National Audit Office

DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS, AND RURAL PAYMENTS AGENCY

The Delays in Administering the 2005 Single Payment Scheme in England

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INTRODUCTION

1 This report reviews the implementation by the Rural Payments Agency and the Department for Environment, Food and Rural Affairs of the European Union's single payment scheme in England. The implementation had cost £122.3 million by the end of March 2006. The Agency encountered difficulties in processing payments due under the scheme, totalling around £1,515 million, and failed to meet its own target to pay 96 per cent of that sum by the end of March 2006.

2 The factors contributing to the difficulties experienced included:

a the Department and the Agency had not fully appreciated the risks and complexities involved in implementing the English model of the single payment scheme. This was, in part, due to a lack of common understanding of the scheme requirements and likely customer behaviours across all key teams within the Department and the Agency;

b an absence of clear metrics against which to assess progress on implementation led to over optimistic upward reporting, and hence a failure to show the true state of progress. As a consequence, the related risks of failure became apparent at too late a stage to enable effective alternative payment regimes to be put in place; and

c in implementing the scheme at the same time as a wider business change programme aimed at delivering efficiencies, the Agency lost too many of its experienced staff and, as a consequence, the knowledge which went with them.

3 Implementation has not provided value for money because the project has cost more than anticipated and is not fully implemented as scoped, planned efficiency savings will not be achieved, relationships with the Agency's customer base have been damaged and there is a risk of substantial disallowance of expenditure by the European Union.

4 The previous Chief Executive was therefore removed from post on 16 March 2006 and at the end of September 2006 remained on leave of absence on full pay of almost £114,000 a year.[1] The new Chief Executive and senior managers at the Agency have demonstrated a business-like approach to learning lessons from what happened with the 2005 single payment scheme and are acting on the recommendations we have made. The Agency is unlikely to be able to remedy all the problems in time for the 2006 single payment, but the management team is developing a recovery plan which they expect to be fully implemented by April 2008.

1 This is less than he was paid in 2005-06 as his pay in that year included a bonus for performance in 2004-05 and a housing allowance. The terms of his departure will be reported publicly when they are settled.

KEY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5 The European Union's single payment scheme replaces 11 previous subsidies to farmers based on agricultural production with one new single payment based on land area.[2] Landowners and farmers in England who kept their land in good agricultural and environmental condition in 2005 could claim payment from the Rural Payments Agency (the Agency accredited under EU Regulations to administer the single payment scheme in England).[3] Under EU Regulations 96.14 per cent of the Agency's single payment scheme funds of the estimated £1,515 million had to be paid by the end of June 2006 in order to be sure of avoiding late payment penalties.

6 The Department for Environment, Food and Rural Affairs (the Department) regards the model of the single payment scheme in England as more forward looking than those in most other European countries. EU Regulations offered some discretion to Member States over how to implement the single payment scheme and, as Appendix 1 shows, England and Germany were the only countries to adopt the 'dynamic hybrid model' for 2005.[4, 5] Ministers considered that this model was the most suited to giving farmers in England greater freedom to respond to market demands for agricultural products, and to reward environmentally friendly farming practices.[6] The Department recognised that their approach had a high risk of not being delivered on schedule.[7]

7 The Agency spent £122.3 million on implementing the single payment scheme as part of a wider business change programme. The Agency deals with a range of EU subsidies and other activities, such as cattle tracing. From its inception in 2001 the Agency had embarked on a business change programme to improve efficiency but had to revise its approach in November 2003 to include the development of the single payment scheme, which then became the key element of business change. The way the scheme was implemented was designed to achieve efficiency savings by enabling staff in different offices to work on any tasks relating to any claim, rather than for the same individual or small team to process a whole claim from end to end. The Agency anticipated that this 'task based' approach would enable faster processing and improve staffing flexibility.

2 Arable Area Payments Scheme, Beef Special Premium, Extensification Payment Scheme, Sheep Annual Premium Scheme, Suckler Cow Premium Scheme, Slaughter Premium Scheme, Veal Calf Slaughter Premium Scheme, Dairy Premium, Dairy Additional Payments, Hops Income Aid, and the Seed Production Aid.

