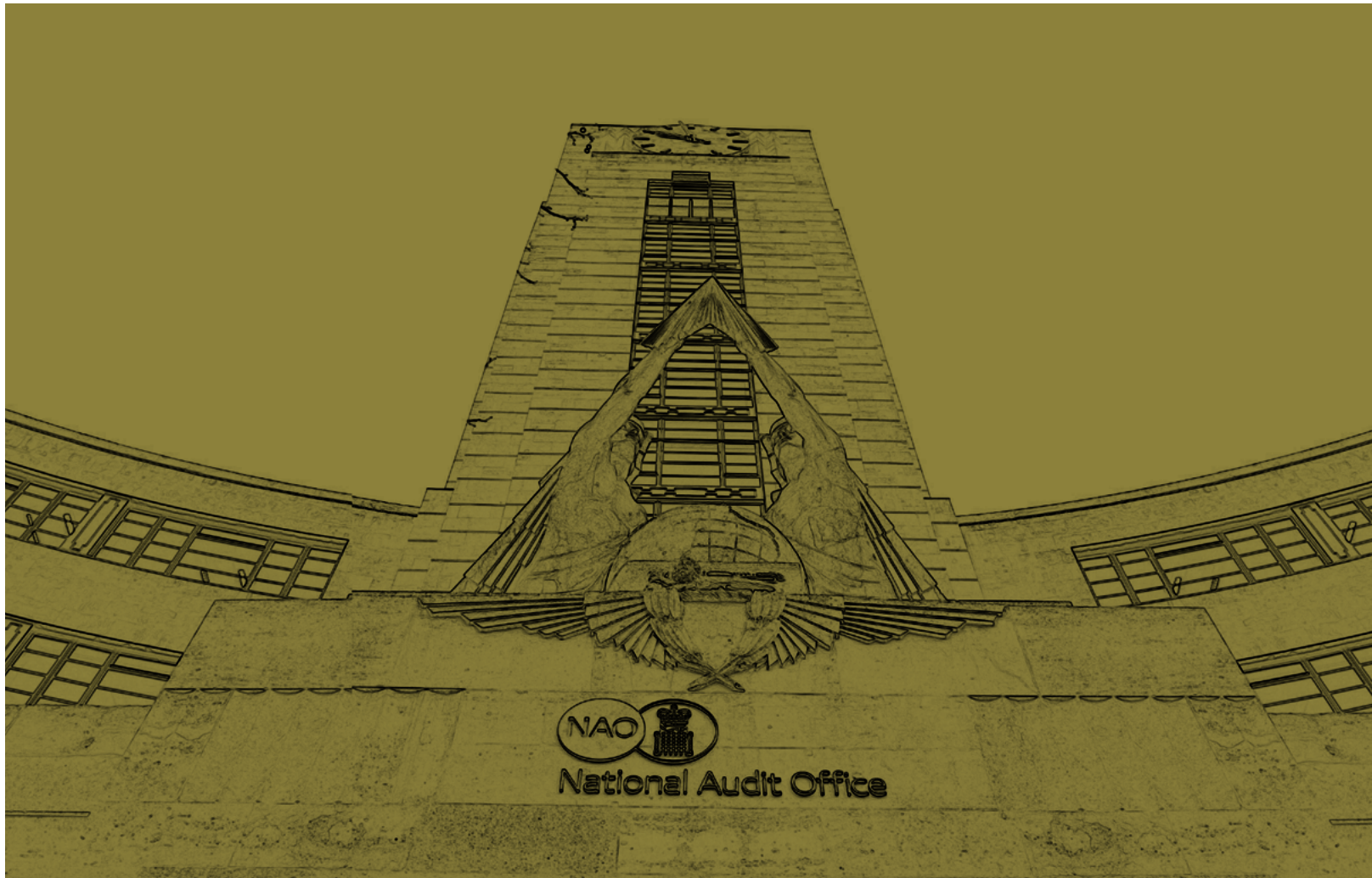


October 2016

Department for Environment, Food & Rural Affairs



If you would like to know more about the National Audit Office's work on the Department for Environment, Food & Rural Affairs (Defra), please contact:

Peter Morland

Financial Audit Director, Defra
✉ Peter.Morland@nao.gsi.gov.uk
☎ 0191 269 1841

Michael Kell

Value for Money Director, Defra
✉ Michael.Kell@nao.gsi.gov.uk
☎ 020 7798 7675

If you are interested in the NAO's work and support for Parliament more widely, please contact:

✉ Parliament@nao.gsi.gov.uk
☎ 020 7798 7665

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Departmental Overview 2015-16
Department for Environment, Food & Rural Affairs

Executive summary

This Departmental Overview looks at the Department for Environment, Food & Rural Affairs (Defra) and summarises what it does and its current spending, together with our recent findings and future considerations. The content of the report has been shared with Defra to ensure that the evidence presented is factually accurate.

Part One sets some facts about Defra and where it spends its money.

This includes:

- an overview of Defra's Single Departmental Plan, and changes that impact Defra and how it spends its money; and
- information on how Defra has achieved its spending reductions to date.

Part Two sets out our findings from our work on the Department.

This covers:

- our findings from work on the Common Agricultural Policy (CAP) Delivery Programme, and how Defra manages the risk of financial penalties (disallowance) arising from CAP. We also provide details of the 2015-16 Defra Annual Report and Accounts qualification in respect of material irregularities for disallowance; and
- environmental sustainability; accountability; and regulation.

Part Three looks ahead to the coming year.






This focuses on:

- the decision to leave the EU as a result of the EU referendum and the future considerations arising from this for Defra;
- Defra's four major projects; and
- spending reductions and environmental issues, including the results of the National Flood Resilience Review.

About the Department

Single Departmental Plan: 2015–2020

Defra published its Single Department Plan in February 2016. Defra has also been developing its 25-year plans for the environment and for food and farming. However, progress in development and publication of the 25-year plans has been delayed as a result of the decision to leave the EU. Defra is currently reviewing the next steps.

Objective	Defra's indicators of progress	Defra's achievements reported to date
 Environment A cleaner, healthier environment benefiting people and the economy	Public exposure to nitrogen dioxide (NO ₂) and particulate matter (PM _{2.5}) in England. An increase in the length of fresh waters enhanced in England. Woodland creation in England. Protected sites in England.	NO ₂ and PM _{2.5} levels were 16 and 11 µg m ⁻³ respectively in England (excluding London) in 2014. 534 kilometres of fresh waters have been enhanced since 2015. 640,000 trees were planted in 2015-16 and a further 650,000 in the first quarter of 2016-17. 96% of protected sites on land were in a favourable, or unfavourable but recovering, condition. 1.1 million hectares of Marine Protected Areas in English inshore waters in 2015.
 Food and farming A world-leading food and farming industry	Value of food and drink exports in the UK. Food and farming apprenticeships in England. Reductions in the number of farm visits.	Exports to the value of £18.2 billion in 2015. 5,900 food and farming apprenticeship starts in the 2014/15 academic year and 2,200 in the first three months of the 2015/16 academic year.
 Rural A thriving rural economy, contributing to national prosperity and well-being	Rural productivity measured by gross value added per workforce job. ^{1,2}	£44,500 GVA per workforce job in predominantly rural areas, 2014.
 Protection A nation better protected against floods, animal and plant diseases and other hazards, with strong response and recovery capabilities	Number of homes better protected against flooding and coastal erosion. Bovine tuberculosis-free cattle herds.	61,300 households are better protected from flooding at end of June 2016 since the beginning of 2015-16. 93.7% of herds officially bovine tuberculosis-free, in England, at the end of March 2016.
 Excellent delivery Excellent delivery on time and to budget with outstanding value for money	Percentage of CAP Basic Payment Scheme (BPS) payments made by December and January. Percentage of export health certificates/licences issued within agreed service standards. Percentage of planning application consultations responded to within the appropriate timescales.	51% of all claims paid by the end of December 2015, 76% by the end of January 2016, and 84% by March 2016. 99.0% of export health certificates were issued on time so far in 2015-16 (as at December 2015), 99.4% April–June 2016. 94.4% of responses were made on time so far in 2015-16 (as at December 2015); 94.7% in the first quarter of 2016.
Delivery objectives An organisation continually striving to be the best, focused on outcomes and constantly challenging itself. An inclusive, professional workforce where leaders recognise the contribution of people and build capability to deliver better outcomes.		

Notes

- Gross value added (GVA) is a measure of the increase in the value of the economy due to the production of goods and services.
- The government has several other indicators to measure its plans to boost rural productivity (measured at rural level). These are collected by other government departments as follows: number of apprenticeship in rural areas – previously the Department for Business, Innovation & Skills but now the Department for Education; number of Enterprise Zones classified as rural or smaller town; net additions to housing stock in rural areas; and housing starts in rural areas – Department for Communities & Local Government.

Key facts

15% target reduction

in resources as a result of the 2015 Spending Review



22,000

the average number of staff employed by Defra, its agencies and non-departmental public bodies (NDPBs) in 2015-16



£60.9 million

Defra's expenditure on consultants and temporary staff during 2015-16



71%

(£4.0 billion) of total departmental expenditure administered by Defra's arm's-length bodies (ALBs) during 2015-16



£661 million

the amount Defra has incurred in disallowance penalties from the EU since 2005



11,007 datasets

the number of datasets released publicly by June 2016 under the Defra data programme



What's new?

