



National Audit Office

Departmental Overview

The performance of the Department for Environment, Food & Rural Affairs 2013-14

NOVEMBER 2014

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Our public audit perspective helps Parliament hold government to account and improve public services.

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Introduction

Aim and scope of this briefing

- 1** The primary purpose of this report is to provide the Environment, Food & Rural Affairs Select Committee with a summary of the activity and performance of the Department for Environment, Food & Rural Affairs (the Department) since September 2013, based primarily on published sources, including the Department's own accounts and the work of the National Audit Office (NAO).
- 2** Part One of the report focuses on the Department's activity over the past year. Part Two examines developments since 2010, the start of this Parliament. Part Three outlines NAO analyses of activity over the last year. Part Four takes the form of a case study, looking in greater detail at Flood Re (the Flood Reinsurance Scheme), a key issue for the Department at the current time.
- 3** 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

1.1 The Department develops and implements policy on the environment, food and rural issues. It has responsibility for protecting biodiversity, the countryside and the marine environment, and for supporting the growth of a sustainable green economy, including rural communities, and British farming and food production.

1.2 The Department has other major responsibilities to prepare for and manage the risk from animal and plant disease, floods and other environmental emergencies, including a new role in the national risk of antimicrobial resistance. It is also responsible for negotiating European Union agricultural, marine and environmental policy on behalf of the UK.

1.3 The Department's priorities to September 2014 were:¹

- **to grow the rural economy:** champion a thriving, competitive British food and farming sector and drive sustainable growth in the wider rural economy in support of rural communities;
- **to improve the environment:** manage our rural, urban and marine environments, reducing pollution and waste, and ensuring greater resilience to climate change and other environmental risks;
- **to safeguard animal health:** minimise risks and increase preparedness for animal disease outbreaks, driving growth and competitiveness through improving standards of animal health and welfare; and
- **to safeguard plant health:** strengthen capability to minimise and manage plant disease and pest outbreaks, with greater economic and environmental resilience to disease threats.

¹ *Defra Business Plan:* <http://transparency.number10.gov.uk/business-plan-pdf/10>

1.4 These priorities have built on the Structural Reform Priorities published in 2010. However, they largely focus around the same key topics. The original priorities were:

- to support and develop British farming and encourage sustainable food production;
- to help to enhance the environment and biodiversity to improve quality of life; and
- to support a strong and sustainable green economy, resilient to climate change.

1.5 The Department's roles in preparing and managing risk from animal and plant disease, and from flood and other environmental emergencies were previously addressed as other major responsibilities rather than key priorities.

1.6 The Department's priorities have been updated recently to reflect those of the new Secretary of State. These updated priorities are:

- leading the world in food and farming;
- protecting our country from floods and animal and plant diseases;
- improving the environment; and
- championing the countryside and improving rural services.

How the Department is organised

1.7 The Department largely devolves the delivery of its policies to its 42 agencies and bodies. The largest of these are the:

- **Rural Payments Agency:** as the paying agency for the European Union's Common Agricultural Policy schemes in England, the Rural Payments Agency makes payments to farmers, traders and landowners to help ensure we have a healthy rural economy and strong rural communities;
- **Environment Agency:** with a wide remit to protect or enhance the environment from threats such as floods and pollution, the Environment Agency's main responsibilities are related to flood risk management, the regulation of discharges and pollutants to air, water and land, and the maintenance of water quality throughout England;
- **Natural England:** as the government's adviser on the natural environment, Natural England's remit is to ensure sustainable stewardship of the land and sea so that people and nature can thrive both now and for future generations; and
- **Animal Health and Veterinary Laboratories Agency:** by preventing and controlling the spread of disease, the Animal Health and Veterinary Laboratories Agency works to protect animal and public health through the provision of science-based evidence to advise policymakers on animal health and welfare.

1.8 Since the publication of the Public Bodies Review in October 2010, the Department has reduced the number of funded arm's-length bodies. Since April 2013, the following bodies have been abolished:

- Agricultural Wages Board: abolished in June 2013.
- Fifteen Agricultural Wages Committees: abolished in December 2013.
- Sixteen Agricultural Dwelling House Advisory Committees (England): abolished in December 2013.

1.9 The functions of the Agricultural Land Tribunal in England were formally transferred to HM Courts & Tribunal Service in July 2013.

1.10 With effect from 1 April 2013, the activities of the Wildlife Function of the Food and Environment Research Agency were transferred into the Animal Health and Veterinary Laboratories Agency. On 1 October 2014, the Animal Health and Veterinary Laboratories Agency merged with the four plant health inspectorate functions of the Food and Environment Research Agency to form the Animal and Plant Health Agency. The Department is continuing its review of the Centre for Environment, Fisheries and Aquaculture Science.

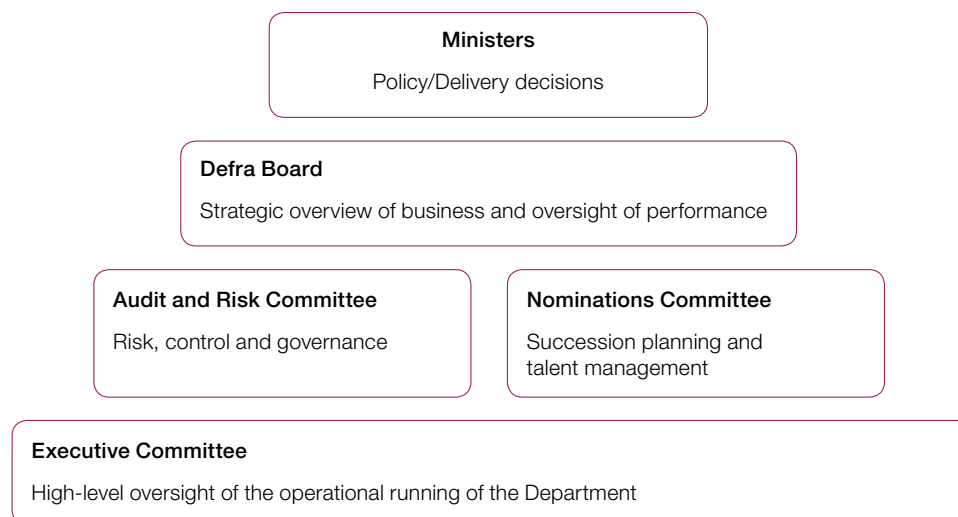
1.11 The Prime Minister announced on 9 April 2014, a Machinery of Government change that transferred responsibility for sponsorship of the Gangmasters Licensing Authority from the Department to the Home Office.

1.12 The Department is considering reforms to the Advisory Committee on Pesticides, and the Plant Varieties and Seeds Tribunal, and two defunct bodies, Food from Britain and the Committee on Agricultural Valuation, were abolished in spring/summer 2014. A complete list of the Department's network bodies as at 1 April 2014 is included in Appendix One.

