



House of Commons  
Environment, Food and Rural  
Affairs Committee

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# **Defra performance in 2014–15**

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**First Report of Session 2015–16**





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*Report, together with formal minutes relating  
to the report*

*Ordered by the House of Commons to be  
printed 9 December 2015*

**HC 443**

Published on 15 December 2015  
by authority of the House of Commons  
London: The Stationery Office Limited  
£0.00

## The Environment, Food and Rural Affairs Committee

The Environment, Food and Rural Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Environment, Food and Rural Affairs and associated public bodies.

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### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/efracom](http://www.parliament.uk/efracom) and by The Stationery Office by Order of the House.

Evidence relating to this report is published on the relevant [inquiry page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are David Weir (Clerk), Matthew Clay (Second Clerk), Sarah Coe (Senior Committee Specialist), Anwen Rees (Committee Specialist), Ellen Bloss (Senior Committee Assistant), Holly Knowles (Committee Assistant), and Nick Davies (Media Officer).

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## Summary

Defra's budget for day-to-day spending is to be cut by 15% over the next four years. This will be difficult to achieve since total budget reductions of about a quarter during the last Parliament have already identified easily achievable savings and removed the more obvious inefficiencies across the Defra family.

Defra is one of the smaller government departments, with Exchequer funding of just over £2 billion, but it performs vital functions. We endorse the Defra Secretary of State's vision for a world-class food and farming sector, a robust rural economy and an enhanced natural environment. Managing environmental and rural economy issues together can help deliver that vision but this, together with meeting the challenges of protecting the UK from natural hazards, requires adequate resources. Protecting the nation against, for example, flood and animal or plant diseases carries multi-million pound costs; the costs to the economy, society and the environment of not doing so may, however, be even greater. The challenges facing Defra are first whether the reduced budget available to it is sufficient for its task, and second how to make the correct policy choices so as to allocate smaller funds effectively.

We have so far received only the barest details of how Defra intends to provide services against budget cuts over this Parliament and on whether it can find all the necessary savings from administrative efficiencies or if it will also need to alter the services it delivers or how it charges for them. When these details become available in the New Year we will examine them closely. Defra will need to provide us with firm evidence of an effective plan for the future delivery of vital services for the environment, agriculture and rural communities. We look forward to a constructive dialogue with the Secretary of State, her ministerial team and officials.



# 1 Introduction

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1. Defra's Annual Report and Accounts for 2014–15 set out what the Department achieved during the last accounting year of the 2010–15 Parliament, a period of Coalition Government.<sup>1</sup> Since then, a new Conservative Government has come to office and, on 25 November 2015, the Chancellor of the Exchequer announced future funding for Defra to 2019–20 which will mean a reduction of around 15% in the Department's day-to-day spending over four years.<sup>2</sup> This report considers Defra's financial and policy performance during 2014–15 and looks ahead at the decisions facing the Department and its ministerial team in the new financial environment.

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1 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014–15*, [HC 30](#)

2 HM Treasury, [Spending review and autumn statement](#), 25 November 2015

## 2 Delivering Defra’s vision

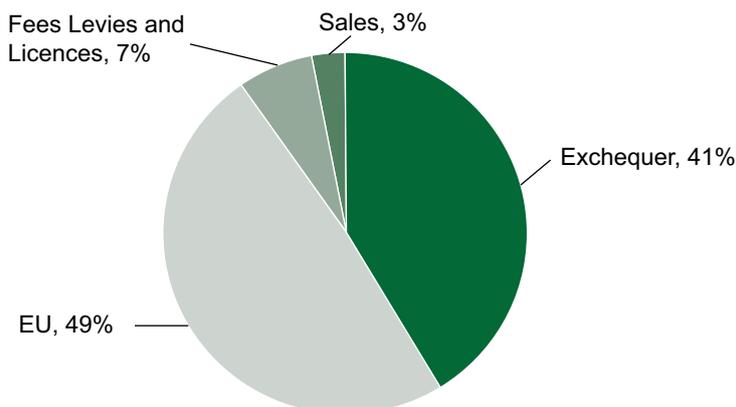
2. Defra’s 2014–15 Annual Report and Accounts set out the priorities for the Department and its performance against them during the last reporting year of the Coalition Government. The Department states that its priorities are “leading the world in food and farming; protecting our country from floods and animal and plant diseases; improving the environment; and championing the countryside and improving rural services”.<sup>3</sup> The Secretary of State, Rt. Hon Elizabeth Truss MP, speaking to the Conservative Party Conference in October set out her own priorities, highlighting in particular the role of farming in the rural economy and environmental protection.<sup>4</sup>

3. The Secretary of State told us later in October that Ministers operating under a Conservative as opposed to a Coalition Government could be “bolder and more ambitious” in their vision, linking together policy areas such as the natural environment and rural productivity. She noted progress made during the last Parliament in reducing red-tape for farmers and introducing food enterprise zones,<sup>5</sup> but she told us that challenges remained, included reducing the 18% productivity gap between rural and urban areas and providing effective flood and animal disease protection.<sup>6</sup>

### Defra funding and spending

4. Defra had access to nearly £6.3 billion of funding in 2014–15,<sup>7</sup> of which only £2.6 (41%) billion came from the Exchequer.<sup>8</sup> Nearly half of all spend under Defra’s portfolio (49%) came from EU sources, principally for agricultural and environmental work. Last year, the UK received £3.1 billion in Common Agricultural Policy (CAP) and Rural Development Programme funding, of which £1.1 billion went to the devolved administrations.<sup>9</sup> Another important source of funding is income from fees, levies and licences. A total of £421 million of Defra’s funding (7%) came from fees, levies and licences last year.<sup>10</sup>

**Figure 1: Defra source of funds (% 2014–15)**



Source: Defra Annual Report and Accounts 2014–15

3 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014–15*, [HC 30](#)

