



House of Commons  
Environment, Food and Rural  
Affairs Committee

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**Defra's Departmental  
Report 2006 and  
Defra's budget: the  
Government response  
to the Committee's  
Second Report of  
Session 2006–07**

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**Second Special Report of Session  
2006–07**

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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.

### Current membership

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### Powers

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### Publications

The reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at

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### Committee staff

The current staff of the Committee are Chris Stanton (Clerk), Nerys Welfoot (Second Clerk), Jonathan Little and Dr Antonia James (Committee Specialists), Marek Kubala (Inquiry Manager), Andy Boyd and John-Paul Flaherty (Committee Assistants) and Mandy Sullivan (Secretary).

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## Second Special Report

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The Environment, Food and Rural Affairs Committee reported to the House on *Defra's Departmental Report 2006 and Defra's budget* in its Second Report of Session 2006–2007, published on 23 February 2007 as HC 132. The Government's response to the Report was received on 27 April 2007.

## Government response

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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)**

The Government accepts that the budget allocations for 2006/07 agreed in January 2006 did not take full account of all potential financial pressures. Risk was managed to some extent by instructing key delivery bodies not to commit more than 90% of their budget until the allocations were re-confirmed in March 2006. Procedures were also put in place for intensive financial management throughout the year. The allocations remained under scrutiny by the Finance team during February and March 2006. By insisting on corrective action as soon as the new Ministerial team was in place after the Cabinet reshuffle, the Government demonstrated decisive financial management, albeit that it could have been sooner and the disruption reduced. Nevertheless, whilst it would have been less disruptive to have recalibrated budgets more quickly, earlier action would not have reduced the level of budgetary pressure that Defra faced.

Lessons have been learned and changes put in place. The Government is far more sensitive to potential risks in setting the 2007/08 budgets and in the approach to the CSR07 period. Programme allocations for 2007/08 were issued to policy areas and sponsored bodies in December 2006, as promised. Since then new pressures have emerged but these will be managed down within the control totals set by Treasury. The Department is also strengthening controls already in place and developing new procedures to ensure that new spending commitments are tightly aligned to priorities. Defra is maintaining an open dialogue with sponsored delivery bodies about the overall financial position. Ministers are being kept fully informed of all significant developments.

The actual out-turn for 2006/07 will be very tight demonstrating that although the action on the budget was taken later than it should have been, it was well-justified.

**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 drawdown 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)**

The Government does not agree that, when setting budgets for 2005/06, the assumption that full planned End Year Flexibility (EYF) drawdown would be available in 2005/06 was irresponsibly over-optimistic. If planned EYF were not included in the budgets until the drawdown was absolutely certain, then it would be too late that year to use that funding for valuable outcomes, as the normal drawdown point is the Spring Supplementary Estimate towards year-end. The EYF stock would then simply roll forward as an underspend from year-to-year, and not be available to help manage spending pressures or promote priority policies. There would be no incentive for departments to plan an underspend in one year to fund additional, better value expenditure in the following year, consistent with the objectives of resource accounting and the nature of long-term programmes. This particular EYF entitlement resulted from a planned underspend in 2004/05 specifically to fund additional better value programme expenditure in 2005/06.

In following Treasury's guidance when completing the return for the Provisional Out-turn White Paper during June 2005, there was no indication that the EYF drawdown would be restricted. Only after we had submitted the resulting EYF entitlement claim in July 2005 were we informed (in common with all Government Departments) that the permitted drawdown should be zero unless a compelling case was made to the Chief Secretary to the Treasury (CST). A combination of new budgetary pressures and restrictions on EYF drawdown meant we faced a £140m deficit in the resource budget and £27m in the capital budget for 2005/06.

The then Finance Director agreed with the then Secretary of State that we should seek to make a compelling case for Defra to the CST. After extensive negotiations, the CST agreed on 23<sup>rd</sup> November 2005 to an EYF drawdown of £65m resource and £27m capital, by which time we had addressed the remaining shortfall with a package of restraining measures and expenditure deferrals agreed across Defra and its sponsored bodies. This successful negotiation reduced, but did not eliminate, the upheaval to

budgets we encountered in 2005/06 and, as a consequence, costs were carried over into 2006/07.

