



House of Commons  
Environment, Food and Rural  
Affairs Committee

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# Defra's Departmental Report 2006 and Defra's budget

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**Second Report of Session 2006–07**

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

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## 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 for Environment, Food and Rural Affairs and its associated bodies.

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The current staff of the Committee are Chris Stanton (Clerk), Jenny McCullough (Second Clerk), Jonathan Little and Dr Antonia James (Committee Specialists), Marek Kubala (Inquiry Manager), Andy Boyd and Alison Mara (Committee Assistants), Mandy Sullivan (Secretary) and Susannah Drazin (Scrutiny Unit).

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# Contents

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<b>Report</b>	<i>Page</i>
<b>Summary</b>	<b>3</b>
<b>1 Introduction</b>	<b>5</b>
Purpose of our inquiry	5
Defra's Departmental Report	5
Development of our inquiry	5
Departmental changes in 2006	7
<b>2 Financial management</b>	<b>7</b>
Defra's 2006–07 budget	7
Extent of Defra's budget deficit	7
Causes of Defra's budget deficit	8
Impact of budget cuts	14
Defra's public explanations about budget cuts	19
Budgeting in future years	20
EU disallowance	21
Efficiency savings	22
Achievement of the Department's efficiency targets	22
<b>3 Managing Defra</b>	<b>24</b>
Defra's relationship with its delivery bodies	24
Working across Government	25
<b>4 Defra policy</b>	<b>27</b>
Sustainable Development	27
Biodiversity	28
<b>5 Public Service Agreement targets</b>	<b>30</b>
Setting of new PSA targets for CSR 2007 period	30
<b>6 Format and presentation of the Departmental Report</b>	<b>31</b>
Information provided in the Departmental Report	32
Information on policy and finance	32
Coverage of the Rural Payments Agency	33
Length of report and key issues	33
Long blocks of text	34
Long chapters	34
Repetition	34
Use of numbers	34
Cross-referencing	35
<b>Conclusions and recommendations</b>	<b>36</b>

<b>Formal minutes</b>	<b>42</b>
<b>Witnesses</b>	<b>43</b>
<b>List of written evidence</b>	<b>43</b>
<b>List of unprinted written evidence</b>	<b>43</b>

## Summary

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Our report provides an overview of the performance of the Department of Environment, Food and Rural Affairs (Defra), as described in Defra's Departmental Report 2006. It is the latest in a series of reports by us on an overview of the Department's work based on Defra's annual Departmental Reports.

2006 was a poor year for Defra as it failed to meet its March 2006 deadline to make the bulk of the single farm payments to farmers. This resulted in the removal of the Chief Executive of the Rural Payments Agency and provision being made for disallowance fines from the European Commission. The Department confirmed in 2006 that it would not meet its efficiency savings target to reduce staff posts by 2,400 by 2007–08. The Department also confirmed that continuing difficulties with single farm payments could be anticipated for the next two years. In addition to this, the Department unexpectedly announced in-year reductions to the 2006–07 budgets of several Defra executive agencies, Non-Departmental Public Bodies and affiliated public corporations, such as the Environment Agency and British Waterways. These cuts—which will cause many problems for those bodies affected and delayed a number of important environmental programmes and projects—were made in response to a deficit in Defra's budget of about £200 million. The Department's performance must improve in 2007: with the upcoming Climate Change Bill, this will be an important year for the Department.

We considered a significant amount of evidence about the causes of Defra's £200 million deficit in 2006–07. The Department itself has to take much of the blame for the precarious financial situation it found itself in 2006–07. Some minor factors for the deficit, such as costs related to the Spring 2006 avian influenza outbreak, were largely beyond the Department's control. However, many of the financial problems occurred because the Department had made budgeting commitments based on careless assumptions about the attitude of HM Treasury—especially in respect of the use of unspent budget covered by its End-Year-Flexibility arrangements—in a tight fiscal period.

We also note that the in-year nature of the budget cuts placed those bodies affected under much greater pressure than if the Department had announced cuts before the start of the financial year. The Department could have prevented the disruption by substantially revising 2006–07 budgets when these budgets were set in January 2006. We believe that the Department was over-optimistic in its assumption that it could cope with the financial pressures without early action. We consider this whole episode as evidence of a very regrettable failure in Defra's financial management, and an extremely bad scene-setter for the coming Comprehensive Spending Review 2007 negotiations and the Cabinet Office's Capability Review.



# 1 Introduction

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## Purpose of our inquiry

1. One of the core tasks of select committees is to scrutinise the expenditure of Government departments and to monitor their performance against Public Service Agreement (PSA) targets.<sup>1</sup> The Environment, Food and Rural Affairs Committee carries out this task in two ways: through a wide range of inquiries into particular aspects of the work of the Department for Environment, Food and Rural Affairs (Defra); and by carrying out a short inquiry each year into Defra's Departmental Report.<sup>2</sup>

## Defra's Departmental Report

2. Government departments publish their Departmental Reports on an annual basis. The reports provide an important opportunity for a department to explain to Parliament, and the public, about its administrative structures, spending, objectives and performance.

3. Defra published its Departmental Report 2006 on 25 May 2006.<sup>3</sup> As with Defra's other recent Departmental Reports, the 2006 Report includes information about:

- Defra's progress in delivering its aims, objectives and Spending Review 2002 PSA targets, by reference to the Department's strategic priorities;
- other key areas of the Department's work, which support its objectives;
- the Department's key achievements during the previous twelve months and forecast for the next year;
- Departmental finance with tables, showing Defra's staffing and expenditure plans;
- Defra's executive agencies and Non-Departmental Public Bodies (NDPBs), and how they work in partnership with the core Department to achieve its aims and objectives; and
- the management of the Department, its Policy Centre Review Programme, its corporate services and systems aligned to business needs, and the progress of departmental reform.<sup>4</sup>

## Development of our inquiry

4. This year we amended our normal approach to this type of inquiry by holding two oral evidence sessions with senior Defra officials instead of the usual one. Our initial evidence

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1 Liaison Committee, Second Report of Session 2001–02, *Select Committees: modernisation proposals*, HC 692, para 16; Modernisation Committee, First Report of Session 2001–02, *Select Committees*, HC 224-I.

2 Environment, Food and Rural Affairs Committee, Twelfth Report of Session 2002–03, *The Departmental Annual Report 2003*, HC 832; Fifteenth Report of Session 2003–04, *The Departmental Annual Report 2004*, HC 707; and Fourth Report of Session 2005–06, *The Departmental Annual Report 2005*, HC 693.

3 Defra, *Departmental Report 2006*, Cm 6827, May 2006

4 Defra, *Resource Accounts 2004–05*, HC 445, October 2005, p 5.

session, held on 19 July 2006, concentrated on the Department's progress in meeting its efficiency savings and PSA targets. Our second session, held on 4 December 2006, focussed on Defra's management of its 2006–07 budget. Defra was represented in both sessions by Helen Ghosh, the Department's Permanent Secretary, and Ian Grattidge, Director of Finance, Planning and Resources.

5. During our first session, the Permanent Secretary surprised us by telling the Committee that the Department was currently dealing with some serious financial difficulties. She explained that Defra was in the process of revising its own 2006–07 core budget, as well as those of some of its affiliated executive agencies and NDPBs, such as the Environment Agency and Natural England.<sup>5</sup> The Department was making these revisions in-year to cope with an estimated deficit in its 2006–07 budget of about £200 million. At this time, the Permanent Secretary was unable to give exact details about the extent and impact of potential cuts. Such details had yet to be finalised. Instead, she gave rough estimates about the scale of the problem.<sup>6</sup>

6. Over the summer, and particularly once Parliamentary business resumed in October, the issue of Defra's 2006–07 budget cuts received considerable attention from Members in the House and in the media. Information about the causes and impact of the budget cuts, however, was only made available by the Department in a disjointed and piecemeal fashion. This was primarily through answers to Parliamentary Questions and by ministers giving radio interviews. A definitive explanation of the causes and impacts of the cuts was not given by officials or ministers. Consequently, in October 2006, we agreed to extend our inquiry into *Defra's Departmental Report 2006* to take further oral evidence specifically about the 2006–07 budgetary changes. A second session with Helen Ghosh and Ian Grattidge was held on 4 December about this issue and the name of our inquiry was changed to *Defra's Departmental Report 2006 and Defra's budget*.

7. Before and after both evidence sessions with these officials, we sent written questions to Defra, prepared with the assistance of the House of Commons Scrutiny Unit. Some of these questions highlighted a number of technical details and discrepancies in the Departmental Report; others asked for further information relating to the 2006–07 budget. The Department's responses to our questions are published as written evidence along with this report.<sup>7</sup> Before our second evidence session in December, we also sent written questions to some of Defra's affiliated agencies and NDPBs affected by the in-year budget cuts. These were the Environment Agency, Natural England, British Waterways, the Veterinary Laboratories Agency and the State Veterinary Service.<sup>8</sup> We also invited two voluntary interest groups reliant on Defra funding—the Bat Conservation Trust and Butterfly Conservation—to comment on the impact on their work of these cuts. Written

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5 Q 59

6 Q 63

7 Evs 1, 33, 43 and 44.

8 There was initially some confusion about the State Veterinary Service's (SVS) in-year budget reductions. Although the SVS's resource budget was reduced by £3 million, this money was actually re-classified within the SVS as capital expenditure. SVS's budget, therefore, has not been reduced in total. For further information about changes to SVS's 2006–07 budget, see para 47 of this Report and SVS's evidence, Ev 101. For more information about resource and capital budgets, see para 12 and footnote 14 of this Report.

evidence from all these bodies has also been published along with this Report.<sup>9</sup> We are grateful to all of those who provided this evidence.

## Departmental changes in 2006

8. On 5 May 2006, the Rt Hon David Miliband was appointed Secretary of State for Environment, Food and Rural Affairs. Mr Miliband's foreword to the 2006 Departmental Report identified progress on climate change as his "top priority" and risk management and contingency planning—particularly in relation to avian influenza—as key areas for continued focus.<sup>10</sup> Mr Miliband also set out his priorities relating to energy, water, waste, food and farming, land and the marine environment in an open letter to the Prime Minister on 11 July.<sup>11</sup>

9. Mr Miliband gave evidence to the Committee on 12 July 2006 in relation to the Committee's inquiry into *The UK Government's "Vision for the Common Agricultural Policy"*, and to discuss other areas of Defra's work.<sup>12</sup>

## 2 Financial management

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### Defra's 2006–07 budget

10. During our two evidence sessions with Defra's Permanent Secretary and Director of Finance, Planning and Resources, we wanted to know: the extent of Defra's 2006–07 budget deficit; the reasons for the deficit; and those areas of Defra's work affected by budget cuts.

### Extent of Defra's budget deficit

11. We were told that Defra's deficit for 2006–07 amounted to about £200 million. This relates to about 5% of its overall budget.<sup>13</sup> To cope with this deficit, Defra was having to make in-year adjustments and revisions to its 2006–07 budgetary plans and work programme. £170 million of the £200 million would be found by making in-year cuts to the 2006–07 budgets of core Defra and some of Defra's affiliated agencies and NDPBs. Defra planned to find the remaining £30 million from natural under-spends and flexibility during the rest of the financial year.

12. The budget cuts affect Defra's 2006–07 *resource* budget and, consequently, the 2006–07 *resource* budgets of some of its affiliated agencies. They do not directly affect the capital

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9 Ev 81 [Environment Agency]; Ev 89 [Natural England]; Ev 95 [British Waterways]; Ev 79 [Veterinary Laboratories Agency]; Ev 101 [State Veterinary Service]; Evs 77 and 78 [Butterfly Conservation]; Ev 98 [Bat Conservation Trust].

10 Defra, *Departmental Report 2006*, pp. 6–7

11 David Miliband's letter to the Prime Minister, *My priorities for Defra*, 11 July 2006. Available on Defra's website at: [www.defra.gov.uk/corporate](http://www.defra.gov.uk/corporate)

12 Environment, Food and Rural Affairs Committee, Session 2005–06, *The Work of Defra*, HC1520-i

13 HC Deb, 6 November 2006, col 730W

budgets of Defra and its agencies.<sup>14</sup> In total, the £200 million deficit equates to 7% of the total resource budget.

### ***Causes of Defra's budget deficit***

13. We wanted to know the reasons for this deficit. The Department stated that the deficit was caused by a variety of factors. Some of these factors were due to financial pressures carried over from the 2005–06 financial year—so-called “legacy cuts”.<sup>15</sup> Others had occurred since April 2006 and had added to these existing pressures. In total, these various factors amounted to about £200 million.

14. We have found it difficult to obtain a definitive explanation from the Department about the causes of its budget deficit. The public explanations about this issue have often been unclear, overly complex or inconsistent. (We comment more on Defra's public explanations in paras. 46–50). Responding to a written parliamentary question on 6 November 2006, however, the Department did provide a concise breakdown of the various factors it says contributed to the £200 million budget deficit.<sup>16</sup> These are listed below and set out Figure 1:

- costs deferred from 2005–06 (around 45% [of the £200 million deficit]);
- surplus capital charge budget no longer being available to fund programme expenditure due to new tighter rules governing public expenditure (around 30%);
- Rural Payments Agency's running costs (about 11%), including administration of the single payment scheme for both 2005 and 2006;
- Avian influenza (about 5%);
- other miscellaneous pressures (about 9%).

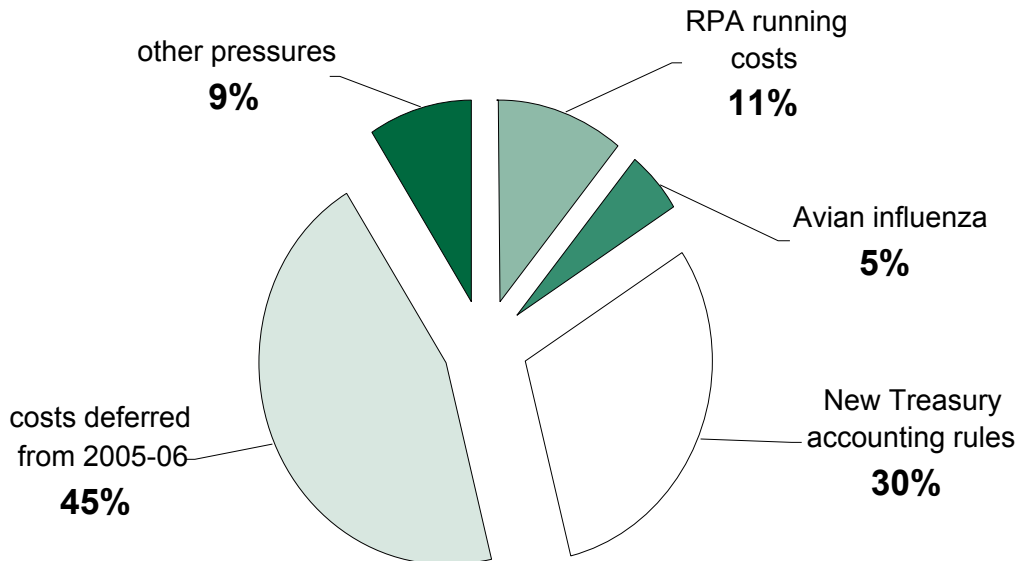
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14 The resource budget is for current expenditure such as salaries, rent, maintenance, consultants, training etc. The capital budget is for spending on acquiring or building fixed assets such as buildings, vehicles, equipment, etc.

15 Ev 47, Q11 (a)

16 HC Deb, 6 November 2006, cols 730–31W

Figure 1: Defra's explanation of the causes of its £200 million budget deficit in 2006–07



Source: HC Deb, 6 November 2006, col 731W

We examine below some of the factors that Defra says caused the £200 million deficit in its 2006–07 budget.

### Costs deferred from 2005–06

#### Factor 1: “costs deferred from 2005–06 (around 45%)”

15. About £95 million of the £200 million deficit originates from costs deferred from 2005–06 to 2006–07, according to the Department's written parliamentary answer on 6 November 2006.<sup>17</sup> This represents the largest single contributory factor (about 45%) to the £200 million deficit in 2006–07. Examples of programmes and projects delayed from 2005–06 into 2006–07 include work to be undertaken by the Countryside Agency and English Nature, and work on flood management, waste, IT and R&D.

16. We were told that a number of factors occurred in 2005–06 that contributed to the Department's decision to delay some programmes and projects from that year into 2006–07. First, the Department faced a number of financial pressures early in the year, including TB compensation, structural funds, property rent increases and the final costs of foot and

<sup>17</sup> In oral evidence, however, the Permanent Secretary told us a total of about £150 million worth of programmes were deferred from 2005–06 into 2006–07 (Q 151). The Department's written evidence to the Committee, suggests, the amount was £128 million (Ev 47, Q 11(a)). We believe these higher numbers have been calculated by combining both factors 1 and 2 of the Department's Parliamentary Answer of 6 November (both of these factors occurred in 2005–06 and resulted in costs being deferred) although we cannot be certain. We comment on Defra's public explanations about its budgetary changes in paras 46–50.

mouth disease.<sup>18</sup> These financial pressures contributed to about £40 million of programmes being delayed into 2006–07.<sup>19</sup>

17. Secondly, the Treasury did not allow Defra to draw down its full near-cash End-Year-Flexibility (EYF) in 2005–06. This meant that £55 million worth of programmes and projects—including work on flood management, waste, IT and Research & Development—was delayed into 2006–07.<sup>20</sup> EYF relates to the amount Government departments underspend the previous year (in this case, 2004–05) which, if the Treasury approves, can then be spent in future financial years. Defra had hoped to draw down its full near-cash EYF of about £120 million in 2005–06, and had budgeted on this assumption.<sup>21</sup> However, in July 2005, the Treasury had placed restrictions on drawing down EYF, after notifying departments to this effect in spring 2005.<sup>22</sup> In October 2005, after negotiations, Treasury allowed Defra to draw down £65 million near-cash in 2005–06, leaving a stock of £55 million which could only be accessed in 2006–07 and 2007–08.<sup>23</sup>

18. A third pressure in 2005–06 was that Defra was operating within a tighter financial environment compared to previous years, partly because the Department had *improved* certain aspects of its financial management.

19. In the early years of this decade Defra had a reputation as an underspending department, attributed in part to weaknesses in Defra's systems of planning and budgetary control.<sup>24</sup> This meant that Defra was accustomed to some financial flexibility if unexpected budgetary pressures arose during any one year. Over the past four years, however, the Department had improved its budgeting and forecasting systems. So in 2005–06, Defra 'came in' more or less on budget, with a net under-spend of just £1 million out of a provisional total public spending budget of around £3.5 billion.<sup>25</sup> The Permanent Secretary believed this showed that Defra was "not an underspending department any more".<sup>26</sup> Although this signalled that the Department had improved aspects of its financial management, the lack of underspend in 2005–06 meant the Department had less flexibility to address other unexpected budgetary pressures that arose during the year, such as the Treasury restrictions on the amount of 2004–05 EYF the Department could draw down in 2005–06. The Defra board seems to have been slow in picking up this change of behaviour within the Department. The Permanent Secretary told us:

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18 Ev 48, Q 11 (a)

19 Ev 48, Q 11 (a)

20 Ev 48, Q 11 (a)

21 Ev 104 [Treasury], Ev 48, Q 12. Again different numbers were given in oral evidence. Defra's Director Finance, and Resources Planning said the Department was hoping to draw down £90 million EYF in 2005–06 (Q 106).

22 Q 127; Ev 48, Q 12. Treasury has stipulated to the Department that "up to £50m" of the remaining stock could be drawn in 2006–07 and the balance in 2007–08. Defra says its intention is to draw down £50m near-cash EYF in the Spring Supplementary Estimate 2006–07 (Ev 49, Q 14). In a letter to the Chairman, Mr Stephen Timms, the Chief Secretary to the Treasury, confirmed that his predecessor had agreed that Defra could spend £65m of its near-cash EYF in 2005–06, £50m in 2006–07 and £5m in 2007–08 (Ev 103).

23 Ev 48, Q 12

24 The National Audit Office (NAO) reported that a significant underspend in 2001–02 was caused by weaknesses in Defra's systems of budgetary control. We commented on the NAO's findings in the Twelfth Report of Session 2002–03, *The Departmental Annual Report 2003*, HC 832, para 7.

25 Ev 1 (Q1). Total public spending budget is the sum of provisional resource and capital budgets for 2005–06 minus depreciation.

26 Q 59

The history of the Department is underspending and I think we had underestimated the extent to which we are not a department that did not underspend.<sup>27</sup>

### Treasury accounting rules

**Factor 2: “surplus capital charge budget no longer being available to fund programme expenditure due to new tighter rules governing public expenditure (around 30%)”**

20. This factor equates to about £65 million. It represents the second largest single factor for the £200 million deficit, about 30%. Again, the circumstances giving rise to this first occurred in 2005–06 with, said the Permanent Secretary, a “forward impact” in 2006–07.<sup>28</sup>

21. In evidence, the Permanent Secretary said a “Treasury reclassification” of near-cash and non-cash spending had increased the Department’s financial pressures in 2005–06 because it meant Defra had “less flexibility” in managing its resources.<sup>29</sup> Treasury guidance permits Government departments to make switches between non-cash “savings” to near-cash, under certain circumstances. Departments like to make such transfers because near-cash budgets are often under greater pressure than non-cash budgets. In 2005–06, Defra had about £85 million worth of non-cash savings and so wished to transfer this amount to near-cash.<sup>30</sup> However, the Treasury allowed Defra to switch only £20 million; the remaining £65 million was not allowed because, Defra says, “switches of this magnitude are not approvable in a tight fiscal climate”.<sup>31</sup>

22. We wanted to know when the Department first became aware it was not allowed to switch £85 million from non-cash into near-cash, as it had expected. Defra’s Director of Finance, Planning and Resources told us that Treasury Spending Review 2004 (SR04) guidance, issued to Government departments in December 2003, was the first indication that “significant changes” were going to be made, in 2005–06 and 2006–07, in the accounting rules relating to non-cash and near-cash spending, but that this guidance was not specific.<sup>32</sup> The Department only understood the full implications of the rules—that it could only transfer a maximum of £20 million non-cash to near-cash—“during the summer of 2005”.<sup>33</sup> On 11 August 2005, HM Treasury clarified the rules when a letter was

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27 Q 72

28 Q 102

29 Q 59. Near-cash refers to items that turn into cash transactions quickly such as pay, procurement, income from sales, interest payments, maintenance expenditure, etc. Near-cash expenditure in resource budgets closely matches the expenditure that impacts on the ‘Golden Rule’. Non-cash refers to various notional transactions that appear in departments’ budgets. The purpose is to reflect the full economic cost of activities even where there is no direct link to cash flows. These items either never require a cash payment (such as depreciation, cost of capital charge) or give rise to cash payments only in future years (such as provisions). Non-cash items do not affect the calculation of the ‘Golden Rule’ and so are subject to less tight control from HM Treasury.

30 Ev 49, Q 15

31 Ev 49, Q 15

32 Q 102

33 In oral evidence, however, we were told that the Department only fully understood the implications of the accounting rules in October 2005, following further discussions with HM Treasury after the EYF issue had been resolved. This is three months after the Treasury letter. The Permanent Secretary said this matter had still not been resolved by the time she arrived in November 2006—four months after the Treasury letter. See Qq 129, 130, 135.

sent to government departments' finance directors, stipulating that departments could only move "up to £20m a year" of non-cash to near-cash "without reference to the Treasury".<sup>34</sup>

23. We wanted to know whether the Department's assumptions about making such a large transfer between non-cash and near-cash were based on any other existing Treasury guidance—after all, the Department had made switches of £20 million non-cash to near-cash on previous occasions during the SR04 period but never an amount as large as £85 million. The Department confirmed that no other such guidance existed. We were told it was the "lack of clear guidance that led to this assumption, rather than guidance that existed."<sup>35</sup>

24. The original SR04 guidance—issued to Government departments in December 2003—states that departments should discuss with HM Treasury any proposals to make switches "before making any commitments based on this flexibility".<sup>36</sup>

### 2006–07 pressures

**Factor 3: "RPA's running costs (about 11%), including administration of the single payment scheme for both 2005 and 2006"**

**Factor 4: "Avian influenza (around 5%)"**

25. By the end of calendar year 2005, Defra was aware that it was deferring a significant amount of costs—perhaps as much as £150 million<sup>37</sup>—from 2005–06 into 2006–07. Budgets for 2006–07 for core Defra and Defra's affiliated agencies and NDPBs were set in January 2006. Senior Defra officials decided *not* to revise substantially 2006–07 budgets to take account of the deferred 2005–06 costs. In evidence, the Permanent Secretary told us it was "a matter of judgement" that the Department could probably absorb these additional 2005–06 costs within its 2006–07 budget.<sup>38</sup> The expectation within the Department was that "things would be easier this year [2006–07]" and that they could cope with the additional costs they were deferring into that year.<sup>39</sup>

26. However, the Permanent Secretary acknowledged that these initial assumptions were "over-optimistic".<sup>40</sup> In March and April 2006, a combination of the higher than expected running costs of the Rural Payments Agency (RPA) and the cost of managing the avian influenza outbreak in East Anglia further added to Defra's financial problems.<sup>41</sup> These two

34 MS FD (05) 24, 11 August 2005. See Ev 103; DAR 12(a) [not printed]

35 Ev 72, Q 7

36 MS FD (05) 24. See DAR 12(a), para 28 [not printed].

37 Qq 135 and 151. See footnote 17 for further details about the total amount of costs deferred from 2005–06 into 2006–07.

38 Q 151

39 Q 59

40 Q 59

41 Q 72. Defra does not have contingency in its budget to deal with small unexpected outbreaks, such as the avian influenza outbreak that occurred in the spring of 2006. HM Treasury would only provide additional resources in the

additional pressures—although only amounting to 16% of the £200 million deficit<sup>42</sup>—meant the Department had “tipped over into a situation where we could not guarantee coming in on budget” for 2006–07.<sup>43</sup> It was at this point that the Department decided 2006–07 budgets would have to be revisited. Revised budgets were confirmed in July 2006.

27. In evidence, the Department told us its experience in 2005–06 and 2006–07 meant it would “consider using more cautious planning assumptions in future years”—such as assuming Treasury would allow Defra to draw down its full EYF.<sup>44</sup>

## Conclusions

28. **We have considered a substantial amount of evidence about the causes of Defra's £200 million deficit in 2006–07. This deficit ultimately resulted in action to reduce, in-year, the 2006–07 budgets of several Defra executive agencies and Non-Departmental Public Bodies (NDPBs) and disrupt a number of important environmental programmes and projects. The evidence suggests that the Department itself has to take much of the blame for the precarious financial situation it found itself in 2006–07. We regard this whole episode to be a serious failure in the Department's financial management.**

29. **We acknowledge that some minor factors for the deficit, such as costs related to the Spring 2006 avian influenza outbreak, were largely beyond the Department's control. However, many of the financial problems carried over from 2005–06 occurred because the Department had made budgeting commitments based on unsubstantiated assumptions about the generosity of HM Treasury in a tight fiscal period. We believe the Department was irresponsibly over-optimistic and complacent in budgeting on the assumption that, first, it would be allowed its draw-down its full End-Year-Flexibility (EYF) from the Treasury in 2005–06 and, secondly, that it would be able to switch £85 million from non-cash to near-cash that same year. These two factors alone amounted to £110 million of the £200 million deficit. We are not convinced that the Department explored fully with the Treasury at an early enough stage the possibility of making these kind of transactions, particularly bearing in mind the tight financial climate. This complacency had unplanned-for severe consequences.**

30. **We are particularly unimpressed with the Department's explanation of how the Treasury “re-classification” of near-cash and non-cash spending impacted on its budget. Our evidence shows that no good reason existed for the Department to assume it could make a transfer of £85 million non-cash into near-cash, and to make budgetary commitments based on this assumption. The Department had never made such a large transfer before. No Treasury guidance existed permitting it to do so. This financial pressure was therefore caused more by the Department's self-deception, as well as its misguided assumptions about Treasury rules. To blame the Treasury was on this occasion incorrect. The result was a sudden, unplanned, poorly explained and highly**

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event of a more serious and expensive event (such as the foot and mouth outbreak in 2001), although Defra says it is not possible to set an exact figure for when Treasury would decide to become involved. See Q 180 and Ev 71, Q 1.

42 RPA running costs were £23million, the avian influenza outbreak £10 million.

43 Q 146

44 Ev 50, Q 17 (c)

disruptive mid-year restriction on budgets. Defra's agencies and NDPBs—as well as voluntary groups reliant on Defra funding—found themselves with wholly unanticipated financial problems as a result. In its response, the Department should tell us when Ministers were informed by officials about the rule changes and their financial consequences.

31. We also remain doubtful whether the £23 million figure that Defra says the Rural Payments Agency (RPA) contributed to its budget deficit tells the full story. In its response to this report, the Department should state how much the RPA was within or over budget on a monthly basis throughout the financial year 2005–06. The Department must also indicate what parts of its internal budget were affected during this period by financial transfers to the RPA, and the consequences of these financial movements.

### *Impact of budget cuts*

#### *Extent of budget revisions of Defra agencies and Non-Departmental Public Bodies*

32. The table below shows all those agencies and NDPBs whose 2006–07 resource budgets were changed in-year, in July 2006, in order to help meet Defra's total £200 million deficit. All but two—the Rural Payments Agency and the Centre for Environment, Fisheries and Aquaculture Science (CEFAS)—experienced reductions. Table 1 shows the change in money terms and as a percentage of that agencies' initial 2006–07 resource budget.

**Table 1: Extent of Defra agencies and Non-Departmental Public Bodies' 2006–07 in-year resource budget revision**

Defra agency/Non-Departmental Public Body	Change in 2006–07 resource budget (£)	Change in 2006–07 resource budget (%)
Environment Agency	£23.7 million REDUCTION	-5%
Natural England	£12.9 million REDUCTION	-7%
British Waterways	£3.9 million REDUCTION	-7%
State Veterinary Service	£3.0 million REDUCTION	-3%
Veterinary Laboratories Agency	£2.4 million REDUCTION	-3%
Marine Fisheries Agency	£1.7 million REDUCTION	-6%
Pesticides Safety Directorate	£0.8 million REDUCTION	-7%
Royal Botanic Garden Kew	£0.6 million REDUCTION	-3%
Food from Britain	£0.4 million REDUCTION	-8%
National Forest Company	£0.3 million REDUCTION	-8%
Veterinary Medicines Directorate	£0.3 million REDUCTION	-7%

Defra agency/Non-Departmental Public Body	Change in 2006–07 resource budget (£)	Change in 2006–07 resource budget (%)
Meat and Livestock Commission	£0.02 million REDUCTION	-4%
Rural Payments Agency	£23 million INCREASE	+11%
Centre for Environment, Fisheries and Aquaculture Science (CEFAS)	£1 million INCREASE	+3%

Source: HC Debs, 8 November 2006, cols 1581-82W

33. The Environment Agency and British Waterways both told us that the July reductions represented the *second* time in quick succession that their 2006–07 budgets had been reduced from the expected amounts. Defra had notified the Environment Agency in April 2006 that it would face a £4.4 million cut in its 2006–07 budget. The in-year revision, in July, resulted in a further £23.7 million cut. The Agency's total budget cut in 2006–07 was therefore £28.1 million.<sup>45</sup> British Waterways was told by Defra in March 2006 that £3.2 million would be cut from its indicative budget allocation for 2006–07, as set in SR04. A further £3.9 million was then cut as part of the in-year review in July. British Waterways says its overall reduction in grant from 2005–06 to 2006–07 has therefore been £7.1 million.<sup>46</sup>

### *Programmes and projects affected by the cuts*

34. Written evidence from Defra agencies and NDPBs provided us with several examples of the impact of the budget cuts on Defra's environmental work. British Waterways described a number of engineering works that have been postponed or cancelled due to the cuts.<sup>47</sup> These disruptions have received considerable public and media attention, with a number of high-profile protests and barge blockades occurring in late 2006 and early 2007.<sup>48</sup> The Environment Agency states that it informed Defra about the likely impacts of the cuts in a letter from the Agency's Chairman dated 3 October.<sup>49</sup> For example, reductions in channel clearing and maintenance, caused by reductions to its budget, "will increase flood risk". A lessened ability to attend to category 3 pollution incidents is "likely to lead to more incidents escalating since they will not be dealt with promptly".<sup>50</sup>

35. Natural England told us that its 7% budget reduction meant a range of core research work would be "slowed down" until 2007–08. There would also be a reduction in the scale of the farm demonstration programme in 2006–07 and in new work in Areas of Outstanding Natural Beauty. Funding for some voluntary groups would also be affected.<sup>51</sup>

45 Ev 82, Q 1

46 Ev 95, Q 1

47 Ev 97, Appendix 1

48 "Barge blockade against canal cuts", *Newsquest Digital Media*, 27 November 2006

49 Ev 95, Q 1

50 Ev 86, Annex 1

51 Ev 89, Q 2

The Veterinary Laboratories Agency (VLA) told us that the majority of its cuts had affected its scientific surveillance work. In addition to this, not all the research 'concept' proposals on antimicrobial resistance could be taken forward. This, the VLA said, "could leave Defra open to criticism since it is of considerable public health interest".<sup>52</sup>

36. Voluntary groups also told us about the impact of the cuts 'on the ground'. Butterfly Conservation said the budget cuts would have "serious impacts on both the delivery of Government biodiversity targets and on the volunteer community who are trying to help Government meet its own targets to halt biodiversity loss".<sup>53</sup> For example, cuts would cause the "virtual cessation of care and maintenance" to Stewardship sites by Natural England staff because "cut-backs have resulted in them having to focus on claims".<sup>54</sup> The Bat Conservation Trust (BCT) told us that Natural England's budget cuts had resulted in "great uncertainty and high risk to BCT" and affected "thousands of volunteers dedicated to bat conservation".<sup>55</sup>

37. In both evidence sessions with the Department, we expressed concern about the impact of the budget reductions on Defra's environmental work. In the July session, the Permanent Secretary agreed with our assertion that the Defra agencies and NDPBs affected were facing "a pretty big headache".<sup>56</sup> By the time of the December session, the Department was much more positive about the impacts of the cuts. The Permanent Secretary described the impacts as "relatively invisible", with the exception of the impacts on the voluntary sector, and she praised the "hard work" done by Defra's delivery bodies to ensure that this was the case.<sup>57</sup> When questioned about the examples provided by Defra agencies and NDPBs in their evidence, she responded that many of these impacts were "as much about people's fears of impacts [rather] than impacts on the ground".<sup>58</sup> The Department also stressed that impact on PSA targets had been "slight" because, in many cases, the targets stretch over long periods.<sup>59</sup>

38. We questioned the Department specifically about the impact of the in-year budget cuts on British Waterways' work, and the high-profile protests that had occurred in wake of the cuts. The Permanent Secretary believed that the postponement of British Waterways' services was more a consequence of British Waterways' wider restructuring programme rather than a result of the in-year cuts to its 2006–07 budget.<sup>60</sup> She also stressed that Defra's grant represented only a "small proportion" of the turnover of British Waterways, in terms of its asset base and its commercial activities.<sup>61</sup> She acknowledged that British Waterways had been "very vocal" in its comments but believed the organisation was "sensibly looking

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52 Ev 80, Q 2

53 Ev 79, para 2

54 Evs 77 and 78, paras 3 and 5

55 Ev 98, Executive Summary, para 4

56 Q 70

57 Q 200

58 Q 208

59 Ev 44, Q 3

60 Q 199

61 Q 202

forward”.<sup>62</sup> We will be looking in more detail at British Waterways in our next Sub-Committee inquiry.

### *Lack of certainty and the decision to set 2006–07 budgets in January 2006*

39. In evidence, several Defra agencies and NDPBs expressed disappointment about the sudden nature of the budget cuts and the lack of certainty given by the Department before the cuts were formally announced. British Waterways had been subject to two reductions to its expected 2006–07 budget in quick succession. British Waterways was advised about the first reduction around February 2006, a couple of months before the start of the 2006–07 financial year. British Waterways described this as “late but acceptable notice” because it was able to incorporate the reduction within its business plans.<sup>63</sup> British Waterways was warned about the second cut in May 2006 and formally notified in July. The in-year nature of this second cut meant options were restricted, with little choice but immediately to reduce its programme of major works and repairs “as this was the only area of expenditure of significant value that could be cut at this stage”.<sup>64</sup> This meant that “some time and resource was wasted as many schemes were quite well advanced”.<sup>65</sup>

40. Similarly, the Environment Agency said that the “lack of notice” from Defra had required the Agency to make budget assumptions which were to an extent “tactical and opportunistic”. The Veterinary Laboratories Agency told us there was “considerable uncertainty” about the extent of the budget reductions before formal notification. It said “a number of different percentage reductions were being quoted in early correspondence that only added to the uncertainty”.<sup>66</sup>

41. When questioned about the timing of the decision, the Permanent Secretary acknowledged that the Department had “failed in our aim to give our delivery agencies enough warning”, and she said that much of the criticism in this respect was “perfectly reasonable”.<sup>67</sup> She emphasised, however, that the agencies could not have expected to receive more money had allocations been made earlier in the year; only that the Department could have given them “greater certainty”.<sup>68</sup>

42. We wanted to know why the Department did not amend its 2006–07 budget allocations when budgets were set in January 2006, in order to give the agencies and NDPBs more certainty and more time to adjust their 2006–07 work programmes accordingly. After all, the Department was aware by the end of the calendar year 2005 that it would not be able to draw down its full End-Year-Flexibility (resolved in October 2005), that it was unable to transfer a total of £85 million of non-cash into near-cash as it had hoped, and that it was deferring a significant number of programmes and projects into 2006–07. According to the Parliamentary Answer given on 6 November 2006, these factors equate to about £155

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62 Q 199

63 Ev 96, Q 8

64 Ev 96, Q 8

65 Ev 96, Q 8

66 Ev 81, Q 8

67 Q 59

68 Q 59

million of the £200 million deficit experienced in 2006–07.<sup>69</sup> The Permanent Secretary told us that the Department was fully aware in January that the 2006–07 budgets it had set would be “tight”.<sup>70</sup> However, she said:

It was not, at that stage, black or white that we would not be able to live within our 2006–07 budget. We knew we would have some level of End-Year-Flexibility (£50 million) which we are still aiming to draw down, we knew we would be able to do some transfers from non-cash into near-cash (the £20 million), we have this tradition of under-spending, over-programming and ... under-spends emerging where we were not expecting them to. ... it was a matter of judgement in January/February [2006] whether or not the pressures that I had pushed forward into 2006–07 were ones that we could not live within.<sup>71</sup>

43. However, the Permanent Secretary acknowledged that she might not have taken this risk had she been better informed about the workings of Defra's budget.<sup>72</sup> In January 2006, she had only been employed at the Department for two months. She explained that Defra, as an organisation, was unusual because much of its budget was granted, to its agencies and NDPBs, at the very start of the financial year, on April 1. When the budget cuts were made in-year, therefore, the Department and its agencies were restricted in the areas in which it could impose a moratorium, because much of the money had already been committed. Ms Ghosh summed up:

[Defra]... is not a department where you have easily got things that you can turn off in the middle of the year and .... had I realised that, I think perhaps I would have taken a more cautious approach ... as we went into 2006–07 than we did, but that is a lesson that we have learnt.<sup>73</sup>

## Conclusions

44. **Our evidence shows that the chaos and disruption caused by imposing budget reductions in-year could have been prevented by the Department. Defra was fully aware by the end of the calendar year 2005 that it was deferring at least £150 million worth of costs into 2006–07. Yet, when 2006–07 budgets were set in January 2006, the Department decided not to revise substantially budgets to take account of these deferred costs. The Permanent Secretary told us several times that it was a “matter of judgement” as to whether the Department could absorb these additional costs within its 2006–07 budget. It is clear to us that this judgement—made by senior Defra officials and ministers—was seriously flawed. The Department was over-optimistic to assume it could cope with the additional deferred costs from 2005–06 and not incur any further significant unexpected costs in 2006–07. The error of this decision was exposed within just two months, when the relatively minor additional costs from the Rural Payments Agency and the Spring 2006 avian influenza outbreak were enough to ‘tip the balance’.**

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69 HC Debs, 6 November 2006, cols 730–731W

70 Q 98

71 Q 137

72 Q 157

73 Q 157

Given that neither additional RPA running costs or an avian flu outbreak in 2006–07 could have been totally unexpected, the decision not to revise budgets substantially in January 2006 appears even more inexplicable, and unwisely risky.

45. We were taken aback by the Permanent Secretary's acknowledgement that she might have acted more cautiously in January 2006—when setting budgets for 2006–07—if she had been aware that much of Defra's money was spent at the start of the financial year. This decision had severe repercussions for those bodies affected, particularly British Waterways which had little choice in-year but to postpone major works and repairs. The Permanent Secretary was relatively new to Defra, so the blame for her lack of awareness must be shouldered by the Finance Director and his team.

### *Defra's public explanations about budget cuts*

46. Defra's public statements about the causes and impacts of its budgetary changes have often been difficult to understand, and even contradictory. For example, inconsistencies have appeared in various public statements about the causes of the deficit, particularly the cost that each factor contributed to the £200 million deficit.<sup>74</sup> In response, Defra said it was not possible to provide “a definitive, single list” of pressures that amounted to the current deficit because the situation was “evaluated on a rolling basis, with estimates of expected costs and pressures changing over time”.<sup>75</sup>

47. There was similar confusion about the impacts of the cuts, when full details of these were made public in October 2006. In a House of Lords debate on 30 October 2006, Lord Rooker confirmed that the State Veterinary Service had been subject to a £3 million reduction in its expected 2006–07 resource budget. However, he said that this did not amount to an overall reduction in the State Veterinary Service's total budget because the resource money had been “swapped from capital”.<sup>76</sup> A Written Parliamentary Answer published by the Department the same day, however, said that, with the exception of the RPA, “no changes have been made to the original capital budgets for 2006–07” of those bodies listed—including the State Veterinary Service.<sup>77</sup> On 2 November, the Parliamentary Under-Secretary of State further complicated the issue when he told the Commons that the State Veterinary Service had moved £3 million “from revenue to capital”.<sup>78</sup>

48. We questioned the Department about the process of cross-checking and review it had used in preparation for its public statements about the 2006–07 budget changes. The Department said it used “normal Departmental procedures and processes” for making public statements for this issue, and these involved senior management. However, it added:

Regarding the inconsistency in the Oral Debates (HL 30/10 and HC 2/11) [related to the State Veterinary Service's budget reduction] it is understandable that Ministers may have confused the direction of travel on a technical re-classification for one

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74 See footnote 17 for an example of Defra giving inconsistent information regarding the amount of costs deferred from 2005–06 to 2006–07.

75 Ev 47, Q 11(a)

76 HL Deb, 30 October 2006, col 9

77 HC Deb, 30 October 2006, col 52W

78 HC Deb, 2 November 2006, col 452

budget item—even more so, given the general complexity of Government finances and the compartmentalisation of expenditure.<sup>79</sup>

**49. The Department's communication about the causes of its deficit has been poor. Ministers should have provided a much more complete and comprehensive explanation about the budgetary changes instead of often placing emphasis on avian influenza and Rural Payments Agency spending and vague references to changes in Treasury accounting rules.**

**50. We acknowledge that many of the issues related to Defra's budget are complicated and opaque, particularly those related to various Treasury procedures. However, this complexity does not excuse Ministers—who took important decisions and approved much of what occurred in 2005–06 and 2006–07—from blame for giving confusing explanations. This raises some important questions about the understanding levels both within Defra, and outside, about how the Department's budgetary processes operate. Government accounting is complex, but the Department has a responsibility to provide good, clear explanations to help lay-people—including us—to understand these matters. Ministers should also ensure that they master the complex matters within their brief—especially those relating to financial issues. The Department should say what steps it is taking to raise Ministers' understanding in this area. HM Treasury should also try harder to be more transparent in the language and rules it uses.**

### Budgeting in future years

51. In the light of this year's events, we wanted to know whether funding would continue to be tight for the foreseeable future. The Permanent Secretary confirmed that the Department would no longer have an increasing line of spending beyond 2007–08.<sup>80</sup> She said that spending across the whole of Government was likely to be tight during the Comprehensive Spending Review 2007 period because all money received by departments would be “flat cash”—that is, absorbing the costs of inflation year on year.<sup>81</sup> She described the Department's financial problems in 2006–07 as “a swift adjustment but on a path which is effectively ... a declining one”.<sup>82</sup>

52. Several witnesses told us they feared the consequences of budgeting restrictions in future years. British Waterways told us that, in the short term, further cuts would result in an “under-spend on ... major works programmes of repair, replacement and renewal”.<sup>83</sup> Reduced funding over the long-term could mean the Government failed to meet its aspirations for waterways policy, as set out in the 2000 document *Waterways for Tomorrow*.<sup>84</sup> Similarly, the Veterinary Laboratories Agency said that reduced budgets would mean it could undertake less surveillance work and its “ability to absorb work whilst

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79 Ev 47, Q 10

80 Q 189

81 Q 189

82 Q 188

83 Ev 97, Q 12

84 Ev 97, Q 12

still meeting our financial target will be difficult".<sup>85</sup> Butterfly Conservation told us long-term reductions would have an "especially significant" impact on Non-Governmental Organisations, such as itself, who have had long term Memoranda of Understanding with Natural England, and "rely on long term grant aid".<sup>86</sup>

**53. We are extremely concerned by the Permanent Secretary's statement that funding will continue to be extremely tight for the Department, and its agencies, over the next few years. Although we recognise that this reflects the financial reality across the whole of Whitehall in the next few years, it raises the question that if expenditure on environmental work remains a departmental priority, what then will happen to other areas of Defra responsibility. Defra must publish as soon as possible what its spending priorities will be and how much will have to be met from further efficiency savings. In the tighter financial environment that is likely, however, Defra has not helped its case for a good settlement from HM Treasury for the Comprehensive Spending Review 2007 period with its poor financial management in the past two years.**

### **EU disallowance**

54. Defra is currently facing the prospect of disallowance—that is, financial penalties imposed on the UK by the European Commission—for not implementing the requirements of the Single Payment Scheme fully or making payments after the deadline

55. The method of payment for disallowance changed in 2006–07. Defra will now be expected to pay any disallowance payment incurred from its own Departmental Expenditure Limit (DEL) budget—the part of the budget primarily used for spend on programmes and projects, and in which Defra had its £200 million deficit. Previously, disallowance payments were made from the Annually Managed Expenditure (AME), budget, which did not significantly affect Defra's DEL budget, and with provision granted by the Treasury.<sup>87</sup>

56. We asked the Department whether EU disallowance costs incurred from 2006–07 onwards would have a detrimental impact on the rest of Defra's budget. Defra's Director Finance, Planning and Resources confirmed that it "impacts on the whole of the Defra budget".<sup>88</sup> However, the Treasury had provided "some additional disallowance cover" for 2006–07 and 2007–08, as part of the transition to take disallowance from AME into Defra's DEL.<sup>89</sup> This cover had been agreed with the Treasury as being about 2% of the Single Payment Scheme.<sup>90</sup> Defra's Director Finance, Planning and Resources said Defra's "key task" now was to "quantify what we believe the disallowance payable will be in any financial year and to make necessary provision in the budget to cover it".<sup>91</sup>

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85 Ev 81, Q 12

86 Ev 78, para 8

87 Q 230

88 Q 235

89 Q 230

90 Q 236

91 Q 235

57. We are extremely concerned about the changes in accounting rules whereby the Department will now bear the costs of EU disallowance directly from 2006–07 onwards. This could have a serious impact on Defra Departmental Expenditure Limit (DEL) budgets in the future, in a period when the Department will already be under increased financial pressure. We recommend that the Department keep us informed at an early stage, by means of a ministerial letter, about any future EU disallowance which could potentially affect Defra's DEL budget.

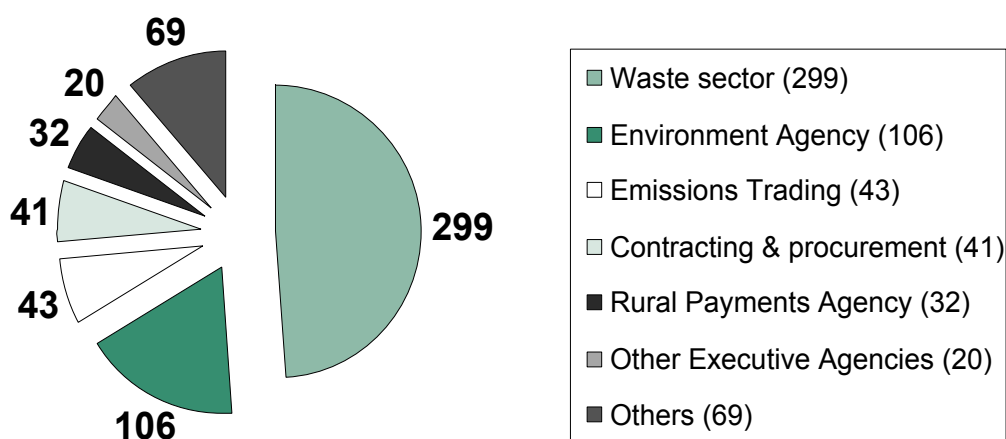
### Efficiency savings

58. The Gershon Review of Efficiency was a major component of the 2004 Spending Review.<sup>92</sup> The Review identified a range of potential efficiency savings across Government. In its response to the Review, Defra undertook to find £610m in financial efficiencies and 2,400 staff reductions by 2007–08.<sup>93</sup> We have followed Defra's progress towards meeting its two efficiency targets in our previous reports.<sup>94</sup> Last year, the Department told us it was "on track" to meet its targets.<sup>95</sup>

### Achievement of the Department's efficiency targets

59. The pie charts below show how Defra plans to meet its financial and headcount efficiency targets. Each is largely dependent on one specific programme. Figure 2 shows that almost half of the financial efficiencies target (£299 million) is to be achieved through efficiency gains in the waste sector. Figure 3 shows that 1,400 of the 2,400 headcount reductions target are to be achieved through the Rural Payments Agency (RPA) Change Programme.

Figure 2: Efficiency Programme—forecast financial efficiencies (£ millions)



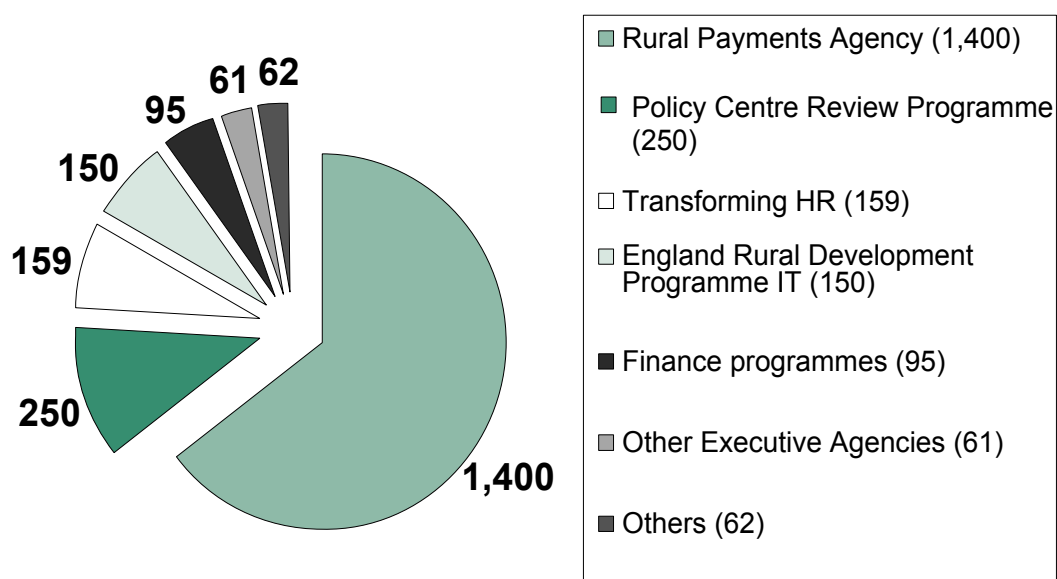
92 Sir Peter Gershon, *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, July 2004. Available on the Treasury Internet site at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

93 Defra, *Departmental Report 2006*, p 201

94 For example, see Environment, Food and Rural Affairs Committee, Fourth Report of Session 2005–06, *The Departmental Annual Report 2005*, HC 693–I, paras 11–16

95 HC (2005–06) 693–II, Ev 3, Ev 31

Figure 3: Efficiency Programme—forecast headcount reductions (number of reductions)



60. Progress towards the Department's targets is verified quarterly reporting to the Office of Government Commerce (OGC) and by 6-monthly 'moderation' discussions between the Permanent Secretary and the Chief Executive of the OGC. The most recent discussion, in November 2006, provisionally agreed a 'Red' assessment to Defra's Efficiency Programme.<sup>96</sup>

61. Recently, the Department acknowledged for the first time—in its Autumn Performance Report (APR) 2006—that it will not achieve its workforce reduction target of 2,400 staff reductions by the end of 2007–08, largely because of problems at the RPA.<sup>97</sup> By the end of September 2006, the Department had made just 416 staff reductions.<sup>98</sup> This amount is actually a substantial *decrease* from the 1,016 staff reductions reported by Defra in its Departmental Report 2006, just a few months earlier.<sup>99</sup> The number had decreased because temporary agency staff employed at the RPA—to replace the 876 full-time staff reductions—would now not be released by the target deadline, as initially hoped. The APR 2006 explains:

It has become clear that agency staff [in the RPA] covering on a temporary basis the 1030 post reductions previously reported by the RPA Change Programme will not now be released during the SR04 period. These figures have been retracted and removed from the workforce reductions the Department is reporting to date.<sup>100</sup>

62. Defra officials were more confident, however, that the Department would meet its financial efficiencies target of £610 million by 2007–08. By the end of September 2006,

96 Defra, *Autumn Performance Report*, December 2006, Cm 6827, p 67

97 Defra, *Autumn Performance Report*, p 69

98 Defra, *Autumn Performance Report*, p 69

99 Defra, *Departmental Report 2006*, p 203

100 Defra, *Autumn Performance Report*, p 69

Defra had delivered financial efficiencies worth £342 million, which amounted to 56 per cent of its target.<sup>101</sup> Defra's Director of Finance, Planning and Resources told us the Department could even finish "slightly over the target".<sup>102</sup> If this occurred, the Treasury would credit the Department.<sup>103</sup>

**63. We are extremely disappointed that the Department will not meet its efficiency headcount reduction target by the end of 2007–08, and will most likely miss this target by some margin. This is yet another example of how the Rural Payments Agency debacle has had wider negative repercussions across the whole Department. The Department is more optimistic about meeting its financial efficiencies target by 2007–08. However, gaining the remaining financial efficiencies necessary to meet the target may be more difficult than anticipated because the Department will be operating in a much tighter spending environment over the next couple of years. At the same time, the tighter spending environment only increases the importance of making these efficiency savings, so that money can be freed up for other purposes within the Department. We consider it imperative that the Department does not lose focus in attempting to meet its financial efficiencies target of £610 million by 2007–08. Failure to achieve both the financial and headcount efficiency targets would amount to another major embarrassment for the Department. Defra should now provide a clear statement as to how these efficiencies will be made and the timescale to achieve them.**

## 3 Managing Defra

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### Defra's relationship with its delivery bodies

64. In 2006, Defra experienced a high-profile disaster in the performance of one of its key delivery bodies, the Rural Payments Agency (RPA), because of delays with the implementation of the Single Payment Scheme. In our Sub-Committee's inquiry into the RPA, we have heard criticism about the handling of the relationship between the RPA and core Defra.<sup>104</sup> We will be making a separate report on the RPA in due course. We also held an inquiry into the Environment Agency in 2006, in which stakeholders told us that poor communications between Defra and the Environment Agency (the Agency) sometimes resulted in the Agency making decisions "on the hoof" about the enforcement of regulations.<sup>105</sup> In evidence to the inquiry, the Agency acknowledged to us that it "from time to time fills a policy void" owing to "incoherence and inconsistencies in legislation".<sup>106</sup> Another major delivery body, Natural England, was established on 2 October 2006.

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101 Defra, *Autumn Performance Report*, pp 69–70

102 Q 57. We received written evidence from the Department in January 2007 that was similarly optimistic, stating that the Department would "exceed the financial target" (Ev 71, Q 3).

103 Q 57

104 For example, see the comments made by the Tenant Farmers Association in oral evidence to the Committee on 24 April 2006 (HC 1071-i, Q 2).

105 Environment, Food and Rural Affairs Committee, Seventh Report of Session 2005–06, *The Environment Agency*, HC 780-II, Q 119

106 HC (2005–06) 780-II, Ev 164

65. We asked officials what lessons Defra had learned from its experience with the RPA and how it aimed to improve the management of its other delivery bodies. The Permanent Secretary told us that the Department was still at a “developmental stage” in terms of its relationship with its delivery bodies.<sup>107</sup> This was partly because a large number of Defra's delivery bodies were still relatively new, so their governance procedures and financial controls were not as mature as some others.<sup>108</sup>

66. The Permanent Secretary acknowledged, however, that the Department had often been “lacking in confidence” in its past relationships with its delivery bodies.<sup>109</sup> She wanted the Department instead to establish “more sophisticated” and “nuanced” relationships.<sup>110</sup> For example, she disagreed with the Department's past tendency to employ a “uniform, arm's length approach” to its delivery bodies, because the occurrence of “crises, pressures, [and] new policies” would inevitably require core Defra to be more involved than in a business-as-usual scenario.<sup>111</sup>

**67. Defra is responsible for a large number of delivery bodies. It is of paramount importance that the Department has the appropriate resources and robust management information structures in place to monitor effectively all its delivery bodies. The serious failings in the performance of the Rural Payments Agency (RPA) in the past year have raised concerns—which we share—that such systems and structures are not fully in place. The recent creation of an important new executive non-departmental public body—Natural England—which will have a crucial role in the delivery of many of Defra's primary responsibilities, only adds to our concerns. We will report soon specifically on the problems experienced by the RPA.**

**68. We are pleased that the Permanent Secretary acknowledges the need for the Department further to develop its relationships with its delivery bodies, and we support her view that the Department should be ready to adopt a more interventionist approach to its bodies as circumstances require.**

## Working across Government

69. Much of Defra's work requires the co-operation of other Government departments and agencies. In previous years, we have expressed concern about the Department's ability to influence other ‘actors’ across Government and to demonstrate sufficient clout to be taken seriously by other departments in framing their key policy decisions.<sup>112</sup> Last year, we expressed disappointment in our report on *Climate change: the role of bioenergy* that much of the evidence we received suggested “a distinct lack of ‘joined-up Government

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107 Q 34

108 Q 34

109 Q 34

110 Q 34

111 Q 34

112 HC (2003–04) 707, Recommendation 8.

concerning bioenergy". We concluded that Defra appeared to have "all of the targets and none of the levers".<sup>113</sup>

70. In our July evidence session, we asked the Permanent Secretary whether Defra's 'clout factor' had improved in the previous twelve months in its dealings with other Government departments, particularly in relation to its work on climate change. She told us that the Department's clout had increased "markedly" in this time.<sup>114</sup> She gave four examples from the previous twelve months which she believed demonstrated the Department making a difference on climate change. They were:

- the outcome of the negotiations on the EU Emissions Trading Scheme—Defra had worked "very effectively" with other Government departments during the negotiations for the scheme, at both the political and departmental level;
- the Government's Energy Review—the Department's "excellent evidence and skills base" and "good networking and influencing skills" had ensured the Review was "an extremely well-balanced package";
- the Montreal talks on climate change—the Department's "very effective joined-up working across Government", particularly with the Foreign and Commonwealth Office and the Department for International Development, had helped the former Secretary of State's success at the talks in engaging the United States;
- the Climate Change Programme Review—the Review was a "good example of cross-departmental working", although it still "fell short" of some of the Department's climate change aims.<sup>115</sup>

71. We wanted to know how the Department could further improve its relationships across Government. The Permanent Secretary said it was particularly important that the Department improved its relationships with local government, Regional Development Agencies (RDAs) and the Department for Communities and Local Government (DCLG) in the near future, in order to deal with some "very tricky" issues relating to the appropriate use of land and the rural services and economy.<sup>116</sup> The Permanent Secretary also wanted the Department to be "even more engaged in the local government agenda", with a "greater knitting together" of policies being developed by the DCLG around city regions, local area agreements and for economic development with RDAs.<sup>117</sup>

**72. On several occasions in the past we have stressed the necessity of effective 'joined-up Government' in achieving Defra's aims, and expressed concerns that Defra lacks sufficient 'clout' to be taken seriously by other Government departments in framing their key policy decisions. We agree with the Permanent Secretary that Defra has had some success in influencing some major decisions at the highest level in recent times,**

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113 Environment, Food & Rural Affairs Committee, Eighth Report of Session 2005–06, *Climate change: the role of bioenergy*, HC 965-I, para 168

114 Qq. 11, 12

115 Q 12

116 Q 14

117 Q 14

and in working effectively with other Government departments. However, we are still concerned that Defra's ability to influence other departments on a number of issues it considers important—such as bioenergy—remains limited. We recommend that the Department works to take full ownership of the decision-making process for those areas for which it has overall policy responsibility. This is especially relevant for climate change issues where Government as a whole has still to put a Cabinet-level minister in overall charge of policy in this area.