4 Politics Home [website](#), 5 October 2015

5 Q90

6 Q131, Q91

7 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014–15*, [HC 30](#), p84

8 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014–15*, [HC 30](#), p59

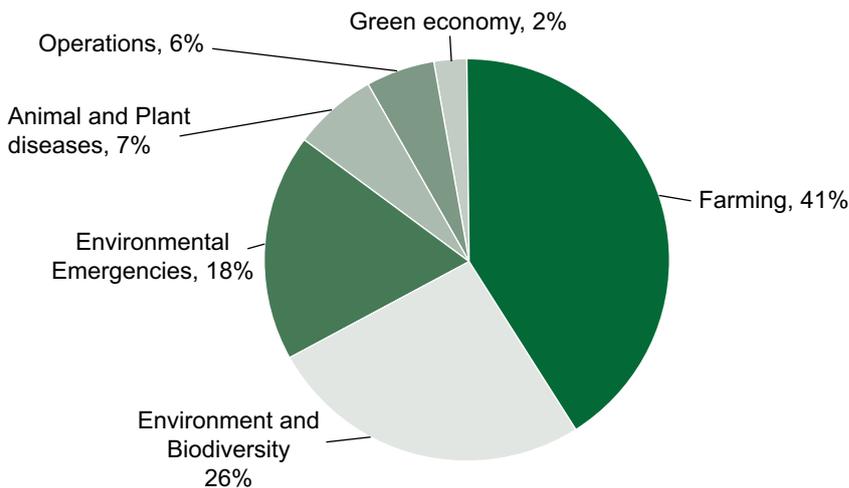
9 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014–15*, [HC 30](#), p89

10 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014–15*, [HC 30](#), p90

### Main areas of spend

5. Last year, some 41% of Defra’s Exchequer funds were spent under its farming priority. Environment and biodiversity activities took just over a quarter of spend with environmental emergencies taking up 18%. Smaller proportions went on animal and plant disease work (7%) and on the green economy (2%) with the remaining 6% supporting the Departments’ operations.<sup>11</sup>

**Figure 2: Defra gross expenditure funded by Exchequer by category (% 2014–15)**



Source: Defra 2014-15 Annual Report and Accounts

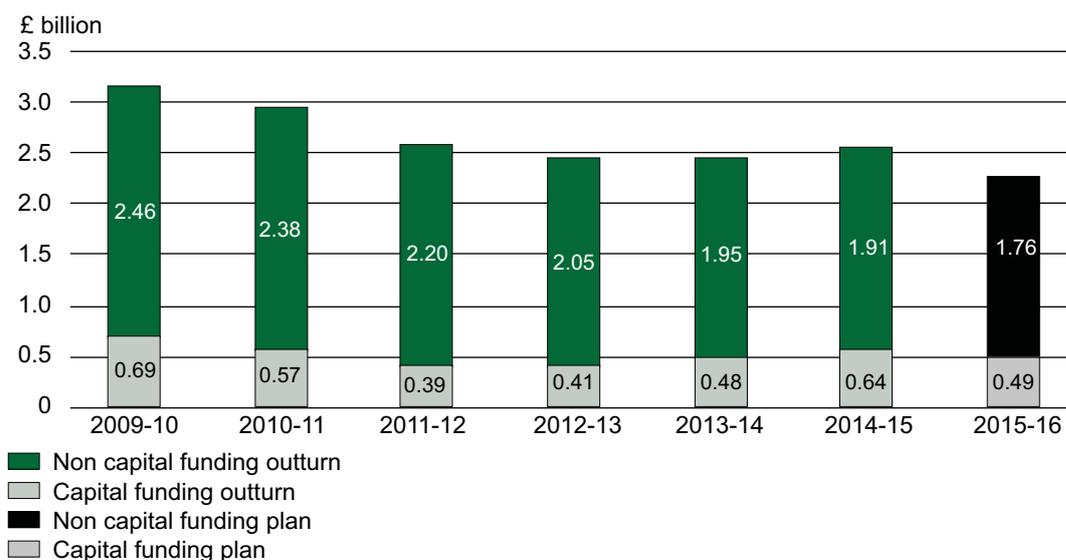
6. Funds from the UK Exchequer have been on a downward trend over the last and the current Parliaments, reducing from over £3 billion in 2010-11 to just over £2.25 billion in 2015–16.<sup>12</sup> About three quarters of that reduction came in non-capital (resource) budgets and one quarter in capital spend. The Department’s reduced resource spend over the last Parliament includes cuts of £254 million in administration spend, a 34% reduction,<sup>13</sup> with the rest of the cuts coming from service delivery budgets. Defra’s main resource budget will reduce in 2015-16 by £135 million, or by 7% compared to 2014–15, to leave it at around £1.8 billion.<sup>14</sup> This autumn’s Spending Review announcement will mean a further 15% reduction in Defra’s resource budget over the next four years.

11 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014–15*, [HC 30](#), pp63-65

12 Main Supply Estimates 2015-16, July 2015, [HC 215](#), see p433 onwards

13 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014–15*, [HC 30](#), p138

14 As above, p137. [Departmental Expenditure Limit (DEL) figure]

**Figure 3: Defra actual/planned capital and non-capital funding allocation**

Source: Defra Annual Report and Accounts core tables

## Balancing the books

7. The Permanent Secretary told us in October that Defra had submitted to HM Treasury illustrative scenarios for 25% and 40% cuts in its budget ahead of the Spending Review. The final figure announced in November is much lower. Defra’s press notice states that £123 million of savings will come from a 26% reduction in its administration budget by 2019-20 but provides little other information.<sup>15</sup> The question remains as to where the required savings will be made.

8. The Secretary of State told us of the “big opportunity” to put back-offices together, not only across the Defra family but across government. She saw “no reason why all of government cannot use the same IT system or share the same HR department”.<sup>16</sup> She summarised her solution for working more cost-effectively as “making our core smaller and more strategic, devolving more things down to the local level and making our organisation have a single plan rather than 34 different plans”.<sup>17</sup>

9. The Permanent Secretary, too, focused on bringing together as a group the various delivery bodies within the Defra orbit: the Department has a fairly small policy-making core and relies for the execution of most of those policies on a network of five Executive Agencies (such as the Rural Payments Agency), a variety of non-departmental bodies (including the Environment Agency and Natural England) and an assortment of other arms-length organisations (such as the Waste and Resources Action Programme and the National Parks Authorities).<sup>18</sup>

10. Defra has also sought to persuade us that there is potential to fill some gaps left by funding reductions by identifying funding from outside government. Defra officials cited, for example, partnership working on flood defences—mixing public and private funding, and both local and central government funding—as a means for Defra to make its money

<sup>15</sup> Defra’s Settlement at the Spending Review, [Press Release](#), 25 November 2015

<sup>16</sup> Q95

<sup>17</sup> Q95

<sup>18</sup> Q16

“go a lot further”.<sup>19</sup> The Secretary of State told us that opening up flood defence projects to other organisations such as local authorities potentially increased access to funds since flood-protection spend unlocked land that could be of massive benefit to the local economy.<sup>20</sup> Installing flood defences in areas at risk of flooding can allow developments to proceed which would previously have been inadvisable and assist in regenerating communities. Clear evidence that such partnership funding is available and is being tapped would be welcome.