How the Department is governed

1.13 Figure 1 overleaf details how the Department is governed. The Department is led by the Secretary of State and three under-secretaries. Reporting to them is the Permanent Secretary, under whom there are four directors general. They include the Chief Operating Officer, the Chief Scientific Adviser, and directors general responsible for overseeing policy delivery, strategy, International and Biosecurity. Along with four non-executive directors and the Department's Finance and Performance Director these comprise the board. It is chaired by the Secretary of State and has two subcommittees; the Audit and Risk Committee and the Nominations Committee (responsible for succession planning and talent management). It also oversees the Executive Committee, which is comprised of the Permanent Secretary, directors general and the Finance and Performance Director, which oversees operational running of the Department.

Figure 1
How the Department is governed



Source: Department for Environment, Food & Rural Affairs *Annual Report and Accounts 2013-14*

1.14 The Audit and Risk Committee meets five times a year to oversee and advise on issues of risk, control, and governance. The Committee is chaired by a non-executive director; the group and the Department heads of internal audit, a National Audit Office representative and the Department's Finance and Performance Director attend each meeting.

1.15 The Department delegates responsibility for policy delivery to other network bodies. These have business plans that are measured by key performance indicators. Their performance is reviewed quarterly and reported to the board.

1.16 The Department and its network bodies employed 21,881 staff (full-time equivalents) at 31 March 2014, a reduction of 1,836 from 31 March 2013. This was mostly due to reductions of 1,299 staff in the Environment Agency, 227 in the Rural Payments Agency and 131 in the Animal Health and Veterinary Laboratories Agency. The core department employed 1,989 full-time equivalent staff at 31 March 2014.

Where the Department spends its money

1.17 The Department's total expenditure for 2013-14 of £6.252 billion, shown in **Figure 2** overleaf, takes into account both its activities funded by Parliament and grants made following the receipt of money from the European Union, predominantly to fund agricultural subsidies and rural development schemes.²

1.18 The Department utilised £2.433 billion of Parliamentary funding³ to meet its strategic objectives and run the Department which included a £61 million underspend compared to the budget.⁴ The Department reported administration costs of £529 million in 2013-14, a £94 million underspend against the administration budget.

1.19 The Department provided in excess of £1.3 billion in funding to its network bodies in 2013-14. Some of these bodies receive additional funds from the industries they support by way of levies or charges for their services, which accounts for the difference between the Department's funding and total spend shown.

1.20 The Rural Payments Agency is the largest body, spending more than £3 billion during the year. The Agency received £336 million from the Department and £2.9 billion from the European Union for delivery of the Common Agricultural Policy in England (£1.7 billion) and the devolved administrations of Wales, Scotland, and Northern Ireland (£1.2 billion). The Department also provided £652 million to the Environment Agency, including £462 million to fund flood protection activities.

The Department's people survey

1.21 The government has conducted its Civil Service People Survey annually for the past 5 years. The most recent survey was carried out during October 2013. Continuing our practice in past briefings, we summarise here the views of the Department's staff on a number of key issues, and compare them to benchmarks for the civil service as a whole. Detailed results for all departments are reproduced at Appendix Two.

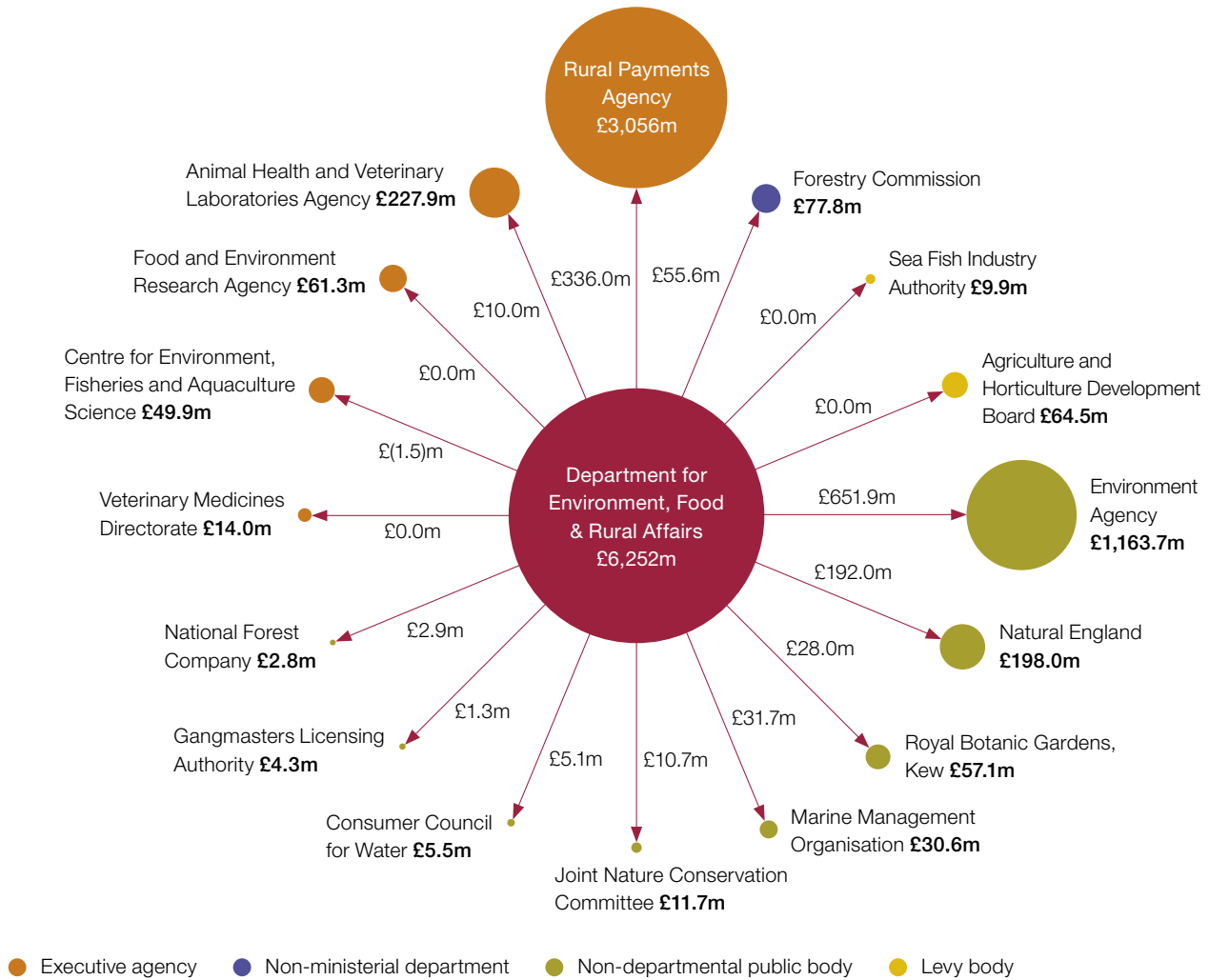
1.22 As part of the survey results, each department is given an engagement index assessing the level of staff engagement. This is determined by 3 key elements: the extent to which staff speak positively of the organisation; are emotionally attached and committed to it; and whether they are motivated to perform at their best. In 2013, the Department's survey responses, excluding its agencies, showed that 52% of staff felt engaged, an increase of 2% compared to the 2012 survey.