73. We were also disappointed at the lack of concrete examples provided in the Report about policy co-ordination across Government, and the Department's role in this co-ordination. In particular, we believe that the Report should include more information about the important work carried out by the various Cabinet Committees that deal with areas of Defra's remit. We recommend that future Departmental Reports provide information about what has been achieved through these mechanisms.

## 4 Defra policy

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### Sustainable Development

74. Sustainable development in the UK and beyond is a Government-wide priority, "led and championed by Defra".<sup>118</sup> A widely-used and accepted international definition of sustainable development is: "development which meets the needs of the present without compromising the ability of future generations to meet their own needs".<sup>119</sup> It is the Department's overarching objective and all of Defra's policies are intended to contribute to it.<sup>120</sup> The Department also owns a Public Service Agreement target specifically related to sustainable development for the period 2005–08 (more detail about the PSA target is given in paragraph 85).

75. The Departmental Report contains information about a number of sustainable development "delivery mechanisms" adopted across Government.<sup>121</sup> The Sustainable Development Commission (SDC), for example, is the "advocate, adviser and 'watchdog'" for sustainable development.<sup>122</sup> The Sustainable Development Programme Board is composed of senior officials from key policy departments and "oversees delivery of the [UK Sustainable Development Strategy] and its commitments".<sup>123</sup> Government departments have also produced their own Sustainable Development Action Plans to "highlight each organisation's contribution to sustainable development and strengthen departmental accountability for delivering it".<sup>124</sup>

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118 Defra, *Departmental Report 2006*, p 19

119 [www.defra.gov.uk/environment](http://www.defra.gov.uk/environment)

120 Defra, *Departmental Report 2006*, p 19; [www.defra.gov.uk/environment](http://www.defra.gov.uk/environment)

121 Defra, *Departmental Report 2006*, pp. 22–24

122 Defra, *Departmental Report 2006*, p 22

123 Defra, *Departmental Report 2006*, p 23

124 Defra, *Departmental Report 2006*, p 23

76. We asked the Permanent Secretary how the different mechanisms and policies related to sustainable development were co-ordinated and overseen. The Permanent Secretary told us that the concept of sustainable development was “quite complex” but, ultimately, it was Defra’s role to “join that loop together”.<sup>125</sup> She believed the most effective way to achieve this was to “increasingly show examples [of sustainable development] in action”.<sup>126</sup> Such examples included the building of sustainable houses in East Anglia and organising a sustainable London Olympic Games; the Department could use these to “get our message across to other [Government] departments”.<sup>127</sup>

**77. The Government, and the Department, often reiterate their commitment to ‘sustainable development’. Sustainable development, however, is a complex concept and is embedded within a vast range of policies across Government. Although bodies have been created specifically to monitor and promote sustainable development across Government, Defra is ultimately responsible for overseeing this work. From the information available—in the Departmental Report and elsewhere—it is unclear how successful the Department has been in carrying out this responsibility. The Department has also failed to communicate clearly how it takes the lead in ensuring sustainability is embedded in other Government departments’ work. We recommend that future Departmental Reports include a more coherent and free-standing ‘mini cross-Government sustainability report’, including objective performance measures for both Defra and other Government departments. The mini-report should comment on the Sustainable Development Commission’s conclusions about Government departments’ Sustainable Development Action Plans.**

## Biodiversity

78. An important area of Defra’s work is its commitment to halt the loss of biodiversity. The Government’s *Biodiversity Strategy*, launched in 2002, represents the “bringing together of England’s key contributions to achieving the EU Gothenburg target to halt the loss of biodiversity by 2010”.<sup>128</sup> The Departmental Report states that over half the indicators used to measure progress of the Strategy were assessed as making positive progress towards achieving the objective. The other indicators all showed either no change or an uncertain trend due to a lack of long-term data or short-term fluctuations in data.<sup>129</sup>

79. We asked the Permanent Secretary how confident she was that the Department was making progress to halt the loss of biodiversity by 2010 when the indicators for the Biodiversity Strategy showed such a mixed picture. She told us that the data from the indicators did not necessarily give the “full picture”.<sup>130</sup> She believed that encouraging information recently obtained from the Countryside Agency, on issues such as hedgerow replacements, as well as the halt in the long-term decline in farmland bird populations—“a

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125 Q 27

126 Q 27

127 Q 27

128 Defra, *Departmental Report 2006*, p 82. Further information on the *Biodiversity Strategy* can be found at: [www.defra.gov.uk/wildlife-countryside](http://www.defra.gov.uk/wildlife-countryside)

129 Defra, *Departmental Report 2006*, p 82

130 Q 21

proxy for a great many other things in the eco system”—showed that the Government was making progress with its biodiversity commitments.<sup>131</sup>

80. However, the Permanent Secretary told us that Defra faced two, more general, challenges in terms of its work on biodiversity. Firstly, the Department still lacked a broad “end-to-end view of eco systems and the related biodiversity issues”.<sup>132</sup> She explained that there was no “Domesday Book” to chart the current biodiversity situation across the whole of the country, and that such a document would be too expensive to produce.<sup>133</sup> It was therefore important for the Department to develop an “eco systems approach” to biodiversity, and she said work in this area had been commissioned by the Secretary of State.<sup>134</sup> One aspect of this involved the Department considering how better to measure outcomes related to biodiversity.<sup>135</sup>

81. Secondly, the Permanent Secretary believed that the Department needed to be “clearer about why we are concerned about biodiversity in itself”.<sup>136</sup> At present, she said, the Department did not have “a clear idea” in its engagements with other Government departments “about why it is we value things”.<sup>137</sup> She explained:

... we need to know the value of biodiversity, partly so we can argue more strongly for biodiversity and partly so we know what are the elements of the natural world that we really need to protect beyond all others, [for example] the Grand Bank and cod.<sup>138</sup>

The Permanent Secretary stressed that it was important the Department began thinking about biodiversity in “a slightly different way”.<sup>139</sup>

**82. We welcome the Permanent Secretary’s candour that the Department needs to improve the rigour of its approach to biodiversity and related issues. A broader understanding of biodiversity and its value, as well as eco systems, can only improve the formulation and enactment of Government policy in this important area. We look forward to seeing evidence of such a new approach soon.**

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131 Q 21

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## 5 Public Service Agreement targets

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### Setting of new PSA targets for CSR 2007 period

83. Defra currently owns nine Public Service Agreement (PSA) targets, agreed with the Treasury as part of the Comprehensive Spending Review 2004.<sup>140</sup> New targets will be set as part of the Comprehensive Spending Review 2007, to cover the period 2007–2010.

84. Each year, a large part of the Departmental Report is devoted to reports of progress made in relation to the Department's PSA targets. We have used our previous inquiries into the Departmental Report as an opportunity to examine Defra's performance in relation to its targets.<sup>141</sup> Our past work in this area has shown that, for a variety of reasons, several of the Department's current PSA targets are inappropriate.<sup>142</sup>

85. Public Service Agreement target 1, for example, is the Department's overarching objective "to promote sustainable development across Government and in the UK and internationally".<sup>143</sup> In the 2006 Departmental Report, Defra states that it is "on course" to meet the target, although measurement of progress is complicated and uncertain. Some elements of the target had not yet been assessed or indicators are still in development.<sup>144</sup> One part of the target is measured by 68 indicators and 127 measures, 17 per cent of which show "clear deterioration".<sup>145</sup> It is unclear how the Department forms an overall assessment of progress against the target from this mass of indicators and measures, and then claims to be "on course" when so many indicators are showing deterioration or are still in development. Furthermore, the Department has only limited control over achievement of the target. Success depends on "all Government departments working to identify and manage their own sustainable development impacts both in formulation of policy and operationally".<sup>146</sup> The Departmental Report acknowledges, however, that the "delivery chain" between the actions of Defra and the rest of Government, and positive movements in the indicators of sustainable development, "remains long and complex".<sup>147</sup>

86. When questioned about the Department's current PSA targets, the Permanent Secretary acknowledged they were a "slightly strange" set of PSA targets.<sup>148</sup> She was particularly concerned that the "levers" and spending for some of the targets were not in the hands of the Department.<sup>149</sup> Many aspects of spending relating to PSA target 4 on rural affairs, for example, were not controlled by the Department.<sup>150</sup> The Permanent Secretary

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140 Summaries of progress against Defra's nine 2004 PSA targets can be found in Defra, *Departmental Report 2006*, Appendix 2

141 For example, HC (2005–06) 693–I, pp. 15–18

142 For example, HC (2005–06), 693–I, para 45

143 Defra, *Departmental Report 2006*, p 273

144 Defra, *Departmental Report 2006*, p 273

145 Ev 8, Q 17

146 Defra, *Departmental Report 2006*, p 31

147 Defra, *Departmental Report 2006*, p 31

148 Q 9

149 Q 88

150 Q 88

wanted the new PSA targets for the upcoming Comprehensive Spending Review period to be improved in two ways: first, “much clearer outcomes” and information about the levers to achieve such outcomes; and, second, a wide consensus that the particular performance indicators are the “right ones”.<sup>151</sup>

87. We asked whether we could be provided with copies of draft PSA targets, when available. The Permanent Secretary told us:

... we would certainly find it valuable to share [draft PSA targets] with the Committee, in whatever form you think appropriate, once they have reached a stage of specificity on which you might want to comment.<sup>152</sup>

**88. We believe that several of the Department's current Public Service Agreement (PSA) targets are inappropriate, and we have made similar criticisms in the past few years. Many of the targets are too vague. We recommend that careful consideration be given to the formulation of new PSA targets for the next Comprehensive Spending Review period. The new targets should have much clearer outcomes and performance indicators, and be able to be measured appropriately. We look forward to receiving draft copies of the targets for comment.**

## 6 Format and presentation of the Departmental Report

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89. HM Treasury provides guidance to Government departments about the information that should be included in their departmental reports. However, Government departments still have considerable discretion about the format and presentation of this content. In previous years, we have commented on the presentation of Defra's Departmental Report and recommended how it could be improved. We are pleased that, on the whole, the Department's report-writers have incorporated most of our recommendations in this area. For instance, last year we recommended that the Department should provide less detail in the main commentary section of the Report and include more web-link references, in order to make the Report more concise.<sup>153</sup> In comparison with the Departmental Report of 2005, this year's Report does indeed make much greater use of web-link references. **We commend the Department's report-writers for incorporating many of our previous recommendations relating to the presentation of the Report.**

90. However, the sense of narrative which was a feature of last year's Departmental Report was not evident in the 2006 version. This means that the current Report remains a difficult document to navigate. Below we have set out a number of recommendations that we believe would improve future Departmental Reports in terms of their format and the information they provide. Our comments should be taken by the Department as constructive criticism. We believe their implementation would ensure that the

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<sup>151</sup> Q 88

<sup>152</sup> Q 87

<sup>153</sup> Environment, Food and Rural Affairs Committee, Fourth Report of Session 2005–06, *The Departmental Annual Report 2005*, HC 693–I, para 6

Departmental Report becomes a more appealing and accessible read. This is important if the Department wishes to make the most of the opportunity presented by the Departmental Report to promote greater understanding of Defra's work.

## Information provided in the Departmental Report

### *Information on policy and finance*

91. The main body of Defra's Departmental Report includes a good deal of information about the Department's policies and core philosophies. In particular, bullet-pointed lists of various Defra policy initiatives appear frequently throughout the Report.<sup>154</sup> Comparatively less information is provided about the *outcomes* of Defra's policies or how the Department has performed against its stated objectives in the past twelve months.

92. The Departmental Report has 13 pages devoted to Defra's finance, mostly cast in rather general terms. The vast majority of the rest of the pages in the 284-page Report are devoted to policy.

**93. We believe the usefulness of the Departmental Report would be improved if it were set out in a style more like that used by quoted commercial companies. The Report should focus much more on the Department's performance in the year in question instead of continuing simply to re-state Defra policies and core philosophies. We recommend that future Departmental Reports include at the beginning of the Report clear information about how the Department has performed against its stated objectives and key performance indicators in the past twelve months. More detailed information relating to Defra's policies and core philosophies should be relegated to the appendices of the Report.**

**94. Similarly, we recommend that key financial information be included at the beginning of the Report. More detailed financial information can be provided in the appendices.**

**95. The recent changes to the Defra budget highlight the lack of transparency about how the Department's financial control mechanisms operate. They also demonstrate that the financial information provided in the Departmental Report is not helpful in understanding the reality of the Department's financial situation at a given time. For example, previous Departmental Reports made no reference to the Department's ability to use underspend from previous years, and the pressures placed on this ability from 2005–06 onwards. We recommend that the Department employ quoted company transparency standards to the way it reports its financial situation, and that future Departmental Reports provide more commentary on the Department's overall financial position.**

96. Executive summaries at the beginning of a report can be useful in setting out key issues in a clear way. In giving evidence, the Permanent Secretary told us that the Department would "certainly take on board" a recommendation to include an executive summary in future Departmental Reports.<sup>155</sup> **We recommend that an executive summary be included**

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<sup>154</sup> For example, p 79 –80

<sup>155</sup> Q 5

at the beginning of the Report, alongside the key performance and financial data. Its purpose should be to highlight frankly and clearly areas of success, failure and uncertainty, and major changes in the Department's objectives in the past twelve months.

### Coverage of the Rural Payments Agency

97. The Departmental Report provides information about the Rural Payments Agency (RPA) on pages 158 to 160. Eight 'key developments' in 2005–06 are listed in this section but no account is given of the problems experienced by the RPA in this period, and specifically the RPA's failure to fulfil the Ministerial commitment to make the bulk of single farm payments by the end of March 2006.<sup>156</sup> Some further detail about the RPA is provided on pages 124 and 125 of the Report, in the section on 'Reform of the Common Agricultural Policy', which states that "regrettably" the expected increase in the rate of payments during March "did not then materialise".<sup>157</sup>

98. We asked the Permanent Secretary why a more frank account of the problems experienced by the RPA was not provided in the Departmental Report. She told us that it was a matter of timing: senior management had not had the chance to "do the forensic analysis of how quickly we might get out of those problems".<sup>158</sup> She told us that "a very clear explanation of [the RPA's] problems" would be included in next year's Report.<sup>159</sup>

99. We note that Defra's *Resource Accounts 2005–06* provides more detailed information relating to problems at the RPA with the Single Payment Scheme.<sup>160</sup>

**100. The sub-chapter on the Rural Payments Agency (RPA) in the Departmental Report is of extremely poor quality, owing to the lack of frankness and detail about the RPA's performance in the past year. The Departmental Report would have greater weight, and credibility, if it provided a candid account of the Department's failings as well as its successes. We welcome the Permanent Secretary's commitment that a clear explanation of the RPA's problems will be included in next year's Departmental Report.**

### Length of report and key issues

101. In the previous two years, we have commented on the length of Defra's Departmental Annual Report and recommended it be made more concise in future years. This year's Report—at 284 pages—is indeed considerably shorter than the 372-page Departmental Report in 2005.<sup>161</sup> However, this year's Report remains one of the longest departmental reports to be found across Government.<sup>162</sup> The length of Defra's Departmental Report

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<sup>156</sup> Defra, *Departmental Report 2006*, pp. 158–159

<sup>157</sup> Defra, *Departmental Report 2006*, p 124

<sup>158</sup> Q 39

<sup>159</sup> Q 39

<sup>160</sup> Defra, *Resource Accounts 2005–06*, November 2006, HC 1643, pp 35–36

<sup>161</sup> Defra, *Departmental Report 2005*, Cm 6537, June 2005

<sup>162</sup> 2006 Departmental Reports by the Home Office and Foreign and Commonwealth Office are 135 pages and 167 pages long respectively (CM 6818; Cm 6823).

contributes to the reader's difficulties in navigating the document and, particularly, in identifying the Department's key messages.

102. **This year's Departmental Report is still too long, despite a welcome reduction in the number of pages since last year's report. The sheer volume of writing often serves to hide rather than reveal the Department's key messages and data. We recommend that future Departmental Reports make greater use of simple devices in order to prioritise key issues and to signal these to the reader. For example, a 'key issues' box could be included at the start of each chapter or section.**

### Long blocks of text

103. On a number of occasions within the Departmental Report, several consecutive pages consist solely of text with no accompanying tables or graphs to aid the reader. For example, there are fourteen consecutive pages of text between pages 205 and 218 of the Report. **Long blocks of text are off-putting to readers and can obscure key information. We believe tighter editorial control should be employed to sift essential information from that which can be relegated to appendices or presented in less detail. More information could also be presented in graphical and tabular form. We recommend that the Department aim, in the style and readability of its report, at something which mirrors a magazine such as 'The Economist'.**

### Long chapters

104. As with last year, the bulk of the text of the Departmental Report is included in one very long chapter, Chapter 3. This chapter is 117 pages long: nearly as long as some departments' entire departmental reports.<sup>163</sup> **The long chapters of the Departmental Report, such as Chapter 3, contribute to the difficulties experienced by the reader when attempting to navigate the Report. The Departmental Report would be more user-friendly if it were split into a greater number of shorter chapters, each beginning with a clear contents list.**

### Repetition

105. The Departmental Report suffers from unnecessary repetition. For example, the 'Shared Services agenda' is explained on page 199 and then again on page 214. **Whilst it is sometimes necessary to mention some key issues more than once, repetition in the Departmental Report should be kept to a minimum. We recommend that tighter editing be used to ensure repetition occurs only when absolutely necessary.**

### Use of numbers

106. A large amount of numbers illustrating costs, funding and performance are included within the main text of the Departmental Report. Some of these could be better presented through simple tables or pie charts. For instance, the following information on

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<sup>163</sup> The Home Office's Departmental Report 2006 (Cm 6818) is 135 pages long.

'Expenditure on production linked CAP [Common Agricultural Policy] market support schemes' is given on page 122:

Expenditure on production linked CAP market support schemes is forecast to total £339 million in 2005–06. Of this, £178 million is expected to be spent on sugar and starch schemes, £102 million on dairy schemes, £29 million on fruit and vegetable schemes, £16 million on processed goods and the remainder on other schemes.

This could easily have been presented as a pie chart or in tabular form, which would have made the numbers and their relative proportions much clearer.

**107. Embedding numbers into long blocks of text makes them difficult to assimilate easily. Numbers are generally better presented in charts, graphs, tables or bullet-pointed lists. We recommend that the Departmental Report make more use of these kinds of devices in order to help the reader identify and understand key statistics. We also recommend that comparative statistical data be incorporated in the Report to enable the reader to establish a clear view about the trends encapsulated by the published numbers.**

### Cross-referencing

108. The Departmental Report suffers from a lack of good cross-referencing. For example, page 21 states that more information on Defra's work on sustainable consumption can be found "in Chapter 3". Chapter 3, however, is 117 pages long: the reference is therefore not particularly helpful. The Permanent Secretary acknowledged that the Department perhaps needed to "think again about how we do ... signposting" in its Departmental Reports.<sup>164</sup> The Report's index—in common with those of departmental reports from most other departments—is also less than helpful. For instance, a reader trying to find out from the index what the Report says about the CAP is given simply an undifferentiated list of the 24 occasions in which the CAP is mentioned in the Report.<sup>165</sup>

**109. We recommend that cross-referencing in the Departmental Report be improved by making references more specific, directing readers to a specific page number. Cross-referencing would also be improved if sections or paragraphs were numbered. The report would also benefit from an index which differentiates between passing references and significant data or discussion.**

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164 Q 5

165 Defra, *Departmental Report 2006*, p 279

## Conclusions and recommendations

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1. We have considered a substantial amount of evidence about the causes of Defra's £200 million deficit in 2006–07. This deficit ultimately resulted in action to reduce, in-year, the 2006–07 budgets of several Defra executive agencies and Non-Departmental Public Bodies (NDPBs) and disrupt a number of important environmental programmes and projects. The evidence suggests that the Department itself has to take much of the blame for the precarious financial situation it found itself in 2006–07. We regard this whole episode to be a serious failure in the Department's financial management. (Paragraph 28)
2. We acknowledge that some minor factors for the deficit, such as costs related to the Spring 2006 avian influenza outbreak, were largely beyond the Department's control. However, many of the financial problems carried over from 2005–06 occurred because the Department had made budgeting commitments based on unsubstantiated assumptions about the generosity of HM Treasury in a tight fiscal period. We believe the Department was irresponsibly over-optimistic and complacent in budgeting on the assumption that, first, it would be allowed its draw-down its full End-Year-Flexibility (EYF) from the Treasury in 2005–06 and, secondly, that it would be able to switch £85 million from non-cash to near-cash that same year. These two factors alone amounted to £110 million of the £200 million deficit. We are not convinced that the Department explored fully with the Treasury at an early enough stage the possibility of making these kind of transactions, particularly bearing in mind the tight financial climate. This complacency had unplanned-for severe consequences. (Paragraph 29)
3. We are particularly unimpressed with the Department's explanation of how the Treasury "re-classification" of near-cash and non-cash spending impacted on its budget. Our evidence shows that no good reason existed for the Department to assume it could make a transfer of £85 million non-cash into near-cash, and to make budgetary commitments based on this assumption. The Department had never made such a large transfer before. No Treasury guidance existed permitting it to do so. This financial pressure was therefore caused more by the Department's self-deception, as well as its misguided assumptions about Treasury rules. To blame the Treasury was on this occasion incorrect. The result was a sudden, unplanned, poorly explained and highly disruptive mid-year restriction on budgets. Defra's agencies and NDPBs—as well as voluntary groups reliant on Defra funding—found themselves with wholly unanticipated financial problems as a result. In its response, the Department should tell us when Ministers were informed by officials about the rule changes and their financial consequences. (Paragraph 30)
4. We also remain doubtful whether the £23 million figure that Defra says the Rural Payments Agency (RPA) contributed to its budget deficit tells the full story. In its response to this report, the Department should state how much the RPA was within or over budget on a monthly basis throughout the financial year 2005–06. The Department must also indicate what parts of its internal budget were affected during

this period by financial transfers to the RPA, and the consequences of these financial movements. (Paragraph 31)

5. Our evidence shows that the chaos and disruption caused by imposing budget reductions in-year could have been prevented by the Department. Defra was fully aware by the end of the calendar year 2005 that it was deferring at least £150 million worth of costs into 2006–07. Yet, when 2006–07 budgets were set in January 2006, the Department decided not to revise substantially budgets to take account of these deferred costs. The Permanent Secretary told us several times that it was a “matter of judgement” as to whether the Department could absorb these additional costs within its 2006–07 budget. It is clear to us that this judgement—made by senior Defra officials and ministers—was seriously flawed. The Department was over-optimistic to assume it could cope with the additional deferred costs from 2005–06 and not incur any further significant unexpected costs in 2006–07. The error of this decision was exposed within just two months, when the relatively minor additional costs from the Rural Payments Agency and the Spring 2006 avian influenza outbreak were enough to ‘tip the balance’. Given that neither additional RPA running costs or an avian flu outbreak in 2006–07 could have been totally unexpected, the decision not to revise budgets substantially in January 2006 appears even more inexplicable, and unwisely risky. (Paragraph 44)
6. We were taken aback by the Permanent Secretary’s acknowledgement that she might have acted more cautiously in January 2006—when setting budgets for 2006–07—if she had been aware that much of Defra’s money was spent at the start of the financial year. This decision had severe repercussions for those bodies affected, particularly British Waterways which had little choice in-year but to postpone major works and repairs. The Permanent Secretary was relatively new to Defra, so the blame for her lack of awareness must be shouldered by the Finance Director and his team. (Paragraph 45)
7. The Department’s communication about the causes of its deficit has been poor. Ministers should have provided a much more complete and comprehensive explanation about the budgetary changes instead of often placing emphasis on avian influenza and Rural Payments Agency spending and vague references to changes in Treasury accounting rules. (Paragraph 49)
8. We acknowledge that many of the issues related to Defra’s budget are complicated and opaque, particularly those related to various Treasury procedures. However, this complexity does not excuse Ministers—who took important decisions and approved much of what occurred in 2005–06 and 2006–07—from blame for giving confusing explanations. This raises some important questions about the understanding levels both within Defra, and outside, about how the Department’s budgetary processes operate. Government accounting is complex, but the Department has a responsibility to provide good, clear explanations to help lay-people—including us—to understand these matters. Ministers should also ensure that they master the complex matters within their brief—especially those relating to financial issues. The Department should say what steps it is taking to raise Ministers’ understanding in this area. HM Treasury should also try harder to be more transparent in the language and rules it uses. (Paragraph 50)

9. We are extremely concerned by the Permanent Secretary's statement that funding will continue to be extremely tight for the Department, and its agencies, over the next few years. Although we recognise that this reflects the financial reality across the whole of Whitehall in the next few years, it raises the question that if expenditure on environmental work remains a departmental priority, what then will happen to other areas of Defra responsibility. Defra must publish as soon as possible what its spending priorities will be and how much will have to be met from further efficiency savings. In the tighter financial environment that is likely, however, Defra has not helped its case for a good settlement from HM Treasury for the Comprehensive Spending Review 2007 period with its poor financial management in the past two years. (Paragraph 53)
10. We are extremely concerned about the changes in accounting rules whereby the Department will now bear the costs of EU disallowance directly from 2006–07 onwards. This could have a serious impact on Defra Departmental Expenditure Limit (DEL) budgets in the future, in a period when the Department will already be under increased financial pressure. We recommend that the Department keep us informed at an early stage, by means of a ministerial letter, about any future EU disallowance which could potentially affect Defra's DEL budget. (Paragraph 57)
11. We are extremely disappointed that the Department will not meet its efficiency headcount reduction target by the end of 2007–08, and will most likely miss this target by some margin. This is yet another example of how the Rural Payments Agency debacle has had wider negative repercussions across the whole Department. The Department is more optimistic about meeting its financial efficiencies target by 2007–08. However, gaining the remaining financial efficiencies necessary to meet the target may be more difficult than anticipated because the Department will be operating in a much tighter spending environment over the next couple of years. At the same time, the tighter spending environment only increases the importance of making these efficiency savings, so that money can be freed up for other purposes within the Department. We consider it imperative that the Department does not lose focus in attempting to meet its financial efficiencies target of £610 million by 2007–08. Failure to achieve both the financial and headcount efficiency targets would amount to another major embarrassment for the Department. Defra should now provide a clear statement as to how these efficiencies will be made and the timescale to achieve them. (Paragraph 63)
12. Defra is responsible for a large number of delivery bodies. It is of paramount importance that the Department has the appropriate resources and robust management information structures in place to monitor effectively all its delivery bodies. The serious failings in the performance of the Rural Payments Agency (RPA) in the past year have raised concerns—which we share—that such systems and structures are not fully in place. The recent creation of an important new executive non-departmental public body—Natural England—which will have a crucial role in the delivery of many of Defra's primary responsibilities, only adds to our concerns. We will report soon specifically on the problems experienced by the RPA. (Paragraph 67)

13. We are pleased that the Permanent Secretary acknowledges the need for the Department further to develop its relationships with its delivery bodies, and we support her view that the Department should be ready to adopt a more interventionist approach to its bodies as circumstances require. (Paragraph 68)
14. On several occasions in the past we have stressed the necessity of effective 'joined-up Government' in achieving Defra's aims, and expressed concerns that Defra lacks sufficient 'clout' to be taken seriously by other Government departments in framing their key policy decisions. We agree with the Permanent Secretary that Defra has had some success in influencing some major decisions at the highest level in recent times, and in working effectively with other Government departments. However, we are still concerned that Defra's ability to influence other departments on a number of issues it considers important—such as bioenergy—remains limited. We recommend that the Department works to take full ownership of the decision-making process for those areas for which it has overall policy responsibility. This is especially relevant for climate change issues where Government as a whole has still to put a Cabinet-level minister in overall charge of policy in this area. (Paragraph 72)
15. We were also disappointed at the lack of concrete examples provided in the Report about policy co-ordination across Government, and the Department's role in this co-ordination. In particular, we believe that the Report should include more information about the important work carried out by the various Cabinet Committees that deal with areas of Defra's remit. We recommend that future Departmental Reports provide information about what has been achieved through these mechanisms. (Paragraph 73)
16. The Government, and the Department, often reiterate their commitment to 'sustainable development'. Sustainable development, however, is a complex concept and is embedded within a vast range of policies across Government. Although bodies have been created specifically to monitor and promote sustainable development across Government, Defra is ultimately responsible for overseeing this work. From the information available—in the Departmental Report and elsewhere—it is unclear how successful the Department has been in carrying out this responsibility. The Department has also failed to communicate clearly how it takes the lead in ensuring sustainability is embedded in other Government departments' work. We recommend that future Departmental Reports include a more coherent and free-standing 'mini cross-Government sustainability report', including objective performance measures for both Defra and other Government departments. The mini-report should comment on the Sustainable Development Commission's conclusions about Government departments' Sustainable Development Action Plans. (Paragraph 77)
17. We welcome the Permanent Secretary's candour that the Department needs to improve the rigour of its approach to biodiversity and related issues. A broader understanding of biodiversity and its value, as well as eco systems, can only improve the formulation and enactment of Government policy in this important area. We look forward to seeing evidence of such a new approach soon. (Paragraph 82)

18. We believe that several of the Department's current Public Service Agreement (PSA) targets are inappropriate, and we have made similar criticisms in the past few years. Many of the targets are too vague. We recommend that careful consideration be given to the formulation of new PSA targets for the next Comprehensive Spending Review period. The new targets should have much clearer outcomes and performance indicators, and be able to be measured appropriately. We look forward to receiving draft copies of the targets for comment. (Paragraph 88)
19. We commend the Department's report-writers for incorporating many of our previous recommendations relating to the presentation of the Report. (Paragraph 89)
20. We believe the usefulness of the Departmental Report would be improved if it were set out in a style more like that used by quoted commercial companies. The Report should focus much more on the Department's performance in the year in question instead of continuing simply to re-state Defra policies and core philosophies. We recommend that future Departmental Reports include at the beginning of the Report clear information about how the Department has performed against its stated objectives and key performance indicators in the past twelve months. More detailed information relating to Defra's policies and core philosophies should be relegated to the appendices of the Report. (Paragraph 93)
21. We recommend that key financial information be included at the beginning of the Report. More detailed financial information can be provided in the appendices. (Paragraph 94)
22. The recent changes to the Defra budget highlight the lack of transparency about how the Department's financial control mechanisms operate. They also demonstrate that the financial information provided in the Departmental Report is not helpful in understanding the reality of the Department's financial situation at a given time. We recommend that the Department employ quoted company transparency standards to the way it reports its financial situation, and that future Departmental Reports provide more commentary on the Department's overall financial position. (Paragraph 95)
23. We recommend that an executive summary be included at the beginning of the Report, alongside the key performance and financial data. Its purpose should be to highlight frankly and clearly areas of success, failure and uncertainty, and major changes in the Department's objectives in the past twelve months. (Paragraph 96)
24. The sub-chapter on the Rural Payments Agency (RPA) in the Departmental Report is of extremely poor quality, owing to the lack of frankness and detail about the RPA's performance in the past year. The Departmental Report would have greater weight, and credibility, if it provided a candid account of the Department's failings as well as its successes. We welcome the Permanent Secretary's commitment that a clear explanation of the RPA's problems will be included in next year's Departmental Report. (Paragraph 100)
25. This year's Departmental Report is still too long, despite a welcome reduction in the number of pages since last year's report. The sheer volume of writing often serves to

hide rather than reveal the Department's key messages and data. We recommend that future Departmental Reports make greater use of simple devices in order to prioritise key issues and to signal these to the reader. For example, a 'key issues' box could be included at the start of each chapter or section. (Paragraph 102)

26. Long blocks of text are off-putting to readers and can obscure key information. We believe tighter editorial control should be employed to sift essential information from that which can be relegated to appendices or presented in less detail. More information could also be presented in graphical and tabular form. We recommend that the Department aim, in the style and readability of its report, at something which mirrors a magazine such as 'The Economist'. (Paragraph 103)
27. The long chapters of the Departmental Report, such as Chapter 3, contribute to the difficulties experienced by the reader when attempting to navigate the Report. The Departmental Report would be more user-friendly if it were split into a greater number of shorter chapters, each beginning with a clear contents list. (Paragraph 104)
28. Whilst it is sometimes necessary to mention some key issues more than once, repetition in the Departmental Report should be kept to a minimum. We recommend that tighter editing be used to ensure repetition occurs only when absolutely necessary. (Paragraph 105)
29. Embedding numbers into long blocks of text makes them difficult to assimilate easily. Numbers are generally better presented in charts, graphs, tables or bullet-pointed lists. We recommend that the Departmental Report make more use of these kinds of devices in order to help the reader identify and understand key statistics. We also recommend that comparative statistical data be incorporated in the Report to enable the reader to establish a clear view about the trends encapsulated by the published numbers. (Paragraph 107)
30. We recommend that cross-referencing in the Departmental Report be improved by making references more specific, directing readers to a specific page number. Cross-referencing would also be improved if sections or paragraphs were numbered. The report would also benefit from an index which differentiates between passing references and significant data or discussion. (Paragraph 109)

## Formal minutes

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**Wednesday 7 February 2007**

Members present:

Mr Michael Jack, in the Chair

Mr Geoffrey Cox	David Lepper
Mr David Drew	Mr Dan Rogerson
Lynne Jones	David Taylor
Daniel Kawczynski	Mr Roger Williams

Draft Report [*Defra's Departmental Report 2006 and Defra's budget*], proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 109 read and agreed to.

Summary agreed to.

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

*Ordered*, That the Chairman do 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.

Several papers were ordered to be appended to the Minutes of Evidence.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

Several papers were ordered to be reported to the House.

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[Adjourned till Wednesday 7 March at half-past Two o' clock.]

## Witnesses

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### Wednesday 19 July 2006

Page

**Ms Helen Ghosh**, Permanent Secretary, Department for Environment, Food and Rural Affairs and **Mr Ian Grattidge**, Director, Finance, Planning and Resources, Department for Environment, Food and Rural Affairs Ev 16

### Monday 4 December 2006

**Ms Helen Ghosh**, Permanent Secretary, Department for Environment, Food and Rural Affairs and **Mr Ian Grattidge**, Director, Finance, Planning and Resources, Department for Environment, Food and Rural Affairs Ev 51

## List of written evidence

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1	Department for Environment, Food and Rural Affairs	Evs 1, 33, 43, 44
2	Butterfly Conservation	Evs 77, 78
3	Veterinary Laboratories Agency (VLA)	Ev 79
4	Environment Agency	Evs 81, 88
5	Natural England	Ev 89
6	British Waterways	Ev 95
7	Bat Conservation Trust	Ev 98
8	State Veterinary Service	Ev 101
9	HM Treasury	Ev 103

## List of unprinted written evidence

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Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed. Copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Parliamentary Archives, Houses of Parliament and are available to the public for inspection. Requests for inspection should be addressed to the Parliamentary Archives, Houses of Parliament, London SW1A 0PW. (Tel 020 7219 3074, Fax 020 7219 2570, archives@parliament.uk). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Bat Conservation Trust – Annexes A and B (Background papers)  
 HM Treasury – DAR 12a (Letter)

## Reports from the Committee since 2003

*(Government Responses to Committee Reports appear in brackets)*

### Session 2006–07

First Report Work of the Committee in 2005–06 HC 213

### Session 2005–06

Eighth Report Climate change: the role of bioenergy HC 965-I (HC 131 06–07)  
 Seventh Report The Environment Agency HC 780-I (HC 1519)  
 Sixth Report Bovine TB: badger culling HC 905-I  
 Fifth Report Rural Payments Agency: interim report HC 840  
 Fourth Report The Departmental Annual Report 2005 HC 693-I (HC 966)  
 Third Report The Animal Welfare Bill HC 683  
 Second Report Reform of the EU Sugar Regime HC 585-I (HC 927)  
 First Report The future for UK fishing: Government Response HC 532

### Session 2004–05

Ninth Report Climate Change: looking forward HC 130-I (HC 533 05–06)  
 Eighth Report Progress on the use of pesticides: the Voluntary Initiative HC 258 (HC 534 05–06)  
 Seventh Report Food information HC 469 (HC 437 05–06)  
 Sixth Report The future of UK fishing HC 122 (HC 532 05–06)  
 Fifth Report The Government's Rural Strategy and the draft Natural Environment and Rural Communities Bill HC 408-I (Cm 6574)  
 Fourth Report Waste policy and the Landfill Directive HC 102 (Cm 6618)  
 Third Report The Work of the Committee in 2004 HC 281  
 Second Report Dismantling Defunct Ships in the UK: Government Reply HC 257  
 First Report The draft Animal Welfare Bill HC 52-I (HC 385)

### Session 2003–04

Nineteenth Report Water Pricing: follow-up HC 1186 (HC 490 04–05)  
 Eighteenth Report Dismantling of Defunct Ships in the UK HC 834 (HC 257 04–05)  
 Seventeenth Report Agriculture and EU Enlargement HC 421 (HC 221 04–05)  
 Sixteenth Report Climate Change, Water Security and Flooding HC 558 (HC 101 04–05)  
 Fifteenth Report The Departmental Annual Report 2004 HC 707 (HC 100 04–05)  
 Fourteenth Report Sites of Special Scientific Interest HC 475 (HC 1255)  
 Thirteenth Report Bovine TB HC 638 (HC 1130)  
 Twelfth Report Reform of the Sugar Regime HC 550-I (HC 1129)  
 Eleventh Report GM Planting Regime HC 607 (HC 1128)  
 Tenth Report Marine Environment: Government reply HC 706  
 Ninth Report Milk Pricing in the United Kingdom HC 335 (HC 1036)  
 Eighth Report Gangmasters (follow up) HC 455 (HC 1035)  
 Seventh Report Implementation of CAP Reform in the UK HC 226-I (HC 916)  
 Sixth Report Marine Environment HC 76 (HC 706)  
 Fifth Report The Food Standards Agency and Shellfish HC 248 (HC 601)

Fourth Report	Environmental Directives	HC 103 (HC 557)
Third Report	Caught in the net: Cetacean by-catch of dolphins and porpoises off the UK coast	HC 88 (HC 540)
Second Report	Annual Report of the Committee 2003	HC 225
First Report	Water Pricing	HC 121 (HC 420)

# Oral evidence

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## Taken before the Environment, Food and Rural Affairs Committee

on Wednesday 19 July 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew  
Patrick Hall  
Lynne Jones  
David Lepper

Mrs Madeleine Moon  
Sir Peter Soulsby  
Mr Shailesh Vara  
Mr Roger Williams

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### Memorandum submitted by the Department for Environment, Food and Rural Affairs

#### RESPONSE TO THE EFRA COMMITTEE'S PRELIMINARY QUESTIONS

##### FINANCE

1. *When available, could the Department provide actual 2005–06 outturn figures (using the same accounting boundary as in the Departmental Report's core tables) for:*

- total resource budget;
- total capital budget; and
- total net administration costs.

Total Resource Budget—a provisional outturn of £2,862 million versus the estimated outturn of £3,059 million in the 2006 Departmental Report and the calculated budget derived from the 2005–06 Spring Supplementary Estimate of £3,061 million<sup>1</sup>—underspends of £197 million and £199 million respectively.

Total Capital Budget—a provisional outturn of £852 million versus the estimated outturn of £654 million and the calculated budget derived from the 2005–06 Spring Supplementary Estimate also of £654 million<sup>2</sup>—an overspend of £198 million against both totals.

The net underspend compared to the combined Resource and Capital budgets is just £1 million. The offsetting under- and over-spends are caused by treating £207 million DEL Resource expenditure by the Environment Agency on “capital works expensed in year”<sup>3</sup> as capital grant rather than current grant.<sup>4</sup> The budget for this expenditure was provided within Resource as those were the rules at the time of the 2005–06 Spring Supplementary Estimate.

Total Net Administration Costs—a provisional outturn of £330 million versus the estimated outturn of £342 million in the 2006 Departmental Report and the budget of £384 million in the 2005–06 Spring Supplementary Estimate. This is an underspend against the estimated outturn of £12 million (due to savings on capital charges) and of £54 million against the 2005–06 Spring Supplementary Estimate. As commented in DR2006, End Year Flexibility was drawn down as Administration but spent on front line services, which are classified as Programme rather than Administration spend.

The provisional figures have been prepared on the same basis as the 2006 Departmental Report Core Tables and are consistent with our submission to HM Treasury for the Provisional Expenditure Outturn White Paper (PEOWP).

The figures may be subject to further query by Treasury before the publication of the PEOWP. As they are derived from the draft resource accounts of Defra, its agencies and Non-Departmental Public Bodies which are still being audited by the National Audit Office, they are subject to possible further amendment as the respective audits are completed. The most significant area of possible adjustment is the size of the provision for disallowance on the Common Agriculture Policy Pillar 1 payments.

The final outturn figures will be prepared once the Department's resource accounts and those of the sponsored Non-Departmental Public Bodies have been published. Those figures should be available for the Core Tables in the 2007 Departmental Report but in any event will be forwarded as soon as available.

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<sup>1</sup> DEL of £3,173 million plus voted AME of £2,413 million plus non-Voted AME of £81 million less EU income (CFER) of £2,565 million and less £40 million OTMS contribution from the Department of Health = £3,061 million (rounded).

<sup>2</sup> DEL and AME Capital of £386 million plus capital grants of £268 million = £654 million.

<sup>3</sup> Per the Environment Agency draft resource accounts.

<sup>4</sup> All capital grant expenditure is now classified as Capital not Resource in accordance with Treasury's Consolidated Budgeting Guidance.

2. *If available before the evidence session on 19 July, could the Department provide copies of:*

- the *Statement of Parliamentary Supply* (formerly Schedule 1);
- the *Analysis of net resource outturn by section* note; and
- the explanation of key variances.

These schedules are not yet complete but will be forwarded together with explanations of all the key variances as soon as the audit has been completed. In the meantime, the provisional Net Total Resource Outturn is £5,728 million compared to the Estimate of £5,946 million, a saving of £218 million (3.7%).

£207 million of the saving results from a mismatch of the income and expenditure within the Non-budget part of the Estimate relating to the Other Paying Agencies involvement in the Common Agriculture Policy (CAP). Too much of their share of the CAP EU income was excluded from the Estimate by being treated as a Consolidated Fund Extra Receipt instead of being treated as Non-budget income within the Estimate. The actual income has been correctly included within the Estimate boundary so reducing the net spend shown by the Statement of Parliamentary Supply. As part of completing the reclassification of CAP into DEL, the anomaly does not exist in the Main Estimate for 2006–07 or in the Treasury database for 2007–08. It was too late to make this adjustment for the 2005–06 Spring Supplementary Estimate.

£64 million relates to a saving on Non-budget Grant in Aid payments to the Non-Departmental Public Bodies. This results from planned savings on resource and capital consumption by those bodies so the contingency reserve held centrally for such payments not being required.

Balanced against the two savings above, we have included an additional provision of £50 million for CAP disallowance, above the £137 million cover provided in the 2005–06 Spring Supplementary Estimate. Until the audit is complete it is not possible to say whether this additional provision will be required.

The remaining £3 million variance is a collection of small items.

3. *If the Department is aware of the level of End Year Flexibility to be carried forward from 2005–06, can figures be provided to the Committee?*

Our submission to HM Treasury for the Provisional Expenditure Outturn White Paper (PEOWP) shows a total provisional End Year Flexibility (EYF) stock of £80 million, £79 million brought forward from 2004–05 and £1 million from 2005–06. The figures may be subject to further query by Treasury before the publication of the PEOWP. Final figures can only be prepared once all the resource accounts of the Non-Departmental Public Bodies have been published later this year. We are unlikely to know how much of this EYF stock Treasury will allow us to draw down in 2006–07 until the Spring Supplementary Estimate as the overall fiscal position for the year emerges.

#### RURAL PAYMENTS AGENCY

Page 252 of the Departmental Report states:

[The Rural Payments Agency's] running costs are now expected to fall significantly as its change programme reaches completion.

4. *Can the Department provide figures showing the expected reduction in the running costs of the Rural Payments Agency? What is the timetable for the reduction?*

The running costs for the Rural Payments Agency (RPA) are published in Table 2 of the Departmental Report (page 258) and reflects a planned reduction from 2005–06 provisional out-turn of £225.55 million to £146.42 million in 2006–07 and to £105.77 million in 2007–08. However this reflects a baseline position before recent difficulties were encountered with SPS 2005. Since these problems emerged in recent months an internal allocation process has revised the RPA running costs budget for 2006–07 and 2007–08 to: £183 million and £158 million.

Reductions will be made once the position on SPS payments has been stabilised and subject to the review of operations currently taking place. There is a reduced budget profile between 2006–07 and 2007–08 but this may be altered as a result of the review.

The most recent version of the RPA Change Programme business case in December 2005 anticipated reduced running costs from 2007–08 onwards. RPA has already made considerable progress in reducing the number of permanent staff, although currently has a large number of temporary staff working on the delivery of the Single Payment Scheme (which are likely to be needed for the foreseeable future). A focussed Single Payment Scheme (SPS) Operating Business Plan for 2006–07, required as a result of the particular challenges of delivering the SPS, is currently being finalised.

The size and timing of cost reductions are subject to the recommendations of the Hunter Review, which has been asked to consider what level of funding is required to support RPA in delivering the range of functions and activities for which it is now responsible and the delivering of on-going efficiencies. RPA's costs will also depend on the nature of any future policy changes to be delivered.

**FISHERIES**

5. *Table 2 on page 258 shows a dramatic decrease (65%) in expenditure on fisheries in 2005–06. The decrease is noted in the commentary on the core tables (page 252) but no explanation is provided. Can the Department explain the 65% reduction in fisheries expenditure in 2005–06? Why is future planned expenditure (while higher than 2005–06) not back to historic levels?*

The £33 million reduction from 2004–05 is caused by three factors:

- The Estimated Out-turn for 2005–06 includes the benefit of £9 million of EU Structural Funds income which in previous years was still classified as Non-budget;
- The Estimated Out-turn for 2005–06 does not include the £8 million of fisheries environmental protection work by the Environment Agency, which has been included in the Environmental Protection Strategy line in the table on page 257. In the previous years this expenditure has been included in the Fisheries line on page 258; and
- The Estimated Out-turn for 2005–06 does not include the £10 million expected expenditure of the Sea Fish Industry Authority. As a levy funded body, their results are only included on an actuals basis. This is because whilst their expenditure is treated as Annually Managed Expenditure (AME) it is not within Defra's Estimate. Their levy income is classified as non-Estimate Non-budget.

The future planned expenditure does not appear to return to historic levels because the forward years do not include Item 3 above—the expenditure of the Sea Fish Industry Authority—unlike the backward years.

**PAYING SUPPLIERS**

6. *Could the Department provide figures for its performance in paying suppliers on time in 2005–06?*

Standard contractual terms of payment require that valid invoices are paid within 30 days of satisfactory receipt of goods and services or an agreed invoice, if that is later. Where determined by supplier contract, the contractual terms will take precedence. Core-Defra has implemented a “No Purchase Order No Pay” policy in line with its continuous development of the Procure 2 Pay process. This policy will enable improvement of the payment performance. Defra continues to maintain its commitment to the Better Payment Practice Code (BPPC) and is determined to honour these commitments. The current payment performance target for Core-Defra is 100% for all valid payments to be made by the due date. Defra's performance for the year, excluding the Rural Payments Agency, was 94.19% (2004–05—92.97%). The total number of supplier invoices paid during the year was 157,574 (2004–05 152,377), with 148,423 (2004–05 142,040) paid on time. For RPA 82.78% (2004–05 83.35%) of all invoices relating to administration expenditure were paid within 30 days. No interest was payable under the Late Payment of Commercial Debts (Interest) Act 1998 (2004–05 £Nil).

**RESEARCH AND DEVELOPMENT**

7. *The Departmental Report says that the forecast expenditure on research and development for 2005–06 was approximately £160 million (p 205). The Report makes reference to research and development, in the context of climate change (p 46), flood management (p 68), waste (p 76) aquaculture (p 147), the Central Science Laboratory (p 163), the Pesticides Safety Directorate (p 167), and the Government Decontamination Service (p 179). Could the Department provide a breakdown of its expenditure on research and development?*

Defra's evidence and innovation activities are funded under two main headings: R&D and non-R&D.

The Defra R&D programme is aimed at supporting and informing Defra policy making in line with its Strategic Priorities and Outcomes. In addition to research funded under the Strategic Outcomes and other related policy areas set out in the table below, Defra's Chief Scientific Adviser funds around £10 million per annum of research to meet cross-cutting strategic needs, including Horizon Scanning, seed-corn funding at Defra Agencies and international science. Due to the cross-cutting nature of Defra's work, expenditure listed under individual Strategic Outcomes (notably sustainable farming and food) also contributes to other areas. Allocations were reviewed following the 2004 Spending Review but have so far only been set at the Strategic Outcome level until March 2007.

Defra also funds a wide range of non-R&D scientific and technical activities in support of policy development and in line with statutory requirements. These cover surveillance and monitoring programmes on animal, fish and plant health, the majority of which are required under statute; testing, data capture and analysis work; and technical advice and support in policy implementation and dissemination of good practice (often provided through delivery bodies such as English Nature, the Environment Agency and the Carbon Trust). Please note that because of the wide range of activity covered under this heading, these figures represent only a current year estimate of Defra expenditure, but will be further refined as the E&I process is developed and embedded within Defra.

Table 1

RESOURCE ALLOCATIONS BY STRATEGIC OUTCOME  
AND OTHER RELATED POLICY AREAS

<i>Strategic Outcome and other related policy areas</i>	<i>R&amp;D Spend 2005–06 (£'000s)</i>	<i>R&amp;D Spend 2006–07 (£'000s)</i>	<i>Non-R&amp;D Spend 2005–06 (£'000s)</i>
<b>Sustainable development</b>			
Local environment quality	8,372	8,372	—
<b>Climate change and energy</b>			
Climate change	15,227	17,327	46,600
Homes heated	1,200	1,200	—
Flooding and coastal erosion risk management	2,425	2,425	1,100
Improved air quality	9,699	10,599	—
<b>Sustainable consumption and production</b>			
Sustainable consumption and production (decoupling)	2,730	3,630	—
Waste and resources management	3,770	5,104	13,400
Chemicals and nanotechnology <sup>5</sup>	3,867	3,867	—
<b>Protecting the countryside and natural resource protection</b>			
Protect and enhance the natural environment	6,921	7,280	1,079
Access to the natural environment	—	—	—
Water quality and the environment	2,119	3,019	4,710
Sustainable marine environment	10,666	10,725	18,167
Radioactive substances	319	319	1,848
<b>Sustainable rural communities</b>			
Rural enterprise and social exclusion	821	2,243	—
<b>Sustainable farming and food, including animal health and welfare</b>			
Sustainable farming and food	38,464	34,019	5,476
Animal health and welfare (including fish health)	38,889	39,231	88,836 <sup>6</sup>
Pesticides	5,459	5,459	2,830
<b>Total</b>	<b>150,948</b>	<b>154,819</b>	<b>184,046</b>

## DEFRA'S EFFICIENCY PROGRAMME

Page 203 of the Departmental Report states:

A criterion of delivering these efficiencies is that the level of service is maintained or improved. This aspect is being monitored in a number of ways including monitoring of output levels, customer satisfaction surveys, internal and external audits, achievement of Public Service Agreement targets, and corporate Balanced Scorecard measures. It is not clear whether the figures for efficiencies and headcount reductions made in 2005–06 (reported in the Departmental Report), or those for 2004–05 (reported in the 2005 Autumn Performance Report (APR)), have yet been subject to the full audit and monitoring process.

8. Can the Department clarify what proportion of efficiency savings reported have been fully audited? Have any corrections been made to the figures as a result of the audits?

Defra is currently working with the Office of Government Commerce (OGC) to clarify the guidelines for carrying out audits of declared efficiencies and as a result no specific audits have been carried out. Financial efficiencies reported from Executive Agencies and NDPBs will be subject to external audit and performance against targets forms part of the annual report produced by these organisations. The Efficiency Programme team provides support and challenge to business areas and figures have been revised through this process. Additionally, we have commissioned an internal audit of benefits delivery across the department.

<sup>5</sup> Funding for genetically modified organisms (which falls under sustainable farming and food) is included within this amount.

<sup>6</sup> 69.7% of non-R&D spend consists of statutory requirements. The total figure for non-R&D spend does not include State Veterinary Service (SVS) spend.

9. *The Department's Efficiency Technical Note (ETN) states that £266 million efficiency gains were planned to be made by the end of 2005–06. £110 million of this amount was delivered in 2004–05. The Departmental Report says that £140 million savings were made in the first nine months of 2005–06. What efficiency gains were achieved in the last three months of the financial year 2005–06? Did the Department make the additional £30 million savings it predicted in its 2005 Autumn Performance Report (page 100)?*

The total efficiency gain made by the Department to end March 2006 was £263 million.<sup>7</sup> This exceeded the £229 million delivery target set out in the 2005 Autumn Performance Report by £34 million.

10. *The Departmental Report states that £91 million of the £140 million savings made in 2005–06 was cashable. No similar figures were given in the 2005 APR for 2004–05. Can the Department provide the total level of cashable savings made to date?*

The total cashable savings made by the Department to March 2006 was £156 million.<sup>8</sup>

The Department reduced its total number of posts by 1,016 in the first nine months of 2005–06. This is in excess of the planned 833 set out in the ETN. However, page 204 of the Departmental Report states that “the latest forecasts indicate a slight shortfall against the 2004 Spending Review workforce reduction target”. The summary of the Defra Management Board meeting on 23 March 2006 notes that for the Spending Review 2004 period, “Defra had the highest percentage shortfall of any government department . . . The Management Board agreed that urgent action must be taken to reach the headcount reduction target.”<sup>9</sup>

11. *Can the Department explain when and where the “slight shortfall” against the 2004 workforce reduction target is expected to occur?*

— *Can figures be provided to show the size of the expected shortfall? What measures is the Department taking to address it?*

The forecast workforce reduction at time of publication of the Departmental Report was 2,154 against a target of 2,400. Planning currently underway to meet the headcount target has identified some contingency with a latest forecast of 2,492 reductions. However there is a risk of delay into 2008–09 of some of RPA's 1,400 post reductions. Steps continue to be taken to address this.

A dedicated project team has been established within HR, reporting to the Efficiency Programme, to oversee and support delivery of these reductions.

## GOVERNANCE

Page 200 of the Departmental Report states:

Capability reviews are being introduced to assess departments' capabilities in three main areas: Leadership, Delivery and Strategy . . . Defra's preparations for its Capability Review will be developed over the coming months and will reflect wider developments of the Capability Reviews as they emerge.

12. *What is the Department's timetable for preparing its Capability Review? What progress has been made so far?*

### Timetable

The Department's Capability Review will be in the third tranche, which runs from October 2006 to February–March 2007. The fieldwork is likely to take place in early January 2007, which would give a target publication date of end of February. The projected timetable, given below, is subject to some flexibility; some of the preparatory work (eg supply of core Review documents; stakeholder survey) may be undertaken earlier. In addition, the outcomes of the Department for Constitutional Affairs (DCA) pilot and first tranche (Home Office and Department for Work and Pensions) are currently being awaited, which may affect the detailed timings.

<sup>7</sup> Based on latest forecast of 2005–06 local authority environmental services efficiencies. Data subject to confirmation in July 2006 annual efficiency statements.

<sup>8</sup> Ibid.

<sup>9</sup> [http://www.defra.gov.uk\\_corporate\\_manboard\\_meetings\\_2006\\_060323.htm](http://www.defra.gov.uk_corporate_manboard_meetings_2006_060323.htm)

<i>Timing</i>	<i>Activity</i>
First two weeks October 2006	Ian Watmore Head of the Prime Ministers Delivery Unit (PMDU) meets the Management Board to agree focus and priorities of the Review.
Mid October	Review Team Members meet Management Board.
Late October	PMDU team receives core Review documents from Defra.
Mid November	Review Team and Defra agree orientation—familiarisation visits for Review Team members.
Mid November–early December	Staff workshops and Focus Groups; stakeholder survey (if not already undertaken by this stage).
Early–mid December	Interim “playback” sessions by Review Team to Permanent Secretary and Management Board.
Late December–early January	Final pre-fieldwork feedback to Board.
Early January (possibly 8–19)	On-site fieldwork.
First week after fieldwork	Feedback to Board.
Late January	Defra produce outline action plan.
Late January–early February	Review Team report drafted and agreed with Department; Defra produce detailed action plan.
Mid February	Report formally signed off by Cabinet Secretary and Permanent Secretary, and submitted to Prime Minister and Secretary of State.
Late February	Report published.

#### Progress so Far

Defra is currently undertaking as much preparatory work as we are able to, pending publication and feedback from the DCA pilot and first tranche reviews. We understand from PMDU that Defra is ahead in its preparations compared to the other participants in the 3rd tranche.