11. A further source of funding for Defra could lie in increased charges for its services and those of its delivery bodies. The Secretary of State appeared to suggest that Defra’s revenues could be increased through greater cost-recovery from service users, such as farmers. She told us that she might look on a case-by-case basis at “changing” charges so as to “incentivise people to do the right thing”.<sup>21</sup> However, evidence to our *Farmgate prices* inquiry has raised concerns that many farmers are currently experiencing financial difficulties due to volatility in the prices they receive for their products.<sup>22</sup> Additional financial burdens would exacerbate these difficulties. The Secretary of State also noted that there were some services such as watercourse management where Defra wanted to give local areas permission to “do it yourself”. For example, a pilot in nine areas allowing local farmers to manage watercourses themselves, rather than having to apply for permission to the Environment Agency, was to be extended.<sup>23</sup>

12. Because the outcome of the Spending Review was unknown when we met Defra ministers and officials, we could not fully discuss with them how departmental costs will be reduced or what programmes and policies will be affected. Nor, yet, is there sufficient information available on how the gap between current and future budgets is to be bridged whether by efficiency savings or cuts in programmes or a combination of these. Neither is there much detail on which areas of departmental activity future spending cuts will impact over the course of this Parliament. We plan to return early in 2016 to the implications of the Spending Review once further details are available.

13. We appreciate the Department needed to be cautious while negotiations over future settlements remained underway. Nevertheless, for the third year in a row, we have sought to explore with successive Secretaries of State and Permanent Secretaries which of Defra’s priorities will be changed or negatively affected by continual reductions in the amount of money available to the Department. Last year our predecessor Committee said “the Secretary of State must be clearer about where budget cuts will fall and what impact this will have on Defra’s policy delivery”.<sup>24</sup> They had said much the same the year before that, when Rt Hon Owen Paterson MP was Secretary of State.

***14. We and our predecessor Committees have struggled to clarify with successive Secretaries of State and senior Defra officials their strategy for determining which policies and priorities will be altered by repeated spending reductions. We seek such a statement in response to this report now that the 2015 Spending Review has been***

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19 Q12

20 Q140

21 Q97

22 Evidence to Environment, Food and Rural Affairs inquiry into Farmgate prices, [HC 474](#)

23 Q97

24 Environment, Food and Rural Affairs Committee, *Defra performance in 2013-14, Eighth Report of Session 2014-15*, [HC 802](#), para 12

*announced and now that it is clear that Defra resource funding from HM Treasury will reduce by 15% by 2020.*

**15. We recommend that Defra publishes urgently its strategic approach for achieving the necessary reductions in its budgets for the next Spending Review period. Detailed plans for implementing this, including how administrative savings are to be made, must then be provided at the earliest possible date.**

**16. Given the scale of savings required under the Spending Review, it is highly likely that difficult strategic choices will need to be made, particularly as the more achievable cost-efficiencies have been made in response to budget reductions during the last Parliament. Successful delivery of vital environmental, agricultural and rural services will not be possible without strong leadership and a sharp focus on priority areas.**

### 3 Future financial uncertainties

17. The accounts provided with Defra’s Annual Report identify policy areas within its remit where potential future financial liabilities may fall, including possible costs arising from infringements of EU rules and regulations, relating primarily to the CAP and resultant fines (known as disallowance penalties). It takes some time for such infractions to translate into specific fines on Defra or its delivery organisations, so some liabilities already incurred are not quantifiable at this stage. Nonetheless, these penalties are potentially substantial and there is a strong imperative on Defra to develop policies to achieve compliance at the earliest point.

#### Disallowance penalties: Common Agricultural Policy

18. Disallowance penalties arise when the EU Commission considers a Member State has not taken action to control and administer CAP payments in a manner compliant with scheme rules. Although Defra has overall responsibility for managing disallowance, its delivery partners play a key role: the Rural Payments Agency (RPA) pays out all Pillar 1 and part of Pillar 2 funds, and Natural England together with the Forestry Commission administer most of Pillar 2.

19. The National Audit Office (NAO) noted in its report on *Managing Disallowance* that the UK ranks sixth highest of all 28 Member States in incurring disallowance penalties (as a proportion of total funds each receives). Disallowance has cost the UK some £642 million since 2005 in lost CAP funding.<sup>25</sup> The NAO has qualified Defra’s accounts over a number of years because of disallowance: the 2014–15 accounts are again qualified in relation to £90 million of penalties since these represent a “material loss to the Exchequer”. The latest Accounts assume a continued provision for disallowance is needed beyond 2014–15, while noting that the amount is uncertain and unquantifiable until EC audits are completed.<sup>26</sup>

20. The NAO also notes that both Defra and the RPA expect “further increases in disallowance” owing to a more complex CAP, more stringent flat-rate penalties, more audits by the EU with more controls, and more attention to the hitherto less-audited Pillar 2.<sup>27</sup> The NAO’s *Early review of the Common Agricultural Policy Delivery Programme* notes that successful delivery of the programme would have contained disallowance at 2% of total scheme value, or £44 million each year. However, the review concludes that disallowance penalties for the early years of the new CAP could be as high as 10% due to a combination of changes to the way the EU calculates penalties, delays in the RPA implementing its Land Management System, and an increased risk of error arising from the reversion to a paper-assisted digital approach for 2015.<sup>28</sup>

21. CAP simplification is a stated aim of both Defra and the EU’s Agriculture Commissioner, Phil Hogan, but the new scheme, under which English farmers started in December to receive their first payments, is widely acknowledged to be more complex than its predecessor. A mid-term review of the new CAP, including its complex ‘greening’ rules, is due to begin in 2016.