3 EU Regulations define a farmer as any person or organisation whose holding is situated within Community territory and who exercises an agricultural activity or maintains their land in good agricultural and environmental condition. Similarly, in this report we have used the term 'farmer' to include all people with land eligible for payments, whether or not they farm the land commercially.

4 Under the dynamic hybrid model chosen in England, the value of payment entitlements is based partly on claimants average subsidy receipts, if any, between 2000 and 2002, and partly on a flat rate per hectare. Ninety per cent of the English financial ceiling was used to fund the 'historic' element of entitlement values and 10 per cent to fund the flat rate element in year one of the scheme, and the weighting transfers to the flat rate in incremental steps of five per cent to 15 per cent each year (see Appendix 1).

5 Whereas, according to our consultants, RAND Europe, the German government set a 100 euro de minimis claim limit, the Department did not adopt such an approach because all four UK Departments (the decision having legally to be made at Member State level) concluded that it was the calculation of the entitlement values that absorbed the processing effort and that having done that work it was simpler to make the payment. In addition, the Department introduced three separate categories of land in England, each of which attracted a different flat rate of grant. Set against that in Germany there was a different flat rate in each of the German Lander and different payment rates were set for grassland and arable land. This was an option considered in England but not adopted.

6 Secretary of State for Environment, Food and Rural Affairs statement on CAP reform: implementation of the Single Farm Payment Scheme in England, Hansard 12 February 2004, volume 417 Session 2003-04, columns 1585-1587.

7 Partial Regulatory Impact Assessment on Options for the Implementation of the Reform of the Common Agricultural Policy: Allocation of the single payment entitlements, July 2004 (published at http://www.defra.gov.uk/farm/capreform/background/pdf/RIAv1.pdf).




8 The Agency encountered difficulties in processing payments under the single payment scheme, and failed to meet its own target to pay 96 per cent of the money due to farmers by the end of March 2006. As at 31 March 2006 the Agency had paid £225 million (representing 15 per cent of the £1,515 million single payment scheme funds) to 31,040 farmers (27 per cent of the 116,474 claimants). The Agency made payments of £515 million by the end of April 2006 by streamlining processes for authorising payment once claims had been validated. Taking into account the risk that the remaining payments could otherwise have been deferred beyond the end of June 2006, the Agency made partial payments of £730 million in May 2006 with the agreement of the Department and Ministers.[8] The Agency paid out £1,438 million (95 per cent) against an EU deadline of 96.14 per cent by the end of June 2006, and 96 per cent of sums due by the end of July. By the end of June most farmers had been paid, except for 8,586 farmers (seven per cent) who had not received any money, and 16,168 (14 per cent) who had received partial payments amounting to 80 per cent of their claim. The delays, in particular the Agency's failure to meet its target for payments in March, led to the removal from post of the Chief Executive and increased Parliamentary interest in the performance of the Agency. This report examines the impact of the difficulties experienced by the Agency, the events that led to the delay in paying farmers, and what lessons can be learned and applied in future.

Overall conclusions

9 The single payment scheme is not a large grant scheme compared to some government programmes, but the complexity of the EU Regulations, the complex way in which the Department planned to implement them in England, combined with the deadlines required to implement the scheme for 2005, made it a high risk project. By choosing to integrate the scheme into a wider business change programme, the Agency added to its already considerable challenges. Many of the Agency's difficulties arose, however, from:

- underestimating the scale of the work needed to implement the scheme;
- over optimistic progress reporting; and
- governance structures which, in practice, proved overly complex, and the absence of clear metrics, arising from the lack of appropriate management information that would have allowed the oversight boards to measure progress objectively.

8 The partial payments represented 80 per cent of what the Agency estimated would be the total amount of each claim. The payments were made to those farmers who had not already received a payment and who had a claim of over €1,000.

By the end of March 2006 implementation of the single payment scheme had cost £46.5 million more than the Agency had anticipated in its November 2003 business case. The implementation of the single payment scheme and the wider business change programme had cost £258.3 million, will not achieve the level of savings forecast, and there is risk of substantial costs for disallowance by the European Commission. The farming industry has also incurred additional costs, 20 per cent of farmers have experienced stress and anxiety as a result, and five per cent of respondents to our survey said they have considered leaving farming.