Defra's transformation programme

The Department has embarked on a programme of **transformational change** to reduce costs, improve capability and resilience, and develop better service delivery for customers. A new **target operating model** has been developed to underpin this transformation, setting out the Defra group of the future. This will be key to building a more open, innovative Defra. There are five design principles embedded in the new approach:

- 1 **Act together** – have collective ownership of a shared agenda. Move beyond collaboration on areas of mutual interest to act in the interests of the whole of Defra.
- 2 **Make it simpler** – be easier to do business with. Avoid jargon, stop adding unnecessary complexity, and make it easier for customers to connect to our services.
- 3 **Avoid duplication** – this applies widely: across our systems, standards and people. Accountabilities, ownership of outcomes and personal responsibilities will be clear. And our processes will add value.
- 4 **Maximise impact** – do what makes the biggest difference in the face of complexity. Be confident to challenge the status quo in order to deliver our strategy.

- 5 **Embrace digital and data** – make decisions using the best available data and the latest methods and technology to improve outcomes. Processes will be automated, remote technology will be available and common standards and protocols will be applied.

Common Agricultural Policy

2015-16 has seen the first full year of implementation of the 2014–2020 Common Agricultural Policy (CAP).

The main changes made for the 2014–2020 period are:

- to replace the Single Payment Scheme (SPS) with the Basic Payment Scheme (BPS), which will include two new elements: additional payments to assist young farmers and a 'greening' element that covers ecologically beneficial elements such as crop diversification;
- to increase links between the Basic Payment Scheme, which provides support for farmers' incomes, and funding for rural development programmes.

Further details on the CAP can be found on [pages 16–18](#).

Flood defence

Flood review

The government launched a [National Flood Resilience Review](#) following the winter storms of 2015. The results of the review were published in September and reported

on how the country can be better protected from future flooding and increasingly extreme weather events.

Funding

The 2016 Budget announced a **0.5% increase in Insurance Premium Tax** with additional revenue raised being ring-fenced to help the government fund flood defences and flood resilience.

Flood Re

[Flood Re](#) is a **new not-for-profit company** that protects people at highest flood risk by ensuring, for the first time, that they can access affordable flood insurance regardless of where they live. It was established by the Water Act 2014 and by subsequent regulations in November 2015. The scheme launched in April 2016.

Flood Re effectively limits the cost of flood insurance for properties at the highest risk, with the level of the premium it charges insurers that cede policies to it varying according to the Council Tax band (or equivalent) of the property. Funding for the scheme comes from premiums and a levy, which is raised from insurers according to their market share in the domestic property insurance market. Flood Re does not provide cover to properties built after 1 January 2009 or businesses.

What's new? *continued*

Natural capital

Natural capital is defined as the stock of **natural assets upon which our economy and society is built.**

In 2016, Forest Enterprise England (FEE) published the first ever [Natural Capital Accounts](#) for natural assets; forests and woods within FEE's care.

The Natural Capital Committee began its second term as an independent advisory committee to government with a primary focus on assisting Defra to develop the 25-year environment plan and work towards incorporating natural capital in the national accounts by 2020. Publication of the 25-year plan has been delayed following the public vote to leave the European Union. Defra is currently deciding on the next steps as the decision has significant implications for environmental policy and the UK food and farming industry.

As the concept of natural capital accounting develops, Defra will continue to work with HM Treasury to update the *Green Book* guidance.

Greening Government Commitments

Defra leads a framework to reduce the environmental impact of government bodies. The aims in 2014 were:

- to reach targets for cutting greenhouse gas (GHG) emissions, domestic flights, waste, paper and water by 2014-15;
- improve government procurement of goods and services; and
- improve transparency about climate change adaptation and biodiversity on the government estate.

Organisations were required to publish their results in an annual sustainability statement. Defra published a cross-government annual report of progress against targets for 2014-15, showing that:

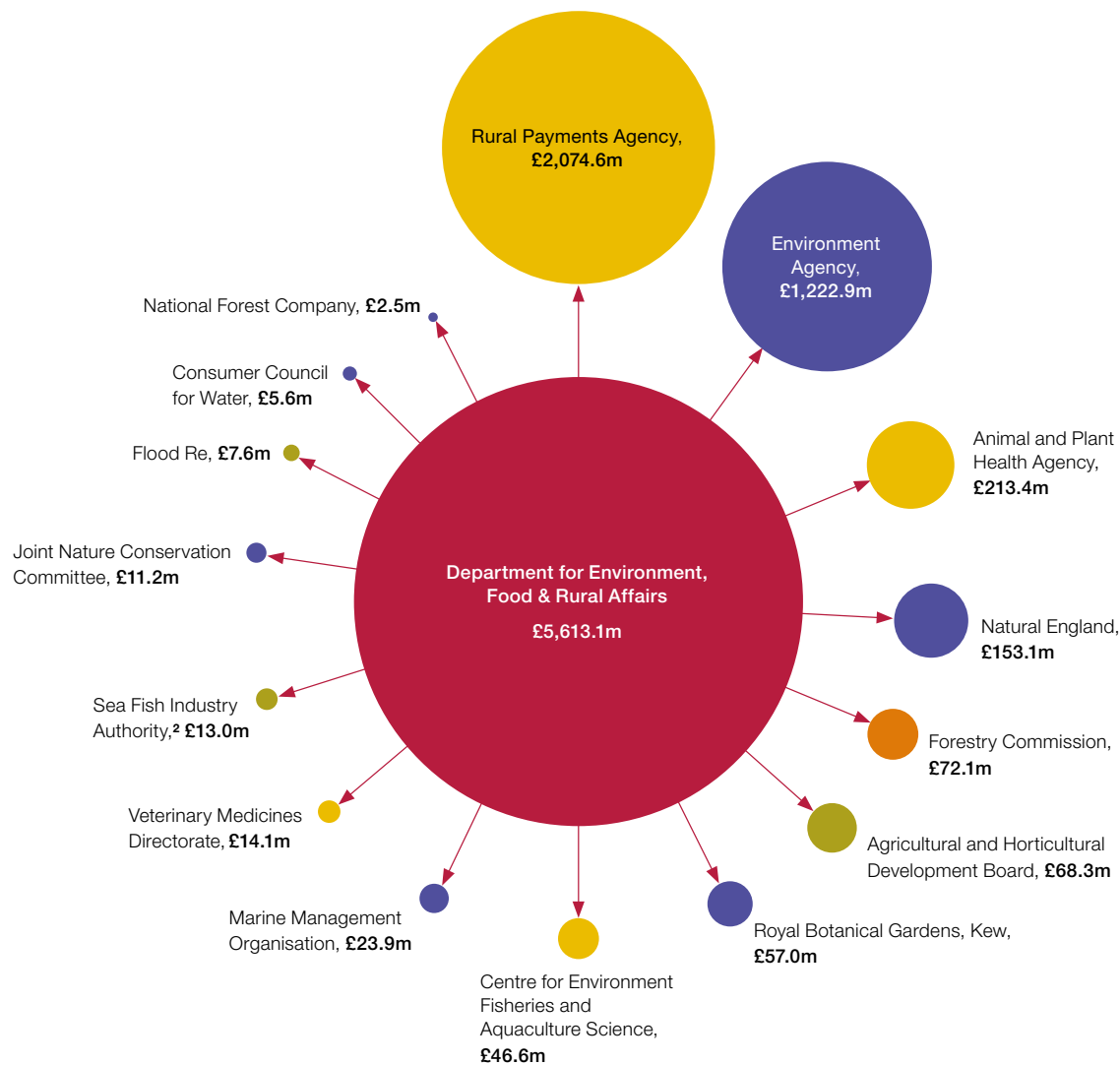
- incorporation of sustainability into procurement and supply chain management has improved; and
- all departments published information against at least one of the transparency commitments.

Reduction	Target (2009-10 baseline)	Achieved (2014-15)	Departments meeting target (out of 22)
GHG emissions	25%	22%	17
Domestic flights	20%	18%	8
Waste	25%	22%	16
Paper use	reduce	38%	21
Water use	reduce	11%	20

Targets were rolled forward for 2015-16 and Defra is to agree individual targets with each department for the future. There is no longer a requirement for departments to produce an annual sustainability statement.

About the Department	Key facts	What's new?	Where the Department spends its money	Digital transformation	Workforce capability
Financial statement overview			Spending reductions		

Spending by Defra and its network bodies in 2015-16



- Executive agency
- Non-ministerial department
- Non-departmental public body
- Levy body

Notes

- 1 Figures represent gross total expenditure. Defra's total expenditure includes that of network bodies (including EU CAP expenditure) and expenditure on its own activities. In 2015-16, Defra received £3.1 billion in government funding.
- 2 Expenditure shown for Sea Fish Industry Authority is for 2014-15 as the 2015-16 Annual Report and Accounts is not yet available.

Source: Department for Environment, Food & Rural Affairs, Annual Report and Accounts 2015-16

About the Department	Key facts	What's new?	Where the Department spends its money	Digital transformation	Workforce capability
Financial statement overview			Spending reductions		

Financial statement overview

Consolidated statement of net expenditure

Expenditure

Total Group expenditure (excluding staff costs) has decreased from £5.4 billion in 2014-15 to £4.8 billion in 2015-16, a decrease of 13%. This is mainly due to delays in Common Agricultural Programme (CAP) payments across the UK during the year. The CAP represents the majority of Defra's expenditure. Further details on what CAP is can be found on [page 16](#).

The decreases in the Basic and Single Payment schemes, payments to other paying agencies and Rural Development Programme for England are as a result of fewer claims in respect of the 2007–2013 CAP scheme as it closes, while claims in respect of the new 2014–2020 CAP scheme are only just commencing as the new scheme is established (Figure 1).

The decrease in disallowance penalties is due to a timing lag in completion of the European Commission's audit of EU funding spend.

