

Arable Area Payments Scheme



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Executive summary

1 In 1997-98 the Ministry of Agriculture, Fisheries and Food spent some £1.1 billion on arable area payments to farmers in England. As with other schemes funded by the European Union, this expenditure is initially met from money voted by Parliament but is later reimbursed by the European Union.

2 Under the Arable Area Payments Scheme, farmers may claim payments based on the areas used for growing certain crops. Eligible land is defined as land in arable production on 31 December 1991. Except for very small claims, farmers are required to take a proportion of their claimed land out of use – “set-aside”. Payment rates vary from approximately £250 per hectare for cereals such as wheat to nearly £500 for linseed; and £325 per hectare is paid for set-aside land.

3 The Ministry administers the Scheme through its nine regional offices which process and check claims submitted by farmers. Reimbursement by the European Union of scheme payments is conditional upon the Ministry applying appropriate checks and controls; meeting payment deadlines; and performing on-the-spot checks of at least five per cent of arable area aid claims each year. If the Ministry does not satisfy the European Commission on its compliance with the requirements, expenditure may be disallowed and the money recovered from the United Kingdom. The Ministry meets the administration costs for the Scheme. Against this background we examined:

- whether the Ministry had processed claims efficiently;
- steps taken to prevent and detect non-compliance with Scheme rules; and
- the management of set-aside and other aspects of the Scheme in England.

Has the Ministry processed Scheme claims efficiently?

4 In considering the efficiency of the Scheme administration, we visited all nine regional offices as well as central divisions within the Ministry. We assessed the structure and organisation of the work and the system for processing claims. We calculated the cost of administration of the Scheme and analysed in detail the impact of numbers and complexity of claims on processing times. In addition we examined the files for one per cent of all applications in 1996-97.

5 The Scheme is complex and the administrative demands have increased since its introduction. Claims are often difficult and time consuming to process. Moreover, Scheme processing demands are not evenly distributed throughout the year. In 1997-98, the cost of Scheme administration was £12 million, of which £8 million were regional running costs. Within that, the cost of checking scheme claims has risen by nearly 64 per cent in real terms since 1993-94. This rise can partly be attributed to the increased checking of applications to previous years' data carried out by Ministry staff.

6 There is a wide disparity in the apparent efficiency of the nine regional offices. For example, in 1996-97 the average time taken to process a Scheme claim varied from just over 9 hours to nearly 18 hours. This disparity could not be explained by differences in the nature, complexity or number of claims received by regional offices. The rates of error found by regional offices in farmers' applications did vary significantly but there was no direct correlation between error rate and time taken to process claims. The organisation of the work was very similar in all offices and there was no evidence that there were staffing or structural differences. We calculate that, if the five regions taking the longest time were able to achieve the average time of the four others – 10 hours – this could result in savings in the region of £1.6 million a year.

7 The competence and experience of processing staff impact directly on regional offices' ability to process claims expeditiously. Regional offices experience difficulty in recruiting and retaining staff for processing work and there was some indication of high levels of staff turnover. Regional offices are, therefore, faced with a significant challenge in managing, retaining and motivating staff.

8 The annual expenditure on information technology has risen from £0.5 million in 1993-94 to £3 million in 1996-97. This reflects enhancements to the original system, which is now expensive and time-consuming to maintain and enhance. The existing computer system is also inherently difficult to use. It gives rise to many interruptions in the processing of individual claims and contributes substantially to the difficulties experienced by all regional offices in administering the Scheme. It also makes the complex processing tasks expected of staff particularly difficult and frustrating. More formal training for staff might help them to utilise the system more efficiently. The Ministry predicts significant efficiency gains when new systems are developed to support regional and other management of Common Agricultural Policy schemes in England. This would simplify the tasks expected of staff on the Scheme which we examined, reduce the effects of high staff turnover, and improve the efficiency of regional offices.

Has the Ministry prevented and detected irregularities?

9 We examined the robustness of the Ministry's controls to detect and prevent irregularities, which are based on in-office checks, the conduct of on-farm inspections and the use of remote sensing. We did so by scrutiny of the organisation of the regional offices' processing system, together with an examination of one per cent of all applications in 1996-97 and ten per cent of claims subject to an on-farm inspection in 1996.

10 The Ministry's in-office checks, which comprise a series of manual and computer based checks on all applications, are appropriately targeted and applied by regional offices to confirm the eligibility of claims and to identify errors and serious irregularities to the extent possible from paper-based and computer controls. They cost £3.7 million in 1996-97, and identified some 1,700 irregularities amounting to £0.84 million in cases which involved the application of financial penalties or certain types of reductions to amounts claimed. However, the Ministry does not know the total value of amounts saved as a result of in-office checks. In the Ministry's view, the calculation of such savings would present practical difficulties and be very time-consuming, as it would require a comparison of the amount claimed by the farmer and that paid.

