



House of Commons

Environment, Food and Rural  
Affairs Committee

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# Rural Payments Agency: interim report

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**Fifth Report of Session 2005–06**

*Report, together with formal minutes*

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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

Mr Michael Jack (Conservative, Fylde) (Chairman)  
Mr David Drew (Labour, Stroud)  
James Duddridge (Conservative, Rochford & Southend East)  
Patrick Hall (Labour, Bedford)  
Lynne Jones (Labour, Birmingham, Selly Oak)  
Daniel Kawczynski (Conservative, Shrewsbury & Atcham)  
David Lepper (Labour, Brighton Pavilion)  
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Mr Jamie Reed (Labour, Copeland)  
Mr Dan Rogerson (Liberal Democrat, North Cornwall)  
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Mr Shailesh Vara (Conservative, North West Cambridgeshire)  
Mr Roger Williams (Liberal Democrat, Brecon & Radnorshire)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### 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 [www.parliament.uk/efracom](http://www.parliament.uk/efracom).

### Committee staff

The current staff of the Committee are Matthew Hamlyn (Clerk), Jenny McCullough (Second Clerk), Jonathan Little and Dr Antonia James (Committee Specialists), Marek Kubala (Inquiry Manager), Andy Boyd and Alison Mara (Committee Assistants) and Lizzie Broadbent (Secretary).

### Contacts

All correspondence should be addressed to the Clerk of the Environment, Food and Rural Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5774; the Committee's e-mail address is: [efracom@parliament.uk](mailto:efracom@parliament.uk).

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# 1 Introduction

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1. The Rural Payments Agency (RPA) is an Executive Agency of Defra, providing a range of services including the making of rural payments, carrying out rural inspections, and livestock tracing. One of its most important functions is to make payments to farmers under the Common Agricultural Policy (CAP) of the European Union, principally the Single Farm Payment (SFP). The SFP is a new payment introduced following the reform of the CAP agreed in 2003, which replaced several existing CAP subsidy payments. It was announced in January 2005 that the RPA would start making the new payments to farmers in February 2006; it was subsequently confirmed that it was the RPA's aim to pay 96 per cent of eligible claimants by the end of March 2006.<sup>1</sup>

2. The Environment, Food and Rural Affairs Committee launched an inquiry into the RPA in October 2005, in the light of significant concerns about the RPA's ability to meet the deadline for making the new Single Farm Payment (SFP) to farmers in England. The Committee appointed two rapporteurs, David Taylor MP and Roger Williams MP, to carry out initial investigations; they invited written submissions from a range of interested parties and conducted an informal visit to the RPA's Headquarters in December 2005. On 11 January 2006 the full Committee took evidence from Lord Bach, the responsible Defra Minister, Mr Johnston McNeill, the Chief Executive of the RPA, and their officials.

3. At that evidence session, the Minister was unable to tell us definitively whether the payments would be made on time, or whether instead it would be necessary to make interim payments to farmers. In the light of this unsatisfactory response, and other replies from the Minister and Mr McNeill, we have decided to issue this brief interim report, setting out our immediate concerns about the performance of the RPA and Defra in preparing for the implementation of the new SFP. This will ensure that our views – which we believe reflect those of many interested parties – will be known to Government before it makes its announcement on the timing of payments, due at the end of January.<sup>2</sup>

4. The Committee has asked Defra and the RPA for additional written information, following the oral evidence session. In particular, we have asked the Minister for information about the updates and assessments provided by the RPA to Ministers on progress towards meeting the payment target. Once we have considered this further information, we will make a fuller report to the House. That report will address all the issues set out below in greater detail, together with other points which it has not been possible to include in this report. The written evidence received during this inquiry, and any further information submitted by Defra and the RPA following on from the evidence session, will be published with that report, together with the transcript of the oral evidence. References in the footnotes to the oral evidence relate to the transcript as published on the Committee's website.<sup>3</sup>

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1 See: "Single Payment Scheme in England – Further Information on Payment Date", Rural Payments Agency news release, Ref 03/05, 19 January 2005 and HC Deb, 18 May 2005, col 1W5.