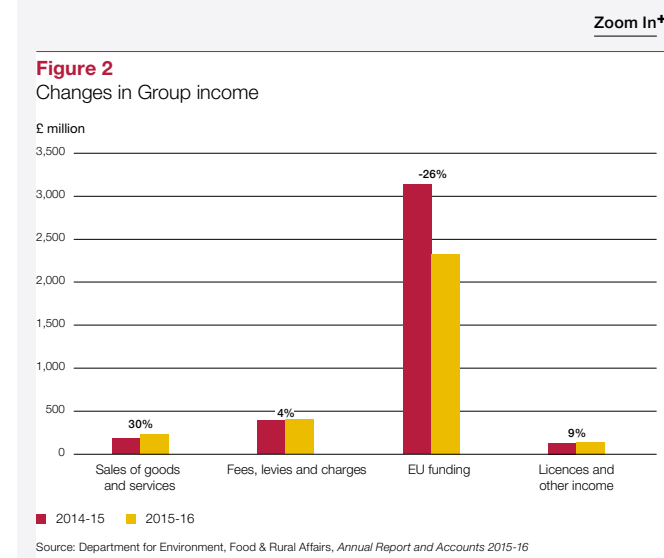
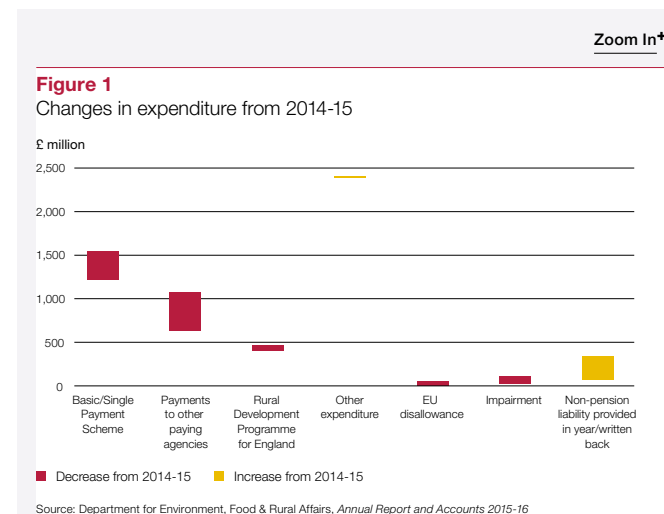
The remaining departmental expenditure has shown a slight increase due to staffing voluntary exit scheme costs as part of Defra's organisational reform.

Impairment charges recognised in respect of a permanent reduction in the value of Defra's assets are usually one-off and can vary year-on-year.

Increase in charges in respect of non-pension liabilities provided in-year, which is the additional cost arising from a likely future commitment, is due to changes in the financial accounting discount rate. The discount rate is issued by HM Treasury and applied to long-term liabilities to reflect the current cash value of the commitment.

Income

Group income in total has decreased by £728 million (19%). This is mainly attributable to the later payment of the Basic Payment Scheme in England and Scotland, and consequently delayed claims of income from the EU (Figure 2).



About the Department	Key facts	What's new?	Where the Department spends its money	Digital transformation	Workforce capability
Financial statement overview			Spending reductions		

Financial statement overview *continued*

Consolidated Statement of financial position

Assets

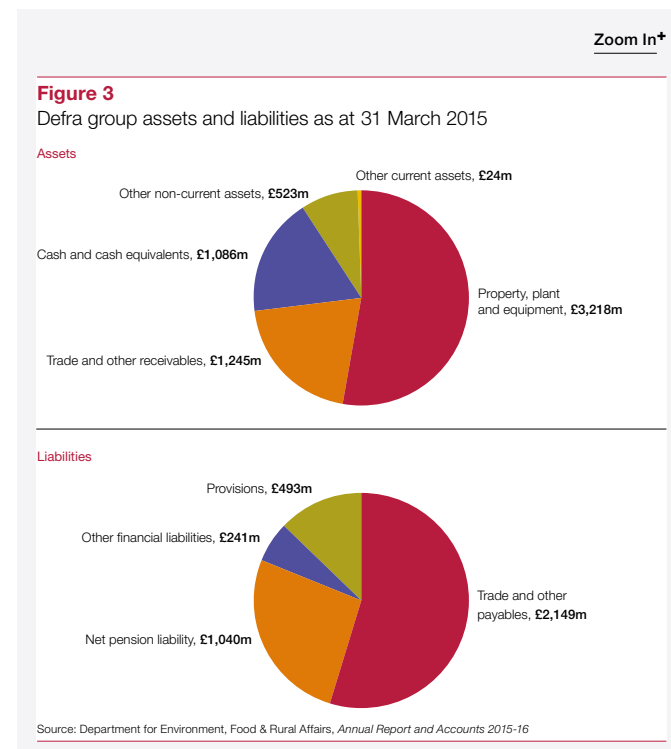
More than half of the Defra Group asset balance is property, plant and equipment (PPE). Of this balance, 75% is accounted for by the Environment Agency's infrastructure assets.

Defra also has significantly higher cash balance and receivable (money due to Defra) balance, up by 224% and 48% respectively compared to 2014-15. The large cash balance is due to Defra drawing down cash from the Consolidated Fund, the government's general bank account from which payments must be authorised in advance by the House of Commons, to enable them to make payments to farmers in respect of the Basic Payments Scheme before year-end. However, the payments to farmers were delayed and not paid until after the year-end. The receivables balance is a timing difference for claims made to the European Commission but not yet received.

Liabilities

More than half of the Defra Group liabilities (future commitments) balance is payables, which have increased by 72% (£900 million) since 2014-15. This is due to the high cash balance drawn down from the Consolidated Fund to make CAP payments, which has been recognised as a payable due back to the Consolidated Fund.

The Defra Group also has a net £1 billion pension deficit due to a number of active and closed schemes. The Group also recognised provisions (an amount set aside for likely future commitments) totalling £493 million; the most significant relating to provisions in respect of CAP disallowance, Basic Payment Scheme payments, abandoned metal mines and foot and mouth.



About the Department	Key facts	What's new?	Where the Department spends its money	Digital transformation	Workforce capability
Financial statement overview			Spending reductions		

Spending reductions

Defra receives its budget for two types of activities – capital funding for assets and resource and (non-capital) funding for Defra's running costs (salaries, estates and IT) and delivery of its objectives through front-line services. Figure 4 shows Defra's actual and planned future spend.

Reductions achieved to date

Defra has achieved a number of reductions in spend across staff costs via staff exit schemes; estates costs due to a reduction in the number of estates lease held by Defra; and IT costs due to changes in procurement (Figure 5).

2014–2020 CAP funding allocation

CAP accounts for roughly €3.9 billion (£3.4 billion) annually and more than 60% of Defra's expenditure in 2015-16.

Spending Review 2015 (SR15)

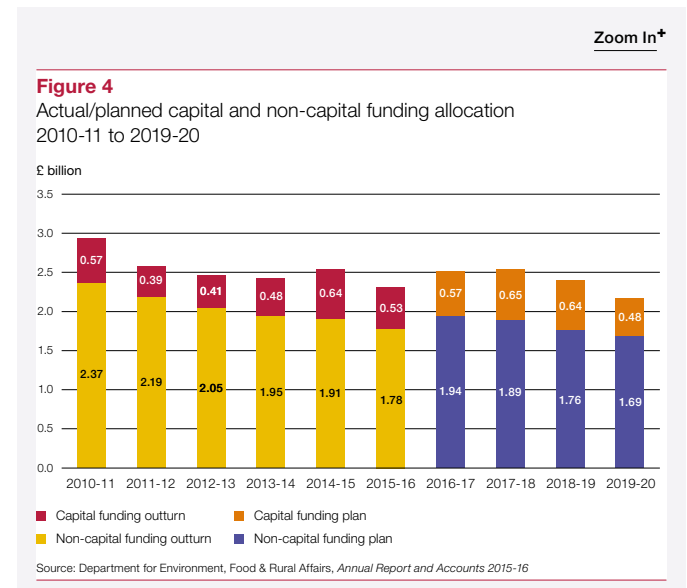
Defra's 2015 settlement is a cumulative resource budget reduction in real terms of 15% over the period from 2015-16 to 2019-20.

Defra expects to achieve most of its resource budget reductions through transformation, with the streamlining of corporate services targeting a 40% real-terms reduction.

The Defra spending review settlement included budget protections (ring-fenced funding) for environmental issues, totalling more than £3.2 billion over the spending review period, 12 times more than during the 2010 spending review.

SR15 ring-fenced funding

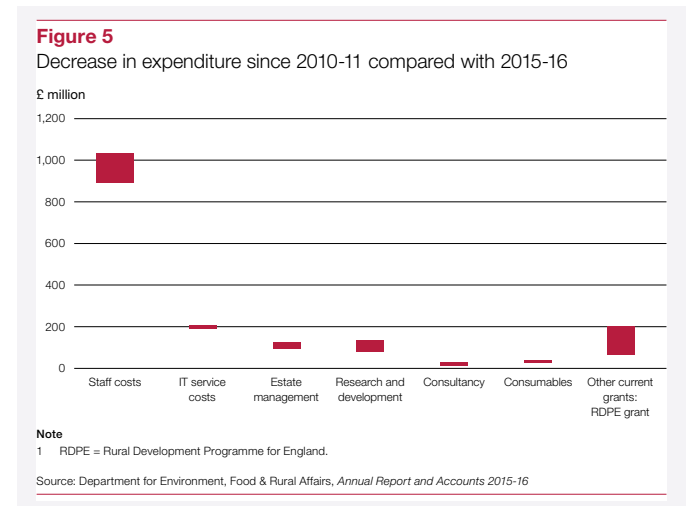
- Protection of flood defence funding, including £2.3 billion in capital spend over six years.
- Protected funding for National Parks and public forests (£350 million).
- Countryside enhancement via the Common Agricultural Policy (£3 billion, part EU-funded).
- £130 million capital investment in Defra's science estates and equipment over six years.