² Department for Environment, Food & Rural Affairs *Annual Report and Accounts 2013-14*; Consolidated Statement of Comprehensive Net Expenditure.

³ These figures relate to department expenditure limits (DEL) recorded in the Parliamentary estimate and exclude performance against annually managed expenditure (AME). DEL are planned and set at Spending Reviews and represent the total spending limits for government departments over a fixed period of time, split between resource and capital budgets. AME funding is allocated government spending on programmes which are typically volatile and demand-led, and which are therefore not subject to firm multi-year limits in the same way as DEL.

⁴ Department for Environment, Food & Rural Affairs *Annual Report and Accounts 2013-14*; Director's Report: Financial Overview.

Figure 2
Spending by the Department’s network bodies in 2013-14



Notes

- 1 Figures are shown in millions rounded to one decimal place. Amounts on arrows represent departmental funding to the network bodies while figures attached to organisations represent those organisations’ total (gross) expenditure. The size of the bubbles represents gross expenditure.
- 2 The Department’s total expenditure includes that of its network bodies (this includes European Union Common Agricultural Policy expenditure). In 2013-14, the Department received £2.3 billion in government funding.
- 3 Net funded agencies (Food and Environment Research Agency, Centre for Environment, Fisheries and Aquaculture Science, Veterinary Medicines Directorate and Animal Health and Veterinary Laboratories Agency) that operate on a commercial basis recognise funding from the Department as income rather than financing and therefore the Departmental funding is shown as zero or just a small proportion of their overall funding. As a non-departmental public body with exempt charitable status, Kew also treats funding from the Department as income. In addition, as levy bodies, Sea Fish Industry Authority and Agriculture and Horticulture Development Board are financed through levies and therefore do not receive funding from the Department.
- 4 Rural Payments Agency expenditure includes funding from the European Union to paying agencies in Scotland, Wales and Northern Ireland.
- 5 This Figure includes bodies within the Departmental boundary with expenditure greater than £1 million.
- 6 The Prime Minister announced on 9 April 2014, a Machinery of Government change that transferred responsibility for sponsorship of the Gangmasters Licensing Authority from the Department to the Home Office.

Source: Annual Report and Accounts of the Department for Environment, Food & Rural Affairs and its subsidiary bodies 2013-14

1.23 The results of the survey questions show a slight increase in positive responses compared with the 2012 survey, but the Department continues to show below average results when compared with the wider civil service. Despite an increase of six percentage points compared to the last survey, only 28% of staff believed that the Executive Committee has a clear vision for the future of the Department, fourteen percentage points below the civil service average.

1.24 Figure 3 shows the results for the Department in 2 of the 9 themes contained within the Civil Service People Survey, 'leadership and managing change' and understanding of 'organisational objectives and purpose'.

Figure 3

2013 Civil Service People Survey: Department for Environment, Food & Rural Affairs (excluding executive agencies)

Theme	Theme score (% positive)	Difference from 2012 survey ¹	Difference from civil service average 2013 ²
Leadership and managing change			
I feel that my department as a whole is managed well	35	+6	-8
Senior managers in my department are sufficiently visible	49	+7	-2
I believe the actions of senior managers are consistent with my department's values	41	+7	-2
I believe that the board has a clear vision for the future of my department	28	+6	-14
Overall, I have confidence in the decisions made by my department's senior managers	34	+5	-7
I feel that change is managed well in my department	23	+4	-6
When changes are made in my department they are usually for the better	16	+2	-11
My department keeps me informed about matters that affect me	58	+2	0
I have the opportunity to contribute my views before decisions are made that affect me	31	0	-5
I think it is safe to challenge the way things are done in my department	38	+1	0
Organisational objectives and purpose			
I have a clear understanding of my department's purpose	77	+3	-8
I have a clear understanding of my department's objectives	74	+4	-6
I understand how my work contributes to my department's objectives	79	+4	-4

Notes

1 Percentage positive measures the proportion of respondents who selected either 'agree' or 'strongly agree' for a question.

2 The 2013 benchmark is the median per cent positive across all organisations that participated in the 2013 Civil Service People Survey.

Source: *Civil Service People Survey 2013*, available at: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2013, accessed 28 August 2014

Part Two

Developments in this Parliament

Changes to the Department's spending since 2010

2.1 The Department, as a result of the 2010 spending review, was required to make a 16.7% reduction in non-capital expenditure from £2.4 billion in 2010-11 to £2.0 billion by 2014-15, as shown in **Figure 4**.⁵ Non-capital expenditure (resource expenditure) is money not spent on assets; for example, salaries. The budget for 2015-16 further reduces this to £1.8 billion.⁶

2.2 The Department has underspent its central government funding allocation each year since the 2010 spending review. In 2013-14, the Department underspent by a total of £61 million (2%), of which the non-capital underspend was £50 million. This compares with a total underspend in 2012-13 of £18.5 million (0.7%), of which the non-capital underspend was £15.3 million. The £50 million non-capital underspend in 2013-14 was the result of 2 separate factors:

- Thirty million pounds was not spent as the UK government challenged the EU disallowance penalties on 2010 and 2011 Common Agricultural Policy scheme expenditure;⁷ and
- Twenty million pounds was intentionally underspent in 2013-14 following approval from HM Treasury to carry the funding into 2014-15 to spend on flood prevention.

2.3 The Department continues to face reductions in its funding, and the 2013 spending round will require £130 million of additional non-capital savings to be found in 2014-15. The capital budget has faced less pressure as a result of more funding being made available for flood defence projects; however, these assets will require funding from the Department's resource budget for upkeep and maintenance activities. This will further increase the pressure on the Department to implement sustainable cost saving measures in the short term.

2.4 To achieve cost savings the Department has implemented a number of voluntary redundancy schemes across its bodies and has also ended leases to or vacated in excess of 100 properties. It has embraced the government's 'digital by default' programme, with delivery of the new Common Agricultural policy and the Environment Agency's waste registration project both aiming to demonstrate the efficiency of digital policy delivery.