The Department did not expect to be able to switch the full £85m from non-cash to near-cash resource in 2005/06. The Spending Review 2004 settlement letter stated that such flexibility was only available within the context of the fiscal rules and having worked through the EYF negotiations the Government was well aware of the tightness of the fiscal position. Defra was not complacent. The Department assessed the risk and concluded that the pressure on near-cash resource could be managed in-year. Treasury's budgeting guidance, available in draft form from August 2005 and finalised in December 2005, set out in more detail the switching rules and therefore in November and December 2005 the Department had discussions with the Treasury (at the same time as other Government departments) to see what could be achieved for Defra. These discussions secured a £20m switch to near-cash resource for each of 2005/06, 2006/07 and 2007/08. The remaining £65m in 2005/06 was successfully managed out across the rest of the year because the out-turn was a £1m underspend.

**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)**

The Department did not assume that an £85m transfer could be made from non-cash to near-cash for 2006/07. Moreover, since 2005/06 was the first year that the distinction between near-cash and non-cash resource was formalised no transfers would have been needed for earlier years. The detailed Treasury rules brought in for 2005/06 onwards did provide for the possibility of large transfers (in excess of £20m) provided they were affordable fiscally and complied with the guidance. Defra had already secured a £20m transfer under these rules for 2005/06, 2006/07 and 2007/08 and had by then a thorough understanding of the Treasury rules and the overall fiscal position. The Department knew the likelihood of further transfers was very remote so the remaining £65m was being carried as a pressure to be managed in-year, as it had been in 2005/06. As the position became clearer, the Department decided that the full scale of the pressures had to be dealt with as a specific exercise rather than leave all or some of it to in-year management.

Ministers were advised of the impact of this tighter financial regime in May 2006 when the budget review exercise was launched.

**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)**

The Government can confirm that RPA was also provided with an additional £23m of capital budget for 2006/07 at the same time as the additional resource budget. This funding was available within the overall capital budget so did not require any separate action.

Compared to the budget allocated at the beginning of 2005/06, RPA was provided with an additional £19.7m of resource budget (£18.7m in November 2005 and £1m in March 2006) to cover the increased running costs of the Common Agricultural Policy Single Farm Payment Scheme (SPS). The additions were managed as part of controlling the centrally held pressures, with no other part of the internal budget being affected. During the year, RPA's actual spend each month was less than the original cumulative budget up to October 2005 and then remained less than the revised cumulative budget for the remaining months, with the exceptions of December 2005 and March 2006. For December 2005, the cumulative overspend for the year-to-date was £4.6m, but this position was recovered by the end of the following month. For March 2006 the cumulative overspend for the year was £6.7m on a total running cost budget of £229m (3%) reflecting the problems on SPS which became apparent in that month. This overspend was contained within the Department's overall £1m underspend for the year.

#### **Analysis of RPA Expenditure Against Budget in 2005–06**

	<b>Actual Expenditure (cumulative) £m</b>	<b>Budget (cumulative) £m</b>	<b>Variance (- = overspend) £m</b>
Jun 05	52.2	57.0	4.8
Jul 05	77.7	79.0	1.3
Aug 05	94.4	95.8	1.4
Sep 05	109.8	114.5	4.7
Oct 05	127.4	131.5	4.1
Nov 05	149.6	151.8	2.2
Dec 05	173.6	169.0	-4.6
Jan 06	187.7	191.2	3.5
Feb 06	210.3	211.7	1.4
Mar 06	235.7	229.0	-6.7

**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)**

The Department was aware by the end of the calendar year 2005 that it was deferring a maximum of £95m worth of costs into 2006/07. Nonetheless, the decision taken in January 2006 to over-allocate the budget for 2006/07 to such an extent failed to take account of all potential budgetary risks. This became increasingly apparent through February and March 2006 as the assessment challenged the capacity to manage the rising pressure whilst positioning the Department more realistically for a very tight CSR07. Decisive action was then taken in conjunction with new Ministers, (the core Department and the wide-range of delivery bodies), which meant examining the full extent of Defra’s budget.