2 Q 152

3 The Committee's website is at: [www.parliament.uk/efracom](http://www.parliament.uk/efracom); the transcript is at <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmenvfru/uc812-i/uc81202.htm>

## 2 Interim findings

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### Defra's CAP implementation decision

5. In February 2004, the Secretary of State for Environment, Food and Rural Affairs, Margaret Beckett, announced that the new Single Farm Payment (SFP) would be implemented in England under a “dynamic hybrid” system that combined a declining proportion of payments based on farmers’ historic receipts, with an increasing proportion of area-based payments.<sup>4</sup> Defra also chose to implement the payments at the earliest possible opportunity, which was during the 2005 CAP payment year.<sup>5</sup> Lord Bach told us that Ministers recognised that this was a more challenging system than one based solely on historic criteria, but he believed the benefits of this approach were worth the resulting delay in payments in the first year of the scheme. He also rejected the idea that Defra should have delayed introduction of the new scheme for a year, in order to allow more time for preparation.<sup>6</sup> **In making its decision to adopt the ‘dynamic hybrid’ approach for implementing the Single Farm Payment in England, we believe Defra gave insufficient consideration to the administrative complexity of the chosen model. Defra should also have considered postponing the implementation of the SFP until 2006, as allowed for in the CAP reform regulation, to allow more time for preparation, thus avoiding the problems that are now evident.**

6. The RPA noted that the chosen CAP implementation model had stimulated a higher than anticipated volume of claims for payment and changes to the pre-existing customer base. RPA witnesses told us that, under the previous Integrated Administration and Control System (IACS), they would have expected about 10,000 notifications of additional land or changes to land. Under the new SPS, they in fact received more than 100,000 notifications, including 40,000 new customers informing the RPA about land on which they wished to claim, as well as existing customers informing the RPA about land of which the RPA had not previously been aware. RPA witnesses admitted the existence of this unregistered land had come as a “major shock”.<sup>7</sup> However, RPA witnesses told us that no sampling assessment had been done to try to establish what impact the implementation model might have on farmers’ claims.<sup>8</sup>

**7. We believe that the lack of foresight shown by the RPA, and the apparent lack of analysis about the possible impacts of the implementation model, are not acceptable. Further, we believe that both Defra and the RPA should have anticipated the extra work involved in this project, had they taken into account the policy effects of the SFP which, by definition, increased the volume of eligible land over and above the amount covered by IACS.**

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4 HC Deb, 12 February 2004, col 1586

5 The 2003 CAP reform agreement gave Member States the option of postponing the implementation of the Single Farm Payment until either 2006 or 2007

6 Qq 48-49

7 Q 26

8 Q 110

## Cost to industry of delayed payments

8. The Minister told us that while any costs to the industry resulting from the delayed payments were regrettable, his discussions with the banks had suggested that no “viable” businesses would fail as a direct consequence. Referring to “average” changes in farm income, Lord Bach noted that the predicted £25 million increase in interest paid by farmers that would result from delayed payment was only a small fraction of the total amount owed by farmers.<sup>9</sup> **For individual businesses, on the margins of viability, the added costs of interest and arrangement fees could be too much to bear. It would be unacceptable if farms were put out of business due to delays by the RPA in making payments, and the Government should make clear what steps it intends to take to ensure that this does not happen. The Minister appears to have based his assessment of farm viability on an analysis of “average” farms; in doing so he has, in our opinion, shown an unacceptable degree of complacency about the financial impact on the industry of a delay in making the SFP.**

## Budgetary overruns

9. The RPA entered into a contract with Accenture, a major IT supplier, in January 2003, to develop an IT system to enable it to make payments under the new scheme. We were told that the revenue cost of the RPA’s IT contract with Accenture had more than doubled, from £18.1 million to £37.4 million. RPA witnesses told us that the main reasons for the increase were: the growing complexity of the SFP scheme; the high volume of applications for funds; and the fact that Accenture had been engaged in developing systems for existing CAP schemes which were abolished as part of the 2003 reform, resulting in nugatory work. These factors were in addition to the cost of designing, building and testing the system for paying the SFP.<sup>10</sup> **We were alarmed to learn about the scale of the cost overrun on the revenue side of the RPA’s IT contract with Accenture, given that it amounted to a doubling of the original budget. We are concerned that the nature of the contract agreed between the RPA and Accenture apparently allowed for the costs to increase so dramatically, and thus seemingly ignored the practical workload implications of the SFP policy agreed by Ministers.**