11 Field inspections are a very important method of discovering irregularities and detecting fraud, being based on physical verification of field sizes and crops. The average time taken to conduct an inspection in 1996 was 26 hours, but regional office averages varied from 12 to 46 hours. There were also significant variations in the number of fields measured or visited in respect of claims inspected, and in the number of claims found to be satisfactory. In 1997 and 1998, the Ministry has made progress in improving the management, timeliness and conduct of field inspections, including the application of risk based criteria in the selection of claims. We consider that there is scope for further improvements, most notably in the development of a single database for use in all regional offices to assist the collection of consistent data and thus enable more meaningful monitoring and comparison to be made, which could lead to greater consistency in the conduct and reporting of field inspections. The cost of field inspections in 1996 was some £750,000. Nearly 1,000 cases of irregularity identified as a result led to penalties for farmers of £520,000.

12 Remote sensing, which analyses satellite imagery to measure field sizes, identify crop types and as the basis for checking the eligibility of land, has become a more cost-effective technique for detecting irregularities since it was first employed by the Ministry. The contract cost has fallen by nearly a half from £434 per case in 1992 to £242 per case in 1997-98. The value of claim reductions

discovered as a result of remote sensing and subsequently confirmed by field inspection fell from around £240,000 in 1995 and 1996 to £204,000 in 1997 when the number of cases of remote sensing analysed in detail were reduced. Remote sensing of a sample of Scheme claims has a significant but unquantified deterrent effect.

The management of set-aside and other aspects of the Scheme

13 The Ministry has implemented controls which ensure that farmers have included the required proportion of set-aside in their claims and reduced claims which do not comply with this and other European Union requirements. The main aim of set-aside is to contribute to the Arable Area Payments Scheme's objectives of controlling the level of production. However, within the constraints of that objective and the rules relating to set-aside, the Ministry has set prescriptions for the management of the land and given advice to farmers which seek to maintain the land in good agricultural condition, and where possible to achieve environmental benefits such as numbers of birds and greater variety of wild life.

14 Disallowance of expenditure by the European Commission can have significant financial consequences for member states, as payments made to farmers may not be fully reimbursed. The first three years of the Arable Area Payments Scheme, from 1993 to 1995, saw expenditure of over £2.5 billion in England, with the Ministry to date only accepting disallowance of £195,000 for payments under these Scheme years. Performance in later years is still under review with the Commission. This level of disallowance is small when viewed in the context of annual expenditure of £1 billion and the complexity of the Scheme. Judged by this criterion, the Ministry has been largely successful in safeguarding funds in this area.

Recommendations

On processing claims

15 The reasons for variations in regional processing times do not appear to lie in factors such as the number and complexity of claims or levels of farmer error. They may or may not lie in factors within the control of management. The Ministry should explore further the reasons and take whatever steps it can in order to get average times to the lowest possible level while maintaining standards. To this end they established a new central unit in late 1998, one of whose tasks is to compare the efficiency between regional offices.

16 Previous attempts by the Ministry have been unable to identify reasons for variations in efficiency. The new central unit will be seeking to develop benchmarking, total quality management and other techniques which would look at the consistency and speed of processing within and between schemes. The establishment of performance targets, such as time taken to process a claim, might be of benefit in identifying the reasons for variations and improving performance. Pending the outcome of work by the new unit, the Ministry might use the results of our analysis to examine the reasons why some of the regional offices with comparable numbers of complex claims under the arable area scheme take significantly longer. Conversely those offices taking significantly less time may offer some examples of good practice or management factors for this scheme from which others could benefit.

17 The problems of staff turnover, employment of temporary staff, periods of peak demand, and complexity of processing reinforce the importance of adequate induction and on-going training for staff on both clerical and computer based activity. The Ministry's introduction in 1998 of a revised training strategy should help to reduce such problems. The Ministry should monitor the take-up of new programmes by regional offices and evaluate the success of the training given.

18 The rising costs and increased time spent checking claims suggest that review and updating of information technology support is appropriate. The Ministry is planning to introduce a major new system for administering all Common Agricultural Policy schemes in the next five years. This project has Treasury approval in principle and will be taken forward using a formal project management methodology. This should enable evaluation of the project in due course against objectives, budgets and timescales.

On checks to prevent and detect irregularities

19 The Ministry is required to comply with European requirements for the level and nature of checks. To that extent the relative cost and benefit yield of such checks are not the only criteria for judging whether they are successful. However, more data on the value of errors found as a result of the different categories of checks should be collected. This would enable comparison of regional efficiency and review of whether checks are targeted at the areas of highest risk and are effective in detecting errors.

20 The Ministry has decided to review whether the level of in-office checks on all schemes could be reduced or targeted at risk areas whilst still meeting European Union requirements and the demands of prevention and detection. We think this advisable in view of the rising cost of administration of the scheme examined in this report.

21 On field inspections, we recommend that the Ministry:

- evaluates the impact of the changes in 1998 to the method of selecting claims for field inspection;
- ensures that all field inspections are completed by the target dates;
- investigates the wide regional variations in time spent and the numbers of satisfactory field inspections in order to judge the quality and consistency of inspections;
- instructs field officers about the improved conduct of on-farm inspections and on the reporting of results; and
- monitors the implementation in the regions of the new training initiatives to promote rigorous and consistent field inspections. This should include training for map preparation teams.

22 In a number of areas highlighted above, such as reasons for variations in efficiency, the costs and amounts saved by checking, and the database on field inspections, improvements in the collection, analysis or use of management information would enhance the Ministry's monitoring of performance and its management of the Scheme.