**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)**

The Government accepts that better insights into spending commitments at a time of budgetary pressure are required and should be built into the financial management procedures and into the assessments of budgetary risk. An improved appreciation of the elements of budget over which there is limited discretionary control is being developed.

Actual payments to delivery bodies and for other policy programmes are spread fairly evenly across the year, although within this profile several programmes are fully committed in the first quarter of the year. The point made to the Committee was that the department enters the financial year with a variety of financial commitments. Some of these commitments necessitate the early release of funds; others oblige Government to make payments over the course of the year; whilst others, although not legally or contractually committed represent clear and agreed undertakings to fund important programmes of work. The exercise undertaken in May exposed the difficulty of scaling back expenditure in a number of areas.

**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)**

The Government accepts that the causes of the deficit could have been communicated sooner and more clearly. As the report acknowledges, government accounting and budgeting is complex. In addition, this is compounded by the complexity of Defra's portfolio of programmes. In seeking to explain the situation in layman's terms, the Department could have done a better job sooner. Important lessons have been taken from this. There was no intent to hide behind avian influenza or issues at the Rural Payments Agency.

**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)**

The Government accepts the need to provide good clear explanations to help lay-people understand the complexities of government finances in Defra. We have taken a number of steps to raise Ministers' understanding in this area, for example:

- regular presentations by the Finance Director to Ministerial Business Meetings;
- direct support to Ministers when they meet with the heads of sponsored bodies;

- the lead Minister on finance matters is receiving a series of one-to-one briefings on the budget and estimate processes from senior financial managers and technical experts. The same briefings are available to the Committee members, individually or collectively;
- the monthly Management Board Finance Report is copied to the Ministerial team and the authors made available to provide explanations and answer any questions;
- all Ministerial submissions with financial implications have to be approved by the Finance team to ensure that those implications are clearly explained and put into the context of the Department's financial position; and
- a summary of 2007/08 budgets was placed on Defra's website when budgets were decided in December 2006 (this was the first time that this has happened).

**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)**

The Government's Five Year Strategy for Defra is published on the Department's website. The Department spent considerable time during 2006 reviewing and refreshing the Five Year Strategy to ensure it meets changing needs and is fit for purpose to address the challenges for the CSR07 period. The refreshed strategy is supported by eight Departmental Strategic Objectives and these form the structure for the Government's plans under consideration for the CSR period. These will be published once CSR07 is settled later this year.

The Government has accepted that certain elements of the management of Defra's finances over the last two years could have been better handled. However, other elements have been successful:

- the Department has dealt with the unexpected and rapid reclassification of all EU income and expenditure on the Common Agriculture Policy into the budget;
- the actual out-turns for 2004/05 and 2005/06 contained no surprises compared to budgets and forecasts;
- the systemic underspend for which the Department had been criticised in the past has been eliminated;

- unqualified audit opinions have been received on successive resource accounts despite all the complexities;
- the Department has successfully migrated to the new Treasury financial information system (COINS) which requires much greater detail on a monthly basis;
- the monthly Management Board Finance report has been distributed to time and quality for two years;
- the Government successfully managed the financial consequences of abolishing compensation paid for cattle under the Over Thirty Months Scheme in January 2006 and its replacement by compensation under a time-limited Older Cattle Disposal Scheme and new stricter testing regime;
- Defra also successfully managed to stay within its 2005/06 budget despite not receiving £40m from the Department of Health as its agreed contribution towards the continuation of the Over Thirty Months Scheme; and
- the rapid creation of delivery bodies, including the Marine and Fisheries Agency, Animal Health (formerly the State Veterinary Service), the Government Decontamination Service and Natural England: all at no extra cost but with improved customer focus and greater transparency on spending through business plans and annual accounts.