Zoom In⁺

	Pillar 1/€ million (approx non-inflation adjusted)	Percentage share (%)	Pillar 2/€ million (approx non-inflation adjusted)	Percentage share (%)
England	16,421	65.5	1,520	58.9
Northern Ireland	2,299	9.2	227	8.8
Scotland	4,096	16.3	478	18.5
Wales	2,245	9.0	355	13.7
Total UK allocation	25,061		2,580	

Source: <http://researchbriefings.files.parliament.uk/documents/RP14-56/RP14-56.pdf>



Digital transformation

What Defra is doing

In its Single Departmental Plan 2015–2020, Defra committed to developing digital solutions that met common standards set by the Government Digital Service.

Defra has an ambitious efficiencies programme to achieve SR15 savings, aiming to become a more streamlined, digital department, sharing back-office functions such as IT, human resources and finance with its network bodies to reduce unnecessary bureaucracy, and devolving roles to the local front-line to ensure effective service delivery.

To meet these challenges, Defra is developing a target operating model setting out how the Department needs to think and act differently. Embracing digital technology is a key part of this change. Over the next four years Defra expects to invest £66 million and to realise benefits of around £100 million through reduced IT running costs and greater efficiency.

Defra's current major digital transformation projects are:

The Common Agricultural Policy (CAP) Delivery Programme

The primary objective of this digital programme was to procure a solution for the processing, payment and accounting of claims for funding from all CAP schemes. Further details on this can be found on [pages 16–18](#). This was intended to support the implementation of a more complex set of regulations that came into force in 2014.

The UniTy programme

The Defra UniTy programme has been established to exploit the opportunity presented by the expiry of Defra's two largest ICT contracts by June 2018. The aim is to develop a common ICT operating model across the Defra Group. Programme objectives include:

- reduced running costs for in-scope ICT services;
- compliance with government and Defra ICT policies; and
- improvement and standardisation of services.

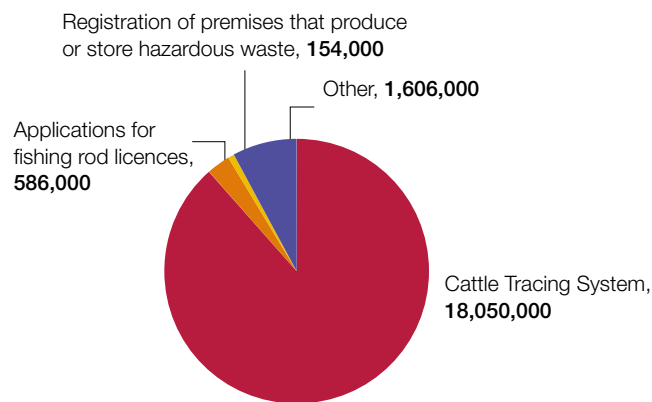


Digital transformation *continued*

Current digital services

Defra offers 31 digital services and processes 19 million digital transactions per year. These are services and transactions that have improved the way citizens can interact with government online. Digital transactions made up 89% of Defra's total transactions in 2014-15.

The top three digital services and the number of transactions in 2014-15 are shown below:



Source: GDS Services data for digital transactions October 2014 – September 2015

Flood warnings are also a key service offered by Defra through which users can opt to receive flood warnings.

Open data

Defra planned to unlock 8,000 datasets by June 2016. By the end of June 2016, Defra had surpassed this target by opening up 11,007 datasets. This is data anyone can access, use and share.

Defra is now responsible for more than one-third of the government's total open data.

What is next?

The next steps for Defra are:

- to streamline and make consistent the data publication process across the Defra Group, embedding what was learned into the organisation's processes;
- to obtain feedback from users on which of the data published are of value and then to develop the appropriate vehicle for delivering those data; and
- to respond to user requirements to share currently unpublished data where there are complications around its release, such as containing personal data or third-party intellectual property, and be transparent when sharing is not possible.



Workforce capability

Why it matters

To ensure standards of public service are maintained, major projects are delivered and cost reductions are sustainable, Defra must continue to develop strategic workforce plans that are integral to the way it functions and ensure it recruits and develops the critical skills it needs.

In response to the 2015 Spending Review, Defra reviewed its workforce and is currently developing improved strategic workforce plans in light of the future spending reductions required.

Defra continues to experience skills shortages and difficulty in recruitment in certain business areas (for example, commercial, technology and project delivery).

Retaining the right skills and experience to deliver the Transformation Programme presents further challenges as overall staffing levels are reduced.

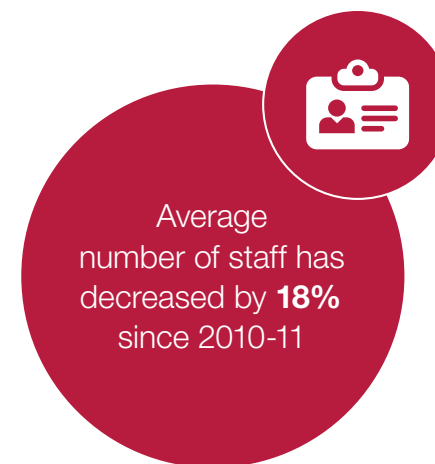
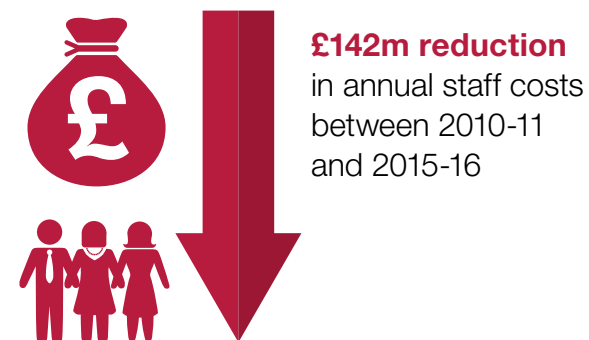
Consultants and temporary staff (C&TS)

Our report into [use of consultants](#) followed up on Cabinet Office recommendations that departments use 'resource boards' to review central requests for C&TS; Defra only set up this board in May 2015.

We also reported that Defra did not actively manage the numbers of other temporary staff who had been in post for extended periods.

Overall spend on consultants and temporary staff in 2015-16 was £60.9 million, a decrease of £4.3 million since 2014-15.

Increases in temporary staff in-year were required to help process BPS payments for the Rural Payment Agency and flooding incidents for the Environment Agency. Overall consultancy spend has decreased due to a reduction on the CAP Delivery Programme.



Workforce capability *continued*

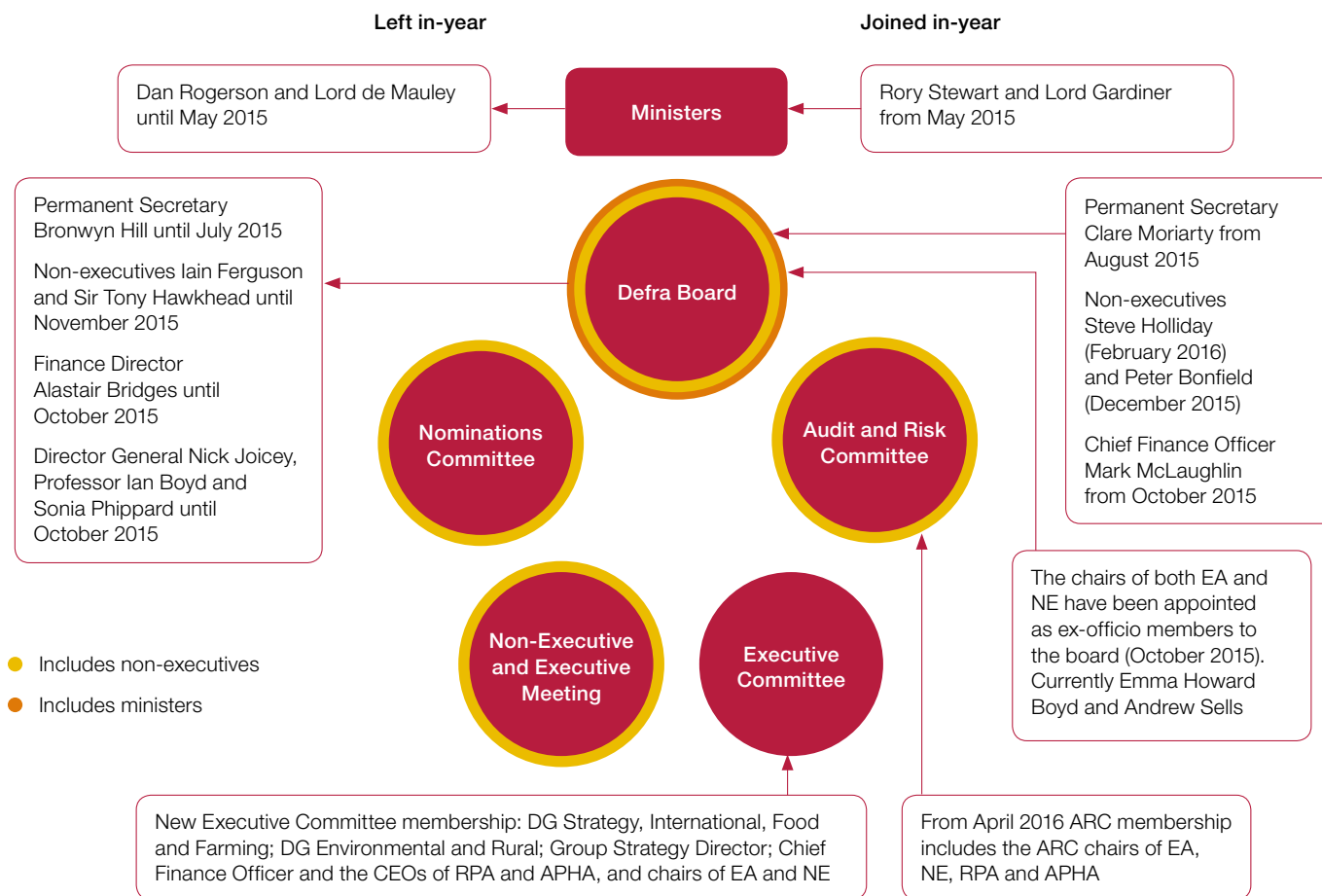
Changes at executive level

Changes in board composition

From late 2015 it was agreed the board would comprise the ministerial team, permanent secretary and chief operating officer, chief finance officer, four non-executive directors and the chairs of the Environment Agency and Natural England. Moving forward Defra plans to improve integrated working across the Group.