#### Activities already completed include:

- active participation in developing the review model and process—participation by Defra staff in Cabinet Office workshops held in Autumn 2005; two Defra leaders were members of the first Review team;
- a small team set up as part of the Chief Operating Officer’s Directorate, to take forward preparations for the review at a working level;
- ongoing regular meetings between this team and PMDU at a working level, including a recent meeting with the Review Team manager, and contact with the PMDU Stakeholder Survey team;
- feedback to PMDU on preferred timing for review and the type of person who should be on review team;
- Defra’s Permanent Secretary Helen Ghosh has met Ian Watmore; the Secretary of State, David Milliband, has also had a number of discussions with Ian Watmore and is briefed and engaged;
- briefings to the Departmental Reform Group (a sub-committee of the MB which is taking oversight of the Review) in February, and to the Management Board in April; and
- initial briefing to the Defra family in June, through the Defra Collaboration Group.

#### Activities currently underway include:

- internal communications linked with Defra’s recent five-year anniversary;
- preparatory work taking place on providing evidence to the Review Team to help answer their key questions which test current capability in the three segments, Strategy, Delivery and Leadership:
  - meetings have taken place with colleagues on Strategy, Delivery and Leadership, to discuss the sources of evidence to answer the key questions;
  - currently: mapping existing evidence (eg from staff surveys) to the questions, to identify any gaps, to document the evidence where it exists, and to set out trends; and
  - also, working with the Defra Stakeholder Survey team to ensure that any stakeholder interviews or surveys are integrated with Defra’s planned survey later this year, to minimise inconvenience to the stakeholders and optimise the usefulness of the information collected.

13. *Could the Department provide details of the expected timetable for developing shared services provision (page 214) and rolling it out to all elements of the Departmental group?*

— *Will all the Department's Executive Agencies, NDPBs and other bodies source their services from the new Shared Services Agency?*

Defra currently provides shared services to a number of existing customers. Based on current expectations, Defra will continue to serve them and begin to provide services to the first of its new customers, the soon-to-be Natural England, from 1 October 2006.

Existing customers, who take a mix of services, comprise core-Defra and the following Defra Family members: Centre for Environment, Fisheries & Aquaculture Science (CEFAS), Central Science laboratory (CSL); Government Decontamination Unit (GDS); Pesticides Safety Directorate (PSD); Rural Payments Agency (RPA); Marine Fisheries Agency (MFA); State Veterinary Service (SVS); Veterinary Laboratories Agency (VLA) and Veterinary Medicines Directorate (VMD); as well as Meat Hygiene Service (part of the Food Standards Agency, Department of Health).

Thereafter, existing Defra Family customers have indicated possible timings for increasing the range of services that they take and a number of potential new customers have indicated their interest in coming on board, from both within the Defra Family and, notably, beyond, in the form of Department for Education & Skills (DfES). DfES will be working with us to explore how they can make best use of our SSO to deliver services to them, primarily in the area of Finance and HR. An indicative timetable is in the Sector Plan that went to the cabinet Office & the Programme is working with potential customers on refining it to get more precise timings.

Page 223 of the Departmental Report states:

During 2005 the Department has conducted a first skills audit of the Senior Civil Service (SCS). Plans are now being implemented to ensure Defra can meet the Government's target that 75% of SCS members demonstrate competence in all six core skill areas by September 2007.

14. *What were the result of the Department's skills audit of the Senior Civil Service (SCS)?*

— *What percentage of the Department's SCS can demonstrate competence in all six core skill areas? Could the Department provide a breakdown by core skill area?*

From the 157 responses received in the skills audit 37 SCS members of staff ticked the successfully demonstrated box for each Professional Skills for Government core skill. The percentage figure is therefore 24%.

#### SCS CORE SKILLS DATA COLLECTION: RESULTS FOR PAY BANDS 1 and 2

	<i>1—successfully demonstrated</i>		<i>2—development needs</i>	
	<i>No</i>	<i>Percentage</i>	<i>No</i>	<i>Percentage</i>
People Management	139	88.5%	18	11.5%
Financial Management	91	58.0%	66	42.0%
Project and Programme Management	101	64.3%	56	35.7%
Analysis and Use of Evidence	147	93.6%	10	6.4%
Communications and Marketing	96	61.1%	61	38.9%
Strategic Thinking	126	80.3%	31	19.7%

#### PUBLIC SERVICE AGREEMENT (PSA) TARGETS—GENERAL

15. *The 2007 Comprehensive Spending Review will include the setting of new Public Service Agreement (PSA) targets. Can the Department provide the Committee with copies of its draft Public Service Agreement (PSA) targets once available?*

HM Treasury are looking at the whole performance management framework, including PSAs, as part of the Comprehensive Spending Review (CSR). The current system came in with the 1998 CSR so it is right that this CSR looks at it again. We're working with HM Treasury to inform their thinking—no conclusions available yet.

16. *Has the National Audit Office undertaken a review of the Department's PSA data systems in the last year?*

— *If so, can the Department provide the Committee with a copy of the report? If not, when will a review be carried out?*

The National Audit Office undertook a review of Defra's PSA data systems during late 2005 and early 2006. A copy of the report and its recommendations will be published later this year.

## PSA 1—SUSTAINABLE DEVELOPMENT

Page 19 of the Departmental Report states:

Based on the Department's current assessment Defra is on course for this target . . . A full update of progress will be available following evaluation of the sustainable development indicators in June.

17. 68 indicators and 127 measures for this target have not been fully evaluated and indicators for the international element of this target are still in development. Can the Department explain how it has arrived at an assessment of "on course" for this target?

In June 2005 baseline "traffic light" assessments of the 127 measures making up the 68 indicators were produced and evaluated, subject to data availability.

Summaries reporting the number of indicator measures showing "red" deterioration, "amber" no change or "green" improvement, were subsequently produced for the Autumn Performance and Departmental Reports—separately for the four priority areas of sustainable consumption and production, climate change and energy, protecting our natural resources and creating sustainable communities. The summaries also specifically identified and highlighted those indicator measures showing clear deterioration.<sup>10</sup>

The table below shows the number and state of the indicator "traffic light" assessments summarised for each priority area.

NUMBER OF INDICATOR MEASURE "TRAFFIC LIGHT" ASSESSMENTS  
IN PSA1 REPORTING

	Priority area								Total <sup>(1)</sup>	
	Sustainable consumption and production		Climate change and energy		Protecting our natural resources		Creating sustainable communities			
	from 1990	from 1999	from 1990	from 1999	from 1990	from 1999	from 1990	from 1999	from 1990	from 1999
Red: Clear deterioration	6	3	4	5	1	1	7	8	15	17
Amber: little or no change	1	10	2	2	2	5	5	14	10	27
Green: clear improvement	20	17	8	7	13	13	18	26	46	51
Insufficient data or measures to be developed	3	0	0	0	8	5	22	4	30	6
Total measures in PSA1 reporting	30	30	14	14	24	24	52	52	101	101
Measures not used for PSA1 reporting <sup>(2)</sup>	19	19	8	8	4	4	16	16	26	26
Total measures in Strategy reporting	49	49	22	22	28	28	68	68	127	127

<sup>(1)</sup> Some indicator measures support reporting for more than one priority area. The total is the number of distinct measures excluding this multiple reporting.

<sup>(2)</sup> Some indicators in the strategy are for contextual reporting only. In addition some indicator measures are excluded from PSA1 reporting in an attempt to avoid "double-covering", ie where the measure is used directly as a component in more than one indicator or trends are strongly influenced by or directly reflect other measures.

It is not appropriate to go beyond the summaries to form an overall assessment for PSA1 using indicator measures alone, either for each priority area or overall, as this would require some form of weighting of indicators, which in the end would be arbitrary. Nevertheless, whilst recognising that some indicator measures are more important or challenging than others, on the basis of the number of "traffic lights" presented in the table above (in effect using a simple equal weighting of measures) for each of the priority areas at least half of the supporting indicator measures show "green" for clear improvement.

Crucially, in addition to the progress shown by the indicators, our assessment takes into account, albeit qualitatively, that a number of mechanisms have now been put in place to ensure that more progress is made and that we can tackle those areas currently going in the wrong direction, or that are challenging to improve.

Some key recent developments, for example, have been:

- The strengthening of the Sustainable Development Commission (SDC) as advisor, advocate and "watchdog" for Government.
- The production by each Government Department of a Sustainable Development Action Plan—defining and publicising its specific contribution towards implementing the Sustainable Development Strategy.

<sup>10</sup> Please see [http://www.sustainable-development.gov.uk\\_progress\\_indicators\\_psa1-2005.htm](http://www.sustainable-development.gov.uk_progress_indicators_psa1-2005.htm) for more details.

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- Government's commitment at the highest levels to provide leadership on sustainable development through a positive response to the Sustainable Procurement Task Force and the targets for sustainable management of Government estates, including the commitment to make central Government offices carbon neutral by 2012.
  - The preparation for the 2007 comprehensive spending review, lead by HM Treasury, with its focus on five long-term challenges: demographic and socio-economic change, globalisation, innovation and technological development; global uncertainty; and increasing pressure on climate and natural resources.

Internationally, the UK has set up Sustainable Development Dialogues with China, India and Brazil and is in discussions with Mexico and South Africa. In recognising that no single nation can address the challenges of sustainable development alone this initiative aims to place sustainability as a core principle in the bilateral relationship and provide a coherent framework for co-operation using a cross-governmental, multi-level approach. They also engage external stakeholders at home and in the Dialogue countries.

18. *Will the evaluation of indicators be available prior to the evidence session on 19 July? If so, could the Department provide a copy and explain how the large number of measures are combined to give an overall assessment?*

Data for the indicators and assessments are currently being compiled and prepared for a National Statistics publication. We are aiming to publish this in July, but statisticians in Defra are still liaising with statistical colleagues in other government departments to finalise the data and it is unlikely that the 2006 evaluation, which will be published in "Sustainable development indicators in your pocket", will be available in time for the evidence session. However, we do not envisage there having been many changes to the traffic light assessments compared with those reported last year.

The National Audit Office and the Statistics Commission have both given overall endorsements for how the indicator measures are assessed and used for PSA1 reporting. A full explanation is given in the Technical Note for PSA1.<sup>11</sup>

19. *What progress has been made towards developing indicators and baselines for the international element of this target?*

Preliminary work on making international comparative information available was undertaken in 2005. The sustainable development website<sup>12</sup> currently includes some example indicators and provides links to a wide range of international websites that provide comparative data and analysis and global and EU trends.

Further work has been done to produce a greater selection of international comparative indicators that correspond with indicators in the national set. These will be published on the website this year. If practicable they will be published with the 2006 national indicator assessments, or soon after.

A review of ecological footprinting has reported and further work updating and extending the review is about to be commissioned. A final report on research into the biodiversity impacts of UK consumption has been produced and will be published following peer review. A final report on research into emissions "embedded" in traded goods has also just been received.

20. *The Departmental Report contains numerous examples of activities to promote sustainable development. The overall target will be assessed using a large number of measures. Has any work been planned to assess the impact of individual projects and initiatives on progress towards the target, and to assess which ones should be prioritised when resources are allocated?*

There are strong links between the sustainable development indicators and existing policy frameworks, including other PSA targets across Government. Therefore, much impact evaluation and prioritisation of projects and initiatives will be undertaken during the normal course of policy-making and the evaluation of delivery in specific areas. For example, delivery of the air quality indicator is underpinned by a shared public sector agreement for Defra and DfT:

- Defra PSA 8 and DfT PSA 6: We will improve air quality by meeting the Air Quality Strategy targets for carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene and 1,3 butadiene.

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<sup>11</sup> Please see [www.defra.gov.uk/corporate/busplan\\_tnpsa1-2005.pdf](http://www.defra.gov.uk/corporate/busplan_tnpsa1-2005.pdf) for more details.

<sup>12</sup> Please see [www.sustainable-development.gov.uk/progress\\_international/index.htm](http://www.sustainable-development.gov.uk/progress_international/index.htm) for more details.

And delivery of the childhood poverty indicator is supported by a shared public sector agreements for DWP and DfES:

- DfES PSA 2 and DWP PSA 3 : As a contribution to reducing the proportion of children living in households where no one is working, by 2008 we will:
  - increase the stock of Ofsted-registered childcare by 10%;
  - increase the take-up of formal childcare by low income working families by 50%; and
  - introduce by April 2005, a successful light-touch childcare approval scheme.

However it would be too simplistic to focus just on making progress as shown by the indicators. And the impacts of the more cross-cutting projects and initiatives will be much more difficult if not impossible to directly and quantitatively evaluate. Therefore, we will continue to work with HM Treasury and the National Audit Office to consider how we can evaluate PSA1 beyond what can be reasonably done using the sustainable development indicators directly.

## PSA 2—CLIMATE CHANGE

21. *According to a National Statistics news release on 23 May 2006 (Environmental Accounts Spring 2006), although there was a fall in greenhouse gas emissions of 10.6% between 1990 and 1999, emissions increased by nearly 2% between 1999 and 2004 (with a 1% increase between 2003 and 2004 alone)—so the UK is now only 8.7% below 1990 levels, rather than the 10.6% below achieved in 1999. Can Defra's progress towards the target still be described as "on course"?*

Before talking about the UK's progress towards its greenhouse gas mitigation targets, it would be useful to explain the differences between the greenhouse gas releases made by the office of National Statistics (ONS) and Defra. The ONS and Defra produce annual greenhouse gas emission statistics according to separate conventions, which explains the difference in the levels of emissions reported. Defra's emission estimates are prepared according to internationally agreed standards for assessing progress under the United Nations Framework Convention on Climate Change (UNFCCC) published by the Intergovernmental Panel on Climate Change (IPCC). The ONS figures are produced as part of the UK Environmental Accounts according to conventions agreed internationally for National Accounts.

In general, the IPCC methodology covers emissions taking place within UK territory, while the ONS National Accounts definition aims to cover the emissions of UK residents. The main adjustments ONS make compared with the Defra figures are to add in emissions from UK residents overseas and to remove emissions from foreigners in the UK. This results in a net increase in the ONS statistics. The size of the adjustment has been increasing over time, largely because international travel, including road freight and personal travel as well as international aviation, has increased.

ONS figures show an 8.7% decrease in greenhouse gas emissions between 1990 and 2004, while Defra figures show a 14.6% decrease by 2004 relative to the Kyoto baseline (which is based on 1990 for carbon dioxide, methane and nitrous oxide, and 1995 for fluorinated compounds). ONS figures also show a 1.9% increase in greenhouse gases between 1999 and 2004, while the Defra figures used for the Kyoto Protocol target show a 0.6% decrease.

### Progress Towards Greenhouse Gas Targets

The UK is on course to exceed its Kyoto target of a fall in greenhouse gases of 12.5% by 2008–12 below 1990 baseline figures. It is now estimated that, by 2010, the UK will reduce its emissions of the greenhouse gas emissions from the basket of six gases covered by the Protocol by between 23% and 25% to below base year levels.

The Government is also committed to the UK domestic goal to achieve a 20% reduction in carbon dioxide emissions by 2010. It is currently estimated that we are on track to reduce carbon dioxide emissions by between 14% and 17% below 1990 levels.<sup>13</sup> It has always been recognised that this goal was ambitious but it has proved instrumental in ensuring that action is taken and provide a benchmark against which performance and effectiveness can be gauged.

We are still committed to the 20% goal and believe that the gap can be closed. The updated Climate Change Programme is not the final word on possible climate change policies; we still await the result of the Energy Review, the review of energy efficiency in buildings and the Comprehensive Spending Review in 2007.

<sup>13</sup> These are updated projections obtained since the publication of the Climate Change Programme was published in March 2006.

22. *This target has four elements. Whilst progress against the Kyoto and carbon dioxide goals is recorded in the Departmental Report, information relating to progress against the energy efficiency and renewable energy measures is not made clear. What progress has been made against the energy efficiency and renewable energy aspects of the target?*

### Energy Efficiency

The UK's targets for energy efficiency are carbon savings of 3.5 million tonnes of Carbon (MtC) from households in England by 2010 (as set out in the Energy Efficiency Action Plan 2004, in fulfilment of the Sustainable Energy Act 2003); and to improve household energy efficiency in England by 20% by 2010, from a 2000 baselines (Housing Act 2004).

In 1990, all greenhouse gas emissions from the domestic sector were 45.8 MtC, they had fallen to 43.7 MtC in 2004 and they are projected to be 38.7 MtC in 2010 (excluding new policies). Carbon dioxide emissions in 1990 were 42.4 MtC, and fell by 2.6 MtC over the decade to reach 39.8 MtC in 2000.

This small net change was the result of the interaction between several much larger individual contributions over the decade. Three factors had a major influence on carbon dioxide emissions:

- growth in demand for the underlying energy services (such as warmer homes, hot water, and home entertainment)—up nearly 30%, (11.5 MtC);
- background improvement in energy efficiency—over 1% per annum or a 12% reduction (4.5 MtC); and
- reduction in the carbon intensity of grid electricity resulting from the switch from coal to gas generation—worth over 20% of household emissions (8 MtC).

Together with other smaller factors (such as fuel switching by householders and changes in external temperatures), which reduced emissions by around 1 MtC, these resulted in an overall net reduction of 6%, or around 2.5 MtC.

### Projections to 2010

Over 2000–10, before the effects of policies in the Climate Change Programme (CCP) are taken into account, carbon emissions under Business as Usual (BAU) would now be expected to remain almost constant, increasing by only 0.3 MtC, from 39.8 MtC in 2000 to 40.1 MtC in 2010.

However, policy savings, which are calculated net of BAU savings, are expected to reduce annual carbon emissions by 4.8 MtC below the BAU emissions figure for 2010, so that emissions in 2010 are projected to be 35.3 MtC. These policy savings consist of 3.6 MtC from policies in the 2000 programme and a further 1.2 MtC from the new measures introduced in the CCP 2006. These savings will keep us on track to meet our 2010 targets for household energy efficiency.

As with the previous decade, the very small net change in estimated BAU emissions for 2000–10 is the result of several larger effects: this time, they more or less cancel out. These are:

- upward pressure from service demand increases (slightly less than in the 1990s as gas central heating installations saturate) at nearly 25%, ie around 8.5 MtC;
- decreases from the background level of energy efficiency improvement (ie before the additional effects of policies are counted), very similar to that over 1990–2000, at 12%, ie around 4.5 MtC;
- smaller reduction than in the 1990s from changes in the generators' fuel mix, probably around 3 MtC; and
- a net reduction from smaller factors, ie around 1 MtC.

The overall Business as Usual effect is projected to be a small increase of 0.3 MtC over the decade to 2010.

### Renewables

The UK has a target to increase the proportion of electricity provided by renewable sources to 10% of electricity supplied by 2010, subject to the cost the consumer being acceptable. The 2003 Energy White Paper signalled the Government's aspiration to double the proportion of electricity supplied by renewables by 2020.

Renewables provided 4.2% of electricity generated in Britain in 2005—up from 3.6% the previous year. This data is released as part of the latest Energy Trends report from the DTI released on 29 June 2006. Further details are published in the Annual Report on the Energy White Paper. The third Annual Report is due to be published soon, covering the reporting period from February 2005 to February 2006.

## Projections to 2010

Although the Government is making progress towards the 10% target, recent projections indicate that the target level of generation may not be achieved until some time after 2010. The Government is continuing with a range of work to address barriers to progress towards the 10% target. The Government has recently laid a new Renewables Obligation Order before Parliament, which includes a number of small modifications that are aimed at improving its effectiveness over time.

As well as the Renewables Obligation, the Government is providing support through R&D funding and capital grants worth around £500 million between 2002 and 2008, including grants for offshore wind, biomass, solar PV and R&D.

## Reporting Obligations under the Climate Change and Sustainable Energy Act

The Climate Change and Sustainable Energy Bill has recently gained Royal Assent, and one of the requirements of that Act is for Defra's Secretary of State to submit to Parliament an annual report detailing:

- (a) the steps taken by UK central government departments during the previous calendar year to reduce their greenhouse gas emissions; and
- (b) the UK's emissions figures for the previous calendar year.

This report will therefore cover not only the energy efficiency and renewables elements of the Programme, but all other domestic policies and measures too.

## PSA 4—RURAL PRODUCTIVITY

Page 109 of the Departmental Report states:

For services, in the 2004 Spending Review, Defra identified five main themes where improvements for rural areas are a priority—health, education and skills, work and pensions, transport and housing—and selected indicators of progress for each theme. Steady progress has been achieved towards establishing the evidence base for which progress against Public Service Agreement target 4 (Services) indicators can be assessed, although further work is needed (with Department for Transport (DfT) and the Department for Work and Pensions (DWP) in particular).

### 23. *When will the "further work" for assessment of this target be completed?*

Defra is not in a position to give a definitive answer. Our rate of progress on each indicator is dependent on work within other Departments—for example on transport, Local Transport Plans (LTPs), including new local accessibility strategies and targets, were due to be received by Department for Transport at the end of March 2006. DfT's assessment of the Plans should be completed by the end of July after which we will meet officials responsible for accessibility planning to discuss the way forward on Defra's PSA4 target in the light of evidence about accessibility planning from the LTPs.

## PSA 5—FOOD AND FARMING

### 24. *The Gross Value Added per person measure fell in 2003 and 2004 to below 2000 levels. Why is the Department confident that the decline in Gross Value Added per person will be reversed and that the steep trajectory needed to achieve the target will be achieved?*

The implementation of the 2003 Common Agricultural Policy (CAP) reforms remains the key enabler for driving forward a European agricultural sector which is fully competitive, environmentally sustainable and able to thrive profitably in a liberalised, global economy. The pressure for further CAP reform remains strong and 2008 is a key milestone with review of decoupling, and review of the dairy regime including the quota system. We expect export subsidies to be phased out by 2013 with a substantial part to be eliminated by around 2010 meaning the momentum for greater liberalisation of trade, and removal of distortions, will continue to build including in agriculture.

The new Rural Development Plan for England will be targeted to make farming and the food chain more competitive and sustainable, and to enhance business opportunity, including farm diversification, in rural areas. Also we will continue to provide support to bodies such as the Food Chain Centre, Food From Britain and the English Food and Farming partnerships which encourage efficiency and co-operation within the market.

- *Does the Department have any indication of what the Gross Value Added per person figure will be for 2005? When will the final figure be available?*

Defra is aiming to publish the provisional figure for 2005 on 18 July when the Sustainable Farming & Food Strategy (SFFS) indicators website is launched. The final figure for 2005 will be published in the summer of 2007 (at the time of the publication of the provisional 2006 estimate).

25. *Has the Department made any preliminary assessment for the likely performance against the three new indicators being developed? To what extent will eventual achievement of the target depend on these indicators?*

The three new indicators for this Public Service Agreement (PSA) target are part of the set of indicators for monitoring progress with the SFFS. An assessment of performance of these indicators (in the context of SFFS delivery) will be provided when the SFFS website is launched on 18 July.

Discussions will then continue with HM Treasury on their formal inclusion within PSA 5. The achievement of the PSA target 5 will require meeting the separate targets for all of the individual indicators.

One of the indicators for this target is described in the PSA technical note as follows:

Measure: The sum of EU notifications to the WTO of support under the Amber and Blue boxes representing EU 15 support.

Baseline: 2000–01 marketing year Notification (Amber Box €43,654 million, Blue Box, €22,223 million). Our current estimates for 2008–09, when reforms agreed up to May 2004 are fully implemented, are that the Amber Box will be around €25.2 billion, and the Blue Box €5.5 billion.

Target: By 2008–09, to be on an agreed track to reaching reductions, beyond those agreed up to May 2004, of 10% of the total.

It is not clear from the information provided what the actual target is.

26. *Could the Department clarify whether the target will be achieved if, in 2008–09, the Amber Box is €25.2 billion and the Blue Box €5.5 billion? Or are the target figures 10% below these figures—that is, €22.68 billion (Amber) and €4.95 billion (Blue)?*

The target is 10% below these figures ie €22.68 billion (Amber) and €4.95 billion (Blue).

The graph on page 123 shows CAP production-linked support since 1995 and a future trajectory. However, no commentary or actual figures accompany the graph.

27. *Can the Department provide current figures for CAP production-linked support to show that this target is on course?*

The figures for this indicator are provided from notifications to the World Trade Organisation (WTO), with the latest actual data being for 2001–02. The trajectory shows the projections for this series based on the CAP reforms which have been achieved to date. The effect of the recent reforms will not appear in the data until the reforms have been implemented and the European Commission has notified subsidy levels under the reformed policies to the WTO. However, the projections beyond 2001–02 are expected to accurately reflect the actual figures when they become available from the WTO.

The final indicator for this target is reductions in barriers to access to EU markets based on an average tariff calculated for a range of important agricultural commodities. The target is to be on an agreed track to achieving a fall of at least 36% in the calculated average tariff by 2008. This does not seem to be mentioned in the Departmental Report.

28. *Can the Department provide the latest figures showing progress against this target?*

WTO members are currently working on the latest round of multi-lateral trade negotiations, the Doha Development Agenda (DDA). These negotiations will determine the reduction in the average tariff. The current EU formal offer is a 39% reduction in tariffs, slightly higher than the 36% cut required to meet the PSA target, but it is not possible to provide a further update on this indicator until modalities are finalised at the end of July. The deadline for agreement of agriculture modalities (the basic “architecture” of a deal) is now the end of July 2006. This is an extremely pressurised timetable, but the UK remains committed to achieving an ambitious outcome with substantial reductions in import tariffs and is working hard to influence others.

29. *Given the above questions, how does the Department justify its assessment that this target is “on course”?*

Delays to the payments of the Single Payment Scheme and difficulties with processing Environmental Stewardship applications have been significant challenges. The Department’s ability to deliver these schemes in the future remains a significant risk to delivery of the PSA target. Also Rural Development Regulation funding (CAP Pillar 2) is a vital part of SFFS – PSA 5 delivery.

Failure to secure sufficient match-funding of voluntary modulation for 2007–12 would jeopardise some of the key delivery mechanisms for the PSA target (eg Environmental Stewardship).

However a major enhancement to our IT system went live on 26 June enabling us to make considerable progress with the arrangements for the first annual Entry Level Stewardship payments due to be made in August. In addition fixes for several problems were introduced which are having a positive impact on previous delays to the day-to-day administration of Environmental Stewardship applications and agreements.

Uptake of the Entry Level Environmental Stewardship scheme has progressed well with over two million hectares entered into the scheme since its launch last August. The Department also launched the on-line version of the Whole Farm Approach earlier this year which, combined with the publication of “Partners for Success” a Farm Regulation and Charging Strategy last November, will help to engage farmers in a new relationship with Government on regulation.

The Food Chain Centre is encouraging greater efficiency in the UK food chain, and English Farming and Food Partnerships (EFFP) is helping to drive increased co-operation between farmers and between farmers and the rest of the food chain. The launch of the Food Industry Sustainability Strategy in March will help to provide much needed focus to the food industry on what they need to do to improve efficiency and sustainability in the food chain.

#### PSA 7—FUEL POVERTY

Page 55 of the Departmental Report states:

. . . the Government has a legal duty to ensure that, as far as reasonably practicable, people in England do not live in fuel poverty after November 2016.

30. *The current PSA target relates only to vulnerable households, of which about two million currently suffer from fuel poverty. How many additional, non-vulnerable, households are currently affected by fuel poverty? Does the Department have plans to tackle these?*

The UK Fuel Poverty Strategy Fourth Annual Progress Report, published on 2 June 2006, provides the most up to date information on progress in tackling both vulnerable and non-vulnerable households in fuel poverty. This indicates that of the 1.2 million households in fuel poverty in 2004, there are 1 million vulnerable and 200,000 other households. Whilst it is correct to state that our primary focus in tackling fuel poverty is currently and has been those households termed vulnerable, we are also aware of all those in fuel poverty. Indeed, a number of policies and programmes in place now can help both vulnerable and non-vulnerable households at risk of fuel poverty, such as the Energy Efficiency Commitment, which must direct at least 50% of its energy savings to low-income consumers and the Decent Homes programme run by the Department for Communities and Local Government. We will continue to monitor the number of households—both vulnerable and non-vulnerable in fuel poverty towards delivery of both our 2010 and 2016 targets.

#### PSA 9—ANIMAL WELFARE

31. *The first part of this target, relating to scrapie, is reported as facing slippage in the Appendix. However, page 135 says that it has not yet been assessed. Can the Department clarify which is the case? If there is evidence to show slippage, can the Department provide figures for the latest assessment of the prevalence of scrapie?*

The reference to slippage in Appendix 2 relates solely to the suspension of plans to introduce a compulsory ram genotyping scheme rather than any assessment of more recent reductions in scrapie prevalence compared to the baseline figure of 0.33% used in determining the PSA target in 2004.

By means of explanation, the target to reduce the prevalence of scrapie by 40% from 0.33% to 0.20% (down from three sheep in a thousand to two sheep in a thousand) by 2010 was entirely designed on the basis of the introduction in 2006 of a Compulsory Ram Genotyping Scheme (CRGS) as required by transitional European legislation (Commission Decision 2003–100–EC). This was planned to replace the National Scrapie Plan’s existing voluntary Ram Genotyping Scheme (RGS), which has operated since 2001.

However, an EU Compulsory Ram Genotyping Scheme (CRGS) will now not be implemented as originally planned because of changes to the EU requirements for the introduction of compulsory genotype based breeding programmes. Proposals to provide for a permanent legal base for compulsory genotype based breeding programmes in the main EU TSE Council Regulation were recently rejected by the European Parliament. Instead, and as part of a wider compromise package, the Agriculture Council and European Parliament have now agreed in principle to a revised proposal which would make it optional for Member States to operate genotype based breeding programmes. We anticipate that the revised proposal will be formally adopted by the Council of Agriculture Ministers this September.

In the light of these developments, Defra Ministers and those in the Welsh Assembly Government and the Scottish Executive (the NSP is a GB wide initiative) have agreed that the future of the NSP’s existing voluntary Ram Genotyping Scheme (RGS) should be reviewed.

Without CRGS (and possibly the voluntary RGS too, should the review conclude that it should cease to operate), it is unlikely that the PSA would be deliverable within the remaining timescales ie by 2010. As such, the future and ongoing relevance of the scrapie element of this PSA target will need to be re-examined in the context of CSR 07.

In the meantime, reductions in scrapie prevalence will continue to be monitored through the results of testing fallen stock and those from the abattoir survey (both requirements of Commission Regulation 999–2001) and statistical analysis of the trend over time. However direct comparisons with the estimate of the prevalence of 0.33%, which was used as the baseline for the PSA 9 target and which has narrow confidence limits, are not possible because the sample size of the abattoir survey and the numbers of fallen stock to be tested has been significantly reduced by the Commission.

Defra funded research is however now in place to look at ways of providing best estimates of the future annual prevalence of scrapie infection.

The technical note says of the Bovine TB element of this PSA that:

We would expect to need at least three years worth of statistics beyond the year of introduction to be able to determine a significant departure from the predicted trend line. Thus our first confirmed judgement of success or failure of the measure cannot be safely made until the end of 2008 at the earliest.

32. *Given this lack of data, how is the Department able to make an assessment that it is currently “on course” to meet its target?*

The target is based on the following data:

The indicator for the bovine TB part of the PSA9 measure is based on the number of confirmed new incidents (breakdowns) in a calendar year in parishes in England (the geographical animal health unit.) The indicator shows the change in the number of confirmed new TB incidents in “new” parishes between a 12-month period and a period exactly five years earlier, divided by five.

For the year to 31 December 2005 the indicator was 8.6:

- this is one-fifth of the difference between 283 (the number of CNI in “new” parishes in 2005) and 240 (the number for 2000).

For the 12 months to 30 September 2005, the indicator was 17.2:

- this was one-fifth the difference between 306 (1 October 2004 to 30 September 2005) and 220 (1 October 1999 to 30 September 2000).

Because of changes in numbers in opposite directions, the first of these (283–240)–5 was smaller than second (306–220)–5. The most likely explanation for the small value of the indicator for 2005 is that the number of herds in “new” parishes increased no faster in the last three months of 2005 than in the last three months of 2001—the year of FMD. TB testing was recommencing after FMD and many breakdowns were found in unexpected areas.

What is difficult to predict is if there has been a significant departure and we would need three years worth of data to determine this. We would need more data to be able to evaluate whether the target was being affected by a range of possible factors—for example, the current low level of the indicator is influenced by the fact that TB testing virtually stopped during Foot and Mouth Disease. If the reduction was due to a decline in the spread of the disease then we would expect the decrease to remain steady over three years worth of data, demonstrating that the change was due to a decrease in number of incidents and not the result of a comparison with a year where there were significant changes in TB testing.

Nonetheless, we introduced the key policy measure to reduce spread of disease to clean areas—pre-movement testing—in March this year. While it is too soon to evaluate the impact the policy is having, its introduction, together with the wider statistical picture, underlies our assessment that progress is on target.

Department for Environment, Food and Rural Affairs

July 2006

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*Witnesses: Ms Helen Ghosh, Permanent Secretary, and Mr Ian Grattidge, Director Finance, Planning and Resources, Defra, gave evidence.*

**Q1 Chairman:** We reach the final evidence session that the Committee will be having before the summer recess, and to that end we are delighted that Helen Ghosh, the Permanent Secretary of Defra, and Mr Ian Grattidge, the Director Finance, Planning and Resources, have been able to come and join us for our annual inquiry into the Departmental Annual Report. You are both very welcome. I hope, Helen, you are feeling nicely at home now in your new department, and fully up to speed on all aspects of it. I just saw your Secretary of State down the corridor. I think you have been giving each other mutual pep talks about your respective appearances in front of the Committee, is that right?

**Ms Ghosh:** I do not think David Miliband needs a pep talk from me!

**Q2 Chairman:** The Annual Report, as always, is a meaty read, and I must say the photographs were very pretty in it, but I do have to start with a very fundamental question. What do you think the purpose of this vast document is?

**Ms Ghosh:** I think the purpose of this vast document, and I should say here that in the light of comments made from the Committee in the past it is considerably less weighty than it has been in previous years, its principal purpose, is to communicate to yourselves and Parliament the use that Defra has been making of the money that Parliament has voted to us, and also I think increasingly, given the more accessible style that we have adopted, it is communicating with—perhaps one would not say the general public but the people in the wider community who are interested in seeing what we do.

**Q3 Chairman:** Does anybody read it once it has been compiled from beginning to end?

**Ms Ghosh:** I certainly read it once it has been compiled from beginning to end—

**Q4 Chairman:** But nobody, shall we say, who is not a participant, who might be a member of the public, an interested observer? You do not give it to a few audiences to test out its coherence, its logic, its flow, its objectivity, before you finally unleash it on the normal public who read these things?

**Ms Ghosh:** No, but it goes through that kind of process in our Communications Directorate for the normal kind of quality assurance on clear English and clear communication, but I think we have to accept it is for more specialist audiences than for the wider scale communication with the public, which I think we very successfully distribute on particular elements of our agenda.

**Q5 Chairman:** You see, I found it this year lacking in the sense of narrative and clarity that last year's had. I was quite looking forward to reading the story but this time it was disjointed, and I give you an example of the kind of problem that I encountered. Chapter 3 is one of the longest chapters in the whole report, and read for example, "Establishing a business-led Sustainable Procurement Task Force to develop an

action plan on sustainable procurement, see Chapter 2". So I turn back to chapter 2 and I hunt through to find the reference, because there is no reference, it just says, "see Chapter 2"—well, Chapter 2 has a bit of length, and eventually I found on page 21 the reference to this Sustainable Procurement Task Force, so I read, thinking this is going to educate me, and it says: "More information on Defra's work on sustainable consumption production is in Chapter 3"! So I am going backwards and forwards between the chapters, and I could do the same exercise for quite a few others, particularly when they refer to the PSA targets, and that is why I ask the question as to whether anybody had gone through to see if it had the right degree of coherence. You were talking about it communicating but one of the things I was surprised that it does not have at the beginning is, if you like, the sort of key things that we have achieved since last year, our key performance data, our key financial information—in other words, almost an executive summary style at the beginning, with a lot of the policy stuff at the back if you want to go into more detail. It seems to try to combine the two as you weave in and out of it. Why is there not that degree of clarity?

**Ms Ghosh:** I think we can certainly take on board a recommendation for an executive summary. If I can just pick up your earlier point, I suspect there is not a perfect answer to how we describe what we have done in a department where everything is so closely interlinked. In fact what we did, and perhaps we did it excessively when we were doing an editorial process on this, was to try and excise what looked like repetition, so if, for example, you have a discussion of an over-arching organisational principle, like sustainable development, you will find it as a theme picked up across a description of most of our activities. We found when we looked at a first draft that, to take your Neville Simms task force example, we were describing the work of the task force under sustainable development in an over-arching sense, and then we were talking about it under sustainable production and consumption and discussing it again, so perhaps too crudely we decided we would only mention things once and that was one of the explanations of why we made it shorter. Perhaps we need to think again about how we do the sign-posting and that may be one place where we were too ruthless in our excision and things dropped between the cracks. The other thing I would say, and you were referring to pictures of livestock rather than pictures of Ministers in the top team when you talked about the "nice pictures", is that clearly we produced this on the cusp of a ministerial reshuffle, and as you will be aware, from talking to David Miliband last week, we are also in the process of a strategy refresh, so I think there was some element in which clearly we were, and are still, operating under our five strategic priorities, but feeling confident about the story we were telling about outcomes perhaps was a bit of a victim of the fact we were in the middle of a transition when we wrote this. So we are happy to do an executive summary; I think by next year's Report we will have

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19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

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carried through the strategy refresh and will be able to describe I think much more clearly a set of outcomes we are trying to achieve—

**Q6 Chairman:** I personally would far rather you settled down with some of the best practice company reports, because some companies are as complex as Defra and they manage to summarise for the shareholder, who is the member of the public you refer to, the key performance indicators and information about what they are doing, and what they do not do is try and cover every single aspect of their company's work. If necessary, for example, corporate social responsibility is now often a separate document, and it gives a degree of clarity without losing substance. Just to give you one other example, on page 123, and perhaps you would like to turn to it, figure 17, could you tell me what happened between 1990 and 1995, because it is an intriguing graph that suddenly starts from a moment in time in 1995 without any explanation as to what happened for the previous five years.

**Ms Ghosh:** I am sure there must be some very good statistical explanation for that, and I will discover it and send you the answer.

**Chairman:** That is the point I am getting it, whether anybody looked at this, because somebody who did not have their nose so pressed to the glass might have said: "What does this say?" And it is the kind of thing that you might want to reconsider.

**Q7 Mr Drew:** This is something I remember from the late lamented days of the Department for Environment, Transport and the Regions, but of the things that it did when it looked at the transport strategy is it produced the parent report and then a series of children reports according to the different categories of transport. I am just wondering who reads this? I used to struggle through it and I have picked bits and pieces out of this and I just wonder if you should be looking at the different elements and produce papers to those elements. You have got the strategy document which, hopefully, will be short and will try and pull together the different parts, but just to give you one bit where I struggled with this, on page 112 at the top, and I know this is a complicated area but it says, "The Leader Plus Programme, currently a separate programme under structural funds, will not run as a separate programme under the 2007–13 programming period. However, the Leader Plus Approach involving locally driven public private partnerships will be a key delivery mechanism for the next rural development programme. At least 5% of the European funding must be delivered to the Leader Plus Approach in the next programme". I do not quite understand that, and I am a simple person, but to me that is the sort of thing which someone who is in the minutiae of this would need to know, but I am not sure in terms of an Annual Report, or even a child of an Annual Report, whether that is at all helpful in giving an overview of what it is Defra is doing in its Annual Report.

**Ms Ghosh:** Yes. Making a specific and then a general comment on that, indeed, I recently had discussions with some of my team about what the Leader Plus Approach means, and I worked on a similar thing called the Urban Programme in east London under structural funds, but it essentially means a community-based approach, ie, a pot of money where the community, and you assemble a partnership to this end, decides on the spend. I do think there is a general issue about Defra, which certainly has struck David Miliband and to some extent it has struck me, which is, question mark, is this something to do with being so focused on Europe? We tend to describe things in terms of a process rather than an outcome, and my senior team and I have discussed this and I think this is something the strategy refresh gives us an opportunity to move forward on. When one asks for briefing very often one is given a long description of the process and where we are in the EU negotiations, without a very clear idea of what it is that Defra as a department of UK Government is seeking to achieve. I think we will be much more focused on that kind of outcome and less focused on process and I hope we will see that reflected. The idea of parent and daughter reports is a good one; I think we need to check whether it fits into the kind of guidance and rules we have from the Treasury, because there are some rules about what we have to put in simply to report to Parliament, but we will do our best.

**Q8 Chairman:** Also, in terms of a bit of context, under that graph that I just commented on is another one of our hackneyed expressions about how much this Common Agricultural Policy is costing consumers and taxpayers, bearing in mind the budget covers many and various programmes, some of which buy, for the public, goods which they want, do you not think it is about time that there was a bit of context and a bit of breakdown as to what is being bought by the Common Agricultural Policy so that your interested member of the public might know what the expenditure is? Also, it is almost put as if it is a guilt number, "This is costing you this huge amount", whereas if you were to do the same with almost any other aspect of government expenditure, you could come up with an equally large number for this mythical family of four. Do you not think it is about time we tried to talk about what you bought for this expenditure, and not make people feel guilty as if every time they buy a piece of food they are paying for the Common Agricultural Policy?

**Ms Ghosh:** Indeed, and I think David Miliband, both in his speech at Stoneleigh and I think when he talked to you last week, made clear that there are a great many public goods we are buying through the Common Agricultural Policy, and we will be buying more and more of them as decoupling goes further. Clearly we are buying good land management of 80% of our land and, for example, even within Pillar 1 the cross-compliance activity associated with a new single payment has bought lots of good things. It has bought, for example, and is increasingly buying more hedges, more farmland birds to go back

19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

to interconnectedness, and as we transfer more money into Pillar 2 we will be buying more and more of those public goods. We are also buying, in some cases, fewer food miles, food produced in this country rather than food imported from abroad so you are quite right, we could explain it much more positively.

**Q9 Chairman:** Right, but if you come to the key performance indicators, or the achievements of your department, that is the kind of thing that ought to be being broken out, because the interested person outside is also a taxpayer and they might like to know some of that but you could not derive it in such clear terms as you have enunciated to this Committee from reading this Report.

**Ms Ghosh:** Which brings me on to a theme we might want to pursue later whether the set of PSAs we have under the 2004 settlement are good measures of our outcomes, and I think there are a number of areas we may want to explore, for example, the rural communities. Farmland birds in itself is a slightly peculiar measure. We have a slightly strange set of PSAs. We are thinking at the moment about an appropriate framework for CSR07 where we want undoubtedly to focus more on outcomes and think more effectively about how we engage broader government in our objectives and work coherently to UK Government objectives across the whole piece, and that may be something the Committee is interested in exploring with us as we take that work forward.

**Q10 Chairman:** I am sure we will. Do you get any kind of reader feedback about this report?

**Ms Ghosh:** I am not aware we do but I will ask our Communications Directorate and let you know.

**Q11 Chairman:** That might be quite helpful. We talked last year about the way in which Defra interacted with other government departments and we were talking about the degree of clout which Defra had across government. In the time you have been in charge do you think, particularly in a very important field like climate change where the impression often is given that lots of other players are out there in the Whitehall field and, yes, there is a Cabinet sub-committee that deals with this but we cannot really order people around, and yet you are the Department that is really in charge, the clout factor in Defra has improved in the last 12 months?

**Ms Ghosh:** Markedly, I would say.

**Q12 Chairman:** For example?

**Ms Ghosh:** In narrative terms from the time of my arrival. For example, the success of our then Secretary of State Margaret Beckett at the Montreal talks on climate change was a sign of very effective joined-up working across government, particularly obviously in that instance with our colleagues at Foreign Office and DfID, and I think the irons she pulled out of the fire were unexpected in terms of engagement of the United States and the dialogues that will now be continuing and which David Miliband will be picking up in the autumn as a

result. I think the publication of the Climate Change Programme Review, although it still fell short of what we are hoping to achieve by 2010 in terms of climate change, was a good example of cross-departmental working but I think the most powerful examples are probably the two recent ones, the outcome of the EU ETS consultation, where we worked very effectively both at political and departmental level with other departments to produce a CAP figure very much at the top end of the range on which we had been consulting and some very useful mechanisms in order to support that approach. Also in the Energy Review, which turned out to be an extremely well-balanced package between the supply side and the demand side, in terms of energy efficiency and innovation and more imaginative approaches to energy generation, particularly disperse generation and renewables, than we might have expected, all built, I must say, on an excellent evidence and skills base within the Department and good networking and influencing skills across the piece. So I would say influencing evidence and skills and what we are managing to achieve is very much on an upward path.

**Q13 Chairman:** But where could you do better?

**Ms Ghosh:** Just about climate change or more generally?

**Q14 Chairman:** In general? Or should I say where do you want to do more?

**Ms Ghosh:** I think, and this is no secret, there are some very tricky issues for us as a department around land as an issue, and not just the planning system and the review that Kate Baker is doing, where I think we want to be probably even clearer than we are now as a department about what the endgame and the outcomes we want are. As an offshoot of that I think the big challenge to us is the increase in house building in the south and south east, where we need to make sure we are absolutely at the top of our game in terms of the evidence and arguments we can produce on building regulations, carbon footprinting, water regulations and all those sorts of things, and I think—and again, this picks up very much the PSA about the rural economy—we need to be even more engaged in the local government agenda. I think we need to see a greater knitting together of policies that are being developed in DCLG around city regions and local area agreements and a related issue for economic development with RDA, so I would like to put a lot of effort into our relationships with local government, RDAs and with DCLG around those sorts of use of land and how we make use of it and rural services and economy issues.

**Q15 David Lepper:** On PSA targets and target 1, promoting sustainable development, you told us last year when we were looking at the Annual Report that you had great hopes of the sustainable development action plans that each department was to produce, being a very useful tool, I think you called it a “key” tool, in enabling your Department to ensure that every body was taking sustainability

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19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

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seriously across Whitehall. So far as I can understand it, departments have submitted their action plans and there is going to be a report on them from the Sustainable Development Commission later in the year. Can you tell us first when that report is likely to appear?

**Ms Ghosh:** I will have to get back to you on that. Officially they only started their new phase of work in April and in terms of their work plan and how they are going to report I think we are still unclear about precise dates. To go back to the substantive point, as you would expect there is a variety of success across departments, but the co-ordinating mechanism that we have in tracking progress is called the Sustainable Development Programme Board, which I chair with senior representatives from all departments and on which Jonathan Porritt from the SDC also sits. The kind of approach we are taking is, because one wants to focus on some absolutely key outcomes, to look at the litmus test policies that would be picked up individually by individual departments and we see whether they are green, amber or red and track the progress of those. Jonathan is very supportive of that kind of approach so I think what you will probably see in the SDC report is that kind of rag status report. But, as I say, in the programme board we are trying to focus on the key policies that we would regard as the test of sustainable development across government, whether that is climate change, the sustainable buildings code, the kind of work that DfID is doing on international sustainable development or community action. We also in that group track the specific sustainable development activities; we have discussed obviously the sustainable procurement task force and will be working through the Government response on that, and also the sustainable operations activities on which the Prime Minister made an announcement in mid June. We will be the supervisory body to that.

**Q16 David Lepper:** You have said that some departments have produced, perhaps, a better stab at this than others?

**Ms Ghosh:** I am not going to be drawn—

**Q17 David Lepper:** Well, perhaps not until the Sustainable Development Commission publishes its report, but can I just get the processes clear in my mind here because, looking at that section on pages 22 and 23 or so of the report, I was not too clear. Here is the Sustainable Development Commission, and then there is also the Sustainable Development Programme Board—

**Ms Ghosh:** Which is the internal government programme board.

**Q18 David Lepper:** —and that programme board has already, as well as the Commission, been looking at the sustainable development action plans?

**Ms Ghosh:** No. The SDC has been tasked to be the external watchdog and judge of what departments do, so we explicitly ask the SDC as newly constituted and funded to be the arbiter and critic and supporter of what the Department is doing, so they will

produce a report on how we are doing in order to spur us on to do even better. What we internally do as a within-government programme board is pick out a basket of things we think are the key tests of whether the UK is delivering a sustainable development strategy across a range of departments—DfES on its schools building programmes, sustainability of the Olympics, road-pricing, Energy Review, all those sorts of things, and we keep a track of how do we think we are doing on those.

**Q19 Chairman:** Where is that in the working report?

**Ms Ghosh:** This is a working document which will ultimately be reflected in the SDC's report, assuming they agree with our board judgments about things—but we could do, with the agreement of other government departments, something more overarching.

**Q20 David Lepper:** It is envisaged that the SDC report when it is published—and it may be a glowing report about every department, it may not be—will spur people on to do better where necessary, but does it have teeth of any kind? Is it exhortation or what?

**Ms Ghosh:** Well, it is set up with a very powerful group of people on it and Jonathan Porritt obviously is someone who rightly has a very high profile. It also is an organisation that has very high access in terms of access to Ministers at the very highest level, including the Prime Minister and the Chancellor. If I take the examples of sustainable procurement and sustainable operations element, which obviously the SDC is absolutely behind, Gus O'Donnell has agreed with the Prime Minister that he would be responsible for driving these changes out through Government, so I think it has both teeth and a very high level of influence.

**Q21 Mrs Moon:** To test how other departments were tackling things I submitted a series of Parliamentary Questions to all the departments asking them what they were doing about their responsibilities, in particular relating to halting biodiversity loss, and it is very interesting to see the response that came back. Taking you to page 82 in the Report, which also deals with PSA target 1, one of the things that is there is biodiversity and it does not look too good in terms of meeting our 2010 target, where we are saying that over half were assessed as making positive progress to achieving the objectives. The others all showed either no change or an uncertain trend due to lack of long-term data or short-term fluctuations in data. I know we have the 19 indicators but there seems to be a lack of targets and specific outcomes and a lack of focus of attention on sites and habitats and species. Just how are you going to know that you are making the progress to halting biodiversity loss by 2010 with this mixed picture, and how are you going to focus spending on research and monitoring, and what efforts are you making to ensure you have the money for that research to take place so we know whether we are

19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

going to be halting biodiversity loss? At the moment it is a very murky picture and seems to be a bit of a hotch-potch.

**Ms Ghosh:** There are lots of very interesting issues in there. You are right, in some senses the data we have does not necessarily tell the full picture. Again, we happen to have this PSA that is about farmland birds, we are doing well on it, we hope, with our fingers crossed, but it is a proxy for a great many other things in the eco system. We have the kind of information we got recently from the Countryside Agency about the state of the nation which gave us very positive stuff, for example, about hedgerows and hedgerow replacement which, again, is another part of the eco system. But when I talk to people like the Wildlife Trusts they say what we do not have enough is an end-to-end view of eco systems and the related biodiversity issues. We do not, in a sense, have a Domesday Book of how we are in biodiversity terms across the whole of the country. Now, clearly, a Domesday Book would be very expensive and there is lots of great local information around from people like RSPB and other local wildlife trusts, but we do need to think of a way of measuring outcomes better. One of the things that Barry Gardiner was talking about at an event last night that we are extremely interested in and have already started work on in the Department is to try and develop the idea of an eco systems approach, how much do we know, building on work that the World Bank has done, and I think you were discussing briefly with David last week this idea that we need to know the value of biodiversity, partly so we can argue more strongly for biodiversity and partly so we know what are the elements of the natural world that we really need to protect beyond all others and, again, David I think used the example of the Grand Banks and cod. Something I am very interested in, only because it was the first thing somebody explained to me as part of the eco system, is the role of the bee and the bees are not doing very well at the moment but they have a value because, if they were not in the system with the variety of kinds of bees we have, pollination would not happen and there would be a real economic cost, so we are trying to work on that. As I say, we have done some work, Barry has commissioned more, and you will be hearing, I am sure, more about that. We also need to think about the absolute value of biodiversity, ie not just outcome-based but have a real debate with key stakeholders and the public about the absolute value of diversity in itself, and I do not think we have really got a clear idea when we are engaging in debates with other government departments about why it is we value things. There were some interesting comments Ben Bradshaw made in the Whaling Commission about why we are so concerned about the whale, for example, and that is a mix of reasons, as we know, but as a Department we need to be clearer about why we are concerned about biodiversity in itself. The evidence and innovation strategy which we are developing is one way of trying to put more research money into areas where we do not know the answers, frankly, and switch away, although I know this has been controversial, from the more mature areas of

research. As part of a strategy refresh David Miliband has commissioned us, indeed, to do more work on the eco systems approach but also to think about how we need to shape our evidence base to ensure that we can put our best foot forward in terms of interdepartmental debate about it. There is, indeed, a lot to be done and we need to start thinking about it, and are starting to think about it in a slightly different way.

**Q22 Mrs Moon:** Very quickly, one of the things that worries me is a lot of this research is done by NGOs who are often operating on shoestring budgets, and we can very quickly, if we do not keep an eye on those budgets and their funding, lose very skilled people and very able people, and agencies that are doing critical research can be lost. Are you keeping an eye to make sure that there is sustainability also in those NGOs and in their budgets so that when the funding agencies are undergoing change, or are perhaps casting their eye on internal re-organisation or structuring, there is not an impact on the vulnerable research bodies that are doing the critical work? Are you keeping your eye on that? Can we have your assurance that we are not going to lose that research and that monitoring because of things happening in Defra or Defra agencies?

**Ms Ghosh:** Obviously what we try to do within the constraints of public spending is to give people as much certainty as we possibly can and that is why the evidence and innovation strategy that we will be publishing shortly is trying to give a long-term direction, both to the big research institutes where there will be some impact in terms of moving away from some of the more mature areas, as well as with the NGOs. The idea is that we give a longer term commitment to particular strains of research so there is more certainty and NGOs and the big research institutes can plan. At the top end, at the large scale end, for example, we are driving through the laboratory strategy, which is trying to put our big research laboratories like the Central Science Laboratory, CEFAS, and in the second phase PLA and the Institute of Animal Health on a sustainable footing so that for the very reasons you describe they are more immune to changes in funding from us than they would otherwise be, but it is an extremely important area.

**Q23 Chairman:** One of the things that strikes me is there is a real need, and it does not come through in the Report, to produce something that tries to bring together all of the different elements of sustainability. Can you help me to understand where, in the picture you have been painting, the body which you have set up which produced a report, the Statutory Sustainable Development Duties Report, fits in?

**Ms Ghosh:** Could you refer me to the page on that?

**Q24 Chairman:** It is from your website. In fact, I think it may have come from the Sustainable Development Commission website, if the truth be told, but it does refer to your department and in the context of sustainability, and I quote from the

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19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

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document, it says: “To inform these considerations the in-house policy consultancy was commissioned by the Sustainable Development Unit, SDU, at Defra and the Sustainable Development Commission to investigate the impact of statutory sustainable development duties on bodies with existing duties in England, Scotland and Wales”.

**Ms Ghosh:** I think I want to get back to you on that. Going back to the process point I raised early I know what all the constituent players in that story are about; I do not know the origins of the review or indeed what its outcome is.

**Q25 Chairman:** Because it has some quite critical things to say about those public bodies which appear to have a statutory sustainability requirement and it makes, for example, observations. It says: “Some organisations whose primary function relates, for example, to economic development see their contribution to sustainable development solely in those terms”. Well, I think that illustrates the point, that if I have unearthed through, in the nicest sense, my amateur searches for truths on this something which has come across your radar, and I appreciate you may not know everything that is going on, but according to this it is a body which involves both your Department and the Sustainable Development Commission in appraising how bodies with a statutory requirement for sustainability are going on—

**Ms Ghosh:** To clarify that, the in-house consultancy unit is an excellent unit, that we sponsor with the Department for Transport and DCLG. We use them for a variety of consultancy projects within the departments. The unit provides an opportunity for us not to use external consultants but to use a highly skilled group of people on a flexible basis, particularly at times in their career where they want to work flexibly. We clearly asked them to do this review of how far sustainable development statutory requirements were biting.

**Q26 Chairman:** They have some very interesting further conclusions—

**Ms Ghosh:** They are a very powerful group of people.

**Q27 Chairman:** It is a good read because it addresses the question of practicalities of implementing the policies that you have just been discovering. Again, one could go through all of these traffic lights that appear, and I cannot say it looks a glowing picture of progress in what is a flagship area for your department. It perhaps may reflect the fact that these things do not appear this time in your report and you have to go ferreting around elsewhere in other sources of information to find it. One of my parliamentary colleagues, for example, in the context of the air quality issues that are covered by this made a comment to me that here we are sort of loading up outer urban London with more and more people, it creates more and more air quality issues, but the resources to monitor and to act on them are not being put in place, so you can look and say: “Oh yes, sustainability indicator, this is a very important

issue”, but when you come to the level of the practical, it ain’t happening on the ground. Who is drawing that loop together?

**Ms Ghosh:** Well, it is our role to join that loop together, and that comes back to the kinds of high level monitoring that we do through things like the sustainable development programme board, and it is also a job for Jonathan Porritt and the SDC to act as a watchdog and reminder. I do think there is an issue here which is the fundamental issue about communication and understanding across government, and, indeed, beyond, of what sustainable development genuinely means and the concept of the three pillars which need to work as one—just ticking one box does not mean you have to ignore the others but act as one—is quite a complex one to get across, and Jill Rutter in my Department and her Sustainable Development Unit do a great deal on that, as does Jonathan Porritt, but the concept is quite complicated, and that is why what we as a department need to do is increasingly show examples in action, for example how can we build houses in East Anglia which have a zero carbon footprint and low water consumption, how can we use the Olympics as a real example of how you can do big sporting events sustainably. This is how we get our message across to other departments.

**Q28 Chairman:** So to sum up, we are going to see in next year’s Report something that is more coherent, more freestanding, which draws together these various strands, provides us where necessary with a bit of explanation, gives us some objective performance measures, both for your department and across government—in other words, we will have almost a mini across-government sustainability report in next year’s Defra Annual Report, will we?

**Ms Ghosh:** I will promise you something that goes as far as possible towards that outcome. We will still be working on the same set of PSAs, although we will by then, I am sure, have had some discussion with you about the new framework; we will be able to pick up the SDC comments on sustainable development action plans; we will certainly have in strategic terms a clearer idea about outcomes and how we are proposing to achieve them; the only other constraint I would say we have is that one where actually Parliament, represented in this case by the Treasury, I think, requires us to simply to put some facts in there, so it cannot be fact free but we will do our best to make it more user-friendly.

