



National Audit Office

## **DEPARTMENTAL OVERVIEW**

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# **A summary of the NAO's work on the Department for Environment, Food and Rural Affairs 2011-12**

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**OCTOBER 2012**

**Our vision is to help the nation spend wisely.**

**We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.**

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.



National Audit Office

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# Contents

## **Introduction 4**

### **Part One**

About the Department **5**

### **Part Two**

Financial management **10**

### **Part Three**

Reported performance **13**

## **Appendix One**

The Department's arm's-length bodies  
at 31 March 2012 **19**

## **Appendix Two**

Results of the Civil Service People  
Survey 2011 **20**

## **Appendix Three**

Publications by the NAO on the  
Department since April 2009 **22**

## **Appendix Four**

Recent cross-government NAO reports  
of relevance to the Department **23**

## **Appendix Five**

Other sources of information **24**

# Introduction

## **Aim and scope of this briefing**

The primary purpose of this report is to provide the Environment, Food and Rural Affairs Select Committee with a summary of the recent performance of the Department for Environment, Food and Rural Affairs, based primarily on the Department's Accounts and National Audit Office work. The content of the report has been shared with the Department to ensure that the evidence presented is factually accurate.

# Part One

## About the Department

### The Department's responsibilities

**1** The Department for Environment, Food and Rural Affairs (the Department) develops and implements policy on the environment, food and rural issues. The Department has responsibility for protecting biodiversity, the countryside and the marine environment, and for supporting a sustainable green economy, including rural communities, and British farming and food production.

**2** The Department has other major responsibilities to prepare for and manage the risk from animal and plant disease, floods and other environmental emergencies. It is also responsible for negotiating European Union agricultural and rural funding on behalf of the UK.

### How the Department is organised

**3** The Department devolves delivery of the majority of its policies to its arm's-length bodies. The largest of these are the Environment Agency, Natural England, Animal Health and Veterinary Laboratories Agency and the Rural Payments Agency. In 2011-12, the Department was responsible for 60 arm's-length bodies, 22 of which are due to be abolished or reformed. The Department's arm's-length bodies as at 31 March 2012 are listed in Appendix One.

### Where the Department spends its money

**4** In 2011-12, the Department's total gross expenditure was £6.9 billion up from £6.3 billion in 2010-11. About 80 per cent was spent through its arm's-length bodies, including £2 billion to farmers of payments funded from Europe under the Single Payment Scheme. In 2011-12, 83 per cent of the Department's non-exchequer income was provided by the European Union.

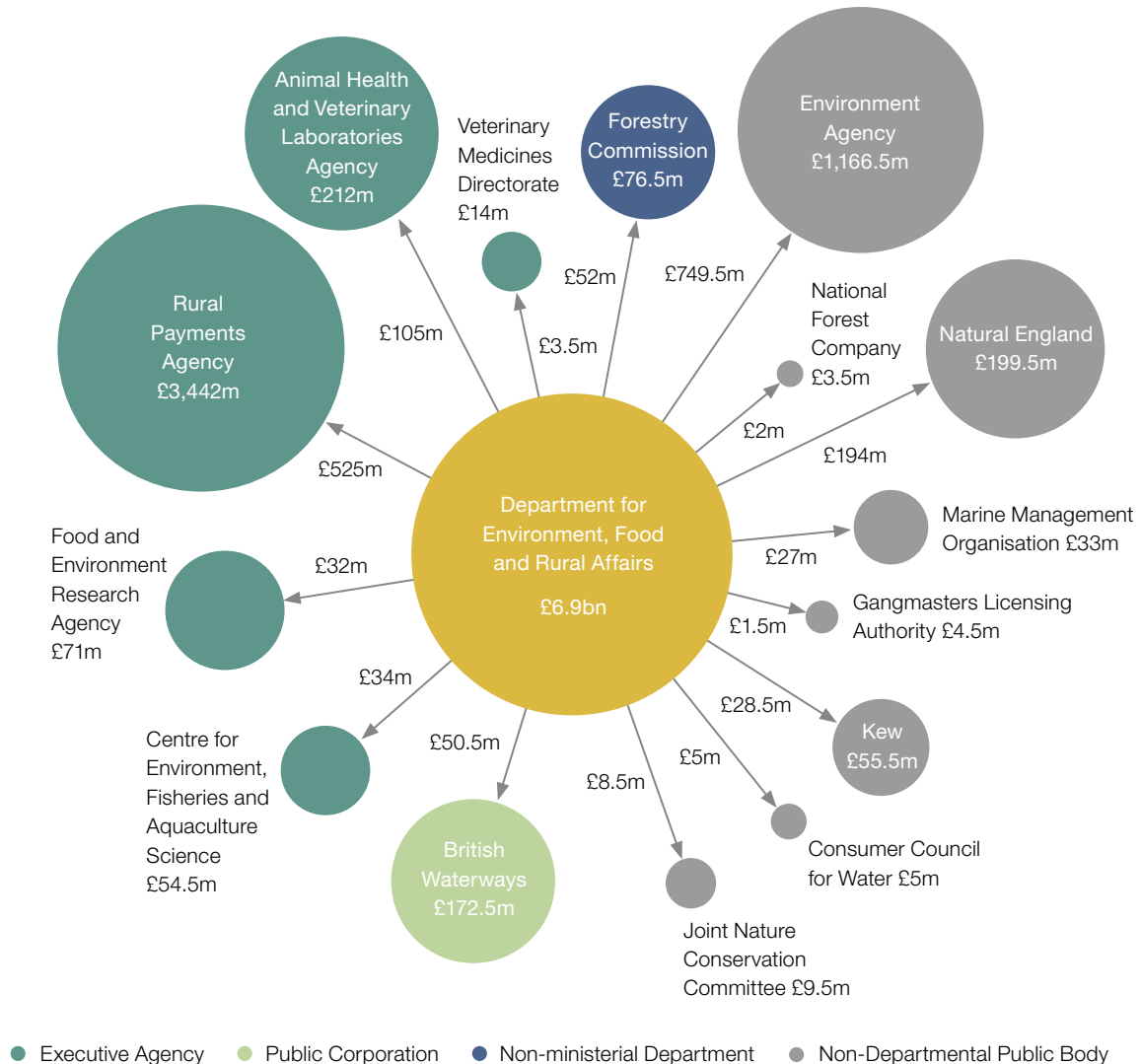
**5** **Figure 1** overleaf shows the Department's funding to its delivery bodies over £1 million. Some of these bodies receive funding from the industries they support, by way of levies or charges for their service which accounts for the difference between funding and total spend shown.