Talent management

The non-executive directors have played an important role in the Nominations Committee (through the lead non-executive director), which oversees top-level talent management and participates in the selection processes for key roles including the new permanent secretary, the CEO of the Environment Agency, the chief technology officer and non-executive directors in some delivery bodies.



EA = Environment Agency; NE = Natural England; APHA = Animal & Plant Health Agency; RPA = Rural Payment Agency.

National Audit Office (NAO) findings

Common Agricultural Policy

Managing disallowance risk (July 2015)

During 2015-16, we undertook two pieces of work relating to the Common Agricultural Policy (CAP).

The first study examined the £642 million of disallowance penalties imposed by the European Commission since 2005. Disallowance penalties are applied by the European Commission when it considers actions taken by member states to control and administer CAP payments have not complied with regulations. The study looked at the underlying causes of disallowance, the extent of future risk and the progress Defra has made in managing disallowance risk.

Early review of the Common Agricultural Policy Delivery Programme (December 2015)

The second study was an early review of Defra's implementation of the Common Agricultural Policy Delivery Programme, the programme to support delivery of the new 2014–2020 scheme. The review focused on Defra's delivery of the programme since it was initiated and the delivery of the supporting IT system.

Accountability

Accountability to Parliament for taxpayers' money (February 2016)

During 2015-16 we undertook two studies which link directly into Defra's accountability.

The first was a report on the effectiveness of arrangements for securing accountability to Parliament for taxpayers' money and drew on more than 300 of our reports since 2012. It does not specifically focus on Defra but highlights key accountability essentials applicable to Defra.

Departments' oversight of arm's-length bodies (July 2016)

The second was a comparative study to understand how departments oversee and manage their relationships with their arm's-length bodies. Defra was one of four case study departments that are responsible for overseeing a large number of arm's-length bodies.

Other NAO findings

The economic regulation of the water sector (October 2015)

The report considered the economic regulation of the water sector, particularly the price control process and Defra's role in this through its overall responsibility for setting the policy and regulatory framework for the water industry in England and Wales.

The Business Impact Target: Cutting the cost of regulation (June 2016)

The report examined the government's target to cut the cost to business of regulation and the approach to meeting the target adopted by the Better Regulation Executive as well as the robustness of the systems to estimate and evaluate the impacts of regulatory decisions. Defra was one of the bodies reviewed in relation to its regulatory role.

Audit of the Department for Environment, Food & Rural Affairs Annual Report and Accounts 2015-16

The 2015-16 Defra Annual Report and Accounts were qualified in respect of material irregularities amounting to £65.8 million as a result of disallowance.

NAO findings	NAO findings on CAP	NAO findings on accountability	Other NAO findings
Introduction to CAP	Delivery and impacts on payments	Managing disallowance and qualification	

Introduction to Common Agricultural Policy (CAP)

The CAP is the EU framework of agricultural subsidies and rural development programmes.

Defra currently has two EU CAP programmes ongoing as a result of a new scheme introduced by the EU: new CAP schemes for 2014–2020 that started during 2015; and old CAP schemes for 2007–2013 that are being wound up. Most payments administered by Defra in 2015-16 for the European Commission are under new CAP 2014–2020 schemes.

2007–2013 programme

These schemes have been replaced by the 2014–2020 programme. However, ongoing checks will continue to be undertaken.

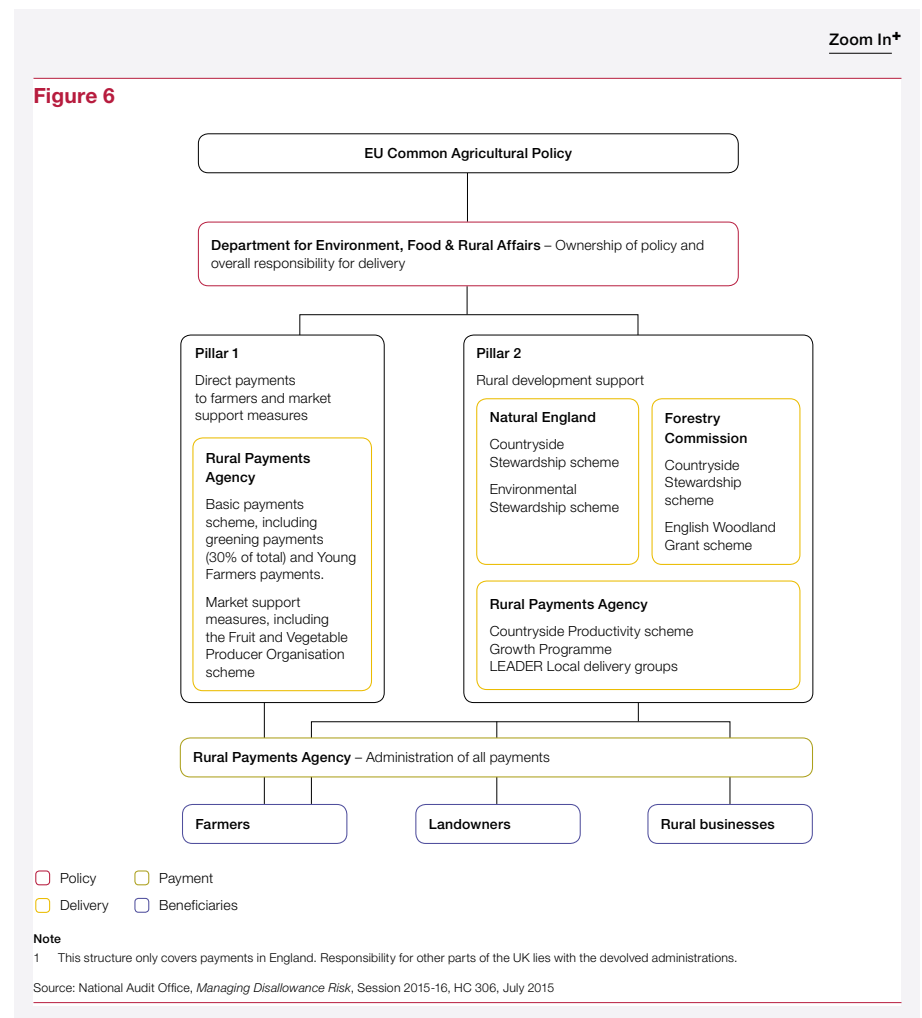
Defra’s current expectation is that disallowance penalties incurred for schemes under CAP 2007–2013, which has now drawn to a close, will not be fully calculated and settled until 2019-20 due to a time-lag for the European Commission to complete its final audit of the spend. Defra would have expected all financial corrections relating

to the previous CAP to have been finalised and reclaimed by the EU by the end of 2017-18. It is possible that elements of those corrections will be subject to ongoing legal challenge, which, if successful, could lead to a subsequent reimbursement to the UK as late as 2019-20.

2014–2020 programme

This is a new programme to replace the 2007–2013 programme and commenced on 1 January 2015. The CAP Delivery Programme incorporates the procurement, development and implementation of new systems and processes to deliver the CAP 2014–2020 schemes. Successful delivery of the programme is critical to ensuring that Defra correctly applies scheme regulations to pay claimants accurately and efficiently; and minimises disallowance penalties going forward.

Figure 6 shows the bodies involved in delivering CAP 2014–2020 and the two funding pillars.



NAO findings	NAO findings on CAP	NAO findings on accountability	Other NAO findings
Introduction to CAP	Delivery and impacts on payments	Managing disallowance and qualification	

Delivery and impacts on payments

The CAP Delivery Programme aims to reduce delivery costs and exposure to disallowance penalties, improve customer experience and capacity to deliver desired environmental outcomes.

Key findings

The new service did not operate as intended at two key stages: registration and applications. In March 2015, in response to serious failings of the system, the online application system was withdrawn and replaced by 'paper-assisted digital' applications for the 2015 schemes.

This was due to a number of issues including:

- A **narrow programme vision and design** focusing on procuring IT systems rather than the wider organisational transformation that was required;
- **high turnover of senior responsible owners (SROs)** and a number of programme direction changes;
- **deep rifts between programme leaders and counter-productive behaviours** at many stages of the programme's history, which damaged staff morale;

- **inconsistent and incomplete management information** and assurance, alongside a good news culture; and
- a **lack of support** from the Government Digital Service in adopting new approaches that were unfamiliar to the Department.