10 The Agency has begun processing the 2006 single payment scheme claims ahead of the European Commission's payment window from December 2006 to June 2007. In view of the large number of changes required, the Agency has confirmed that it is unlikely to be able to remedy all the issues highlighted in our report in time for the 2006 single payment scheme. As a consequence, our recommendations include actions that the Agency should take to improve performance in the longer term as well as in 2006. We have also identified a number of recommendations with broader application to reduce the likelihood of other projects encountering similar problems in the future.

The impact of the difficulties experienced by the Agency

11 The difficulties in making payments have caused distress to a significant minority of farmers. Twenty per cent of the farmers surveyed by Ipsos MORI on our behalf said that the delays had caused distress and anxiety for them and their family. For some, such as many hill farmers, the single payment scheme is a significant proportion of their family income. We estimate that the delays have cost farmers between £18 million and £22.5 million in interest and arrangement fees on additional bank borrowing. The wider knock-on effects on the farming sector are difficult to quantify, but some farmers claim to have postponed purchases, sold crops and livestock early or delayed payments to their suppliers. The Secretary of State for Environment, Food and Rural Affairs announced on 22 June 2006 that, calculated from 1 July 2006, the Agency would pay interest to farmers in respect of delayed payments at one per cent above the London Interbank Offered Rate.[9]

12 We identified a number of errors and procedural weaknesses by the Agency in making payments to farmers in 2006. The Agency's systems were designed to make most payments by automated bank transfer and in a number of cases the Agency used other systems to speed up farmers' receipt of funds, especially where hardship was involved or regulatory deadlines were approaching. The Agency found that one batch of payable orders (amounting to £14.6 million) had not taken account of partial payments which had already been made. The Agency took immediate action in response to the review and stopped all the payable orders before farmers could cash the money. However, the Agency has yet to recover a further £5.4 million of overpayments that were made as a result of an error introduced in the computer system. In addition, as at 15 September 2006 we had identified 34 overpayments and 79 underpayments in our sample of 363 cases which, if replicated across the whole population, are most likely to result in errors of £6.5 million and £17.4 million respectively.[10] Many of the mistakes arose from errors in inputting data onto the computer system. In 105 of the 113 cases, the error related to the flat rate per hectare element, which represented only 10 per cent of the value of claims in 2005.

13 Errors and procedural mistakes in administering the scheme in England have created a risk that the European Commission will impose a financial correction, for which the Department has recognised provisions and contingent liabilities totalling some £131 million in its 2005-06 accounts. The European Commission can disallow expenditure if the Agency has not wholly complied with its regulations, leaving the Department to bear the cost. The figure of £131 million represents the Department's prudent estimate based on the guidance

9 House of Commons, Oral Answers to Questions, 22 June 2006, column 1478.

10 The overpayments and underpayments represent our estimate of the most likely error based on our sample testing as at 15 September 2006. We can be 95 per cent sure that the maximum overpayment would not exceed £20.2 million and the understatements would not be more than £37.1 million. The Agency are still investigating our queries on a further 33 cases from our sample of 363 cases. In these cases, however, the Agency has not yet processed the final payments and any errors found can be rectified beforehand.

available, at this stage, of what the financial corrections could be. Any disallowed amount is subject to clarification and negotiation with the European Commission. The Agency and the Department confirmed that, on occasion, the European Commission had subsequently revised down its initial assessment of potential disallowance. In advance of discussions between the Department and the European Commission it is not certain, however, what disallowance might be incurred on the 2005 single payment scheme.

14 There appears to be little prospect that the Department and the Agency will achieve much of the £164 million efficiency savings they had forecast between 2005-06 and 2008-09. The Agency is hopeful that savings could be made in future, but it has yet to develop a revised business case specifying how this can be achieved. The Agency had anticipated that its new 'task based' system could reduce the number of staff employed by 1,800 posts from a baseline of 3,950 posts. The Agency met its target to reduce its headcount of permanent staff by 1,000 posts by the end of March 2006, at a cost of £38.9 million. At this date, however, there were 2,140 permanent staff, plus 838 casual staff and 1,351 contract staff to deal with outstanding claims for the 2005 single payment scheme. Since then, the Agency has abandoned its task based approach to processing the single payment scheme and, although the volume of work associated with the 2005 scheme may subside, reverting to a 'client based' approach, which is aimed to speed up payments, will not necessarily generate significant savings. Corven Consulting, commissioned by the Department to review the single payment scheme, reported in June 2006 that they have identified potential savings of £7.5 million achievable by March 2009.