### Recent developments and current challenges

**6** The last year has seen a number of major developments for the Department, including:

- the publication of the Natural Environment White Paper, the first in 20 years, which outlines the government's new vision for the natural environment over the next 50 years;
- the winding down of arm's-length bodies abolished in the Public Bodies Review, including the transfer of functions from the Commission for Rural Communities to the new Defra Rural Communities Policy Unit;
- continued changes in the Department's delivery model, notably the first full year of operation of the Animal Health and Veterinary Laboratories Agency following the merger of its two preceding bodies on 1 April 2011, and the transfer of British Waterways to a charitable trust (in England and Wales) on 2 July 2012; and
- the creation and initial implementation of the Department's Change Programme, which aims to create a "leaner, more agile Department, with clear priorities, a joined-up approach to delivery and a business-like culture of high-performance". To assist with this a new Group Chief Operating Officer was appointed in June 2012.

**Figure 1**  
Where the money goes



#### NOTES

- The figure shows the Department's funding to arm's-length bodies receiving over £1 million. The figures in the circles are expenditure by delivery bodies. The figures on the arrows are grant-in-aid funding or internal income. Some of these bodies receive funding from the industries they support, by way of levies or charges for their services, accounting for the difference between funding and total spend shown.
- Figures shown are rounded to the nearest £0.5 million.
- The Department's total spend includes the spending of all of its arm's-length bodies (which includes EU Common Agricultural Policy spending). In 2011-12, the Department received £2.6bn from Parliament.
- The Department also sponsors the Covent Garden Market Authority, Agriculture and Horticulture Development Board and the Sea Fish Industry Authority, which are not shown in the diagram as they do not receive grant-in-aid from the Department.
- Rural Payments Agency funding reflects CAP payments including its role as a competent authority for all UK CAP payments.

Source: Annual report and accounts of Defra and its arm's-length bodies, 2011-12

## Capability and leadership

**7** In 2006, the Cabinet Office launched Capability Reviews to assess departments' leadership, strategy and delivery – to improve departmental readiness for future challenges and to enable departments to act on long-term key development areas. Departments are required to conduct and publish self-assessments and resultant action plans against standard criteria set out in the Cabinet Office model of capability, which was updated in July 2009.<sup>1</sup> Departments must rate their capability against ten criteria under three themes:

- **Leadership criteria** – 'set direction'; 'ignite passion, pace and drive'; and 'develop people'.
- **Strategy criteria** – 'set strategy and focus on outcome'; 'base choices on evidence and customer insight'; and 'collaborate and build common purpose'.
- **Delivery criteria** – 'innovate and improve delivery'; 'plan, resource and prioritise'; 'develop clear roles, responsibilities and delivery models'; and 'manage performance and value for money'.

**8** The Department published its Action Plan in response to the Capability Review in April 2012, as part of its Change Programme, which was developed to help address the future challenges it faces.

**Figure 2** overleaf presents the findings of the Action Plan. Overall, the Department considered that going forward it was in a good position and was sufficiently equipped to meet these challenges, with a strong sense of direction and clear vision.











**9** The Capability Action Plan identified a number of areas where the Department could make improvements. These focused on setting direction, collaboration and building a common purpose, innovating and improving delivery and developing clear roles, responsibilities and delivery models. The Department plans to renew focus on these areas including:

- ensuring there is greater clarity surrounding their overall purpose and priorities in order to assist with improving focus and delivery;
- improving staff access to learning and development opportunities;
- taking steps to maximise the Department's impact on others, proving an authoritative voice on the environment, food and rural affairs and improving collaboration with stakeholders and customers; and
- continuing to strengthen planning and prioritisation and exploit the advantages of working as one team within its delivery network.

**10** The Civil Service People Survey aims to provide consistent and robust metrics to help Government understand the key drivers of engagement, enabling it to build upon strengths and tackle weaknesses across the civil service. The survey of civil servants across all participating organisations includes a range of questions across nine themes which seek to measure their experiences at work. The results of the third annual people survey for the Department for Environment, Food and Rural Affairs – undertaken between mid-September 2011 and mid-October 2011 – are shown in **Figure 3** on page 9. Those shown cover the themes of 'leadership and managing change', and 'understanding of organisational objectives and purpose'. The results of 17 major departments are shown in Appendix Two.