Basic Payment Scheme (pillar 1)

Defra met its first two targets by making the 'majority' (>50%) of payments by 31 December 2016 and the 'vast majority' (>75%) by 31 January 2016; however, it did not meet the target to make 'almost all' (92%–95%) payments by 31 March 2016.

Defra is reviewing 13,000 claims for accuracy, which represents payments to around one in six of all claimants.

Defra has provided for £32 million in its accounts as an estimate of payments due in relation to claims initially paid before 31 March 2016.

Defra made a decision to switch to paper claims in the first year of the new scheme. This mitigated the impact of delays in IT system development but many farmers received payments later than in 2014.

By the end of April 2016, the RPA had made bridging payments to those who had not yet received a claim payment, while they continued to process their claims.

In the second year of BPS, more than 80% of claims were received online.

The total cost of the CAP-D programme to date as at 31 March 2016 was £151 million. As a result of the switch to the assisted digital approach in 2015, £7.4 million of the service costs have been written off as a permanent reduction in CAP-D IT asset value. HM Treasury approved a revised business case for the programme in April 2016 with a cost of £216 million. The total cost of the programme is currently forecast to remain within that.

Countryside Stewardship (pillar 2)

Work is continuing to deliver the systems required to deliver Countryside Stewardship payments.

NAO findings	NAO findings on CAP	NAO findings on accountability	Other NAO findings
Introduction to CAP	Delivery and impacts on payments	Managing disallowance and qualification	

Managing disallowance and qualification

Managing disallowance

Financial penalties, known as ‘disallowance’ penalties, are levied by the European Commission when it considers actions taken by member states to control and administer CAP payments have not complied with regulations. Disallowance can arise as a result of delays in payments to claimants, member states misinterpreting the regulations, or the European Commission identifying control weaknesses that are a risk to EU funds.

Since 2005, Defra has incurred a total of £661 million in disallowance penalties. The main causes up to 2014 are shown in Figure 7.

Qualification

The 2015-16 Defra Annual Report and Accounts were qualified in respect of material irregularities amounting to £65.8 million as a result of disallowance.

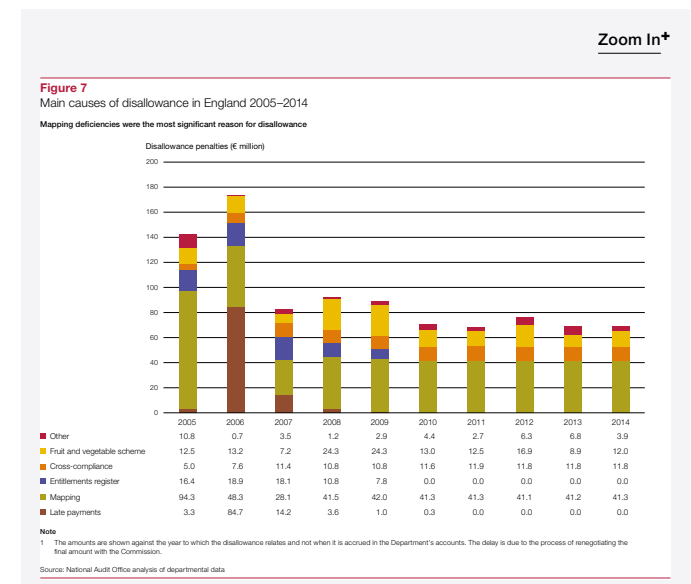
Tackling disallowance

Defra has developed an approach consisting of two principal strands.

- 1 CAP Delivery Programme** – Procurement, development and implementation of new systems and processes for 2014–2020 schemes.
- 2 Disallowance strategy** – minimise disallowance in a cost-effective way. The current strategy is awaiting ministerial approval.

Disallowance in the future

Defra and the RPA anticipate a further risk of error and disallowance because of the greater complexity of the new scheme and the introduction by the European Commission of more stringent financial penalties.



NAO findings	NAO findings on CAP	NAO findings on accountability	Other NAO findings
Accountability to Parliament for taxpayers' money		Departments' oversight of arm's-length bodies	

Accountability to Parliament for taxpayers' money

Our report on Accountability to Parliament for taxpayers' money in February 2016 was followed by a Committee of Public Accounts report in May 2016. The report focused on the responsibility of departmental accounting officers (AOs) to account to Parliament for the use of taxpayers' money.

Accountability essentials

1
A clear expression of spending commitments and objectives




Clear information about government's spending and financial commitments, and what objectives it expects to achieve, provides the basis for Parliament to track how taxpayers' money has been spent.

Parliament needs to know what it is holding AOs accountable for. For example, for a specific project, AOs need to identify expected spending over its lifetime, as well as the aims or outcomes it is intended to achieve.

Defra

Defra has published its [Single Departmental Plan](#), which details its objectives for the 2015–2020 period. This is not directly linked to its spending commitments announced in the recent 2015 Spending Review.

2
A mechanism or forum to hold to account



Accountability mechanisms provide the means through which Parliament can exercise its ability to hold to account those responsible for public spending. This includes challenging how money was spent.

- Examples include requirements for AOs to report to Parliament on spending, or local bodies' duty to appear before local scrutiny committees.
- Accountability mechanisms are informed by the checks on spending provided by both internal and external audit.

There have been a number of key changes at the Executive Committee level and non-executive director changes, a summary of these changes can be found on [page 14](#). The board membership has been extended to include the chairs of EA and NE as ex-officio members. The Audit and Risk Committee (ARC) has been extended to include the chairs of the ARCs of EA, NE, APHA and RPA.

3
Clear roles and someone to hold to account




Clear roles and responsibilities enable Parliament to know who it should hold to account for specific spending, projects or programmes.

- AOs are responsible for all spending incurred by their department, agency or non-departmental public body.
- Other individuals bear specific responsibilities to account for their actions: for example, SROs of major projects are directly accountable to Parliament for project implementation.

Defra has a clear [accountability statement](#) which covers the Defra Group. The statement is from 2014 and needs updating to reflect the current Group structure.

4
Robust performance and cost data



Accurate, trusted, comparable and up-to-date data on performance and costs allows Parliament to judge what value for money has been delivered for the taxpayer.

This enables Parliament to hold those responsible to account for poor performance, especially for the objectives identified as part of (1).

Relevant data include: business reporting and management information; programme monitoring data; central reporting requirements for expenditure or major projects; performance metrics in departmental plans.

The Defra Group has undertaken migration to the common Shared Services platform known as the Single Operating Platform (SOP), with a number of common function transactions processed by a central Shared Services centre (ISSC2). Further detailed findings can be found in our report on [Shared Service Centres](#).

EA = Environment Agency; NE = Natural England; APHA = Animal & Plant Health Agency; RPA = Rural Payment Agency.

Source: National Audit Office review of Department for Environment, Food & Rural Affairs' documents

NAO findings	NAO findings on CAP	NAO findings on accountability	Other NAO findings
Accountability to Parliament for taxpayers' money		Departments' oversight of arm's-length bodies	

Departments' oversight of arm's-length bodies

Defra has 33 arm's-length bodies (ALBs),¹ excluding Flood Re, which accounted for £4.0 billion (71%) of the total Departmental Group expenditure in 2015-16.

¹ This includes nine National Parks Authorities that are outside Defra's accounting boundaries.

October 2010 Spending Review

Announced resource savings across the group of 29% and reduction of ALBs from 92 to 39.

July 2014

New Secretary of State for Defra, large department-wide reforms including review of sponsorship for ALBs.

November 2015 Spending Review

Further reductions, announced 15% of resource savings across the Group.

Defra is undertaking work to address oversight of its ALBs by:

- aiming to build better relationships with its ALBs;
- seeking to integrate Defra strategic risks with ALBs' operations;
- including ALB representatives in senior governance arrangements across Defra;
- revising and updating framework and governance documents to ensure they adequately reflect the ALB relationship;
- collating risk ratings for ALBs based on their governance statements to show a 'heat map' of ALB risks; and
- including ALBs in decision-making through Defra's transformational change programme.

NAO findings	NAO findings on CAP	NAO findings on accountability	Other NAO findings
The economic regulation of the water sector		The Business Impact Target: cutting the cost of regulation	

The economic regulation of the water sector

Defra is responsible for setting the policy and regulatory framework for the water industry in England and Wales.

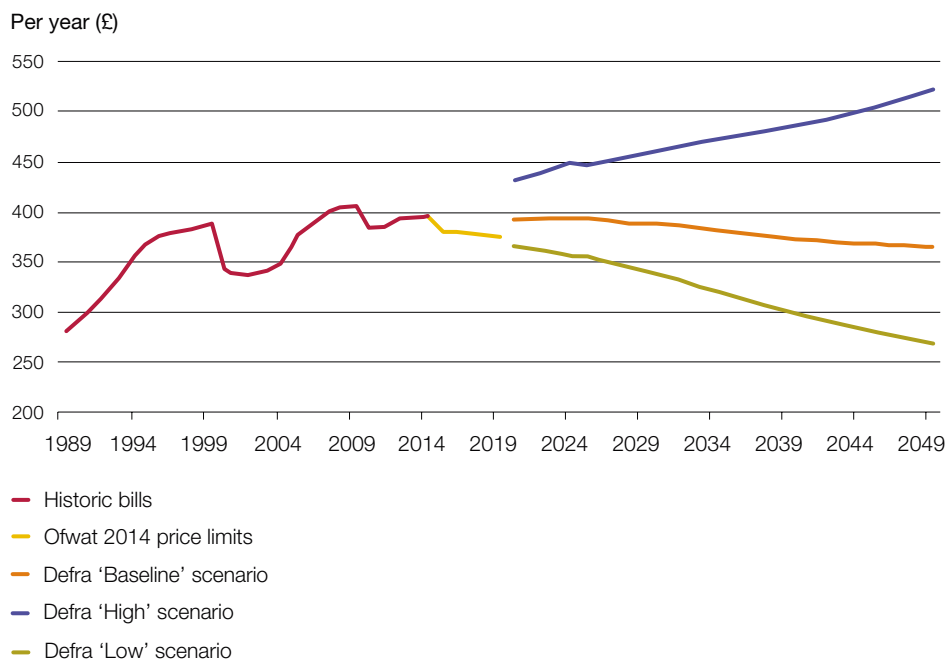
The study found that the regulatory framework has contributed to major improvements in water quality since privatisation and has provided the conditions to encourage private investment and has promoted environmental and quality improvements, for example the Thames Tideway Tunnel (see page 26).