**Q29 Chairman:** Whilst we are on this, one of the people who gave evidence to us when we had our very successful session at the Royal Show, was a farmer and agricultural commentator, Guy Smith, and he made some very interesting points about the definition of farmland birds, which is an oft-used indicator for improvements generally in the rural environment, and the kind of thing, for example, that he looks at that is that the only definition of farmland birds that you use is one you have agreed with the RSPB, and he says that if you look at work done by the British Trust for Ornithology you get a

19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

different view and he quotes this little inconsistency: “Furthermore the idea that British farmland only harbours 15% of the British bird population is quite perverse, as is the RSPB idea that the grey partridge is a farmland bird and the red-legged partridge is not. Similarly, how can it be that the sparrow hawk is not a farmland bird but its prey, the sparrow, is,” and he goes on to develop these important points. Are you absolutely wedded to only one measure?

**Ms Ghosh:** Absolutely not. As I said in my introduction, that is an example of picking a PSA as a proxy rather than focusing on an outcome. I had similar conversations with farmers about the country. In Lincolnshire the other day a farmer was explaining to me the vast range of birds that the RSPB had surveyed on her land. I was up on the Chilterns and you might say up there you would regard the red kite re-introduced as a farmland bird, because it is increasingly part of the eco chain there. I think it just shows the danger of picking a very specific target to measure something that is much broader, and I think that brings me back to Madeleine Moon’s suggestions about how we need a much more sophisticated way of thinking about biodiversity.

**Chairman:** Did you want to follow up on that, Patrick?

**Q30 Patrick Hall:** That was the point, I think! What I could try to dig out of it is if one looks at that PSA target where you say in the Report that reversing the declining farmland birds is a “measurable indicator” of ecological health, et cetera, et cetera, and, of course, the important thing is you go on to say that Defra is currently on course, summarised in appendix 2, page 274 in your Report, I am not sure how that “we are on course” statement is justified by looking at figure 11 on page 84 of the main body of the Report, which shows the farmland species as defined, as the Chairman has just questioned, but nonetheless as defined, and shows after a massive decline over 20 years from the mid ’70s to the early ’90s a situation of relative stability but at a much lower level since, so that is 15 years or so of no further decline, but nonetheless how can that record of the last 15 years of no further decline be cited as Defra being “on course” to meet a target to reverse that decline?

**Ms Ghosh:** I think for the very reasons you describe. I agree, if you look at the whole picture of the line going down the decline has been catastrophic, and what we are trying to do is halt and turn it round upwards, and I think the indicators are there, and credit to environmental stewardship and looking forward, credit to things like cross-compliance for achieving that kind of reverse, but it still does not take us back, I agree, to a happy situation.

**Q31 Patrick Hall:** I do not think, therefore, that there is evidence that Defra is “on course”. It has not actually begun yet. This is a situation that, according to your own data, has stabilised itself for whatever reason since the early 1990s and more recently, subsequently, it has been identified as something

that needs to be addressed, but to reverse that over the next 15 years or so there needs to be some evidence of recovery, and you are not showing that with regard to farmland species as defined by the RSPB.

**Ms Ghosh:** I suspect one of the reasons for our confidence is we know there are lots of things that are in place looking forward that are likely to have a very positive influence. One example is the impact of the entry level stewardship schemes, for instance skylark plots which are not the most popular thing that we are buying from farmers but I think the second most popular, and, as I say, combining that kind of direct intervention with some of the improvements to the rural landscape highlighted by the Countryside Agency among others, I think we are optimistic that the decline will be reversed for those reasons, but we do need to keep monitoring it.

**Q32 Patrick Hall:** That is a slightly different point. On the point the Chairman raised about the credibility of the RSPB definition, and I am not saying it does not have credibility, I am asking the question, the evidence we got from Mr Smith that the Chairman referred to cites work by the British Trust for Ornithology. Now, does Defra carry out some kind of assessment independent of these different groups that have a different way of looking at things for, if you like, accepting the definitions of one or another? Do you try to assess the value of different organisations’ ways of looking at subjects like this? Because here we have an example of some dramatically different conclusions that can be drawn according to which set of criteria you adopt in the first place which could have a major impact on policy.

**Ms Ghosh:** I obviously was not here at the time when we devised this particular PSA, and unless Ian has anything to say I think we will have to come back to you. I expect, because this is Defra’s habitual approach, that we consulted pretty broadly on how to define the basket of indicators and therefore, in this case, what groups of birds to look at but we will get back to you on that.

**Q33 Patrick Hall:** So you will contrast and compare the list between RSPB—

**Ms Ghosh:** No. I meant what I will tell you is why did we pick that particular group of birds and not others, and was it a consultative approach which, as I say, Defra being Defra I am sure it was, given our close links to certainly both those organisations you describe. I am sure we did not “pluck” it out of the air, if I may use an unfortunate metaphor!

**Q34 Sir Peter Soulsby:** I am very interested in the Defra delivery landscape map, and the agencies with which Defra works. In the inquiry we did on the Environment Agency there was considerable discussion obviously about your relationship with that particular Agency and it was an issue that featured quite prominently in the inquiry we are doing on the Rural Payments Agency, and I do not want to go into that at this stage—I shall resist the temptation and keep it for another day—but both of

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19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

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those inquiries have raised issues about Defra's relationship with those who are responsible for delivery of the map and its priority. Would you like to say something about some of the issues that have emerged from the relationship with those two particular agencies, and perhaps a bit more generally, and about ways in which you are looking to perhaps ensure that the relationships are appropriate and there are robust management information structures in place and these sorts of issues, and would you like to say something about how the Department is addressing those sorts of issues?

**Ms Ghosh:** Certainly. To pick up a theme I mentioned earlier, I think we are at a developmental stage on this. The Department quite rightly as part of its reform programme in its first five years focused on the fact that we needed to have a clearer distinction but not a disjunction, I will make that distinction, between policy development and delivery, so obviously the Environment Agency and the constituent parts of what will be natural England already existed as NDPBs and, as you know, over the past few years, accelerating in recent years, we have set up a number of other executive agencies within the Department's structures, and the maturity of the governance procedures and financial controls and so on are naturally slightly different between them simply because of the relative age of some of these agencies. We now feel we need to develop a more sophisticated idea of how far at arm's length we want our delivery agencies to be at various stages of their development and how closely related we wish them to be. Clearly we want common governance approaches in terms of developmental oversight, business planning and financial tracking, but at some stages, either in policy development, in delivery, we need to be much closer to some than others. One of the impressions I have had coming into the Department, for example, from having worked in Department for Work and Pensions is that in setting up some of these bodies we assumed we had to have a uniform, arm's length approach, and I do not think that is not true because there will always be crises, pressures, new policies that mean you need to in some cases say that we as core Defra are going to be more interventionist now than we would expect to be if business were running as usual. So, the RPA is a perfect example where actually we have been highly interventionist, as you know, we have explored in previous sessions, we have set up very close governance procedures with Andy Lebrecht of my team taking a very close personal interest, we have daily reports, for example, from the RPA on progress against 2005 payments, and that is how it should be for a department that both needs support and supervision; ditto with the State Veterinary Service, for example. At the moment when the threat of avian influenza certainly has not gone away and we need very much to be on our toes for the planning for autumn and winter, we need to be very close, as Debby Reynolds and Ben Bradshaw are, to the SVS in terms of their delivery capacity, and so on. Others of our agencies one can expect to be operating more at arms' length. I think

we have been a bit lacking in confidence in making sure that we have those relationships and get it right at any given time. We are doing a review over the summer, indeed, of the governance and relationship issues between ourselves and our executive agencies. NDPBs, of course, are in a different position because there is an interesting mix between delivery agents for us of programmes (for example EA on flood-defence) and statutory advisers to us, and the same is true of Natural England. They are delivering our big environmental programmes and economic development programmes in rural areas to some extent, but they equally want to be in a position freely to advise us on some particular element of biodiversity. So, we need to be slightly more sophisticated, I think, and nuanced in our relationships

**Q35 Sir Peter Soulsby:** When you have done this review are you intending to publish it?

**Ms Ghosh:** I think it will be reflected in what we actually do. We are more than happy to share with you the conclusions that we reach and the structures that we have set up, and all the rest of it.

**Q36 Sir Peter Soulsby:** There are issues, of course, from the Environment Agency, and certainly what stakeholders were saying about the Environment Agency in the communications between the department and the agency, obviously on the RPA, that would make it quite helpful if the review were to be published?

**Ms Ghosh:** Yes.

**Q37 Chairman:** One of the things that has always intrigued me about the RPA is you start a massive change programme, 2003, most of the work went into defining the terms of that, and as the wheel fell off at the beginning of the year, two and a half years into that, you then go through the whole process again and it is dealt with in one line in the report: "The core functions and responsibilities of the RPA will be reviewed in 2006-07." That is a very short way of saying, "We are going to have a route and branch review", because it does raise some interesting questions as to why two and a half years ago you set off in one direction and now feel, so soon after that direction of travel was defined, that you have got to look again to see if you are going in the right direction.

**Ms Ghosh:** I think, as we have, indeed, touched on some of these issues in previous sessions, the focus of David Hunter's review, which is going along in parallel with the more direct action that Tony Cooper, under Andy Lebrecht's supervision, is taking forward to deal with current problems, is to ask questions about the appropriate functions for the RPA going forward. We went into the change programme and, indeed, have been operating on the basis of a certain set of assumptions about the role of the RPA and broader inspection and enforcement sorts of areas, and I think we need to revisit it. Putting it bluntly, it may be that effective delivery of a payments operation should not necessarily be included in the same kind of organisation as a set of

19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

inspection functions, and we need to be clear whether there is actually an argument for separation of functions or re-organisation of those sorts of functions in a different way across our delivery family; and that is the kind of thing David is going to be looking at, but he is very much trying not to interfere with Tony getting the show back on the road.

**Q38 Mr Drew:** In terms of this whole area, obviously there is the issue of co-ownership of the public service agreements and there was a view that Defra feels that it needs some more clout. I know there is an issue of legislation, but one area where Defra could do invaluable work is to much more closely work with the Food Standards Agency. I know its a legislative quirk that ended up being accountable to health, but we have got the contributory bulk organisations—the State Veterinary Service, the Pesticide Safety Directorate—surely you should be saying to government that you must have purchase over the Food Standards Agency, otherwise it is just silly, because health cannot do that role, it has got far too many other things to do, but it is a natural Defra responsibility.

**Ms Ghosh:** You will be more familiar than I am with the debate that went on at the time of the FSA and its setting up and the Government's reporting arrangements. Clearly, there were very particular circumstantial and political reasons why it was ultimately set up as a Department of Health agency. Ian may know more detail about this than I do in terms of SLAs and so on, but I know that there are extremely close working arrangements and co-operation between SVS, the Meat Hygiene Service and the other bits of our delivery landscape. As with all these things, you could draw the lines between agencies and different departments in different sorts of ways and achieve better co-operation, but I think the settlement that we got was the one that responded to the political concerns. I do not know; are there any formal arrangements we have with the FSA?

**Mr Grattidge:** I am sure there is collaboration in a number of areas, and I think we do work closely. I think we do respect each other's space. The Food Standards Agency was created as a non-ministerial department, and the composition of that department is to give a degree of independence to the advice that it gives the public, and, clearly, we can work collaboratively and we can work in our own areas, but I think Food Standards would jealously guard its right to give its own opinion, but I think at the operational level certainly we do work closely.

**Q39 Mrs Moon:** Just an observation, Chairman. If you were looking at the Rural Payments Agency, if you had come from abroad or outer space and you had never heard of the Rural Payments Agency, you knew nothing of its history and you read this report, you would think there was no problem. The business process, forms were issued to all known potential claimants, the target was met—this is at page 159—the customers—it all goes on. Targets are wonderful and I do wonder where is the honesty about the

disaster that has been the Rural Payments Agency. It certainly is not in Chapter 5. “We are on course for funding operations within 3% of forecast provided to Defra at the third Quarter Review”. It is wonderful if you read this report. So, how can we see this report as reflecting the real Defra as opposed to just a positive spin when an agency that really has been a disaster is described in really such glowing terms in terms of its targets?

**Ms Ghosh:** The simple answer is the time when the report went to press. When this report went to press we had not, I think, bottomed out the problems that there were there. Clearly, we would have known by then about missing the February promised payment window, but I do not think we had had the chance to do the forensic analysis of how quickly we might get out of those problems, moving forward from April/May to now I am pretty sure you will see a very clear explanation of those problems in next year's report which will also have been covered by the report from this Committee, the PAC and others, but I can assure you we will be very honest in picking those up.

**Q40 Chairman:** I have to say bluntly to you, you have made very heavy weather of providing this Committee with the documentation which you promised us, and I gather that there is a hope that by the end of this week, in the ever-receding target that it is going to arrive, it will arrive. Why has it taken you so long to pull together the information which you clearly assured us we were going to have when we took evidence from you in our RPA inquiry?

**Ms Ghosh:** To be completely frank, because the kinds of promises I made at that meeting are ones which I have had subsequently to negotiate with other parts of government, particularly, for example, around the OGC Gateway Reviews, I think these negotiations have now reached a conclusion and we will be able to give you the material that we promised, though I know we are in discussion with the Clerk about the sort of terms under which we do so. So, humble apologies. My instinct is openness. Sometimes I should know better.

**Q41 Chairman:** In the spirit of Glasnost, which still pervades, are you going to be able to give us some assurance that the one final piece of the evidential jigsaw puzzle will be made available to us, because the Committee are extremely grateful for Lords Whitty and Bach, who have very kindly agreed to come and give the benefit of their perspective, and we thought that the evidence that we had from Mark Addison was of a very high quality and very clear, but you will be unsurprised if I mention the name Johnston McNeill, because he is still the person who does know the most about what happened and is still proving to be the least accessible. Can you tell us what status Mr McNeill presently has, as far as Defra is concerned, and are the Committee going to be allowed to have him as a witness?

**Ms Ghosh:** Johnston McNeill continues to be on gardening leave and is in negotiation with my HR team about the terms of his departure or next role.

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19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

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We have had, as you know, Chairman, some discussion with the Clerk to the Committee about the invitation to him and we will take things forward on that basis.

**Q42 Chairman:** Are you able to give us some indication as to timetable: because whilst we have extended the timetable of our inquiry to take advantage of the two former minister's evidence, we cannot have an open-ended inquiry and we are trying to be balanced, fair and accurate in what we report on?

**Ms Ghosh:** Yes.

**Q43 Chairman:** If one takes Mr Addison's evidence, then clearly there are many ingredients from his perspective that have influenced the events of the past and therefore, if we are going to be fair to everybody, Mr McNeill's contribution would be of considerable value.

**Ms Ghosh:** Yes. I think part of my answer to that question is one that I would not want to give in open committee, given that it raises personal issues about the individual involved. I would say that, in principle, neither David Miliband nor I are in any way opposed to the idea of Johnston McNeill appearing before this Committee.

**Q44 Chairman:** That is helpful. I think you understand the imperative in the timetable that we have to deal with.

**Ms Ghosh:** I do.

**Q45 Chairman:** Perhaps we might move on to questions of efficiency savings. You decided that £610 million was going to be your department's efficiency target. How did you decide that 610 was the right number and what proportion does it represent of your department's expenditure?

**Ms Ghosh:** I was not around at the time and I will hand over to Ian. I am sure, as always, this was the nature of the debate between ourselves and Her Majesty's Treasury and the Office of the Government Commerce as to what was an appropriate figure. Again, the issue of what proportion it is of our spending is more complex than at first appears because there are parts of our spending that are susceptible to this kind of efficiency activity and parts that are not. So, you cannot simply see it, for example, as a proportion of 3.9 billion, which appears to be our spend, but I will hand over to Ian about how we reached that figure and what figure would we compare it with in terms of our spend on which we could focus.

**Mr Grattidge:** Very simply, the process of arriving at an efficiency target, as Helen suggested, took place over the 2004 Spending Review, and I think it is probably fair to say it was a mixture of top down, bottom up in the way it was arrived at. In terms of top down, the Treasury set some fairly clear signals about the level of efficiency they were expecting departments to make, and, very broadly, the Chancellor announced, I think, levels of about 2½% per annum of which half would be cash releasing, either to be reinvested in new activity within

department on front-line services, and half of which could be recycled in the way of productivity gains. It would not release cash but it would help improve productivity. Defra's approach to the efficiency programme was to review the portfolio of change activity or business improvement which could deliver efficiency, and that was the bottom up bit of the process. We were able by the end of the SRO formal negotiation to identify about 9% of our spending, which by the end of the third year would be delivered in the form of improved efficiency. That is the main core departmental spending. Within the 600 million, which we are scheduled to deliver by the end of 2007–08, we also have responsibility for overseeing improvements in the cost of waste collection by councils, waste management, and there the position is slightly different because we do not actually have direct control of the budgets that local councils have, but we do have a policy responsibility for improving and meeting current targets on waste around landfill and around recycling.

**Q46 Chairman:** Let me stop you at that point for a point of clarification. How are you accounting for the local authority input to your target?

**Mr Grattidge:** We rely entirely, having been through the process with DCLG and OGC, on material that local councils themselves produce, which report half-yearly how they think they are going against meeting their waste targets. We have worked with the OGC and with a number of colleagues in these intermediary bodies, these centres of excellence, to produce a reporting tool kit which actually factors in all the various costs.

**Q47 Chairman:** Help me to understand the mechanics. You are giving a very clear explanation but, if local authorities are going to carry out their waste functions more efficiently, that means in a financial year, either 2006–07 or 2007–08, they are going to have less money than in the period when you established your efficiency programme. Either that or they are going to hand back to the centre money which they do not need, or they are going to deploy some money which they have been given as part of their block grant for other purposes. I am anxious to know how the centre can recoup the £135 billion target, which is the 2005–06 local authority target, how you get your money back. Either it has not been given out or you are going to get a divvy and it is coming back. How is it done?

**Mr Grattidge:** It is done through the plans that are prepared by local authority chief executives, some of which will be definitely targeted towards waste and some of which will not, and it is very much down to how the local authority chief executive decides he wants to tackle improved efficiency: because each authority, as I understand it, has a target, but they are given some discretion as to how they deliver it.

**Q48 Chairman:** Tell me about the money bit of it.

**Mr Grattidge:** The money for environmental services comes through the block grant, and there are assumptions in the block grant settlement about the level of spending that local authorities will have.

19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

It will take account of improved efficiency, but it also takes account of issues like increased waste arisings and the underlying pressures that councils will face both in terms of increases in volume and also of the need to divert waste away from landfill into other areas.

**Q49 Chairman:** Just to be very specific, if I were to get somebody (your equivalent) out of the Communities and Local Government Department and say, "Have you now got sight of £135 million which you thought you were going to spend but you have kept it back and local authorities have not got it? We have actually captured this saving for the centre and, therefore, we can credit that to Defra", would they be able to show me how they had accounted for that?

**Mr Grattidge:** Yes, because each local authority reports twice a year to DCLG and we get to see that information as well.

**Q50 Chairman:** I am sorry to labour the point, but I want to know if this is a real saving. If you were going to have 135 million as a saving, it was either, "Mr Local Authority, you were going to get £100 for this thing but your share is a fiver, so you are only going to get 95. So, we are taking the saving before you have made it. How you make it is up to you." Or you say to them, "As you can demonstrate the saving, we will claw it back", or, "We will let you spend the saved money on something else we want you to spend it on and we will credit the centre with the saving." I am not clear how the saving—

**Ms Ghosh:** Can I suggest there may be a third option, which Ian hinted at, which is you deal with a larger volume of waste arisings more efficiently than you would otherwise have done, and so you may never see money at all.

**Q51 Chairman:** So it is a productivity gain?

**Mr Grattidge:** Some of it will be productivity, but I think it is actually a mixture of the first and the third to the extent that the Treasury will have assessed the extent to which they would have expected local authorities to improve waste efficiency, and that would have been reflected in the Spending Review block grant that went out to them. To the extent that I think local authorities can improve on the assumed target that the Treasury will have given, then they would be at liberty to retain that money, recycle it either in improved waste management or in other services.

**Q52 Chairman:** So, in absolute cash terms, it is not actually a saving, it is an increase in productivity which the Government says is worthwhile having. In other words, we all work for the same money but we are still spending, in terms of the block amount, a larger sum than we might have been?

**Mr Grattidge:** I think in the second instance where they improve on it, yes, it may well be manifest in the form of, "Yes, it is an improvement in productivity", but I think that if you say to somebody, "Normally I would give you £100 to conduct this service, but because I think you can be more efficient at it, I am

only going to give you 97", that, in effect, has released the cash to the Treasury and it allows the Treasury to reinvest that in other services.

**Chairman:** We will not labour it any more, but perhaps you might, jointly with the appropriate department, produce a little note so we can see how this piece of magic is actually being done and accounted for, because we like to think that our savings are real.

**Q53 Lynne Jones:** I hate to go back to the RPA, but when we saw Johnston McNeill in January he said that the RPA would meet their saving targets of 39.9 million from April 2007 as a result of the Change Programme. Is that likely to happen?

**Mr Grattidge:** I think at the moment we think it is likely to happen, but it will be delayed up to a further 12 months.

**Q54 Lynne Jones:** So that will affect your overall departmental efficiency saving?

**Mr Grattidge:** It will, but in the way of things, we were aware that there was potentially some volatility in the RPA Change Programme in particular and we took early steps to identify contingency that we could use in its place, and that has been done.

**Chairman:** I am just going to stop you there because Peter wants to come in, but we have three minutes before a vote and I need to know from my colleagues if they are all going to be able to return to continue our questions. It is okay; we will continue our examination. As the vote is going to be timed, and to save time, I am going to suggest that we adjourn now and go over to the lobby so that we can be there for the vote and come back as quick as we can, and then Peter will come in.

*The Committee suspended from 4.54 pm to 5.18 pm for a division in the House*

**Q55 Chairman:** We were just concluding, I think, on seeking in writing a little information on the saving of the waste target, and I think we had drawn that matter to a satisfactory conclusion. I would like to probe a bit more about overall savings, because obviously the biggest item of expenditure on your budget are the staff in your department, and annual reports sometimes present a picture which, unless you have somebody to give you a guide as to what it is you are seeing, you can get the wrong impression.

**Ms Ghosh:** Yes.

**Q56 Chairman:** So, let me start off with what might be a wrong impression. I note that in terms of total Defra the number of staff that the department employed in 2000–01 was stated in the Annual Report on page 265 as 10,568. If I look at the estimated figure for the current financial year, it is 12,806. This does not strike me as a sort of move towards greater efficiency, when the number of staff seen over a period of time when there have been changes in the Common Agricultural Policy enabling staff to be reduced, that your staff numbers seem to be going in the opposite direction. Why?

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 19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge
 

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**Ms Ghosh:** There are a number of complex, as you imply, Chairman, net and gross movements going on in our staff numbers. The target figure that we have been set under the efficiency programme, as you know, is 2,400 staff across the core department and all its agencies, and a large part of that saving in staff was due to come, I think 1,400 (Ian may correct me) from the RPA Change Programme. Although they have produced savings thus far in permanent staff numbers, equally we have had to put in a large number of casual staff (there are about 500 odd there at the moment), which has to some extent offset those savings. Equally, we have been recruiting small numbers of staff elsewhere in the department in the efficiency period to respond to priorities, notably in the climate change sort of area. This brings me, I suppose, to the summing-up, and I think it is back to your very first comments this afternoon, Chairman, about how does one get a clear picture about whether things are going well or badly. I did have to, as you probably know, send a message to staff in Defra a month or so ago to try and clarify where we were, and my message was a fairly stark one, which was that, as we were at the moment, we were not doing as well as I would have hoped in our progress towards our 2,400 saving, for the reason I have described, and so what we are doing across the department is introducing a much more, I supposed one would describe it as Stalinist set of controls about recruitment, about the use of natural wastage, about use of the “priority movers pool” as a first pool when there are vacancies in the department. We are going to have centralised approval of external recruitment. We will need some external recruitment, because we need to refresh our pool and get skills in. We are going to have, subject to budget pressures this year, a voluntary early retirement scheme to restructure. It is undoubtedly the case that there will be a challenge to us in meeting 2,400, in particular because of the savings that were due to come out of the RPA, and we have already had some discussions with the Office for Government Commerce to say that it may well be that some of the savings which the RPA are still promising, but on a slightly different time profile, may well come after April 2008 rather than before, so we need to start working, as we are, on contingency. I do not know whether you want to say anything else about that.

**Mr Grattidge:** No, except it is very tight. The 2,400, we will either just squeak in or we will slip a month or two, but it is around that period that we are expecting to bring in the staff reduction?

**Q57 Chairman:** What happens if you do not meet your efficiency target? Does the Treasury just come along and say, “Tough, I am going to take the remaining money out and that is it as far as your budget is concerned”?

**Ms Ghosh:** Of course, by the time we get to April 2008 we will be in CSR07 territory, and we will have been set by then a new set of running costs and spending profiles. So, in fact, the kind of debate that will be going on through the coming months as part of the CSR07 process will be an interesting blend, and Ian and my HR director will be at the front-line

of this and making some estimate of the efficiencies we are hoping to achieve and no doubt a new set of challenges for the CSR07 period. So, I think it will be one of those cases of, if we failed to achieve 2,400, we would simply find them built into a set of efficiency challenges for the new CSR07 period. They certainly will not go away.

**Mr Grattidge:** In terms of financial savings, you will be pleased to hear the Treasury will credit departments that over deliver. Therefore, they will be allowed to store those as part of a target going into the CSR07 period. Currently we are forecasting on the financial side that we will be slightly over the target we were set.

**Q58 Chairman:** Just before we leave the financial side, because I do not want to keep colleagues unnecessarily long and we have one or two other important areas to probe, I notice in the material which you kindly sent in advance of today’s hearing on page two some monies that you are putting to one side, I presume a contingency, or “provision”, it says here, for various forms of disallowance in the CAP, and you have got two figures which seem to me to me to suggest that you are sitting on £187 million as a contingency for disallowance. Would you like to account for how that money is put together and why? As it stands, that seems quite a large sum of money, but against the 1.7 billion I suppose it is a relatively small sum of money.

**Mr Grattidge:** Absolutely right. It is actually rather higher at that level than traditionally we have had to pay in disallowance. There are two components to this. The first one really arises from the fact that the budgetary control regime round CAP now forms part of our mainstream departmental expenditure limit—it was switched from the way we managed expenditure last year—and we judged that one way of managing the impact of that on our DEL was to bring together onto a common reporting basis CAP expenditure, CAP income from the EU and disallowance, and there is a slight change in the way we have accounted for this, and what we reflected we would need to do would be to bring into our 2005–06 figures all the outstanding disallowance from previous years, because disallowances can actually take two or three years to be confirmed. So, what we reported for the end of last year is all outstanding disallowance from previous years and we have taken a view, because we are on a common reporting period, what do we think the disallowance will be for SPS2005. The component roughly splits. It is, I think, about £60 or £70 million worth of potential disallowance hit from previous years added to something just over £110 million for SPS2005. So, that is very roughly how it works.

**Ms Ghosh:** Can I reinforce the point that, I think, David Miliband made to you last week, which is, of course, while we have to make provision for potential disallowance around the SPS 2005, there are continuing negotiations going on which we would not want to prejudge by setting any particular figure with the Commission, and, as Ian said, one does not actually know the outcome for a number of years to come and we will, of course, be fighting our

19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

corner as hard as we possibly can. We have to make a prudent provision there, but I would not like the prophesy to be taken as the reality.

**Q59 Sir Peter Soulsby:** While we are on the savings, Chairman, but just more generally, can I go back to the delivery landscape and ask what approach the department is taking to the wide range of bodies that are represented there and their budgets when you are looking at savings and budget cuts?

**Ms Ghosh:** One thing that is challenging and striking about the way Defra's financial flows work is that so much of our money goes out through delivery agencies. Obviously, the biggest chunk is to the Environment Agency, a significant chunk to Natural England, within the department also through SVS, for example. Equally, a very challenging thing about that financial structure is that in many cases those bodies have had to give some pretty high level of future commitment. We have got people who are locked into agri-environment schemes for 10 years, we have got them going through the ELS<sup>1</sup> and HLS<sup>2</sup> process, clearly, in flood management, you have to commit in advance to get the spend out as you plan. I think, in general terms, we have very good financial links with the various agencies and we are absolutely aware of the issues about trying to provide some kind of certainty, because we recognise that it is extremely difficult to manage those sorts of budgets without some long-term certainty. As I think you know and I think you raised with David Miliband last week, there are some very particular difficulties about this year's budget where I think we have failed in our aim to give our delivery agencies enough warning. There were a number of issues that squeezed our 2005–06 budgets, there was the removal of the end year flexibility we were expecting of 75 million or so, there was Treasury reclassification within our overall parliamentary vote of near-cash and non-cash spending, which suddenly gave us less flexibility. We coped with that by pushing some spending forward into 2006–07 on the expectation that things would be easier this year, and we also gave our spending bodies, those two big bodies in particular, some advanced warning to plan on the basis that they were spending only 95% or so. As it has turned out and it has become clear from the beginning of the year, we were probably at that point over-optimistic, for which I know we would like to apologise, and we will be discussing with the delivery bodies concerned, both at official level and at ministerial level, the implications of that. We are very keen to give them early certainty. The issue is not that we would have been able to give them allocations of more money had we done so earlier in the year, but we could have given them greater certainty. Looking back on it now, had we been less optimistic—. Mainly it has to be said that Defra historically has been an underspending department rather than an overspending department, but I think the increasingly good financial management that Andrew Burchell and now Ian and his team do to track exactly what we are spending and also the fact

that the whole spending context has got tighter has meant, in fact, that we are not an underspending department any more. I think we came in practically bang on in 2005–06, but the idea that we went into 2006–07 slightly over programmed reflects a sort of optimistic, slightly Mr Micawber-ish sort of approach. So, we are working it through with the agencies, David Miliband is very clear we need to give them certainty quickly and that is what we are aiming to do this side of the summer recess.

**Q60 Sir Peter Soulsby:** What I think we are being told is that, for a variety of different reasons, the department is having to revisit budgets for the current year?

**Ms Ghosh:** Indeed.

**Q61 Sir Peter Soulsby:** That agencies and bodies thought they had fixed?

**Ms Ghosh:** To be absolutely accurate, we have not given them firm allocations for this year yet. They are actually operating on the basis of no allocations but on the earlier guidance that they should not commit more than 95% of their big programme budget.

**Q62 Sir Peter Soulsby:** Let me put it in a different way. Perhaps not fixed, but thought they could reasonably expect given the sort of indications that they had been given?

**Ms Ghosh:** Yes.

**Q63 Sir Peter Soulsby:** Is it possible for you to quantify the scale of the problem, either in percentage terms or in cash terms?

**Ms Ghosh:** The scale of the problem in terms of what we know about now, and we have been sharing this openly with both our agencies and our delivery bodies, is around £130 million, but also, of course (and this is obviously one of the issues we need to discuss with ministers as things harden up), we need to consider what further contingency we might need for later in the year. As I say, I think we could say that it is definitely around 130 million, and there is a debate going on within the department and with the agencies about how much more we might need to find as a contingency. To give one example, one of the pressures that we have had to meet is around, I think, £14 million or so, though we are looking at the bills. We are looking at the outbreak of avian flu in Norfolk. As you know from all the predictors, there is a high risk that we will get an outbreak of avian flu following the autumn migration and, therefore, we have to consider how we would meet any costs arising out of that, so there is a bit of a judgment about handling risk going forward.

**Q64 Sir Peter Soulsby:** Can you put that as some sort of percentage? What does it represent, the £130 million, and what further percentage might it necessarily represent?

**Ms Ghosh:** Of the sort of available spending.

**Q65 Sir Peter Soulsby:** Of the funds that are going in that direction, yes?

<sup>1</sup> Entry Level Stewardship.

<sup>2</sup> Higher Level Stewardship.

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19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

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**Mr Grattidge:** The figure of £130 million is around about 5% of our resource near-cash.

**Ms Ghosh:** Overall. Current spending.

**Q66 Chairman:** Can you clarify, because I cannot say that I am fully up to speed on the new landscape of descriptions. If we net out from your expenditure the CAP monies, because you said those had been brought into your annual managed expenditure figure.

**Mr Grattidge:** Yes.

**Q67 Chairman:** If you take those out, because what I think the Committee is interested in is what proportion of the remainder of the expenditure of Defra the 130 represents?

**Mr Grattidge:** It is 5% of non CAP current expenditure, basically. CAP expenditure, of course, is largely netted off because most of the spending is—

**Ms Ghosh:** It is not the case that all the CAP expenditure comes in, but issues like disallowance do come in. Thinking a bit schematically (and Ian will correct me), our headline budget is around 3.6 billion. You can take out of that what we used to call capital and non-cash spend, which represents—

**Mr Grattidge:** Capital is about 800 million, 750/800 million, non-cash is about 300, I think.

**Ms Ghosh:** So, you are down to about 2.7 billion. So you take that out and that produces 130 odd, being 5%.

**Q68 Sir Peter Soulsby:** To check that I have understood this correctly, that is money that will be need to be found from the budgets, in broad terms, of those who were here from the department?

**Ms Ghosh:** And, indeed, from the corporate centre of the department, but, again, to give you some idea of the dynamics of the way our money moves (I am going to get the figure wrong, which is why I am turning round and looking at Ian) 78% of our spend goes out through 25 programmes; so we do not spend our money across a very large range of programmes almost equally. If you are looking for large amounts of money, you have to look at a relatively small number of programmes. That is the process ministers are going through at the moment.

**Q69 Sir Peter Soulsby:** So, inevitably, that means that the Environment Agency, Natural England?

**Ms Ghosh:** Natural England and other agencies.

**Q70 Sir Peter Soulsby:** Have got a pretty big headache facing them?

**Ms Ghosh:** Yes.

**Q71 Sir Peter Soulsby:** Already a quarter of the way into the year, something of that sort?

**Ms Ghosh:** Yes.

**Sir Peter Soulsby:** With the prospect of big cuts.

**Q72 Chairman:** Just to ask the idiot question, you may have said it and forgive me if I have not picked it up, what was the cause of your having to find this 130 million?

**Ms Ghosh:** As I say, we came in pretty well on budget for 2005–06, but one of the things we did, for example, to ease 2005–06, because of loss of EYF and reclassification problems, was to push some programmes, some elements, for example, of flood defence, into 2006–07 on the prospect that things would be easier then. As it has turned out, things have not been easier, so we have to meet that money that we pushed forward. We have not been able to reduce, for the reasons discussed extensively, RPA running costs in the way we might have done. We have got AI costs coming in. A range of issues have meant that the optimistic approach we took with a bit of over programming (ie we assumed, we budgeted, we distributed budgets to the various DGs at around, I think, 2.5% above what we actually had) actually proved to be risky. Why did we do that? For some of the reasons that I have described. The history of the department is under-spending, and I think we had underestimated the extent to which we were now a department that did not under-spend but had to control our finances very tightly to come in on budget. I do not know if you want to comment.

**Mr Grattidge:** Only exactly that, that when we are underspending we will tend to over programme on nominal figures because the rate of take up will actually catch up by the end of the year. We are almost in a situation now where we have got an established contingency so that when we go into the year we have got some head room between the total budget and what we have allocated to different parts of the organisation. That is the only cushion we can give ourselves for managing pressures.

**Ms Ghosh:** The other thing, again, having had discussions with the Secretary of State and other ministers, of course, given the kinds of signals that the Chancellor is sending out and the overall tightness of the fiscal position, I think what this points to us is that we need, as part of this exercise—we are delivery agencies—to have a very clear forward plan over a number of years as to how we are going to live within what is inevitably going to be much a much tighter spending envelope than we have now. So, we certainly cannot be promising our delivery agencies jam tomorrow. I think it is working together to live within that kind of financial profile over a number of years.

**Q73 Sir Peter Soulsby:** Somewhere in the region of 5% has to be found?

**Ms Ghosh:** Even to meet what we know now.

**Q74 Sir Peter Soulsby:** And then perhaps as much again to meet a contingency later in the year?

**Ms Ghosh:** I think that is where ministers have to make a judgment, and we are working now on how much contingency one needs for later in the year.

19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

**Q75 Sir Peter Soulsby:** But, in broad terms, it could be 5% now and 5% later?

**Ms Ghosh:** It could in theory be that, but that is the kind of debate that we will have to start having with finance directors to get certainty as soon as possible.

**Q76 Lynne Jones:** You spend about 155 million on research and development. The biggest chunks of that, 34 million and 39 million, go on sustainable farming and food and animal health and welfare?

**Ms Ghosh:** Yes.

**Q77 Lynne Jones:** Can you give us some examples of the kind of activities that are funded with this money and concrete examples of where this has had a beneficial impact?

**Ms Ghosh:** Let me give you an example on sustainable farming and food. To set the context, and, as you know, this has been the subject of wide debate and that is why we have consulted on our Evidence and Innovation Strategy, our policy going forward is to realign our spending on research away from what one might call the traditional agricultural research, which at the moment perhaps receives a disproportionate, in strategy and policy terms, proportion of our spend, and into, if one thinks of it schematically, the environmental side of the department's activities. Much of the traditional research we used to do, for example, about crops and grasses and so on is actually pretty mature, we know most of the answers. One example of the kind of research we have been doing, and I think it is due to finish this year, is at that interface between sustainable farming and the department's other objectives. There is a very interesting bit of research, which I was reading about recently, to look at the impact of inserting skylark plots into cereal growing and whether or not, if you had a certain number of these, it had an impact on the gross output of cereals. It proved that it did not and it proved that this was an effective way of both promoting our farmland birds targets but also maintaining the outputs that we needed, and that is what has been built into our ELS programmes, one of the options being skylark plots. We knew that skylark plots would not have a significant impact on farming; so that is an example. In the animal health area, there is a wide range of kinds of research that goes on at the Veterinary Laboratory's agency down in Weighbridge on, for example, BSE. Clearly, as you know, since it has been much in the news, we are using our research funds to look at bovine TB and the various issues around impact and origin and the outcomes of the Krebs trials, so it is those sorts of things, but I think the real challenge for us in the future is whether those are the right things and whether or not we need, in some areas of the department, a better evidence base. I am very struck by the fact that, if what we are is an influencing department, and David Miliband has talked a lot about the environmental contract and what citizens will do, what the Government will do, what business will do, we probably do not know enough at the moment about how we have influenced these various groups to do things. For example, we do not have that many. We have a

small, but very good, team of social science researchers in the department and we probably need to have more, because behavioural stuff is probably something we need to do more of, and, as I say, less of the areas where we are comparatively mature. You will see, I think, over the coming years, and particularly as we face up to whatever faces us in CSR07, that we need to rebalance things a bit.

**Q78 Lynne Jones:** You have got a Science Advisory Council and they are mentioned in the report?

**Ms Ghosh:** Yes.

**Q79 Lynne Jones:** How do you respond to their criticisms that you have not got sufficient funds to conduct your science programmes to underpin the Government's policy goals? You mentioned that we know all the answers in relation to crops and grasses, is that something that they have told you?

**Ms Ghosh:** Our science programme is developed in consultation with a very wide range of people. It is certainly not the case we have just sat in the department and thought of our Evidence and Innovation Strategy. We have the Science Advisory Council. As you know, Howard Dalton, our Chief Scientific Adviser, sits on the board of NERC and interacts a lot with BBSRC, so the conclusions we have reached are on a very wide range of consultation of that kind. Of course, moving out of any particular area of research, and I know there are particular issues about grasslands and the various institutes to do with grasslands, difficult decisions have to be made, but Parliament votes us a certain amount of money and we have to decide what is the best bang for our buck, bearing in mind the sustainability points that we discussed earlier about making sure there is at least the capacity to do research in other areas as it arises, but we cannot continue to support the wide range of research that we support now.

**Q80 Lynne Jones:** Is not research and development absolutely vital, not just for your department and the agenda that you have got but the whole government, the whole economy, the climate change sustainability agenda?

**Ms Ghosh:** Yes.

**Q81 Lynne Jones:** You did not answer my question about whether that is the advice you are giving, that on crops and grasses we know most of the answers.

**Ms Ghosh:** I am sorry. I am very happy to come back to you specifically on that. I know that the view that has been reached in the Evidence and Innovation Strategy is that there is a limited pay-back from extensive further research, but I am happy to come back to you on that. Of course, because we are an evidence-based department, it would be wonderful to have an infinite amount of money to spend on research and development, and of course the Science Advisory Council will have strong views on this point. I think the point you make about we need to be spending more money on the climate change area is one, for example, that we are trying to meet in rebalancing away from traditional agricultural

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19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

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research, although sustainability of agriculture will remain a key area of research, and its impact on the rest of the environment, into climate change sorts of areas. I think the Government's commitment on this is reflected in the fact that when we announced the Climate Change Programme Review we agreed, I think, an Environmental Technology Fund, precisely to look at that kind of innovative technology, low-carbon, renewables sort of energy research, so I think we are seeing a shift away, but we cannot spread our jam thin, we have got to decide where we are going to spread it thickly for the best outputs.

**Q82 Lynne Jones:** One area of potential technological advancement is on areas, for example, biomass and biofuels?

**Ms Ghosh:** Indeed.

**Q83 Lynne Jones:** Which is both related to sustainability of land use and also the Climate Change Agenda. I understand that the Science Advisory Council has actually expressed concern about the reduction in land-based research. It is good that there is money going into climate change research, but they are inter-related; it is difficult to distinguish between the two.

**Ms Ghosh:** I do not know the details of the investment we are currently putting into the biomass research side. I know money is going in, but we will happily send you the details of that. In a sense I was excluding that. That is not traditional, that is, as it were, how we move our research budgets into the new world of sustainable agriculture as it contributes to wider—

**Q84 Lynne Jones:** The Institute of Environmental Sciences Research is involved in agricultural biotechnology, and there is a lot of concern, for example, on the Centre of Ecology and Hydrology. You are losing posts in areas related to climate change and one has to wonder whether there is real coordination. I think that is the other area of concern, coordination between your science strategy and that of the research councils and, in fact, the other agencies.

**Ms Ghosh:** As I say, Howard Dalton is certainly a representative on NERC and I know has had a number of meetings, if he is not on the council itself, and I can confirm that, with BBSRC on precisely the points you make. So, I think we coordinate extremely closely, but there are hard decisions that have to be made sometimes. I will certainly come back to you on how we are supporting research on biomass and biofuels.

**Q85 Lynne Jones:** How do you co-ordinate with other departments in this area in terms of the DTI and the Energy Review because climate change and energy are inter-related?

**Ms Ghosh:** Which I think is very much reflected in the outcomes.

**Q86 Lynne Jones:** How you co-ordinate that because, on the one hand, you could say that NERC is reducing their work on climate change and you are increasing it, maybe that is complementary, but maybe you have got different priorities and maybe there is something wrong if you are not both seeing areas for expansion, you are seeing different areas for expansion. It does not seem logical.

**Ms Ghosh:** We will send you a note on that certainly.

**Q87 Chairman:** At the beginning of the evidence you were candid enough to question whether you have got the right PSA targets and I think gave the impression that there may be some new ones coming along as part of the Comprehensive Spending Review process. If that is the case, are you going to publish those for any kind of consultation? If so, can we have a copy so that we can have a look at them before they get cast in concrete?

**Ms Ghosh:** As with many elements of the CSR 07 process, it is iterative and although, as you will probably know, the Treasury has been doing some preliminary thinking about what the structure of PSAs might be, and we have fed in some thoughts, I do not know now, unless Ian can correct me, how the process of developing detailed PSAs will be taken forward and what consultation we will be proposing. As I said, we would certainly find it valuable to share with the Committee, in whatever form you think appropriate, ideas once they have reached a stage of specificity on which you might want to comment. Do we know a timetable for the process?

**Mr Grattidge:** Only that we submitted our response on the PSA Review that the Treasury are conducting earlier this year, I think in June. All departments did something similar, so they critiqued how did the PSA actually get delivered and how do you know it is working and, secondly, what ideas do you have for improving the PSA framework in the future. I think all departments have now submitted their responses and the Treasury are looking at them over the summer. I think the next phase will be September, but the Treasury have only said, "We are going to read them," they have not said what the next phases are. They are going back now and considering how they work.

**Q88 Chairman:** It is difficult for you to be more specific as to when we might have a discussion about them. Perhaps that is the Treasury ringing you saying that they have now arrived and we can crystallise this out! We would be grateful if you would keep us posted on that because some of the targets are cast in rather vague and woolly terms and, as we have seen, some are proving quite challenging, to use a favourite departmental word, to quantify as to whether they are achievable or not. So I think we would very much welcome an opportunity for discussion because obviously they do form a key underpinning role to the work of your Department.

**Ms Ghosh:** To give you a flavour, there are these issues that you have discussed with me before, and Brian Bender before that, about the effectiveness of

19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

shared PSA targets. Are shared PSA targets effective or would it be more effective to have overarching government framework objectives and then individual contributions measured by department? We have a number of PSAs where the levers are not in our hands and certainly the spending is not in our hands so, for example, if you look at the rural PSA, many of those aspects of spending, other than the money we put into the RDAs, are actually not in our hands. Two things we would aim at: that we have much clearer outcomes and that we are very, very clear what the leaders are that we have to achieve them and, back to the point made earlier, that there is a wide consensus that the particular performance indicators, whether it is biodiversity or climate change, are the right ones.

**Q89 David Lepper:** Just on the comment you were making just now, Mrs Ghosh, about shared PSA targets. One of those is I think target seven, eliminating fuel poverty, which you share with the DTI. I think the current assessment is that by 2006 the numbers of fuel poor people is likely to be up to two million. I just wonder if you could tell us something about where the ability to manipulate the levers lies there? Is it with your Department mainly or with the DTI and how do you work with the DTI on that particular target?

**Ms Ghosh:** I suppose we have two main levers there. You are absolutely right, the figures are disappointing and they are disappointing primarily because of increases in fuel prices. The way that the target is measured, spending more than 10% of income on fuel means that fuel prices and their rapid increase will push us back. I suppose we have two main areas of impact. One is through the Warm Front programme which, as you know, is focused on lower income households and in particular recently has been about energy efficiency and insulation and central heating systems. One is energy efficiency more generally insofar as we can—and the Energy Review has proposed this—to put further responsibilities on the energy suppliers to take account of energy efficiency issues and also to put more money into, as we were discussing earlier, developing energy-efficient technology. So we have got those two things but actually the overwhelming influence is going to be the cost of energy. I think that does mean this target is extremely challenging for us. I think in fact it is one that conceptually is not just for the DTI but is also about incomes, employment possibilities, all those kinds of bundles of things that come together to impact on incomes and available incomes of disadvantaged families.

**Q90 Chairman:** To draw things to a conclusion and just reflect on something which is near and dear to the heart of all of my colleagues on the Committee, because from time to time we write letters to you—

**Ms Ghosh:** Ah, yes.

**Q91 Chairman:** —Yes, and it is quite intriguing that in 2003–04 11,068 bits of ministerial correspondence, 75%, were answered within 15 days. Then you girded your loins, more letters in the

following year, 11,245, and 80% of them were replied to within 15 days and then we go up by another 1,500 letters a year and you drop down in 2005–06 to 61%. Why?

**Ms Ghosh:** Mainly because we have had a 50% increase in the number of letters we have received. In the first six months of this year we had 50% more letters than in the equivalent period and we suspect that will go on at that high level. They were mainly about AI, bovine TB and—

**Q92 Chairman:** Hang on a minute, just before you hide behind the global figure, I am talking about items of ministerial correspondence.

**Ms Ghosh:** That is right, we have had a 50% increase in the number of letters we are receiving.

**Q93 Chairman:** That is not what your report information says. That is why I read out the numbers of letters. We understand that the figures in 2005–06 were 12,737 letters received versus 11,245 in the previous year. Even my ropey maths do not make that a 50% increase in letters.

**Ms Ghosh:** Possibly what I am doing, Chairman, is apologising in advance for the statistics you will see for the most recent period! We have been looking at the most recent period because our ministers have been expressing concern about a backlog in correspondence.

**Q94 Chairman:** I am not surprised.

**Ms Ghosh:** And I know a number of Members here have been raising similar points. If you look at the last six months from now, we have had a 50% increase on the comparable period for the first half of 2005 because of AI and bovine TB in particular. That has put enormous strain on our central correspondence unit. As you know, we decided as part of our reform programme to take responding to ministerial correspondence out of the line and put it in a central communications unit, which has worked extremely well in terms of the use of common knowledge banks and, in normal times, the turn round effect, but it has recently been swamped by the high level of correspondence and so we have put more resource in there on an emergency basis to try and clear the backlog, and I think we will have to put more resource in going forward. It will still be a more efficient way of dealing with our correspondence, but I think we just have to face the fact that given the greater political profile of many of the issues we deal with, we have just got to accept that we might well be looking at a department that deals with 18,000 items of ministerial correspondence a year, not 12,000.

**Q95 Chairman:** And you are going to staff up and equip yourselves to meet the 15-day target?

**Ms Ghosh:** Which is of course a target that is tighter than the 20-day target that the Cabinet Office sets but 15 days is our target and we will staff up to meet it.

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19 July 2006 Ms Helen Ghosh and Mr Ian Grattidge

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**Q96 Chairman:** I am afraid we will probably have to add to your burden of letters coming in because time prevents us from asking all the questions we would like to, but can we thank you both very much indeed for the responses that we have received. We look forward very much to receiving the further written material that you have promised us and information particularly in the context of the RPA discussions, and hopefully, in due course, the opportunity to comment and engage in some discussion on the future PSA targets, so thank you very much indeed.

**Ms Ghosh:** Thank you.

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

**BACKGROUND**

Part 1 of this document covers the questions the Committee did not have time to raise with the Permanent Secretary in the 19 July oral evidence session on Defra's Departmental Report 2006. Part 2 lists the Committee's requests during the session for further information. Part 3 lists information that the Department agreed to give to the Committee once it becomes available.

Text in *italic font* are the questions put to Defra by the Committee.

**1. ADDITIONAL QUESTIONS TO THE DEPARTMENT**

**Efficiency savings**

*Auditing of efficiency savings*

*The Committee discussed efficiency savings in the evidence session (Questions 45–57).*

*The Departmental Report states that efficiency savings will be monitored "in a number of ways, including monitoring of output levels, customer satisfaction surveys, internal and external audits, achievements of [PSA] targets, and corporate Balanced Scorecard measures".<sup>1</sup>*

*In its preliminary questions to the Department, the Committee asked what proportion of efficiency savings had been fully audited. The Department replied:*

*Defra is currently working with the Office of Government Commerce (OGC) to clarify the guidelines for carrying out audits of declared efficiencies and as a result no specific audits have been carried out.<sup>2</sup>*

**1.1** £263 million efficiency savings made by the Department by the end of March 2006 have not yet been audited. How can you be confident that the level of savings reported has actually been achieved?

— *When, and how, will auditing of the Department's efficiency savings occur?*

Defra is currently awaiting clarification from the Office of Government Commerce as to who can carry out audits of the Department's efficiency programme. Once this has been received, plans will be put in place to ensure the work is completed. The Audit Commission already carries out a review of the process underlying the Annual Efficiency Statements completed by local authorities. In the meantime, Internal Audit is in the process of completing a review of the Defra Efficiency Programme. Additionally, Account Managers within the Efficiency Programme review the delivery of efficiencies against the guidelines laid down. Efficiency gains reported by Defra's Executive Agencies are linked to the income and expenditure reported in their annual accounts, which are subject to both internal and external audit.

*Baselines for efficiency projects*

*The Defra Efficiency Technical Note explains how the baselines for an efficiency project will be calculated but, in most cases, figures are not provided.<sup>3</sup> Until baselines for an efficiency project have been agreed with the Office of Government Commerce, a department should not be able to record efficiency savings against it.*

**1.2** *Have all projects in the Department's efficiency programme now been given baselines? If so, what are they?*

Yes, please see the table over.

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<sup>1</sup> Defra, *Departmental Report 2006*, May 2006, Cm 8627, p 203.

<sup>2</sup> Defra, *Defra's 2006 Departmental Annual Report: Response to the Defra Committee's preliminary questions*, p 7.

<sup>3</sup> Defra, *Efficiency Technical Note*, November 2005.

<i>Project</i>	<i>Baseline</i>
Rural Payments Agency Change Programme	Headcount Baseline is 4,008 Full-Time Equivalents.
Activity Baseline Review	£43 million taken from 2007–08 financial allocation.
England Rural Development Programme—IT	Productivity savings are calculated against the time previously taken to carry out the work.
Procurement Executive Agencies	Savings are calculated on the basis of previous price paid. Baselines for the agencies are negotiated with Defra. And the agencies are expected to show evidence of delivery against performance targets (in relation to funding).
Modernising Rural Delivery E-nabling Programme	£13 million taken from 2007–08 financial allocation. The outsourcing of the IT systems was based on lower costs of operational services and applications development. Systems are in place which measure and monitor the current costs against the original costs. Reports are produced on a quarterly basis detailing these costs.
Policy Centre Review Programme	Baseline headcount 2,761. £10 million taken from 2007–08 financial allocation.
FPRD Change Programme	Baseline headcount 280. £2.5 million taken from 2005–06 allocation across FPRD and affected Corporate Service areas.
Estates London	The baseline relates to the size of the estate at the end of FY 2003–04. Financial savings arise from the surrender of leases on two London buildings.
Transforming HR	Baseline headcount 287. £3.1 million taken from 2005–06 and a further £700k from 2006–07.
Environment Agency Waste Implementation Programme	Each individual project has a baseline. Efficiencies are measured against a background of rising costs and represent savings against a calculated figure which will vary from council to council. Defra has produced a toolkit to aid councils in identifying their Environment Services efficiency gains—the Defra Environmental Services Efficiency (DESE) Toolkit.

#### *Investment and running costs of efficiency projects*

*Most efficiency projects require up-front investment in order to achieve the benefits in the longer term and many will entail on-going running costs.*

1.3 *Have all additional costs of the Department's efficiency projects—whether on a one-off or on a recurring basis—been deducted before efficiency gains are reported?*

No. In accordance with Treasury guidelines, efficiency gains have been reported gross for the SR04 period.

#### *Effect of efficiency savings on service quality*

1.4 *How has the Department been measuring the impact of efficiency savings on service quality and delivery?*

Quality metrics are in place for the majority of projects and the Office of Government Commerce monitors the adequacy of these metrics. However, we are still developing quality metrics in the following areas:

Modernising Rural Delivery Programme—quality metrics are still being developed, as the majority of benefits will come through the creation of Natural England, which is yet to be vested.

England Rural Development Programme-IT (erdpIT)—further quality metrics to be agreed once Natural England is vested.

Policy Centre Review Programme—metrics are being reworked and will be embodied in Workforce Efficiency Plans covering the core department.

#### *Risks with the Efficiency Programme*

*A recent report by the House of Commons Committee of Public Accounts, Progress in improving government efficiency, states that the Whitehall-wide Efficiency Programme has received two red Gateway Reviews by the*

*Office of Government Commerce and remains at high risk.*<sup>4</sup> Fifty of the 300 projects are intended to deliver 80% of the £21.5 billion efficiency gains. In December 2005, more than a third of the Programme was assessed as having problems which put at risk the delivery of efficiency gains.

1.5 *Are any of Defra's projects among those comprising the Efficiency Programme which have been assessed by the Office of Government Commerce as having problems which put at risk the delivery of efficiency gains?*

Defra has two programmes which are on the OGC list: the RPA Change Programme (headcount) and Environmental Services (waste).

#### Budget cuts for Defra and its delivery agencies

*In evidence, the Committee was told that Defra and its delivery agencies faced possible cuts amounting to at least £130 million (5% of Defra's non-CAP current expenditure) (Q59–75).*

1.6 *Some of Defra's agencies, such as the Environment Agency and Natural England, have major long-term commitments (for example, 10-year agri-environment schemes). Has the Treasury undertaken to ensure these commitments will continue to be funded? What are the consequences if funding can not be found in the future?*

As for all Government Departments, Defra's funding is set by the periodic HM Treasury Spending Reviews. This cross-government negotiated process establishes overall budgetary control totals as well as budgets for specific ring-fenced items, normally for the following three years. So Spending Review 2004 (SR04) covered funding for 2005–06, 2006–07 and 2007–08. We are now working on the Comprehensive Spending Review 2007 (CSR07) with Treasury which will extend our overall budgets for the three years to 2010–11. All of our major long-term commitments are considered during these negotiations with Treasury but we cannot guarantee 100% of any particular element of funding until the Spending Review is settled. Even after that point, whilst Treasury state that settlements are final and cannot be re-opened, all Departmental budgets can be subjected to further challenge by Treasury depending upon the overall fiscal position.

Consequently, whilst there can be no complete assurance of funding for any particular programme during the years covered by agreed Spending Review settlements (even if they are covered by ring-fenced funds) and especially not for years beyond the current settlement(s), there is an expectation from Treasury that multi-year schemes will be funded, especially where contracts have already been committed. Any pressures which emerge in future years have to be managed within the Department's overall budget in the first instance. Only in extreme circumstances would Treasury be prepared to consider a claim on the Reserve and the answer might easily be a negative. At best it would still only be a partial funding, leaving the Department to find the rest from the existing overall budget, clearly at the expense of other programmes.

— *In evidence, the Permanent Secretary told the Committee that 78% of Defra's spend went on 25 programmes (Q68). Does the 5% cut affect any big, high profile programmes?*

Most likely—yes, where those programmes are funded out of near-cash Resource DEL, which is where we need the cut in order to comply with the new key Treasury budgetary control total. Given the preponderance of spend on the Top 25 Programmes it would not be possible (or equitable) to reduce the overall allocations to the extent required without considering all of those programmes. However, every effort is being made to protect Ministerial priorities as the review progresses.

Those major programmes which are part or wholly funded out of Capital are not directly affected, for example Warm Front (Fuel Poverty), grants to local authorities for flood defence (together with substantial parts of flood defence work by the Environment Agency) and waste management work. This is because savings on Capital budgets cannot be recycled into Resource spend under Treasury budgeting rules.

1.7 *Have any programmes been dropped completely or deferred to next year? If programmes have been deferred, how will Defra prevent a re-occurrence of this year's over-programming?*

Although the review process is not yet complete, we do not expect to stop any significant programmes or defer material amounts of expenditure into future years, which would merely add to budgetary pressures in those years. We expect a tight CSR07 settlement so budgetary pressure will continue for the foreseeable future. The detailed analysis underpinning the current review takes all of this into account to ensure that, so far as humanly possible, there is no need to repeat such a major exercise. However, close budgetary scrutiny, especially for years yet to commence, will always be required to ensure that control totals are not breached, especially now that the overall fiscal position is tighter and the Department has eliminated the systemic under-spending of previous years.

<sup>4</sup> Committee of Public Accounts, Fifty-fifth Report of Session 2005–06, *Progress in improving government efficiency*, HC 978, Paragraph 14.

1.8 *Will the 5% cut have an impact on the ability to deliver any PSA targets?*

We do not expect any significant impact on the delivery of our PSA targets as a direct consequence of these cuts because we expect to “claw back” the majority of the budget shortfall through tighter control over expenditure rather than cutting the outputs which directly contribute to those PSA targets. Some PSA targets are definitely not affected by the cuts, for example PSA 7 (elimination of fuel poverty) because it is funded wholly out of Capital (see answer to the second part of Q6). Others are only partially affected because they are part-funded from Capital (for example PSA 6—increasing household waste recycling, and PSA 8—improving air quality).