On set-aside and disallowance or other European penalties

23 We recommend that the results of research and the experience and lessons from the management of set-aside be taken forward by the Ministry in future responses to European Union initiatives on environmental objectives.

24 Given the potential scale of disallowance or other penalties, the Ministry is aware of the need to continue to make every effort to ensure that all its processing and control systems are not open to criticism or disallowance. In this respect, the Ministry has been largely successful. Many of the recommendations made earlier in this Report should assist the Ministry in ensuring that control systems remain effective.

Part 1: Background and scope

Introduction

1.1 The United Kingdom administers some £4 billion of European Union expenditure each year under the Common Agricultural Policy. This expenditure is met initially from money voted by Parliament but is reimbursed by the European Union. The Arable Area Payments Scheme is the largest of the Common Agricultural Policy schemes operating in the United Kingdom. In 1997-98 it accounted for some £1.3 billion, or 31 per cent of expenditure on such schemes, of which £1.1 billion was in respect of payments to farmers in England and was administered by the Ministry of Agriculture, Fisheries and Food (Figure 1).

Expenditure on Common Agricultural Policy schemes and other support measures in the United Kingdom in 1997-98

Figure 1

In England, the Scheme accounts for almost two thirds of Common Agricultural Policy expenditure administered by the Ministry of Agriculture, Fisheries and Food

| | Arable Area Payments Scheme | | All Common Agricultural Policy schemes £ million |
|--|-----------------------------|-----------|---|
| | £ million | % | |
| Ministry of Agriculture, Fisheries and Food | 1,055 | 64 | 1,646 |
| Scottish, Welsh and Northern Ireland Offices | 222 | 27 | 832 |
| Intervention Board | 0 | | 1,665 ¹ |
| Total | 1,277 | 31 | 4,143 |

Source: Ministry of Agriculture, Fisheries and Food

Note: 1. This figure includes exceptional expenditure of £1.2 billion on BSE related measures.

History of the Scheme

1.2 In the early 1990s, public and political concerns about the level of expenditure on the Common Agricultural Policy and the food surpluses it had generated, together with international pressure from the negotiations resulting in

the 1991 world trade agreement, led to reform of the Common Agricultural Policy. The reforms were agreed by the European Union in May 1992 and in the case of cereals were designed to:

- lower cereal prices within the European Union to bring them nearer to world market prices in order to reduce export subsidies and intervention levels;
- compensate farmers directly for these lower prices by introducing payments based on the area of land on which arable crops were grown; and
- control the production of cereal crops by requiring farmers to “set-aside” a proportion of their land so as to keep it out of production, with compensation for doing so.

1.3 As a result of the reforms, the intervention price for cereals set by the European Union was reduced by 30 per cent over the three years from 1993 to 1995. The new Arable Area Payments Scheme was designed to compensate for this drop in price, and cereal payments under the Scheme were increased over the same period. In the event, the price falls which had been anticipated and which were the rationale for the area payments did not materialise in the early years of the Scheme, mainly because of a continuing strong world market for cereals. Producers were then able to sell to the market at prices which were higher than intervention prices, as well as receive compensation. However, the position is now changing, with market prices falling due to an over-supply of cereals.

1.4 On 16 July 1997, the European Commission published its “Agenda 2000” proposals for future reform of the Common Agricultural Policy. These proposals were formally presented to the Council of Ministers in March 1998 and would involve a major reform of support arrangements for arable crops. Direct payments to farmers based on the area they farm would continue. The level of market support would be reduced in order to narrow the gap between European Union and world prices, with a cut of 20 per cent in cereal intervention prices from the year 2000. Half of this cut would be offset by an increase in the aid rate for cereals paid to farmers. The reforms propose a single rate of aid for all types of eligible crops and set-aside land with the exception of supplements for proteins and durum wheat. The amount of land that farmers would be required to set-aside would be reduced to zero although the option of voluntary set-aside would remain. Under Agenda 2000, all Common Agricultural Policy schemes will need to incorporate environmental conditions, known as cross-compliance. The Agenda

2000 proposals have provoked considerable discussion in member states and the European Council of Ministers has imposed a deadline of March 1999 for agreement on the reform of the Common Agricultural Policy.

The Arable Area Payments Scheme

1.5 Under the Arable Area Payments Scheme farmers may claim area-based payments for growing certain arable crops on eligible land which is generally determined on the basis of use on 31 December 1991. With certain exceptions, land that was in permanent grass, permanent crops, woodland or non-agricultural use on that date is not eligible for aid under the Scheme. The set-aside requirements apply to all Scheme claims for more than a specified number of hectares. The main features of the Scheme are described below; greater detail on the rules of the Scheme is provided at Appendix 1.

Main features of the Arable Area Payments Scheme

Main Scheme

Payments are made at different rates for different crop types - cereals, oilseeds, linseed and protein crops. Farmers may generally claim on any land that was in arable production, or was part of a recognised crop rotation system, on 31 December 1991 and that is planted with an eligible crop. There is no upper limit on the area of eligible land that can be claimed by individual farmers but they must set aside out of production a percentage of their land, for which they also receive compensation. Set-aside land cannot be put to any agricultural or non-agricultural use that results in any benefit in cash or kind, with the exception of growing certain crops for industrial use. The level of set-aside may be determined annually by the European Union. It was originally set at 15 per cent of the area for which payments were claimed and was reduced to 12 per cent in 1995; 10 per cent in 1996; and 5 per cent in 1997 and 1998. Before 1996 higher rates applied to set-aside left in the same place from year to year.