## IT systems

10. When the Committee last scrutinised the work of the RPA, in 2003, we stressed the importance of the new IT system and highlighted the fact that it would “facilitate all of the activities of the Agency”. We also drew attention to the problems encountered by some other large-scale Government IT projects and called on Defra to monitor the progress of the new IT system “to ensure that the timetable for its implementation is adhered to and that it represents good value for money”.<sup>11</sup> When questioned on the recent IT problems, the RPA said that it had been a “salutary experience” to be so reliant on technology to bring about the huge changes that were required.<sup>12</sup> **The Committee is particularly concerned**

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9 Q 30

10 Qq 85–87

11 Environment, Food and Rural Affairs Committee, Sixth Report of Session 2002–03, *Rural Payments Agency*, HC 382, para 7

12 Q 62

about the IT problems encountered by the RPA. We believe that, while such difficulties are not uncommon in projects of this nature, with better planning and monitoring many of the problems could have been avoided. The importance of the IT systems was stressed in the Committee's previous scrutiny of the RPA. We regret that the Government appears to have taken little notice of our previous warnings.

## Staffing issues

11. In the course of the oral evidence session, we raised a number of staffing issues, involving working hours, staff morale, redundancies, the closure of regional offices and the use of agency staff. The RPA acknowledged that its staff were working very long hours in attempting to meet the timetable for processing payment claims, with some even volunteering to work on Christmas Day. RPA witnesses emphasised that all overtime was voluntary.<sup>13</sup> The RPA stated that 300 of its staff had already left the organisation, as part of the Change Programme, and a further 100 redundancies were planned. A significant number of those who had left were not part of the IT development being used to deliver the SFP.<sup>14</sup> The RPA was keen to note the high level of commitment shown by the staff that had left, right up until the day they departed.<sup>15</sup> **While we recognise that a peak in workload is likely when introducing a new system, we believe that the extremely long hours currently demanded of the RPA's staff should not have been necessary, had the project been better managed. We acknowledge the effort and commitment of RPA staff, in the face of large-scale redundancies and the requirement to work long hours. We recommend that the Agency's staff, including those on temporary contracts, should receive assurance from RPA management regarding their future employment once the current intensive period of work activity is over and payments have been made for the 2005 scheme year.**

## General conclusions

12. **We are deeply unimpressed by the failure of Defra and the RPA to plan properly for the process of administering payments under the Single Payment Scheme. This has led to English farmers being disadvantaged in comparison with those in other parts of the UK, who have already received a partial interim payment. We were also dismayed at the complacency of the Minister, who refused to admit that any mistakes had been made or that anything could have been done differently to avoid the problems.**<sup>16</sup>

13. **Most significantly, we were staggered that, so close to the proposed date for making payments, and nearly a year after that date was announced by the RPA, the Minister could still not give us a definitive statement about when payments would be made, or whether they would be full or partial payments.**

14. **We recommend that Ministers now make a definitive announcement on the timing and nature of Single Farm Payments in England. We further recommend that, if this**

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13 Qq 70, 95

14 Q 103-04

15 Q 94

16 Q 24



**announcement includes the making of interim partial payments, or further delays, then it should be made in the form of an oral statement by a Minister to the House.**

## Conclusions and recommendations

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1. In making its decision to adopt the ‘dynamic hybrid’ approach for implementing the Single Farm Payment in England, we believe Defra gave insufficient consideration to the administrative complexity of the chosen model. Defra should also have considered postponing the implementation of the SFP until 2006, as allowed for in the CAP reform regulation, to allow more time for preparation, thus avoiding the problems that are now evident. (Paragraph 5)
2. We believe that the lack of foresight shown by the RPA, and the apparent lack of analysis about the possible impacts of the implementation model, are not acceptable. Further, we believe that both Defra and the RPA should have anticipated the extra work involved in this project, had they taken into account the policy effects of the SFP which, by definition, increased the volume of eligible land over and above the amount covered by IACS. (Paragraph 7)
3. For individual businesses, on the margins of viability, the added costs of interest and arrangement fees could be too much to bear. It would be unacceptable if farms were put out of business due to delays by the RPA in making payments, and the Government should make clear what steps it intends to take to ensure that this does not happen. The Minister appears to have based his assessment of farm viability on an analysis of “average” farms; in doing so he has, in our opinion, shown an unacceptable degree of complacency about the financial impact on the industry of a delay in making the SFP. (Paragraph 8)
4. We were alarmed to learn about the scale of the cost overrun on the revenue side of the RPA’s IT contract with Accenture, given that it amounted to a doubling of the original budget. We are concerned that the nature of the contract agreed between the RPA and Accenture apparently allowed for the costs to increase so dramatically, and thus seemingly ignored the practical workload implications of the SFP policy agreed by Ministers. (Paragraph 9)
5. The Committee is particularly concerned about the IT problems encountered by the RPA. We believe that, while such difficulties are not uncommon in projects of this nature, with better planning and monitoring many of the problems could have been avoided. The importance of the IT systems was stressed in the Committee’s previous scrutiny of the RPA. We regret that the Government appears to have taken little notice of our previous warnings. (Paragraph 10)
6. While we recognise that a peak in workload is likely when introducing a new system, we believe that the extremely long hours currently demanded of the RPA’s staff should not have been necessary, had the project been better managed. We acknowledge the effort and commitment of RPA staff, in the face of large-scale redundancies and the requirement to work long hours. We recommend that the Agency’s staff, including those on temporary contracts, should receive assurance

