were the 3000 bit of us who are the policy delivery team effectively, we have 27 fully qualified accountants and 29 members of staff, and we are very committed to this, in training for full accountancy qualification. We have some interims, including Stephen Park; and then out in the Agencies we have about 48 qualified accountants. What we are trying to do is not only as it were have the numbers but also embed those people in the right places. As Stephen has said, one of the things we have done as part of our improvement programme is to put qualified accountants alongside the business parts of the organisation. So each of my directors general has a qualified accountant and a small team, which I imagine will include some qualified accountants, looking at the spend of that bit of the organisation. I think we are fairly normal across government in terms of the proportion of qualified accountants we have.

Q17 Mr Williams: When will all the finance directors across the Department be qualified?

Mrs Ghosh: All of the finance directors across the Department are qualified, and indeed as part of the renewal programme the new Director General Finance will be running a very well focused continuous professional development scheme for anybody with financial responsibilities.

Q18 Mr Williams: What about training of support staff? Is that adequate, do you think?

Mrs Ghosh: Perhaps the answer to that is that you can never do enough. One of the things that I am certainly going to encourage myself and my management board colleagues to do is some very good on-line training which the Treasury has put out called *Love Learning*, which is a very good financial management package that you can do at your desk. What we would like to encourage anyone who has financial management responsibility, even though they may not be formally in a FD (Financial Director) role, is to do that kind of training. We need to improve our skills across the Department.

Mr Park: We already have in place and will continue for future years financial training for SROs (senior responsible officers) on the projects to make sure that they understand precisely how financial management should work. We provide refresher courses on that work.

Q19 Mr Williams: Is there much identified scope for rationalising the number of delivery bodies you have? There are so many of them.

Mrs Ghosh: As I was saying to the Chairman, we have done some rationalisation and we are looking at the possibilities of doing some more, particularly where both in the eyes of the customer and in terms of the Department it is not necessarily entirely clear what the distinction between them is. The climate

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change area is one such instance, but we are always looking for opportunities because of the administrative overhead.

Q20 Mr Williams: With so many of these delivery bodies, is it appropriate that 60% of your budget resources go on the Department itself?

Mrs Ghosh: That is an interesting take. In one sense, one of the challenges of managing our money is that so much of our money, as you say a high percentage, is paid out at the start of the year effectively, is committed at the start of the year, to delivery bodies. That means you have to be absolutely sure, which is what we were not in 2006–07, that you can afford the money that you have given them. Once you have given the money to the delivery bodies and they are busy making plans to spend it, your scope when you realise you have over-committed is that you have essentially either, as we had to do then, to take the money away from people and disturb their plans or focus your reductions on the rest of the Department. I think it is probably an appropriate balance. If one were to hand out more money through delivery bodies, there would be greater financial management challenges to it.

Q21 Mr Williams: What challenge do you have for establishing clearer key benchmarks to enable you to monitor the bodies?

Mrs Ghosh: As I said earlier, we have very clear benchmarks set in the business plans that we approve at the start, generally speaking, of every year for the key outcomes we want the various delivery bodies to deliver. It is not necessarily the case that you would want exactly the same set of key performance indicators from every body because clearly a certain level of flood defences maintained to a certain level is appropriate for the Environment Agency; something completely different would be appropriate for the Marine and Fisheries Agency and its surveillance of illegal fishing. You have to have a slightly different set of KPIs for all bodies, but essentially there has to be a culture where they understand that it is a contract; they have to understand what our commitments are and what their commitments are, and that those might change over time. That is the kind of relationship we are trying to develop. I do not know whether Stephen has anything more to say strictly on the financial reporting.

Mr Park: It has to be proportionate to the risks within the individual departments. What we have found, and I think what the NAO study reports, is the largest delivery bodies have much better risk management regimes. That enables us to work with them along the lines that we have. For those organisations which are smaller and have different risks, we have to approach it a different way. What does come out of the Report is that for those areas where we need to have a very good relationship with clearly defined roles and responsibilities, that works very well. I would also add that as part of the Financial Management Improvement Programme, we are increasing the frequency with which we

gather all of the finance directors together to share best practice and actually to use that as a forum for improving the way we work as a total entity.

Q22 Mr Williams: You referred to the smaller bodies. Do you have specific proposals in mind to improve the oversight of the very small bodies?