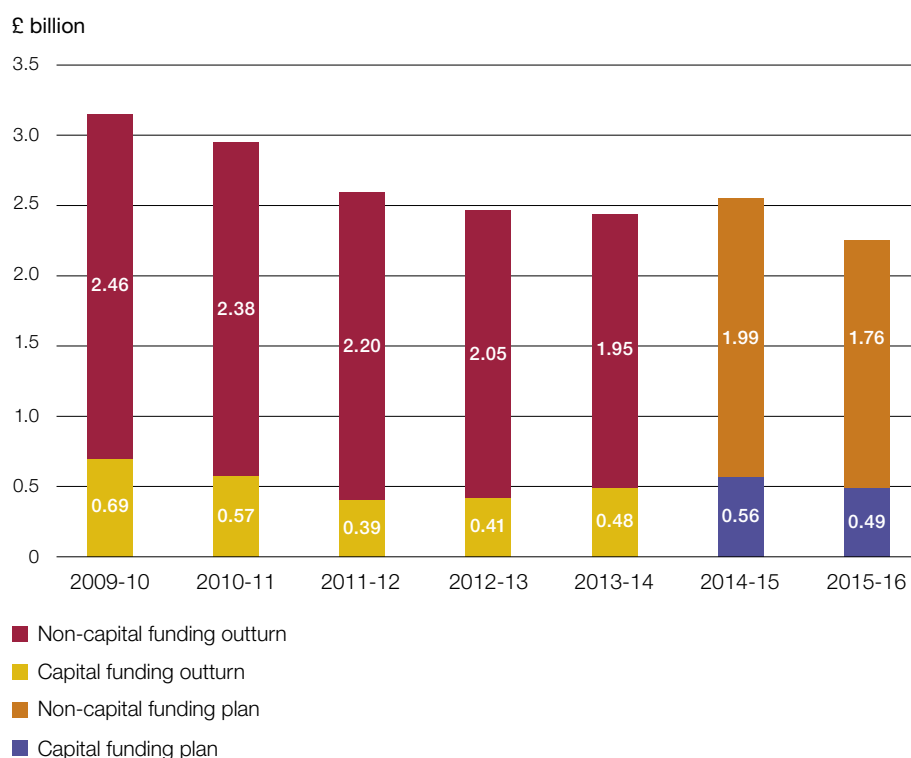
⁵ This relates to exchequer funding only and excludes funding from Europe.

⁶ See footnote 3 on page 9.

⁷ Disallowance penalties arise as a result of financial corrections applied by the EU where the Commission take the view that EU regulations for payments funded through European schemes, including the CAP, have not been applied correctly.

Figure 4

Actual/planned capital and non-capital funding allocation
2009-10 to 2015-16

**Note**

1 The Department has approval from HM Treasury to use £20 million of underspend from 2013-14 in 2014-15.

Source: Department for Environment, Food & Rural Affairs, *Annual Report and Accounts 2013-14*, Core Tables

Policy: major developments since 2010

2.5 In June 2011, the Department published the Natural Environment white paper, the first on the natural environment for 20 years, outlining the government's vision for the natural environment landscape over the next 50 years. The white paper recognises that the environment is often taken for granted, but it plays an important role for the country and in people's lives to enhance our environment, economic growth and personal well-being. In the white paper, the government set out action under 5 themes:

- protecting and improving our natural environment;
- growing a green economy;
- reconnecting people and nature;
- international and EU leadership; and
- monitoring and reporting.

2.6 The Department provides regular updates on its progress towards implementing the 92 commitments outlined in the white paper, with the most recent being in February 2014.⁸ This update concluded that progress had been made in all areas, with two-thirds of the commitments now assessed as completed and many others well under way. The update highlights that further work will be required to ensure ongoing support for many completed commitments and to progress those outstanding through to implementation.

Agriculture and fisheries schemes changes

2.7 Political agreement on the Common Agricultural Policy Regulations including funding and core scheme requirements for 2014–2020 was reached between the European Council of Ministers, European Parliament and the European Commission on 24 September 2013. It was based on the revised Council mandate agreed by ministers at the Agriculture Council. The Transition Regulation will allow additional time for implementation of the new direct payments system in 2015. Since the agreement was reached, the Department has been developing guidelines for the new English schemes and has issued updates to the public regarding transition to the new schemes.

2.8 In 2013, the Department agreed major reforms to the European Union Common Fisheries Policy. This resulted in a number of new measures, effective from 1 January 2014, including:

- the introduction of a ban on the discarding of fish subject to quotas, so that catches must be brought ashore (known as the Landing Obligation or Discard Ban);
- a legally binding commitment to fish at sustainable levels with annual quotas set using scientific advice; and
- decentralised decision-making, allowing member states to agree the detailed technical measures and management options appropriate to their own fisheries.

Bovine Tuberculosis (Bovine TB) strategy

2.9 The Department introduced a new strategy for tackling bovine TB. One element of this strategy, badger culling, has been met with significant opposition from animal welfare groups and public protesters. The programme of badger culling, piloted in Gloucestershire and Somerset during 2013, has now completed its second year.

⁸ Implementation progress updates can be found at: www.gov.uk/government/publications/natural-environment-white-paper-implementation-updates

Operational delivery: major developments since 2010

Changes to the structure of the Department and its network bodies

2.10 Since 2010, the Department has been through a period of significant change as an organisation. As a result of the Public Bodies Review in 2010, the number of arm's-length bodies sponsored by the Department has reduced from 92 to 42, with further reforms planned for 2014-15. Between 2010 and 2014, these were principally in respect of small advisory bodies which are not represented in Figure 2 on page 10, although this period did see the merger of Animal Health and the Veterinary Laboratories Agency, as well as the abolition of the Commission for Rural Communities and the Sustainable Development Commission.

2.11 The most recent change to the delivery structure involves the transfer of 4 inspectorates out of the Food and Environment Research Agency. These inspectorates have combined with the Animal Health and Veterinary Laboratories Agency to form a new Agency from 1 October 2014; the Animal and Plant Health Agency. The Department aim for this new agency to better enable joined-up working on plant and animal diseases and pests, and to increase the Department's resilience and flexibility to respond to emergencies.

2.12 The Department is also reviewing options for delivering the remaining services provided by the Centre for Environment, Fisheries and Aquaculture Science. The options currently under review include: considering whether these could form part of the Animal and Plant Health Agency; partnering arrangements with other sectors; or continuing with the same structure. In addition, the Department is seeking a joint venture arrangement for the Food and Environment Research Agency through formal procurement channels.

2.13 The Department has published Triennial Reviews throughout this Parliament. In June 2013, the Department's review focused on the two largest non-departmental public bodies, the Environment Agency and Natural England. It concluded that both bodies should remain as separate organisations but there were opportunities to improve the efficiency of both. Natural England and the Environment Agency have developed a plan on how to implement the conclusions of the review and will publish a progress report in due course.

Other operational changes

2.14 The Department has produced a single, prioritised plant health risk register and has put in place new procedures for readiness and contingency planning to ensure that it can predict, monitor and control the spread of pests and pathogens. These include activities to reduce the risk of pests and diseases arriving in the UK.

2.15 On 21 November 2013, the Department designated 27 marine conservation zones around the coast of England including 5 offshore sites. This is the first of 3 planned tranches intended to improve the ways in which the marine environment is looked after by creating a coherent network of areas where the UK's diverse marine wildlife can flourish.

Independent assessments of the Department's performance

2.16 In Part Three of this report, we look at the NAO's assessment of the Department's performance in 2013-14. Alongside our work and that of the Environment, Food & Rural Affairs Select Committee, however, a number of other bodies regularly produce independent analyses of how the Department is doing and of the challenges it faces. In this section, we look at some of the most notable of these reports published in the last year.