**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)**

The Government accepts this. The latest assessment of the non-cash resource DEL requirement to provide for disallowance payments was laid before Parliament on 28 February for the Spring Supplementary Estimate. This was explained further in the Estimates Memorandum submitted to the Committee on the same date. The potential near-cash resource DEL impact on 2008/09 budgets onwards is being considered as part of the Government's CSR07 plans.

**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)**

Current forecasts indicate that the Department will over-deliver on its £610 million financial efficiency target. The risk-based forecast is that savings of £673m will be delivered, of which £360m is attributable to departmental activity (£49m over-delivery) and £313m to local authority efficiencies on waste management and street cleansing activity (£14m over-delivery).

The Government shares the disappointment expressed by the Committee over the difficulties in achieving planned headcount reductions. The position on headcount has recently changed as a result of a bilateral between the Secretary of State and the Chief Secretary to the Treasury. At the efficiency moderation meeting with the Treasury and Office of Government Commerce in November 2006, Defra reported that, due to difficulties with the RPA Change Programme, it would only be able to deliver 1,100 headcount reductions against the target of 2,400. Since then, the forecast has risen to 1,200 reductions. The Government is also looking at further options for workforce reductions before the end of March 2008. On top of this and in line with its recovery plan, the Rural Payments Agency will reduce by 600 posts by the end of the CSR07 period.

The Committee asks for a clear statement on how these efficiencies will be made and for information on the timescales. Defra's Efficiency Technical Note (ETN) sets out the key initiatives that are delivering efficiencies. With the exception of the RPA Change Programme, information in the ETN remains valid. In terms of timescales, efficiencies must be delivered by the end of March 2008. There is no interim deadline. But the Government is tracking actual and forecast efficiencies. It's on this basis that Defra expects to over-deliver by approximately £63m.

**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)**

The Government is making a single response to this and the following (closely related) conclusion. The Government fully advocates the importance of effective governance and management of its relationship with its delivery bodies. The Department's review of its governance of delivery in 2006 confirmed that governance needs to be fit for purpose, and specifically related to the capacity of the delivery organisation to manage its delivery challenges and risks. This means that Defra must balance governance structures and their operation against risk associated with delivery and the organisational capacity and capability of the delivery organisation. Implementing the actions from the governance review is one of the agreed actions to follow up the Department's Capability Review. The Department is taking forward these and other actions resulting from the Capability Review that are designed to enhance the effectiveness of the department's partnership with its delivery bodies through the Renew Defra programme. Specific actions include:

- implementing a consistent approach to managing the performance of delivery bodies that takes account of their constitutional status, with clear accountability for relevant Defra senior managers for ownership/management of delivery and inclusion in personal performance agreements;
- the introduction of a consistent model, again taking account of constitutional status, for providing specific flexibilities and freedoms to delivery bodies according to performance, risk, capability and capacity. As part of this we will develop with delivery bodies a more robust model for reporting delivery performance to the Defra Management Board. This will help establish when a more or less interventionist approach is needed in specific cases;
- enhanced holding of delivery bodies to account for performance by Defra Ministers and Management Board, with the board corporately owning responsibility for delivery effectiveness and regularly discussing delivery performance; and
- experience of delivery to be necessary for promotion to the Senior Civil Service within Defra in future, subject to any necessary transition arrangements, and enhanced interchange of staff with delivery partners and other external stakeholders.

The Government aims to complete the necessary actions by March 2008.

We have in place a comprehensive Action Plan for following up the governance of delivery review (as part of the detail of the implementation of the Renew Defra programme).

In parallel with this review of governance, the Department also undertook a review of its advisory non-Departmental Public Bodies. This concluded that the non-executive body landscape was broadly fit for purpose, with little appetite for fundamental reform. There is scope for some reduction in the number of bodies, and opportunity to strengthen the processes for establishing, reviewing and monitoring the performance of these bodies. The Department also identified a number of good practice recommendations, which will help to improve how the existing non-executive body landscape operates. (The

Government will send the full report, if the Committee would find that useful). A follow-up action plan is under development.