1.9 *When will the Department finalise its agencies’ budgets and the level of contingency needed?*

Defra anticipates that revised budgets for this year and next will be agreed by the end of September. The difference between the £200 million referred to in a recent newspaper article and the £130 million figure discussed at the evidence session (in answer to Q63) relates to the level of contingency needed. We have calculated that we need to find £70 million contingency within the department and our delivery bodies—though this is still subject to the views of Ministers.

1.10 *How much of the 5% cut does the Department think it may be able to “claw back” by efficiencies and tight controls?*

The exercise to address this shortfall is still continuing, but at the moment we are hopeful that we will be able to “claw back” most of the budget shortfall through tighter control over expenditure and making further efficiencies.

*A recent article in the Guardian stated that “The Department for Environment, Food and Rural Affairs was in financial crisis last night after being told to cut its budget by nearly £200 million over the next six months. The Guardian has learned that the 7% savings are expected to bite deeply into flood defence work, nature conservation and canal repair schemes as well as a host of scientific bodies and research groups.”*

*The Committee discussed possible budget cuts in its evidence session with Helen Ghosh on 19 July. We were told that that Defra and its delivery agencies faced possible cuts amounting to at least £130 million (5% of Defra’s non-CAP current expenditure) (Questions 59–75). The Guardian claims that the cut is in fact 7%. The follow-up questions ask for more detail about the impact of these cuts (Questions 6–10). Obviously, it is important that the Committee has the fullest possible details about the extent and nature of the cuts, which—if the Guardian story is correct—seem to be more substantial than it appeared at the evidence session on 19 July.*

1.10.1 *Supplementary Question. Defra’s response to the follow-up questions should therefore confirm the accuracy or otherwise of the Guardian’s article, and how the 5% (£130 million) figure can be reconciled with the 7% (£200 million) figure. Please could the answers to Questions 6–10 in particular address the claims made in the article? (eg Question 6 refers to the work of the Environment Agency, which is referred to in the Guardian as being likely to suffer as a result of the cuts.) More generally, it would be very helpful to the Committee if Defra’s response could set out as clearly as possible the cuts, in cash and percentage terms, to be made in the budgets of core Defra and each of Defra’s agencies.*

The *Guardian* quoted figures that are at the upper end of a range of options currently being considered in Defra. The Department is not in a financial crisis but is revisiting budgets in view of the current financial position and as a reaction to the signals we are getting from HM Treasury as to the tightness of the likely settlement from the Comprehensive Spending Review 2007.

The difference between the £130 million and £200 million is the debate Ms Ghosh referred to in answer to Q63 which is going on within the department and with the delivery bodies about how much more we might need to find as a contingency, subject to the views of Ministers. To support this debate we have asked most areas of the Department to consider the impact of 5%, 7.5% and 10% budget cuts, and will be presenting that information to Ministers for decisions in September. We will share the outcome with the Committee.

## PSA Target 1: Sustainable Development

*The Departmental Report contains numerous examples of activities to promote sustainable development.*

1.11 *A number of initiatives and projects support the delivery of PSA 1. Has the Department carried out an assessment of any of these to identify whether the project achieved the expected outcomes? If so what were the results?*

In many cases it is too early to evaluate initiatives that feature in the current report. The specific sustainable development initiatives mentioned in the departmental report and their status of evaluation are:

<i>Activity</i>	<i>Status of evaluation</i>
Development and research to take forward Community Action 2020 [launched in July 2006 as Every Action Counts (EAC)]	An evaluation framework has been prepared for the three year EAC initiative. This was prepared and will be carried out by independent consultants. The evaluation framework starts in 2006 and ends in March 2009 when the EAC initiative itself comes to an end. An independent evaluation of the initiative's design phase concluded that it was a well rounded programme with a high level of clarity about its objectives.
Promoting sustainable development in the English regions, via the Government Offices	PSA1 forms part of the Performance Management Framework for Government Offices. The Government Offices report quarterly to the Department on their performance against a range of measures for PSA 1. Over the last year (2005–06), performance has improved across the GO network culminating in a commitment from Regional Directors to further embed sustainable development across the work of each GO. Defra provides advice and support to GOs to help raise performance on sustainable development.
Reviewing the Framework for SD on the Government Estate	The new Framework was launched in June 2006. The Sustainable Development Commission will report on Government Department's progress in meeting the new targets annually.
Creation of and secretariat for the business led Sustainable Procurement Task Force	The Sustainable Procurement Task Force reported in May 2006. The Government will respond to the report's recommendations in the autumn.
Working with the Sustainable Development Commission to develop their new role and remit	The Sustainable Development Commission started its "watchdog" role. A performance management framework has been agreed between Defra and the SDC based on concrete deliverables (eg publication of reports, the level of the SDC's influence among decision-makers, and level of interests in its publications).
Funding the Sustainable Development Research Network (SDRN)	The SDRN was set up in 2001 with the aim to facilitate and strengthen the links between providers of research and policymakers across government, in order to improve evidence-based policymaking to deliver the UK government's objectives for sustainable development. A review of SDRN earlier this year concluded that SDRN activities had contributed well to its overall objectives and that it was filling a niche not covered by others.
Providing support to Ministers with responsibility for SD issues	Defra is developing tools and events and working with contacts across Government to build policy-makers' capacity on sustainable development. Sustainable Development in policy and in operations is evaluated by the SDC through their reports on Sustainable Development Action Plans and on the Sustainable Development in Government framework.
Production of Defra's Sustainable Development Action Plan	The Sustainable Development Commission is evaluating Sustainable Development Action Plans of all Departments and will report later in the summer.

*The House of Lords Science and Technology Committee has recently criticised the Government's plan to build new houses in the South-East saying that there would insufficient water supplies to sustain them.*<sup>5</sup>

1.12 *Did the Office of the Deputy Prime Minister discuss the sustainability of such a large volume of new houses with Defra at the planning stage? Was the issue of water supplies raised at the time?*

Defra has been very closely involved with the development of the Government's policies on sustainable communities, in particular the Government's response to the Barker Review of Housing Supply and the New Growth Points initiative.

The Government has not said how many new houses should be built in the South East of England as this is a matter for the planning system. The Regional Spatial Strategy for the South East has not yet been finalised, and will enter its Examination in Public phase in November.

<sup>5</sup> House of Lords, *Water Management*, Eight Report of the Select Committee on Science and Technology, Session 2005–06, HL Paper 191-I, Paras. 4.18–4.30.

The Government has, however, taken the view that, at the national level, housing supply should be increased in order to address affordability issues and the widening gap between falling supply and rising demand for new homes. In its response to the Barker Review of Housing Supply the Government set out its ambition to increase housing supply to 200,000 net additions to the housing stock per annum by 2016, addressing housing needs in all regions. To address specific affordability problems, many of these additional homes will need to be built in the wider South (including London, the East, and the South West), not just the South East.

Defra worked very closely with ODPM (now DCLG) throughout 2005 to analyse the environmental impacts of increased housing supply, leading to the publication of the report from Entec UK Ltd, *A sustainability impact study of additional housing scenarios in England*, in December 2005. This analysis informed the comprehensive package of environmental measures that was announced as part of the Government's response to the Barker review, one of which is the commitment to regulate to achieve improved water efficiency in new homes.

Defra is currently working in partnership with DCLG, the Environment Agency and Natural England to assess the sustainability of bids for Growth Point status, to ensure that proposed locations for growth are environmentally sustainable and realistic in terms of the supporting infrastructure they require. Maintaining or improving security of water supply is one of the key criteria that we are using to assess the sustainability of the bids.

#### PSA Target 2: Climate Change and Energy

*The Committee asked for information relating to the energy efficiency and renewables measures in its preliminary questions to Defra.<sup>6</sup> In the case of renewables, Defra states in its response that the UK has a target to increase the proportion of electricity provided by renewable sources to 10% of electricity supplied by 2010, subject to the cost to the consumer being acceptable. However, although the Government is "making progress" toward the 10% target, "recent projections indicate that the target level of generation may not be achieved until some time after 2010".<sup>7</sup>*

1.13 *The target for a 20% reduction in carbon dioxide emissions below 1990 levels will not be met and the figures given for the renewables target suggest it will not be met either. How can you describe a target composed of four elements as being "on course" when only two elements are likely to be met?*

Defra's PSA2 comprises two targets and two supporting elements. The targets are for the UK to reduce its greenhouse gas emissions by 12.5% below base levels under the Kyoto Protocol, and to move towards a reduction in carbon dioxide levels of 20% below 1990 base levels by 2010.

Whilst the PSA confirms that the targets should be reached through measures including, but not limited to, energy efficiency and renewables, Defra considers that the targets themselves are the key indicators to tracking whether or not the UK is on course to deliver against its PSA commitment. As such, Defra's 2006 departmental report was accurate in its assessment of our progress towards these targets.

The report noted that additional policies were being considered to help put the UK back on track towards its 20% reduction goal. Successive policy announcements have made further progress towards achievement of that goal, although current projections are for a 16.2% reduction in the absence of new policy measures.

#### PSA Target 4: Rural Affairs

*Page 154 of the DAR states that a first formal assessment of the first strand of the PSA target—rural productivity—covering the period from April 2003 to March 2005, will be available by "the end of 2006". The DAR states that preliminary data for 2003–04 suggests that the productivity gap has "narrowed slightly" but no figures are given.*

*Page 274 of the DAR states that Defra will be in a position to report progress against the second strand of the target—accessibility to services of rural areas—by September 2006. Indicators for this strand of the target include access to health services and education and skills.*

1.14 *Full data relating to the productivity aspect of the target are expected by the "end of 2006". When exactly will this information become available? How confident are you that the productivity gap in rural areas has reduced since 2002, and to what extent?*

The availability of data for the assessment of progress on the rural productivity target relies upon the publication of two surveys. First, the Labour Force Survey (LFS), which is updated on a regular basis; and second, the Survey of Personal Incomes (SPI) from HMRC. Data for 2004–05 was due originally to be published in October/November this year but, we understand HMRC are now expecting this to be delayed until around January 2007. Subject to Defra receiving this data by the end of January 2007, we should be able to report on changes in the headline productivity indicator for this target by March 2007.

<sup>6</sup> Defra, *Defra's 2006 Departmental Annual Report: Response to the Efra Committee's preliminary questions*, pp 16–19.

<sup>7</sup> Defra, *Defra's 2006 Departmental Annual Report: Response to the Efra Committee's preliminary questions*, p 18.

Given these long delays in data becoming available, we currently have just one year of data (2003–04) to report progress against the baseline (1999–2000–2002–03). There has been a 1.4% reduction in the productivity gap between the baseline and 2003–04 (falling to 15.9%) but it is clearly not possible to draw any conclusions about the trend from this single year. We will be in a better position to judge progress once the 2004–05 data becomes available in early 2007—although it should be noted that even then, any change in the headline indicator is unlikely to be statistically significant (at the 95% level). By 2008, with three years’ data, we will have a more statistically robust basis for measuring progress against the baseline, using the headline indicator.

1.15 *In last year’s session, we were told that the Department aimed to identify other measures and indicators to provide relevant data for measurement of this target because “waiting for two years is not very satisfactory”. What methods has Defra identified to obtain further information since then? How successful have these methods been in practice?*

Given this time delay in the availability of data for the headline productivity indicator, which the Department accepts is far from satisfactory, we have taken forward two measures to provide alternative, proxy, measures of progress.

First, we have developed a set of 15 “intermediary indicators” to provide a wider measure of the health of rural economies. These indicators are based on HM Treasury’s five drivers of productivity. Information about the intermediary indicators has been published at both national and regional levels, and can be found at <http://www.defra.gov.uk/rural/research/indicators.htm>. Data is more readily available for the intermediary indicators and these can therefore enable a more up-to-date analysis. The intermediary indicators should therefore, over time, enable a fuller picture of progress to be built up, particularly how the “lagging” districts compare with the English median against the range of indicators. The main area to date in which our analysis suggests that some statistically robust conclusions can start to be drawn, is in relation to skills attainment at Level 2. The data shows that the PSA4 indicator districts have experienced the fastest growth in skills level 2 attainment (11%), narrowing the gap with the English median substantially.

Second, the new Government approach to tasking the Regional Development Agencies (RDAs) requires each RDA to include in their Corporate Plan their contribution to the delivery of Defra’s PSA4 target on rural productivity and services (amongst others). To support this and to improve transparency in rural delivery, from April 2005 RDAs have begun to disaggregate their “core outputs” (such as “number of jobs created” and “number of businesses assisted” etc) on a rural and urban basis for inclusion in six-monthly Board Reports, which are sent to Departments and also made public. Whilst there is clearly no easy read across from the delivery of such output targets and macro-economic data, this new reporting system should at least enable better assessment of the impacts that RDAs are making in rural areas with the Single Pot resources available to them (including Defra’s contribution).

## Resource Accounts

*Treasury guidance issued in March 2006 states that Government departments should complete their resource accounts for 2005–06 “by the summer recess”—that is, to have them signed, certified and laid before Parliament.*

*Defra’s resource accounts have not yet been laid before Parliament.*

1.16 *Why has the Department been unable to meet the Treasury’s deadline for laying its resource accounts?*

The main factor leading to delay was late submission of data from Agencies. Difficulties with the Rural Payments Agency’s administration of the Single Payment Scheme were a major factor. Work to resolve appropriate accounting treatment for the consequential disallowance, and to establish agreed values for inclusion in the accounts led to delays that could not be accommodated.

The Rural Payments Agency value for money reviews are running in parallel with their financial audit. The National Audit Office are not able to finalise the financial audit until after the completion of the value for money reviews in October, making the summer recess an impossible target.

In addition to these major issues, we encountered problems in establishing and agreeing opening balances for some of our new Agencies.

We also encountered a number of problems in completing specific recommendations for the core Department due to the added complications resulting from the creation of the new Agencies.

— *What measures are you taking to ensure that this situation will not be repeated next year?*

We do not anticipate a repeat of the audit issues that have arisen for the Single Payments System, and would expect issues with other Agencies (and in particular the creation of these) to have been resolved with their first year’s accounts. We are conducting lessons learnt exercises and will be applying these, especially to the creation of Natural England. As the Department does not currently propose to create any further new bodies in 2006–07, we do not expect the scale of issues that have arisen with new Agencies and existing Agencies to recur.

Whilst there are certainly lessons to be learnt from the 2005–06 exercise, the impression of those involved is that, had it not been for the issues that arose with the Agencies, we would have had a very significant chance of hitting the deadline. We will therefore review these approaches but apply the same basic technique to 2006–07, supplemented with tighter controls over Agencies and more robust early warning for any issues that are emerging. We will also conduct a thorough interim accounts exercise prior to the year-end exercise proper.

— *When did the Department realise it wouldn't meet the pre-recess deadline for laying its resource accounts? When was the Treasury informed about this?*

As we have taken a project management approach to the production of the Resource Accounts, we tracked risks throughout the process. As events in the Rural Payments Agency unfolded, the potential impact on accounts production became clearer, although it was not until the third week of June that it was acknowledged that we could not successfully find a way to accommodate these issues in order to meet the Treasury deadline. We formally notified the Treasury of that recognition on 22 June 2006.

## 2. COMMITTEE'S REQUESTS FOR FURTHER INFORMATION

During the evidence session, the Permanent Secretary agreed to provide the Committee with further information, relating to:

2.1 *When the Sustainable Development Commission's report on Governments department's Sustainable Action Plans will become available (Q15).*

The Sustainable Development Commission's report will be published in September.

2.2 *How PSA target 3a on farmland birds was formulated. In particular: who was consulted when formulating the target? Was an assessment made of the views of organisations, such as the British Trust for Ornithology, who use different definitions of farmland birds? Why was the particular group of birds that are used in the PSA target chosen? (Q32–33)*

Reversing the decline in farmland birds is viewed as a measurable surrogate for conserving wildlife in the so-called *wider* countryside, ie the vast bulk of the countryside that lies outside of designated nature conservation sites (SSSIs and nature reserves), thereby complementing the other biodiversity PSA on SSSI condition.

Birds were chosen for several reasons: there is unparalleled information on annual changes in the populations of common birds; birds act as good indicators of the general quality of the farmed environment; the popularity of birds with farmers, the general public and the media means that they can be used as “flagships” to draw attention to society's need for a well-managed countryside that is farmed in a sustainable way and is rich in wildlife.

The adoption of this PSA also reinforced Government's adoption, in 1999, of wild bird populations as one of 15 “headline indicators” of sustainable development in the UK. The indicator initially comprised three linked indices: on farmland birds, woodland birds and birds in general, based on the annual surveys of breeding birds conducted across the UK. By the year 2000, the indicator showed that whilst the UK's breeding bird populations have, on the whole, been stable since the mid-1970s, those species associated with woodland had declined by 22% and those with farmland by 46%. The Department moved to using farmland bird figures for England in SR04 to measure this PSA target, as it makes the PSA a measure more relevant to Defra performance, since policies are devolved in this area. The farmland bird indicator is classed as “National Statistic” and is updated annually by the BTO and RSPB under contract to Defra.

Furthermore, 13 of the 26 priority bird species identified in the UK Biodiversity Action Plan are associated with farmland—all these species are the subject of individual Species Action Plans (published in 1995 and 1998) which seek to recover their populations through appropriate management of the farmed environment.

A wide range of stakeholders including ornithological experts from BTO, RSPB, Game Conservancy Trust, and English Nature, were consulted when formulating the PSA target. The particular group of birds used for the PSA target was chosen by BTO (not RSPB) some years before the PSA target was formulated. The lists of species included in each bird index (including farmland birds) were derived from an analysis by the BTO of bird species change by habitat within *The new atlas of breeding birds in Britain and Ireland: 1988–91* (Gibbons *et al* 1993): see table 13 on page 479. This analysis identified 28 species as “farmland birds”, defined as “species feeding in open farmland during the breeding season, even though they may nest in woods or hedges”. However, six species were excluded from the farmland birds index because they were considered too rare or localised to be suitable for a UK-wide (or England-wide) index (hobby, quail, Montagu's harrier, corncrake, stone curlew and circl bunting) and two were excluded because they are introduced, non-native species (red-legged partridge and pheasant). Subsequently, the barn owl was also dropped from the index because of a lack of annual data with which to update the index. As a consequence, the farmland birds index comprises 19 species of common and widespread species closely associated with farmland habitats.

The 19 species are:

1. Kestrel.
2. Grey Partridge.
3. Lapwing.
4. Stock dove.
5. Woodpigeon.
6. Turtle dove.
7. Skylark.
8. Yellow wagtail.
9. Whitethroat.
10. Jackdaw.
11. Rook.
12. Starling.
13. Tree sparrow.
14. Greenfinch.
15. Goldfinch.
16. Linnet.
17. Yellowhammer.
18. Reed Bunting.
19. Corn Bunting.

*2.3 How the efficiency savings in waste services by local authorities are accounted for (requested to be provided in a joint note with the Office of Government Commerce). (Q52)*

As part of the local government efficiency agenda, all local authorities in England are required to submit an Annual Efficiency Statement to DCLG, which is formed of three parts, including the Forward and Backward Look statements:

- The Forward Look, produced each April, is for authorities to set out their strategy for making efficiency gains during the Spending Review period (to the end of March 2008); an estimate of the value of gains expected to be achieved during the forthcoming financial year; and the key actions planned to realise them;
- The Backward Look, produced each July, is for authorities to set out the value of efficiency gains actually achieved during the preceding financial year and the activities that were undertaken to release them. This includes Environmental Services as a separately defined sector; and
- A mid-year update, produced by a defined subset of authorities and providing assurance on progress toward the forecast made in the forward look.

Collating the information received in the Backward Looks allows us to calculate the total efficiency saving. This data is signed off as accurate by the Accounting Officer for each authority as an autonomous organisation. The following link shows the guidance from the Department for Communities and Local Government on the treatment of efficiencies delivered by local authorities. <http://www.rcoe.gov.uk/rce/aio/19186>

*2.4 What plans the Department has for further research on crops and grasses. (Q83)*

Defra has a wide-ranging programme of farming and food research to support the delivery of Defra's strategic priorities, especially through the Strategy for Farming and Food which includes research on crops, including grass and forage species. Informed by the Defra Research Priorities Group, Defra is currently refocusing its farming and food research programme so that it addresses its strategic priorities more explicitly. Defra recognises the potential importance of this long-term strategic research to the sustainable development of farming and has commissioned a study of the role of future Defra R&D in underpinning the genetic improvement of all agricultural species and an ecological review of completed grassland R&D projects. Both of these are due for completion later this year and will inform future R&D strategy. To avoid compromising future options, Defra is maintaining its investment in this area until the research policy has been finalised.

*2.5 How the Department is supporting research on biomass and biofuels. (Q84)*

Defra's investment in bioenergy R&D is £1 million per annum and is focused on primary production of energy crops. Efficient primary production is essential to the development of a viable energy crops sector. The Defra programme aims to double yields of biomass crops from eight to 16 tonnes per hectare over a 10 year period.

Growers of willow now have access to the output of modern industry-supported willow breeding, underpinned by the Biotechnology and Biological Sciences Research Council (BBSRC), DTI and Defra-funded research. Defra research underpins an expansion in the breeding of willow, poplar and miscanthus by drawing on a range of UK-based research teams. These teams work together in networks to deliver new breeding material up to a point where private sector exploitation is possible. The networks draw on recently developed genomic techniques to provide a broader genetic base in new planting material that exploits new genes to maximise yield potential and uses a range of resistances to fungal diseases and pests. Control strategies are being developed based on cultivar resistance rather than pesticide use.

Defra and other Government Departments have studied the site factors affecting the yield of willow and poplar cultivars with emphasis on understanding the processes determining growth as affected by soil, climate and other location factors. This understanding provides a tool for production planning and crop improvement.

Defra R&D also looks at environmental and economic impacts. Defra is currently leading on the delivery of a software tool that will support life-cycle assessment of the environmental impacts and economic costs of energy products (including biofuels) and their supply chains.

*2.6 How the Department is co-ordinating its science strategy with that of the Natural Environment Research Council and other research agencies, particularly in relation to climate change research. (Q86)*

Defra has a good partnership with NERC and the other research councils, and there are many areas in which they interact well, including cross-representation on various committees, involvement in strategic planning discussions, and through knowledge transfer and consultation.

Howard Dalton, Defra's Chief Scientific Adviser (CSA), is a member of the NERC Council, the BBSRC Council and additionally three Defra officials sit on NERC strategy panels. NERC are also observers on Defra's Science Advisory Council (SAC).

The NERC Chief Executive, Alan Thorpe, regularly meets with Howard Dalton, Defra's Chief Economist and other officials to discuss how collaboration can help meet Defra's evidence needs in the environmental sciences and aid NERC with their remit. Recent meetings have involved aspects of climate change, biodiversity and informing both Defra's and NERC's CSR07 bids, and Defra is currently working with NERC to help their understanding of how its science is used in policy-making and to suggest ways to improve its uptake.

NERC is a member of the Environment Research Funders' Forum (ERFF) (chaired by Defra's CSA), which brings together the UK's major public sector sponsors of environmental science, in order to coordinate their activities to maximum effect.

There are many links between Defra and NERC scientists. Defra already has research contracts with NERC institutes and an away-day has been planned for 22 November. The aim of this day is to bring together scientists from both organisations to build on interactions and joint areas of working.

Defra already contributes to various NERC programmes. These include: the new Environment and Human Health programme being led by NERC; and the Rural Economy and Land Use Research (RELU) Programme, of which NERC is a collaborator.

Links and interactions between Defra-commissioned research programmes and projects, and those funded by NERC in the area of climate change, have recently been reviewed. As a result of this work, the Climate Director of NERC's NCAS (NERC Centre for Atmospheric Science) has prepared a five-year strategy in consultation with the Met Office's Hadley Centre (funded largely by Defra), which aims to ensure complementary work programmes.

NERC and other research agencies (including the BBSRC) have contributed and responded to various formal Defra consultations, including the recent Evidence and Innovation Strategy (E&IS) 2005–08. Defra also contributes and responds to NERC consultations, eg Defra has submitted formal responses to the Centre for Ecology and Hydrology (CEH) consultation on the restructuring of their organisation, and to NERC's "next strategy" consultation in April of this year.

### 3. INFORMATION TO BE PROVIDED TO THE COMMITTEE ONCE AVAILABLE

The Permanent Secretary agreed to send the Committee the following information once available:

*3.1 The conclusions of the Department's review of its executive agencies (taking place summer 2006). (Q35)*

Defra is currently undertaking a review of its non-executive advisory bodies and not its Executive Agencies as stated. This review (which is intended primarily as an internal review) will report its findings to the Departmental Reform Group at the end of September 2006. Once available conclusions will be made available to the Committee.

### 3.2 The Department's draft PSA targets for the CSR 07 period. (Q87)

The Treasury review of the PSA framework is still underway and they intend to go out to Departments with the new framework some time in mid-October. Once the Department is aware of this and the number of PSAs that might be expected, the Department will be able to draft new PSAs. It is unlikely that the Department will be able to share these with the Committee until the end of the year.

Department for Environment, Food and Rural Affairs

September 2006

### Further supplementary memorandum submitted by the Department for Environment, Food and Rural Affairs

#### DEFRA FINANCIAL MANAGEMENT 2006/07 BUDGET REVIEW SUMMER 2006 SUMMARY OF ADJUSTMENTS AGREED BY MINISTERS NEAR-CASH RESOURCE DEL ONLY

DEPARTMENTAL REPORT BUSINESS AREA	ORIGINAL BUDGET	ADJUSTMENTS			TOTAL ADJUSTMENT	REVISED BUDGET	% CHANGE
		CORE DEPT	EXECUTIVE AGENCIES	NDPBs & PCs			
Animal Health and Welfare	289,138	(30,551)	(3,533)		(34,084)	255,054	-12%
Environmental Protection	999,638	(50,046)	(839)	(27,634)	(78,519)	921,119	-8%
Sustainable Farming and Food	114,619	(11,150)		(403)	(11,553)	103,066	-10%
Living Land and Seas	631,441	(11,834)		(14,500)	(26,334)	605,107	-4%
Departmental Operations	272,897	(13,962)		(600)	(14,562)	258,335	-5%
Rural Payments Agency	214,031					214,031	Nil
Other Executive Agencies	125,859		(4,722)		(4,722)	121,137	-4%
<b>Total</b>	<b>2,647,623</b>	<b>(117,543)</b>	<b>(9,094)</b>	<b>(43,137)</b>	<b>(169,774)</b>	<b>2,477,849</b>	
Share	100.0%	69%	5%	25%	100%	93.6%	
Total Original Budget	2,647,623	1,389,855	514,946	742,822			
% of Total	100%	52%	19%	28%			
Share of total adjustment		8%	2%	6%			

Agency/NDPB/PC Analysis	ORIGINAL BUDGET	ADJUSTMENTS		REVISED BUDGET	% CHANGE
		EXECUTIVE AGENCIES	NDPBs & PCs		
<i>Gross Controlled Agencies</i>					
Government Decontamination Service	3,279			3,279	
Marine Fisheries Agency	31,233	(1,722)		29,511	-6%
Rural Payments Agency	214,031			214,031	
State Veterinary Service	91,347	(3,000)		88,347	-3%
<i>Net Controlled Agencies (see Note 1 below)</i>					
CEFAS	33,300	(900)		32,400	-3%
CSL	31,964			31,964	
PSD	11,200	(839)		10,361	-7%
VLA	94,769	(2,350)		92,419	-2%
VMD	3,823	(283)		3,540	-7%
<i>NDPBs and Public Corporations</i>					
Environment Agency	451,442		(23,700)	427,742	-5%
British Waterways	52,461		(3,934)	48,527	-7%
Food From Britain	5,368		(403)	4,965	-8%
Gangmasters Licensing Authority	3,900			3,900	
Kew RBG	18,200		(600)	17,600	-3%
Natural England	207,751		(14,200)	193,551	-7%
National Forest Company	3,700		(300)	3,400	-8%
<b>Totals</b>	<b>1,257,768</b>		<b>(9,094)</b>	<b>1,205,537</b>	<b>-4%</b>

#### Notes

- The Net Control Agencies "budget" shown represents the value of services bought by core Defra via negotiated contracts. Many of these services are demand-led and so normally kept under review during the year.
- The RPA budget covers running costs and the net cost of the Older Cattle Disposal Scheme (OCDS) only. It does not include budgets accounted for by policy areas such as England Rural Development Programme and TSE surveillance.
- The near-cash Resource DEL for the Environment Agency does not include £167m capital grants for flood defence work.

Department for Environment, Food and Rural Affairs

Wednesday, 25 October 2006

## Monday 4 December 2006

Members present:

Mr Michael Jack, in the Chair

Mr David Drew  
James Duddridge  
David Lepper

Mrs Madeleine Moon  
Sir Peter Soulsby  
David Taylor

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### Memorandum submitted by the Department for Environment, Food and Rural Affairs (DAR 09)

#### DEFRA'S 2006-07 BUDGET

##### EXTENT AND IMPACT OF THE 2006-07 BUDGET CUTS

1. *Could the Department set out clearly all those areas where resources have been reduced from expected 2006-07 levels, and by what amount (in cash and percentage terms), due to the £200 million reduction in Defra's overall 2006-07 expected budget? In its answer, the Department should provide details and numbers relating to:*

- *any key projects that have, or may be, delayed, abandoned or otherwise affected;*
- *front-line services that have been, or will be, affected; and*
- *reductions in corporate services and back-office functions that do not arise from efficiencies, and so may result in a lower level of service or output.*

No key projects have been abandoned but certain programmes and projects have been delayed or scaled back, following the review explained in our response to Question 2, provided below. The impact of that review is set out in the answers to Question 3 and Question 4, below.

In terms of front-lines services, we engaged the Chief Executives of the delivery bodies to ensure that any impact was kept to a minimum. We have not heard of any cut-backs in services.

Some initiatives to streamline corporate services were scaled back to ensure that key services were not compromised.

2. *How did the Department decide where the budget cuts should fall?*

We conducted a rigorous review of financial allocations during the summer of 2006, which included detailed discussions with our agencies and sponsored bodies to agree where spending might best be reduced.

That review involved consultations and directions from Ministers on both an individual and collective basis. The subsequent adjustments to budgets were therefore based on protecting programmes that support the Department's priorities.

3. *For each of its current Public Service Agreement targets, could the Department explain what risk the budget cuts represent to meeting the target?*

To start with a general point, in many cases, the PSA targets stretch over long periods and these budget cuts apply to relatively small parts of delivery timescales. Thus the impact should be slight. It is also worth stressing that not all of the Department's activities are covered by Public Service Agreement targets.

Our last delivery report (in October 2006) to the Treasury on progress towards PSA targets confirms that there has been no immediate impact on progress, as there was no change to the overall likelihood of delivery for any of the PSAs. However, the last returns from target owners (which were used to inform our delivery report) included three areas where the target owner had commented on budgetary pressures. These were PSA 3a (Farmland Birds), PSA 3b (Sites of Special Scientific Interest) and the Service Delivery Agreement on Flood Management. In each of these cases, the observations on funding were long-standing and, therefore, not triggered by recent budgetary pressures. Furthermore, many of these issues on funding relate more to future years than the current financial year. Indeed, in the case of PSA 3a, the key issue was the need to secure funding for environmental stewardship schemes for the next Rural Development Programme (which will run from 2007-13).

As set out above, the Department responded to the pressures we faced with a thorough review designed to ensure that the impact on key objectives was minimised. We believe the changes made reflect and largely achieve that aim. Progress in delivering our PSAs is monitored by the Department's balanced scorecard; we can confirm that the status of our PSAs has not been affected by this exercise. Whilst financial pressures will undoubtedly have some impact on the risk of delivery, we believe this impact has been kept to a minimum. The Department has well developed risk management processes, but these do not currently provide a level

of sensitivity that would be able to accurately measure and report the relatively small changes to risks that arise from this exercise, given that the approach was designed to reduce such impacts to the minimum possible.

4. Could the Department set out each instance, in cash and percentage terms, in which the 2006–07 budget cuts have resulted in changes in (a) core Defra's and (b) an agency/NDPB's:

- (i) 2006–07 capital budget;
- (ii) 2006–07 resource budget;
- (iii) 2006–07 non-cash; and
- (iv) 2006–07 near-cash?

Whilst changes will have been made to capital and non-cash resource budgets during the year as apart of the normal ebb and flow of the Department's business, the 2006–07 budget review exercise focused on near-cash Resource DEL (RDEL) expenditure only. Changes are set out below. Near-cash RDEL controls form part of the resource budget, which would therefore reflect the changes detailed here.

Departmental Report Business Area	Original Budget	Adjustments			Total Adjustment	Revised Budget	% Change
		Core Dept	Executive Agencies	NDPBs & PCs			
Animal Health and Welfare	289,138	(31,352)	(2,732)		(34,084)	255,054	– 12%
Environmental Protection	999,638	(50,046)	(839)	(27,634)	(78,519)	921,119	– 8%
Sustainable Farming and Food	114,619	(11,150)		(403)	(11,553)	103,066	– 10%
Living Land and Seas	631,441	(11,834)		(14,500)	(26,334)	605,107	– 4%
Departmental Operations	272,897	(13,962)		(600)	(14,562)	258,335	– 5%
Rural Payments Agency	214,031					214,031	Nil
Other Executive Agencies	125,859		(4,722)		(4,722)	121,137	– 4%
Total	2,647,623	(118,344)	(8,293)	(43,137)	(169,774)	2,477,849	
Share	100.0%	70%	5%	25%	100%	93.6%	
Total Original Budget	2,647,623	1,389,855	514,946	742,822			
% of Total	100%	52%	19%	28%			
Share of total adjustment		9%	2%	6%			

Agency/NDPB/PC Analysis	Adjustments			Revised Budget	% Change
	Original Budget	Executive Agencies	NDPBs & PCs		
<i>Gross Controlled Agencies</i>					
Government Decontamination Service	3,279			3,279	
Marine Fisheries Agency	31,233	(1,722)		29,511	– 6%
Rural Payments Agency	214,031			214,031	
State Veterinary Service (See Note 1)	91,347	(3,000)		88,347	– 3%
<i>Net Controlled Agencies</i>					
CEFAS	33,300			33,300	
CSL	31,964			31,964	
PSD	11,200	(839)		10,361	– 7%
VLA	94,769	(2,449)		92,320	– 3%
VMD	3,823	(283)		3,540	– 7%
<i>NDPBs and Public Corporations</i>					
Environment Agency	451,442		(23,700)	427,742	– 5%
British Waterways	52,461		(3,934)	48,527	– 7%
Food From Britain	5,368		(403)	4,965	– 8%
Gangmasters Licensing Authority	3,900			3,900	
Kew RBG	18,200		(600)	17,600	– 3%
Natural England and CRC (Note 2)	207,751		(14,200)	193,551	– 7%
National Forest Company	3,700		(300)	3,400	– 8%
Totals	1,257,768	(8,293)	(43,137)	1,206,338	– 4%

**Notes to table:**

1 State Veterinary Service: see clarification at Question 9, which shows no overall change to the SVS budget.

2 The £14,200 is made up of £12,900 for Natural England, and £1,300 for the Commission for Rural Communities.

5. *Could the Department list the instances in which money has been transferred between (a) core Defra's and (b) an agency/NDPB's:*

- (i) *2006–07 capital and resource budgets; and*
- (ii) *2006–07 non-cash and near-cash?*

In the strictest sense of the question, no budgets have been directly transferred between a constituent part of the core Department and an Agency/NDPB. Budget pressures that were identified across the Defra “family” (ie core-Department, its Executive Agencies and sponsored bodies) were subsequently funded by budget savings from across the Defra “family”. But Defra is managing the budget at the highest level and it is true to say that financial pressures in one part of the Defra family (such as the need to find an additional £23 million for costs in the RPA) inevitably have to be absorbed across the Defra family.

6. *What are the specific implications for Defra's services and projects in those cases where a transfer has occurred?*

This does not apply—see the reply to Question 5, above.

7. *Could the Department provide an approximate time-line to set out what it told those agencies/NDPBs who encountered reductions in their expected 2006–07 budgets about the extent of those reductions, between the first warning that cuts would be made and the latest position on the budget?*

Budgetary pressures were brought to the attention of Ministers in May 2006, shortly after the new Ministerial team was formed. The new Ministers very quickly engaged with the issues on budgetary pressures.

Following the identification of problems making Single Farm Payments at the RPA and emergency preparedness work to deal with suspected Avian Influenza outbreaks (Spring 2006) an internal assessment of the budgetary outlook was made by Defra's central Finance Directorate. This was escalated to the Permanent Secretary and Directors General in April 2006.

The budget review was commenced on 18 May 2006 and all parts of Defra (including Agencies/NDPBs) were notified of the problem and action required at the same time. A target range of achieving 7.5% savings from near-cash RDEL was clearly set out as the mean required to address the £200 million-plus budget shortfall.

This target remained constant throughout the budget review that took place over the summer but with an important qualification that this was the overall target required to address the situation. Within this target, there was discretion for Ministers to wholly or partly protect priority programmes/activities so that bespoke adjustments above or below the 7.5% mean could take place. By the time of the conclusion of the budget review in September, most NDPBs accepted the mean 7.5% adjustment.

8. *What effect will the Department's budget cuts have on the Government's climate change commitments, especially in light of the publication of the Stern Report?*

The Government is committed to addressing the effects of climate change through playing a leading role both nationally and internationally. The budget review was based on protecting Government/Departmental priorities and in particular, Defra's expanding commitment to climate change activities. We have funded in part the creation of the Office of Climate Change and the work to take forward the Energy Review.

Defra's budget for Environmental Protection, including capital, has in fact increased from £930 million in 2002–03 to £1,492 million in 2006–07. Discounting some £321 million in respect of flood defence responsibilities that transferred from the Office of the Deputy Prime Minister to Defra in 2004–05, this represents an increase of £241 million, or 26% over the period.

#### IMPACT OF BUDGET REDUCTIONS ON THE STATE VETERINARY SERVICE

Responding to Mr Paice's WPQ on 30 October 2006 (HC Debs, 52W), the Department states that, with the exception of the RPA, “no changes have been made to the original capital budgets for 2006–07” of those bodies listed—including the State Veterinary Service (SVS).

In a House of Lords debate the same day, Lord Rooker said that, despite a £3 million reduction in the SVS's expected resource budget, no reduction had occurred in the total budget of the SVS because the resource money had been “swapped from capital” (HL Deb, col 9).

On 2 November, the Parliamentary Under-Secretary of State told the Commons that the SVS had moved £3 million “from revenue to capital” (HC Deb, col 452).

9. *In response to a Written Parliamentary Question on 30 October 2006, the Department said that no changes had been made to the State Veterinary Service (SVS) original 2006–07 capital budget. Lord Rooker has said that the SVS had a £3 million increase in its capital budget. Which explanation is correct and why did the confusion arise?*

— *Is there an overall reduction in the SVS's total budget?*

No, there has not been an overall reduction to the SVS Budget for 2006–07.

In the Reply to PQ 6461 (Chris Huhne—House of Commons) the Department stated that there had been a £3 million (3%) reduction to the SVS' Resource budget as shown in the table at Question 4. However, this was actually a legitimate reclassification of expenditure from near-cash Resource to Capital. Some costs associated with the SVS Business Reform Programme could legitimately be treated as capital. So whilst the Resource budget was reduced by £3 million to reflect the re-classification, at the same time the Capital budget was increased by £3 million. There was therefore no overall change to the SVS's budget.

10. *What process of cross-checking and review has the Department used in preparation for its public statements about the 2006–07 budget changes? Does the Department consider that its public statements have been adequately clear and consistent?*

The normal Departmental procedures and processes for making public statements have been adhered to and have involved senior management.

The reply to WPQ 6461 was factually correct in that the response was annotated to signify that the budget adjustments applied to near-cash RDEL only. With hindsight, a further annotation specific to the SVS should have clarified the re-classification issue and corresponding increase in capital budgets.

Regarding the inconsistency in the Oral Debates (HL 30/10 and HC 2/11) it is understandable that Ministers may have confused the direction of travel on a technical re-classification for one budget line item—even more so, given the general complexity of Government finances and the compartmentalisation of expenditure.

#### CAUSES OF THE 2006–07 BUDGET CUTS

The Committee wishes to understand exactly which factors contributed to the total £200 million reduction in Defra's 2006–07 expected budget, and to what extent. Problems at the Rural Payments Agency, the avian influenza outbreak and changes in Treasury accounting rules are some of the reasons for the reduction that have been given by the Department.

When asked in the Lords on 30 October whether the budget cuts were caused by underspending or overspending, Lord Rooker said it was “both”.

11. *Could the Department list the factors that contributed to the total £200 million reduction in its 2006–07 expected budget? For each factor, the Department should state:*

- (a) *the exact cost of this problem, and a breakdown of this number;*
- (b) *what proportion of this amount was near-cash DEL, non-cash or capital;*
- (c) *the date when the Department could confirm that this problem would have an impact on the 2006–07 budget; and*
- (d) *any measures that the Department took earlier in the year to address the problem when it first arose?*

The Department has not had a £200 million reduction in its budget as set by Treasury. The overall budget for 2006–07 remains the same.

- (a) The Department's net DEL budget pressure at any point in time is derived by comparing the sum of the individual budget allocations to core-department business areas, agencies and NDPBs to the Treasury agreed budget, after taking account of additional emerging pressures and savings. Budgets tend to be set in full just before the start of the Financial Year and monitored throughout the year. But Government departments do not routinely change the budget in-year simply because of emerging pressures. In order to eliminate systemic underspend, the department would normally expect to start the year with a net budget pressure which would be eroded by underspends which emerge as the year unfolds. The £200 million plus was largely caused by legacy issues from 2005–06, including pressures within that year from a tighter fiscal environment, as well as some additional pressures that arose in 2006–07. It is not possible to provide a definitive, single list of these pressures, as the situation was being evaluated on a rolling basis, with estimates of expected costs and pressures changing over time, and the position at any moment representing only a snapshot of the situation as it was understood at that instant.

Issues arising during 2005–06 that fed into pressures for 2006–07 included:

- (i) £40 million of work (eg Countryside Agency, English Nature, Aggregates Levy and R&D) was re-profiled from last year into this year. This helped to meet various other 2005–06 pressures that had arisen earlier in 2005–06 (eg TB compensation, structural funds, the final costs of foot and mouth disease, property rent increases).
  - (ii) £55 million of work (eg flood management, waste, IT and R&D) was delayed from last year into this year to be financed by EYF draw-down in 2006–07.
  - (iii) The Department of Health did not contribute the final £23 million share of the costs of the Over Thirty Months cattle culling Scheme.
  - (iv) The Department incurred £10 million of additional animal disease emergency preparedness costs resulting from concerns over Avian Influenza.
  - (v) New Pressures from April 2006, amounting to approximately £50 million. These included some £23 million extra for RPA's running costs (about 11% of the pressures), recognising that the efficiency savings are delayed and to support making timely payments to farmers. Some £10 million extra related to emergency preparedness work for avian influenza (including the costs of the small outbreak in East Anglia). We also faced £10 million for additional rationalisation costs resulting from the Modernising Rural Delivery Programme and the planned creation of Natural England.
  - (vi) There were/are other miscellaneous smaller pressures and risks that push the projected potential budget shortfall to over £200 million. The Department keeps these budget pressures and costs under regular review.
  - (vii) Following discussions with HMT, the Department recognised that there was not the flexibility between budget categories to allow the Department to manage pressures as planned. Importantly, this meant we had less scope to accommodate near-cash pressures than we expected.
- (b) All of the pressures which prompted the budget review are in near-cash Resource DEL. The review dealt only with near-cash Resource DEL.
- (c) When budgets for 2006–07 were confirmed in March 2006 the outlook for the year ahead highlighted that budgets would have to be closely monitored (partly because of the likely financial pressures in the RPA) and there was likely to be agreed budget recoveries to manage known and emerging pressures. The risks involved and prospect of an intensive budget management process was therefore known from the outset. Additionally, there were uncertainties at the start of the Financial Year over the Single Payment System, possible disallowance and the loss of planned efficiencies from the RPA Change Programme. The decision that the Department of Health would not contribute the final share of the costs to the Over Thirty Months Scheme was not confirmed until the very end of FY 2005–06.

It became clear in March 2006 that we would not have the flexibility between budget categories to manage the pressures in the way that we had planned. And the outbreaks of Avian Influenza in April added to these pressures. Ministers were immediately involved in the work to review the budget.

The situation was further evaluated during April and May by central Finance and between the Finance Director and Permanent Secretary. This led to commissioning the formal budget review action from Directorates General on 18 May.

- (d) Defra's central Finance Directorate, as part of its routine responsibilities, examined the forecast 2006–07 budget from the outset, as per (c) above.

This entails assessing and reviewing known pressures and risks; examining the propensity of demand-led schemes to deviate from forecast; exploring the potential of accounting re-classifications to ease budget "pinch-points" and using current and historic spending information to evaluate the potential for budget underspends.

All Business Areas were made aware from the time of the budget setting exercise in March that there was a precarious budget situation looming and remedial action through the in-year monitoring procedures would take place. The budget review exercise was formally notified to Defra Business Areas on 18 May.

#### REMOVAL OF END-YEAR FLEXIBILITY

On 30 October 2006, Lord Rooker said that £55 million of the £200 million cuts were due to the Treasury's decision not to grant Defra its End-Year Flexibility.

12. *Could the Department explain why the Treasury did not grant the Department its End-Year-Flexibility (EYF)?*

Defra was granted its full EYF entitlement in 2005–06 in that the planned underspend from 2004–05 was added by Treasury to the Department's EYF stock. An unexpected restriction placed on Defra, and all Government Departments in July 2005 was that near-cash EYF stock could only be drawn-down and utilised in the 2005–06 financial year with Treasury approval. In view of the pressures Defra faced in

2005–06, the Department negotiated draw-down of £65 million near cash in 2005–06, leaving a stock of £55 million which could be accessed if necessary in 2006–07 and 2007–08.

13. *How confident was the Department that it would receive its EYF? To what extent had the Department's 2006–07 budgeting plans been based on the assumption that it would receive its EYF?*

The Department had no reason not to expect to receive its full EYF entitlement in 2005–06. There was no recent occurrence of EYF draw-down being withheld.

Defra's 2006–07 budget included as one of its planning assumptions the utilisation of £50 million of the remaining near-cash resource EYF stock.

14. *To what extent is the Department relying on drawing down its remaining EYF in the current revised budget? What is the risk that the Treasury will again refuse any such request?*

As part of the restrictions on drawing-down 2005–06 EYF, Treasury stipulated that “up to £50 million” of the remaining stock could be drawn “in 2006–07 and the balance” in 2007–08. The intention is to draw-down £50 million near-cash RDEL EYF in the Spring Supplementary Estimate. This amount has been included in both the budget review arithmetic and our monthly forecasts to Treasury. Whilst Treasury can reject our request in Supplementary Estimates we have no reason or indication to believe this is likely.

#### TREASURY RE-CLASSIFICATION OF NON-CASH AND NEAR-CASH SPENDING

In oral evidence to the Committee, the Permanent Secretary said that the Treasury's reclassification, within the Department's overall parliamentary vote, of near-cash and non-cash spending, had contributed to the Department's budgeting problems in 2006–07. Lord Rooker said in the Lords on 30 October 2006 that this factor contributed to £65 million of the total £200 million reduction.

15. *Could the Department explain clearly, providing numbers to illustrate, how changes in Treasury accounting rules resulted in a reduction in Defra's expected 2006–07 budget?*

There has been no reduction to Defra's 2006–07 budget due to the clarification of HM Treasury's accounting rules.

Resulting from the Spending Review Settlement 2004 (SR04) Defra had a non-cash baseline of £315.224 million per annum (2005–06 to 2007–08) after a £15 million adjustment to reflect reclassification of CAP payments from AME to DEL. This baseline budget provides cover for various non-cash expenditure, namely depreciation and capital charges. However further analysis of the baseline and the resource accounting implications of the Department's asset base has determined that a more accurate budget would be around £230 million.

As stated in the Treasury's Resource and Budgeting Guidance, the Department has flexibility to redeploy up to £20 million savings a year on non-cash costs to offset pressures on near-cash where this has resulted from improved decision-making. Defra has made use of the flexibility to switch £20 million non-cash to near cash over the SR04 years but, as set out in the Guidance, a non-cash to near-cash switch of the £65 million described above can only be permitted within the context of the fiscal rules and requires Treasury approval. Even if the remaining £65 million excess (ie after the £20 million flexibility) had been the result of improved management of the Department's asset base, switches of this magnitude are not approvable in a tight fiscal climate.

#### COMPREHENSIVE SPENDING REVIEW 2007

16. *Could the Department provide an update on its involvement in the Comprehensive Spending Review (CSR) 2007 discussions? What is Defra's objective in the CSR round, and how confident is the Department that it will obtain its desired funding for the CSR 2007 period?*

Defra is busily engaged in the CSR07 exercise and to date has fully complied with the supply of information in adherence with the HM Treasury timetable.

Since taking office, David Miliband has had two bi-lateral meetings with the Chief Secretary to the Treasury, most recently in the first week of November. Whilst the consideration of Government spending plans under the CSR remains confidential, it is enough to say that Defra is seeking to maximise available resources to promote its overarching goals.

The outcome of CSR07 will ultimately be decided by the Chief Secretary and Chancellor in liaison with Cabinet colleagues.

## MEASURES TO PREVENT SIMILAR SITUATION IN FUTURE

17. *What measures has the Department taken, or planned to take, to identify all the causes of the current situation and to prevent them occurring again in the future? In its answer, the Department should state what changes have been made, or will be made, to:*

- (a) *internal financial and performance monitoring, and reporting to the Board;*
- (b) *staff training (at all levels);*
- (c) *risk management; and*
- (d) *monitoring of its agencies and NDPBs?*

The circumstances that have caused budget difficulties are not confined to 2006–07 as the restriction on EYF draw-down in 2005–06 demonstrated. The restriction and the non-cash baseline correction required continue to define the budget situation for 2007–08. But the remedial action being taken through budget reviews means that the associated problems should not recur on the same scale beyond the SR04 period.

However, any Government Department will always face unplanned and unforeseen pressures on its annual budget. Budgets are not set in stone and they must retain an element of flexibility in order to respond to events and changing circumstances.

In addition to the specific questions raised here, Defra has taken several key steps to improve budgetary control. First, Ministers are closely involved in the prioritisation process. As an example, Ministers will be taking part in a workshop on 11 December to match resources to policies. Directors General are playing a major part in explaining options (including those relating to cost) to Ministers. We have also established an accountability framework with clear reporting lines. This is supported by a system of decentralised budgetary control, which has now been strengthened by the appointment financial and business management professionals in each Directorate General.

- (a) Defra is continually seeking to enhance and review its internal financial and performance reporting. The track-record of improved financial out-turn (£1 million underspend on a £3.6 billion budget in 2005–06) is evidence of this.
- (b) The Department is also upskilling and investing in the financial management of its Directorate-General policy groups through the appointment of finance managers at senior civil servant level.
- (c) We see good risk management as integral to effective internal financial and performance reporting, not as a separate exercise. As such, we recognise that there is a high level of inherent risk in managing the Department's budget successfully. Having effective financial controls in place, together with skilled staff and a prioritisation process that is able to understand how the risk balance changes when budgets are cut or distributed differently are key to managing that part of the inherent risk that is within our control. We recognise that there are other elements (such as the potential for HMT to refuse EYF drawdown requests) where we have little control over their likelihood of occurrence. Where this is the case, given what has happened this financial year, the Department will consider using more cautious planning assumptions in future years.
- (d) The budget review process and preparations for CSR07 have necessitated a more open and inclusive relationship between the core-Department and its Agencies and Delivery Bodies. For example, the Ministerial team have met with the Heads of all Defra's Delivery Bodies on two occasions in the last three months specifically to discuss budget issues.

The financial monitoring of Executive Agencies and NDPBs has not been a problem area but preparations for the submission of Defra's CSR07 requirements has evidenced an enhanced level of engagement and shared understanding in the planning process.

18. *In those cases where factors contributing to the £200 million budget cuts originated in the Department's agencies or NDPBs, what steps has the Department taken to ensure that the bodies concerned implement changes to prevent problems in the future?*

The main factors were issues arising in connection with the Rural Payments Agency. A number of reviews of operations, with particular emphasis on the SPS systems, have been or are being conducted. A Recovery Plan to stabilise RPA operations is under consideration and will be implemented accordingly with due regard to affordability and value for money.

Department for Environment, Food and Rural Affairs

November 2006

*Witnesses: Ms Helen Gosh, Permanent Secretary, and Mr Ian Grattidge, Director Finance, Planning and Resources, Department for Environment, Food and Rural Affairs, gave evidence.*

**Q97 Chairman:** Good afternoon. Can I welcome the Permanent Secretary, Helen Ghosh, from Defra and Mr Ian Grattidge, their Director of Finance, Planning and Resources, to this one-off additional evidence session as part of the Committee's report into Defra's Departmental Annual Report. Since we started out on our commentary on the Annual Report Defra announced some deductions in its expenditure. The Committee decided that we would like to go into this in a little more detail. Can I just say to our witnesses at the outset, you have the advantage of expertise and knowledge on how your accounting procedures work, you will also be very used to talking in your own shorthand. We have neither, and it would be extremely helpful if you could avoid the use of acronyms and, wherever possible, give us some technical explanation of the terminology that you will be using so that we might understand with some clarity what it is that you are helpfully going to be saying to us. From the analysis that we have carried out to date on looking at the numbers, there seems to have been a swirling sort of mist of reasons given over time as to why Defra has found itself short in the 2006–07 financial year of around £200 million. I wonder, by way of initial explanation, whether the Permanent Secretary could explain to us why so many different versions of where this £200 million had come from were given and then why it took a Parliamentary Question from Mr Huhne of the Liberal Democrats to seemingly get on the record in clear terms what actually accounted for this £200 million?

**Ms Ghosh:** Thank you, Chairman. I think the fact that story is very complicated actually is telling in itself. One of the messages that we tried to get through in the note that we provided the Committee with, which I hope you found helpful, was that managing a budget of a large department like Defra is actually a complicated thing and, at any one time, what we are doing is balancing off potential underspends in one part of the budget against potential overspends another in order to come in at the end of the year on target, which, to pay tribute to Ian and his team, in 2005–06 we did within, I think, one million on a more than three billion budget, which is pretty good. Managing a budget through a year is a complicated business, and I think the explanation that we give in the note to the Committee shows how many of the impacts the budget pressures we were facing in 2005–06 then had an impact into 2006–07. Again, I am not going to repeat the explanation given in the note on all the various impacts that produced our increasing recognition, through the period from February, March into April this year, that the budgets that we had set across the department were not ones we would be able to realise within the resource envelope we were likely to have. There were a number of pressures that had arisen already from 2005–06, some of them relating to Treasury changes in accounting rules, some of them a conscious postponement of expenditure. I think, through February, March, April, at least two things became clearer to us. First of all, that the problems around

the RPA—and I am just talking about resource budgets here—would require increases in resources for 2006–07. Secondly, by the time we got to April, we had a further set of expenditure around avian flu, and I think both of those factors made us realise that we would not, as we thought we might have been when we set our budgets for the year, be able to get through the year on the basis that we had originally planned. So that is when we in the department started to re-profile spending, with the support of Ian and the finance team, so that by the time a new team of ministers came in, in May, we presented them with some spending options and the discussions with delivery bodies began.

**Q98 Chairman:** What was the earliest time, to go back on what you are saying, that you actually realised you were starting to run into trouble as a department?

**Ms Ghosh:** I think we realised when we set the budget, in January or so of the year, that it was tight, that in the new world, where our budgeting and forecasting was much better, where some of the flexibilities that had previously existed in terms of being able to switch from one spending allocation to another had been taken away, we knew that spending would be tight, and were conscious of that in our discussions with ministers when we originally set the budgets for 2006–07. I think, as I say, it was really through March and April, as the resource requirements, though relatively small as a proportion of the whole of RPA, and then the likely impacts of avian influenza came through, that we began to realise that we could not continue to budget on the basis that we were and we put together the proposals for ministers, as it turned out a new ministerial team, to look at cutting our coat according to our cloth.

**Q99 Chairman:** As a department you had always enjoyed the fruits of being prudent by underspending and you had always counted on having end-year-flexibility to carry you through to deal with the kind of contingencies that you have just described.

**Ms Ghosh:** Yes.

**Q100 Chairman:** What went wrong?

**Ms Ghosh:** I would not say that anything went wrong. As the Committee is aware, the fiscal position, the spending position, has tightened significantly in recent years to a stage where the relative luxury that we had had in previous years of carrying forward an underspend from year to year and then applying it to the next year's spend was simply squeezed out of the system. There is still some end-year-flexibility left in the system, and, as you will know from the note, we are anticipating drawing down 50 million of resource end-year-flexibility in this year's budget.

**Q101 Chairman:** But that was not as much as you had planned for?

*Ms Ghosh:* Absolutely.

**Q102 Chairman:** You said in your opening remarks that the Treasury accounting rules had changed. Could you explain how they had changed, when you were advised they were changed and under what terms you were advised that they were changed?

*Ms Ghosh:* This was a change that went on (and I will hand over to Ian, who can give you chapter and verse in terms of dates, through 2005–06) with a first impact on 2005–06 which then had a forward impact in 2006–07. Ian, you are the expert on dates.

*Mr Grattidge:* The first indication we got of significant changes in the accounting work and, in particular, proposals to distinguish in our current spending between near-cash, that is current expenditure which has a fairly early cash flow consequence, and non-cash expenditure, which covers non-cash related items in our current spending, like, for example, depreciation. SR2004 Guidance was the first sign that this would be part of a new regime which would kick in, in full, from 2006–07 but elements of which would be introduced over the course of 2005–06. Having a set of guidance which distinguishes between near-cash and non-cash and actually managing the budget through the particular impacts of that change are two slightly different things. We had a theoretical set of guidelines for SR2004, but it was not until early 2005–06 that we began to realise the full impact of the changes and how they would impact on the Defra budget.

**Q103 Chairman:** Why did it take you so long to wake up? If these were clearly defined by the Treasury, why did it take you so long to work out what the impact was?

*Mr Grattidge:* The rules were not, in all cases, clearly defined, and it is one thing to appreciate that a set of rules are coming on, it is another thing to see how they will impact on the departmental budget. For example, the 2004 Spending Review gave allocations for near-cash and non-cash. Actually the impact of the new non near-cash accounting rules made it clear that there was an imbalance in the budget, but working those through took some time because it is a large department and it has a very fragmented budget.

*Ms Ghosh:* I should say, although comparisons are odious, there were similar challenges across a wide number of other departments and we were ahead of the game, rather than behind the game, in terms of catching up with the realisation of what these changes meant.