15 The project to implement the single payment scheme has cost £46.5 million more than anticipated, and further cost increases are likely. According to the Agency's financial data, the outturn cost at March 2006 of £122.3 million (compared to an original budget in November 2003 of £75.8 million) does not take account of the deferral of some key elements of the system, such as the software required to extract management information. The Agency are also considering plans to commission further development work to improve the performance of the computer system. By March 2006 the implementation of the single payment scheme and costs relating to the wider business change programme totalled £258.3 million.

16 The former Chief Executive was removed from post in March 2006 and at the end of September 2006 remained on leave of absence on full pay. The Department has yet to determine the terms of his departure.[11]

The events that led to the delay in paying farmers

17 The timetable for the implementation of the single payment scheme became very tight following required changes to the original specification of the computer system. The Agency had anticipated that the development of the core IT infrastructure would be complete by December 2004. By this date, however, the Agency had identified 23 changes to the computer systems under development, largely to incorporate changes to EU Regulations and legal clarifications of those Regulations, Ministerial decisions and other changes identified.[12] The Agency considered that failure to implement these changes would have exposed the Department to a significant risk of disallowance by the European Commission. In accordance with EU Regulations the Department had already notified the Commission of the United Kingdom's decisions on implementation of the single payment scheme by 1 August 2004 and did not consider that deferral to 2006 was an option. The revised timetable anticipated completion by September 2005 and deferred the date of the first payments from December 2005 to February 2006.

11 The terms of his departure will be reported publicly when they are settled.
12 An example of the other changes was amendment to the layout of the application form.

18 To keep to the timetable, the Agency implemented key aspects of the IT system without adequate assurance that every component was fully compatible with the rest of the system and supporting business processes. The Agency did not have time to test the system as a whole before it began making payments. Each key element of the system was tested before introduction, but problems arose afterwards as the testing of each system in isolation could not fully simulate the real world environment. The claim validation and inspection system, for example, had issues outstanding when it was implemented (such as computer screens 'freezing'), and the Agency reported that the system had subsequently proved unstable. Accenture and the Agency confirmed to us, however, that the problems experienced in July and August 2005 have now been overcome and that the system is now stable.

19 The Agency underestimated the work involved. The Agency did not adequately pilot test the process of registering farmers, accurately mapping their land and confirming eligibility. It had expected to record 1.7 million parcels of land, but had to deal with 2.1 million parcels. Some of the land related to new claimants, of whom some had very small landholdings, but 36 per cent of the increase arose when existing farmers registered additional land. The Agency consider that most of this additional land should have been registered in previous years under the EU Regulations governing the subsidy schemes that the single payment scheme replaced.

20 The Agency did not have adequate management information to monitor progress and forecast future work effectively. The Agency had deferred the development of software to draw out key information on the progress of each claim in order to focus resources on parts of the system it considered would increase the chances of meeting the tight deadline. As a consequence, the Agency found it difficult to determine how much work remained outstanding on claims each week and how much time it would take to complete them.

21 The Agency had to rely on temporary and agency staff to process claims, but many lacked experience in dealing with such work. The Agency confirmed that it had an induction programme for everyone brought in to work on claims, but our interviews indicate that the training team struggled to deal with the volume of work and some temporary staff had to rely on advice from colleagues and experts in each office on how to deal with claims. The Agency spent £14.3 million on agency staff in 2005-06 to process 2005 single payment scheme claims.

22 Despite limited confidence that the system would be ready on time, development work on the computer system continued and no contingency plan was invoked. In June 2005, the Department informed the Secretary of State and the Minister of Farming that an OGC Gateway™ review had assessed the programme as 'red', meaning that the Chief Executive of the Agency was recommended to take urgent remedial action to address the issues which had been identified. The Department also advised that there was only a 40 per cent confidence that payments would in fact commence, as planned, in February 2006. The same OGC Gateway™ review, Gate 4b, recommended that action was taken to identify and analyse fallback options to safeguard payment deadlines. However, the Department and the Agency assessed that continuing development of the existing computer system provided a greater possibility of meeting the payment target than relying on the contingency system under development by Sungard and Xansa. The Department did not therefore recommend invoking a contingency system or, because it did not believe it was an available option, delay use of the new computer system until 2006.