Mr Park: To answer that in two parts, one, we look from the corporate governance point of view, we have an ownership strand for each of the interfaces with those bodies as well as a customer strand, and alongside that we also have the financial management and financial delivery side of it. On the financial management side, we do encourage those bodies to share best practice between them. Once again, it is proportionate. Something which a large body has done is quite difficult for a small body to implement but they can and do share best practice between them in terms of getting better procurement by grouping together and getting better policies by grouping together. The signs of that working are encouraging.

Q23 Chairman: On that list that Mr Williams referred to you have got here the National Fallen Stock Company, which employs just two people and spend £14 million a year, £7 million per employee. What are they doing?

Mrs Ghosh: I think I can send the Committee a detailed note on this.¹

Q24 Chairman: Have you ever heard of them?

Mrs Ghosh: I certainly have and indeed I will use a modern term: I speed-dated the Chief Executive of the National Fallen Stock Company at a recent conference that we had.

Q25 Chairman: The Chief Executive and one member of staff?

Mrs Ghosh: No, just the Chief Executive, and we had a discussion. We were talking about the future of the National Fallen Stock Company. I believe it to be the case, but I will come back to the Committee on this, that the plan always was that, as it were, in the end they would be dissolved, disappear and move entirely into the private sector. I will come back to the Committee on that.

Q26 Chairman: There are others such as 49 people in the Covent Garden Market Authority, and they spent £12 million.

Mrs Ghosh: And made a profit I think, as it points out in the text.

Q27 Chairman: Why don't you put them in the private sector then if they made a profit?

Mr Park: Because this is how they were set up.

Mrs Ghosh: It would no doubt need primary legislation to change it because they seem to be operating very successfully.

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Q28 Mr Davidson: Mention is made here of the aims of the *Renew Defra Change* programme. One of the strands is defining the Defra way of doing things. Can I be clear about the Defra way of doing things in the past? As I understand it, because they were unable to spend their money, there was a tradition of under-spending, and so to compensate for that you over-allocated, and then, as you got better at avoiding the under-spend, you were heading for an over-spend and had to make cuts in the middle of the year. Was anybody sacked as a result of that?

Mrs Ghosh: As you know and as the Report points out, I made significant changes to the finance team and that was marked by Stephen's arrival.

Q29 Mr Davidson: Was anybody sacked?

Mrs Ghosh: Let me just go back. I think the question of over-allocation was as much a cultural matter, and indeed we would take responsibility for this, as an issue about the organisation at the highest level, at the management board level, understanding that the world had changed and making allowance for the challenges that, as the Chairman said at the beginning, were likely to crop up mid-year. There were significant changes made to the finance team.

Q30 Mr Davidson: Was anybody sacked?

Mrs Ghosh: No, nobody formally was sacked because I did not think it was appropriate. I did not think it was a disciplinary matter.

Q31 Mr Davidson: Were they all promoted?

Mrs Ghosh: No, they were not promoted. They left the Civil Service.

Q32 Mr Davidson: They left with full pensions, no stain on their character?

Mrs Ghosh: Under the normal terms of early departures from the Civil Service.

Q33 Mr Davidson: Mouths stuffed with gold?

Mrs Ghosh: Just to go back, as I said in my introduction, although it was extremely bad financial management to have to withdraw what was in fact a small proportion of our overall budget—

Q34 Mr Davidson: How much was it altogether?

Mrs Ghosh: £170 million out of a total budget of £3 billion.

Q35 Mr Davidson: That is a fair whack of money, is it not?

Mrs Ghosh: The fact that our delivery bodies had to re-allocate their spend was a challenging time; we could have told them *n* months earlier but it would not have made any difference to the outcome. In those circumstances it was not, in my view, the kind of failure in financial management by the professional team involved that would have justified that kind of disciplinary action. That was my judgment as Accounting Officer.

Q36 Mr Davidson: I accept that it was no theft and it was not misjudgement of that sort, but describing it as a cultural issue is a way of smoothing away the

fact that essentially these people were asleep at the wheel, were they not? You did indicate that times had moved on. For these people in that Department at that time, it was essentially Sleepy Hollow. The world had changed round about them and they had not changed with it. What you did was to stuff their mouths with gold and then they left. I can understand why that was done but would that happen in the private sector, do you think?

Mrs Ghosh: I look to Members of the Committee who have worked in the private sector, but one does see things like that happen in the private sector, yes. What I was doing was operating under the terms of the compensation arrangements in the Civil Service to which I have to adhere. As I say, my judgment as Accounting Officer was that this was a broader issue. It was an issue for the management board; it was an issue for us to work with ministers. We recovered the position. We ended up in the year spending across resource on budget and therefore it seemed to me that was the appropriate action. That is my judgment.