**Q104 Chairman:** What I find a bit odd about all that is that, when our colleagues in the Scrutiny Unit asked the Treasury about what these rules were, they said they had not really changed, and the next thing they said was that Defra would explain them to us. I am still a bit fuzzy about what the changes are. It seems to be that you were alerted to something that was happening in 2005–06, you did not really know

what the impact was, but certainly you woke up in 2006–07 to realise that you were being squeezed. Perhaps you could clarify to us how it works?

*Mr Grattidge:* It is worth reflecting on the impacts in 2005–06, and there were two. The first one was that the Treasury came to us and said that the rules in terms of—

**Q105 Chairman:** I will tell you what. Let us just do it simply and with some numbers. If we take the financial year 2005–06, how much end-year-flexibility did you hope you would have?

*Mr Grattidge:* The figure, I think, was about 160 million.

**Q106 Chairman:** So you hoped you would be able to spend 160 million in the financial year 2006–07. That was your expectation, was it?

*Mr Grattidge:* We expected to be able to draw down about £90 million worth of end-year-flexibility in the first year.

**Q107 Chairman:** When you say “the first year”?

*Mr Grattidge:* 2005–06. Not all of that, actually, would have been in the form of resource near-cash, it would have been a mixture of different funding sources. It is important to recognise that what happened in 2005–06 was not that we lost entitlement to end-year-flexibility, it was that the Treasury imposed restrictions on the amounts that we could draw down.

**Q108 Chairman:** When did you get sight that these restrictions were coming along. You have just said that the 90 million was for 2005–06. When were you going to spend that 90 million?

*Mr Grattidge:* If I can go back, the point about entitlement to end-year-flexibility is that it is there to help the department absorb pressures as they come through the year.

**Q109 Chairman:** But you have got a track record as a department of underspending. So if you are sitting there in your financial comfort zone thinking: “The job is getting tight, but I have got, potentially, £160 million of end-year-flexibility. This will get us out of some of our future problems”, then, all of a sudden, the Treasury supposedly change the ground rules and the comfort zone gets removed. I am trying to understand, and, please forgive me, but if I do not understand you tell me. You have got £160 million that you did not spend in 2005–06. If I have understood what you are saying, you thought you could use 90 million of that to help you out in 2006–07. Is that right?

*Mr Grattidge:* No. The planned draw-down in 2006–07, I think, was about 60 million—50 near-cash and 60 overall. The point about it was that a wider pool of entitlement then restricted in terms of draw-down means that, if pressures came through the year, the department would have to manage with what was effectively a tighter overall spending ceiling, and part of the explanation that we gave to the Committee in answer to its questions was that

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4 December 2006 Ms Helen Gosh and Mr Ian Grattidge

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part of the way that we were able to mitigate that was to defer some spending planned for 2005–06 into 2006–07.

**Q110 Chairman:** I am trying to get this in a picture that I understand with real numbers, and I am still struggling here a bit. Clearly, if you thought you were going to be able to carry a sum of money forward and you could not, then, by definition, that starts the process?

**Ms Ghosh:** Yes.

**Q111 Chairman:** The reason I am asking that it is that, Permanent Secretary, in your comments you have talked about the RPA problem and avian influenza, but of the £200 million that only represents 16% of the money and I am trying to understand what constitutes the rest of the 200 million. Do you want to have another go at explaining to us how your hoped-for spending in 2006–07 by this end-year-flexibility was actually diminished?

**Ms Ghosh:** If you look at the explanation on page seven of our note, it has essentially two elements to it, and what Ian was describing, in terms of the impact of reductions in the availability of EYF from the EYF store that we had, first started to have an impact in 2005–06. So, as you will see, the first four elements of what was building up pressure in the pressure cooker in 2005–06 are shown there. So in 2005–06 we had, again, some re-profiling of activity which put pressure on the 2005–06 budget.

**Q112 Chairman:** I am sorry, you are describing the pressures, and that comes, because I added it up, to £168 million worth of pressures on the budget?

**Ms Ghosh:** Yes. That arose from 2005–06 because of the pressure on the budget from, for example, changes in availability of end-year-flexibility. These first four are things that we knew were “carried forward” pressures into 2006–07, before we began to recognise (and that is from (v) onwards) the things that we could only know about, effectively, once we get into the March, April, May period.<sup>1</sup> So we knew that there were pressures that we needed to carry forward into the following year (from 2005–06 into 2006–07) the question was at what point (and this is back to your question, Chairman) did it become clear that we needed immediately to do some re-profiling of spend, in particular to redraw the budgets, for example, for our delivery bodies and for Defra. The point I was making at the beginning was we knew that we had these 2005–06 arising pressures, we thought that we could cope with them. However, it became clear, as the pressures increased from March and April onwards, that we could not, and that is why we went into the re-profiling exercise. It is a matter of judgment as to what point you think: Can we cope with this? Will good management help us get there?

**Q113 Chairman:** Part of your get-out-of-jail-free card, you hoped, would be the end-year-flexibility, because you are saying that in 2005–06 £40 million, £55 million, £23 million and £10 million and the other monies listed here, were building up?

**Ms Ghosh:** It is building up a pressure which we knew we would have to—

**Q114 Chairman:** That is going to be money you are going to have to find again in 2006–07?

**Ms Ghosh:** Exactly; yes.

**Q115 Chairman:** But you hope that you might be able to get away with that with some end-year-flexibility. Yes?

**Ms Ghosh:** That would have been one of the—. This is where I think we did not think there was just one answer. We could have got through it with some end-year-flexibility if we had had significant underspend in another part of the budget, if projects and programmes slipped a bit. There are two or three, or even more than that, things that we had to shuffle.

**Q116 Chairman:** That is not what you said publicly. What you said publicly is that it has been a combination of these pressures and a change in Treasury accounting rules, and the change in the Treasury accounting rules affect the end-year-flexibility, which Mr Grattidge was trying to explain to us. What I am anxious to know is that you might have thought in 2005–06, “We can cope with this list of extra pressures because we have got some end-year-flexibility”, and it turned out, because the rules had been changed, that you could not carry forward as much of that flexibility as you had thought. Is that right?

**Ms Ghosh:** Or, indeed, some of the pressures that we were carrying forward from 2005–06 into 2006–07 also arose from the fact that there was less flexibility to use in 2005–06 itself, which caused us to push it forward.

**Q117 Chairman:** We are trying to understand how much of this money from the flexibility you hoped you were going to carry forward. Was it the 160 million?

**Mr Grattidge:** No. If you look at indent (ii) on page seven of our answers to the Committee, you will see that we allocated about £55 million worth of expenditure, which we deferred from 2005–06 into 2006–07, to cover the loss of EYF draw-down that we would have taken otherwise in 2005–06.<sup>2</sup> So, because some of our EYF pool was pushed into future years, some of our spending followed into those future years as well.

**Q118 Chairman:** I follow that. Maybe I am not asking the right question. End-year-flexibility is about what a department did not spend out of what it had budgeted originally to spend. Let me ask the question again. For the financial year 2005–06 what was that number?

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<sup>1</sup> Ev 48

<sup>2</sup> Ev 48

**Ms Ghosh:** You mean that we were expecting to be able to draw down in 2005–06 against our pool.

**Q119 Chairman:** Yes.

**Ms Ghosh:** And what did we actually get in end-year-flexibility in 2005–06.

**Q120 Chairman:** We are going to go and find how the Treasury muddied the water, but let us start off with what did you hope you had?

**Mr Grattidge:** We expected to be able to draw down up to the 150–160 million or so of our end-year-flexibility, if we wished to use it in 2005–06. As regards the decision to restrict how much of that we could draw down in 2005–06, we did not lose the overall entitlement, just part of the entitlement moved to a future year. So there was a restriction on how much we could take in 2005–06, and I think it was up to about 90 million, but not all of it, as I said earlier, is in the form of resource near-cash.

**Q121 Chairman:** So that is 90 million of things you could have spent pretty quickly turning into cash that you did not have?

**Ms Ghosh:** In 2005–06.

**Q122 Chairman:** And that obviously carries forward into the next financial year?

**Ms Ghosh:** Yes.

**Q123 Chairman:** What were these rule changes? As I say, when we asked the Treasury, or our “agents” asked the Treasury, they said, “Nothing really has changed. There was a bit of clarification. You had better ask Defra. They will tell you.” So, what did change?

**Mr Grattidge:** The two significant changes in 2005–06, firstly, were that the Treasury modified the rules on end-year-flexibility; so they gave to departments no loss of overall entitlement but they restricted the amount that could be drawn down in any one particular year. So that was not so much a rule change on the budgeting, it was just the way that they wished to operate the end-year-flexibility rules. The second change was around the introduction of resource budgeting rules, which were phased in over the course of 2005–06, and saw something of the introduction of near-cash resource expenditure, which I explained earlier to the Committee, and some restrictions on the way that near-cash and non-cash spending could be switched between budget lines.

**Q124 Chairman:** You had no idea that these changes were coming?

**Mr Grattidge:** We had an idea that they were coming. What I think is true to say is that the issue of the end-year-flexibility which arose in the summer caused a significant review of our budgets.

**Q125 Chairman:** Which summer are we talking about?

**Mr Grattidge:** 2005–06. Subsequently, later in the year, in the light of the restrictions on end-year-flexibility, we began to draw down, we began to look again at the impact of the new resource budgeting rules on the department’s final outturn.

**Ms Ghosh:** Just to add a postscript to that, it was our successful management, both on the restriction on draw-down on EYF and adjustment to the new rules as they came in, that enabled us to come in at one million pounds below our resource budget. I want to emphasise this. We successfully managed the changes to the regimes that happened in 2005–06, and that is a tribute to Ian and his team. There were then the push-on impacts into 2006–07, which are the ones that are described in (i) to (iv) here.

**Q126 Chairman:** If you could see what was coming along for 2006–07—you had lost a certain amount of your end-year-flexibility, you had got this list of cost-push pressures that were coming through, when we turned round the corner into January 2006, and you knew you were facing a worsening financial position—why did you not sort out this position until July?

**Ms Ghosh:** As I said earlier on, Chairman, we started sorting out this position in March and April of the year. I would just comment on two things. Had we decided in January to adjust future budgets, which we were already in the process of giving to delivery bodies, among others, then we would almost certainly have had to have two bites of the cherry. It is always a matter when you are managing a departmental budget to make a judgment about what is unmanageable pressure and what is manageable pressure. Again, to go back to comments I made earlier, we were a department that traditionally underspent rather than overspent, we had delivery bodies with large capital programmes which often slipped from year to year. They had shown considerable flexibility and success in doing that in previous years. There was no reason to suppose, until the evidence began to harden up through February, March, April that we would be unable to manage within the resource figure that we had. The moment it became clear from, as you say, this relatively small but actually marginally very important evidence coming out of the RPA and, later on, additional pressures coming out of avian influenza, I think at that point, March/April, we decided that we needed to have a serious look at the budgets. We started to do the internal reviews. I think even at that stage we were beginning to talk to delivery bodies. We took the views of ministers in May and in June had a number of detailed discussions with delivery bodies about the prospects and about their preferred options for going forward so that by July we were in a position to give them budgets for the year; and I should say now (you might like to discuss this more later) the budget monitoring is showing that things are going smoothly and, with good financial management, we should be able to get through to the end of the year within our budget, as we are planning to do.

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4 December 2006 Ms Helen Gosh and Mr Ian Grattidge

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**Q127 Chairman:** For the record, just to go back, so that we are entirely clear, when was the first notification from the Treasury given to Defra that the rules on the end-year-flexibility were changing?

**Mr Grattidge:** I may have to come back to the Committee on that. I think it was May 2005.

**Ms Ghosh:** It must be spring 2005.

**Q128 Chairman:** The other near-cash changes, when were they advised?

**Mr Grattidge:** The first signal of the near-cash changes, I think, would have been part of the guidance that was provided in the 2004 Spending Review. It would not have been clear what the impact of the near-cash, non-cash splits were until the 2004 Spending Review settlement, but I think, more importantly, the departmental assessment of the impacts in 2005–06 were not fully clear until after we had conducted negotiations with the Treasury on our end-year-flexibility in 2005–06.

**Q129 Chairman:** Just to be clear, you understood the rules but you did not understand the impact until you had talked to the Treasury?

**Mr Grattidge:** We understood the rule changes, we did not understand the impact on the departmental budgets, ie what potential pressures we might have across the budget, until we had resolved with the Treasury, firstly, our end-year-flexibility draw-down in 2005–06.

**Q130 Chairman:** When did you resolve that with the Treasury?

**Mr Grattidge:** That was resolved in the autumn of 2005. We then had a number of residual issues about the operation of the new budgeting rules.

**Q131 Chairman:** When you say autumn, you mean September, October or November?

**Mr Grattidge:** I think it is October.

**Ms Ghosh:** Again, that is not unusual, in the sense that draw-down of EYF is, as it were, a balancing item. Not to know your EYF draw-down at that stage in the year would not be an extraordinary certainty to have.

**Q132 Chairman:** I find quite difficult—in the 2005–06 financial year you have got some clarity towards the end of the calendar year 2005—what all of this was actually meaning to the numbers that were building up in Defra, both in terms of the cash pressures on current and future expenditure and the amount of flexibility that you actually had to deal with this, and yet you could not, by the end of the financial year, or shortly thereafter, actually come to a real world conclusion as to what this would mean on the budget for 2006–07 and ended up by changing it mid year.

**Ms Ghosh:** Just to posit the counterfactual, of course you are absolutely right, and David Miliband has said on a number of occasions, yes, it is a pity that we could not give the delivery bodies, in particular, earlier notice. We were involved in discussion with them, and we can come back to you with the particulars, certainly from April, May, June on what

the likely outcomes for their budgets would be, and I know (I think it came through in some of the notes that have been going around on the impact of the budget changes) that they were, nonetheless, operating on a prudent budget even before we finalised the budgets in July. For example, we had given notice to the Environment Agency on the likely outcomes and they were not committing beyond a certain percentage level of their expenditure. So, it is not the case that the July statement came as a bolt from the blue from them, the discussions we were having with them were enabling them to budget reasonably. I would just stress a point I think I have made to the Committee before. Even if we had realised (and it would have required a bit of clairvoyance, particularly in relation to the RPA and AI) in February or March exactly what the implications were, we would still have had to make the cuts on the budgets that people were expecting against the envelope that we had. It would not have changed the £200 million figure, we would just, as you say, have been able to give people earlier notice, but we worked very hard to give them as early as possible notice as we could. As I say, having done so in July, management of our finances is going forward very smoothly.

**Q133 Sir Peter Soulsby:** Can I just go back over what you have just been telling us. Am I right in understanding that you as a department were aware, whether it was as a result of tighter rules or of you beginning to understand what the rules were as a result of clarification, that there were issues about the near-cash and the non-cash expenditure and the end-year-flexibility in the spring/summer 2005?

**Ms Ghosh:** Yes.

**Q134 Sir Peter Soulsby:** Without, at that stage, having actually quantified what that might mean for you because that required further discussion?

**Ms Ghosh:** Exactly.

**Q135 Sir Peter Soulsby:** And you were aware of the likely figures towards the end of 2005?

**Ms Ghosh:** Yes, absolutely, because by then (and again you may want Ian to give some particular examples about this) the end-year-flexibility figure was, in one sense, a clear straightforward, “You will be getting this much, you will be getting that much.” I would not like to leave you with the impression that deciding what counted as near-cash and non-cash expenditure was actually a simple thing to decide, and there were very detailed discussions between Ian and the Treasury team on what, for example, counted as, variously, capital spending, near-cash spending and non-cash spending. So, actually, the way the rules would apply to a budget like ours was not a simple thing; we could not have worked them out for ourselves, it required a lot of discussion; but, yes, by the time I arrived in the department in November, it was pretty clear (a) we knew what our end-year-flexibility was and it was becoming increasingly clear what these new rules about near-cash and non-cash would mean in terms of adjustments to our budget in 2005–06.

**Q136 Sir Peter Soulsby:** These two issues, taken together, equate to about 65 million out of the 200 million deficit. I am right in that understanding, obviously?

**Mr Grattidge:** The reclassification issue certainly does contribute about £65 million worth of difficulty to the Defra budget because of this near-cash, non-cash distinction where the rules on switching are fairly tightly drawn and where departmental ability to move money into near-cash spending from non-cash spending is explicitly forbidden by the Treasury rules—

**Ms Ghosh:** Beyond £20 million.

**Mr Grattidge:**—up to about £20 million.

**Q137 Sir Peter Soulsby:** What I am still struggling to understand, Chairman, is how, if that was clear to you at about this time last year, it was not dealt with at an earlier stage and developed into a crisis midway through the current financial year.

**Ms Ghosh:** I think we are looking at this through a curious end of the telescope. In 2005–06 we were aware that we had, effectively, for the reasons that Ian describes, to live within a smaller budget than we had hoped. We therefore consciously, as a result of the reduction in the draw-down of end-year-flexibility, the increasing inflexibility about the distinction between near-cash and non-cash, reached a position in 2005–06 where we lived within our budget. We consciously knew we were carrying forward into the following year (2006–07) some further pressures, and those are the ones that are listed here. It was not at that stage black and white that we would not be able to live within our 2006–07 budget. We knew we would have some of level of end-year-flexibility (£50 million) which we are still aiming to draw down, we knew we would be able to do some transfers from non-cash into near-cash (the £20 million), we have this tradition of underspending, overprogramming and, as it were, underspends emerging where we were not expecting them to. We have to emphasise, it was a matter of judgment in January/February of this year whether or not the pressures that I had pushed forward into 2006–07 were ones that we could not live within. Of course, we hoped, for all the reasons that you would understand, that we would be able to live within our budget. It began when the drip-drip of marginal additional costs began to come through and become clearer that we realised that the totality of resource that we would have in 2006–07 was not one that would cover all the things that ministers thought that they wanted to do, and that is when we put together options, went back to the new team of ministers, when they arrived at the very beginning of May, with a set of options which we had worked out, to say: this is the position. Again, absolutely we would rather have been able to give delivery bodies final budgets much earlier in the year, but almost at the very beginning of the financial year we knew that we would not be able to live safely within our resources and went to them with a plan. So I would defend the department strongly against the idea that

it took us a long time to realise. We very quickly realised once these final bits of evidence had come in and we took action.

**Q138 Sir Peter Soulsby:** You say that you were only really aware of that at the beginning of the financial year. Is it not really the case, from what you have told us, that you were actually aware of the looming crisis at about this time last year and that you kept your fingers crossed and hoped something would turn up and continued with business as usual?

**Mr Grattidge:** We certainly did not quite continue with business as usual. Our business planning exercise going into 2006–07 still required some of our spending programmes to be reviewed and for the budgets to be adjusted. I think it is true to say that going into 2006–07 we had made a degree of over-provision in the budget, which was, in a sense, what we normally did because spending programmes as a whole tend to underspend by the time we reach the end of the year. I think what did become very clear in the spring was that we were no longer an underspending department, we were a fully spending debt, as our outturn for last year has shown. As Helen has pointed out, we were only one million pounds underspent on a very significant budget, and I think that was one factor which confirmed that this was no longer a department that could rely on underspends emerging in year. If we then add to that the pressures that have emerged as a result of new budgeting rules, it was also clear, I think, that pressures were emerging from other areas, particularly potential pressures on the RPA. A fuller draw-down of end-year-flexibility, or a contribution from the Department of Health, for example, for the “over 30 months’ scheme”, which we were not able to draw down, also added to the pressures. It is not one of those cases where there was a huge hole and it was obvious in November. There was a series of events between November and March which led us to conclude that an overoptimistic budget assumption could not be justified, and that was, I think, the point at which we said we have got to go back to these numbers again and revisit them.

**Sir Peter Soulsby:** Which raises all sorts of questions about your monitoring of the budgets during that period, but perhaps those are questions for later on, Chairman.

**Chairman:** I think we do need to cover that, because, I must say, I find it quite hard to understand why you did not see some of these things coming in a meaningful sense down the track.

**Q139 David Lepper:** Does the department’s board receive regular financial reports?

**Ms Ghosh:** We certainly do. In a different form before that, but from certainly the beginning of the calendar year 2005, we receive on a monthly basis financial reports that look like this, which we would be happy to show the Committee, which monitor the expenditure of the department month by month against monthly profiles of spend. Ian does a narrative account. We look at the breakdown between admin and programme. We also look at—

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4 December 2006 Ms Helen Gosh and Mr Ian Grattidge

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that nice coloured chart—year-on-year variants between what is expected and what is actually being spent.

**Q140 Chairman:** When did you first start having this?

**Ms Ghosh:** This is, as it were, the common form in which you would expect to get departmental reports.

**Q141 Chairman:** When did the department first get this?

**Ms Ghosh:** In this particular form, I gather, from about January 2005, but, of course, the management board gets regular financial reports.

**Q142 Chairman:** So you have got a profile against plan versus expenditure available from January 2005?

**Ms Ghosh:** I am just saying this particular version is one that, in this particular form, we have had since January 2005. We could easily give you examples of other management and financial reports.

**Chairman:** I apologise for interrupting you. Go on. We are all following the same thought pattern.

**Q143 David Lepper:** We have established that there has always been, as one would expect, a form of financial reporting to the board?

**Ms Ghosh:** Yes.

**Q144 David Lepper:** The format of it, you were telling us, has changed in a particular point?

**Ms Ghosh:** Mainly, I think—Ian will know more than I—in presentational terms, so that it is clear. For example, to make it clearer and clearer, I think the key issue which management boards should look at is how is our spending going against our projected budgets month by month or lumpy expenditure by lumpy expenditure. This is the information the board gets, and, if I can reiterate the point, enabled us to come in practically bang on our budget in 2005–06.

**Q145 David Lepper:** Thank you for the offer of copies of that. I think what we might want to do, Chairman, is request particular copies from the department. Perhaps if we could let you know which we want, then you could provide them for us.

**Ms Ghosh:** Certainly.

**Chairman:** Peter, as we are on this, do you want to go back?

**Q146 Sir Peter Soulsby:** If I could. If I understand what you have been saying correctly, somewhere between December last year and March, April, whenever it was, those began to show you that you were no longer an underspending department?

**Ms Ghosh:** What the task was in 2005–06 was to come in on budget and push forward to a reasonable and prudent amount of spending that we realised we could no longer afford in 2005–06 into 2006–07. What this showed us, tracked month by month, was how we were coming closer and closer to the target. There would have been a number of discussions in management, and there were a number of

discussions because I was present at them, on how we had adjusted our spend in 2005–06 to fit with new definitions and to deal with the loss of end-year-flexibility. So what we were focusing on in 2005–06 was coming in on budget, which we did. We were very conscious then that in looking forward to 2006–07 we should, as far as possible, learn the lessons of 2005–06. So we knew when we started to set the budgets for 2006–07 that we were becoming a department that was, as it were, a more and more spending-at-budget department and a less and less underspending department, simply as the squeeze was being placed across government on spending. The issue, and it is a matter of judgment, is to what extent and at what point did we decide, as the pressures began to become clearer in February, March, April of this year, that we had tipped over into a situation where we could not guarantee coming in on budget away from a situation, as Ian said, with some underspend on some of our big spending programmes, with the kind of underspending across other programmes that frequently happens, so that we had to adjust budgets; and it is a matter of judgment as to the extent to which ministers felt, advised by the management board, that they should, before the year began, say, “Okay, we will cut budgets”, and it would have been, as I say, a first bite of a cherry we would almost certainly have had to come back to, against a new projection of what our likely resource availability would be in the year.

**Q147 Mrs Moon:** This is just not my strong point, Chairman, so excuse me if I am a little simplistic. The picture I get is that you had this budget and you never spent all of it anyway, but that did not matter because you would just roll it forward to the next year?

**Ms Ghosh:** Yes.

**Q148 Mrs Moon:** There was a degree of flexibility because you budget for this, but you might not spend it. The picture I have is that it was more of a guesstimate. Some things would happen, some things would not but they would even each other out. Then, in 2004, you were told there were new rules on near-cash, and then, in 2005, you were told that end year funds were not going to be used, the underspend was not going to be used in the same way, and you were not going to be able to roll it forward. In other words, because of your year-on-year underspend, the Treasury appears to be taking a view that you did not need all this money anyway and you were caught out. What I do not understand is, given the reputation of the Treasury, why you relied on a generosity of spirit that they might decide, “Oh, no, why, Defra can keep the money.” When you are told there are new rules on near-cash, you are told there were new rules on end of year spend and roll-forward, why were you not getting the message and saying, “Hang on, we need to revise our budgets here”?

**Ms Ghosh:** To answer one of your earlier points, there was no question that Defra was picked out for particular harsh treatment in relation either to the

draw-down of end-year-flexibility or to the new rules about the near-cash and non-cash. As Ian has said, the impact of those rules, and I think you said the end-year-flexibility decision was not made until the 2005–06 year had actually begun—

**Mr Grattidge:** It was well into the year, yes.

**Ms Ghosh:** So all departments were, at the same time, told variously that they could not draw down the full amount of their EYF; so that came to us in 2005–06 once we had started setting the budget.

**Q149 Mrs Moon:** But that also means that you were not the only ones being told this?

**Ms Ghosh:** No, we were not.

**Q150 Mrs Moon:** Everybody was in the same league?

**Ms Ghosh:** Everybody was in the same league.

**Q151 Mrs Moon:** Absolutely everybody was in the same league, so you should all have been learning the same lessons?

**Ms Ghosh:** And we did learn the same lessons in that we adjusted our expenditure in 2005–06, both in relation to living within a smaller level of end-year-flexibility and the new rules about near-cash and non-cash, which, as I said earlier, other departments had a lot more trouble with than we did. So, we got to the end of 2005–06, we came in bang on budget. It was clear to us that the rules were tightening and that the historic years, where, as you say, we were carrying forward about 150 million, which is not an enormous amount on a budget of 2.4 billion available spending (it was not a vast amount of money, it was not based on very loose budgeting on our part) were over. As I say, I can do no more than say we could have agreed at, say, Christmas 2005 on a budget that took a very prudent view of the pressures that were likely to arise in 2006–07 and we could have taken 200 million out of the budget then. So we started the financial year in that way. It was a matter of judgment,—until we began to get these key bits of evidence coming from the RPA, AI and elsewhere—that we probably could, taking one thing with another, live within our budget, and, of course, the department wants to spend money on its objectives. A lot of criticism that the departments have subsequently got is that we have had to take money back from delivery bodies who would rather be spending money on some of their objectives. We could have done that earlier, but the fact is we would have had to have done that at some stage, so it was a matter of judgment and timing.

**Q152 Chairman:** I am a bit surprised actually that you adjudged that you could leave it for as long as you did. In the explanation that you have given you knew the pressures were building up, you knew the problems that were unfolding with the RPA, you knew that you were not going to have the end-year-flexibility that you wanted and you knew that your department was using up any flexibility in its 2006–07 budget, because you have just told us that your management information systems were improving to enable you to become a spending-on-budget department. So, against that, it does seem a

rather flawed judgment that you left it as late as you did and, I must say, I do not understand. If the system is showing you all of these pressures building up, those are the inescapables, and, as I say, when I added them up—if we took the 40 million, the 55, the 23, the 10, that all totted up to £50 million of new pressures from April—that comes to £168 million.

**Ms Ghosh:** As I say, it is a matter of judgment. I am conscious that I will look forward to what we are doing now for next year. I think if I am pointing personally, which I will, I think what I had not realised, compared with my experience in previous departments, is that Defra is a department which spends all its money, more or less, on day one. Most of our money leaves the department almost instantaneously, in the sense that we give the large bulk of our money either to our delivery agencies within the department or to NDPBs, so I now understand, in a way, I suspect, I did not then, that the flexibility, for example, although we have done it very successfully within the department, to impose moratoria within the department as the year goes on, without affecting delivery bodies, is relatively small because our big money basically is spent on 1 April, in the sense that we give our budgets to delivery bodies.

**Q153 David Taylor:** You say most, but in our DAR 3 schedule of near-cash resources in the summer 2006 it shows that the total spend for your agencies and NDPBs, et cetera, is about 1.2 million out of 2.6 for the department.<sup>3</sup> That is about 40%; that is not nearly all?

**Ms Ghosh:** No, but it is spending that you can turn off quickly. For example, I draw the comparison with—

**Q154 David Taylor:** You said nearly all of your budget was spent on 1 April.

**Ms Ghosh:** Nearly all of the budget which you could reasonably expect to reduce quickly.

**Q155 David Taylor:** You are rewriting what you said. You said nearly all of your budget was spent on 1 April. It is about 45% of it?

**Mr Grattidge:** Can I add that there are a number of factors which tend to make the release of funding during the course of the year from within the budget fairly difficult to do. There are, obviously, the delivery bodies which form part of that. A number of our payments, for example, under the England Rural Development Programme are the subject of fixed agreements which run over a number of years. Payments, for example, to the Rural Development Agencies are, in effect, made as a lump sum right at the start of the year, and so on, and, in effect, it is possible to look through the Defra budget and find a number of line items which are committed early in the year, a number of other line items which are ringfenced (i.e. we cannot save money in one area and spend in on another) as well as the fact that a number of the costs are fairly fixed and they are very difficult to free up in short-term time horizons.

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4 December 2006 Ms Helen Gosh and Mr Ian Grattidge

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**Q156 David Taylor:** About a third of your agencies budget, etc, is with the Environment Agency?

**Ms Ghosh:** Yes.

**Q157 David Taylor:** So they draw that down from you monthly, quarterly, or do you effectively transfer the resources into their accounts on that day, as you suggested?

**Ms Ghosh:** I am sorry, if I can go back to the point, I was actually trying to explain to you why I did not understand how our budgets worked. Some departments who, as it were, spend the money from their own resources rather than through delivery bodies, it is much easier as the year goes on simply to say, "Okay, we will just decide to stop spending money on X and Y. We will have a moratorium. We will be able to recoup a potential overspend from within our own budgets." The point I was trying to make, and I am sorry I made it in a rather more sweeping way than I should have done, was that a very large amount of the kind of money in other departments that you could just turn off by simply saying, "We will stop that programme, we will halt that, we will freeze that for the next six months", we have already given to delivery bodies. So in that sense the kind of money which in comparable departments you might be able to turn off, you have already committed in the way that Ian describes. You then have other money where to turn it off actually costs you. For example, if you think of staff costs, we cannot save money in the year on the staff costs because to make people either voluntarily or compulsorily redundant costs us more money in that year. So that is an area where you cannot turn spending off in the middle of the year. You then have fixed cost, like estates, where we had plans to release money by moving out of some of our London offices into others, but you cannot turn that off over night. So, just to put a gloss on what I said in the first place, it is not a department where you have easily got things that you can turn off in the middle of the year and, therefore, had I realised that, I think perhaps I would have taken a more cautious approach (and I am taking responsibility for this) as we went into 2006–07 than we did, but that is a lesson that we have learnt. That is why we are currently engaged in detailed debate with ministers, David Miliband is talking to the delivery bodies, and we will be giving the delivery bodies their budgets for 2007–08 before Christmas. So, we have learnt the lesson, we are taking a prudent approach to budgets but they will hear what those are before Christmas.

**Q158 David Taylor:** So what you are saying is that there will be a geared disproportionate effect of in-year cuts into non-staffing areas, and, secondly, that where you have a department like Defra with almost half of its expenditure being through agencies, if you impose in-year cuts over the agencies who themselves will perhaps be committing into their capital projects, organisations like British Waterways maybe, it will hit them really hard if you realise only late in the day that you need to make some cuts on things that you give to the delivery bodies, to use your phrase?

**Ms Ghosh:** I am saying that, given the nature of the spend of our department, it is programmes, if you are trying to find money in-year, that you will always have to look to first. That is not to say that over time (and, for example, in the CSR period we will be faced with 5% year-on-year administrative reductions, which includes people budgets) you cannot get out comparable savings from other parts of the department spend, but the fact is, the way the money works, you will always look to programmes first.

**Q159 Mrs Moon:** I am getting incredibly confused. You said earlier on that you were hoping there was going to be money back from delivery bodies, then you were saying you did not understand how the budget worked in Defra, then you were saying there are fixed costs that are very expensive, like staff costs and estates, and you cannot move around with those, but if, as you say, Defra was not singled out but the changes, the expectations in relation to end-year-flexibility and near-cash, all of those, you knew about at the same time as everybody else, and others also had problems in adjusting to the rules, how come it is only Defra that has got this massive budget cut for 2006–07?

**Ms Ghosh:** I can only say I do not know whether that is true. Our budget cut has of course had a great deal of coverage and our delivery bodies, as is absolutely their entitlement, have talked a great deal about impacts. However, I think you need to go back to the Treasury to inquire whether it is only true of Defra. I think a number of departments are making adjustments to their budgets in year, and I do not think we are the only department that is doing it. It is not for me to speak about other Government departments.

**Q160 Mrs Moon:** If you think it was other Government departments, why do you think, then, that Defra has had the publicity it has? Why would Defra be singled out in that way?

**Ms Ghosh:** I think we have a vocal and lively set of delivery bodies and there has been substantial media coverage of it. I think the link, although it is a false link, given, as you know, the level of contribution from the RPA, through to problems of the RPA that has been made, has fuelled the interest in Defra's budget adjustments. I come back to the point that a £200 million budget adjustment signalled relatively early on in the year, clarified in July of the year, to our delivery bodies is by no means disastrous financial management.

**Q161 Chairman:** How come you yourself said in your 2005–06 resource accounts there were, "clear warning signs of a more general deterioration in the internal controls in some areas of Defra's management systems during a challenging time of major change in the Department"? What did you mean by that sentence?

**Ms Ghosh:** That is a quite different set of issues raised in the statement on internal controls. It is not relating to the overall budget management because, as I say, I think 05–06 and the work we are doing so

far on 06–07 demonstrates that it is excellent. The kinds of issues that we were discussing there are the kinds of issues raised by our audit committee around things like some novel and contentious payments, making sure that we are getting consistent information back from all parts of the Department on spend and where we are not—Ian and his team are pursuing this very vigorously.—and a number of small, but I think significant items that just need to be kept an eye on to make sure that we are being absolutely regular in the way we spend money. As you know, however, our accounts got no level of qualification for anything, so clearly overall NAO was perfectly happy with them.

**Q162 Sir Peter Soulsby:** Just before we lose sight of what you were telling us about the situation last year and what you knew then, you are telling us that by this time last year you knew what the rules were; you knew that, as you have described it, Defra was no longer an under-spending department; and you knew that you were moving into a deficit.

**Ms Ghosh:** No, we did not know that we were moving into a deficit. Sorry, could you clarify what you meant by that? We knew that we had to adjust our budget for 05–06 and we did that. We were conscious that we were pushing forward spending into 06–07. As I said earlier, the question is the judgment about whether or not in 06–07 we would be able to bear that level of carry-forward.

**Q163 Sir Peter Soulsby:** You have told us several times that it was a matter of judgment not to take action beyond the action that you actually took at that stage.

**Ms Ghosh:** Yes.

**Q164 Sir Peter Soulsby:** That was of course ministerial judgment. You also were indicating to us that in relation to one of the first issues that was dealt with by the new ministerial team they made a different judgment. Is that fair?

**Ms Ghosh:** I should say that with both sets of ministers, with whom we have a regular business meeting every week and discuss things like budgets, there was pretty good transparency on what was going on in the budget both in 05–06 and 06–07. As I say, I think by the time we got to March/April and just before the re-shuffle, the impact that the particular pressures, in particular RPA, AI, were likely to have on the budget became clear from our monitoring as a management board. It was clear that we needed to take action. It was coincidental I think that we happened to have a re-shuffle and a new team of ministers came in. There was no lack of interest on the part of our previous ministerial team on how the budget was going, and obviously, given that they were a very stable group of ministers, they had a pretty profound understanding of the way our budget worked.

**Q165 David Lepper:** Defra spent £170 million over the last four years on management consultants, and in 2004–2005 the Department spent 7% of its goods, works and services expenditure on external

consultants. Did those management consultants help the staff of the Department, the office of the Department, and indeed Ministers, to foresee the problems that were ahead; or were they advising you on other things entirely?

**Ms Ghosh:** They will have been advising on a range of things. You quote the 04–05 figure, but by 05–06 the figure had been reduced; and the figures are the quota for what we call professional services, which is a range of things other than management consultancy specifically. Like many departments, we use management consultancy to help us with the skills we do not have in-house, on the basis that at any given time we do not necessarily have the skills we need in-house; and to be in a position where we had absolutely up-to-date cutting-edge skills on particular issues in-house would be a poor use of taxpayers' money. We therefore consciously use management consultancy and business consultancy where we can buy in a skill that we do not have. What I am absolutely committed to—and I know that my management board colleagues are too—is only to use management consultancy (a) where we do not have the skills in-house; and (b) on a basis where we can transfer those skills to other people in-house. For example, if you take the extensive use we now make in the Department of project and programme management skills, we did not have those skills two or three years ago; we are now absolutely at the forefront of departments that use project and programme management. Increasingly, from a situation I guess where a lot of that support was given by external management consultants, now we have staff across the Department with the relevant skills who have learnt them in partnership with management consultants, and who move on. In 05–06 we spent less on management consultancy. We are aiming to bring that figure down by 10 or 15% and to be much more savvy about when we use management consultants, and actually managing the contracts and the selection process much better so that we can make sure we keep costs down as far as possible. The key to me is to use them when you really do not have the skills in-house, but to make sure your own staff learn the lessons; and then you can use your own staff to apply the lessons in the future.

**Q166 David Lepper:** You have talked about the work that they did on project and programme management; has any of that expenditure on that kind of consultancy work helped the Department to a better understanding of its financial situation and how to deal with that?

**Ms Ghosh:** I will hand over to Ian, but we have used some management consultancy techniques to get a better handle on where we spend our money, for example against outcomes, so that we get a better handle on that kind of thing, which will be taken forward.

**Mr Grattidge:** One very good example is that we underspent very heavily in 2003–04, and we totally failed to signal to the Treasury that that was happening. In fact, we worked with a firm of management consultants very closely on improving

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**4 December 2006 Ms Helen Gosh and Mr Ian Grattidge**

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our in-year control forecasting, and one of the outputs from that review was the management board work that we showed you earlier, which helped us focus on how expenditure trends are moving. In particular it gave us much greater focus on our top 25 programmes, and we used these graphical presentations to show the trend analysis. We have had very good value from them in certain areas in the past.

**Q167 David Lepper:** Therefore the form of reporting to the board that you described earlier is partly a result—partly at least a result of advice received from management consultants?

**Mr Grattidge:** Yes.

**Q168 Chairman:** Do you have any non-executive directors on your board who are accountants?

**Ms Ghosh:** We do. One of our two current non-executive directors, Bill Griffiths, is an ex-finance director from Unilever, and he chairs our audit and risk committee, which only has on it non-executives with financial experience in the private sector.

**Q169 David Taylor:** Is he a full-time non-executive?

**Ms Ghosh:** With us, no.

**Q170 Chairman:** When did he join the board?

**Ms Ghosh:** Before my time.

**Mr Grattidge:** Probably three years ago.

**Q171 Chairman:** Has his expertise been consulted about management information and control systems?

**Ms Ghosh:** Absolutely, very much so.

**Q172 Chairman:** Did he give it a clean bill of health then?

**Mr Grattidge:** I think Bill generally has been of invaluable help, particularly on areas of financial control and financial reporting, in as much as he is able to reflect on that at the management board. From his perspective the changes to the management board report which were introduced early in 2005 were worthwhile and did help the management board do its job better; but we do not stand still, we—

**Q173 Chairman:** When he came along and had a look—because any non-executive worth his salt will have a look at the systems where they are bringing their expertise to bear—was he critical at the time, when he initially joined the board?

**Mr Grattidge:** It is fair to say that Bill is always a critical friend to the Department, and he is a critical friend to the finance function within the Department because of his expertise. He offers a number of insights not only on management board reporting but on financial management and financial control generally.

**Q174 David Taylor:** Does that mean he was not happy, in normal English?

**Mr Grattidge:** Well—

**Q175 Chairman:** Say “yes”—it is much easier.

**Mr Grattidge:** Any department that says it is perfect is probably in need of a reality check. We have always got room to improve. I do not think he said it was a basket case, but I do think he would have felt there was room to improve.

**Ms Ghosh:** Can I just put these two contexts? These questions imply that the Department is not managing its budget in the sense of year-on-year living within its means—

**Q176 David Taylor:** Are you talking about that one million figure?

**Ms Ghosh:** I am actually because—

**Q177 David Taylor:** I am going to knock you on that—

**Ms Ghosh:** The discussions that go on in the board are all about whether we are going to achieve our delivery outcomes within our budget. There is no question that Defra has failed to live within the budget that it has got. To come back to the earlier discussion, the issue in front of us now is: as the nature of the financial challenge shifted and became much tighter as the pressures mounted for 06–07, should we have said in January as opposed to in March/April, “we now need to adjust our budgets for next year”, rather than reaching that view in April and May and getting agreement with Ministers for budgets that were changed in July? That does not suggest to me a department that in any way is out of control in terms of managing its finances.

**Q178 David Lepper:** In the parliamentary written answer from Chris Hune, 5% or £10 million of the £200 million deficit was committed to the impact of avian influenza, in particular I think around the small outbreak in East Anglia. What was in the expenditure of £10 million?

**Ms Ghosh:** We can send you the details of that. There are lots of additional expenditures. We have to use contractors to catch birds, to kill birds and all those sorts of things, and we can certainly send you what the bill for the £10 million was.

**Q179 David Lepper:** That was a fairly small outbreak. Can you estimate what the impact on the budget would have been had the outbreak been more serious; or is that a total imponderable?

**Mr Grattidge:** It is a bit of an imponderable because the scale of a particular outbreak, the number of affected birds and the geographical dispersion would all have an impact on the final cost.

**David Lepper:** Is there a sum in Defra’s budget at the beginning of the year set aside for dealing with avian influenza or does it come from a different budget?

**Chairman:** I think Mr Lepper is getting to the point about contingencies.

**Q180 David Lepper:** I was coming on to that, Chairman, yes.

**Ms Ghosh:** The answer is we do not have a contingency fund.

**Q181 Mr Drew:** The Government does.

**Ms Ghosh:** There would be an issue, depending on the scale of the outbreak, about drawing on the contingency fund, but that would be a matter for—

**Q182 Mr Drew:** It did for foot and mouth.

**Ms Ghosh:** Indeed, but then the scale of foot and mouth and the demands there—it would depend on the scale and size of the outbreak, whether the Treasury would expect us to find it from within our existing programmes or not.

**Q183 David Lepper:** That is another of the imponderables in a way.

**Ms Ghosh:** It is.

**Q184 David Lepper:** There is a point at which the Treasury would, we hope, assume responsibility.

**Ms Ghosh:** But that would be a matter for debate and discussion between our ministers and Treasury ministers.

**Q185 Mrs Moon:** Can I ask what the difference is between an underspend and a contingency fund? It seems to me that all the way along we have had this contingency fund running through the history of the management of your budget. In 2003–04 you had an underspend; in 2004 you knew that there were going to be changes in rules in year cash; in 2005 we knew there were end-of-year flexibility changes; and then we are told that you were waiting for money back from delivery bodies; but there seems to be money floating around the system all the time, and yet the 10 million is used as an extra expenditure that you were not expecting.

**Ms Ghosh:** Can I go back to the comments I made at the beginning? We are constantly balancing the resources that we have against the demands at any one time. The money that in previous years we had flexibility to carry forward from year to year enabled us to have a budget which enabled us to spend a bit more than our baseline. The 10 million described here is one of the mounting set of pressures that became clear for 06–07, which tipped us over from that judgment—and I go back to the point that it was a judgment that we would be able to live within our resources, our baseline, and the end-year flexibility that we would in the event be able to draw down. The cost of avian flu was just one of those marginal costs, alongside the RPA, that made us realise that actually we will not be able to live within our 06–07 budget with the level of EYF we are expecting to get; and therefore we need urgently to consider re-adjusting people's budgets so that we can cut our coat according to the cloth we now realise we are going to have.

**Q186 Mr Drew:** I am sorry to come in half-way through this game, but this all looks a little bit academic and as though we are microspecting. I have dealt with a number of voluntary organisations which literally have contracts with English Nature in particular, which has no money for a number of months. You may have touched on this already. We ended up with the voluntary sector actually

undertaking statutory provision to keep important wildlife sites going because if they had not done that there would have been foreclosure on those sites effectively; the contract would have been broken. There is an issue whether the voluntary sector would want to sue the statutory sector for breach of contract but they did not do that; they stayed with it. In terms of these budgetary arrangements do you understand how difficult that period of time has been? In a sense, because we have now set a lower boundary in terms of where the money is likely to wash to, there are some really disillusioned voluntary sector organisations out there. Although we are dealing at one level, there is another level at which these cuts have really bitten hard. What is your response to that?

**Ms Ghosh:** I entirely understand the point you make. That is why we need to work very closely with the delivery bodies to make sure that they have plenty of—

**Q187 Mr Drew:** They were ringing me to talk to the voluntary sector to say, “For heaven's sake try to tell the voluntary sector that there will be some money; it is just that it may be three months, it may be six months or it may be a year.”

**Ms Ghosh:** Absolutely. I think it is the uncertainty element; and certainty is what the delivery bodies and their agents want, whether the voluntary sector or otherwise; and that is a lesson that we have learnt very clearly. As I say, we did give guideline budgets to all the delivery bodies when it became clear that we were likely to have to reduce their final budget, so that they had some idea of the envelope in which they could work; but inevitably, to be on the safe side, we set those ceilings quite low so that they did not over-commit against the budget they finally got in July. I quite understand that that might have impacted on the voluntary sector. What we are aiming to do this year is to give all our delivery bodies their budgets before Christmas so that they and the people with whom they work have a clear basis on which to work.

**Q188 Mr Drew:** In the case of BW<sup>4</sup>, for example, this is a much lower base level than was previously the case. In a sense it is a double hit for those organisations that have been working their own budgets out on the basis of what BW were at one time expected to have in its budget. Firstly, it has taken a hit—there is an argument about how much of a hit and that is a debate that still goes on; but secondly now, for future spending we are at a much lower level, and that goes into the—

**Ms Ghosh:** Absolutely, and that goes into the comprehensive spending review.

**Q189 Mr Drew:** In a sense, it is a triple whammy, all going in the wrong direction.

**Ms Ghosh:** I think you could describe what has happened in 06–07, as it were, as a swift adjustment but on a path which is effectively, as you say, a declining one. The government has said to almost all

<sup>4</sup> British Waterways

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**4 December 2006 Ms Helen Gosh and Mr Ian Grattidge**

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departments—and it will undoubtedly include ours—that the basis on which they will get money in CSR07 is broadly speaking, for programme spending, flat cash. Flat cash means absorbing the costs of inflation year on year. As I mentioned earlier, we will undoubtedly be given a minus 5, minus 5, minus 5 administration target. The message for the Department and its delivery bodies is one of the importance of prioritisation, focusing on things that are really relevant to outcomes, and making sure that things that you do are the things that work. That is the message that comes out of this, but, as you quite rightly say, we have a declining line of spending. We will not have an increasing line of spending beyond next year.

**Q190 Chairman:** You are saying that before Christmas, so in fact within the next two weeks, the people who spend Defra's money—the Environment Agency, British Waterways, the State Veterinary Service—

**Ms Ghosh:** Natural England.

**Q191 Chairman:** They are all going to get a letter from your Department telling them what their 2007–08 expectations are.

**Ms Ghosh:** Yes.

**Q192 Chairman:** Within the current spending period, which started in 2004, they would have got, I presume, some indicative budget at that time, stretching out over the three years?

**Ms Ghosh:** Yes.

**Q193 Chairman:** We are seeing now that that is already being squeezed.

**Ms Ghosh:** Indeed.

**Q194 Chairman:** Do I understand from the general tenor of your comments that for the 2007–08 year, irrespective of what the numbers will be they can only expect a further squeeze?

**Ms Ghosh:** The Department's budget overall will continue to be squeezed. If this year's baseline is 2.466, our baseline for next year is 2.603 for the comparable resource budget. Ministers are currently finalising their decisions about priorities across the Department, and will be telling the delivery bodies before Christmas that that is the envelope within which they will be distributing.

**Q195 Chairman:** Whatever the detail is, the main message is that if it was tight this year it is going to be tighter next year.

**Ms Ghosh:** It is no less tight next year.

**Q196 David Taylor:** You are quite proud of the financial acumen in the Department. You have several times painted a picture of the 05–06 position where you had a resource and capital budget combined of £3,714 million, and it turned into an actual of £3,713 million, which you then say is proof positive of the Permanent Secretary and the Director of Finance almost on the bridge of the good ship Expenditure as it nudges it into the budgetary

harbour with a wafer to spare! It is not like that because what you have done—and other departments are equally culpable—is borrowed from future years' non-cash expenditure to break even, and you have stored up problems in years like this year where you are having to make in-year cuts of £170 million; and part of the reason for that is the unusual methods that are available to top civil servants to balance their budgets. It is not that it has been some highly precise operation with 1 million being the elbow room in a budget of that size; it is not like that—or is it?

**Ms Ghosh:** We can only operate within the rules that Parliament and the Treasury set us, and that is what we do. That is the thing that Parliament cares about, so that is indeed—

**Q197 David Taylor:** Yes, but they allow you to perform this smoke and mirrors impression, which suggests somehow that all is right with the financial controls within the Department, which clearly it was not and is not.

**Ms Ghosh:** The substantive issue that you raise is one about setting a set of priorities that deliver the outcomes that taxpayers want. Actually that is not a game.

**Q198 David Taylor:** Have they been asked?

**Ms Ghosh:** Well, they are asked through the ballot box on a regular basis.

**Q199 David Taylor:** Have you asked British Waterways and people of that kind?

**Ms Ghosh:** British Waterways Board has indeed been very vocal in its comments. I think it is sensibly looking forward. I think the impact on its budget this year—they have postponed some particular capital works—but I think they are embarked on a more significant restructuring, which is what a great deal of the public debate has been about, which is against a financial future that is tougher; so in that sense they are being prudent and looking forward to future years rather than reflecting the impact of the particular level of cuts in this year.

**Q200 David Taylor:** If you were the chief executive and finance director of a PLC facing the issues we have here and the outcomes, there would have been pressure for you to move on. Has that thought ever crossed your mind in this debacle that we have seen?

**Ms Ghosh:** I entirely reject the idea that this is a debacle. As I say, the position would have been no different in terms of where Defra money would have been spent if we had recognised this in January as opposed to in March or April. It is true to say that although there has been a lot of perfectly reasonable criticism from our delivery bodies about the timing of where we have had to ask them for budget reductions, overall the comments that we have had on the impact on the ground, with real customers, is that the impacts have been—with the exception of the comments that your colleague raised about the impact on the voluntary sector—relatively invisible. That is thanks to a lot of hard work by our delivery bodies and a lot of work on the part of the

4 December 2006 Ms Helen Gosh and Mr Ian Grattidge

Department in making sure that we work together on the outcomes. The key thing for us going forward is to make sure that we can deliver the priorities that Ministers have set, a sensible set of measurable outcomes within the budgets that we are being given across government.

**Q201 David Taylor:** The resource budget you have been given for 06–07 in total is £2.65 billion. The core department is responsible for about £1.4 billion of that, and the cuts imposed are £117 million. The agencies therefore are responsible for £1.25 billion, and the cuts imposed on them are £52 million. Those figures, 117 and 52, represent respectively about 8% of the core departments, and about 4% of the agencies, although that includes the RPA on which you have not been able to impose a cut. How have you come up with those figures; the fact that you can ask the core to contribute about twice as much proportionately as the agencies in the 170 million that you were seeking, or thereabouts?

**Mr Grattidge:** I think it was just in the nature of the do-ability. It is worth recalling that this exercise was conducted in-year, and of necessity an in-year cuts exercise like this requires a degree of greater opportunism. If cuts can be delivered by particular organisations and can be done with minimal impact on their delivery objectives then those tend to be the ones that would be taken up. In the core department on this occasion there were greater opportunities for savings than there were in a number of the agencies. It is worth recalling that for many executive agencies their principal cost is their people. As Helen made clear earlier, moving people can be, in the year it is done, more expensive than retaining them.

**Q202 David Taylor:** I fully accept that in relation to my earlier comment, but let us take the example of the Environment Agency and British Waterways. The Environment Agency is the biggest part of your budget by far—30%—and British Waterways is about 10% of that size. Both of those had been asked at the end of 05–06 for cuts at that point anyway. British Waterways in March 2006 was told that it was going to lose 3.2 million from the 06–07 budget, and then, less than three months later, a further £3.9 million cut. Can you understand the angst and frustration that must affect an organisation like British Waterways, and its capacity to find late savings of that kind, especially when, like you, they have possibly got substantial staffing commitments? They are going to have to find those from capital budgets; and projects that have been pending for a very long time will be axed, projects that had very substantial environmental, social and economic positives for the communities in which those projects were taking place. Can you understand that?

**Ms Ghosh:** Yes. This is something we are discussing with British Waterways' colleagues in the context of next year's budget. Of course, the Government grant represents a small proportion of the turnover of British Waterways in terms of their asset base and their commercial activities. We need to get a better handle on the significance of our grant compared with other elements of their financing, and what

would be the impact on community activity and heritage activity and economic activity, given the kinds of pressures we have on our budget over the next four years or so.

**Q203 David Taylor:** That is not as true as it is of the Environment Agency, which had a £4.4 million cut notified in April, and then within less than three months a further £23.7 million—a £28 million cut, which is about 5% of their overall budget? Your comment about the Government grant does not apply to them.

**Ms Ghosh:** No, it does not. Obviously they self-finance some of their activity, but that is mainly around regulation. It is not true of them. We have very close relationships between Ian and the financial directors of the Environment Agency. They have always shown flexibility and support. They have moved spending from one year into another in a way that has been very helpful to us, and their response to this budget adjustment has been very positive, in the sense that they have taken it relatively uncomplainingly. Obviously, we are talking to them about the impact for their own—

**Q204 David Taylor:** How did you arrive at this further 5% cut—your phrase, “budget adjustment” on the Environment Agency and British Waterways in July 2006? What led you magically to that figure?

**Ms Ghosh:** It was an iterative process. We presented the various delivery bodies with ideas; they came back to us with suggestions; we went to Ministers with information from the delivery bodies on the impact of various levels of cut; and then Ministers reached a view across the piece as to an appropriate amount of budget cut against the originally planned budget for that year that was appropriate for each body. It is true that universally we have had no complaints from the delivery bodies about the consultation and debate that went on in the period running up to the decisions about budgets in July—although, naturally, many of them are not happy with the outcomes.

**Q205 David Taylor:** You accept then that the later the notification of budget cuts to delivery bodies, the greater the impact on their non-staffing costs, and in particular capital projects that will have the benefits I described a moment or two ago, which are unchallenged.

**Ms Ghosh:** Absolutely, and that is the lesson we are learning for 07/08; but beyond that, thinking ahead to CSR07, we are talking to them in more detail about how we look forward to that period where our budgets overall will continue to be squeezed, and work with them.

**Q206 David Taylor:** So you did not focus on the delivery bodies where you felt the public outcry would be the least then?

**Ms Ghosh:** Not at all. We were interested in outcomes on the ground.

**Q207 David Taylor:** Did some expensive management consultants tell you that, then?

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 4 December 2006 Ms Helen Gosh and Mr Ian Grattidge
 

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**Ms Ghosh:** No, we did not find a single expensive management consultant to help us with that. We talked to the bodies themselves through the network of finance directors. David Miliband met chief executives and chairmen on a number of occasions.

**Mr Grattidge:** It is worth stressing that the cuts we have applied here are on current spending; the capital projects should have been largely unaffected by it.

**Q208 Mrs Moon:** On page 1 of your memorandum you say that no key projects have been abandoned, but that certain programmes and projects have been delayed. You say this: “We have not heard of any cutback in services.”<sup>5</sup> I wrote to the Department in August 2006 about cutbacks in budgets that were at that point circulating, and in particular cuts to Natural England’s budget—a letter to which I am still awaiting a reply, despite having sent it to the Department again! I have submitted questions in relation to the budget for English Nature, the contracts entered into by English Nature, by environmental organisations, in 2003–04, 2004–05, 2005–06, broken down by length and value. I was told there would be printed information in the library provided on that. I asked what contracts and service level agreements with environmental organisations Natural England had inherited from English Nature, and the length and value of each contract. I was told that that would be placed in the library. I asked what contracts Natural England had entered into with the environmental organisations since its inception, broken down by length and value of contracts, and I was told there were currently no contracts in place. Finally, I asked what assessment has been made of the effective recent changes to Natural England’s budget on its ability to meet its biodiversity conservation obligations. I had a reply basically saying that all parts of the family of Defra were facing pressures. I finally got a document from the library, which stated: “The table at annex A sets out the contracts and other instruments inherited by Natural England from English Nature, or organisations considered to be environmental organisations, including public bodies. In compiling this list it was necessary to make a subjective judgment on which organisations were considered to be environmental in nature for the purpose of this question.” I then had a list of start dates on 06 and 07. None of them go back, as requested, to 03–04, and none of them have got extension dates apart from brief ones occasionally. If I give you back this list, can you give me the figures that I have asked for repeatedly in my various questions? Can you tell me why you can say that you have not heard of any cutbacks in services caused by the budget cuts, as stated in the evidence? How can there be no cutbacks when we have got evidence from Butterfly Conservation and Bat Conservation, which talk about cessation of care and maintenance visits to higher level stewardship schemes; negative effect on attitudes to the farming community; uncertainty about grant aid and continuation of projects beyond

March 2007; the high risk to continuity and monitoring capacity; the breakdown of collaboration between agency; the breakdown of the joined-up approach to monitoring; the loss of expertise; the loss of skilled staff; NGOs possibly closing; and the loss of volunteer input into the work of Defra? How can you possibly say there are no cutbacks in services, and that you have not heard of this?

**Ms Ghosh:** First, I am very happy to take that away and talk to Natural England colleagues about the answers to your questions, as you obviously have not had them. A number of the things you cite about impacts are as much about people’s fears of impacts than impacts on the ground. In our note to the Committee we focused on the impacts on the delivery of our PSAs where we feel this level of reduction, a 7% reduction on a very large budget, is very unlikely to have an impact on achieving our targets in relation to, for example, SSSIs or farmland birds, where Natural England has protected that kind of activity. The kinds of things that they have reduced may indeed, as you say, have an impact on some groups, particularly in terms of raising concerns. There is some core research work that they are postponing to 07–08. They are reducing the farm demonstration programme. They are reducing some work in areas of outstanding natural beauty. In relation to some of the work they have been doing, for example the right of access, some of the grant levels have been frozen for this year. Some of the work they were going to do on marine protected areas will be delayed until next year, although we have recently given them some additional funding to cover that. They have chosen to focus their reductions on areas that they felt were least damaging to the key PSA and other outcome deliverables, and I think they have successfully done that. That is not to say there might not be individual organisations that have had both reductions in funding and are concerned about the future. As I said, there is nothing we can do to avoid some of those impacts in a world where our budgets are going to be declining over future years. That is the world we are into, and it is a question of how we adjust and prioritise within that.