25 Report by the Comptroller and Auditor General, *Defra and the RPA: Managing Disallowance Risk*, [HC 306](#)

26 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014-15*, [HC 30](#), pp56,57

27 Report by the Comptroller and Auditor General, *Defra and the RPA: Managing Disallowance Risk*, [HC 306](#)

28 Report by the Comptroller and Auditor General, *Early Review of the Common Agricultural Policy Delivery Programme*, [HC 606](#)

22. **The new Common Agricultural Policy has a highly complex set of rules to which farmers and government agencies must strictly adhere if EU funding is not to be jeopardised. This complexity means that there is a high likelihood of further disallowance penalties being incurred which will be payable by Defra in future years. It is essential that Defra continues to press the EU for simplified CAP arrangements, including a more effective set of rules which minimise financial risk and deliver the optimum outcomes for farmers, food supply and the environment.**

23. Our predecessor Committee reported a number of times during the last Parliament on difficulties with payments to farmers under the previous CAP as well as new problems with the IT systems intended to process Basic Payment Scheme claims. We have questioned Mark Grimshaw, RPA Chief Executive, closely on the latter issue,<sup>29</sup> and he and the Secretary of State have expressed confidence that most payments will be made in the December payment window and the vast majority of payments would be made by the end of January. The RPA reported that some 33,000 farmers in England received their 2015 Basic Payment Scheme claim in full on 1 December, the first day of the payment window. Farming Minister George Eustice MP also told us on 5 November that the payments from the EU's aid package for the dairy and other sectors would be made from 16 November, two weeks ahead of schedule.<sup>30</sup>

24. **We welcome the commitment from Defra and the Rural Payments Agency to making CAP payments to farmers promptly and the promising start made in December to paying 2015 Basic Payment Scheme claims, but in view of long-running problems with such payments, we will continue to monitor over the coming months the performance of the Agency and its new IT claims processing systems.**

### Fines for infringements of EU water and air quality regulations

25. Defra's Secretary of State is responsible for achieving emissions levels of various air pollutants under EU Directives and the Department co-ordinates assessment and air quality plans for the UK as a whole. Nitrogen dioxide is one of the main pollutants causing health problems on which a number of EU Member States are failing to meet EU emissions standards. Member States were required to prepare adequate plans to reduce by 2010, or 2015 at the latest, concentrations in outdoor air to acceptable levels.<sup>31</sup> The UK failed to do so. Currently, Directive limits for nitrogen dioxide are not being met in 38 of the UK's 43 air quality zones, including Greater Manchester and Leeds. In London, the limits will not be met until after 2025. Defra has drawn local authorities' attention to the provisions in the Localism Act 2011 which could be used to require responsible authorities to pay all or part of any infringement fines incurred by the UK under this Directive.<sup>32</sup> In April 2015, the Supreme Court ordered the Secretary of State to make plans by the end of 2015 for tackling the UK's air pollution problem which would enable EU standards to be met. Defra is consulting on approaches ahead of the Supreme Court deadline.<sup>33</sup>

29 Evidence by Mark Grimshaw to the Environment, Food and Rural Affairs Committee inquiry into the *Common Agricultural Policy*, 19 September 2015, [HC 405](#), Q1

30 Letter from George Eustice MP to Chair of the EFRA Committee, 5 November 2015

31 Council Directive [2008/50/EC](#) on Ambient Air Quality and Cleaner Air for Europe

32 [Letter](#) to local authorities published on [www.gov.uk](http://www.gov.uk) website in reference to air quality (accessed December 2015)

33 Defra, *Draft plans to improve air quality in the UK: Tackling nitrogen dioxide in our towns and cities*, September 2015. These are considered under the Committee's *Air quality* inquiry, [HC 479](#)

**26. We have announced an inquiry into air quality issues in view of the health and environmental impacts of air pollution. In that we will assess not only whether Defra’s plans are adequate for meeting specific nitrogen dioxide limits so as to avoid wasting potentially significant sums of public money in paying EU fines, but also whether the Department has a sufficiently robust policy for reducing air-borne pollutants to levels that safeguard health and the natural environment.**

27. The Urban Waste Water Treatment Directive requires EU Member States to ensure that agglomerates (towns, cities, settlements) properly collect and treat their urban waste water.<sup>34</sup> Untreated waste water can be contaminated with harmful bacteria and viruses and can contain nutrients such as nitrogen and phosphorous which damage fresh and marine waters. In March, the European Commission announced it was referring the UK to the European Court of Justice over its failure to ensure that urban waste water is adequately treated in 17 agglomerations, despite deadlines for various categories having elapsed in 1998, 2000 and 2005 respectively. The Commission considers spill rates remain too high with compliance not foreseen before 2020.<sup>35</sup> Defra told us that “innovative and environmentally positive sustainable urban drainage solutions” were now being implemented. However, risks to urban drainage may be increasing owing to more intense and more frequent rainfall and, in some locations, to increased population sizes and larger areas that have been built over.

28. If the UK is held to be in breach of the Directive, Defra could be required to pay a large lump-sum fine plus daily fines. This possibility is listed in Defra’s Annual Report as a contingent liability which is “unquantifiable due to its variable nature”.<sup>36</sup> The EU Court of Justice has not specified the level of fine that the UK could incur; by way of illustration, Belgium was fined £8.5 million plus a fine of £734,533 for every six-month period of further delay for breach of the Directive in October 2013.<sup>37</sup>

**29. Defra’s policies must not only ensure compliance with current EU rules for environmental standards but be future-proofed against coming challenges. Robust policies and adequately funded programmes are needed to tackle air and water pollution and to minimise the risk of being fined huge sums by the EU. Incurring large fines at a time of reducing budgets prejudices the delivery of vital services and is completely unacceptable since it removes money from delivery of vital services.**

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34 Council Directive [91/271/EEC](#) of 21 May 1991 concerning urban waste-water treatment

35 “Environment: Commission refers the United Kingdom to Court over poor waste water collection and treatment”, European Commission [press notice](#), 26 March 2015

36 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014-15*, [HC 30](#), p119

37 National Audit Office, *Thames Tideway Tunnel early review of potential risks to value for money*, [HC 168](#), June 2014, p8

## 4 Managing threats

30. Protection of the nation from natural threats, including animal and plant diseases, and floods and droughts is central to Defra’s remit. A complex cost-benefit calculation must be made in each policy area on how upfront investment can provide value for money by minimising the longer-term costs, such as those arising from a significant flood event or animal disease outbreak.