Q37 Mr Davidson: I understand the point of the action but it was a question for the management board. Were the management board asleep at the wheel?

Mrs Ghosh: As I said, and I said this to the EFRA Select Committee—

Q38 Mr Davidson: A simple yes or no would be sufficient.

Mrs Ghosh: We were not sufficiently aware of the difference in the financial context in which we were operating. We were also, at the time, dealing with a wide range of other issues; for example, the issues at the Rural Payments Agency and—

Q39 Mr Davidson: That is what you are paid for. When I ask: “were they asleep at the wheel?” and you tell me they were not sufficiently aware, that is a “yes”, is it not, really? These people were asleep at the wheel because they were not sufficiently aware that the world had changed. I understand that other things were going on. Other things go on all the time. Can I just turn on to these other things that were going on? When the Chairman asked about contingencies and the like, what I am not clear about, to use Donald Rumsfeld's phrasing, is how many of these things were unknown knowns, as it were, and how many of them were unknown unknowns? How many of these things could not have been anticipated by any reasonable person who was not asleep at the wheel and how many of them ought to have been anticipated and a contingency arrangement made for them?

Mrs Ghosh: The biggest unknown unknown—I am trying to remember Mr Rumsfeld's terminology—was of course the impact of the problems at the Rural Payments Agency, which only came to light towards the end of March. As the Chairman was saying, in some senses in a department like ours, one should have some provision—an unallocated provision—for the kind of emergencies we deal with, which is why we have put £50 million in the budget

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for next year. I come back to the point: had we done that at the start of the year, we would simply have taken £170 million out of the budget at the beginning of the year; the delivery bodies from whom we took the money would not have had more money to spend; they would just have not had it at the beginning of the year. There was not a world in which we could have dealt with those unknown knowns and given them all that money, because we would have to have fitted it within our budget for that year. It is a zero sum game.

Q40 Mr Davidson: So everything was fine then?

Mrs Ghosh: No, it was absolutely not fine.

Q41 Mr Davidson: I have some difficulty. Every time I raise something that causes me concern, you seem to be able to talk it away. I think that simply an admission that things were really pretty terrible and you have sorted it out now would be very helpful, rather than just simply a flat denial that anything was wrong.

Mrs Ghosh: I am not for a moment flatly denying that anything was wrong. As I said here and I have said in other parts of this House, I very much regret that we had to withdraw £170 million from these delivery bodies. It had the impact that the Report describes. That was clearly an example of poor financial management. That is what has incentivised me to drive through personally, with Stephen and my management board, this Financial Management Improvement Plan.

Q42 Mr Davidson: Several times you have touched on the question of cultural issues inside the Department. Those of us who have had any experience of the way in which you deal with farmers are aware of a number of cultural issues where you are frequently taken to the cleaners by farmers. Have those sorts of cultural issues been resolved as well as the cultural issues of it being just sloppy on expenditure? Will we expect to see a high speed, up to date department from now on that does not give room for these sorts of errors?

Mrs Ghosh: In terms of financial management, you will see improvement—the programme to deliver that is set out in the Report. In terms of managing our portfolio of activity, which is the basis on which we are moving forward into CSR 07, you will indeed see a much tougher both financial and outcome monitoring system by the management board—we would be happy to share with the Committee examples of how we will be doing that—and also very intensive business case development for new projects, which means that we will be much more certain before we approve an activity what it is going to do for us, how much it will cost, what the risks are, what the impact on customers is. Across the piece, we will be implementing a much more rigorous approach to what we do in order to provide better value for money for taxpayers.

Q43 Mr Davidson: If we have another outbreak of mad cow disease or something similar, do I take it then that your financial processes will be sufficiently robust to avoid us being fleeced by farmers and contractors and so on in future?

Mrs Ghosh: As you know, we learnt a great many lessons from the 2001 outbreak. We have done a lot of things in terms of the rules around compensation to avoid some of the problems we had in 2001. We are very active, as you know, with the farming industry on the responsibility and cost-sharing agenda. We will be taking out of the CSR budget around £120 million by the end of the period in animal health costs that will be met by the industry rather than government, but it is very much a question of working in partnership with the industry and at all times thinking about the risks and incentives that will be built into the system.

Q44 Mr Davidson: The partnership we had with the industry before was that they had their hands in your pockets, which is not necessarily the sort of partnership that we want to see. Are you quite satisfied that we will not have that again?