**Q209 Chairman:** Listening to Madeleine Moon’s perfectly respectable parliamentary questions and then seeing the quality of the financial information that was provided in respect of one of them, it does not exactly bear out what you said earlier about the improvements you have made in terms of financial monitoring. Monitoring can only exist if the management systems underpinning the monitoring data are absolutely on top of the job. Here, we have a Member of Parliament asking a perfectly legitimate question, and what she gets is a complete load of unintelligible financial information. How can you have such confidence when the machine fails to deliver with clarity the answers to searching and probing questions? Just to underscore what Madeleine said, on November 25 we had a barge blockade in Birmingham, and Mr Robin Evans, the Chief Executive of British Waterways was quoted on

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<sup>5</sup> Ev 44

that occasion as saying, “The cuts are a threat to our objectives and will make life very difficult for us.” You are getting a lot of feedback about how bad the job is, and you cannot answer a simple question.

**Ms Ghosh:** Can I just say that I was talking of course about Defra’s own financial systems! Much of that information will come out of Natural England’s own systems. Ian has been doing a lot of work with the network of financial and performance report staff within NDPBs, because this is information that comes from an NDPB to improve the level of management reporting. Ian might like to say a little more about that in a moment. Going back to Robin Evans, of course he would say—

**Q210 Chairman:** Can we come back to these questions, because the quality of the answers in many cases left an awful lot to be desired, and it is no good passing the buck down the line to somebody else. You are responsible, as a department, for the quality of answers and what goes in them. What has been put before this Member of Parliament is of poor quality. Where is the quality control in what is being given to important written answers?

**Ms Ghosh:** I am very happy to investigate that and to come back with, as far as they are available, good written answers to Mrs Moon’s questions.

**Q211 Chairman:** But it is disappointing, is it not, that we have to raise that in the context of a select committee inquiry, because otherwise all that would have happened on the questions is that they would have had to have been tabled and re-tabled, and letters written, wasting yet more resources in your Department, for what are perfectly legitimate requests for information?

**Ms Ghosh:** As I said, I will pursue with Helen Phillips, my opposite number in Natural England, good answers to those questions.

**Q212 Chairman:** Yes, but it was your ministers who signed them off!

**Ms Ghosh:** I think in reference to material that was put in the library; and they may not have seen that, but I do not want to comment in advance of discovering the facts.

**Q213 Mrs Moon:** The only material that was put in the library was in relation to another question, and despite all of the statements that were made that information was going to be put in the library, it was not put in the library, because I have had the library chase this alleged information for some considerable time. You said that a lot of the issues that have been raised by Butterfly Conservation and Bat Conservation were perceived anxieties.

**Ms Ghosh:** Yes.

**Q214 Mrs Moon:** British Waterways has not listed perceived anxieties; it has provided a list of engineering works that have been postponed and cancelled. They have also made 180 redundancies. These are not “perceived” anxieties; these are actual factual changes as a result of the budget changes.

**Ms Ghosh:** You are absolutely right, and what all our bodies have to do is decide what are the least damaging ways in which they can make cuts. British Waterways Board has picked in this year delaying major engineering works. I do not know, because we have deliberately said to the delivery bodies “it is for you to judge the least damaging things to do” the ongoing impact for British Waterways Board’s objectives of delaying those particular major engineering works. I know they are supported by many passionate users of the British Waterways Board; but I do not know in the real world what is the outcome of those delays. The British Waterways Board has said the proposal for redundancies does not emerge directly from the late in-year adjustments to their budget; it is something they are doing, projecting forwards to the kinds of staff issues they may have in future years. They are looking forward. It is not the direct outcome of adjustments to budget we made in July last year; this is part of their corporate delivery plan for the future.

**Q215 Sir Peter Soulsby:** Precisely because they can, and you have described the plan as being relatively invisible—but take the example of British Waterways. They are projecting, not unreasonably, that the trend of the cuts that are to follow from this year will lead to them losing the equivalent of £50 million over the next five years. That is not unreasonable.

**Ms Ghosh:** Unless they use their asset base in a different way.

**Q216 Sir Peter Soulsby:** That is not unreasonable. With the prospect of losing £50 million over five years, they seem to be taking prudent action in advance, in sharp contrast to the way in which the Department responded to the looming crisis this time last year.

**Ms Ghosh:** We are taking prudent action in advance by setting our budgets for 07–08 against the prospect of the kinds of settlement we are going to get in CSR07. We are also beginning to take prudent action in terms of voluntary early retirement and voluntary early severance schemes, which we have had in this year, and we will be planning for another in the next. Going back to my earlier comments, the issue was one of judgment over a period of two or three months at the beginning this year on the extent to which we wanted to ask delivery bodies to cut programmes that were very strongly supported by some members of the public and indeed by those organisations themselves. The outcome would have been no different; we would simply have said to British Waterways Board, to English Nature earlier in the year, “your budget for next year will be lower”. It is a question of timing and planning not a question of what the outcome would have been for those bodies, had we made the decision in January rather than in May or June.

**Q217 David Taylor:** We are back to the Environment Agency, I am afraid. David Drew raised the medium-term impact of the reductions that have been made to baseline funding. They have

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**4 December 2006 Ms Helen Gosh and Mr Ian Grattidge**

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said quite unambiguously that there would be serious consequences for the standards to which flood defences can be maintained, and that they would impose an increasing risk of defence failure. What is your reaction to them—that you must protect those parts of your budget that do not pose risks of that kind and get on with it?

**Ms Ghosh:** No, our response to them has been a lot of detailed discussion between Bill Stowe, my DG on that side, and officials in the Environment Agency. We are having equally detailed discussions with them and a wider range of stakeholders, for example the Association of British Insurers, about the prospects for the CSRO7 years. The judgment that the Environment Agency has made is that reductions in that area of spend for one year may be able to be coped with; but I can assure you that they are making very strong representations about the level of funding for the future, and that is the debate we are having. To put it in context, their budget in 1997/98 was £163 million, compared with what it is today, so I do not think we can be accused of not putting our money where our mouth is when it comes to spending and supporting the Environment Agency.

**Q218 David Taylor:** Well, it is not your money; it is the taxpayers' money; and 07 is an age away and they have had all sorts of new commitments and obligations to meet, so I do not think that is a particularly helpful pair of figures.

**Ms Ghosh:** But the spending over the last two or three years has consistently risen.

**Q219 David Taylor:** I do have to say that it is classic, pulling figures out of thin air to justify a case, and when you examine them they just wither like snow in the sun. Staying with the Environment Agency, you will understand, especially in the present uncertain climate, that people want to make appropriate decisions for the next financial year and beyond; and the hope for the Environment Agency was that the confirmation of funding for 07–08 would be available by the end of October—and we are now five weeks beyond that. The most recent observation or commitment that Defra made—or aspiration, whatever it is—is that you would be able to deliver this before Christmas. Are you still on target for this?

**Ms Ghosh:** Absolutely. We are having final discussions with Ministers about this in the coming week. We had detailed discussions with the Environment Agency about whether or not—and it would be extraordinary—it would be a significant advance on any other year, not only in our Department but I guess most other departments, to give your delivery bodies final settlement in October for April the next year—

**Q220 David Taylor:** I am not sure about that at all. It is not absolutely concrete, but reasonably—

**Ms Ghosh:** Expectation.

**Q221 David Taylor:** Yes.

**Ms Ghosh:** We had this discussion with the Environment Agency and other delivery bodies, and they said they would far prefer, and they could do appropriate financial planning, if we gave them the figure in December than to be only able to give them a guideline amount in October. Inevitably, in a guideline amount, if we had given it to them in October, we would have had to have been very prudent in what we gave them. If they had seriously had to work upon that, it would force them to put into action very radical measures to meet a putative budget for 07–08; they would rather get a certain figure in December, and that is the basis on which we have worked.

**Q222 David Taylor:** The DCLG was a much larger budget being delivered by local authorities, to use your analogy—they are committing to a three-year budget, and these ran out just last week, so it is not impossible for you, with all the resources and all the consultants that you can call upon to hold your hand and guide you through this process.

**Ms Ghosh:** As you know, DCLG operates on the basis which I once worked on, of a very detailed grant distribution system based on formula, which it discusses with the LGA and other representative bodies on a regular basis. The analogy here is quite a different one. We are looking at what is essentially discretionary spending across a range of very different delivery bodies, and reaching judgment with them in partnership on appropriate levels of funding. The analogy with local government is not direct. What we are aiming to do in the CSRO7 period is indeed commit to that sort of three-year level of funding, and that is the parallel debate that we are having with the Environment Agency and others.

**Q223 David Taylor:** So you are going to be able to deliver on this commitment you have just made to provide 07–08 information to your delivery bodies and to your core department indeed—

**Ms Ghosh:** By Christmas.

**Q224 David Taylor:** Which is 55% of your budget, by Christmas.

**Ms Ghosh:** I am.

**Q225 David Taylor:** And this is the Christmas to which we are all working—it is not an RPA Christmas—

**Ms Ghosh:** It is not an RPA Christmas.

**Q226 David Taylor:** Or as the cricket season starts or something like that?

**Ms Ghosh:** It is the Christmas which is three weeks today.

4 December 2006 Ms Helen Gosh and Mr Ian Grattidge

**Q227 David Taylor:** So we are certain of that!

**Ms Ghosh:** I am certain of that.

**Q228 David Taylor:** And we can find you if that does not happen, can we?

**Ms Ghosh:** Yes, you can. I am not leaving the country!

**Q229 Mr Drew:** In terms of the single farm payment and the possible disallowance, can I be absolutely clear that the number of 131 million that has been mentioned is not anything to do with the 200 million cuts?

**Ms Ghosh:** Absolutely. We will give some clarification. Absolutely not. In our 05–06 we had to make provision under two headings. It is not 131 in the figure that you quote. We made around 150 million provision for disallowance relating to failure in controls, and weaknesses in the validation. That had happened before 31 March. There will be a significant element of that not specifically relating to the SPS this year but also related to tidying up in previous years. Then we also made contingent provision for about 63 million of potential disallowance that had arisen after 31 March. That is why there is a distinction between the two figures, and that related to fines for late payment that emerged after June, and for the partial payments that were made in May. Both of those are simply provision—and Ian can explain the technicalities—that we make on the basis of future decisions made by the Commission in negotiation with ourselves for what that amount might ultimately be; but it has no impact on our resource budget in year. It is contingent provision, not something for which we have to find cash provision in the year in hand.

**Q230 Mr Drew:** It is not in the 200 million, but you could have to, if the disallowance was imposed, find that money. Where would you find that money from?

**Ms Ghosh:** At this point I will hand over to Ian, who can explain how that will roll out over the years. As I think we have discussed in this Committee before, it is likely to take some years to decide what the final level of disallowances is, so that was prudent provision that we needed to make for accounting purposes.

**Mr Grattidge:** You are absolutely right; if disallowance is confirmed, as opposed to being marked up, as we did in 05–06 in the accounts, yes, we have to find it from our departmental expenditure. In the past the Department has had provision to cover disallowance, but at rather lower rates than we are currently facing. As part of the transitional arrangements that were agreed with the Treasury, which took disallowance from annually managed expenditure in 05–06 into Defra's departmental expenditure limit, some additional disallowance cover was provided in 06–07 and 07–08.

**Q231 Mr Drew:** Can I be clear? If you were to decide that you were not going to pay any disallowance, does that mean that you would be able to draw that money back?

**Mr Grattidge:** It is not our decision not to pay disallowance, and financial corrections are applied as a result of the EU—the Commission will apply as a result of—

**Q232 Mr Drew:** Could you just do what other countries do and ignore it?

**Ms Ghosh:** No, sadly you cannot ignore it because the way it is claimed back is that they simply do not give you as much—

**Q233 Mr Drew:** Do not pay them as much!

**Ms Ghosh:** No, we do not get our money back. We pay Single Payment and other payments under the Commission schemes on behalf of the Commission, and they give us the money back. If they are fining us under disallowance schemes they simply do not give us as much money back; so that is how they would take the money from us in the end.

**Q234 Chairman:** The fact is that if you are moving it from the annual managed expenditure into the departmental expenditure limit, as you go forward, that will have an impact on the actual amount of cash or near cash that you can spend at some point in the future.

**Mr Grattidge:** It potentially can do, and it is part of the Department's financial management scheme—how to take a view on what we believe disallowance paid will be in any particular financial years.

**Q235 Chairman:** Has that moved across? The AME bit was the unpredictable bit that could go up and down; here, we are moving to a bit that is a bit more predictable in terms of the Defra budget; so in the future, whatever happens the actual amount of real pounds you can spend on UK-based programmes will be affected at points in the future by whatever the number turns out as disallowance, will it not? You are going to have to cover the contingency one way or another, because if Brussels does not give you the money back it is a loss to the Defra budget.

**Mr Grattidge:** You are absolutely right; it impacts on the whole of the Defra budget. Our key task here is to try to quantify what we believe the disallowance payable will be in any financial year and to make necessary provision in the budget to cover it. As Helen said, we have assessed what we think the potential disallowance will be from previous years, from the Single Payment scheme in 2005, and we have looked across the whole of the UK in assessing what the figure will be. It is a very uncertain world. We can make a provision based on what we think might be payable, which tends to be worst case, and it is normally negotiated—

**Q236 Chairman:** From the point of view of real farmers and other beneficiaries of the Defra budget, they want clarity on the point at which disallowance starts to bite on real pounds that can be spent by Defra. The message I am getting is that

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**4 December 2006 Ms Helen Gosh and Mr Ian Grattidge**

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disallowances that might occur in relation to 2005–06 you have already made provision to cover, so there will not be a real pounds effect there. The year anyway has finished but there is not anything to be found for that purpose. It sounds as though you have covered 2006–07, but for 2007–08 there could be a real pounds effect by an unspecified sum.

**Mr Grattidge:** We have cover in the budget to pay up to a certain sum that has been agreed by the Treasury. I can come back to the Committee with a final figure on that, but it works out at about 2% of the England SPS.

**Q237 Chairman:** So if we went above 2%, then that is a real pounds effect.

**Mr Grattidge:** There is a little bit of flexibility because if we underspend in one year, then we can use that underspend in the first year into the second year; but you are absolutely right, there is a—

**Ms Ghosh:** This is a very complicated issue, which Ian has described to me on a number of occasions, and it is probably worth a note to the Committee. The simple question you are asking is: will an amount for disallowance, say, in 06–07 be added to the resource pressures that we are currently debating? The answer is, in 06–07, no. There is a very complicated way in which ultimately, when we know the disallowance amount, we then look back to adjust our accounts for 05–06 or 06–07, which does not simply come out of our resource spending for that year.

**David Taylor:** It is pretty small beer, is it not? £131 million is exactly half of 1% of the total annual budget.

**Q238 Chairman:** At the end of the day, it might not come out of your account but it comes out of the UK Government's account.

**Ms Ghosh:** In some way. Let us volunteer a note to you to explain how that happens.

**Q239 Chairman:** Because if I am sitting in the Treasury and you guys are making it difficult to get back all I thought I was going to get back if I were the Chancellor, I might take a rather dim view of what you have been up to; and I might take a rather harder view about your future budget because I knew that I had to find out of my pot the money which effectively does not come back to us. That is the way it works, is it not?

**Ms Ghosh:** I think we need to explain what pot it would come out of and therefore what impact it would have, whether on the Chancellor or us. As it is quite difficult to explain, we will come back to it.

**Q240 Chairman:** I just want to come back to a previous point because of the £200 million of cuts, we have identified £170 million that you had sorted out, and £30 million you were hoping was going to come from natural underspend within the Department's budget. Do you have any idea yet where that might occur?

**Ms Ghosh:** You mean where we would get it from if we needed it?

**Q241 Chairman:** Yes.

**Ms Ghosh:** Yes, we do.

**Q242 Chairman:** Would you like to tell us?

**Mr Grattidge:** Basically we have brought in a moratorium on new spending proposals through the year, which gives us an early view of new spending priorities as they are coming through. Those will be challenged as they arrive.

**Q243 David Taylor:** Core department or agency?

**Mr Grattidge:** Basically the core department, but the core department will oversee all delivery body spending.

**Q244 Chairman:** What do you mean by “new spending”? I thought these people were living within the realms of tight budgets against defined programmes. “New” is like saying, “we would not mind spending another 5 million on X that we did not think of when we did our budget”.

**Mr Grattidge:** It does not quite work like that because a budget on day one will not be one hundred per cent committed. It is true to say that in many areas of our budget it is very heavily committed even from day one, but it is not universally the truth that every line of our budget is committed on 1 April.

**Ms Ghosh:** Contractually or statutorily.

**Mr Grattidge:** In many cases proposals will emerge through the course of the year. These may be—

**Q245 Chairman:** This is your back-pocket money, is it; the little bit that you keep back?

**Ms Ghosh:** To go back to the discussion I was having earlier with Mr Taylor, it is the money that we do control, over which we do have discretion within the Department, as opposed to the money that is effectively committed particularly through our delivery bodies through, for example, agreements with farmers or contracts around flood management. That is an element of our spend that we can track and monitor and agree bit by bit as it goes along, to make sure that the flow of expenditure—again, as a prudently-managed organisation would do—is control.

**Q246 David Taylor:** Control exit packages for sacked RPA chief executives—is that one of the budget heads that is within your control?

**Ms Ghosh:** If it were the case it would fall under the HR, corporate services budget.

**Q247 Sir Peter Soulsby:** I want to seek from you clarification as to what information we are going to get from you on disallowance? Are we going to get information from which we can discern a single figure? I am looking for the impact of disallowance on the current year's Defra budget and your prediction or your contingency for disallowance in each of the next few years. Are we going to have information that will enable us to put figures on each of those years?

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 4 December 2006 Ms Helen Gosh and Mr Ian Grattidge
 

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**Ms Ghosh:** Certainly, if that is what you would like. We will explain the provision we have made in the 05–06 budget, the level of existing provision in the 06–07 and 07–08 and future years provision. The particular thing I said it was worth explaining in writing because it was very complicated is how, in the end, when the Commission or European Court of Justice, or whichever, says the figure is X, how we effectively meet the gap between what we had assumed we had in our budget for that year, which would be a historic year—they might not say for some years what the actual figure was for 05–06 and we would long since have closed the books on 05–06. I was proposing to explain how we would meet the costs of disallowance for 05–06 if it only became clear two years hence. That is the complicated accounting issue. We can give an explanation about the point Ian made about how we can provide between now and then for disallowance.

**Q248 Chairman:** One thing that comes through very clearly from this afternoon’s exchanges is that Defra’s customers would still find a vast amount of what we have been hearing this afternoon opaque and difficult to understand. Bearing in mind that mid-term courses of change of direction can come as a bit of a surprise to people and the explanations that were given by Ministers were literally all over the place—I was struck by a paragraph in your evidence: “Regarding the inconsistency and the oral debate”—referring to two occasions in the House of Lords and the House of Commons—“it is understandable that Ministers may have confused the direction of travel on a technical or reclassification for one budget line item, even more so given the general complexity of Government finances and the compartmentalisation of

expenditure.” If Ministers who take decisions and who have approved much of what you have told us this afternoon can have that observation levelled at them on one point of detail, it does raise some quite important questions about the understanding levels both within the Department and outside about how your budgetary processes operate. Accounting is not easy, but explanation is something that those who do understand it should concentrate on in trying to help outside lay people—and in that, with no disrespect to my colleagues around the table—that is us—understand what is going on. If there is a message to convey back to your colleagues in the Treasury, it is that they must be more transparent in terms of their language and the rules, so that both your Department and us can understand the basis on which the accounting world in which you operate, transpires its business and monitors. We are grateful to you for your offer of information about the way in which your management board is presented with continuing finance information, but it is also incumbent on us to acquire further expertise in understanding the message that comes out of these documents. Thank you very much for answering our questions. I think we have a little better insight into some of the things that have underpinned the reductions in budget; but I think it underscores the need to be clearer and more transparent and understandable when it comes to explaining to Defra’s customers why these cuts have occurred and what they mean, both in this year and in the year to come. Thank you very much.

**Ms Ghosh:** Thank you very much.

**Mrs Moon:** Can I take it that my questions now will be fully answered.

**Chairman:** With unbelievable clarity and swiftness, I am sure.

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

#### RESPONSE TO THE COMMITTEE’S ADDITIONAL QUESTIONS TO DEFRA ON BUDGETS AND REQUESTS FOR FURTHER INFORMATION

##### BACKGROUND

Part 1 of this document includes questions the Committee did not have time to raise with the Permanent Secretary in the 4 December oral evidence session on *Defra’s Departmental Report 2006 and Defra’s budget*, and additional questions in light of this evidence session.

Part 2 lists the Committee’s requests during the session for further information.

##### PART 1. ADDITIONAL QUESTIONS TO THE DEPARTMENT

###### CONTINGENCY FOR UNEXPECTED EVENTS

In evidence, the Permanent Secretary said that Defra had no contingency to deal with sudden outbreaks, such as the avian flu outbreak in Spring 2006. In the past, Defra has traditionally been an under-spending department; it was therefore accustomed to having additional finances to cover such relatively small outbreaks.

1. *Given that the Department says it is no longer an under-spending department, how will Defra cope with any future sudden disease outbreaks (such as another avian flu outbreak) or floods, especially if they occur late in the year when there is little scope for transferring funds from other projects?*

— *How serious and expensive would an event have to be before HMT granted additional finances for such an event?*

It is not possible to set an exact figure, as this would depend on the circumstances involved and other priorities and issues faced at the time. As an indication, we would not expect to be able to accommodate pressures that reflected more than 2.5% of our budget, and would normally aim to manage any pressures amounting to less than 1%. Our response to pressures within that range would depend on circumstances, and the timing—a pressure of £30 million that we may be able to accommodate at the start of the year might be unmanageable if encountered during the fourth quarter.

#### IMPACT OF DEFRA'S BUDGET DEFICIT

The Committee was told in the evidence session that, at the time budget cuts were made, the Department only had a relatively small amount of its budget which was uncommitted, and therefore available to be cut.

2. *Had the decision been made to revise budgets significantly earlier in the calendar year 2006, to what extent would the Department have had greater flexibility in deciding which areas budget cuts could be made?*

These decisions are made in a context of uncertainty, and their essence is one of risk management. An earlier decision would have been taken on the basis of more uncertain information. Whilst this might have provided more scope to cut expenditure sooner, it would also have involved a greater risk that such cuts would prove unnecessary. Since all of Defra's activities are conducted in pursuit of Government policy objectives, we seek as far as possible to avoid such action.

#### DEFRA'S EFFICIENCY PROGRAMME

In its written evidence to the Committee, the Department said that, due to Defra's deficit, "some initiatives to streamline corporate services were scaled back to ensure that key services were not compromised" (Q1)

3. *What is the impact of Defra's £200 million deficit on the Department's Efficiency Programme? How many efficiency projects (across the Defra family) have been cancelled or delayed because of the deficit?*

As a result of the £200 million deficit, some work was scaled back and some re-prioritised, including the Smart Working project, work on the Laboratory Strategy and some IT programmes. These changes have had no impact on delivery of the targets by the Efficiency Programme, which is currently forecast to exceed the financial target.

#### END YEAR FLEXIBILITY (EYF)

The Department has said that £55 million of spending was delayed from 2005–06 to 2006–07 because HMT refused to allow Defra to access its full EYF in 2005–06. Defra is instead hoping to draw down £50 million of this amount in 2006–07.

4. *Could the Department clearly explain why the £55 million factor (relating to 2005–06 programmes and projects delayed into 2006–07 because Defra could not draw-down its full EYF) has been included in the Department's £200 million total? The Department has presumably not lost this money if spending has been delayed into 2006–07—so why would this factor mean cuts needed to be made in 2006–07?*

The deferment of £55 million worth of programmes and projects from 2005–06 into 2006–07 was because we had less budget in 2005–06 due to the partial withholding of EYF draw-down. Treasury made it clear at the end of the 2005–06 EYF deliberations that 2006–07 EYF would be capped at £50 million to cover all eventualities. Departmental allocations for 2006–07 already included a planning assumption of £50 million EYF (made following the allocation of SR04) so the deferment of £55 million resulted in a direct budget shortfall.

## NON-CASH/NEAR-CASH TRANSFERS

5. *When did the Department first identify that its original 2005–06 budget overstated the Department’s non-cash requirements?*

— *When did the Department start planning to use this non-cash resource as near-cash?*

The tighter controls on near-cash and non-cash were only unearthed when Defra came to do the 2005–06 first quarter review and deal with the EYF restriction. The tighter controls and demarcation of near-cash and non-cash expenditure only came into force from 2005–06 onwards. The application of these rules did not become apparent until during the summer of 2005 when the limitations on EYF draw-down were being proposed by Treasury. Defra was not alone in trying to understand the revised fiscal framework and so the Treasury issued guidance in the form of MS FD (05) 24 on 11 August 2005 to help provide clarification on the introduction of near-cash control totals. This was supplemented by the issue of “Consolidated Budgeting Guidance from 2006–07” by Treasury on 13 December 2005.

6. *When did the Department first inform HMT that it wished to effect this transfer? How long after this did HMT inform the Department it would not be able to transfer more than £20 million of non-cash into near-cash?*

The Department did not notify HMT. Instead, the guidance released made it clear that use of funds in this way was not permitted.

7. *Could the Department please provide the Committee with the relevant sections of Treasury budget guidance that existed prior December 2005 which led the Department to assume a greater amount than £20 million of non-cash could be transferred into near-cash?*

The answer to Question 5 above provides details of the relevant guidance issued by the Treasury during 2005. But the straightforward answer to this question is “no”. It was the lack of clear guidance (only remedied by the Treasury with the guidance provided on 11 August 2005) that led to this assumption, rather than guidance that existed.

## EU DISALLOWANCE

In the evidence session, the Permanent Secretary said that the Department had made provision in its 2005–06 accounts under two headings: £150 million provision for disallowance relating to failure in controls, and weaknesses in validation that had happened before 31 March [2006]; and £63 million of potential disallowance that had arisen after 31 March [2006] related to fines for late payment and for partial payments (Q 229).

Note 31 of the Department’s 2005–06 Resource Accounts states “*At 31 March 2006, the main items under this heading were: a potential disallowance liability in respect of partial payments and late payments attributed to the SPS, estimated at £63.5 million . . .*”, implying that the £63 million referred to in the session relates to a potential disallowance that arose during 2005–06 rather than 2006–07.

8. *Could the Department clarify in which year the £63.5 million contingent liability for potential disallowance arose? If it relates to 2005–06, does it mean that the 2006–07 event mentioned by the Permanent Secretary gives rise to a further potential disallowance over and above that disclosed in the 2005–06 Resource Accounts?*

The events referred to in the £63.5 million contingent liability were disclosed as non-adjusting post-balance sheet events in the accounts for 2005–06 in accordance with accounting requirements under the Government Financial Reporting Manual and UK GAAP. They did not form part of the liabilities recognised in the balance sheet of the 2005–06 Resource Accounts and their financial impact is, therefore, in 2006–07.

Note 35 of the Resource Accounts (p 89) states:

“The delays faced by RPA in processing payments due under the SPS experienced during the financial year continued thereafter. One of the steps taken as part of the subsequent processing of payments, sanctioned by Ministers, was the making of partial payments, £770 million in total. The European Commission was consulted before these payments were made and Commission officials advised that making these payments could give rise to disallowance up to 10% of the payments made. In addition RPA took steps to streamline the controls over processing claims for payment. These steps resulted in 94.9% of payments being made by the regulatory deadline of 30 June 2006. However, this level of payment may still give rise to late payment penalties.

The risks arising from the partial payments, streamlining in controls and late payments have given rise to a material exposure to disallowance which will result in a failure to recover sufficient monies from the EU to fully fund the payments made under the SPS. These are provided for in note 21.1 under EAGGF financial corrections and a contingent liability in note 31.1.”

9. Could the Department clarify whether the whole potential liability (“10% of £770 million”) referred to in Note 35 of the 2005–06 Resource Accounts has been disclosed within notes 21.1 and 31.1?

- Does some of this liability relates to dates after 31 March 2006 but before 30 June 2006 and will therefore give rise to a liability in the 2006–07 Resource Account?

Defra has requested that this information remain confidential to avoid adverse outcomes from future negotiations with the European Commission (EC).

## PART 2. COMMITTEE REQUESTS FOR FURTHER INFORMATION

During the evidence session, the Committee requested some further information from the Department. The Committee would like:

- (1) the monthly financial reports received by the Board for every month in 2005–06 and 2006–07, to date. (*Q 145 in the evidence session*).

*Reports provided separately.*<sup>1</sup>

- (2) a breakdown about what both avian influenza costs (one in 2005–06, the other in 2006–07, each costing £10 million), referred to in the Department’s written response, were spent on. (*Q 178*).

- The actual spend in 05–06 was £9 million;
- Defra is currently estimating the 06–07 outturn as £19 million (the figure mentioned by the committee was based on an earlier estimate).

**The figures are:**

	<i>£m</i>	
	<i>05–06 (actual)</i>	<i>06–07 (f/cast)</i>
Poultry Register	6	6
Surveillance and Collection of Dead Wild Birds	1	4
Diagnostic Testing of Dead Wild Birds	0.5	2.5
AI Knowledge (eg Outbreak Modelling and Incursions)	0.5	1
Miscellaneous Expenditure (eg Communications, Vaccine banks, provision in case of move to higher state of awareness)	1	4
Outbreaks	0	1.5
<b>Total</b>	<b>9</b>	<b>19</b>

*The amounts in the above table represent total expenditure on Avian Influenza (AI). However, it is important to note that only £10 million (£3 million administration and £7 million programme expenditure) has additionally been allocated to the AHWDG and SVS to cope with the work involved in 2006–07, the remainder coming out of existing budgets. In 2005–06, Defra agreed with the Treasury to absorb additional costs for AI work up to a threshold of £10 million.*

- (3) A note to explain:

(i) *how the Department would meet the costs of disallowance for 2005–06 if it only became clear two years hence, and meet any potential gap; (Q 247)*

The answers to Questions 8 and 9 above provide some background. From provision already made in 2005–06 Resource Accounts (but with potentially serious implications for near-cash in the CSR07 period), any top-up would have to come from existing budgets in-year.

(ii) *how any EU disallowance re the Single Payment Scheme would be paid for from 2007–08 onwards and which budget it would impact. (Q236–7)*

This is the subject of on-going negotiations with the Treasury.

(iii) *The Department also offered to provide details about:*

- *the level of cover provided by Treasury (Q 236);*

For both 2006–07 and 2007–08, there is provision of £67 million.

<sup>1</sup> Not printed.

- *the provision the Department has made in its 2005–06 budget; the level of existing provision in the 2006–07 and 2007–08 budget; and future years’ provision. (Q 247)*

The provision to cover for disallowance in 2005–06 was £137 non-cash and £37 million near-cash (agreed in the Spring Supplementary Estimates 2005–06). As stated above, there is £67 million cover for each of the remaining years in the current spending period. There is nothing in budgets over and above Treasury Estimate provision. Future years’ provision (ie beyond 2007–08) remains the subject of on-going CSR07 negotiations with the Treasury. There is also a distinction between the creation of the provision (which is non-cash) and the near-cash impact when the provision is confirmed (and when the financial correction takes place). This too is the subject of on-going discussions with Treasury, as we anticipate major implications for near-cash in the CSR07 period.

(4) *The Committee would also like full details about the 2007–08 budgets for core Defra and Defra’s agencies/NDPBs. In evidence, the Permanent Secretary said Defra agencies/NDPBs would be notified about these “before Christmas [2006]”.*

See separate paper on 2007–08 budgets [Annex A].

Department for Environment, Food and Rural Affairs

January 2007

**Annex A**

## DEFRA BUDGETS 2007–08

### PART A: GENERAL

In 2007–08 the Department has an overall Departmental Expenditure Limit (DEL)<sup>2</sup> budget of just over £3.8 billion comprising of almost £2.9 billion for Resource (which pays for Defra’s programmes, schemes, administration costs and grants to sponsored bodies) and around £900 million covering all forms of capital investment.

Budgets for 2007–08 were agreed by Ministers on 11 December 2006 and following some follow-up action and clarification budgets were confirmed to core-Defra (Directorate-General level) and Executive Agencies on 20 December. David Miliband then wrote to Defra’s major sponsored bodies on 21 December to formally notify them of their 2007–08 budgets.

### PART B: BUDGETS FOR CORE-DEFRA

The tables below summarise the near-cash Resource DEL and capital budgets as notified to business areas within core-Defra on 20 December 2006. They do not represent the final position as there are still some outstanding items requiring further clarification and refinement that will be added to these allocations before the beginning of the year on 1 April.

This is normal practice as often more detailed information is required that is best left until nearer the commencement of the new year before they are allocated to individual business areas. For example, additional funds for the 2007 pay award will not be allocated until there is a clearer view on forecast staff numbers and the new organisational structure.

#### 1. 2007–08 Core Defra: Near-Cash Resource Allocations

	<i>2007–08 allocations £,000s</i>
<i>Business Area</i>	
Animal Health & Welfare	251,342
Chief Operating Officer	174,129
Finance, Planning & Resources	9,383
Environment	891,848
Law & Regulation	13,159
Living Land and Seas	551,146
Science, Economics & Statistics	33,239
Strategy & Sustainable Development	12,074
Sustainable Farming & Food	95,283
UK Co-ordinating Body	1,399
<b>Total</b>	<b>2,033,002</b>

<sup>2</sup> The DEL budget represents annual departmental expenditure that must be contained within strict control totals agreed with HMT Treasury.

## 2. Core Defra: Capital Allocations

(includes capital funds for onward allocation via Grant-in-Aid to sponsored bodies)

<i>DG</i>	<i>Description</i>	<i>2007–08 £'000</i>
AHWDG	Capital Grants—IAH Pirbright	15,300
EDG	Capital Grants	390,469
<i>British Waterways</i>	British Waterways	7,000
	British Waterways NLF Repayments	2,046
<i>Local Authorities</i>	Waste & Recycling—Capital Grants	3,000
	Environmental Protection Research—Capital Grants	
	Performance Reward Grants—Capital Grants	
	Contaminated Land SCAs—Capital Grants	131,976
	Smoke SCAs—Capital Grants	<i>To be individually allocated</i>
	Air Quality SCAs—Capital Grants	
	Coast Protection Work—Capital Grants	
<i>Environment Agency</i>	EA Flood Defence & Environment Protection Grants (see Note 1)	217,439
	<b>Sub Total</b>	<b>751,930</b>
LLSDG	NDPB Capital—Natural England	5,700
	Aggregates Levy Sustainability Fund	1,000
	EU schemes	17,500
	Regional Development Agencies	21,500
	<b>Sub Total</b>	<b>45,700</b>
DGCOO	Capital (Estimate DEL)	79,008
SESD	Capital DEL NDPBs (RBG, Kew)	7,600
SFFF	Capital DEL NDPBs (Food For Britain + Wine Standards Board)	65
	Other Capital Grants (eg Gangmasters Licensing Authority)	478
	<b>Sub Total</b>	<b>543</b>
		<b>900,081</b>

### Note

1. Resource to Capital switch covering EA flood defence capital expensed in year is included in the EDG figures.

### PART C: BUDGETS FOR DEFRA AGENCIES & SPONSORED BODIES

#### (C)(i) Funding for Executive Agencies (Gross Controlled)

<i>Agency</i>	<i>2007–08 Budget £m</i>
1. Rural Payments Agency (RPA)	225.972
2. State Veterinary Services (SVS)	105.996
3. Marine Fisheries Agency (MFA)	31.891
4. Government Decontamination Service (GDS)	1.141
<b>Total</b>	<b>365.000</b>

### Notes:

- (i) GDS funding for 2007/08 to be supplemented by contributions from other Government Departments (DCLG and Home Office). The transfers are being negotiated.
- (ii) Figures for RPA and SVS include capital budgets.
- (iii) RPA figures represent operational costs only. They do not include Older Cattle Disposal Scheme (OCDS) costs which are kept under review based on throughput cattle numbers. Non—cash costs (for depreciation and notional cost of capital) are also excluded. 2007–08 represents a provisional allocation figure, subject to review and possible adjustment during the year.
- (iv) Defra Net Controlled Agencies (CEFAS, CSL, PSD, VLA and VMD) recover all their costs through charges to customers which includes Defra and non-Defra clients. In terms of Defra's DEL budget this nets to zero.

*(C)(ii) Defra support to its sponsored bodies*

<i>Body</i>	<i>2007-08 Budget £m</i>
1. Environment Agency:	
Environmental Protection <sup>(3)</sup>	124.83
Flood Management	435.71
Fisheries	5.89
Closed Pension Fund	95.00
<b>EA TOTAL</b>	<b>661.43</b>
2. British Waterways	57.55
3. Natural England <sup>(1)</sup>	169.59
4. Carbon Trust <sup>(3)</sup>	65.66
5. Energy Savings Trust	28.69
6. WRAP <sup>(2)(3)</sup>	11.86
7. ENCAMS	5.11
8. National Parks	44.24
9. RBG Kew	25.20
10. National Forest Company	3.70
11. Food From Britain	4.97
<b>TOTAL</b>	<b>1,080.17</b>

Notes:

**All the above figures include both Resource and Capital budgets (where appropriate).**

(1) Natural England 07/08 budget represents core funding only which is largely running costs. In addition to core funding, other programme funding will be agreed as part of establishing “steady state” costs. Capital budgets are also not included.

(2) WRAP funds represent core funding only.

(3) Business Resource Efficiency & Waste (BREW) Programme funding has been included in the review of spending plans but decisions on individual Delivery Body allocations are subject to a further assessment process and allocations will be made in January 2007.

Department for Environment, Food and Rural Affairs

January 2007

# Written evidence

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## Memorandum submitted by Butterfly Conservation (DAR 04)

### EXECUTIVE SUMMARY

1. Butterfly Conservation has been asked by the EFRA Committee to provide evidence on “the impact of Defra’s 2006–07 budget cuts on your organisation’s work”. We are pleased to have this opportunity and have limited our reply to the impacts of the cuts as far as they affect our primary charitable aim: the conservation of butterflies, moths and their habitats.

2. Butterflies and moths are declining rapidly due to pressure of habitat degradation and climate change. Overall seven out of 10 species are declining and they are important indicators of government policy on the environment, especially the target of halting biodiversity loss by 2010.

3. We have divided our reply into two parts: direct effects and indirect effects.

#### 4. *Direct effects*

- Delays in processing applications for key sites to be entered into the Higher Level Stewardship Scheme (HLS).
- Staff shortages leading to stricter SSSI targeting under HLS, at the expense of non-SSSI sites. The latter are vital to the maintenance of biodiversity in the wider countryside and to meet BAP targets, as well as providing links between SSSIs to allow species to respond to climate change.
- Virtual cessation of care and maintenance visits to Stewardship sites by NE staff, thereby making it difficult to ensure compliance and success on the ground.
- Reduction in funds to ensure vital management of key habitats. Five examples are given concerning lack of funds or reduction in funding to bring key sites into favourable condition for BAP Priority Species and Habitats, including SSSIs.

#### 5. *Indirect effects*

- Negative effect on the attitude of the farming community. Our field officers are finding that there is very little confidence in Environmental Stewardship amongst landowners and a great deal of scepticism when NE makes commitments (often attributable to mistakes originally made by the RPA).
- Uncertainty about future grant-aid and continuation of projects beyond March 2007, has created uncertainty and caution about planning projects during the next financial year. This has an inordinate impact on crucial NGO partners such as Butterfly Conservation and their expert staff and volunteers who are crucial to help deliver BAP targets.

### MAIN SUBMISSION

1. Butterfly Conservation has been asked by the EFRA Committee to provide evidence on “the impact of Defra’s 2006–07 budget cuts on your organisation’s work”. We are pleased to have this opportunity and have limited our reply to the impacts of the cuts as far as they affect our primary charitable aim: the conservation of butterflies, moths and their habitats. We are not able to respond in detail on wider impacts in the time available, though many of our points have wider implications.

2. We have divided our response into Direct Effects and Indirect Effects.

#### *Direct effects:*

3. **Delays in processing applications for key sites to be entered into the Higher Level Stewardship Scheme (HLS).** Butterfly Conservation has several specialist advisers working with farmers to enter key breeding sites for BAP Priority Species into HLS, but many applications have been put on hold and we have not been told when or whether they will be processed. It is unclear whether this is directly due to Defra cut-backs, but it is clear that there is insufficient staff time to process applications. However, the end result is that it will be very difficult to bring sites into favourable condition and meet the 2010 and BAP targets.

4. **Stricter SSSI targeting under HLS at expense of non-SSSI sites that are crucial to wildlife.** Another impact of staff shortages is that SSSI’s are being prioritised under HLS, at the expense of non-SSSI sites, many of which do not now qualify, even if they are key sites for BAP Priority Species. While this is clearly desirable to achieve the target of bringing SSSI’s into favourable condition, it means that it will be more difficult to hit BAP species and Habitat targets, and achieve the 2010 target of halting biodiversity loss. In a climate change world it is vital that such non-SSSI habitats are brought into favourable condition to link up SSSIs, reduce habitat fragmentation, and allow species to respond to climate change. If this situation continues for long, SSSI will increasingly become islands that steadily leak biodiversity.

5. **Virtual cessation of care and maintenance visits to Stewardship sites by NE staff** because cut-backs have resulted in them having to focus on claims. Such visits are crucial to ensure compliance and the success of agreements, and ensure they lead to benefits for wildlife on the ground. The impact on BAP species with special requirements is most acute and our regional staff have often stepped in to help where our interests overlap.

6. **Reduction in funds to ensure vital management of key habitats.**

Five examples:

- (a) Lack of funds to fence at least two important wildlife sites in Devon (Great Tree Farm and Waye Cross Farm) which are habitats for BAP Priority butterflies such as Marsh Fritillary. The result is that grazing in these sites cannot be controlled, and one site has been undergrazed, and the other overgrazed as a result, leading to very unfavourable conditions for wildlife.
- (b) Disruption to planned management of a key block of common land (West Down) on Dartmoor, one of the last remaining habitats for the High Brown Fritillary butterfly. A WES agreement has been set up and scrub is planned to be cleared over a five year period. However, because of the cut-backs, it is unclear whether the money will be available for this financial year. (Although we have heard that some may become available at the last minute).
- (c) Lack of funds to pay for essential management and scrub control on Braithwaite Moss SSSI, Cumbria, to bring into favourable condition and restore habitats for the Marsh Fritillary.
- (d) Reduction in funds for coppicing that is essential to maintain favourable condition on woodland NNRs in Cumbria and maintain breeding habitat for BAP Priority Species such as the High Brown Fritillary and Pearl-bordered Fritillary.
- (e) Major reduction in planned management to ensure favourable condition of a major heathland block in Bournemouth, Town Common, a reserve managed by the Herpetological Conservation Trust. Originally £70K had been budgeted to clear scrub and restore heathland under Natural England Wildlife Enhancement Scheme but this has been reduced to £10K.

*Indirect Effects*

7. **Negative effect on the attitude of the farming community.** This is a highly significant indirect effect of the cuts from our perspective. Our field officers are finding that there is very little confidence in Environmental Stewardship amongst landowners and a great deal of scepticism when NE makes commitments (often attributable to RPA mistakes). This can be countered to some degree by the work of our field staff but a huge amount of damage has been done. When (or if) the budgetary problems are resolved a positive publicity campaign must be launched to restore some confidence. It is our experience that BAP priority habitats in the wider countryside are not protected by cross compliance or EIA so what is their future if renewals from CS to HLS are low and are set to remain so (we understand the national average is less than 20%).

8. **Uncertainty about future grant-aid and continuation of projects beyond March 2007.** Although the cut-backs announced so far only affect the current financial year, they have created uncertainty and caution about planning projects during the next financial year. Consequently it has become far more difficult to plan ahead and ensure the continuity of effort that is so vital to maintain progress with conserving biodiversity. This has an especially significant impact on NGOs such as Butterfly Conservation who have had long term Memoranda of Understanding with English Nature (inherited by Natural England), and rely on long term grant aid, for example under the Species Recovery Programme. All the existing MOUs and grants cease at the end of March 2007 (including our own) and it is unclear whether they will be renewed. In January we will have to issue statutory redundancy notices to the staff working under these projects. It will also be impossible to ensure the continuity of large numbers of expert volunteer who are vital in adding enormous value to the grant aid and to meeting the BAP targets. Similarly the Reserves Enhancement Scheme is being wound up even though this has been a crucial mechanism to bring many hundreds of nature reserves owned by NGOs into favourable condition. The intention is to replace with HLS agreements, but because of the points made under sections 1 and 2, this is often impossible and will reduce our ability to reach biodiversity targets within our reserves. In conclusion, the current climate of uncertainty is thus prejudicing achievement of biodiversity targets by creating a climate of uncertainty and delay.

Butterfly Conservation

November 2006

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**Supplementary memorandum submitted by Butterfly Conservation (DAR 04a)**

Since our main submission in November, details have been provided on several more examples of where budget cuts have affected important conservation work on threatened BAP Priority butterflies and moths in the current financial year:

1. The following three projects due to be funded on highly threatened species under the Species Recovery Programme were cancelled:

- Marsh Fritillary: monitoring Mid Cornwall Moors LIFE project;
- Fiery Clearwing moth: autecology, monitoring and site management; and
- Notted Carpet moth: autecology, monitoring and management.

2. Most worrying still is the lack of any indication of funding for Species Recovery work for 2007–08 and beyond. This is directly impacting on the relationships which Natural England has with major NGOs, Universities, Research Institutes and specialist consultants, and will impact on their ability to progress the Government approved action plans for species identified to comply with international treaties (Biodiversity Convention, EU Habitats and Species Directive etc). There is now a projected four to five month delay in letting large contracts, which have to go through a laborious European tendering process. Thus essential work scheduled to start at the beginning of the field season in April will need to be tendered in January at the latest. This seems impossible unless tendering starts within the next week (which is unlikely). Thus it seems inevitable that a whole field season will be missed as a result and many projects that need sustained effort will be badly affected. This is especially critical for many projects run by NGOs such as Butterfly Conservation, which rely on volunteer involvement.

In conclusion, Butterfly Conservation is extremely concerned about the impact of the Defra cuts, and the knock on effects for the coming year. They are having serious impacts on both the delivery of government biodiversity targets and on the volunteer community who are trying to help government meet its own targets to halt biodiversity loss.

We strongly urge Defra to correct this as soon as possible and to remove the blockages to the efficient and speedy use of resources for the coming year.

Butterfly Conservation

December 2006

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#### **Memorandum submitted by the Veterinary Laboratories Agency (VLA) (DAR 05)**

*Q1. What programmes and projects are affected by the £2.4 million reduction and what specific services have been affected, delayed or stopped altogether?*

The VLA undertakes two prime activities for Defra, research that was marginally affected by the budget reduction and scientific surveillance which is where the majority of the cuts have been made. A few ongoing research projects have been considerably reduced in size most notably a project on the epidemiology of cryptosporidium. Furthermore all the research “concept” proposals on antimicrobial resistance could not be taken forward. Surveillance work is effectively a portfolio of projects grouped together within defra contract areas. This work is effectively undertaken on an annual basis unlike research which is typically comprised of three to five year projects. As the surveillance work is a portfolio there is flexibility to deploy VLA resources across the various contract areas to enable responses to be made available in the event of emergencies and priority changes.

The notified reduction required that the VLA look at the level of work it had planned across the contract areas and identify scope for scaling back or reducing activities in consultation with AHWG. There is usually built into the plans an element of over-planning due to it not always being possible to specify exact volumes and sample receipts, this factor aided in managing the cutbacks. The cuts were taken on a pro rata basis across the programmes of work which were affected as follows:

- Emerging Diseases and Welfare—Project on *Streptococcus suis* survey was stopped, elsewhere restrictions were placed on coverage of disease investigation work and follow up testing.
- Zoonosis—Surveillance for salmonella, Brucella and EBL were reduced in terms of planned activity and a number of sub-projects on monitoring of salmonella in animals were not taken forward with restrictions on “follow up” investigations imposed.
- Animal welfare—A project on Epidemiological and Pathological consultancy was removed from the contract.
- TSE Surveillance—Revisions to requirements resulted in lowering of activities in “Compulsory Scrapie Affected Flock Scheme and Epidemiological Study of Atypical Scrapie”. Some of the savings made here however were offset by additional requirements referred to later.
- Enhancing Surveillance—Potential sub project work in relation to the Surveillance Centres operated at RVC and Liverpool Vet School were not taken forward. Reductions were also made in the VLA input into RADAR phase 1.
- Tuberculosis—All projects were subject to “trimming” but due to a reduced expectation of sample throughput for TB testing and less farms participating in one of the trials, there is little overall impact.

- TSE Surveys—Some general trimming back but additional requirements now need to be met in respect of the EU sheep and goat scrapie abattoir and fallen stock survey.
- Exotic diseases—Most projects were subject to trimming back of planned activity, however, due to AI requirements additional work is being undertaken, ie Wild bird Survey for which Defra is providing additional funds.

*Q2. To what extent will the cuts affect the delivery of the various programmes and projects, particularly those related to animal disease research?*

Research cuts have affected the scope of our research in our Food and Environmental Safety Programme (FES). In particular, there is now very little activity in antimicrobial resistance that could leave Defra open to criticism since it is of considerable public health interest.

Elsewhere because the reductions were made across the board in the scope of the amount of work to be undertaken, there was minimal impact on the agreed delivery levels. It was just that less samples, tests etc will be undertaken in delivering this work, such reductions may impact on the sensitivity of the outcomes. However, because VLA already has the staff and facilities to undertake the work originally agreed, rather than have underutilised resource, the delivery of work overall will be close to that originally expected. This is only possible financially as VLA has sufficient income from all sources to cover its costs for the current year, see (3) below.

*Q3. How will or has the agency mitigated the effects of the budget cuts?*

The flexibility in VLA's planning referred to in (1) above ensures that in the event of a disease outbreak or new requirement, resource can be made available. Early this year with the incidence of Avian Influenza, this resulted in Defra requesting additional surveillance work relating to wild birds and emergency preparedness. Additional income was provided for this purpose, which has had the effect of mitigating the impact of the budget cuts and partially restoring the VLA's income levels. Furthermore a new EU requirement of scrapie testing has recently had to be accommodated which will again produce some further income thereby closing the original gap. However, some additional work, eg salmonella surveys has been accommodated within the reduced income level, ie the VLA bears the financial risk. Without the additional income offsetting the cuts the impact on the programmes would have been much greater with a potential loss of sensitivity in the outcomes.

*Q4. How much discretion did the agency have in determining which programmes and projects would be effected?*

VLA had little discretion concerning the research reductions in the FES programme that were decided by VEROD and VMD. However, it was mainly left to the VLA to determine how it would manage the cuts though discussions did take place with AHWG about the scale of the cuts and our ability to deal with them. The final reduction was a figure agreed between both parties as being manageable. In looking at the scope reductions, discussions took place between VLA programme managers and Defra veterinary heads of teams.

*Q5. How many job losses are expected as a result of the cuts?*

At present we are not expecting any job losses as this years reduction can be managed. It is important that the VLA maintains its scientific skill levels as we must be able to respond to our Defra customers' requirements as required. Therefore any job losses would have to be on the basis of an on-going reduction in specific work areas and agreed with the AHWG. It is not practical to make short-term changes to our staffing levels due to the specialist nature of our work.

*Q6. Which other Non-Governmental Organisations or bodies affiliated with the agency will be affected by the cuts?*

Active surveillance projects proposed by the VLA Surveillance Centres operated by the Royal Veterinary College and School of Veterinary Medicine, Liverpool were not taken forward.

Q7. *To what extent has the agency or defra provided advise to those bodies?*

Not applicable.

Q8. *Was the agency given enough certainty at an early stage about the extent of the cuts? What impact did any lack of certainty have on the agency's work and plans?*

There was considerable uncertainty on how the Defra cuts to the DG's would translate to its delivery partners. A number of different percentage reductions were being quoted in early correspondence that only added to the uncertainty. The view taken at the VLA was that we had a programme of work planned and we would carry on undertaking the work until we had a clear view as to what cuts were required. It was not practical to cease any projects without a clear steer from the customer.

Q9. *Could you provide an approximate timeline from the first warnings to the latest position and what was the impact on planning and delivery?*

We became aware of the issue within Defra from correspondence from the Finance Director in May which referred mainly to the DG's but implied impacts on the agency. A meeting was held with AHWG head of planning on 9 June to discuss scenarios and determine what level of reduction could be reasonably sought. Resulting from this we agreed to look at how we would manage a 5% reduction in the base level funding. We then responded in writing on how we would manage the proposed reduction of the work programmes, our response was acknowledged by AHWG at the end of June. No changes to projects were made until we had funding certainty.

Q10. *Were there any discussions about the causes of the cuts?*

Yes, we were kept very well informed as to the overall budgetary situation within Defra and therefore understood the causes of the cuts. This was also explained at our customer contract meetings.

Q11. *Has the agency been informed of the likelihood of further cuts for 2007–08 and beyond? What are the current estimations for subsequent budget levels?*

Discussion are still on-going with regard to 2007–08 though we have been informed that the most likely situation with regard to surveillance is that the reduced figure we received for 2006–07 will be maintained for 2007–08. Therefore whilst no actual further cuts are therefore envisaged this does, however, represent a "real" reduction in funding as no inflation is allowed for. Going forward the current assumption is for a continuation at this level.

The situation for Research is less clear as the timelines are different due to the longer project lives. There are indications that there could be a reduction in funds available for research work although we have not been informed of anything specific at this stage. Any impact, however, is not likely to be felt in 2007–08 but would have to be managed in 2008–09.

Q12. *If further cuts are expected which programmes and projects will be affected? What is the impact of further cutbacks?*

Dealing with effect on surveillance, no inflation means that the amount of work we will be able to undertake will be less and our ability to absorb work whilst still meeting our financial target will be difficult. Discussions are on going with Defra AHWG on priorities and possibilities for scope reductions in some of the work. At this stage it is too early to say what the outcome of those discussions will be.

For Research we have no firm information to respond to the question but any further cuts will most likely affect the critical mass of scientific experts in some areas that may lead to a loss of some of our most highly respected veterinary scientists.

Veterinary Laboratories Agency (VLA)

November 2006

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### **Memorandum submitted by the Environment Agency (DAR 06)**

#### **EFFECT OF BUDGET CUTS ON THE ENVIRONMENT AGENCY'S WORK**

Defra has announced cuts in the Environment Agency's 2006–07 budget of £23.7 million. This represents a 5% cut in the Agency's expected resource budget for that year.

Defra has stated that £14.9 million of the total reduction affects the Agency's flood risk management budget.

1. *Could the Agency provide a detailed breakdown of which programmes and projects are affected by the £23.7 million reduction in its resources budget? Within these programmes and projects, what specific services have been, or will be, affected, delayed or stopped altogether? The Committee would like as much information about this as possible, particularly in relation to the £14.9 million reduction in the Agency's flood risk management budget.*

The £23.7 million reduction in the Agency's budget notified by the Secretary of State on 27 July breaks down as follows:

	<i>£ million</i>
Flood Risk Management (FRM)	14.9
Environmental Protection, recreation, conservation, navigation (EPRCN)	8.5
Business Resource Efficiency and Waste (BREW) programme	0.3
Fisheries	0
<b>Total</b>	<b>23.7</b>

The Agency's GIA from Defra is allocated within the above ringfenced funding blocks and therefore the reductions had to be taken against the relevant blocks. They also had to be delivered by reducing revenue rather than capital activity, as they all related to "DEL Resource" budgets.

The July reductions followed upon reductions in our indicative budget allocations, which were notified by Defra on 13 April, amounting to £4.4 million (£4.0 million for EPRCN and £0.4 million for Fisheries). The Agency has therefore had to make aggregate in year reductions in its operating budgets of £28.1 million as follows:

	<i>£ million</i>
FRM	14.9
EPRCN	12.5
BREW Programme	0.3
Fisheries	0.4
<b>Total</b>	<b>28.1</b>

While this represents 3% of the Agency's total budget, it falls more heavily on those of our activities which are funded exclusively by grant-in-aid and which are of a revenue (as opposed to capital) nature.

The lack of notice has required the Agency to make budget adjustments which are to an extent tactical and opportunistic. Successive planning rounds will enable us to develop more sustainable solutions.

The Agency has advised the Secretary of State of the likely impacts of the reductions in a letter from the Chairman dated 3 October. A list of likely impacts is reproduced as Annex 1 to this response.

The reductions need to be seen in the context of the Agency having each year to meet the costs of pay and price inflation from its efficiency savings. So the budget reductions are in addition to a real terms reduction in spending power from our GIA funding of over £20 million.

2. *To what extent will the budget cuts affect the delivery of the Agency's various programmes and projects? Which programmes and projects are more at risk than others?*

This question is largely answered by Annex 1.

In addition, the Agency Board has made a number of strategic points about the reductions.

Firstly, the reductions in flood risk management GIA run counter to the strategic direction of spending review 2004, reinforced by the messages of the Foresight Report, the adaptation requirements to climate change, and a recent report by the ABI.

Adaptation measures are required to deal with the implications of climate change over the coming decades that are already inherent within the system. The ring fencing of capital and revenue expenditure is inflexible, as it does not allow us to enhance maintenance budgets to improve the unsatisfactory condition of a proportion of defences.

There is a big difference, of course, between expediency for a single year and a permanent reduction in baseline funding which would have serious consequences for the standards to which flood defences can be maintained and would pose an increasing risk of defence failure. As yet we are not clear about funding for flood risk management in 2007–08 and beyond.

The cut also falls on environmental protection activities funded by GIA, which is the only flexible funding the Agency has to take forward some of the Government's and the Board's strategic priorities. Annex 2 shows what environmental protection activities are funded from charges and what from GIA. The impacts of the reduction in GIA include a substantial reduction in measures to fight serious flytipping and the illegal

disposal of waste in this country, as well as illegal shipments of waste overseas, getting the non-regulated into regulation, environmental health for deprived communities, building joint working with local authorities and effective public involvement on a regional and local basis.

3. *How has the Agency attempted, or how does it intend, to mitigate the effects of the budget cuts on the various programmes and projects affected?*

The Agency has established a programme of actions under the banner “More for the Environment, Better, Faster and For Less”. This aims to manage the funding restrictions for 2007–08 and the three following years in as positive a way as possible in order to make progress with the delivery of the Agency’s five year Corporate Strategy. The programme focuses on improving efficiency and effectiveness and reducing lower priority actions.

Many of the actions taken to accommodate the in-year budget reductions for 2006–07 were tactical and opportunistic as in effect we had only half a year in which to deliver them by more sustainable solutions in the 2007–08 corporate and business planning round.

Much will depend, however, on the level of GIA received in 2007–08 and the settlement for the three following years arising from the CSR07 process.

4. *How much discretion was the Agency given to determine which programmes and projects would be affected by the cuts?*

Within the ringfenced funding blocks of FRM, EPRCN, Fisheries and the BREW programme (see response to question 1), and subject to the focus on DEL Resource (“revenue”) activity, the Agency had discretion to take its own decisions.