Simplified Scheme for smaller holdings

Farmers are paid at the cereals rate regardless of the crop type grown. They are not required to set land aside. The maximum area of land for which farmers in England can claim is 15.62 hectares.

Source: National Audit Office

1.6 The proportion of land that farmers must set-aside each year is determined by the European Union, based on the level of stocks in intervention and anticipated market conditions. The European Union also places a financial limit on the total area on which payments can be made in any one region by application of “regional base areas”. The Ministry proportionately reduces all claims, and notifies the European Commission, if the claimed area in any year exceeds this limit. The whole of England is classed as one regional base area, although within that there is a separately defined base area for maize.

1.7 Payment rates are set by European Union regulations and converted to payments per hectare, based on the historic average cereal yields in England. The payment rates were fixed at the start of the Scheme. They are set in ecu and converted into sterling using the agricultural exchange rate applying on 1 July following the sowing of the crop as determined by the European Union. There are additional limits on oilseeds payments, based on market conditions and the level of production. Apart from the exchange rate factor and the oilseed payments, the rates do not change from year to year. The rates in England for 1997 are set out in Figure 2.

Arable Area Payments Scheme payment rates for 1997

Figure 2

| Crop group | Payment rate per hectare £ |
|--|-------------------------------|
| Cereals (including sweetcorn and maize) | 257.23 |
| Oilseeds (rapeseed, sunflower seed and soya) | 377.90 |
| Proteins (peas, beans and lupins) | 371.56 |
| Linseed | 497.53 |
| Set-aside | 325.83 |

Source: Ministry of Agriculture, Fisheries and Food

1.8 In 1997 the Ministry received claims covering over 3.7 million hectares of arable land in England. Out of some 47,000 claims, 30,000 claims were made under the main scheme and accounted for 96 per cent of the payments made to farmers (Figure 3).

Arable Area Payments Scheme: a breakdown between main and simplified scheme claims in 1997

Figure 3

While the simplified scheme accounts for more than a third of the number of claims, it represents only 4 per cent of payments to farmers.

| | Number of claims | | Value of payments (£ million) | | Average value of claims £ |
|----------------------|------------------|------------|----------------------------------|------------|------------------------------|
| | | % | | % | |
| Main Scheme | 29,800 | 64 | 1,012 | 96 | 34,000 |
| Simplified Scheme | 17,000 | 36 | 43 | 4 | 2,500 |
| Total/Average | 46,800 | 100 | 1,055 | 100 | 22,500 |

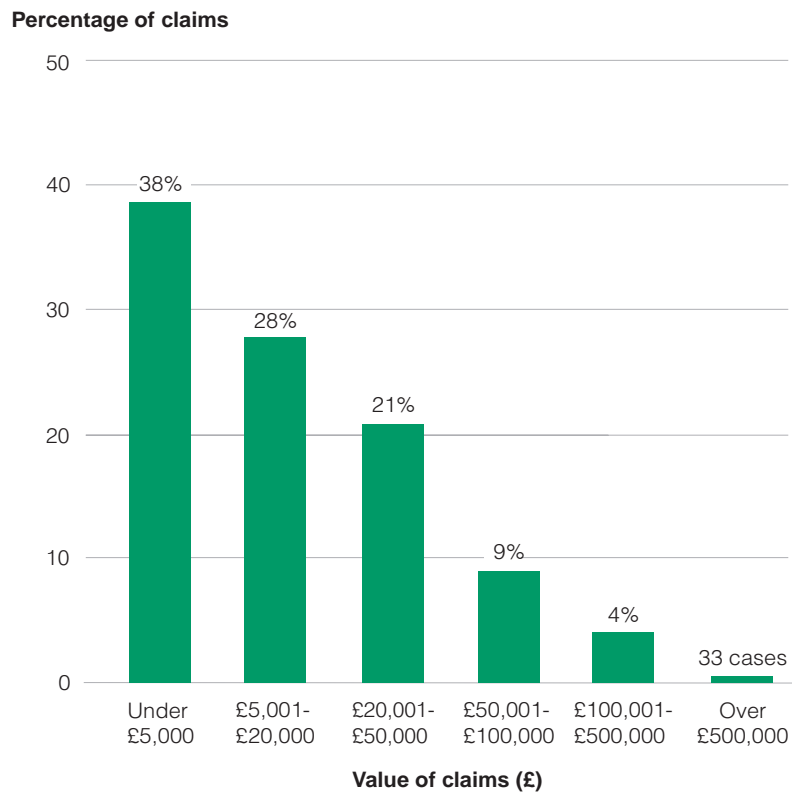
Source: Ministry of Agriculture, Fisheries and Food

1.9 The average value of payments to farmers in 1997 was £22,500 but individual payments ranged from £80 to over £2 million. Figure 4 shows the range of values of Scheme payments in that year. Fewer than 50 payments were over £500,000 and these were generally made to large corporate entities which owned and managed multiple holdings.