<sup>1</sup> Available at: [www.civilservice.gov.uk/about/improving/capability/reports](http://www.civilservice.gov.uk/about/improving/capability/reports)

**Figure 2**  
Capability Action Plan Assessment

Theme	Criteria	Rating
Leadership	L1 Set direction	
	L2 Ignite passion, pace and drive	
	L3 Develop people	
Strategy	S1 Set strategy and focus on outcomes	
	S2 Base choices on evidence and customer insight	
	S3 Collaborate and build common purpose	
Delivery	D1 Innovate and improve delivery	
	D2 Plan, resource and prioritise	
	D3 Develop clear roles, responsibilities and delivery models	
	D4 Manage performance and value for money	

Source: Department for Environment, Food and Rural Affairs Capability Action Plan

**11** As part of the annual survey, each department receives an engagement index, assessing the level of staff engagement determined by: the extent to which staff speak positively of the organisation, are emotionally attached and committed to it, and are motivated to do the best for the organisation. In 2011, the Department for Environment, Food and Rural Affairs, excluding its agencies, achieved an engagement index of 52 per cent, 4 percentage points below the civil service average. The Department's results show a 2 per cent decline from those reported last year.

**12** Two of the Department's bodies, the Rural Payments Agency and Animal Health Veterinary Laboratories Agency, showed the weakest scores, with engagement indices of 36 per cent and 46 per cent respectively. These low scores were offset by much stronger scores in some of the Department's smaller bodies including the Veterinary Medicines Directorate (67 per cent) and the Centre for Environment, Fisheries and Aquaculture Science (62 per cent).



**Figure 3****2011 Civil Service People Survey: Department for Environment, Food and Rural Affairs (excluding agencies)**

Theme	Theme score (% positive) <sup>1</sup>	Difference from 2010 survey	Difference from civil service average 2011 <sup>2</sup>
<b>Leadership and managing change</b>			
I feel that the Department as a whole is managed well	31	-7	-9
Senior civil servants in the Department are sufficiently visible	44	-5	-1
I believe the actions of senior civil servants are consistent with the Department's values	34	-4	-5
I believe the departmental board has a clear vision for the future of the Department	21	-12	-18
Overall, I have confidence in the decisions made by the Department's senior civil servants	27	-5	-9
I feel that change is managed well in the Department	21	-8	-16
When changes are made in the Department they are usually for the better	16	-4	-7
The Department keeps me informed about matters that affect me	56	-6	+1 <sup>3</sup>
I have the opportunity to contribute my views before decisions are made that affect me	38	+4	+3
I think it is safe to challenge the way things are done in the Department	40	0	+2
<b>Organisational objectives and purpose</b>			
I have a clear understanding of the Department's purpose	75	-2	-8
I have a clear understanding of the Department's objectives	70	-2	-9
I understand how my work contributes to the Department's objectives	76	-1	-10

**NOTES**

- 1 Percentage positive measures the proportion of respondents who selected either 'agree' or 'strongly agree' for a question.
- 2 The 2011 benchmark is the median per cent positive across all organisations that participated in the 2010 Civil Service People Survey.
- 3 All differences from previous surveys are statistically significant, excepting this statement.

Source: Department for Environment, Food and Rural Affairs Survey Results Autumn 2011. Available at: [archive.defra.gov.uk/corporate/about/who/documents/staffsurvey2011.pdf](http://archive.defra.gov.uk/corporate/about/who/documents/staffsurvey2011.pdf)

## Part Two

### Financial management

**13** The ability of departments to control costs and drive out waste requires professional financial management and reporting. In particular, departments need to be better at linking costs to outcomes and benchmarking performance to determine whether costs are justified and value for money can be improved. Organisations also need to move their risk management arrangements from a process-led approach to one which supports the efficient and effective delivery of services. Improvements in these areas of management will help public bodies to deliver cost-effective services as they make difficult financial decisions over the coming years.

**14** Departments are required to publish Governance Statements with their Annual Report and Accounts, which describe their arrangements for corporate governance, risk management, and oversight of locally delivered responsibilities. Governance Statements replace Statements on Internal Control which were published in previous years. They are designed to include additional discussion of how governance in the Department works, in line with the Corporate Governance Code.<sup>2</sup>

#### Financial out-turn for 2011-12 and comparison with budget

**15** The Department must make significant reductions to its HM Treasury funded spending following the 2010 Comprehensive Spending Review. The Department is committed to reducing non-capital spend from £2.3 billion in 2010-11, to £1.8 billion in 2014-15. Taking account of inflation this is a reduction of 29 per cent.

**16** Since 2002, the Department has consistently reported a significant underspend against its total Parliamentary estimate. The Department underspent by £487 million against its 2011-12 estimate of £3,038 million (16.0 per cent), this followed an underspend of £540 million (17.6 per cent) in 2010-11. The Department reported that the main causes for the underspend<sup>3</sup> in 2011-12 were related to movements in provision for future liabilities:

- Adjustments for pension liabilities of £280 million (based on actuarial advice), the largest of which relates to the Environment Agency's Pension Scheme.
- Budgeted for provisions relating to Sea Fish Industry Authority. This was to cover an Appeal Court ruling requiring the Authority to pay back past levy income to the industry up to the value of £70 million. Following a subsequent judgement handed down by the Supreme Court, the risk did not materialise so no provision was required.
- £17 million underspend in the Rural Payments Agency, where due to the strength of the pound against the euro at the end of March, there was a gain on outstanding foreign exchange balances.
- Natural England utilising its Voluntary Exit Scheme provision of £14 million earlier than anticipated, to accelerate savings in staff costs.

#### Progress on cost reductions

**17** Departments remain under pressure to reduce costs. The scale of reduction required means that departments need to look beyond immediate short-term savings, and think more radically about how to take cost out of the business and how to sustain this in the longer term.