### Flooding

31. About 1 in 6 properties (more than 5.5 million) in England and Wales are at risk from flooding from one or more water sources (rivers, seas and surface water). The Committee on Climate Change has predicted increasingly intense flood events.<sup>38</sup> The floods of 2007 cost the economy up to £4 billion.<sup>39</sup> After the winter floods in 2013–14, which saw 7,000 properties flooded, Defra announced £270 million of additional funding and a wide range of flood recovery schemes for individuals and businesses affected by the winter floods. This additional money brought funding to a new peak in 2014–15. However, according to the NAO, total funding over the last Parliament would have actually decreased by 3% in cash terms, or 10% in real terms without this emergency allocation.<sup>40</sup>

32. Capital funding for flood defences is assured for the coming six years under a £2.3 billion programme for 2015–21. This will fund more than 1,400 schemes to improve flood and coastal erosion defences. Defra estimates it will reduce risk of flooding for 300,000 households,<sup>41</sup> avoid an estimated £30 billion in economic damage costs and drive down overall flood risk by 5%.<sup>42</sup> Defra calculates that each pound invested in tackling the risk of flooding results in an additional £4–£9 of benefits to the local economy.<sup>43</sup>

33. However, Defra’s funding plan relies on the Government being able to secure £600 million from external contributions. The Permanent Secretary told us that £250 million has been raised from such sources, of which £61 million is from the private sector.<sup>44</sup> She said that it would be very difficult to ring-fence funding for maintenance as that was “not the way” HM Treasury worked.<sup>45</sup> The previous Committee expressed concern about uncertainty around resource funding for asset maintenance and for activities such as dredging of rivers to minimise the risk of flooding in areas such as Somerset.<sup>46</sup> The Chancellor’s Spending Review announcement committed to protecting funding for maintenance but provides no further details.<sup>47</sup>

38 Environment Agency, [Flooding in England: a national assessment of flood risk](#), 2009

39 Environment Agency, [The costs of the summer 2007 floods in England, Project Summary](#), January 2010, p V. Total “out of pocket” costs were £4 billion, with some £2.5 billion borne by households (of which 75% was recovered through insurance claims) and some £1 billion borne by businesses (of which some 90% was recovered through insurance claims)

40 National Audit Office: [A short guide to the Department for Environment, Food and Rural Affairs](#), June 2015

41 Department for Environment, Food and Rural Affairs, [Annual Report and Accounts 2014–15, HC 30](#), p12

42 “£2.3 billion to be spent on new flood defences” Defra [press release](#), 2 December 2014

43 Defra, [Reducing the risk of flooding and coastal erosion: an investment plan](#), December 2014

44 Ev w01

45 Q59

46 Environment, Food and Rural Affairs Committee, [Work of the Committee: 2010–15, HC 942](#)

47 Defra’s Settlement at the Spending Review, [Press Release](#), 25 November 2015

34. Defra’s six-year commitment to capital funding for flood defence work brings welcome certainty at a time of budget constraints. The large number of properties at significant, and in some cases increasing, risk of flooding means that prioritising spend on flood defences is essential if the UK is to minimise potentially huge costs of future flood events. Considerable economic gains may be made for local communities by unlocking for development land that would otherwise be unusable owing to flood risk.

35. However, the Department has not obtained a firm commitment from the private sector that it will provide the level of investment necessary if funding targets are to be met. We welcome Spending Review assurances that funding to maintain flood assets it to be protected since investing in assets without assurance that they will be kept in adequate condition to meet rising challenges of flooding is not the most cost-effective use of money and reducing investment in activities such as dredging is a false economy.

36. *We are concerned that Defra’s requirement to find reductions of 15% in resource budgets over the next four years may affect vital flood protection work. We recommend that Defra set out within the next three months the implications of the Spending Review settlement on resource budgets for maintaining flood capital assets and for undertaking routine maintenance work such as the dredging of rivers.*

## Animal and plant diseases

37. Defra is responsible for policy on animal and plant diseases, including those affecting agriculture. Diseases can be costly—for example, the 2001 Foot and Mouth outbreak cost between £6 and £9 billion, while compensating for bovine TB (bTB) has cost £500 million over 10 years. Two thirds of known human diseases are zoonoses (transmissible between animals and humans). For example, campylobacter and salmonella transmitted from poultry or pigs to humans are major public health concerns. Plant and tree diseases can have a significant impact on economies and on ecosystems. The UK’s £2 billion forestry industry, for example, employs some 40,000 people.<sup>48</sup> But, as the Lords Spokesman for Defra, Lord Gardiner of Kimble said, globalisation in trade and travel and the greater volume and diversity of tree and plant imports have increased threats. He told us that in response to these threats Defra had developed a *Tree Health Management Plan* which included research into ash-dieback disease, including the potential for using genetically diverse varieties with resistance to the disease.<sup>49</sup>

38. The spread of bTB among cattle herds is a substantial threat to the farming economy. In April 2014, Defra published a strategy to achieve bTB-free status by 2038 in England.<sup>50</sup> This was underpinned by research into the appropriateness and effectiveness of the use of approaches such as vaccination of cattle and/or of wildlife (including badgers) that act as a reservoir for the disease.<sup>51</sup> Enhanced cattle testing and movement controls, and culling of badgers are other elements of the bTB strategy. In September, pilot badger culls in Somerset and Gloucestershire continued for a third year with culling also taking place in Dorset, the first area in the roll-out phase. The Secretary of State told us that culling badgers was not a “silver bullet,” that she needed to “wait for the evidence to come out and

48 Q135

49 Q132

50 Defra, [The Strategy for achieving Officially Bovine Tuberculosis Free status for England](#), April 2014

51 Defra, [Bovine Tuberculosis research projects funded by Defra](#), December 2014

analyse it on a proper basis”, and that she was “committed to following that evidence and what will deliver the best results”.<sup>52</sup>