Profile of Arable Area Scheme payments made to farmers in 1997

Figure 4

There was a wide range in the value of payments to farmers in 1997. Two thirds were for less than £20,000.



Source: National Audit Office analysis

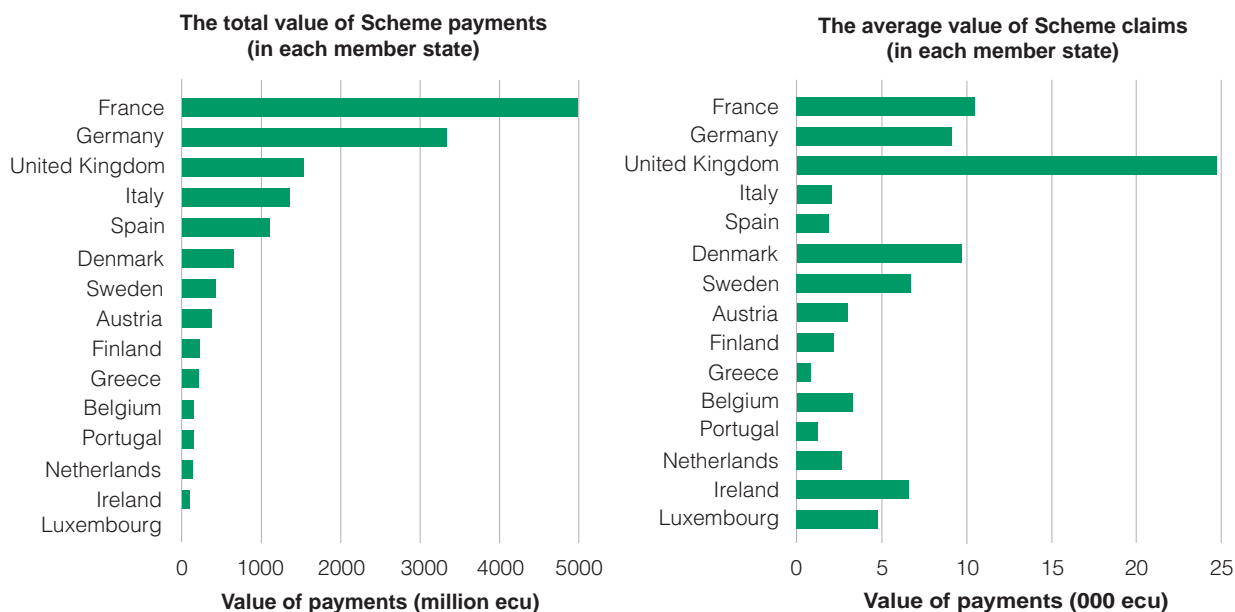
Note: Intervals used are uneven, in order to show the distribution of the smaller value payments.

1.10 The total value of Scheme payments in all member states in 1996 was 14,700 million ecu (approximately £10,600 million). The value of Arable Area Payments Scheme payments made by all member states is shown in Figure 5. France and Germany are the major recipients of aid on this Scheme, with the United Kingdom being the third largest. However, Figure 5 shows that the average claim value in the United Kingdom is double that of the next highest, France. This reflects significant differences in the pattern of agriculture holdings, with farms in the United Kingdom being almost twice as large on average as those in any other member state.

Figure 5

Arable Area Payments Scheme expenditure in 1996 - by member state

The United Kingdom is the third largest recipient of aid under the Scheme but has a significantly higher average value of claims than other member states.



Note: The member states are listed in the same order for purposes of comparison.

Source: Ministry of Agriculture, Fisheries and Food

The role of the European Union and the Ministry

1.11 Payments to farmers under the Arable Area Payments Scheme are met by the European Union. The European Union also determines Scheme regulations and sets payment rates. The Ministry makes payments to farmers in England through its nine regional offices and subsequently recovers expenditure. Reimbursement from the European Union is conditional upon the Ministry applying appropriate checks and controls in Scheme regulations. These include requirements to meet relevant payment deadlines; and to perform on-the-spot inspections for at least five per cent of all claims. The European Union may withhold payments and thereby recover money from the United Kingdom if it is not satisfied with the administration of the Scheme. The cost of administration is not reimbursed by the European Union.

1.12 The roles of the European Union and the Ministry in the Arable Area Payments Scheme are set out in Figure 6. In addition to ensuring that the national Scheme complies with European Union regulations; and taking action to avoid the risk of disallowance, the Ministry’s policy objectives on administration are to:

- meet all Scheme deadlines for making payments to farmers;
- administer the Scheme fairly and efficiently, with due regard to the necessary system and management controls;
- maintain set-aside land in good agronomic and environmental condition; and
- encourage the management of set-aside land in ways that benefit the wider community.