Mrs Ghosh: I am satisfied that in terms of policy in financial systems that is the case and things, for example, like tabular compensation rates rather than individual compensation rates for animals, except in exceptional cases, is one instance where that is the case.

Q45 Mr Davidson: I remember a long time ago reading *Management and Machiavelli* by Anthony Jay, and I see that you did a degree in mediaeval Italian history—

Mrs Ghosh: As I said to the Chairman at my last appearance, it was sixth century Italy I did.

Q46 Mr Davidson: I see! That is before the Machiavellian period?

Mrs Ghosh: No, that was the Ostrogoths.

Q47 Mr Davidson: I am not familiar with that. Possibly there are some of their descendants in my constituency but I am not aware of that directly! One of the issues I remember from my *Management and Machiavelli* was the extent to which having so many powerful barons could cause substantial difficulties. I wondered about the extent to which it is possible for a department such as yours, with so many as it were powerful barons, to keep genuine supervision of them while, at the same time, allowing them a degree of discretion, flexibility and decentralisation. I wondered if you could give us your view on whether or not the balance that we have at the moment is right, that tension between being held accountable for everything we do, while on the other hand wanting to give them a degree of discretion to manage their own affairs.

Mrs Ghosh: That is particularly in relation to the NDPBs, the Environment Agency?

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Q48 Mr Davidson: Yes.

Mrs Ghosh: Yes, I do think at all times it is a balance. The decision by ministers, by Parliament, to set up non-departmental public bodies (NDPBs) is precisely because you want them to have a level of independence. If you did not want them to have a level of independence, even though sometimes it is politically uncomfortable, you would not set them up as NDPBs. I think what you have to have is a management reporting system that is consistent with the organisation, clearly understood, and a very clear understanding about what their freedom of manoeuvre is—when can they stand up and criticise the government, when would we expect them not to, when are they our statutory advisers—and then build extremely good relationships. I have come from the Department where Sir Martin Doughty and Helen Phillips, the Chairman and Chief Executive of Natural England respectively, were having one of their regular series of meetings with Hilary Benn, ministers and the management board just to talk in a very informal way about our joint challenges where Natural England can help across our broader agenda and have that very open discussion. I think it is a combination of those three things.

Q49 Chairman: Mr Davidson has a point. I think that you do have a tradition of being a rather bureaucratic and top heavy department. Do you really need in the Rural Payments Agency the best part of 5,000 civil servants to manage payments, subsidies, given to just over 100,000 farmers? I know we have had this conversation before but I just cannot resist asking you again.

Mrs Ghosh: As we have discussed it in front of the Committee before, over time, the plan is that we will significantly reduce that number of people. One of the reasons we have exceeded our headcount reduction target for the SR04 period is that Tony Cooper has been able to identify I think more than 200 additional staff that he can now lose because of the improvement programme there. Again, the NAO Report made clear that by the end of the CSR 07 period, it is expecting to have lost at least another 1,000 staff, operating on SPS (Single Payments Scheme).

Q50 Nigel Griffiths: In 2005 the Treasury highlighted the financial problems within the Department that led to persistent under-spending. We had the MoD in here on Monday over their several billion pounds over-spending on things. Can you give them any tips?

Mrs Ghosh: In some senses, I would be very loath to give my colleagues in the MoD tips. Both under-spend and over-spend are best tackled through very good project management, by being able (again as this Report and the Treasury guidance on good financial management always makes clear) to set a clear budget, having clear milestones, understanding what your outcomes are to be and sticking to them and monitoring them extremely carefully. I think it would be true to say that although we were I think across government pretty innovative in how we

applied project management techniques to what were very often policy related projects, we were not as smart, in the technical sense of the word, about it as we should have been and that is what we are doing in the renew programme. I know the MoD are also excellent project managers, so I will not answer for them.

Q51 Nigel Griffiths: In Appendix 1 there is list of all the bodies, six of which have under 30 employees and 27 advisory tribunals have an average of two. Do they have harmonised HR systems for payroll, sickness and things like that? Are they using all the same systems via your colleagues centrally, and if not, why not?

Mrs Ghosh: As you may be aware, we have set up— we set up several years ago—a shared services organisation, which in the long term we are aiming should serve most of the Defra network. For example, it serves Defra; it will serve most of our agencies by the end of this year; it serves Natural England. On the question of whether one would bring into a single HR service centre all these smaller organisations, which are in many cases very independent, no doubt it would be quite difficult. There would be real issues about whether that was value for money.

Q52 Nigel Griffiths: How does the payroll for two people in the National Fallen Stock Company work?