39. The devolved administrations in Wales and Northern Ireland take approaches towards managing bTB in the badger population that differ from England’s and from each other’s approaches. Northern Ireland uses a ‘test and vaccinate or remove’ (TVR) approach and data on its effectiveness are due later this year.<sup>53</sup> In Wales, badgers are being trapped and vaccinated in a five year programme as part of the nation’s overall bTB eradication strategy.<sup>54</sup>

**40. Failure to manage threats from animal and plant diseases causes significant costs to farming and rural communities. Sound science is essential to provide a robust evidence base for decisions on policies to tackle diseases.**

*41. We welcome Defra’s investment in science and research to identify effective ways to minimise threats from animal and plant diseases, and we recommend that the Department ensure that the costs and benefits of supporting such research are explicitly taken into account in future funding decisions.*

**42. Opinions differ strongly over how best to manage threats from diseases such as bovine tuberculosis (bTB). Defra must establish a thorough evidence base for underpinning policy formulation and communicate it in a fully transparent manner to set out clearly the reasons for the policy decisions it takes. Defra must publish full data on bTB incidence in areas where badgers have been culled.**

*43. Tackling diseases such as bTB require a holistic approach and we recommend that the Government rolls out at the earliest opportunity all aspects of its strategy which are underpinned by a strong evidence base. We further recommend that Defra takes into account approaches by devolved administrations and the evidence as to the effectiveness or otherwise of the different nations’ approaches to managing bTB.*

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52 Q146

53 Department of Agriculture and Rural Affairs Northern Ireland, Test and Vaccinate or Remove (TVR) wildlife intervention research [webpages](#) (accessed 1 December 2015)

54 Welsh government bovine TB [webpages](#) (accessed 1 December 2015)

## 5 Delivering rural priorities

44. Many of Defra’s responsibilities can be effectively discharged only if the Department can spur other government departments to act. The levers for delivering policies on issues from broadband services to food safety lie outside Defra, including within other government departments, local authorities, devolved administrations and the voluntary sector. The Department has a vital role in communicating its policies to those working across government and wider society and in ensuring that Defra’s priorities become their priorities so as to deliver appropriate outcomes for farmers, the rural economy and the environment.

### Rural proofing

45. Rural proofing became embedded in government policy-making as a result of the 2000 Rural White Paper, with responsibility coming in-house to Defra’s Rural Communities Policy Unit in 2011 following abolition of the independent Rural Communities Commission. Lord Cameron’s review of *Rural Proofing Implementation* published in January 2015 recommended a shift in Defra’s role from advising government departments to supporting them in mainstreaming rural evidence within their policy-making processes. The report notes that, across government, over half of Departmental Impact Assessments failed to address rural issues as required—and only 11% did so in any robust manner.<sup>55</sup> Defra’s Annual Report notes that the Government is considering the report but cites a range of specific initiatives already in train such as the work by its Rural Communities Policy Unit with the Department for Transport to provide hundreds of minibuses for rural communities.<sup>56</sup>

**46. Defra still has work to do to ensure that rural issues are addressed robustly by a number of other government departments. A small department such as Defra cannot attempt to monitor across Whitehall all of the actions that affect rural communities. Instead, it must put in place the right mechanisms to ensure that individual departments to take account of rural issues.**

***47. Defra must champion rural communities more vigorously by ensuring that all government departments embed rural evidence effectively into their policy-making processes. We recommend that the Department respond in full to Lord Cameron’s review of Rural Proofing Implementation within three months explaining how it will achieve this.***

48. The roll-out of fast broadband services for rural areas is an example of where the potential for action lies in departments other than Defra. High-speed, reliable broadband connectivity is a key issue for rural businesses and wider communities, since it is vital for rural economic growth. The Government is committed to delivering 2Mbps internet to all users in England by 2016 and has provided some funding to hard-to-reach areas with limited access to high-speed broadband.<sup>57</sup> Our predecessor Committee heard evidence that sufficient coverage was not being obtained in some rural areas, despite a target of 95%

55 Lord Cameron of Dillington, [Independent rural proofing Implementation Review](#), January 2015, para 5.1

56 Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2014-15*, [HC 30](#)

57 £20 million Rural Community Broadband Fund programme was launched in 2014 for areas that would otherwise get standard broadband only by 2016. This is a joint Defra/Broadband Delivery UK programme projected to enable 3,268 premises to connect to superfast broadband by 2014-15. More recently the £24 million Rural Growth Programme

of premises receiving superfast broadband by 2017.<sup>58</sup> The Secretary of State has told us that improving both broadband and mobile coverage is critical to closing the productivity gap between rural and urban communities.<sup>59</sup> Subsequently, the Government has announced it will consult on a new Universal Service Obligation on the sector to provide fast broadband to all those who want it.<sup>60</sup>

***49. Absence of effective internet and mobile phone connectivity hampers economic growth in some rural areas. The Government must support timely and efficient roll-out of fast broadband to all communities if rural areas are not to languish in the broadband slow-lane. It should aim for 100% coverage as near as is practically possible for all communities. We recommend that Defra communicate strongly to the Department for Culture, Media and Sport the need for rural areas to take a central place in broadband and mobile telephony coverage plans, including in the development of Universal Service Obligations on the sector. Any new Universal Service Obligation must in practice deliver affordable connections at sufficient speeds to all areas of the country.***

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launched in July 2015 has committed to £6.3 million for boosting rural productivity with grants offered through Local Enterprise Partnerships

58 Environment, Food and Rural Affairs Committee, *Work of the Committee; 2010-15*, [HC 942](#)

59 Q131

60 "PM promises 10 mbps broadband to every home that wants it", [Cable.co.uk webpage](#), 7 November 2015

## 6 Leading Defra

50. Defra employs about 2,000 staff in its core department, with another 6,000 employed by its executive agencies and 15,000 by its Non-Departmental Public Bodies (NDPBs)—principally the Environment Agency. Staff working for the Department and its agencies are surveyed annually on their views of their work, management and leadership.