1.13 On 1 April 1998, the Ministry revised the internal allocation of responsibilities for the management of all Common Agricultural Policy schemes. Prior to that date, all formal responsibilities rested with policy divisions at the Ministry’s headquarters, and a system of control plans was intended to help them monitor how regional offices were managing the scheme. In its report “Tackling Common Agricultural Policy Irregularities”, we criticised the variable quality of control plans and the limited management information available. In order to address these issues, the Ministry has now formally transferred all operational management responsibilities to regional offices and introduced new management information system requirements common to all schemes. As a result:

- what was previously the Lead Region, now the National Scheme Management Centre, for each scheme – rather than the headquarters policy division – is responsible for management information, clerical guidance and instructions, and all case work and co-ordination with other Agriculture Departments on scheme management issues. Cambridge is the National Scheme Management Centre for Arable Area Payments;
- the head of the regional organisation has overall responsibility for the effective implementation of all schemes, and for managing regional resources in the light of competing priorities to achieve targets;

Figure 6

Responsibilities for the Arable Area Payments Scheme

| | | |
|--|--|--------|
| European Union | <ul style="list-style-type: none"> ● determines Arable Area Payments Scheme regulations ● sets payment and set-aside rates; ● monitors systems and controls in member states; ● collates information from member states; for example, irregularity reports; and ● reimburses expenditure on payments to farmers. | ↑ ↓ |
| Ministry of Agriculture, Fisheries and Food Central Divisions | <p>Arable Crops Division</p> <ul style="list-style-type: none"> ● makes policy decisions and liaises with the European Commission; ● formulates national regulations and designs guidance booklets for farmers; ● makes returns to the European Commission; ● researches set-aside issues; and ● liaises with other Agriculture departments. <p>CAP Schemes Management Division</p> <ul style="list-style-type: none"> ● makes policy decisions on Integrated Administration and Control System and liaises with the European Commission; ● negotiates European Commission rules on Integrated Administration and Control System, formulates national regulations and designs guidance booklets for farmers; ● formulates policy on remote sensing and control issues; and ● makes returns to the European Commission on Integrated Administration and Control System and irregularities. <p>Legal Department</p> <ul style="list-style-type: none"> ● investigates suspect cases for potential prosecution; and ● prepares secondary legislation <p>Resource Management Division</p> <ul style="list-style-type: none"> ● makes payments to farmers and recovers debts. | ↑ ↓ |
| Ministry of Agriculture, Fisheries and Food Regional Administration | <p>Arable Area Payments Scheme National Scheme Management Centre (Cambridge)</p> <p><i>In addition to its regional office responsibilities:</i></p> <ul style="list-style-type: none"> ● monitors regions to ensure that payments are made by deadlines and field inspection targets are met; ● prepares operational instructions for regional offices; ● ensures that best practices are adopted across all regions; ● advises regions on individual difficult cases; ● advises headquarters on practical aspects of policy implementation; and ● provides statistical information. <p>Integrated Administration and Control System Lead Region (Reading)</p> <p><i>In addition to its regional office responsibilities:</i></p> <ul style="list-style-type: none"> ● development of the Integrated Administration and Control System database; ● liaises with Arable Area Payments Scheme National Scheme Management Centre on system development; ● monitors the level of farmer error and irregularities; and ● advises on practical aspects of remote sensing policy. <p>Regional Offices</p> <ul style="list-style-type: none"> ● input and validate farmers' claims; ● undertake field inspections; ● report irregularities; and ● authorise claims for payment. | ↑ ↓ |

Source: National Audit Office

- headquarters policy divisions retain overall policy responsibilities for negotiating with the European Union and amending Community rules, arranging appropriate national legislation, and liaising appropriately with lead regions; and
- previous arrangements for a regional office to take the lead on certain systems or issues remain in place. For example, Reading is Lead Region for the Integrated Administration and Control System.

The Integrated Administration and Control System

1.14 To strengthen member states' control over schemes involving direct payments to farmers and combat fraud, in 1992 the Council of Ministers agreed a regulation requiring member states to introduce the Integrated Administration and Control System. The system applies to arable and livestock schemes and requires the unique identification and registration of land or animals. It also requires a computerised database, which the Ministry introduced during 1996 to enable detailed checks of farmers' claims; an integrated system for inspecting claims; and defines the administrative penalties to be applied when Scheme rules are breached. The main requirements of the System are summarised in Appendix 1.

1.15 The Integrated Administration and Control System applies to five Common Agricultural Policy aid schemes. Farmers have to submit an annual return, by 15 May, covering all land under their economic control. This application allows farmers to claim arable aid on a field by field basis and to declare forage area for livestock subsidies under other schemes. For Arable Area Payments Scheme, farmers submit a dual-purpose claim form which meets the requirements of both the scheme and the control system. They are required to provide very detailed information on the use of all their eligible land, including information on the size and use of individual fields or part-fields that are included in the claim.

Recent audit coverage

1.16 In February 1997, the National Audit Office published a report on Tackling Common Agricultural Policy Irregularities which referred to the Ministry's five major schemes, including Arable Area Payments (HC 268 of 1996-97). The Committee of Public Accounts made a series of recommendations relating to the Ministry's operation of appropriate controls, based on evidence taken by their predecessors. These reports did not examine the Arable Area Payments scheme in any detail. In 1998 the National Audit Office reported on the Annual Report of the

European Court of Auditors for 1996 (HC 679 of 1997-98). The Court are the external auditors of the European Community. They are responsible for reporting on the legality and regularity of the transactions underlying the Community's accounts. Their Annual Reports also contain observations on the financial management of European Union schemes by the member states and Community institutions.