<sup>2</sup> Available at: [www.hm-treasury.gov.uk/psr\\_governance\\_corporate.htm](http://www.hm-treasury.gov.uk/psr_governance_corporate.htm)

<sup>3</sup> There was also a further saving on policy and delivery activities of £84 million (2.76 per cent) of the total estimate. This was returned to the Exchequer to help reduce pressure on the fiscal deficit.

**18** In February 2012, we examined the cost reductions achieved by 12 departments in our report *Cost reduction in Central Government: A Summary of Progress*.<sup>4</sup> We found that departments successfully cut spending by £7.9 billion (2.3 per cent) in 2010-11 compared to 2009-10, but further cuts are needed in most departments over the next four years. We concluded that fundamental changes are needed in government to achieve sustainable reductions on the scale required – departments will achieve long-term value for money only if they identify and implement new ways of delivering their objectives, with a permanently lower cost base. The Department is required to reduce its expenditure/annual running costs by £504 million over the four years to March 2015.

**19** In order to consider where best to target cost reduction activities, the Department instructed its arm's-length bodies to assess value for money of its spend and the cost benefit analyses of the different options. In our Financial Management report, we noted that 'The Department has aimed to cut its spending in a targeted way and has challenged and altered its models for delivery, in line with our good practice guide on structured cost reduction. In order to consider where best to target its cost reduction activities, the Department has instructed its arm's-length bodies to assess value for money of its spending on activities and cost-benefit analysis of different options was carried out. The Department also introduced blanket cuts of 33 per cent in administrative spend.'

**20** The public bodies review has driven the Department to reduce the number of arm's-length bodies it funds from 92 to 36, with a further two bodies under review.<sup>5</sup> The majority of the changes were to bodies that received only small amounts of funding: the total reduction in funding arising from these changes amounting to around £78 million.

## **NAO reports on financial management**

**21** During the year, we published our report *Department for Environment, Food and Rural Affairs: Financial Management Report 2011*.<sup>6</sup> Overall we found that the Department had taken steps to improve its financial management since we reported in 2008, and its Accounting Officer understood the importance of good financial management. However, we could not yet conclude that the Department was achieving value for money in its financial management activity, because we would have reasonably expected faster progress. In particular, we recommended that the Department should ensure that non-finance staff who manage budgets are financially literate and that it should focus on improving commercial skills. This has been recognised by the Department in its Capability Action Plan, which identifies the need to improve staff access to learning and development opportunities.

**22** Our work also highlighted the Department's consistent underspend against its Parliamentary estimate, and recommended that the Department should provide appropriate support and training in forecasting and budgeting for those areas which were consistently underspending. In 2011-12, the Department aligned budgets to estimates which it considered would lead to significant reductions in the level of underspend, however, for the reasons reported in paragraph 16, the Department spent £487 million less than budgeted in 2011-12.

## **NAO financial audit findings**

**23** We audit the accounts of the Department and many of its arm's-length bodies. In addition, each year we audit the UK's expenditure under the Common Agricultural Policy and report to the European Commission.

4 Comptroller and Auditor General, *Cost reduction in central government: summary of progress*, Session 2010–2012, HC 1788, National Audit Office, February 2012.

5 The public bodies review, launched in October 2010, aimed to substantially reform a large number of public bodies across government. It covered all of government's non-departmental public bodies.

6 Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs: Financial Management Report*, Session 2010–2012, HC 1593, 25 November 2011.

**24** We have qualified our opinion on the Department's accounts since 2009-10 because of two issues involving the payment of subsidies to farmers: the quantification of amounts owing to and from farmers; and payments made for certain agricultural subsidies that did not fully comply with EU regulations. The details of the qualifications for 2011-12 are:

- the Rural Payments Agency could not provide evidence to support the reported £7.5 million of overpayments 'owed by' farmers, and £56.9 million of underpayments 'owed to' farmers, under the Single Payment Scheme; and
- the European Commission imposed financial penalties of £46 million on the Department and the Rural Payments Agency. These penalties, often referred to as disallowance penalties, were imposed as the Agency had not complied in full with the European Regulations for certain agricultural subsidies and the expenditure is therefore considered irregular.

**25** We also qualified the accounts of the Animal Health and Veterinary Laboratories Agency for 2011-12, as there was insufficient evidence to support income for animal health-related activities from the Department and devolved administrations.

### Issues raised in the Governance Statements

**26** We work with the Department and its arm's-length bodies to improve the quality and transparency of published Governance Statements. We aim to ensure that the processes by which Statements are produced are robust and that the Statements comply with Treasury guidance.

**27** The Department's 2011-12 Governance Statement<sup>7</sup> reported that internal controls were effective, but outlined control weaknesses in the Department and its bodies, which were evidenced by problems arising from the creation of the Animal Health Veterinary Laboratories Agency as well as the continued problems at the Rural Payments Agency, which have led to the continued qualification of both the Agency's and the Department's accounts.

**28** The Rural Payments Agency, under the leadership of a new Chief Executive Officer, is taking forward work designed to deal with forthcoming reforms to the Common Agricultural Policy and address the aforementioned control weaknesses within the Department:

- The Agency's Five Year Plan, published in February 2012, sets out the steps required to improve data quality, address the issues leading to accounts qualification and deliver a better service to customers. The plan includes a list of projects to improve the database for Single Payment Scheme payments and to improve scheme processes and controls.
- The Future Options Programme, also published in 2012, will examine options for the IT and wider business systems needed to implement the revised Single Payment Scheme and ensure that the government has the appropriate processes and systems in place. The Department has budgeted £9 million for the Future Options Programme in 2012-13 and anticipates the total cost of the project could be between £50 million and £100 million.<sup>8</sup> Previous IT system changes, most notably in 2005, experienced considerable difficulties during their implementation.