51. The Civil Service-wide People Survey includes an engagement index, reflecting five key areas such as pride in an organisation, inspiration and motivation to do a good job, and feeling a personal attachment to an organisation. Whilst Defra's overall engagement score has increased by two percentage points to 54% since 2013, this is five points below the Civil Service average. Staff remain concerned about the effectiveness of change management and leadership, and report a lack of clarity on Defra's priorities and purpose. Defra's scores on these aspects have been consistently below the civil service average for many years. Scores for staff engagement vary across the Defra family: the Rural Payments Agency scores lowest at 44%; others, such as the Veterinary Medicines Directorate and the Centre for Fisheries and Aquaculture Science hit 65% and 61% respectively.<sup>61</sup>

52. Last year, then Permanent Secretary, Bronwyn Hill, stated she would focus on learning and development to tackle morale and absence of confidence in how the Department managed change. This year's survey results show improvements regarding access and participation in learning and development activities. However, issues about confidence in change management and, in particular, in the ability of senior management to convey priorities and provide a convincing strategic future vision do not appear to have been fully addressed. The new Permanent Secretary, Clare Moriarty, like her predecessor, set out in detail her commitment to making further improvements when we met her in October.<sup>62</sup>

**53. Staff engagement is central to the effectiveness of Defra's operations. Whether on the front-line responding to floods and animal disease outbreaks, or in back-office functions developing policies and supporting those delivering services, a motivated workforce underpins an effective Department. It is to the credit of staff working for Defra and its agencies that they have risen to the challenges to enable services to be delivered despite reducing resources. It is a concern, though, that Defra scores below the civil service average for staff engagement and on staff views of leadership. Clearly there are greater challenges in some agencies than others. We note what the new Permanent Secretary told us about a focus on staff and their development and a renewed focus on leadership.**

**54. *We recommend that, in updating the Committee on how the Spending Review will impact on service delivery, Defra inform us about its strategy for maintaining morale among staff and for ensuring that valuable expertise is not lost.***

55. Defra relies on staff in its arms-length bodies to deliver a range of priorities. However, the Department's ability to provide them with effective strategic direction and to manage them so as to secure operational outcomes has been criticised by the NAO in its early review of the RPA's CAP delivery programme.<sup>63</sup> The review concluded that the different

61 Defra, 2014 staff survey [results](#) (accessed via [www.gov.uk](http://www.gov.uk) 1 December 2015)

62 Qq22-23

63 Report by the Comptroller and Auditor General, *Early Review of the Common Agricultural Policy Delivery Programme*, [HC 606](#)

priorities of Defra, the RPA and other bodies were not resolved owing to differences in the organisations' strategic direction and vision. This has led to delays in implementing new systems and to increased disallowance risk.

***56. Defra's ministers and senior leadership team must give greater priority to managing delivery bodies such as the Rural Payments Agency if the Department is to ensure effective outcomes from its policies. A shared vision and strategic direction is essential but this requires firm leadership and constructive relationships founded on good communication.***

## 7 Conclusion

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57. Defra faces the challenge of delivering vital services with a reducing budget for its day-to-day activities in the coming four years. This challenge is not new: the Department achieved significant funding reductions during the last Parliament. Then, our predecessor Committee expressed its concerns about a hollowed-out Defra's ability to ensure its wide-ranging set of delivery bodies could deliver effective services. We share these concerns which indeed are amplified by Defra's need to further reduce budgets. To be re-assured, we need evidence that Defra can provide firm leadership, a clear and well communicated strategy, and robust relationships with its disparate set of delivery bodies.

58. As a Committee we are at the start of a five year period of scrutiny and these are themes which will thread throughout our work programme of specific inquiries. We look forward to a constructive dialogue with the Secretary of State and her ministerial team and officials so as to strengthen the Department's ability to support rural communities, promote a strong farming sector and enhance the natural environment.

## Conclusions and recommendations

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### Delivering Defra's vision

1. We and our predecessor Committees have struggled to clarify with successive Secretaries of State and senior Defra officials their strategy for determining which policies and priorities will be altered by repeated spending reductions. We seek such a statement in response to this report now that the 2015 Spending Review has been announced and now that it is clear that Defra resource funding from HM Treasury will reduce by 15% by 2020. (Paragraph 14)
2. We recommend that Defra publishes urgently its strategic approach for achieving the necessary reductions in its budgets for the next Spending Review period. Detailed plans for implementing this, including how administrative savings are to be made, must then be provided at the earliest possible date. (Paragraph 15)
3. Given the scale of savings required under the Spending Review, it is highly likely that difficult strategic choices will need to be made, particularly as the more achievable cost-efficiencies have been made in response to budget reductions during the last Parliament. Successful delivery of vital environmental, agricultural and rural services will not be possible without strong leadership and a sharp focus on priority areas. (Paragraph 16)

### Disallowance penalties: Common Agricultural Policy

4. The new Common Agricultural Policy has a highly complex set of rules to which farmers and government agencies must strictly adhere if EU funding is not to be jeopardised. This complexity means that there is a high likelihood of further disallowance penalties being incurred which will be payable by Defra in future years. It is essential that Defra continues to press the EU for simplified CAP arrangements, including a more effective set of rules which minimise financial risk and deliver the optimum outcomes for farmers, food supply and the environment. (Paragraph 22)
5. We welcome the commitment from Defra and the Rural Payments Agency to making CAP payments to farmers promptly and the promising start made in December to paying 2015 Basic Payment Scheme claims, but in view of long-running problems with such payments, we will continue to monitor over the coming months the performance of the Agency and its new IT claims processing systems. (Paragraph 24)

### Fines for infringements of EU water and air quality regulations

6. We have announced an inquiry into air quality issues in view of the health and environmental impacts of air pollution. In that we will assess not only whether Defra's plans are adequate for meeting specific nitrogen dioxide limits so as to avoid wasting potentially significant sums of public money in paying EU fines, but also whether the Department has a sufficiently robust policy for reducing air-borne pollutants to levels that safeguard health and the natural environment. (Paragraph 26)

7. Defra's policies must not only ensure compliance with current EU rules for environmental standards but be future-proofed against coming challenges. Robust policies and adequately funded programmes are needed to tackle air and water pollution and to minimise the risk of being fined huge sums by the EU. Incurring large fines at a time of reducing budgets prejudices the delivery of vital services and is completely unacceptable since it removes money from delivery of vital services. (Paragraph 29)