Bovine TB strategy

2.17 In March 2014, an independent expert panel issued a report following their review of the effectiveness, humaneness and safety of the Department's badger culling trials, which are designed to reduce the incidence of Bovine TB. The findings of the report highlighted that controlled shooting alone (or in combination with cage trapping) did not deliver the level of culling expected by the government.⁹ The report stated that, provided the improvements it identified were implemented, then a combination of controlled shooting and cage trapping could be effective and humane. The second year of the schemes was approved by the Department in August 2014 and these have now been completed.

Common Agricultural Policy (CAP) Delivery programme

2.18 In June 2014, the Government Digital Service performed a Service Assessment on the progress on the Common Agricultural Policy Delivery programme. The assessment looked at whether the information service met the Digital by Default Service Standard at the end of the first stage of system development. The assessment found that the Common Agricultural Policy information service is on track to meet the Digital by Default Service Standard, however, the panel made a number of recommendations for the next phase of the programme. The key recommendations made included:

- articulating how the teams are structured and how responsibilities are set;
- providing clear details of how rapidly the service can be iterated and how the service team will capture user feedback and tackle priority issues;

⁹ *Independent Expert Panel on Badger Culling Pilots, Report by the Independent Expert Panel*, March 2014, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/300382/independent-expert-panel-report.pdf

- checking that the service works on a variety of phones and tablets including preparing a plan for regular browser testing;
- performing an accessibility audit, checking that the service works for users with a variety of different needs; and
- analysing performance continuously to assess the service against key indicators, and developing recommendations based on web data and user feedback.

2.19 The Common Agricultural Policy Delivery programme was reviewed by the Major Projects Authority in January 2014, with the delivery confidence in the programme assessed as amber. Information on the project and RAG rating were published by the Authority in May 2014.¹⁰ The programme has delivered releases from July 2014 onwards, with the next major release scheduled for February 2015.

Integrity of food supply chain

2.20 The initial announcement by the Food Safety Authority of Ireland (in January 2013) that some beef products had been found to contain horsemeat triggered a number of independent reports. Published on 4 September 2014, the Elliott Review, commissioned by the Department and the Department of Health, was prompted by growing concerns about the systems used to deter, identify and prosecute food adulteration. The findings of the review found that little is known about the scale of food fraud in the UK. It recommended that better intelligence-gathering was needed, that consumer needs should be the government's top priority, that prevention of food crime should be an industry-wide culture and that existing laboratory services should standardise authenticity testing. It also recommended that a food crime unit is established to protect the food industry and consumers from criminal activity.

2.21 Setting out the action being taken, the government issued a response, accepting the key principles of the report by:

- setting up a food crime unit to give a focus to enforcement against food fraud;
- ensuring that the country has a resilient network of food analytical laboratories capable of testing consistently;
- improving coordination across government;
- implementing measures to ensure better intelligence sharing between the food industry and government about potential threats to food integrity; and
- supporting industry to ensure that food businesses know their supply chain.

Major developments for the year ahead

2.22 The EU Common Agricultural Policy has been reformed and will be implemented by member states in 2015. This will include a new Basic Payment Scheme and the new Rural Development Programme. Additional controls and measures introduced into the EU regulations make the new CAP inherently more complex. However, the Department has some choice as to how to implement these and has stated an ambition to keep implementation choices as simple as possible. The supporting IT system is also complex and is still in development with registration of all customers to be phased across a short time frame. In addition, the new system is 'digital by default', presenting delivery challenges in rural areas where internet coverage is variable. There are, therefore, a number of significant risks relating to successful delivery of the new programme.

2.23 Following discussions with the Association of British Insurers, the Department and the insurance industry have agreed a scheme designed to ensure that households at the highest risk of flooding are able to afford appropriate insurance for their properties following the expiration of the Statement of Principles agreement. The proposed approach, known as 'Flood Re' (the Flood Reinsurance Scheme), will limit the amount that households at high flood-risk will need to pay on the flood insurance element of their premiums. The enabling powers to introduce the Scheme were passed as part of the Water Act 2014; Flood Re will raise a levy (set at £180 million for the first 5 years) on insurers to fund claims from high-risk households for the next 25 years.

2.24 The Flood Re Scheme is expected to be established in July 2015, offering affordable flood insurance for people in high-risk areas. This will take the form of a not-for-profit company run and managed by the insurance sector and funded by a levy on all insurers offering home insurance. Draft regulations were published by the Department who will need to assess the results of the recent consultation in detail prior to implementation of the scheme. Further information on the Flood Re scheme is set out in Part Four.

Part Three

Recent NAO findings on the Department

Our audit of the Department's accounts

3.1 The NAO's financial audits of government departments and associated bodies are primarily conducted to allow the Comptroller and Auditor General (C&AG) to form an opinion of the truth and fairness of the public accounts. In the course of these audits, the NAO learns a great deal about government bodies' financial management and sometimes this leads to further targeted pieces of work which examine particular issues. In this section, we look at the outcome of our most recent financial audits on the Department and its bodies, including the findings arising from UK expenditure testing under the Common Agricultural Policy (CAP) on which we report to the European Commission.

3.2 The Department and the Rural Payments Agency (RPA) have made significant progress in measuring and correcting past overpayments and underpayments made to farmers and other claimants since the Single Payment Scheme began in 2005. In previous years, the C&AG had qualified his opinion on the accounts because the NAO was not satisfied that over and underpayments to farmers had been adequately captured by the agency, meaning that we could not confirm that in all material respects the Rural Payments Agency's receivables and payables were now complete. As reflected in the C&AG's Report on the Rural Payments Agency's 2013-14 Accounts on the work undertaken by the Agency under its Strategic Improvement Plan, we are content that there is now sufficient appropriate evidence to support the Scheme trade receivables (overpayments) of £5.1 million and Scheme trade payables (underpayments) of £8.2 million reported in the accounts.¹¹

¹¹ Rural Payments Agency, *Annual Report and Accounts 2013-14*.

3.3 Since the introduction of the Single Payment Scheme, the Department has recognised £580 million of financial penalties (disallowance) from the European Commission because it did not correctly apply scheme regulations. In previous years we have qualified our opinion on the Departmental Accounts as the C&AG considers disallowance penalties to be irregular expenditure.¹² For 2013-14, the Department have accepted and accrued £41.8m (gross) of disallowance penalties relating mainly to the 2010-11 Single Payment Scheme payments. We did not consider this value to be material in the context of the Department's expenditure and therefore the accounts have not been qualified. The NAO will review the value of disallowance penalties each year and therefore qualifications to our opinion may be necessary in the future if we consider values in each year to be material.

3.4 The removal of the qualifications relating to overpayments and underpayments within the Rural Payments Agency, and the irregularity of disallowance penalties accounted for by the Department enabled us to issue clear audit opinions on both the Departmental and Rural Payments Agency Accounts for the first time since 2007-08.