**29** Our Financial Management Report 2011 concluded that the Department's internal control and risk management have improved across the Department and its arm's-length bodies, but recommended that the Department strengthens its understanding of risk. This is important given that nearly all the key issues identified by the Department in its 2011-12 Governance Statement reside within these arm's-length bodies. The Department recognises that there are still weaknesses in this area and has taken steps to address them, including requiring arm's-length bodies to routinely report financial and other risks alongside financial management information.

<sup>7</sup> Governance Statement, Defra Annual Report & Accounts 2011-12. Available at: [www.defra.gov.uk/publications/files/pb13805-defra-annual-report-2011-12.pdf](http://www.defra.gov.uk/publications/files/pb13805-defra-annual-report-2011-12.pdf)

<sup>8</sup> Department for Environment, Food and Rural Affairs, *Business Plan 2012-15*, 31 May 2012.

# Part Three

## Reported performance

**30** The government needs robust, timely information on its activities, costs, progress against its objectives, and the effectiveness of its activities. It also needs to be able to interpret that information, by reference to trends, benchmarks and other comparisons, to identify problems and opportunities. Departments need reliable information on which to design and deliver services and monitor quality, be confident about their productivity, and drive continuous improvement.

**31** The government aims to make more information available to the public to help improve accountability and deliver economic benefits. Our study reviewing early progress on this transparency agenda<sup>9</sup> concluded that while the government has significantly increased the amount and type of public sector information released, it would not maximise the net benefits of transparency without an evaluative framework for measuring the success and value for money of its transparency initiatives.

### Reporting performance: annual reports and business plans

**32** Each government department reports its performance against the priorities and objectives set out in its business plan. A transparency section of the plan includes indicators selected by the Department to reflect its key priorities and demonstrate the cost and effectiveness of the public services it is responsible for. These indicators fall broadly into three categories:

- **input indicators:** a subset of the data gathered by the Department on the resources used in delivering services;
- **impact indicators:** designed to help the public judge whether departmental policies are having the desired effect; and
- **efficiency indicators:** setting out the cost of common operational areas to enable the public to compare the Department's operations with other organisations.

**33** A structural reform section of the business plan provides a detailed list of actions and milestones designed to show the steps the Department is taking to implement the government's reform agenda.

**34** Departmental progress against indicators is published regularly in a Quarterly Data Summary, a standardised tool for reporting selected performance metrics for each government department in a way that facilitates comparison across departments. As well as the indicators described above, the Quarterly Data Summary includes information on overall departmental budgets and workforce statistics, and a wider selection of indicators on common areas of spend such as estates, procurement and ICT. An annual version of this information has been formally laid in Parliament in departments' 2011-12 Annual Reports and Accounts.

**35** We found that that the Department's business plan indicators are all individually relevant to its priorities and policy areas but it is not always clear how some of the indicators chosen, for example, the cost of local authority waste management per household, are relevant and appropriate to the performance and influence of the Department.<sup>10</sup>

**36** The Cabinet Office has reported that the accuracy of the data for all departments needs to dramatically improve and that there may not be common definitions and data collection processes between departments.<sup>11</sup> These caveats mean that data on common areas of spend cannot currently be used to compare performance between departments and may be of limited use to judge individual departmental performance in its own right.

<sup>9</sup> Comptroller and Auditor General, *Implementing Transparency*, Session 2010-2012, HC 1833, National Audit Office, April 2012.

<sup>10</sup> Source: Information Assurance Summary upon the Department for Environment, Food and Rural Affairs, National Audit Office, August 2012

<sup>11</sup> Available at: [www.cabinetoffice.gov.uk/resource-library/business-plan-quarterly-data-summary](http://www.cabinetoffice.gov.uk/resource-library/business-plan-quarterly-data-summary)

**37** Recognising the need to improve the use of information across government, the Cabinet Office set out in the Civil Service Reform Plan its intention for departments to provide “good, comparable, accurate and reliable management information”. In addition, improving the quality of data is one of the key priorities within the departmental Open Data Strategies, published in June 2012. The Cabinet Office expects that, with improvements in data quality and timeliness, the public will be able to judge the performance of each department in a meaningful and understandable manner.

### Performance reported by the Department

**38** The Department's business plan, sets out its priorities for 2012-15, consisting of 96 actions to be implemented over the current spending review period (**Figure 4**).<sup>12</sup> The Department reported in its 2011-12 Annual Report and Accounts<sup>13</sup> that it completed 46 of these actions in 2011-12 in addition to 24 already completed in 2010-11. This leaves 26 remaining for completion by 2015.

**Figure 4**  
Structural Reform Priorities

Priority	Number of actions in 2011-15 business plan	Ongoing or outstanding actions at March 2012
Support and develop British farming and encourage sustainable food production	27	3
Help to enhance the environment and biodiversity to improve quality of life	35	16
Support a strong and sustainable green economy, resilient to climate change	34	7

Source: Department for Environment, Food and Rural Affairs, *Business Plan 2012–15*, 31 May 2012.

<sup>12</sup> Department for Environment, Food and Rural Affairs, *Business Plan 2012–15*, 31 May 2012.

<sup>13</sup> Department for Environment, Food and Rural Affairs, *Annual Report and Accounts 2011-12*.