**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)**

The Government welcomes the Committee's acknowledgement of the possible need for intervention. The previous response outlines the work in this area.

**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)**

The Government accept this in part. On policy issues where Defra leads, the normal principles of collective responsibility apply, and policies are determined following consultation and discussion with those Ministers who have an interest (and, in respect of policy areas which have implications for the devolved administrations, with devolved Ministers). In many cases, policy on climate change needs to be carefully coordinated with other policies, including security of energy supply, planning policy, and so on—and vice versa. The Energy and Environment Committee has overall responsibility for policy in this area.

Nonetheless, the Government recognises the importance of a joined-up and consistent approach to international climate change issues. Defra leads a cross-departmental International Climate Change Work Programme precisely to address this issue. The Department also works closely with other Government Departments, particularly the Foreign Office, DFID, Treasury and DTI to co-ordinate activity on climate change. On top of the work Defra leads directly, this enables the Department to achieve environmental objectives working with and through the rest of Government. The Prime Minister set up the Energy and Environment Committee to develop the Government's energy and environmental policies, to monitor the impact on sustainable development of the Government's policies, and to consider issues of climate change, security of supply and affordability of energy.

**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 coordination. 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)**

The Government does not accept this. Defra's Departmental Report includes numerous examples of policy co-ordination across Government (and beyond)—notably on climate change, energy, fuel poverty and air quality—where Defra has taken a clear lead. The Government also questions the appropriateness of using the Departmental Report to disclose the workings of cabinet committees. Nonetheless, the Government accepts the general principle that the Departmental Report should include good examples of cross-departmental co-ordination and will work towards that.

**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 freestanding '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)**

The Government welcomes the Committee's recognition that the concept of sustainable development is complex. Sustainable development needs to be delivered by Government as a whole. Defra's role is to champion sustainable development at all levels of Government. This role includes putting in place governance arrangements for the co-ordination of policy and delivery, for monitoring, scrutiny and evaluation. It also includes working in partnership with organisations at national, regional and local level, as well as engaging people.

Although sustainable development is a concept with many dimensions, and relies as much on the quality of partnership working and co-ordination, as on the contribution of each individual player, the Government now has a number of processes by which overall performance as well as that of individual departments are made transparent. First, the Government's indicators for sustainable development are updated and published annually. Secondly, Government departments publish Sustainable

Development Action Plans. And the Sustainable Development Commission, in its strengthened independent “watchdog” role, reports on these plans. Finally, the Sustainable Development Commission reports on Departments’ performance against the sustainable operations targets for the Government estate.

**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)**

The Government notes the Committee’s conclusion. The aim of the Government’s Ecosystems Approach project is to help deliver the natural environment outcomes more effectively and more efficiently. The Government is defining an ecosystems approach in two main ways: (1) managing the natural environment in a more holistic, ‘whole ecosystems’ way, and designing policies and delivery on that basis; (2) communicating more clearly and reflecting in decision-making the value of the ecosystem services which a healthy natural environment provides for people. This work is underpinned by a dedicated programme of research which includes development of a robust framework for economic valuation of ecosystem services.

The shift towards a whole ecosystems focus is reflected in biodiversity policy. The highly fragmented natural ecosystems typical of much of the United Kingdom will be a major constraint for the long term viability of many species and habitats. As a result, broader landscape-scale actions to overcome the fragmentation of priority habitats and to reduce pressures on biodiversity in the wider environment through which species move, are reflected in some of the new targets as published in the revised November 2006 UK Biodiversity Action Plan (UK BAP). This represents a shift of focus from protection of individual species towards adaptive management of whole ecosystems. A recent high-level meeting of key stakeholders to discuss revisions to the UK BAP endorsed this shift in focus.