1.17 The Annual Report for 1996 incorporates the results of the Court's work on an audit of the Arable Area Payments Scheme and the Integrated Administration and Control System in the United Kingdom and four other member states: France, Germany, Italy and Spain. The Court is also carrying out further work on the achievement of the objectives of Common Agricultural Policy reform, the results of which will not be available until later in 1998. However, the Annual Report for 1996 found that not adjusting compensation levels to take account of unexpected movements in world market prices had resulted in unnecessary expenditure, most significantly an estimated £2.2 billion over-compensation paid to arable farmers in Europe.

Scope of the National Audit Office examination

1.18 Against this background, we examined:

- whether the Ministry has processed claims efficiently (Part 2 of the report);
- whether the Ministry has taken adequate steps to prevent and detect non-compliance with Scheme rules (Part 3);
- the management of set aside (Part 4); and
- aspects of the Scheme where the Ministry has incurred penalties from the European Union (Part 4).

1.19 Our examination focused on the Arable Area Payments Scheme in England and did not cover the remainder of the United Kingdom where the Scheme is administered by the Welsh, Scottish and Northern Ireland Offices. The European Union is responsible for the Common Agricultural Policy and the level of expenditure and rates of payment under such schemes, so we did not examine the Scheme's effectiveness in achieving its objectives. These issues are the subject of work by the European Court of Auditors.

1.20 We visited all nine of the Ministry's regional offices to assess the administration of the Scheme. As part of this assessment we examined one per cent of Scheme claims and a ten per cent sample of applications selected for on-farm inspections. The testing aimed to ensure that claims had been processed accurately and expeditiously, and assessed the timeliness and quality of field inspections. Discussions were held with Ministry staff at each regional office to establish their approach to making Scheme payments and to evaluate the controls that the Ministry has implemented. We also examined the development of the Integrated Administration and Control System database and computer system. Work at the policy divisions involved interviews with key staff and examination of relevant papers including legislation, the results of Ministry reviews, and legal cases.

1.21 An Advisory Panel provided expert advice. The Panel, which offered a wide range of agricultural experience, comprised:

- Professor Alder, who is a Fellow of the Royal Agricultural Society and Principal at Writtle College teaching agriculture, conservation and forestry;
- Marie Skinner, who has a wide range of experience as a working cereal farmer and as a board member of the Home Grown Cereals Authority; and
- Ken Taylor, an associate director of Entec UK Ltd, who has acted as a farm management consultant, including work for the Ministry on other schemes, and has a strong background of work on agri-environmental issues.

The Panel provided advice on study methodology, commented on findings and on the farmers' perspective on the Ministry's administration of the Scheme.

Collaboration with the Swedish and Dutch Audit Offices

1.22 We found that the United Kingdom, Dutch and Swedish Audit Offices were all interested in studying the Arable Area Payments Scheme in our respective countries. Our initial discussions found there are significant differences in levels of expenditure under the Scheme (Figure 5), and in the structure of farming and of each country's administration. However, we worked together in defining our respective programmes of work in order to develop common audit issues or methodologies. As well as being of value in defining an appropriate audit approach, this will provide scope for comparison of results in due course, for

example on the costs of administration, on the efficiency of processing of claims, and on the methods of checking payment claims. It is anticipated that a joint analysis will be undertaken once each audit office has published its results, and will be made available to interested parties such as Agriculture Ministries and the European Court of Auditors.

Part 2: Have claims been processed efficiently?

2.1 The Ministry of Agriculture, Fisheries and Food is responsible for administering the Arable Area Payments Scheme in England and for meeting the cost of that administration. Poor scheme management may result in additional costs or the risk of expenditure on payments to farmers being disallowed by the European Union. Our earlier report on Tackling Common Agricultural Policy Irregularities did not examine the costs of administration and we were aware that the average cost of processing claims at regional offices could vary. We therefore:

- calculated the full cost of administration of the Scheme;
- compared regional performance in processing claims;
- tested different hypotheses that might explain differences in regional performance; and
- looked at the information technology systems supporting claim processing.

The administrative cost of the Scheme

2.2 The Ministry operates a time recording system on which staff at regional offices charge time spent on a range of activities or schemes. We analysed data from this system, and from a variety of other sources, in order to estimate the full cost of administration and support for the Arable Area Payments Scheme. This analysis showed that in 1997-98 the full cost of administering the Scheme was £12 million, which is only one per cent of the total value of payments to farmers, a low proportion in comparison to some other schemes. This represents a cost of £254 per claim.

2.3 We produced comparative figures of the key elements of the costs for each full year since the Scheme was introduced (Figure 7). The number of claims submitted by farmers each year has remained broadly constant at some 47,000 throughout the life of the Scheme. The full cost of processing these claims as shown in Figure 7 has risen from £9 million in 1993-94 to £12 million in 1997-98, an increase of 33 per cent (21 per cent in real terms). Regional and information technology costs are the largest elements of the total.