In practice, options were limited to the “tactical and opportunistic” as a result of the in year nature of the cuts and lack of planning notice.

5. *How many job losses are expected within the Agency as a result of its budget cuts?*

We do not expect to make compulsory redundancies as a result of the 2006–07 budget cuts, but we have put in place tight controls over staff replacement and recruitment, and we will manage vacancies as they arise. Through this process we expect manpower numbers (in terms of full time equivalents) to fall by up to 200 by the end of the financial year.

However, 2006–07 cannot be viewed in isolation, as similar or tougher financial restrictions may be expected for 2007–08 and the three following years covered by the comprehensive spending review. In addition the Agency will have to meet pay and price inflation. The Agency is therefore looking hard at the likely financial, manpower and delivery scenarios through its “More for the Environment, Better, Faster and for Less” programme referred to in the response to question 3.

#### EFFECT OF BUDGET CUTS ON NGOS AND SPONSOR ORGANISATIONS AFFILIATED WITH THE AGENCY

6. *Which NGOs, and other smaller bodies and companies affiliated with the Agency, will experience cuts in their respective budgets owing to the Agency’s resource budget cuts, and to what extent?*

The Agency is not a grant-giving body, other than under the Land Drainage Act where it administers capital grant to Internal Drainage Boards and Local Authorities on behalf of Defra. As “DEL Capital” is not subject to Defra’s in-year funding cuts, there is no impact in this regard.

The Agency does, however, engage in collaborative work with other partners particularly at local level. Such engagement is dependent upon GIA funding from Defra and will therefore be impacted by the in year budget cuts. While we will endeavour to honour existing commitments, of necessity there will be a reduction in new partnership working, relating to biodiversity, recreation, health promotion, and working with the SME sector. We will also be unable to commit to co-funding new pump priming projects with partners.

7. *To what extent has the Agency, or Defra, provided advice to those bodies affected about their situation? What measures have been taken to assist such bodies in coping with cuts in their budgets?*

As advised in response to question 6, its not a case of cuts in budgets as such, but of a reduction in the Agency’s capacity for engaging in partnership ventures. Communication around this is being handled locally and case-specifically by Agency staff in Areas and Regions.

## BUDGET CERTAINTY FOR 2006–07

In evidence to the Committee on 25 May 2006, Defra's Permanent Secretary said that the Department had "failed in our aim to give our delivery agencies enough warning" about the cuts in the 2006–07 budgets.

8. *Was the Agency given enough certainty at an early stage about the extent of its 2006–07 resource budget cuts? If not, what impact did this lack of certainty have on the Agency's work and plans?*

See our response to question 9 as regards timeline.

The Agency's budget and business planning process begins in the summer before the start of the relevant financial year the following April. It would normally conclude with the Board's approval of the Operating Budget. Approval of the Agency's 2006–07 Operating Budget was given by the Board at its meeting in February 2006. The overall Agency budget was cascaded down to budget manager level and incorporated within our financial systems ready for detailed budget monitoring from April.

The first round of cuts in Defra GIA (£4.4 million) was notified by the Director General: Environment on 13 April. The second round of cuts (£23.1 million) was notified by the Secretary of State on 27 July. This was well after the financial year had begun and too late to have been incorporated in a considered way in the Agency's Operating Budget.

The impacts have been covered by earlier questions. The lack of notice of the cuts restricted the options for handling them to what was feasible. In some cases this has led to tactical and opportunistic decisions which will need to be corrected or replaced by more sustainable solutions in the 2007–08 planning round, depending on the level of funding allocation from Defra. This will include restoring service levels for flood defence maintenance, flood warning, transfrontier waste shipment inspections and working with partners especially at regional level.

9. *Could the Agency provide an approximate timeline to set out what Defra told the Agency about the extent of its budget cuts between the first warning that cuts would be made and its latest position on the budget? What was the impact of these messages on the Agency, in terms of planning and delivering its 2006–07 work programme?*

The key dates for formal notification were:

13 April DG Environment's letter announcing £4.4 million GIA cuts;

27 July Secretary of State's letter announcing £23.7 million GIA cuts.

Each was preceded by informal dialogue and exchanges with officials to assess possible impacts under different scenarios of budget reduction.

The dialogue preceding the 13 April announcement was initiated as early as late November 2005 but did not begin to crystallise until late March 2006, while the 27 July announcement followed a scenarios exercise initiated on 13 June.

The Secretary of State's letter dated 27 July also contained a "health warning" that further cuts might be necessary later in the year and that consequently no more than 95% of the reduced budget should be committed. This restriction was formally lifted on 19 October.

The impact of the messages of course injected uncertainty into the planning and delivery of our work programme, but we endeavoured to respond responsibly and positively by putting in place a management review process to identify options for accommodating budget reductions while the formalities were played out.

We had originally planned to handle the first round cuts largely by a process of overprogramming which would have been managed-down by taking opportunities as the year progressed. The size of the second round cuts was such as to invalidate this "passive" approach and required a proactive rebudgeting exercise which was concluded and received Board approval by mid August.

We considered the 95% restriction impractical as it added further uncertainty and risked unnecessary conservatism with consequential under-delivery of performance targets. We therefore welcomed its formal lifting.

10. *Were there any discussions about the causes of the cuts?*

Information on the causes of the cuts has been shared at official level as well as being given more formally by the Secretary of State and Ministers. We had sufficient information to understand the need for corporate support and behaviour by members of the "Defra family" in order to help Defra work their way out of their budget difficulties.

## BUDGET CERTAINTY FOR FUTURE YEARS

11. *Has the Agency been told by the Department about the likelihood of further cuts in its budget in 2007–08, and beyond? What are the current estimates about the size of the Agency’s budget next year, and beyond?*

Both Ministers and officials have warned of likely cuts in the Agency’s budgets for 2007–08, as it is necessary to eliminate a Defra budget deficit of around £200 million.

The Environment DG’s letter dated 13 April advised of a cut in our EPRCN funding for 2007–08 of £8.2 million (compared with the £4.0 million “first round” cut for 2006–07).

We have responded to a “scenarios enquiry” from Defra officials which asked us to advise of the impacts of additional cuts of 10% in DEL Resource budgets for each of our main funding blocks of EPRCN, FRM and Fisheries. We also presented alternative scenarios of 5% and 7.5%.

When combined with the cuts notified on 13 April, a 10% reduction converts into the following budget sums (£ millions):

FRM	25.7
EPRCN	19.6
Fisheries	1.0
<b>Total</b>	<b>46.3</b>

We had originally hoped for confirmation of our funding for 2007–08 by the end of October: Defra’s latest commitment is to deliver this before Christmas.

As regards funding for the years beyond 2007–08, we are being kept advised of Defra’s engagement with Treasury over the Comprehensive Spending Review 2007 (CSR07). We know that the revised budget baseline for 2007–08 (once Defra have exacted cuts to balance their budget) will form the baseline going into CSR07.

We are erring on the side of realism in our own scenario planning for 2008–09, 2009–10 and 2010–11, as regards both the level of Defra funding which we might secure and the impact of pay and price inflation on that funding for the three years, which cumulatively could reduce purchasing power by over £60 million for our GIA funded activities. Though the public sector pay bill is to be held at 2%, we are conscious that we have to compete in several specialist markets for staff. This was highlighted by the Committee in the recent report on the Environment Agency, which stated that it is essential that the Agency employ staff with the necessary specialist skills to undertake its work.

12. *If further cuts are expected in 2007–08 and beyond, which programmes and projects are likely to be affected? What would be the impact of further significant cuts to the Agency’s budget next year.*

Assuming the cuts are somewhere in the range of the scenarios set out in our response to question 11, then the programmes and projects which will be affected are those revenue activities funded by Defra GIA and will include:

**FRM**

Recurring and non-recurring maintenance  
Flood mapping  
Flood forecasting and warning  
Strategy development, including catchment flood management plans and water level management plans

**EPRCN**

Tackling environmental crime  
Pollution incident response  
Environmental monitoring  
Science programme  
Tackling diffuse pollution, including agriculture  
Biodiversity action plans  
Navigation service standards

**Fisheries**

Salmon action plans  
Salmon monitoring and enforcement  
Fish movement audits

We have advised Defra officials of the likely impacts in our response to their scenarios exercise. These will be increasingly serious as the percentage of budget reduction increases towards the 10% level.

We will of course endeavour to mitigate the impacts through our “More for the Environment, Better, Faster and for Less” programme, but we will also have to make some hard choices about priorities. Having earlier knowledge of the cuts will help inform our 2007–08 planning process.

Environment Agency

November 2006

## Annex 1

### Summary of impacts of Defra funding squeeze 2006–07

#### FLOOD RISK MANAGEMENT

- Reductions in rates of remediation of flood defences which are at high risk of failure.
- Reductions in channel clearing and maintenance will increase flood risk.
- In the medium term, reduction in completion of asset management plans and structural asset surveys, will reduce ability to target future maintenance.
- Reduction in risk based asset inspections.
- £1 million reduction in flood warning impacts on flood forecasting, coverage of the flood warning system, public awareness campaigns and exercises to test emergency response and preparedness.
- Large reductions in the flood mapping programme knocks on to the flood warning service.
- Revenue reductions in studies and data collection will impact on future ability to warn and protect the right properties.
- Pre-feasibility studies will be slowed or cut (up to 11 studies per region). These are a pre-requisite for efficient future investment.
- Catchment Flood Management Plans will be delayed. A significant amount of flood mapping work has been cancelled with service levels unlikely to be met in a number of regions.
- Action on water level management plans affecting the conditions of SSSIs will be reduced and delayed.

#### ENVIRONMENTAL PROTECTION

Impact on our attendance at pollution incidents—There will be a presumption of non-attendance at category 3 incidents with overall attendance dropping to approximately 30% of all category 3 incidents reported.

This is likely to lead to more incidents escalating since they will not be dealt with promptly. This will result in damage to the environment and a lowering of our reputation with the public.

Reduced prosecution rate—It is likely that we will have to reduce the number of large and complex investigations that we undertake. There may not be a large reduction in the overall number of prosecutions, but there will be some “big, bad and nasty” cases that we would like to pursue but will not be able to resource.

Transfrontier shipments—reduced number of port inspections—We had planned to visit a further seven ports in the remainder of 2006–07 to detect illegal waste shipment activity.

Some inspections will not take place. Failure to detect illegal activity reduces the deterrent effect and may result in additional costs (to the EA) of dealing with returned materials detected overseas.

#### THE AMOUNT THAT WE EXPECT LARGE SCALE FLY TIPPING TO GO UP

As a consequence of less investigation of “big, bad and nasty” fly tipping incidents it is likely large-scale fly tipping will show a relative increase.

#### NUMBER OF WATER QUALITY INVESTIGATIONS THAT WILL NOT BE CARRIED OUT

The cuts amount to a reduction of funding of approximately £500k in 2006–07. The impact of this reduction will be a reduction in investigative monitoring of bathing water failures and other EU Directives leading to less success in identifying the causes of problems and therefore delays in seeking the required improvements. Ultimately there is a risk that we may fail to meet our targets for improving bathing water and river water quality.

**FISHERIES**

Salmon action plans will be impacted.

Half the funding for salmon action has been cut, 37 projects have been reduced to 25 and the remaining projects reduced by up to 50%.

The impact will be:

- Habitat improvement works stopped (R Tees, R Wyre, R Itchen, R Severn tributaries).
- Fish passage improvements stopped (R Ribble tributaries, R Severn tributaries).

All affected rivers support salmon stocks that do not meet conservation limits so that opportunities to establish sustainable fisheries have been lost in the medium term.

In many instances, local arrangements had been put in place to work with partners or to contribute to work by others. The loss of funds, as well as hindering efforts to conserve and improve salmon, has also had an impact on relationships with important partners. This will potentially affect their willingness to work with us and contribute in future.

**WORKING WITH OTHERS**

Working with Government offices and regions, regional spatial strategies etc—The budget squeeze does mean is a reduced quality in our input to the discussions/partnership working. Less funding means we have less money to support strategic research/assessment/planning/pilot work to bring high quality information to the table to inform regional decision making. If we provide less knowledge and funding we have a weaker negotiating position.

Regions will maintain a high level of involvement with Regional Spatial Strategies at critical stages, however it is unlikely we will be able to support actions arising through Local Strategic Partnerships.

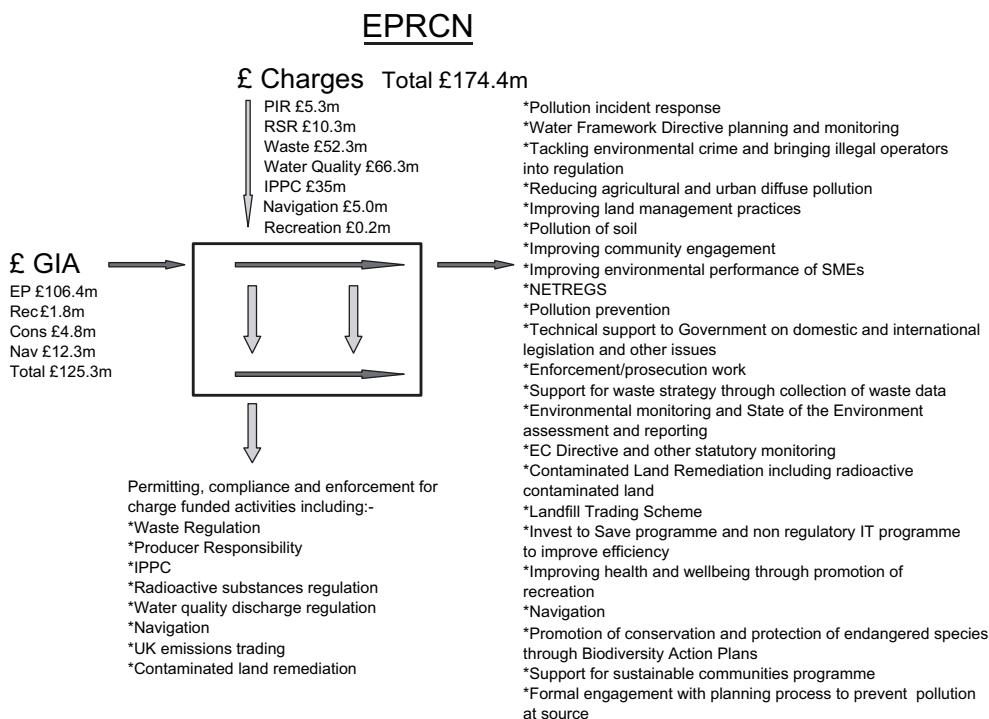
We will similarly be unable to support all actions from Regional Economic Strategies (RES).

Working with others—there will be a reduction in partnership working, projects, demonstration/pilot projects, and strategic development including:

- Developing a regional biodiversity strategy.
- Promotion of recreation.
- Promotion of the health agenda.
- Information to inform/green the growth agenda.
- Working with the SME sector.

We will be unable to commit to co-funding innovative pump priming projects with partners.

**Annex 2**



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**Supplementary memorandum submitted by the Environment Agency**

## DEFRA'S BUDGET CUTS

The table below shows actual reductions incorporated within the EA's budget allocations for 2007–08 (notified by the Secretary of State on 20.12.06), compared with anticipated cuts at the time we submitted our written evidence to the EFRA Committee in November:

	<i>Potential Reductions Notified to EFRA Committee in November 2006</i>		<i>Actual Reductions advised on 20.12.06</i>	
	<i>£ million</i>	<i>(Note 1)</i>	<i>£ million</i>	<i>(Note 1)</i>
Flood Risk Management	25.7	(25.7)	12.0	(12.0)
EP, Recreation, Conservation & Navigation	11.4	(19.6)	3.8	(12.0)
Fisheries	0.6	(1.0)	0	(0.4)
<b>Total</b>	<b>37.7</b>	<b>(46.3)</b>	<b>15.8</b>	<b>(24.4)</b>

*Note 1*

*The figures in parenthesis include the reductions for 2007–08 notified by Bill Stow on 13.4.06.*

The above can be used to update the amounts presented in the response to the Committee's question 11 (£ million):

	<i>Response to Q11</i>	<i>Actual Reduction</i>
FRM	25.7	12.0
EPRCN	19.6	12.0
Fisheries	1.0	0.4
<b>Total</b>	<b>46.3</b>	<b>24.4</b>

It also updates the figures presented in section 2 of the EA supplementary memo on EFRA Budget Cuts (dated 29.11.06):

	<i>Memo dated 29.11.06</i>			<i>Actual Position</i>		<i>Total</i>
	<i>Notified 13.4.06</i>	<i>Potential 10%</i>	<i>Total</i>	<i>Notified 13.4.06</i>	<i>Notified 20.12.06</i>	
FRM	0	25.7	25.7	0	12.0	12.0
EPRCN	8.2	11.4	19.6	8.2	3.8	12.0
Fisheries	0.4	0.6	1.0	0.4	0	0.4
<b>Total</b>	<b>8.6</b>	<b>37.7</b>	<b>46.3</b>	<b>8.6</b>	<b>15.8</b>	<b>24.4</b>

It follows that the impacts outlined in response to Q12 will be less severe than feared. We are currently undertaking our corporate and business planning process for 2007–08. It is too early to confirm the exact impacts. We will endeavour to minimise the damage, through our “more for the environment, better, faster and for less” programme.

The analysis of our 2007–08 budget allocations notified by Defra is as follows (£ million):

	<i>DEL Resource</i>	<i>DEL Capital</i>	<i>Total</i>
FRM	246.7	189.0	435.7
EPRCN	107.4	17.4	124.8
Fisheries	5.9	0	5.9
<b>Total</b>	<b>360.0</b>	<b>206.4</b>	<b>566.4</b>

Environment Agency

January 2007

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### Memorandum submitted by Natural England (DAR 07)

#### BACKGROUND

The attached questions are designed to provide more detail about issues covered in the Committee's inquiry into Defra's Departmental Report 2006 and Defra's 2006–07 budget. Natural England's response will be circulated to Members in advance of the Committee's evidence session with Defra officials in early December.

#### EFFECT OF BUDGET CUTS ON NATURAL ENGLAND'S WORK

In a written answer to a Chris Huhne's Parliamentary Question on 24 October 2006 [HC Deb, col 1723W–1724W], Defra stated that Natural England's resource budget for 2006–07 had been reduced by £12.9 million (7%) from the expected amount.

Evidence received by the Committee on 25 October 2006 states that Natural England's budget cuts amount to £14.2 million (again cited as a 7% reduction). Please note that in this evidence the £14.2 million cut included £1.3 million for the Commission for Rural Communities.

#### Questions

#### Answers

- |   |  |  |
|---|--|--|
| 1 | Could Natural England confirm the reduction in its total budget for 2006–07, in cash and percentage terms?   | Reduction in budget during 2006–07 financial year excluding ERDP—£12.9 million or 7% (based on core budget of £170.1 million (post cut) advised in 11 October settlement letter). In October 2005, the 2006–07 indicative budget was reduced by £8 million.  |
| 2 | Could Natural England provide a detailed breakdown of which programmes and projects are affected by the reduction in its budget? Within these programmes and projects, what specific services have been, or will be, affected, delayed or stopped altogether? The Committee would like as much information about this as possible. | <p>Due to the uncertainty over natural England's budget the focus of budget reductions has been on future planned work.</p> <p>The following activities will be scaled down or stopped for the remainder of this financial year:</p> <ul style="list-style-type: none"> <li>— Slowing down a range of our core research work until 2007–08.</li> <li>— A reduction in the scale of the farm demonstration programme this financial year.</li> <li>— A reduction in new work in Areas of Outstanding Natural Beauty (AONB) through deferring sustainable development grants.</li> <li>— A core programme of work on National Trails, access and public rights of way will be continued to maintain momentum but new work will not be advanced in 2006–07.</li> <li>— Rescheduling the work to begin establishing a coherent network of marine protected areas by 2012 will be delayed until 2007–08, not least because initial surveys needed to be done in the summer months which coincided with the moratorium on spending.</li> </ul> |
| 3 | To what extent will the budget cuts affect the delivery of its various programmes and projects? Which programmes and projects are more at risk than others?  | The majority of the core funding for programmes and project had been committed prior to the budget reductions being implemented. Thus the impact of the budget reductions has been minimised and focused on those programmes and project listed above.   |

Questions	Answers
<p>4 How has Natural England attempted, or how does it intend, to mitigate the effects of the budget cuts on the various programmes and projects affected?</p>	<p>Natural England worked with the Founding Bodies and continues to work with its partners to prioritise activities focused on minimising the impact on the affected programmes and projects. Prioritisation includes:</p> <ul style="list-style-type: none"> <li>— Maintaining investment on key priority areas such as the condition of SSSIs, reversing the decline in the numbers of farmland birds, biodiversity and discharging Natural England's statutory responsibilities;</li> <li>— Delaying the planning of longer term new work;</li> <li>— Developing innovative ways in deploying staff resource to mitigate the impact of budget reductions.</li> </ul>
<p>5 How much discretion was Natural England given to determine which programmes and projects would be affected by the cuts?</p>	<p>Natural England had significant discretion in determining how to manage the budget reductions. We identified proposed areas for cutting and scaling back, and discussed them with Defra who gave us a steer on priority areas. These were:</p> <ul style="list-style-type: none"> <li>— Delivery in full of the programmes which contribute to the SSSI and farmland birds PSA targets and the England Biodiversity Strategy, which will involve committing an estimated further £5 million over the remainder of the financial year.</li> <li>— Receipt of separate funding of £1.685 million over two years for the survey of the marine environment to fund a range of other activities which will collectively progress efforts to establish a coherent network of marine protected areas.</li> <li>— Delivery of the Catchment Sensitive Farming project in all priority catchments and, in nine of the priority catchments, developing fully integrated catchment strategies, addressing priorities for land, water, flora and fauna conservation.</li> <li>— Work on climate change, including planning for adaptation and working at the landscape scale, planning for connectivity and resilience of ecosystems, addressing the role of land managers as carbon managers and significant efforts to reduce the organisation's own greenhouse gas emissions.</li> <li>— Active involvement in planning activities at national, regional and local level, with a particular focus on Growth Areas and major public enquiries.</li> <li>— Providing Defra with timely advice on the options for improving coastal access.</li> <li>— Commencing its work to promote preventative health solutions, through raising awareness of the opportunities for access to the natural environment to play an important role in mental and physical health. We discussed with Defra other areas of activity that could be reduced.</li> </ul>
<p>6 How many job losses are expected within Natural England as a result of its budget cuts?</p>	<p>None</p>
<p>7 To what extent have the budget cuts had a direct effect on the creation, and start-up costs, of Natural England in October 2006, and why?</p>	<p>Budget cuts did not apply to the funds employed to establish Natural England.</p>

**EFFECT OF BUDGET CUTS ON NON-GOVERNMENTAL ORGANISATIONS AND SPONSOR ORGANISATIONS AFFILIATED WITH NATURAL ENGLAND.***Questions**Answers*

- 8 Which Non-Governmental Organisations, and other smaller bodies and companies affiliated with Natural England, will experience cuts in their respective budgets owing to Natural England's budget cuts, and to what extent?
- The core work of a large proportion of organisations in these categories have not been significantly impacted by these cuts as their funding contribution from the Founding Bodies of Natural England was made before the moratorium on spending came in.
- Specific exceptions include:
- Areas of Outstanding Natural Beauty (AONB) Partnerships around the country (35 in all) cover some 15% of England and have had reduced budgets in 2006–07. Around £0.8 million cut out of a total budget of £11.8 million funding to Local Authorities, which impacted mainly on sustainable development fund type projects. This has a knock on impact to those organisations delivering projects (generally less than £10K each) with these funds such as Wildlife Trusts, British Trust for Conservation Volunteers (BTCV), FWAG, National Trust, Community Groups etc—would not affect the core funding of these organisations).
  - Three Local Authorities with regard to voluntary dedication of land for access CROW Act (Section 16).
  - North York Moors National Park—We were unable to confirm renewal of the joint Moorland (ex- English Nature/NYMNP) post, which covered the Farm Scheme and work moving agreements into HLS.
- Other local examples are:
- The cuts (in this case £30K) effectively ended this year's joint project delivery with (BTCV) "Healthy Liverpool" initiative. As these monies were for "growing" this area as opposed to "core support" this has resulted in less delivery and "expansion" of this initiative as opposed to any major impact upon BTCV's core programme of work.
  - Yorkshire and Humberside: Regional Environment Forum: £15,000 cut.
  - Joint working between North Eastern Sea Fisheries Committee, Natural England, and local fisheries industry representatives to carry out scientific work to assess the impacts of demersal fisheries on habitats in the Flamborough Head European Marine Site. £10k to be used as match funding withdrawn from project by Natural England.
  - £8.5K cut from core support for Ribble Estuary Regional Park this year.
  - Loss of £5k contribution to Surrey Heathland Project—Local Authority based, but with NGO heathland manager beneficiaries.
  - Solent Forum. 6K. Consequences—less delivery (no change to staff).
  - Thanet Coast Partnership—Delivering the European Marine Site Management Plan. Previous commitment to pay £10k for Project Manager and £8k for Educational Officer.

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*Questions*

*Answers*

- Medway Swale Estuary Partnership—£3k previously paid for project manager.
- Loss of £5k contribution to Surrey Heathland Project—Local Authority based, but with NGO heathland manager beneficiaries.
- North Yorkshire Moors Coastal and Marine BAP. Small sums of money required to insure delivery (IK). Money withdrawn by NE.
- Humberhead Levels & Moors Partnership (Yorkshire & Humber). Shortfall of £10k for 2006–07 financial year promised by NE but withdrawn.

9 To what extent has Natural England, or Defra, provided advice to those bodies affected about their situation? What measures have been taken to assist such bodies in coping with cuts in their budgets?

- The Founding Bodies and Natural England have and are using a mixture of meetings, briefings and letters to give these organisations:
- Early warning of potential cuts.
  - Discussions around how to minimise the impact of these cuts, and then
  - The detail of any cuts once the budget picture became clear.

Coping measures include:

- Prioritising activities.
  - Rescheduling of project timelines or postponement until next financial year.
  - Seeking alternative sources of funding.
-

**BUDGET CERTAINTY FOR 2006–07**

*Questions*

*Answers*

<p>10 Was Natural England given enough certainty at an early stage about the extent of its 2006–07 budget cuts? If not, what impact did this lack of certainty have on the Natural England’s work and plans?</p>	<p>The Founding Bodies and Natural England were told early in the financial year (19 May of the potential financial cuts and the request to explore budget cuts and their impact came on 11 July. Sufficient warning was given to ensure that an effective expenditure moratorium could be put in place on 27 July. There were ongoing discussions on budget cuts and other budget pressures affecting Natural England on Rural Development Service running costs, unbudgeted corporate service costs in the Countryside Agency, VAT recovery and cost of Defra Shared Services &amp; IBM e-nabling and Defra corporate service costs relating to Rural Development Service which needed to be transferred to Natural England. Following the establishment of Natural England on 1 October the budget pressures other than the £12.9 million cut were resolved by the official launch date on 11 October and the spending moratorium was lifted.</p>					
<p>11 Could Natural England provide an approximate time-line to set out what Defra told Natural England about the extent of its budget cuts between the first warnings that cuts would be made and its latest position on the budget? What was the impact of these messages on Natural England, in terms of planning and delivering its 2006–07 work programme?</p>	<p>Pre April 2006</p>	<p>May 2006</p>	<p>July 2006</p>	<p>August 2006</p>	<p>September 2006</p>	<p>October 2006</p>
<p>Founding bodies and Natural England involved in several exercises to gauge the impact of cuts in GIA. No formal communications of GIA received after indicative November 2005 planning figures.</p>	<p>Notified of potential cuts to Living Land and Seas Directorate.</p>	<p>11 July Further exercise to gauge impact of 5% cuts to budget in line with Living Land and Seas budget cut. 27 July Formal confirmation from Secretary of State of £12.9 million cut to budgets. 27 July Moratorium on spending imposed.</p>	<p>9 August GIA settlement letter received by founding bodies, including £12.9 million cut, includes caveat requesting only 95% of budget committed.</p>	<p>Ongoing discussions with Defra re budgetary pressures facing Natural England</p>	<p>11 October letter from John Adams confirming 2006–07 budget cover for budget pressures and treatment of outsourcing costs.</p>	
<p>12 Were there any discussions about the causes of the cuts?</p>	<p>Defra told Natural England &amp; other Delivery Bodies about the causes of these cuts in a Chairs &amp; Chief Executive meeting on 4 September. The deficit of around £200 million for 2006–07 was due to resource pressures in the Rural Payments Agency, dealing with avian flu and restrictions on end year flexibility. We have had numerous meetings since July with Defra to discuss Natural England budget position and pressures in the context of the Defra budget deficit position.</p>					

## BUDGET CERTAINTY FOR FUTURE YEARS

- |    |   |   |
|----|---|---|
| 13 | Has Natural England been told by the Department about the likelihood of further cuts in its budget in 2007–08, and beyond? What are the current estimations about the size of Natural England's budget next year, and beyond? | A meeting between Secretary of State and Defra Non Departmental Public Bodies on 23 November 2006 advised that a 10% cuts across Defra were being considered for 2007–08. However, we have received a letter from Defra for 2007–08 giving certainty on budget neutrality in respect of shared service costs and IBM enabling and in terms of the VAT burden on Natural England arising from those specific issues in terms of shared services, IBM enabling, and also third party costs in respect of some of the advice we get from other organisations to deliver advice to farmers and to land managers. There is also an agreement to transfer funding to cover the costs of providing ex Rural Development Service staff with corporate services support within Natural England. We expect to be advised of our budget settlement for 2007–08 before Christmas. |
| 14 | If further cuts are expected in 2007–08 and beyond, which programmes and projects are likely to be affected? What would be the impact of further significant cuts to Natural England's budget next year?                      | Various scenarios are currently being modelled.   |

Natural England

*November 2006*

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## Memorandum submitted by British Waterways (DAR 08)

### BACKGROUND

The attached questions are designed to provide more detail about issues covered in the Committee's inquiry into Defra's Departmental Report 2006 and Defra's 2006–07 budget. British Waterways' response will be circulated to Members in advance of the Committee's evidence session with Defra officials in early December.

### EFFECT OF BUDGET CUTS ON BRITISH WATERWAYS' WORK

Defra has announced cuts in British Waterways' 2006–07 resource budget of £3.934 million. This represents a 7% cut in British Waterways' expected resource budget for that year.

1. *Could British Waterways provide a detailed breakdown of which programmes and projects are affected by the £3.934 million reduction in its resource budget? Within these programmes and projects, what specific services have been, or will be, affected, delayed or stopped altogether? The Committee would like as much information about this as possible.*

The overall reduction in grant from 2005–06 to 2006–07 has been £7.1 million (£62.6 million to £55.5 million).

The grant was arrived at as follows—As part of Spending Review 2004, British Waterways was given an indicative budget allocation for 2006–07 of £62.589 million (subject to a caveat of not committing more than 90%). We were formally notified of our allocation for 2006–07 in March 2006. The allocation was £59.429 million. There was subsequently an in year review of Defra's budgets and the grant was reduced by a further £3,932 million in July 2006 to £55.497 million.

In 2006–07, given the relatively short notice of grant cuts (see below) the impact has been primarily absorbed by delaying major engineering works to a value of £5.6 million.

A list of engineering works delayed is attached as Appendix 1.

2. *To what extent will the budget cuts affect the delivery of British Waterways' various programmes and projects? Which programmes and projects are more at risk than others?*

See list attached as Appendix 1

3. *How has British Waterways attempted, or how does it intend, to mitigate the effects of the budget cuts on the various programmes and projects affected?*

The list has been prioritised through our risk assessment procedures to maximise potential saving whilst minimising impact on structural condition.

4. *How much discretion was British Waterways given to determine which programmes and projects would be affected by the cuts?*

Absolute discretion.

5. *How many job losses are expected within British Waterways as a result of its budget cuts?*

British Waterways is committed to improving efficiency and was already planning to reduce numbers as part of a programme to improve efficiency. However, the cuts already made and, perhaps more importantly, the probable public funding constraints, for 2007–08 and for the CST period 2008–09 to 2010–11 have caused us to accelerate our cost reduction programme. We are consulting with trade unions on a plan to remove about 180 posts from our business. We currently employ about 1,900 people.

### EFFECT OF BUDGET CUTS ON NON-GOVERNMENTAL ORGANISATIONS AND SPONSOR ORGANISATIONS AFFILIATED WITH BRITISH WATERWAYS

6. *Which Non-Governmental Organisations, and other smaller bodies and companies affiliated with British Waterways, will experience cuts in their respective budgets owing to British Waterways' resource budget cuts, and to what extent?*

The main such dependencies on British Waterways are The Waterways Trust and voluntary sector partners in waterway restoration. There is unlikely to be any major effect on these bodies in 2006–07.

7. *To what extent has British Waterways, or Defra, provided advice to those bodies affected about their situation? What measures have been taken to assist such bodies in coping with cuts in their budgets?*

See answer to Question 6.

#### BUDGET CERTAINTY FOR 2006–07

In evidence to the Committee on 25 May 2006, Defra's Permanent Secretary said that the Department had "failed in our aim to give our delivery agencies enough warning" about the cuts in the 2006–07 budgets.

8. *Was British Waterways given enough certainty at an early stage about the extent of its 2006–07 resource budget cuts? If not, what impact did this lack of certainty have on the British Waterways' work and plans?*

The first 5% cut in our grant was advised a couple of months before the start of the financial year and British Waterways was therefore able to incorporate it into our business plans. This was late but acceptable notice.

The second 7.5% cut was formally notified on the 27 July. British Waterways had undertaken in May not to spend more than 95% of its budget and had been briefed during the previous four to six weeks to expect a cut of around 7.5%. The impact was that we immediately reduced our programme of major works and repairs as this was the only area of expenditure of significant value that could be cut at this stage. This inevitably meant that some time and resource was wasted as many schemes were quite well advanced. However, a lot of the design work will still be valid if we are able to afford to reinstate the works.

9. *British Waterways provide an approximate time-line to set out what Defra told British Waterways about the extent of its budget cuts between the first warning that cuts would be made and its latest position on the budget? What was the impact of these messages on British Waterways, in terms of planning and delivering its 2006–07 work programme?*

See answer to Question 8.

10. *Were there any discussions about the causes of the cuts?*

We have regular meetings with officials and they advise us on what they know the causes of the cuts to be. Inevitably in the early stages this was less clear but as time went on the headings of RPA, Accounting Rules and Avian Flu became more established. There were also meetings between Ministers and Chief Executives/Chairmen on the matter.

Although the causes have been identified there was very little discussion about them—but that is not necessarily a problem as it was by that time a reality and discussion wouldn't have changed anything.

#### BUDGET CERTAINTY FOR FUTURE YEARS

11. *Has British Waterways been told by the Department about the likelihood of further cuts in its budget in 2007–08, and beyond? What are the current estimations about the size of British Waterways' budget next year, and beyond?*

We have had no formal notification of our grant for 2007–08. However, discussions with the Department indicate that we will be notified in December of our grant for that financial year and it is likely to be around this year's reduced figure.

Discussions are ongoing about grant for the CSR period. It is clear that severe pressures on the Defra budget will remain and there will be a strong likelihood that grant will reduce further over the CSR period.

12. *If further cuts are expected in 2007–08 and beyond, which programmes and projects are likely to be affected? What would be the impact of further significant cuts to British Waterways' budget next year?*

British Waterways has already put in hand plans for efficiency improvements—see question 5 above. We estimate these will save £5.0 million pa from 2007–08 onwards.

If funding constraints continue throughout the CSR period, as seems probable, then there is still potentially some £10.0 million additional annual savings or income to be found. Plans are being made to increase boat licences by 30% in real terms phased over three years from 2008–09 onwards. This will yield c£3.0 million pa once complete. Other commercial income is being reviewed, but British Waterways already has challenging targets with a realistic assessment of risk in them. It is likely therefore that a further £7.0 million of efficiencies will need to be found.

In the short term further cuts will result in an underspend on our major works programmes of repair, replacement and renewal. There will also be a noticeable continuing reduction in our spend and engagement on non-core activities.

Cuts may affect British Waterways' ability to commit to restoration schemes and thus the nature of our relationship with diverse voluntary sector bodies.

If reduced funding persists, government may not meet all its aspirations under its policy for waterways published in 2000—"Waterways for Tomorrow".

The strategic risk is twofold.

Firstly, prolonged underfunding and "stop go" investment will reduce the structural integrity of the waterways. We manage 2,200 miles of 200 year old waterways. We are the third largest owner of listed buildings and structures in the UK. We need to maintain an effective programme of repair, replacement and renewal if the waterways are to continue to remain a living, vibrant network. We eliminated our safety backlog in 2004 and we must never allow it to re-emerge.

Secondly, confidence, both public and commercial, may reduce causing a reversal in the remarkable waterway renaissance of the past 10 years. As we have improved and expanded the network, we have acted as a remarkable catalyst for urban and rural regeneration, spawning new homes, new businesses and new opportunities. All of this is predicated on confidence that we will continue our investment in the waterways to make them safer, more attractive and more accessible.

British Waterways

November 2006

## APPENDIX 1

### ENGINEERING PROJECTS POSTPONED OR CANCELLED 2006–07

<i>Waterway</i>	<i>Project Number</i>	<i>Project</i>	<i>£'000</i>	<i>Notes</i>
Central Shires	P/03712	Rowington—Grand Union	250	Leaking Embankment
	P/00261	Shenton Embankment— Ashby Canal	540	Low Freeboard and badger infestation
East Midlands	P/03362	Long Horse Bridge— River Trent	550	Footbridge replacement
	P/03312	Other savings	50	
	P/03338			
North West	P/02743	Ribble Link	460	Remedial works
	P/04176			
	P/03056			
	P/03844	Trub Farm—Rochdale Canal	590	New bridge
	P/4451	Cloughside—Peak Forest Canal	75	Repair to access track
	P/04094	Coates Lane—Leeds & Liverpool	200	Repair to retaining wall
London	P/01313	Roddlesworth Embankment 35—Leeds & Liverpool	300	Leakage and low freeboard
	P/00180	Bridge 177a footbridge repairs—Grand Union	170	Repairs to footbridge
	P/03271	Stop gates—Grand Union	280	Repairs
	P/04396	Denham culvert—Grand Union	170	Investigation of culverts on GU London
South East	P/02174	Milton Keynes Culvert B & C	180	Repairs
South West	P/04827	River Severn	150	Dredging
	P/01818	Burghfield lock	160	Repairs
West Midlands	P/04442	Lock 9	130	Lock will be closed alternative route available
	P/04444	Lock 11	130	Lock will be closed alternative route available
	P/04445	Tividale	130	Leakage
Wales & Border Counties	P/01528	Vale Royal	590	Collapsed bull nose lock
Yorkshire	P/02472	Calverley wood embankment— Leeds & Liverpool	485	Leaking embankment
<b>Total identified savings</b>			<b>5,590</b>	

## Memorandum submitted by the Bat Conservation Trust (DAR 10)

### EXECUTIVE SUMMARY

1. Thank you for inviting the Bat Conservation Trust to give evidence to the EFRA Committee's inquiry into *Defra's Departmental Report 2006 and Defra's budget*, in particular the impact of Defra's 2006–07 budget cuts on our organisation's work.

2. The Bat Conservation Trust is the only organisation concerned solely with the conservation of bats within the UK. It is a registered charity, serves a network of over 95 bat groups across the UK, and has a membership of over 4,000. We are supported in our work by government agencies, professionals and volunteer bat workers. BCT is Lead Partner for UK Species Action Plans for five of the UK's 17 bat species and is actively involved in promoting species conservation legislation and policy at European, national and local levels.

3. BCT receives funding from Defra and its related agencies for a wide range of high priority bat conservation services, many of which are excellent examples of third sector delivery. These services include: action for BAP priority bats, volunteer development for statutory advice provision, monitoring of population trends for BAP reporting and conservation status assessment, management of rabies risk through bat helpline provision, and delivery of European commitments.

4. This financial year cuts to Defra's budget, and corresponding impacts on the budgets of Natural England and the JNCC, have resulted in great uncertainty and high risk to BCT with regard to continuation of species monitoring on designated sites, the future of the National Bat Monitoring Programme, training course provision and rabies risk management. The effects go far beyond BCT—affecting thousands of volunteers dedicated to bat conservation.

5. The cuts to Defra's budget have also had more general implications for bat conservation by affecting the implementation and interpretation of amended protected species legislation, delaying the development and provision of much needed standardised guidance, and lack of knowledge of mitigation effectiveness due to under-monitoring of development licences.

6. BCT understands that Defra funding cannot be limitless. However, given continuing cuts and an environment of short-term prioritisation and uncertainty, BCT is not able to collaborate effectively with related agencies to produce cost effective strategic solutions for the long term.

7. A joined up approach between Defra's agencies and also other government departments that impact biodiversity, for example DCLG, would give great potential to deliver not only bat conservation, but conservation of all Britain's biodiversity, our natural heritage.

### INTRODUCTION

1. Thank you for inviting the Bat Conservation Trust to give evidence to the EFRA Committee's inquiry into *Defra's Departmental Report 2006 and Defra's budget*, in particular the impact of Defra's 2006–07 budget cuts on our organisation's work.

2. The Bat Conservation Trust is the only organisation concerned solely with the conservation of bats within the UK. It is a registered charity, serves a network of over 95 bat groups across the UK, and has a membership of over 4,000. We are supported in our work by government agencies, professionals and volunteer bat workers. BCT is Lead Partner for UK Species Action Plans for five of the UK's 17 bat species and is actively involved in promoting species conservation legislation and policy at European, national and local levels.

### OUR WORK WITH DEFRA AND ITS AGENCIES

3. BCT receives funding from Defra and its related agencies for a wide range of high priority bat conservation services, many of which are excellent examples of third sector delivery. These services include:

3.1 Action for Biodiversity Action Plan (BAP) priority bats is a Natural England-funded programme to coordinate and deliver lead partner action and reporting for five priority species of UK bat. The BCT takes a landscape approach to delivery of the action plans and has produced good practice guidelines on a variety of priority areas eg guidelines for Woodland Managers (a partnership project by BCT funded jointly by Forestry Commission, English Nature and Countryside Council for Wales).

3.2 Bat Group Development—Another aspect of the action programme funded by Natural England concerns bat group development, which delivers highly skilled volunteers who provide advice to householders about bats on behalf of the Statutory Nature Conservation Organisations.

- 3.3 The National Bat Monitoring Programme delivers statistically defensible information about Britain's bats, which informs the review, reporting and target setting for the UK bat BAPs and the assessment of Favourable Conservation Status under the EU Habitats Directive. The NBMP is part funded by the JNCC.
- 3.4 Bat Casework—BCT administers statutory bat casework for eight English areas on behalf of Natural England. This involves coordinating volunteers to make free roost visits to householders requiring advice about their bats in order to promote bat conservation and welfare and to fulfil Natural England's statutory requirement to provide advice where there is potential threat to bats.
- 3.5 National Bat Helpline—The role of the Helpline Service has become even more important following the recent incidents of bats and rabies in the UK. The Helpline is a critical tool in ensuring that the public and batworkers have the most up to date guidelines on bats and rabies issues in order to manage and minimise the risk, a fact acknowledged by contributory funding from the Veterinary Laboratories Agency.
- 3.6 Delivery of the UK's European commitments—Grants from the international subscriptions budget enables BCT to deliver and uphold aspects of the UK's commitment to the EUROBATS "Agreement on the Conservation of Populations of European Bats" on behalf of Defra, by meeting requirements of adopted resolutions. For example we have organised workshops on developing a pan-European monitoring programme and standardised monitoring guidelines; we delivered projects to share knowledge with colleagues in other European countries to build their capacity in bat conservation; and we coordinate activities relating to European Bat Weekend each year on behalf of the UK government.

#### DIRECT IMPLICATIONS OF DEFRA'S BUDGET CUTS ON BCT'S WORK

4. This financial year cuts to Defra's budget, and corresponding impacts on the budgets of Natural England and the JNCC, have resulted in great uncertainty and high risk to BCT with regard to continuation of species monitoring on designated sites, the future of the National Bat Monitoring Programme, training course provision and rabies risk management. The effects go far beyond BCT—affecting thousands of volunteers dedicated to bat conservation. These aspects are outlined in turn below:

- 4.1 Designated sites monitoring—We deliver common standards monitoring for sites designated for greater horseshoe bat and barbastelle (both BAP priority species and Annex II Habitats Directive) on behalf of Natural England. We have a long history of working with the agencies. Our working relationship is based on trust and this financial year we once again commenced work on instruction from the agency before a contract was finalised. This year, however, for the first time we were told that the funding would not be forthcoming, as a direct result of the cuts. Rather than stop the volunteers from doing their work and thereby harm the robustness of long-term monitoring by missing a years worth of data we continued. This led to substantial concern, increased uncertainty for volunteers on the ground, and heightened risk for BCT. We have only just been notified that following the release of funds to Natural England from Defra this high priority work will in fact be funded. We are worried that this has led to volunteers feeling undervalued.
- 4.2 Population trend monitoring—BCT runs the National Bat Monitoring Programme (NBMP) that delivers population trends for eleven of the UK's 17 bat species, including trends for four priority BAP species. These trends are used in BAP target setting and reporting and therefore also contribute to the BAP priority species status indicator that is used in judging progress on, for example, the England Biodiversity Strategy and the "2010 Target to Halt Biodiversity Loss". Species population trends from the NBMP are also being used by JNCC in making assessments of Favourable Conservation Status as required of the UK for reporting to the European Commission under the EU Habitats Directive. The programme is an acknowledged success delivering value for money, a clear partnership between volunteers, BCT and government. It is imperative that monitoring is long term and that the programme is developed to include additional species. Continuation and future expansion both depend on adequate resourcing of the programme. To date, the majority of funding has been met by the JNCC, however due to budget cuts and restricted funding JNCC can only part-fund the programme. The total programme costs £120,000 to run per annum and this financial year only £82,000 is funded. The lack of full cost recovery jeopardises the investment, not only of funds, but the volunteer investment. *BCT is unsure as to the future of the programme. Please find attached a summary report of the NBMP "State of the UK's bats".*<sup>1</sup>
- 4.3 Training and public engagement—Our work to train and engage people is currently in jeopardy because of a shortfall in funding that was previously met by the biodiversity stream of the Environmental Action Fund (EAF). BCT delivers training to numerous sectors that impact bats and their conservation, such as arborists, planners, constructors and ecological

<sup>1</sup> Not printed.

consultants and surveyors. This training is an essential component of priority action for the BAP bats. The funding was transferred from Defra to EN Countdown 2010 Biodiversity Action Fund and BCT was informed that although the work is considered a priority, due to Defra cuts the project could no longer be supported. Please find attached our Training Brochure for 2007.<sup>2</sup>

- 4.4 Rabies risk management—BCT has been notified that due to Defra funding cuts the full costs of this National Bat Helpline service in providing advice to the public and the bat worker community this year may not be covered and future funding is extremely uncertain. The European Bat Lyssavirus Group has acknowledged the outstanding value of the service.

#### IMPLICATIONS OF DEFRA'S BUDGET CUTS ON BAT CONSERVATION GENERALLY

5. The cuts to Defra's budget have also had more general implications for bat conservation including:
- 5.6 Implementation of species protection legislation—We have great concern over Defra's apparent under-resourcing of the production of guidance to accompany the imminent changes to the Habitats Regulations. We realise that the legislation has to change in response to the ECJ ruling against the UK, however the potential problems this is likely to cause for bat conservationists, householders, and those working in professions likely to encounter bats during their work such as foresters, has not been adequately thought through in order to find sensible solutions. We are working closely with the SNCOs and Defra but are aware that their energies are being diverted away from conservation into a bureaucratic process, which will do little to enhance delivery of species conservation or meet the aims of the Habitats Directive. Adequate resourcing is required, not only in terms of Defra staff who are increasingly stretched on this issue, but also to enable guidance to be developed in consultation with experts and the target audience to ensure it is fit for purpose. We have written to Hilary Thompson of Defra stating our concerns on this matter and intend to do so again. We advocate a proportionate and strategic approach to implementing the protected species legislation to conserve bats long term, but the budget cuts and continual message of uncertainty is creating problems that could, if not managed correctly, lead to a public backlash against bats and great expense in legal proceedings and bureaucracy.
- 5.6 Standardisation of guidance—An example of an area where guidance on standard procedures is urgently needed is for bat care, particularly in light of the proposed amendments to the Habitats Regulations which will require bat carers to be licensed from early next year. We have repeatedly proposed to Natural England that we can deliver such guidance given capacity to do so, however uncertainty over budget allocations has meant they are unable to commit any funds.
- 5.7 Monitoring the effectiveness of mitigation for bats—The cuts in Defra's budget mean that there is no regular, systematic monitoring of mitigation that is implemented as part of derogation licences. Hence the effectiveness of such measures in maintaining Favourable Conservation Status of bats (one of the three conditions that have to be met for a Habitats Regulations licence to be granted) is not known. Consequently we question whether Defra can demonstrate that such licences are being granted legally. This monitoring is a statutory requirement under the Habitats Directive. A system is urgently needed to collate data on mitigation effectiveness and monitor cases to inform future developments and ensure licences are being granted within the law.

#### CLOSING REMARKS

6. BCT understands that Defra funding cannot be limitless. However, given continuing cuts and an environment of short term prioritisation and uncertainty, BCT is not able to collaborate effectively with related agencies to produce cost effective strategic solutions for the long term.

7. A joined up approach between Defra's agencies and also other government departments that impact biodiversity, for example DCLG, would give great potential to deliver not only bat conservation, but conservation of all Britain's biodiversity, our natural heritage.

Bat Conservation Trust

*November 2006*

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<sup>2</sup> Not printed.

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**Memorandum submitted by the State Veterinary Service (DAR 11)**
**BACKGROUND**

The attached questions are designed to provide more detail about issues covered in the Committee's inquiry into Defra's Departmental Report 2006 and Defra's 2006–07 budget. The State Veterinary Service's response will be circulated to Members in advance of the Committee's evidence session with Defra officials in early December.

**EFFECT OF BUDGET CUTS ON THE STATE VETERINARY SERVICE'S WORK**

Defra has announced cuts in the State Veterinary Service's (SVS) 2006–07 resource budget of £3 million. This represents a 3% cut in the SVS's expected resource budget for that year.

1. *Could the State Veterinary Service (SVS) provide a detailed breakdown of which programmes and projects are affected by the £3 million reduction in its resource budget? Within these programmes and projects, what specific services have been, or will be, affected, delayed or stopped altogether? The Committee would like as much information about this as possible.*

**ANSWER**

As part of Defra's review of its resource DEL expenditure, the Department asked the State Veterinary Service (SVS) to explore ways of reducing its expenditure for 2006–07. SVS advised that £3 million of its internal Business Reform Programme expenditure could be reclassified as capital, which would reduce the Department's resource DEL expenditure by £3 million.

(DEL = Departmental Expenditure Limit)

The table below sets out SVS initial 2006–07 funding allocation and its subsequent movements:

	<i>Resource £'m</i>	<i>Capital £'m</i>	<i>Total £'m</i>
Initial Funding	94.3	7.3	101.6
Additional In-Year Funding	3.2	0	3.2
	97.5	7.3	104.8
Transfer to Capital	– 3.0	3.0	0
	94.5	10.3	104.8

The additional in-year funding was provided to finance additional activities taken on in the year—eg rabies work transferred from core Defra to SVS and additional avian influenza work as agreed last year.

SVS' budget has not been reduced in total. The only change has been in how the amount has been apportioned between resource and capital accounts, in relation to an internal change programme. The budget change has no impact on current front-line operations.

2. *To what extent will the budget cuts affect the delivery of its various programmes and projects, particularly those concerned with security against animal disease? Which programmes and projects are more at risk than others?*

**ANSWER**

See answer to question 1 above.

3. *How has the SVS attempted, or how does it intend, to mitigate the effects of the budget cuts on the various programmes and projects affected?*

**ANSWER**

See answer to question 1 above.

There has been no cut in SVS' overall budget and no effect on front line operations. However, SVS and Defra are continually working together to improve planning and actively manage changes in policy or work volumes.

4. *How much discretion was the SVS given to determine which programmes and projects would be affected by the cuts?*

ANSWER

SVS has gone through the process of looking at where its money is spent. As a delivery body, SVS cannot commit unilaterally to reducing spend, but it can advise on the risks and impacts of reductions in funding. As policy customers, it is for Defra and the Devolved Administrations to decide if there are areas that they wish to cut back on.

5. *How many job losses are expected within the SVS as a result of its budget cuts?*

ANSWER

There are no job losses expected as a result of the budget change.

#### EFFECT OF BUDGET CUTS ON NON-GOVERNMENTAL ORGANISATIONS AND SPONSOR ORGANISATIONS AFFILIATED WITH THE STATE VETERINARY SERVICE

6. *Which Non-Governmental Organisations, and other smaller bodies and companies affiliated with the SVS, will experience cuts in their respective budgets owing to the SVS's resource budget cuts, and to what extent?*

ANSWER

Not applicable, but see answer to question 7 below.

7. *To what extent has the SVS, or Defra, provided advice to those bodies affected about their situation? What measures have been taken to assist such bodies in coping with cuts in their budgets?*

ANSWER

SVS spends around a quarter of its budget on services provided by private vets acting as Local Veterinary Inspectors (LVI). SVS is currently working closely with the British Veterinary Association (BVA) to introduce new contractual arrangements with the practices that provide these services. Any proposal to reduce LVI expenditure would affect these negotiations.

#### BUDGET CERTAINTY FOR 2006–07

In evidence to the Committee on 25 May 2006, Defra's Permanent Secretary said that the Department had "failed in our aim to give our delivery agencies enough warning" about the cuts in the 2006–07 budgets.

8. *Was the SVS given enough certainty at an early stage about the extent of its 2006–07 resource budget cuts? If not, what impact did this lack of certainty have on the SVS's work and plans?*

ANSWER

See answer at 9 below.

9. *Could the SVS provide an approximate time-line to set out what Defra told the SVS about the extent of its budget cuts between the first warning that cuts would be made and its latest position on the budget? What was the impact of these messages on the SVS, in terms of planning and delivering its 2006–07 work programme?*

ANSWER

SVS submitted its bid for 2006–07 in January 2006. Notification of the budget actually allocated was received in March. In June, SVS was asked to consider how it could implement a 5% cut in its budget allocation. SVS carried out a review in June and provided advice to Defra on the risks and impacts of making cuts in the SVS budget. At that time, SVS advised Defra that £3 million of the SVS resource budget could legitimately be reclassified as capital budget. This contributes to relieving the pressure on Defra's overall resource budget, without actually reducing SVS' overall budget or impacting on front-line delivery. This latter course was accepted in August.

SVS was aware of the tightening financial situation in the Department, the public finance position generally and the difficulties caused by the Treasury changes to end of year flexibility.

10. *Were there any discussions about the causes of the cuts?*

ANSWER

Yes. SVS has been kept informed about the reasons for seeking cuts.

#### BUDGET CERTAINTY FOR FUTURE YEARS

11. *Has the SVS been told by the Department about the likelihood of further cuts in its budget in 2007–08, and beyond? What are the current estimations about the size of the SVS's budget next year, and beyond?*

ANSWER

The SVS' initial resource allocation for 2007–08 is £101.9 million (prior to funding switches for transfers of functions and work). This budget allocation excludes resources required for:

- Volume changes in work relating to current policies.
- New work arising from new policies.
- Hampton delivery landscape changes.
- Necessary SVS organisational development to build capacity and capability.
- New legislation and the cost of complying with regulations arising from other departments eg new employment legislation.
- Emerging risks—eg the prospect of a Bluetongue outbreak and/or the the instigation of widespread surveillance zones.

SVS has been asked to consider how it could reduce resource expenditure in 2007–08 by 10%.

12. *If further cuts are expected in 2007–08 and beyond, which programmes and projects are likely to be affected? What would be the impact of further significant cuts to the SVS's budget next year?*

ANSWER

In reviewing how the SVS' 2006–07 budget could be reduced, it was recognised that a reduction in expenditure of the scale sought, could only be achieved by reducing Local Veterinary Inspector (LVI) costs, through the scaling down of work: LVI costs being the only "tap" which could be turned off to release sufficient cash in the time available. This translated into three months LVI work. This risked EU Infraction Proceedings, GB Trade Status, increased disease incidence (particularly bovine TB), increased compensation payments and a breakdown in relations with the British Veterinary Association (BVA), with whom SVS is trying to establish a modern working relationship for LVI deployment. It could also result in a reduction in the number of large animal veterinary practices, which would erode the supplier base the SVS can call upon in an emergency and would be irredeemable. Additionally, PSA and SVS' own targets could be undermined and any short term reduction in expenditure could generate additional future costs. Ministers determined that SVS' 2006–07 budget should not be cut and that the SVS' operational capacity should not be reduced.

Consideration needs to be given to the impact any budget reduction would have on SVS' already thin footprint and on its ability to respond in an emergency.

As SVS' cost drivers and cost base will be the same in 2007–08 as they are in 2006–07, reducing expenditure by 10% will continue to incur the same risks. The likelihood of these risks being realised, however, increases, as the reduction now being sought for 2007–08 translates into four months LVI work.

The one possible route out of this dilemma is to review the policies which drive the work and therefore the costs—it is recognised that a review of these may determine that there are sound reasons why policy should not change. Should policy changes not be acceptable, SVS cannot reduce its 2007–08 expenditure and avoid the risks outlined above. It is for SVS' policy customers to determine which combination of policies they wish SVS to deliver and which risks they wish to carry to achieve the budget reduction goal.

State Veterinary Service

November 2006

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#### Memorandum submitted by HM Treasury

*Letter to the Chairman of the Committee from the Chief Secretary to the Treasury*

1. Thank you for your letter of 21 November requesting clarification of Treasury budgeting rules in connection with your inquiry into Defra's Departmental Report 2006 and Defra's budget.

2. You asked me to explain the Treasury's position on the withdrawal of Defra's End of Year Flexibility in July 2005. As Defra's response to the Committee's questions shows, we did not withdraw departments' entitlements to EYF. We agreed a limit to EYF draw down for Defra and other departments in 2006–07 in line with the requirement for "Tautness and Realism" in Parliamentary Estimates. Defra had a stock of £120 million near cash in 2005, and my predecessor agreed that the department could spend £65 million last year, £50 million in 2006–07 and £5 million next year.

3. You also asked for the Treasury's position on reclassifications of near and non-cash spending. The Treasury has been controlling near-cash budgets since 2003–04. Officials have drawn the Committee's attention to the relevant sections of the Consolidated Budgeting Guidance, and the letter to Departmental Finance Directors of 11 August 2005 explained that we are clarifying these arrangements and not changing them. I attach a copy of this letter.<sup>3</sup>

Let me know if I can provide the committee with any further information.

*Rt Hon Stephen Timms MP*  
Chief Secretary to the Treasury

*11 December 2006*

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<sup>3</sup> Not printed.

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