3.5 Our 2013-14 audit programme led to the successful completion of 23 of the 25 audits within the Defra network before the summer parliamentary recess with just the Sea Fish Industry Authority audit still to be completed. The annual report and accounts for the Animal Health and Veterinary Laboratories Agency were certified on 16 October 2014.

Our audits of the Department's effectiveness and value for money

3.6 Since October 2013, the NAO has published one value-for-money report and two investigations on the Department's activities: *Food safety and authenticity in the processed meat supply chain*;¹³ *Thames Tideway Tunnel: early review of potential risks to value for money*;¹⁴ and *Oversight of three PFI waste projects*.¹⁵

3.7 Our report, *Food safety and authenticity in the processed meat supply chain*, published in October 2013 investigated the government's role in controlling and overseeing the food supply chain. We found that the horsemeat incident (see paragraph 2.20) revealed a gap between citizens' expectations of the controls over the authenticity of their food, and the effectiveness of those controls. We found that the government had failed to identify the risk of adulteration of beef with horsemeat, despite indications of a heightened risk.

¹² The loss is outside Parliament's intentions being in relation to the improper administration of European funding and is therefore considered irregular.

¹³ Comptroller and Auditor General, The Food Standards Agency, Department for Environment, Food & Rural Affairs, Department of Health, *Food safety and authenticity in the processed meat supply chain*, Session 2013-14, HC 685, National Audit Office, October 2013.

¹⁴ Comptroller and Auditor General, HM Treasury, Department for Environment, Food & Rural Affairs, the Water Services Regulation Authority, *Thames Tideway Tunnel: early review of potential risks to value for money*, Session 2014-15, HC 168, June 2014.

¹⁵ Comptroller and Auditor General, Department for Environment, Food & Rural Affairs, *Oversight of three PFI waste projects*, Session 2014-15, HC 264, June 2014.

3.8 In addition to addressing the gap in citizens' expectations, we recommended that the Department:

- address the confusion brought about by the current split of responsibilities between the Department, the Department of Health and the Food Standards Agency;
- improve its market intelligence and understanding of potential food fraud; and how information is shared and analysed; and
- work with others so that scrutiny better reflects risk throughout the supply chain.

3.9 Our investigation into the Thames Tideway Tunnel project in June 2014 explained the role of the different parties involved in building a large sewer under the River Thames. This review took place at an early stage of the programme, and so we did not evaluate the value for money of the project. Instead, the review examined potential risks to value for money arising from poor evaluation of the alternatives, an inappropriate choice of delivery model, and poor incentives for keeping the price and costs down. Our review identified that in some of the key areas, the government and Ofwat have already taken important decisions, for example in setting project objectives and appraising options to meet those objectives. In other areas, important decisions remain to be made which may have a significant impact on value for money for consumers and taxpayers.

3.10 We investigated the Department's oversight of 3 specific PFI waste contracts in June 2014. The PFI waste projects we examined were the Charlton Lane Eco Park project near Shepperton, the EnviRecover project in Hartlebury, and the Willows Power and Recycling Centre project near King's Lynn. All three projects have experienced significant delays stemming from a range of problems, including difficulties obtaining planning permission, complex commercial considerations, opposition from local groups and uncertainty over technology. It was also clear from letters we received that members of the public had some misconceptions about the facts, figures and responsibilities involved. We found that the Department put in place a system of active support and guidance for the local authorities which is good compared to the activities of other departments across government that support PFI contracts. The Department's scrutiny has improved the local authorities' contracts although in some cases this scrutiny took a long time, reflecting the quality and complexity of local authorities' proposals and external factors. The Committee of Public Accounts issued a report following the hearing on 25 June 2014.¹⁶ The recommendations included comments on the contracting capability of local authorities and the report observed that the Department should make better use of its position and expertise to support them.

3.11 A full list of publications by the NAO on the Department since April 2010 can be found in Appendix Three.

¹⁶ HC Committee of Public Accounts, *The Department for Environment, Food & Rural Affairs: oversight of three PFI waste projects*, Fourteenth Report of Session 2014-15, HC 106, September 2014.

NAO work in progress

3.12 The NAO has 2 reviews relevant to the Department in progress.

3.13 Our study *Economic regulation of the water sector* will examine the operational performance of the regulatory framework over Ofwat's last price review period. It is looking specifically at the additional costs or risks from the financial structure of water companies and the extent to which savings are being shared with customers. It is due to be published in the spring of 2015.

3.14 Our study *Strategic flood risk management* looks at whether strategic decision-making in the allocation of funds to flood management projects is sound and whether current funding arrangements are sustainable. This was published on 5 November 2014.¹⁷

¹⁷ Comptroller and Auditor General, Department for Environment, Food & Rural Affairs, *Strategic flood risk management*, Session 2014-15, HC 780, National Audit Office, November 2014, available at: www.nao.org.uk/wp-content/uploads/2014/11/Strategic-flood-risk-management.pdf

Part Four

Flood Re

4.1 Flood Re, or the Flood Reinsurance Scheme, is the name given to the insurance industry and government's proposed replacement insurance scheme for householders in areas of high flood risk. It is designed to ensure that domestic property insurance continues to be widely available and affordable for homes at a high risk of flooding, without placing unsustainable costs on wider policyholders or the taxpayer. The Department expects this protection to be time-limited, with a transition period of up to 25 years to prices which accurately reflect flood risk.

4.2 The Department has consulted on the contents of regulations supporting the scheme and is currently considering the responses received.¹⁸

Background

4.3 Flood insurance has been available in the past due to voluntary agreements between the government and the insurance industry. The most recent of these agreements is the 2008 Statement of Principles. This expired on 30 June 2013, although the insurance industry has agreed to abide by its commitments under the Statement of Principles until Flood Re is in operation.

4.4 The insurance market is changing in a number of ways including as a result of more sophisticated flood risk models becoming available. Households in flood risk areas are more likely than in the past to be charged a premium that reflects their specific risk of making a claim. As a result of these changes and the Statement of Principles ceasing to have effect, many households may struggle to afford ongoing cover. Householders could face further anxiety if they are unable to meet the conditions of their mortgage or find it difficult to sell their home because of insurance problems. This could also create instability in the housing market in some areas. If flooding were to take place, such households could be left in financial hardship, placing additional pressure on community support services and the State.

¹⁸ <https://consult.defra.gov.uk/flooding/floodreinsurancescheme>

How Flood Re will work

4.5 Flood Re will be a not-for-profit reinsurance body run and managed by the insurance industry. The scheme will effectively limit the cost of flood insurance for properties at the highest risk, with the level of the premium varying according to the council tax band (or equivalent) of the property. For properties not at high flood risk, the market is expected to provide insurance at more competitive rates. It has been estimated that around 1–2% of domestic households might benefit from being reinsured through Flood Re.

4.6 Insurers will maintain a direct relationship with their customers, with policyholders paying premiums and making claims directly to the insurer. However, if an insurer calculates that the flood risk element of a policy will cost more than the premium set under Flood Re, that insurer can pass (cede) the flood risk part of the policy to Flood Re. In the event of a flood, the insurer would pay the claim to its customer and seek reimbursement from Flood Re.