**39** At 31 March 2012, the Department was overdue on its delivery of four action points. These consisted of the requirements to:

- improve national capability to respond to a major flood emergency, based on lessons from March 2011 Exercise Watermark;
- consult on whether the legislation for National Park Authorities needs to better reflect their role in facilitating sustainable development;
- work with the EU to agree energy efficiency and labelling standards for imaging equipment, heating boilers and water heaters; and
- decide whether to pursue a statutory or voluntary approach to encouraging corporate reporting of greenhouse gas emissions in the light of public consultation on options.

**40** The Department's business plan also outlines the indicators which it considers the most useful to the public in understanding the costs and outcomes of its activities. Input indicators include: the cost to process each Single Payment Scheme claim; the cost of local authority waste management per household; and total government capital investment in flood and coastal erosion risk management. The Department has also identified a number of impact indicators, which include: the farmland birds index, productivity of the UK agricultural industry; and household recycling rates.

**41** The Department reports its performance against each of the indicators in its 2011-12 Annual Report and Accounts. Key results included:

- an increase in the total productivity of UK Agriculture Industry from 98.9 to 102.3 (Indexed: Base Year 2005=100);
- a small decline in percentage of bovine tuberculosis-free herd from 89.2 per cent in 2010 to 88.5 per cent in 2011; and
- an additional 44,799 households which have had a marked reduction in their risk from flooding (while this is less than the 83,675 additional households in 2010-11 the Department believes it is well on track to better protect 145,000 households by 2015).

### **Testing the reliability of performance across government**

**42** We have begun a three-year programme to examine the data systems underpinning the departmental business plan indicators and other key management information. In August 2012, we published the results of our examination of a sample of departments' indicators and operational data systems used to report performance for the Department. This involved a detailed review of the processes and controls governing: the selection, collection, processing and analysis of data; the match between the Department's stated objectives and the indicators it has chosen; and the reporting of results. Our key recommendation for the Department is that it should review its oversight of data from external providers. **Figure 5** summarises the results of our data validation exercise.

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**Figure 5****The results of our data validation exercise**

We found that the Department's business plan indicators are all individually relevant to its priorities and policy areas but it is not always clear how some of the indicators chosen, for example, the cost of local authority waste management per household, are relevant and appropriate to the performance and influence of the Department for Environment, Food and Rural Affairs.

The Department has broadly the data it needs to run itself and be held accountable by the public. However, in many cases it relies on external bodies for the provision of this data with only limited assurance on the reliability, completeness and accuracy of the data provided. The Department is aware of these weaknesses and has plans to address them, notably through the extended use of Internal Audit to review key risks to the integrity of source data, and the assurance frameworks in place for data provided by arm's-length bodies.

We examined 11 data systems in our review, of which four were business plan indicators and none were operational data sets. We selected our sample, after consultation with the Department, and on the basis of those data streams which were fully functional at the time of our review. We also reviewed a sample of the Department's workforce and estates indicators, which are reported in the Department's Quarterly Data Summary alongside the business plan indicators and a range of other measures.

Responsibility for monitoring data systems and performance is split between the Audit and Risk Committee and the Department's Supervisory Board and Management Committee. The Audit and Risk Committee has oversight of the control environment, including the integrity of performance information and reporting. The Supervisory Board and Management Committee approve the Department's business plan before it is published; but there is scope for it to improve its oversight of the indicators by obtaining adequate assurance on the quality of the data it reviews and the degree to which it can rely upon source data as being accurate, complete and timely.

In some cases the Department could do more to understand the risks associated with data provider's systems. Where data is collected externally, the Department could tighten its procedures by undertaking risk assessments and then prioritising further assurance work after consideration of the proportionality of any additional checks. The key principle, however, is that the Department should understand both the adequacy and effectiveness of the checks in place of the providers.

Roles and responsibilities for the collation and analysis of data are generally clearly defined and communicated within the Department. However, no central team has responsibility for ensuring there is adequate assurance over data quality, for example by obtaining assurance from data providers over source data.

*Source: Information Assurance Summary upon the Department for Environment, Food and Rural Affairs, National Audit Office, August 2012*

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### The future of information management

**43** Departments released updated versions of their business plans in May 2012 which included changes to their priorities and indicators. Departments have aligned their input and impact indicators with the government's priorities, so that the public can better understand how they are meant to be used for accountability. The changes are a step towards the alignment of costs and results which would allow for assessment of value for money, but they will not improve the data systems underlying published indicators, or the reliability of subsequent data.

**Figure 6** outlines the Department's priorities.

### Good practice identified in NAO reports

**44** Previous NAO reports have identified good practice by the Department contributing to achieving better value for money. In particular, we have found more examples of progress made by the Department in improving the information it receives from its arm's-length bodies and related to this, a better understanding of costs across its network and the value of the services it delivers.

**45** Our report *Flood Risk Management in England*<sup>14</sup> highlighted that the Environment Agency had initiated reforms to clarify local responsibilities and reduce the risk posed by flooding in response to major flooding occurring in 2007. These reforms gave upper tier local authorities lead responsibility for managing local risks, encouraged greater local engagement and decision-making on investments, and supported stronger partnership working arrangements. The Agency is also implementing a change programme which will see the number of full-time equivalent posts decrease by 300 by 2014.

**46** Our report *Managing Front Line Delivery Costs*<sup>15</sup> found the Department has implemented mechanisms to collect more systematic management information from its arm's-length bodies. For example, templates have been introduced to standardise the financial information the Department receives from its delivery network, which in turn has supported arm's-length bodies in identifying where fees and charges do not cover costs.