**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)**

The Government agrees that it is important to develop effective new PSAs for the forthcoming Comprehensive Spending Review (CSR) period and that these have clear outcomes and performance measures. The department is working up proposals for new PSAs, which will be agreed with the Treasury as part of the final CSR settlement. The

Government's approach to developing PSAs in this Spending Round is different from the previous Spending Round in several ways, notably:

- There will be a much smaller number of PSAs – around 30 rather than 120;
- PSAs will be cross-cutting, focused on key Government priorities; and are likely to involve several departments in delivery;
- PSAs will be outcome-focused rather than output-focused;
- Each PSA should be underpinned by one or more key national performance indicators (up to a maximum of five);
- With regard to measurement, these indicators should be outcome-focused; specific, use robust data subject to quality control, and be sufficiently accurate and reliable as to enable decision-making.
- PSAs will be accompanied by delivery agreements showing what different departments, delivery bodies and stakeholders will contribute to delivering the PSA; and
- PSAs will be supported by departmental strategic objectives. These will cover the full range of a department's work.

The Government's new approach to setting PSAs was explained in more detail by the Chief Secretary to the Treasury, Rt Hon Stephen Timms MP, to the Treasury Committee on 30<sup>th</sup> January 2007.

Defra is developing its proposals for new PSAs and Departmental Strategic Objectives within this new framework. Two new Defra-led PSAs are under development, one covering climate change, and the other the natural environment; both with strong participation of other departments in their delivery. The current proposed text of these PSAs and the key indicators is attached at Annex 1. This is still work in progress, and details may well change; the indicators particularly need further development. They will need to be agreed as part of the final suite of government-wide PSAs as part of the final Comprehensive Spending Review settlement, but they are included here to give the Select Committee an indication of the way these are developing.

To complement the two PSAs to be led by Defra, there will also be a suite of Departmental Strategic Objective (DSOs) which describe the full range of strategic outcomes the department is looking to deliver. These are similarly still under development and will be agreed as part of the CSR, but the latest draft is attached at Annex 2.

**19. We commend the Department's report-writers for incorporating many of our previous recommendations relating to the presentation of the Report. (Paragraph 89)**

The Government welcomes the Committee's findings and also the specific recommendations in their report on improving the lay-out of the Departmental Report.

**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)**

The Government accepts this in part. Defra's Departmental Report includes an appendix which summarises progress against each of the Public Service Agreement targets. The body of the report brings out the performance against indicators. Many of Defra's targets have very long lists of indicators, as well as having many medium to long-term target dates. Expanding on each of these would only add to the length of the report. The Government is aware of the complexity of indicators and aims to develop a far smaller number of indicators for Public Service Agreements and Departmental Strategic Objectives for the forthcoming Comprehensive Spending Review period.

**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)**

The Government will make every effort to bring out key financial information in the report. That said, the Departmental Report is written well before the publication of the resource accounts. Therefore, it is not possible to publish audited figures for the financial year in the Departmental Report.

**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)**

The Government does not entirely accept this recommendation, as it conflates the purpose of the Departmental Report with that of the resource accounts. At present, there is a significant gap in time between the publication of the Departmental Report and the resource accounts. It is the resource accounts (audited by the National Audit Office) which set out the overall financial position. The resource accounts, of course, comply with relevant accounting and audit standards.

However, the Government accepts that there is a requirement to publish some information on finances in the Departmental Report. The Treasury specifies which information is to be published. And the information that is used is taken from a Treasury system on a specified date (within the Financial Year covered by the Departmental Report). Faster closing of accounts and, in due course, the merger of accounts with the Departmental Report will overcome this and meet the Committee's wish to see a way of reporting that more closely meets the standards adopted by listed companies.

**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)**

The Government accepts this and plans that Defra will include an executive summary from the Permanent Secretary along with an extract from the Department's Balanced Scorecard, summarising overall performance.

**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)**

The Government accepts this though the extent of the difficulties in the RPA was not wholly apparent at the time the Departmental Report was being drafted. The Departmental Report does, nonetheless, include some indications of the emerging difficulties over the Single Payment Scheme.