4.7 Funding for the scheme will come from premiums and a levy, which will be raised from insurers according to their market share. The levy will be set at a level that replicates the cross subsidy that already exists in the market (currently, all domestic policyholders subsidise ‘at-risk’ policyholders). The levy has been set at £180 million per annum for the first 5 years of the scheme which equates to approximately £10.50 for each UK household with both buildings and contents insurance. The levy and the thresholds set on the charges to policyholders for high-risk insurance will be reviewed at least every 5 years by Flood Re, and this will be reported to the Secretary of State. Any changes will need to be approved by the Secretary of State and Parliament.

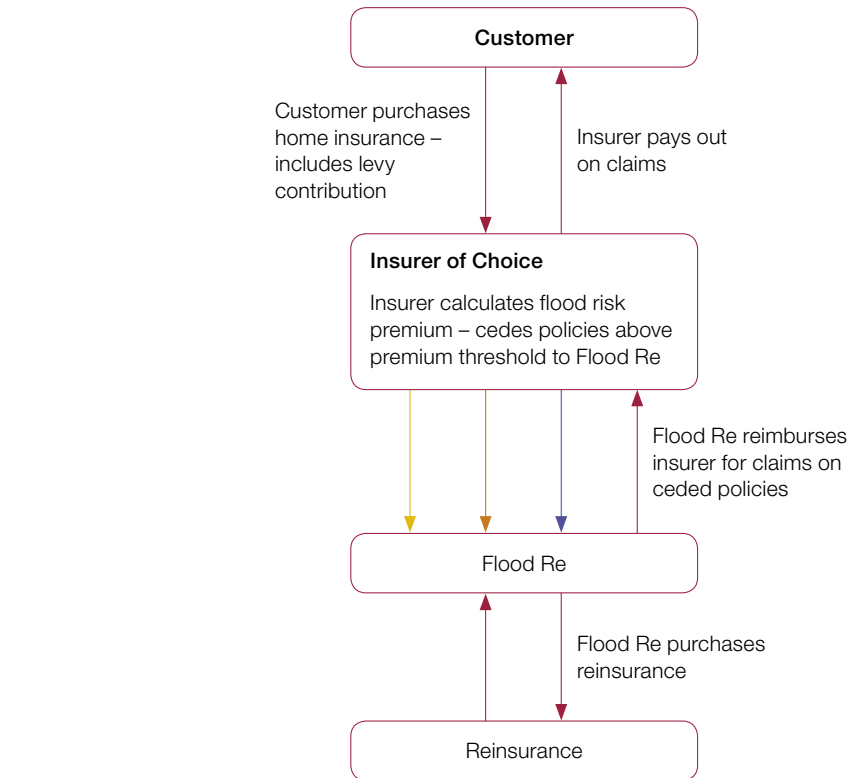
4.8 Should the regular levy and the flood risk premiums, which will be capped, be insufficient to cover the flood costs for the schemes ceded to Flood Re, Flood Re will have the ability to charge further amounts to insurers, known as the second levy. Flood Re’s liability is limited to the equivalent of a 1 in 200 loss scenario, which is the minimum level required of insurers under European law. The Department estimates this as comparable to events 6 times worse than the floods in 2007. Flood Re’s design involves the use of reinsurance to manage the volatility in the scheme’s spending as well as allowing Flood Re to call on insurers for additional contributions in specific scenarios through the second levy. **Figure 5** explains how the scheme will function.

Governance of Flood Re

4.9 The Flood Re scheme is intended to be separate from government and to be run and managed by the insurance industry. However, the Department remains responsible for enabling legislation and for general matters of policy relating to the scheme. The Secretary of State will also retain the power to de-designate the scheme or the administrator. The levy is likely to be classed as a tax by the Office for National Statistics, and the scheme will be accountable to Parliament for its management of public money and stewardship of the scheme.¹⁹

¹⁹ The Office for National Statistics treats spending from certain schemes that private companies pay for as if they were directly funded by government through taxation. It does this where it considers that a scheme is in effect a form of tax or levy because the government has forced transactions to take place in the economy.

Figure 5
How Flood Re works



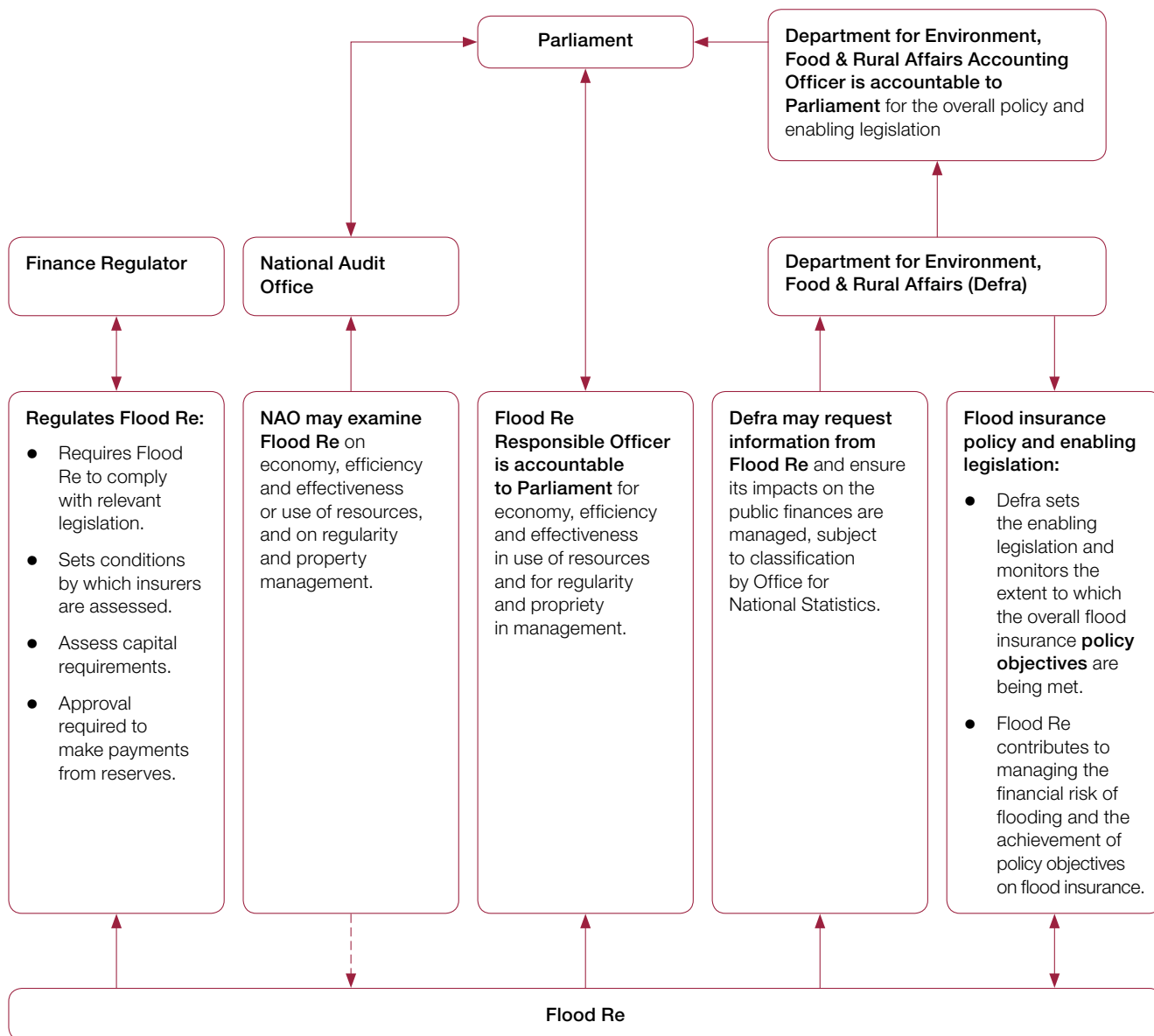
Source: Department for Environment, Food & Rural Affairs: *A short guide to Flood Re*