Mrs Ghosh: I do not know. I can certainly cover that in the letter I send you².

Q53 Nigel Griffiths: And the National Food Crop Centre? What about the risks of delivery analysis, which is highlighted on page 17? “Each Agency maintains a register of its key risks to delivery, but we found that the sponsor teams have not routinely drawn on this information to assess whether delivery bodies are likely to achieve the levels of performance . . .” Has that been tackled?

Mrs Ghosh: Yes. That goes back to the discussion we had earlier about having a more standardised basic set of information that we get and now the corporate owners, meaning in the case of our big agencies the relevant Director General, will be having exactly those sorts of discussions with our key delivery bodies. Many of the risks that are high risks on their delivery registers will of course also be high risks for the Department and therefore will appear on our own systems of risk register against projects.

Q54 Nigel Griffiths: What is the blueprint? Is it quarterly or half-yearly checks?

Mrs Ghosh: At management board level across the department, simply because with monthly checks you would not necessarily get enough interesting or changing data or be able to see patterns, we certainly

² *Note by witness:* As of 1 April 2008, the Company’s administration has been outsourced, after proper competition, to the private sector—prior to this it received administration support from the Rural Payments Agency. This means the private sector company uses their own payroll software, and can then recharge payroll costs to NFSCo together with other administration costs.

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focus on quarterly performance monitoring, although we get monthly performance monitoring on financial matters, which is also true of our delivery network. If you are trying to look at how the outcomes are being delivered against those financial and staff inputs, we look at that quarterly. I imagine that that is pretty standard across our delivery agencies.

Q55 Nigel Griffiths: What exactly is the sponsor team?

Mrs Ghosh: Let us take an example of the Environment Agency, and I will explain the structure of that. I have a Director General who is responsible for the Natural Environment Group, Peter Unwin, and within his group comes sponsorship of the Environment Agency. He is the corporate owner and maintains very regular dialogue with Barbara Young, John Harman and senior managers there. Then he has an SCS-led team (Senior Civil Service) who are responsible for the day-to-day relationship with the Environment Agency, which actually works across so many ranges in the Department that there will be a number of other people who are talking to the Environment Agency. The Senior Civil Service sponsor and her team make sure they know what all the dialogue is, so that you could not get the waste people asking the Environment Agency to do bits of one thing and the flooding people asking them to do another without somebody understanding what the totality of demand is. That is how it operates within the system. Every body has a structure broadly like that.

Q56 Nigel Griffiths: In this agreed Report with the NAO it states that sponsor teams could better review each month whether the forecast spending for the remainder of the year is likely to be achieved. Are you saying that is being done or that you are working on it?

Mrs Ghosh: That has been done. As the Report says, and I think we have even better information now, the regularity of financial reporting from our delivery bodies is now massively improved.

Mr Park: They are now delivering their Reports on time each month.

Q57 Nigel Griffiths: Can we go through the recommendations on page 7, paragraph 15, which sets out the six recommendations. Can you tell the Committee what is being done to achieve those?

Mrs Ghosh: Certainly. We have done the first one for 2008-09, which we did on 21 February. We are talking to the various delivery bodies on how they would best like us to give them guidance for their budget for 2009-10 and indeed 2010-11 but we will be likely to be giving them an indication of that towards the beginning of the coming financial year and then confirm it later in the year. They and directors in the Department already have their budgets for 2008-09. They fit with our strategic objectives because that is how we planned the budget and we can track them against each of our departmental strategic outcomes. We have developed, as I said, through our portfolio

prioritisation system the third item, and that supports just the basic financial Reports we will get every month through Stephen's team. I had already set last year my number one objective and that of my management board, which is to live within our means. The letter I will be sending to senior responsible officers for the budgets shortly will say that that is their number one objective, to manage and finance effectively, and it will be one of the objectives, the most important objective probably, against which they will be judged. We talked about skills. I have talked about (v).

Q58 Nigel Griffiths: I will let you do (vi) in a moment. If we go back to my initial question, how is this being managed for all the organisations with two, nine and 14 members of staff?

Mrs Ghosh: To go back to the table you were showing, and I was not on the ball enough to make the point at the time, we are really only interested in the bodies to whom we give money, and we are most interested in the organisations to whom we give most money. So as Stephen said, the main way that we have driven this financial management improvement is through the network of financial directors, which Stephen has led, supported by those sponsorship teams that I described. The National Fallen Stock Company and the British Wool Marketing Board are essentially private sector companies and so rather in the way we do with the Carbon Trust, we will give them any support that they need in terms of finance, we will be buying services from them in some way; we will agree on the outcomes we want; and they will be on a looser rein than the bodies that are actually direct deliverers.