### Flooding

8. Defra's six-year commitment to capital funding for flood defence work brings welcome certainty at a time of budget constraints. The large number of properties at significant, and in some cases increasing, risk of flooding means that prioritising spend on flood defences is essential if the UK is to minimise potentially huge costs of future flood events. Considerable economic gains may be made for local communities by unlocking for development land that would otherwise be unusable owing to flood risk. (Paragraph 34)
9. However, the Department has not obtained a firm commitment from the private sector that it will provide the level of investment necessary if funding targets are to be met. We welcome Spending Review assurances that funding to maintain flood assets it to be protected since investing in assets without assurance that they will be kept in adequate condition to meet rising challenges of flooding is not the most cost-effective use of money and reducing investment in activities such as dredging is a false economy. (Paragraph 35)
10. We are concerned that Defra's requirement to find reductions of 15% in resource budgets over the next four years may affect vital flood protection work. We recommend that Defra set out within the next three months the implications of the Spending Review settlement on resource budgets for maintaining flood capital assets and for undertaking routine maintenance work such as the dredging of rivers. (Paragraph 36)

### Animal and plant diseases

11. Failure to manage threats from animal and plant diseases causes significant costs to farming and rural communities. Sound science is essential to provide a robust evidence base for decisions on policies to tackle diseases. (Paragraph 40)
12. We welcome Defra's investment in science and research to identify effective ways to minimise threats from animal and plant diseases, and we recommend that the Department ensure that the costs and benefits of supporting such research are explicitly taken into account in future funding decisions. (Paragraph 41)
13. Opinions differ strongly over how best to manage threats from diseases such as bovine tuberculosis (bTB). Defra must establish a thorough evidence base for underpinning policy formulation and communicate it in a fully transparent manner to set out clearly the reasons for the policy decisions it takes. Defra must publish full data on bTB incidence in areas where badgers have been culled. (Paragraph 42)

14. Tackling diseases such as bTB require a holistic approach and we recommend that the Government rolls out at the earliest opportunity all aspects of its strategy which are underpinned by a strong evidence base. We further recommend that Defra takes into account approaches by devolved administrations and the evidence as to the effectiveness or otherwise of the different nations' approaches to managing bTB. (Paragraph 43)

### Rural proofing

15. Defra still has work to do to ensure that rural issues are addressed robustly by a number of other government departments. A small department such as Defra cannot attempt to monitor across Whitehall all of the actions that affect rural communities. Instead, it must put in place the right mechanisms to ensure that individual departments take account of rural issues. (Paragraph 46)
16. Defra must champion rural communities more vigorously by ensuring that all government departments embed rural evidence effectively into their policy-making processes. We recommend that the Department respond in full to Lord Cameron's review of Rural Proofing Implementation within three months explaining how it will achieve this. (Paragraph 47)
17. Absence of effective internet and mobile phone connectivity hampers economic growth in some rural areas. The Government must support timely and efficient roll-out of fast broadband to all communities if rural areas are not to languish in the broadband slow-lane. It should aim for 100% coverage as near as is practically possible for all communities. We recommend that Defra communicate strongly to the Department for Culture, Media and Sport the need for rural areas to take a central place in broadband and mobile telephony coverage plans, including in the development of Universal Service Obligations on the sector. Any new Universal Service Obligation must in practice deliver affordable connections at sufficient speeds to all areas of the country. (Paragraph 49)

### Leading Defra

18. Staff engagement is central to the effectiveness of Defra's operations. Whether on the front-line responding to floods and animal disease outbreaks, or in back-office functions developing policies and supporting those delivering services, a motivated workforce underpins an effective Department. It is to the credit of staff working for Defra and its agencies that they have risen to the challenges to enable services to be delivered despite reducing resources. It is a concern, though, that Defra scores below the civil service average for staff engagement and on staff views of leadership. Clearly there are greater challenges in some agencies than others. We note what the new Permanent Secretary told us about a focus on staff and their development and a renewed focus on leadership. (Paragraph 53)
19. We recommend that, in updating the Committee on how the Spending Review will impact on service delivery, Defra inform us about its strategy for maintaining morale among staff and for ensuring that valuable expertise is not lost. (Paragraph 54)

20. Defra's ministers and senior leadership team must give greater priority to managing delivery bodies such as the Rural Payments Agency if the Department is to ensure effective outcomes from its policies. A shared vision and strategic direction is essential but this requires firm leadership and constructive relationships founded on good communication. (Paragraph 56)

# Formal Minutes

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**Wednesday 9 December 2015**

Members present:

Neil Parish, in the Chair

Chris Davies

Jim Fitzpatrick

Simon Hart

Dr Paul Monaghan

Rebecca Pow

Ms Margaret Ritchie

Angela Smith

Rishi Sunak

Draft Report (*Defra Performance 2014-15*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 58 agreed to.

*Resolved*, That the Report be the First Report of the Committee to the House.

*Ordered*, That the Chair 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 16 December at 2 pm

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at [www.parliament.uk/efracom](http://www.parliament.uk/efracom).

### Wednesday 14 October 2015

*Question number*

**Clare Moriarty**, Permanent Secretary, **Sonia Phippard**, Director General Policy Delivery, and **Nick Joicey**, Director General, Strategy, International and Biosecurity, Department for Environment, Food and Rural Affairs

[Q1-89](#)

### Wednesday 21 October 2015

**Rt Hon Elizabeth Truss MP**, Secretary of State for Environment, Food and Rural Affairs, **George Eustice MP**, Minister of State for Farming, Food and the Marine Environment, and **Rory Stewart MP**, Permanent Under-Secretary of State for Environment, Food and Rural Affairs

[Q90-174](#)

## Published written evidence

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The following written evidence was received and can be viewed on the Committee's inquiry web page at [www.parliament.uk/efracom](http://www.parliament.uk/efracom). DEF numbers are generated by the evidence processing system and so may not be complete.

- 1 Department For Environment, Food And Rural Affairs ([DEF0001](#))
- 2 Department For Environment, Food And Rural Affairs ([DEF0002](#))