**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)**

The Government accepts this. Defra's Departmental Report for 2006 was almost a hundred pages shorter than in the previous year but the Department recognises that the report could be shorter still. The Government will also make sure that highlights, key issues and facts on funding are set out in boxes at the start of each chapter.

**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)**

The Government accepts this. The Departmental Report for 2006 included many charts, graphs and tables but the Department will try to ensure that complex sets of figures are always presented graphically.

**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)**

The Government accepts this. The Defra Departmental Report for 2007 will avoid long chapters. And the contents page will direct readers to specific topics within each chapter.

**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)**

The Government accepts this and, by shortening the report, aims to reduce the incidence of repetition.

**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)**

The Government accepts this in part. Defra's Departmental Reports include many charts and graphs. Nonetheless, the Government recognises that there is scope for improving the presentation of statistics along the lines of these recommendations.

**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 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)**

The Government accepts this in part. However, by shortening the report and improving its structure, the aim is to reduce as far as possible the need for cross-referencing. The production of the index is largely automated and there would be an overhead (in a short production life-cycle) in devoting much time to the index. Improving the contents page (along the lines suggested in Recommendation 27 above) and shortening chapters will also help guide readers to significant blocks of text on specific topics.

Department for the Environment, Food and Rural Affairs

April 2007

## Annex 1

### Developing proposals for Defra-led PSAs

#### Climate change

Leading the global effort to avoid dangerous climate change by establishing the political conditions necessary to bring about a step change in global investment in low carbon technologies, building on initial actions in the UK and EU.

In particular:

- Securing effective and robust global commitments for the period post-2012, through engagement with our international partners, consistent with a trajectory to stabilise atmospheric greenhouse gas concentrations, which will shift economies to a low carbon basis, including through an efficient and effective carbon market.
- Adopting and promoting policies which reduce greenhouse gas emissions, moving to the levels required to achieve the carbon budgets set for 2008–12, 2013–17 and 2018–22 and to ensure that the net UK carbon dioxide account, as defined in the Climate Change Bill, for the year 2050 is at least 60% lower than the 1990 baseline, demonstrating to other parties the practical, economic, environmental and social benefits that tackling climate change in a cost effective way can deliver.

As a complement to our mitigation efforts, develop a robust approach to domestic adaptation to climate change, shared across Government, and by encouraging adaptation to climate change internationally.

**Potential indicators** – these will need to reflect targets and measures subsequently agreed by Parliament under the Climate Change Bill, but measures currently under development include:

1. Atmospheric greenhouse gas concentrations and projected global emissions to 2050.
2. Greenhouse gas intensity of global economy.
3. Volumes and value traded on global carbon market.
4. Total UK greenhouse gas and carbon dioxide emissions.
5. Greenhouse gas and carbon dioxide intensities of UK economy.

### **Natural environment**

Secure a healthy natural environment for everyone's well-being, health and prosperity now and in the future; and reflect in decision-making the value of the services that it provides.

**Potential indicators**—currently under development.

**Air Quality**— improving air quality as measured against targets for air pollutants under the Air Quality Strategy (reflects Defra's current PSA 8).

**Biodiversity**—data on bird populations in England as a proxy for health of wider biodiversity (reflects Defra's current PSA 3).

**Water quality**—improving water quality using proxies for 'good status' under the Water Framework Directive.

**Marine**— based on a proxy for the health of the wider marine environment.

## **Annex 2**

### **Developing proposals for Defra's Departmental Strategic Objectives**

Climate change tackled, internationally; and through domestic action to reduce greenhouse gas emissions.

A healthy, resilient, productive and diverse natural environment.

Sustainable patterns of consumption and production.

Economy and society resilient to environmental risk and adapted to the impacts of climate change.

A thriving farming and food sector, with an improving environmental impact.

Sustainable Development promoted across government, across the UK, and internationally.

Strong rural communities.

A respected department delivering efficient and high quality services and outcomes.