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## Figure 6

### The Department's priorities

- 1 Support and develop British farming and encourage sustainable food production
- 2 Enhance the environment and biodiversity to improve quality of life
- 3 Support a strong and sustainable green economy, including thriving rural communities, resilient to climate change

Source: *Business Plan 2012–2015, Department for Environment, Food and Rural Affairs*

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14 Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs and Environment Agency, Flood Risk Management in England*, Session 2010–2012, HC 1521, National Audit Office, October 2011.

15 Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs, Managing front line delivery costs*, Session 2010–2012, HC 1279, National Audit Office, July 2011.

**47** Our report *Improving the delivery of animal health and welfare services through the Business Reform Programme*<sup>16</sup> reported that notwithstanding the delays, driven by the need to re-scope the ICT and recent technical issues... that this Business Reform Programme has been strongly managed in the last few years, and the potential to deliver value for money appears realistic if funding is continued. We found that the Agency's transformational ICT project has resulted in improvements to working practices and services, such as the Agency's new automated process for tracking the movements of animals testing positive for bovine tuberculosis. The Agency also enhanced the quality and consistency of the information it held on customers, which is now available electronically to Agency staff and can now be shared across offices. We also noted the Agency was now generating better information on costs and performance, with the result it had a better understanding of the value of the services it delivers.

### Issues identified in NAO reports

**48** Our reports have also made number of recommendations to improve value for money. Many of these concern how the Department interacts with and understands both its internal arm's-length bodies and external partners. This is especially important because the Department has a greater dependence on these bodies for delivery than most other areas of government, delivering around 80 per cent of its expenditure through them in 2011-12.

**49** Our report on *Managing Front Line Delivery Costs* found that the Department needed to engage arm's-length bodies in robust scrutiny and challenge, informed by high-quality integrated cost, expenditure and performance data. The Department has started to address this by collecting financial and performance data from arm's-length bodies in a more systematic way. The Department still has more to do to fully understand the relationships between cost, outputs and outcomes to be confident that it is securing value for money.

**50** Our *Flood Risk Management in England* report concluded that the Environment Agency had improved its knowledge of the condition of its flood defences, and targeted investment more effectively but that there were a number of remaining challenges to ensure the Agency fulfilled its potential to increase levels of investment in flood management and value for money to the taxpayer. We found that the Environment Agency's knowledge of features that prevent flooding from smaller rivers or from ground and surface water is far less developed than that of features that prevent flooding from main rivers and the sea. We also found that current local authority mapping and modelling of these flood risks is far less advanced than the Agency's approach and that this information needs to be brought together and made clearer and simpler. As the Agency plans to develop a tool that will combine information on flood risk from different sources by 2013 we recommended that it should plan how it will use this tool, and other sources of data, to improve its own understanding of the interaction between different flood sources and to support local authorities appropriately.

**51** Our *Financial Management Report 2011*<sup>17</sup> found that the Department did not "have an overview of cost drivers for the key work of its arm's-length bodies, or understand the costs of its policies or objectives". We recommended that the Department should develop an understanding of cost reduction across its organisation and delivery bodies, which clearly assesses how cuts in one area will impact other areas, to better understand costs and cost drivers within its delivery network.

**52** Our report on *Improving the delivery of animal health and welfare services through the Business Reform Programme*<sup>18</sup> found the Animal Health Veterinary Laboratories Agency's reform programme, in part because of necessary changes to the scope of the ICT, was two years behind schedule and affecting customer relationships. Staff were also affected by the challenge of adapting to new ICT and by problems when a major release went live. As part of our recommendations we suggested the Agency respond and act on feedback from these stakeholders to help improve these relationships.

16 Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs and the Animal Health and Veterinary Laboratories Agency, Improving the delivery of animal health and welfare services through the business reform programme*, Session 2012-13, HC 468, National Audit Office, July 2012.

17 Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs: Financial Management Report*, Session 2010-2012, HC 1593, November 2011.

18 Comptroller and Auditor General, *Department for Environment, Food and Rural Affairs and the Animal Health and Veterinary Laboratories Agency, Improving the delivery of animal health and welfare services through the Business Reform Programme*, Session 2012-13, HC 468, National Audit Office, July 2012.

# Appendix One

## The Department's arm's-length bodies at 31 March 2012<sup>19</sup>

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### Executive agencies

Animal Health and Veterinary Laboratories Agency  
 Centre for Environment, Fisheries and Aquaculture Science  
 Food and Environment Research Agency  
 Rural Payments Agency  
 Veterinary Medicines Directorate

### Executive non-departmental public bodies

Agricultural Wages Board  
 Agricultural Wages Committee x15 (To be abolished)  
 Commission for Rural Communities (to be abolished)  
 Consumer Council for Water (Future under review)  
 Environment Agency  
 Gangmasters Licensing Authority  
 Joint Nature Conservation Committee  
 Marine Management Organisation  
 National Forest Company  
 Natural England  
 Royal Botanic Gardens, Kew

### Non-ministerial department

Forestry Commission  
 Water Services Regulation Authority (Ofwat)

### Forestry Commission sponsor bodies

Forest Research (Agency)  
 Forest Enterprise England (Public Corporation)

### Advisory non-departmental public bodies

Advisory Committee on Hazardous Substances (To be reformed)  
 Advisory Committee on Pesticides (To be reformed)  
 Advisory Committee on Releases to the Environment  
 Agricultural Dwelling House Advisory Committees (To be abolished)  
 Independent Agricultural Appeals Panel  
 Inland Waterways Advisory Council (To be abolished)  
 Science Advisory Council  
 Veterinary Products Committee