Q59 Nigel Griffiths: Are you saying that the National Fallen Stock Company is more likely almost to have those two employees working with private sector support?

Mrs Ghosh: Exactly. These are all private sector companies. Clearly we pay a lot of attention to the Carbon Trust, of which the gross expenditure is £100 million and it is one of our key delivery organisations, and indeed we have a member of staff who is on the board. Going back to the point about proportionality, it will be different across those organisations.

Q60 Nigel Griffiths: The real question, and a note may help on this, is: does something like the National Forest Company with 18 employees have to spend a disproportionate amount of management time or expense on those 18 employees that would be better pooled? In other words, if they could draw on a larger HR resource, would their £4.5 million go further?

Mrs Ghosh: As I said earlier, we have a shared services organisation and we are gradually drawing more of our delivery bodies into it where it represents good value for money. I can certainly take away the question of whether or not we have specifically had that discussion.³

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Q61 Nigel Griffiths: Just to probe you further on that, where somebody has 2,323 employees I might not be asking this question—

Mrs Ghosh: And indeed they are part of the shared services organisation—Natural England. The question is: is it worth bringing on board into a shared services organisation—I would put the private sector organisations to one side—the 15 members of the Horticultural Development Council? It may or may not be. They might have satisfactory arrangements themselves, possibly outsourced.

Q62 Nigel Griffiths: It would be helpful to know. I interrupted you. To return to paragraph 15 on page 7, I think you had covered (v) and you were going to cover (vi).

Mrs Ghosh: I think we have covered (v) through the discussion of how the sponsorship role works. As the Report says, the Financial Management Improvement Programme has a project board on which the Chair of the Audit and Risk Committee and myself sit with two DGs and non-executives. They are intimately involved in the financial management improvement. We will obviously be

taking forward the recommendation here, and set out in more detail in the annex, on how we can make sure that the committee as a whole is receiving regular Reports.

Q63 Nigel Griffiths: How often does the management board meet?

Mrs Ghosh: The management board meets monthly.

Q64 Nigel Griffiths: Are these six items in front of them on a permanent basis?

Mrs Ghosh: All of the management board are aware of these recommendations and two of my DG colleagues on the management board are also on the Board of the Financial Management Improvement Programme and so, yes, there is very good visibility of these recommendations.

Chairman: Thank you, Mrs Ghosh, that concludes our inquiry. Thank you for your typically, from you, competent and confident way you have dealt with our questions. This was not your fault but clearly good financial management is essential in government and the Department failed to balance its books. We expect you to perform a lot better in the future and we have confidence in you.

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

Question 23 (Mr Edward Leigh): *National Fallen Stock Company*

The National Fallen Stock Company is a “not for profit”, farmer-led organisation. It delivers a national service for the collection and disposal of fallen stock to help farmers and horse owners comply with the regulations which prevent on-farm burial of dead stock. It is funded through subscriptions from farmers, with a Government contribution of 10% of the cost of collection (increased to 20% from mid-February to mid-May 2008 during the spring lambing and calving period).

The Government’s contribution will cease from November 2008. From 1 April 2008, the Company’s administration has been outsourced, after proper competition, to the private sector. Prior to that it received administration support from the Rural Payments Agency.

Further details are available from its website: <http://nfsco.co.uk>

Question 60 (Nigel Griffiths): *National Forest Company*

Defra’s shared services organisation came into existence in April 2007 and has focused in its first year on the stabilisation and improvement of services to its initial customers with the Defra Network (including the Core Department, Animal Health (Executive Agency), and Natural England (NDPB)).

We are now discussing migration to shared services with other network bodies, but have as yet not spoken with the National Forest Company or the Horticultural Development Council about this.

The benefits of buying services from a shared service organisation vary, according to size and governance arrangements. For our own Executive Agencies, we have a policy that they will take service from Defra’s shared service organisation, unless there is a better value alternative. Natural England (an NDPB) is also already a customer.

Our analysis indicates that the largest benefit to the taxpayer arises from migrating Agencies with larger transactional volumes, particularly where their need to upgrade systems is most pressing. For other bodies listed in the NAO Report, their financial and statutory independence from Defra (the NAO reported gross expenditures, not the body’s contribution from Defra) will be probably the determining factor in their decision. We would need to decide on the value for money of migrating very small service activities within the shared service organisation.