The lessons to be learned

23 It may have been expensive to develop and maintain suitable contingency arrangements, but the high risks of the new system being developed, and of the potential consequent disallowance by the European Commission of the payments made, might have warranted such costs. The Agency initially developed an alternative, costing £8.4 million, which adapted its legacy IT systems to make 2005 payments. As the contingency relied on the same data as the new system being developed it was mothballed once claims started to be processed using the new system. Continued development work to run the contingency in parallel would have absorbed further resources and spread more thinly the limited number of staff with the required knowledge of the scheme and development skills. Furthermore, many of the difficulties with data accuracy would have arisen with the contingency system and the Agency considered that its ability to process them was understood less than the main system that had been the focus of attention. Nevertheless, as the contingency system would have processed payments on a 'claim by claim' basis, rather than 'task by task', the Agency may have found it easier to resolve outstanding data queries. After mothballing that contingency system and the adoption of an EU Regulation in October 2005 which permitted partial payments, the Agency decided to develop as a fallback a new system to make partial payments which was available from the end of January 2006. This fallback was not invoked because of the perceived progress to enable full payments. A decision to implement an alternative partial payments system based on 80 per cent of claim values was taken in April 2006. Our consultants, RAND Europe, confirmed that in Germany the Federal Ministry of Food, Agriculture and Consumer Protection used its contingency scheme to make advance payments in December 2005, and final payments in April to June 2006. Until the relevant auditor's report in January 2007, however, it will not be clear whether this payment scheme complied with the European Commission's requirements.

24 The Office of Government Commerce undertook four OGC Gateway™ reviews between May 2004 and February 2006, three of which assessed the programme as 'red'. The reports focused on the leadership of the project and Ministerial involvement, IT issues and relations with the contractor. There was some consideration of wider issues that would impact on the success of the scheme but more attention could have been paid to issues such as staff morale and training, or the Agency's relationship with farmers. The Office of Government Commerce is carrying out its own case study review of the Agency's business change programme, as part of which it is reviewing the role of the OGC Gateway™ process and whether there is scope for possible improvements, including the scope for carrying out more 'Gate 0' reviews during a project, which are designed to take a more holistic view.

25 The Department and the Agency put in place appropriate arrangements to oversee progress, but as the deadline got closer, the two key oversight boards took greater control of implementation. We reviewed the structures for overseeing the project early in 2005 and confirmed to the Agency that, in principle, they provided a sound basis on which to manage the project risks. In practice, however, as the programme entered its final, critical, phase the distinction between the two oversight boards became less clear and the conclusions of one board (the CAP Reform Implementation Board) were typically referred to the other (the Executive Review Group) for approval.[13] The OGC Gateway™ Review recommended in June 2005 that one individual should be given responsibility for managing the decision making process. This recommendation was not adopted for the 2005 scheme, but the Executive Review Group agreed that this lesson should be learned for the 2006 scheme.

13 The CAP Reform Implementation Board was responsible for technical programme management. It was chaired alternately by the Chief Executive of the Agency (who was senior responsible owner of the Rural Payments Agency change programme) and the Director General for Sustainable Farming, Food and Fisheries at the Department (who was senior responsible owner of CAP reform). The Executive Review Group was chaired by the Permanent Secretary, and its role was to provide a critical challenge function.

26 The Executive Review Group became embroiled in progressing the project rather than exercise an obvious challenge function. Nearly all the members of the Review Group were senior officials within the Agency and Department with policy or operational responsibilities for the single payment scheme, and there was only one non-executive member appointed. Our interviews with senior officials confirmed that the papers submitted by the Agency for each meeting were difficult to understand. Nonetheless, those officials believe that they were still able to exercise an appropriate challenge function, although this was not always clear from our review of the minutes. The former Chief Executive confirmed to us his belief that the CAP Reform Implementation Board came to supercede his role as senior responsible owner of the delivery of the single payment scheme, its decisions subsequently being ratified by the Executive Review Group.