### Tribunal non-departmental public bodies

Agricultural Land Tribunal  
 Plant Varieties and Seed Tribunal

### Public Corporations

British Waterways (transferred to Canal and Rivers Trust in July 2012)  
 Covent Garden Market Authority

### Levy bodies

Agriculture and Horticulture Development Board  
 Sea Fish Industry Authority

### Other bodies

British Wool Marketing Board  
 Broads Authority  
 National Parks Authorities x9  
 Waste and Resources Action Programme

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# Appendix Two

## Results of the Civil Service People Survey 2011

### Question scores (% strongly agree or agree, % yes)

#### Leadership and managing change

I feel that the department as a whole is managed well	40
Senior civil servants in the Department are sufficiently visible	46
I believe the actions of senior civil servants are consistent with the Department's values	39
I believe that the departmental board has a clear vision for the future of the Department	39
Overall, I have confidence in the decisions made by the Department's senior civil servants	36
I feel that change is managed well in the Department	27
When changes are made in the Department they are usually for the better	23
The Department keeps me informed about matters that affect me	55
I have the opportunity to contribute my views before decisions are made that affect me	36
I think it is safe to challenge the way things are done in the Department	38

#### Organisational objectives and purpose

I have a clear understanding of the Department's purpose	84
I have a clear understanding of the Department's objectives	79
I understand how my work contributes to the Department's objectives	81

Civil service overall

Department for Business, Innovation and Skills (excluding agencies)	Cabinet Office (excluding agencies)	Department for Communities and Local Government (excluding agencies)	Department for Culture, Media and Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy and Climate Change	Department for Environment, Food and Rural Affairs (excluding agencies)	Foreign and Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs	HM Treasury (excluding agencies)	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Transport (excluding agencies)	Department for Work and Pensions
31	38	23	37	20	49	41	31	54	33	18	55	44	60	43	45	23
46	49	35	47	27	53	62	44	56	53	31	67	50	68	47	59	21
34	40	24	39	27	46	48	34	52	41	25	52	44	57	42	46	21
29	33	22	31	20	43	30	21	51	28	22	39	33	60	39	36	20
28	38	21	32	17	43	43	27	47	33	17	53	41	53	38	42	16
24	27	20	33	12	32	31	21	40	19	15	42	24	40	31	31	19
17	22	10	20	9	21	26	16	34	12	13	33	22	29	26	21	14
59	55	50	60	41	58	64	56	60	53	39	65	62	68	56	64	39
32	37	28	47	19	37	36	38	39	37	18	47	38	47	36	39	18
33	41	25	42	31	39	41	40	43	33	27	55	39	43	36	45	27
77	73	57	73	80	85	90	75	82	69	73	88	85	94	78	79	73
70	66	53	67	72	81	85	70	79	63	70	78	80	93	72	74	71
75	71	61	73	76	82	88	76	83	72	73	81	82	90	76	76	73

## Appendix Three

### Publications by the NAO on the Department since April 2009

Publication date	Report title	HC number	Parliamentary session
18 July 2012	Department for Environment, Food and Rural Affairs: Improving the delivery of animal health and welfare services through the Business Reform Programme	HC 468	2010–2012
25 November 2011	Department for Environment, Food and Rural Affairs: Financial Management Report 2011	HC 1593	2010–2012
28 October 2011	Flood Risk Management in England	HC 1521	2010–2012
22 July 2011	Department for Environment, Food and Rural Affairs: Managing front line delivery costs	HC 1279	2010–2012
12 July 2011	Department for Environment, Food and Rural Affairs: Geographic information strategy	HC 1274	2010–2012
18 February 2011	Managing the impact of changes in the value of the euro on EU funds	HC 759	2010–2012
18 October 2010	Assessing the cost to public funds of animal diseases	<a href="http://www.nao.org.uk/publications/1011/animal_diseases.aspx">www.nao.org.uk/publications/1011/animal_diseases.aspx</a>	
8 July 2010	Tackling diffuse water pollution	HC 188	2010-11
31 March 2010	Defra's organic agri-environment scheme	HC 513	2009-10
5 March 2010	Reducing the impact of business waste through the Business Resource Efficiency and Waste Programme	HC 216	2009-10
15 October 2009	A second progress update on the administration of the Single Payment Scheme by the Rural Payments Agency	HC 880	2008-09

# Appendix Four

## Recent cross-government NAO reports of relevance to the Department

Publication date	Report title	HC number	Parliamentary session
2 February 2012	Cost reduction in central government: summary of progress	HC 1788	2010–2012
20 January 2012	Reorganising central government bodies	HC 1703	2010–2012
13 July 2011	Identifying and meeting central government's skills requirements	HC 1276	2010–2012
20 March 2011	The Government Procurement Card	HC 1828	2010–2012
3 March 2011	Progress in improving financial management in government	HC 487	2010–2012
14 October 2010	Central government's use of consultants and interims	HC 488	2010–2012
18 March 2010	Reorganising Central Government	HC 452	2010–2012

# Appendix Five

## Other sources of information

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### Cabinet Office Capability Reviews

Available at: [www.civilservice.gov.uk/about/improving/capability/reports](http://www.civilservice.gov.uk/about/improving/capability/reports)

April 2012	Capability Review of the Department for Environment, Food and Rural Affairs	Phase 3 report
March 2009	Capability Review of the Department for Environment, Food and Rural Affairs	Phase 2 report
March 2008	Capability Review of the Department for Environment, Food and Rural Affairs response	Phase 1 report
March 2007	Capability Review of the Department for Environment, Food and Rural Affairs	Phase 1 report

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# Where to find out more

The National Audit Office website is  
[www.nao.org.uk](http://www.nao.org.uk)

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