Analysis undertaken by Defra through the Environment Agency influenced the European Union’s decision not to set environmental quality standards for three pharmaceuticals in the water environment. The saving in not having to comply to additional legislation was used to reduce customer bills (Figure 8).

The report identified that Defra should further develop its assessments of the affordability and cost-effectiveness of environmental improvements. This should include working with the water industry and other sectors to assess how best to comply with environmental standards, and using its analysis to inform decision-making.

Figure 8
Average household water bills in England and Wales

Defra’s central case forecast is for the average household bill to steadily decline over coming decades



Note
1 Figures are in 2014-15 prices.

Source: Ofwat, Defra Water Bills Projection Model (2015)

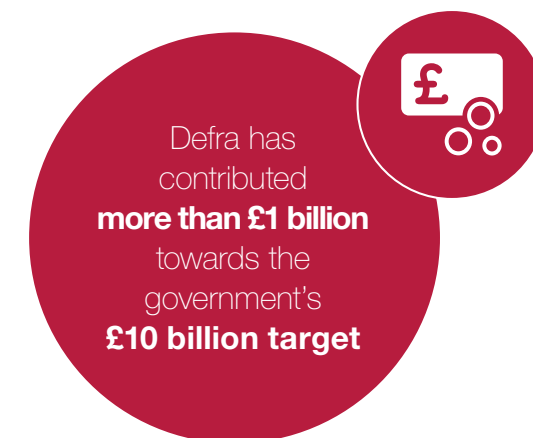
NAO findings	NAO findings on CAP	NAO findings on accountability	Other NAO findings
The economic regulation of the water sector		The Business Impact Target: cutting the cost of regulation	

The Business Impact Target: cutting the cost of regulation

The government formally committed to reduce regulatory costs to business by £10 billion between 2015 and 2020. This commitment, known as the Business Impact Target, aims to encourage public bodies to minimise the costs that their regulatory decisions impose on businesses.

To help meet the overall target, individual targets for reducing regulatory costs were set for each department. Defra's target of £2.35 billion was the third largest behind Department for Business, Innovation & Skills and Department for Work & Pensions. By May 2016, Defra had made the largest contribution towards the government's target, having achieved net regulatory savings of £1.11 billion. This was almost all attributable to the introduction of a 5p charge for single use plastic bags, contributing £1.02 billion towards the government's target.

Across government we found that departments had only a limited understanding of the costs and benefits to business of the regulations for which they are responsible. Some departments are working to improve their analysis. Defra, for example, has compiled a comprehensive database of the legislation it has in force. However, five of the 14 departments with regulatory responsibility had no plans to quantify existing regulations.



Exiting the European Union

On 23 June 2016, the UK voted to leave the European Union (EU).

The income Defra receives from the EU makes up a significant proportion of its total expenditure and influences a significant number of its policies and activities (Figure 9).

In March 2016 the Environment Audit Committee commented that:

“contingency planning in the case of the UK voting to leave the EU appears to have been limited. The government’s view was it would result in a long and tortuous negotiation.”

The Comptroller and Auditor General (C&AG) at the Institute for Government commented that:

“The civil service is over-committed. Our work provides ample evidence of this.

“Brexit brings with it a completely new layer of unknowns and requirements. If we are over-committed, we need to lighten the load – and that means stop doing things.”

Future considerations

Below are areas which Defra will need to consider in light of the vote to leave the EU.

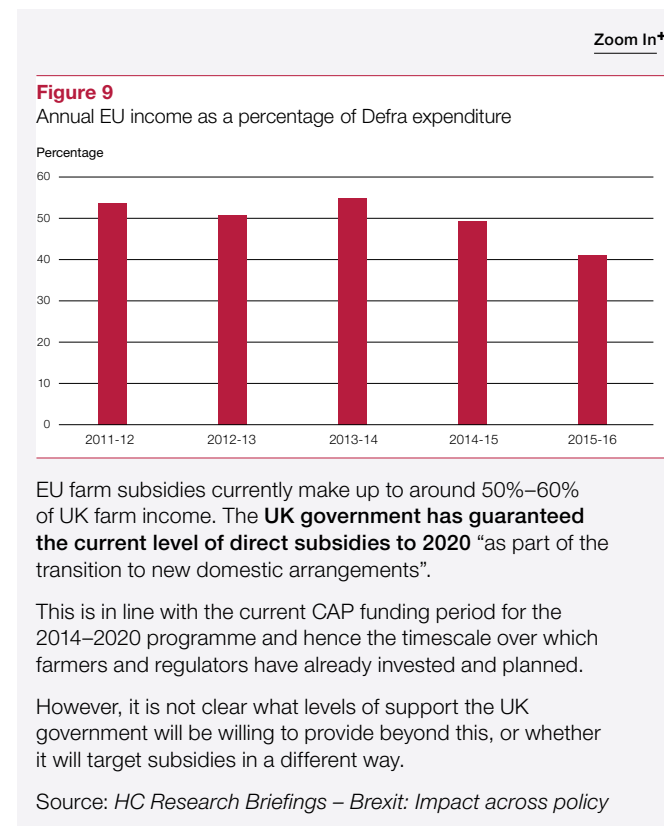


EU regulation

All agricultural (CAP) and most environmental policy is currently adopted from EU regulations. Defra will need to work with the Department for Exiting the European Union to identify and agree which of these regulations should be transferred into UK legislation.

Access to markets

Exports are a significant market for UK farmers and there are questions over whether the UK will still remain part of the ‘single market’ or will have to renegotiate new deals.



Spending Review 2015 (SR15) and spending reductions

Defra has to achieve resource DEL savings of 15% over the next spending review period (2015–2020).

Defra plans to achieve the majority of this through reduction in the back-office rather than in front-line programme delivery with the following areas of spend ring-fenced.

SR15 ring-fenced funding



Protection of flood defence funding, including £2.3 billion in capital spend over six years.



Protected funding for National Parks and public forests (£350 million).



Countryside enhancement via the Common Agricultural Policy (£3 billion, part EU-funded).



£130 million capital investment in Defra's science estates and equipment over six years.

Achieving future spending reductions

Transformation:

- efficiencies and cost reductions as a result of the Shared Service centre and Single Operating Platform migration;
- ensuring workforce strategic planning is reflective of the organisational needs to retain the right skills and experience; and unforeseen impacts can be managed so that they do not divert capacity away from business as usual; and
- delivery of major projects for transformation (UnlTY and CAP) to deadlines and budgets.

Programme delivery:

- successful management of disallowance risk; and
- delivery of Thames Estuary Asset Management (TEAM 2100) and Thames Tideway Tunnel to deadline and budgets.

National Flood Resilience Review

The results of the [National Flood Resilience Review](#) were published in September 2016.

Local infrastructure

The review identified 530 infrastructure assets (for example, utilities assets for provision of oil and gas) within extreme flooding outlines (areas considered to be at risk of flooding in extreme conditions).

Next steps:

All sectors with infrastructure assets at risk have agreed to expand and develop existing medium-term plans to increase resilience to an extreme flood which would impact the assets and the service it delivers.

Improvements to incident response

Next steps:

- The Environment Agency to invest £12.5 million in temporary flood defences, water pumps and command vehicles.
- Provision of £0.75 million maintenance grants to enable nationally deployable flood rescue teams with maintained equipment.
- Creation of a single register of national flood resilience response assets viewable through ResilienceDirect.
- Actions to improve government's overview of local plans for flood incident response through stakeholder engagement.

Core Cities¹ Advisory Group

Through the review a clear need was identified to think more innovatively about the planning of flood defence in core cities which will deliver, and be financed from the proceeds of, economic value for the area.

Next steps:

- Focus on Core Cities in England with a pilot in Sheffield.
- A new Core Cities Advisory Group will work with Sheffield in the first instance in order to explore and demonstrate what can be achieved.

¹ Core Cities are economically the largest areas outside of London in England, Wales and Scotland.

Major projects

Many of a Department's objectives are implemented through projects. Overall, the government has not had a record of accomplishment in delivering major projects. In September 2015, the government's Major Projects Portfolio which includes the biggest and riskiest projects comprised 143 projects with estimated whole-life costs of £405 billion. Defra has four projects in the Portfolio.