from RPA management regarding their future employment once the current intensive period of work activity is over and payments have been made for the 2005 scheme year. (Paragraph 11)

7. We are deeply unimpressed by the failure of Defra and the RPA to plan properly for the process of administering payments under the Single Payment Scheme. This has led to English farmers being disadvantaged in comparison with those in other parts of the UK, who have already received a partial interim payment. We were also dismayed at the complacency of the Minister, who refused to admit that any mistakes had been made or that anything could have been done differently to avoid the problems. (Paragraph 12)
8. Most significantly, we were staggered that, so close to the proposed date for making payments, and nearly a year after that date was announced by the RPA, the Minister could still not give us a definitive statement about when payments would be made, or whether they would be full or partial payments. (Paragraph 13)
9. We recommend that Ministers now make a definitive announcement on the timing and nature of Single Farm Payments in England. We further recommend that, if this announcement includes the making of interim partial payments, or further delays, then it should be made in the form of an oral statement by a Minister to the House. (Paragraph 14)

# Formal Minutes

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**Wednesday 18 January 2006**

Members present:

Mr Michael Jack, in the Chair

Mr David Drew	Mrs Madeleine Moon
James Duddridge	Mr Jamie Reed
Patrick Hall	Mr Dan Rogerson
Lynne Jones	David Taylor
Daniel Kawczynski	Mr Roger Williams
David Lepper	

Draft Report [*Rural Payments Agency: interim report*], proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 14 read and agreed to.

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

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No.134.

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[Adjourned till Wednesday 25 January at 2.30 p.m.]

## Reports from the Committee since 2003

### Session 2005–06

Fourth Report	The Departmental Annual Report 2005	HC 693-I
Third Report	The Animal Welfare Bill	HC 683
Second Report	Reform of the EU Sugar Regime	HC 585-I
First Report	The future for UK fishing: Government Response	HC 532

### Session 2004–05

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

### Session 2003–04

Nineteenth Report	Water Pricing: follow-up	HC 1186 (HC 490 04–05)
Eighteenth Report	Dismantling of Defunct Ships in the UK	HC 834 (HC 257 04–05)
Seventeenth Report	Agriculture and EU Enlargement	HC 421 (HC 221 04–05)
Sixteenth Report	Climate Change, Water Security and Flooding	HC 558 (HC 101 04–05)
Fifteenth Report	The Departmental Annual Report 2004	HC 707 (HC 100 04–05)
Fourteenth Report	Sites of Special Scientific Interest	HC 475 (HC 1255)
Thirteenth Report	Bovine TB	HC 638 (HC 1130)
Twelfth Report	Reform of the Sugar Regime	HC 550-I (HC 1129)
Eleventh Report	GM Planting Regime	HC 607 (HC 1128)
Tenth Report	Marine Environment: Government reply	HC 706
Ninth Report	Milk Pricing in the United Kingdom	HC 335 (HC 1036)
Eighth Report	Gangmasters (follow up)	HC 455 (HC 1035)
Seventh Report	Implementation of CAP Reform in the UK	HC 226-I (HC 916)
Sixth Report	Marine Environment	HC 76 (HC 706)
Fifth Report	The Food Standards Agency and Shellfish	HC 248 (HC 601)
Fourth Report	Environmental Directives	HC 103 (HC 557)
Third Report	Caught in the net: Cetacean by-catch of dolphins and porpoises off the UK coast	HC 88 (HC 540)
Second Report	Annual Report of the Committee 2003	HC 225
First Report	Water Pricing	HC 121 (HC 420)