27 Clearly defined metrics for the Executive Review Group would allow a more objective measure of performance. The former Chief Executive's progress reports to Ministers were unduly optimistic and the progress reports and other papers prepared by the Agency were overly complex, and did not spell out overall performance clearly enough. In the absence of adequate management information systems, robust and objective data were not readily available meaning that clearer output measures (such as the cumulative number of maps registered or the progress of claims through the validation process) which might have triggered corrective actions earlier, could not be set.

28 The Department allowed the Agency too much discretion and independence in implementing the single payment scheme given the potential liability it faced and the consequent risks to its reputation. Senior departmental officials confirmed that they had concerns in late 2005 about whether the Agency's management team could deliver the single payment scheme on time, but felt that making changes at that time would have been more disruptive and raised the risk profile of the project even higher.

29 As the pressure built, day to day communications with farmers proved difficult and a lack of information on the progress of their claims led to stress and frustration amongst the Agency's primary customers. The Agency relies on farmers' cooperation to administer the payments scheme effectively. The absence of key information on the progress of each claim hampered the ability of staff in the customer contact centre to resolve farmers' queries.

30 We recommend that the Agency:

a Undertakes a cost benefit review by the end of March 2007 of the processes and systems it has developed for administering the single payment scheme to determine whether each component is, and is likely to remain, adequate for business needs.

b Reviews the high risk and high value claims paid in 2005 to confirm their accuracy, before it commences the associated 2006 payments.

c Finalise and test plans for a partial payment system for 2006 claims before the payment window commences in December 2006 in case such arrangements prove necessary.

d Contact those farmers who are known to have been overpaid for the 2005 single payment scheme before the end of October 2006 to agree arrangements to recover the money.

e Draw to the attention of farmers the 'payments calculator' available on the Agency's website so that they can check the 'reasonableness' of their 2005 payment before the start of the 2006 payment window. This tool could help identify those farmers who received less than they were entitled to in 2005, and enable any underpayments to be remedied.

f Develop adequate management information systems by Summer 2007 to enable the Agency to track the progress of claims.

31 We recommend that the Department:

a Review the Agency's plans for partial payments for the 2006 single payment scheme to determine whether they are cost-effective and likely to comply with EU regulatory requirements.

b Drawing upon the results of the Agency's review of 2005 high risk and high value claims, develop a robust case by the end of 2006 that could be used in negotiations with the European Commission to minimise the extent of disallowance likely to be imposed.

c Simplify reporting arrangements between the Agency and the Department so that in any future projects there are clear lines of accountability between them.

d Develop a clear set of metrics for this project and any similar projects in future that can be used by senior officials and members of project oversight boards to measure progress objectively. These metrics should include quantifiable, objective measures of outputs. In the context of the single payment scheme it should be possible to relate these measures directly to progress processing farmers' claims, such as the number of maps registered each week compared to target.

e Agree arrangements with delivery bodies at the outset of a project that, if the performance metrics dictate, the Department would instigate a review of progress to determine whether changes are required. Such reviews could be undertaken by internal audit, the Office of Government Commerce or, if appropriate, by inviting the National Audit Office to examine progress.

f Resolve the former Chief Executive's employment status as soon as possible.

32 We recommend that the Office of Government Commerce:

a For the key mission critical projects (where OGC has a direct intervention role), use the Gateway Report, together with the wider evidence, to specify the circumstances in which it would be appropriate for the senior responsible owner to notify the Permanent Secretary and Ministers that a project should either be stopped or fundamentally reviewed. For projects in general, OGC should make use of capability reviews of departments' programme and project management Centres of Excellence (as being piloted by OGC) to ensure that departments' processes give them access to the full body of knowledge on projects so they can take appropriate decisions on whether a project should be stopped or fundamentally reviewed.

b Review, before the end of 2006, how 'red' reviews, and in particular, multiple 'red' reviews, are dealt with in future in terms of guidance to the senior responsible owner and bringing them to the attention of the Permanent Secretary.

c Examine whether existing OGC Gateway™ review procedures pay sufficient attention to the softer aspects of a project, such as staff training and skills, and customer expectations.