Major projects	IPA rating ¹	Description	
CAP Delivery		<p>The Amber/Red rating reflected the significant challenges in being able to make payments to customers who had made claims. This was both in terms of developing and deploying system functionality, and also the volume of manual processing required as a result of the contingency approach invoked at the start of the year.</p> <p>The full business case was approved in April 2016 by HM Treasury with no significant concerns raised. Work on the main system is expected to be completed towards the end of this year.</p>	
UnITy		<p>Defra's UnITy programme has been established to exploit the opportunity presented from the expiry of its two largest ICT contracts by June 2018 to move to a multi-vendor environment.</p> <p>The Amber/Red rating reflected issues faced by the programme on resourcing, governance and detailed planning. Since September 2015, UnITy has mobilised a full programme team, developed commercial and technical proposals and strengthened governance.</p> <p>The programme is on schedule to replace or extend services in line with contract end dates.</p>	
Thames Tideway Tunnel		<p>The Thames Tideway Tunnel (TTT) is a brand new 15-mile sewer tunnel financed by the private sector that will help clean up the Thames, reducing sewage overflow into the river in central London from typically 18 million tonnes per year to about 2.5 million tonnes. It is due for completion in 2023.</p> <p>The project is financed and delivered by Bazalgette Tunnel Ltd (trading as 'Tideway'), a private sector consortium procured by Thames Water for that purpose. Defra is managing the government's interests in the project, which is the provision of a contingent financial support package covering low probability, high impact risks that the private sector cannot cover at an acceptable cost.</p> <p>Progress this year</p> <p>The TTT project has progressed well during 2015-16 with the successful appointment of Tideway as the licensed infrastructure provider. Construction is due to start in Autumn 2016 and the project is currently on track.</p> <p>The government's 2015-16 forecast costs have increased by 26% due to a higher than anticipated requirement for external advice to protect the government's interests.</p>	<p>£4,221m forecast construction cost to completion (Sep 2015)</p>
Thames Estuary Asset Management 2100 (TEAM 2100)		<p>Capital maintenance and refurbishment for protecting London and the Thames Estuary from tidal flooding to the year 2100 and beyond. TEAM2100 is being delivered through a long-term, collaborative contract between the Environment Agency and the delivery partner, CH2M.</p> <p>Progress this year</p> <p>Progressing well to deliver on time and within budget, with CH2M contracted to deliver a 10-year programme of capital flood risk management works for London and the Thames Estuary.</p> <p>2015-16 costs are 67% higher than forecast but this is due to future costs being brought forward rather than additional costs.</p>	<p>£318m lifetime forecast cost of TEAM 2100 (Sep 2015)</p>

¹ Infrastructure and Projects Authority confidence assessment, September 2015.

Exiting the European Union

SR15 and spending reductions

National Flood Resilience Review

Major projects

Environment

Environment

Air quality plan

Having failed to meet EU air quality directives, in December 2015 the government published '[Air Quality in the UK](#)', a plan to reduce nitrogen dioxide emissions. The plan promotes low emission vehicles and creates clean air zones in five cities, alongside the implementation of an Ultra-Low Emission Zone in London. Compliance with the directive is envisaged by 2020 outside London and 2025 in the capital itself, but the plan faces legal challenge because, it is claimed, this does not represent the 'shortest possible timescale'.

Current impacts of decision to leave the EU

Defra has delayed the publication of its 25-year Environmental Plan and its 25-year plan for Food and Farming as a result of the decision to leave the EU. Defra is currently deciding on the next steps as the decision has significant implications for environmental policy and the UK food and farming industry.

The proposed Environmental Plan, in response to three reports by the Natural Capital Committee on the 'State of Natural Capital', is intended to embed the concept of natural capital in government and focus policies on delivering better environmental outcomes.

Climate change

Vulnerability

In 2016, the Adaptation Sub-Committee (ASC) of the Committee on Climate Change identified the six top risks to the UK from climate change over the next five years. Five of these fall within Defra's remit and four of them were assessed as needing urgent action: "new, stronger or different government plans or implementation – over and above those already planned – are needed in the next five years to reduce long-term vulnerability to climate change". [UK Climate Risk Assessment 2017](#) (July 2016)

The four risks identified were:

- natural capital (including terrestrial and aquatic ecosystems, soils and biodiversity);
- food production;
- flooding; and
- water supply.

Every five years the UK government must carry out an assessment of the current and future risks to the country from climate change. The next assessment is due in January 2017.

Carbon storage and greenhouse gas (GHG) emissions

Agriculture causes 9% of UK GHG emissions. Land management is the second highest contributor to global carbon emissions and soils contain more carbon than all vegetation and the atmosphere combined. Soil degradation, particularly of peat bogs, releases CO₂. Agricultural use of synthetic and organic fertiliser contributes 55% of the sector's GHG emissions. Crop production for renewable energy can threaten soil health and increase flood risk. The Environmental Audit Committee has called for the restructure of subsidies and for Defra and Department of Energy & Climate Change (now Department for Business, Energy and Industrial Strategy) to cooperate to evaluate the impact of energy policy on soil health.

The Defra Network

Executive agencies

Non-departmental public bodies

Others for which Defra's ministers had lead responsibility during the year



Note

1 On 1 April 2015 the business and operations of FERA transferred to FERA Science Limited (FSL), a joint venture between Defra and Capita. The Plant Health Inspectorate, Plant Varieties and Seeds, the National Bee Unit and the GM Inspectorate, which were formerly part of FERA, are now part of the APHA.

Relevant National Audit Office publications in 2015-16



[A Short Guide to the Department for Environment, Food & Rural Affairs](#)
National Audit Office, September 2015

[Managing disallowance risk](#) (July 2015)

[Early review of the Common Agricultural Policy Delivery Programme](#) (December 2015)

[Accountability to Parliament for taxpayers' money](#) (February 2016)

[Departments' oversight of arm's-length bodies](#) (July 2016)

[The economic regulation of the water sector](#) (October 2015)

[The Business Impact Target: Cutting the cost of regulation](#) (June 2016)

[Sustainability in the Spending Review 2015](#)

Staff attitudes and engagement

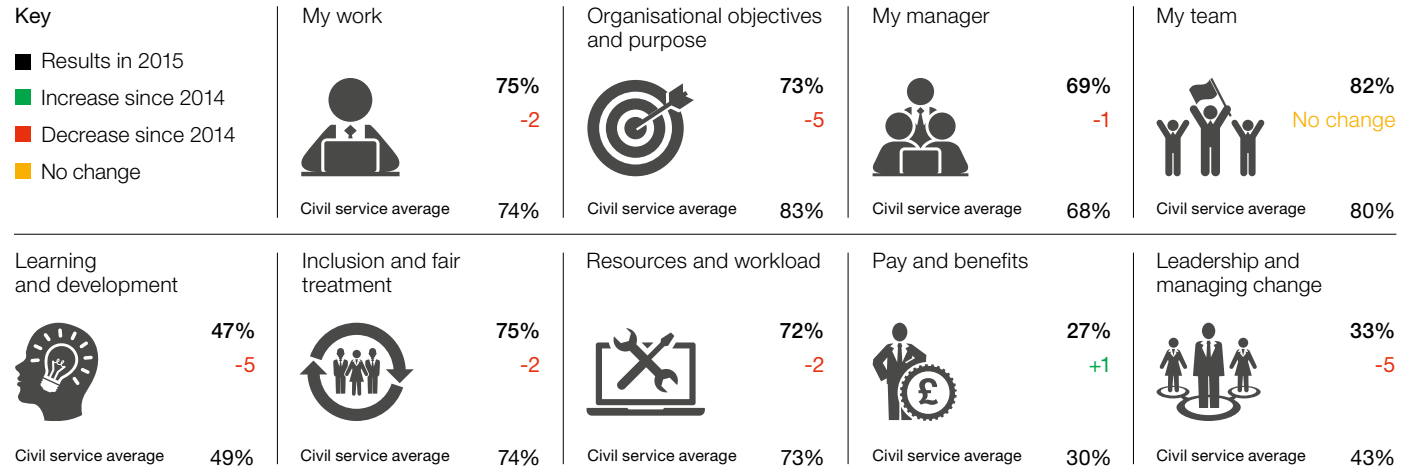
The government has conducted its [Civil Service People Survey](#) annually for the past six years. The most recent survey was carried out in October 2015.

Defra has scored above the civil service average in four of the nine key themes in the 2015 survey, but its results in seven of the nine themes have decreased since 2014. Pay and benefits is the only category to have increased.

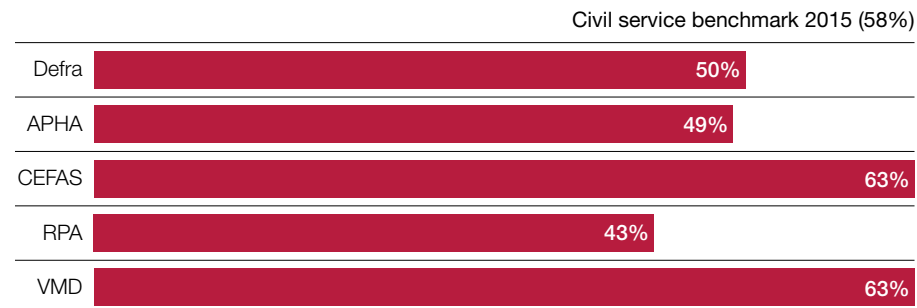
The main measure from the People Survey is the employee engagement index, which measures an employee's emotional response to working for their organisation.

Defra, the Rural Payments Agency and the Animal & Plant Health Agency scored lower than the civil service average, while the Centre for Environment, Fisheries and Aquaculture Science and the Veterinary Medicines Directorate scored above the civil service average (both reporting 63%).

Attitudes of staff in 2015 compared with 2014 – Department for Environment, Food & Rural Affairs



Engagement index 2015



APHA = Animal and Plant Health Agency; CEFAS = Centre for Environment, Fisheries and Aquaculture Science; RPA = Rural Payments Agency; VMD = Veterinary Medicines Directorate

Sources: Civil Service People Survey 2015 and 2014