4.10 Figure 6 overleaf outlines the proposed governance arrangements.

4.11 The Department has recently consulted on the detail of the proposed regulations to implement Flood Re. The consultation considered the governance around the scheme's levy raising powers and sets out how Flood Re will be accountable to government and Parliament, as well as Flood Re's role in managing a transition to risk-reflective pricing; issues which were of interest during passage of the Water Act 2014 through Parliament.

4.12 The consultation on the Flood Re regulations closed in September 2014 and the Department is currently considering the responses in advance of publishing a formal response.

Figure 6
Corporate governance of Flood Re



Source: Department for Environment Food & Rural Affairs: *The Flood Reinsurance Scheme – Regulations* (July 2014). Available at: https://consult.defra.gov.uk/flooding/floodreinsurancescheme/supporting_documents/A%20short%20guide%20to%20Flood%20Re.pdf

Appendix One

The Department's network bodies

Executive agencies

Animal Health and Veterinary Laboratories Agency
(the Animal and Plant Health Agency from 1 October 2014)
Centre for Environment, Fisheries and Aquaculture Science
Food and Environment Research Agency
Rural Payments Agency
Veterinary Medicines Directorate

Executive non-departmental public bodies

Royal Botanic Gardens Kew
Consumer Council for Water
Environment Agency
Food from Britain (to be formally abolished summer 2014)
Gangmasters Licensing Authority (transferred to Home Office April 2014)
Joint Nature Conservation Committee
Marine Management Organisation
National Forest Company
Natural England

Advisory non-departmental public bodies (Defra funded)

Advisory Committee on Pesticides (ACP)
Advisory Committee on Releases to the Environment (ACRE)
Committee on Agricultural Valuation (abolished April 2014)
Independent Agricultural Appeals Panel
Science Advisory Council
Veterinary Products Committee

Non-ministerial departments

Forestry Commission
Water Services Regulation Authority (Ofwat)

Tribunal non-departmental public bodies

Plant Varieties and Seeds Tribunal

Public corporations

Covent Garden Market Authority

Levy Bodies

Agriculture and Horticulture Development Board
Sea Fish Industry Authority

Other bodies

Adaptation subcommittee of the committee on climate change
British Wool Marketing Board
Broads Authority
Conservation Boards for Areas of Outstanding Natural Beauty x2
Drinking Water Inspectorate
National Parks Authorities x9
UK Coordinating Body
Waste and Resources Action Programme

Source: Department for Environment, Food & Rural Affairs

Appendix Two

Results of the Civil Service People Survey 2013

Survey question (% 'strongly agree' or 'agree')	Department for Environment, Food & Rural Affairs (excluding agencies)	Civil service benchmark
Leadership and managing change		
I feel that my department as a whole is managed well	35	43
Senior managers in my department are sufficiently visible	49	51
I believe the actions of senior managers are consistent with my department's values	41	43
I believe that the board has a clear vision for the future of my department	28	42
Overall, I have confidence in the decisions made by my department's senior managers	34	41
I feel that change is managed well in my department	23	29
When changes are made in my department they are usually for the better	16	27
My department keeps me informed about matters that affect me	58	58
I have the opportunity to contribute my views before decisions are made that affect me	31	36
I think it is safe to challenge the way things are done in my department	38	38
Organisational objectives and purpose		
I have a clear understanding of my department's purpose	77	85
I have a clear understanding of my department's objectives	74	80
I understand how my work contributes to my department's objectives	79	83

Notes

- 1 These are summary results of the Civil Service People Survey 2013. Not all question scores have been included.
- 2 The score for a question is the percentage of respondents who strongly agree or agree to that question.

Source: *Civil Service People Survey 2013*, available at: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2013, accessed 28 August 2014

Appendix Three

Publications by the NAO on the Department since April 2010

Publication date	Report title	HC number	Parliamentary session
17 June 2014	Oversight of three PFI waste projects	HC 264	2014-15
5 June 2014	Thames Tideway Tunnel: early review of potential risks to value for money	HC 167	2014-15
10 October 2013	Food safety and authenticity in the processed meat supply chain	HC 685	2013-14
12 December 2012	Streamlining farm oversight	HC 797	2012-13
18 July 2012	Improving the delivery of animal health and welfare services through the business reform programme	HC 468	2012-13
28 October 2011	Flood Risk Management in England	HC 1521	2010-2012
22 July 2011	Department for Environment, Food & Rural Affairs: Managing front-line delivery costs	HC 1279	2010-2012
12 July 2011	Department for Environment, Food & Rural Affairs: Geographic information strategy	HC 1274	2010-2012
8 July 2010	Tackling diffuse water pollution in England	HC 188	2010-11

Source: National Audit Office records (available at: www.nao.org.uk/major-outputs/#)

Appendix Four

Cross-government reports of relevance to the Department since 2010

Publication date	Report title	HC number	Parliamentary session
7 February 2014	Progress on public bodies reform	HC 1048	2013-14
31 January 2014	Forecasting in government to achieve value for money	HC 969	2013-14
13 November 2013	Infrastructure investment: the impact on consumer bills	HC 812	2013-14
8 October 2013	Confidentiality clauses and special severance payments – follow up	HC 684	2013-14
18 July 2013	Charges for customer telephone lines	HC 541	2013-14
8 July 2013	The 2012-13 savings reported by the Efficiency and Reform Group	HC 126	2013-14
5 July 2013	The rural broadband programme	HC 535	2013-14
19 June 2013	Building capability in the senior civil service to meet today's challenges	HC 129	2013-14
13 March 2013	Integration across government	HC 1041	2012-13
27 February 2013	Improving government procurement	HC 996	2012-13
30 January 2013	Financial sustainability of local authorities	HC 888	2012-13
16 January 2013	Planning for economic infrastructure	HC 595	2012-13
18 October 2012	Managing budgeting in government	HC 597	2012-13
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

Where to find out more

The National Audit Office website is
www.nao.org.uk

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