Figure 7**The administrative costs of the Arable Area Payments Scheme 1993-94 to 1997-98**

The annual cost of administration has risen by £3 million from 1993-94 to 1997-98.

| Costs | 1993-94 (£000) | 1994-95 (£000) | 1995-96 (£000) | 1996-97 (£000) | 1997-98 (£000) |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Regional running costs ¹: | | | | | |
| Arable Area Payments Scheme | 2,780 | 3,770 | 3,870 | 4,760 | 5,020 |
| Integrated Administration and Control System ² | 2,660 | 1,910 | 2,650 | 2,570 | 2,890 |
| Central running costs: | | | | | |
| Policy staff | 280 | 280 | 280 | 320 | 340 |
| Non-pay running costs | 1,650 | 1,380 | 1,420 | 1,410 | 1,270 |
| Running costs | 7,370 | 7,340 | 8,220 | 9,060 | 9,520 |
| Other Costs: | | | | | |
| Information technology | 460 | 860 | 1,770 | 2,930 | 1,990 |
| Capital costs | 50 | 50 | 50 | 80 | 70 |
| Research and development | 1,090 | 1,080 | 860 | 470 | 360 |
| Other costs subtotal | 1,600 | 1,990 | 2,680 | 3,480 | 2,420 |
| Total costs | 8,970 | 9,330 | 10,900 | 12,540 | 11,940 |

Notes: 1 Regional staff costs are based on direct staff time taken from a work recording system and marked up to include leave entitlements; training; other indirect time; and accommodation costs.

2 Based on an estimated proportion of Integrated Administration and Control System regional staff costs which may be attributed to work on arable area claims.

Source: National Audit Office analysis

2.4 The running costs of the scheme have increased from £7.4 million to £9.5 million. While central running costs have fallen, regional running costs have increased by some 32 per cent in real terms, as pictured in Figure 8.

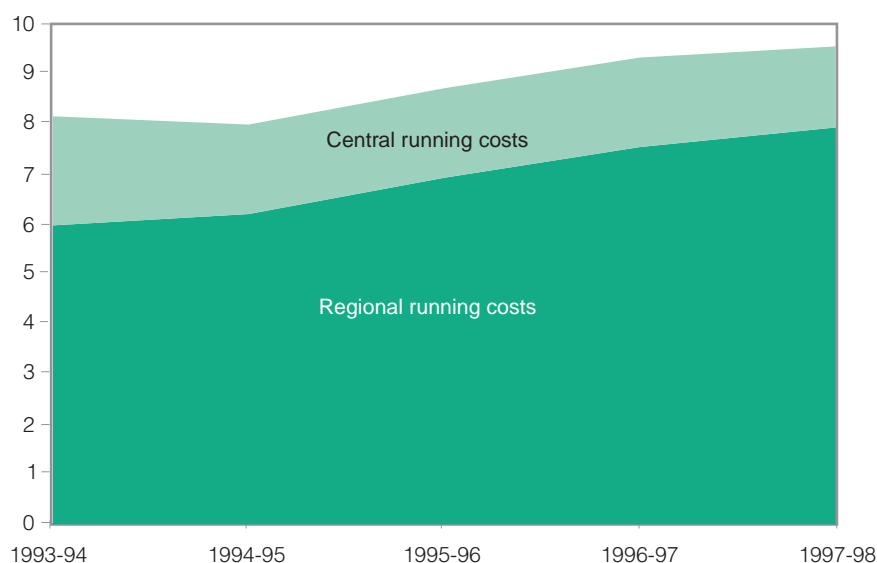
2.5 The main reason for the rise in regional staff costs has been the increase in the time spent by staff in checking the eligibility of Scheme claims. Since 1993 when the Scheme was introduced, the cost of checking Scheme claims has risen by £2.2 million, an increase in real terms of 64 per cent. Over the same period, the cost of inputting claims on to the database and performing initial checks, reflected

**Scheme running costs - in real terms
1993-94 to 1997-98**

Figure 8

From 1993-94 to 1997-98, regional running costs increased, in real terms, by £1.9 million, some 32 per cent.

Costs (£ million)



Source: National Audit Office analysis

Note: The base year for calculating the cost increase in real terms was 1993-94.

in the figures for Integrated Administration and Control System costs in Figure 7, has also increased. The increase in the cost of checking Scheme claims can be attributed to the increased level and type of checks that Ministry staff are now required to carry out on each claim, partly due to the need to refer back to previous years' data.

2.6 Figure 7 also shows that there has been increasing annual expenditure on information technology since the start of the Scheme, rising from £0.5 million in 1993-94 to £2.9 million in 1996-97 and estimated costs of £2 million in 1997-98. In addition, there were initial start up costs of £2.1 million in 1992-93. The total cost to date of information technology for this Scheme is therefore in the region of £10 million.

Conclusions on the costs of the Scheme

- Although the Scheme has been in place since 1993-94, the costs of administration have risen significantly in the last three years, attributable in part to the increased level and type of checks now carried out. The increasing expenditure in the regions and in information technology suggest that the efficiency of these areas is worth further investigation.

Regional processing of Scheme claims

Where is processing carried out?

2.7 The regional running costs amounted to £7.9 million in 1997-98, 66 per cent of the total Scheme costs (Figure 7 on page 20). The work of processing claims under the Arable Area Payments Scheme is carried out by the Ministry's nine regional offices, each of which covers a distinct geographical area of England. Arable farming is more prevalent in certain parts of the country. This leads to a varying workload on each of the offices. Figure 9 shows the geographical coverage of each of the regional offices and the varying number and value of arable area applications they receive.

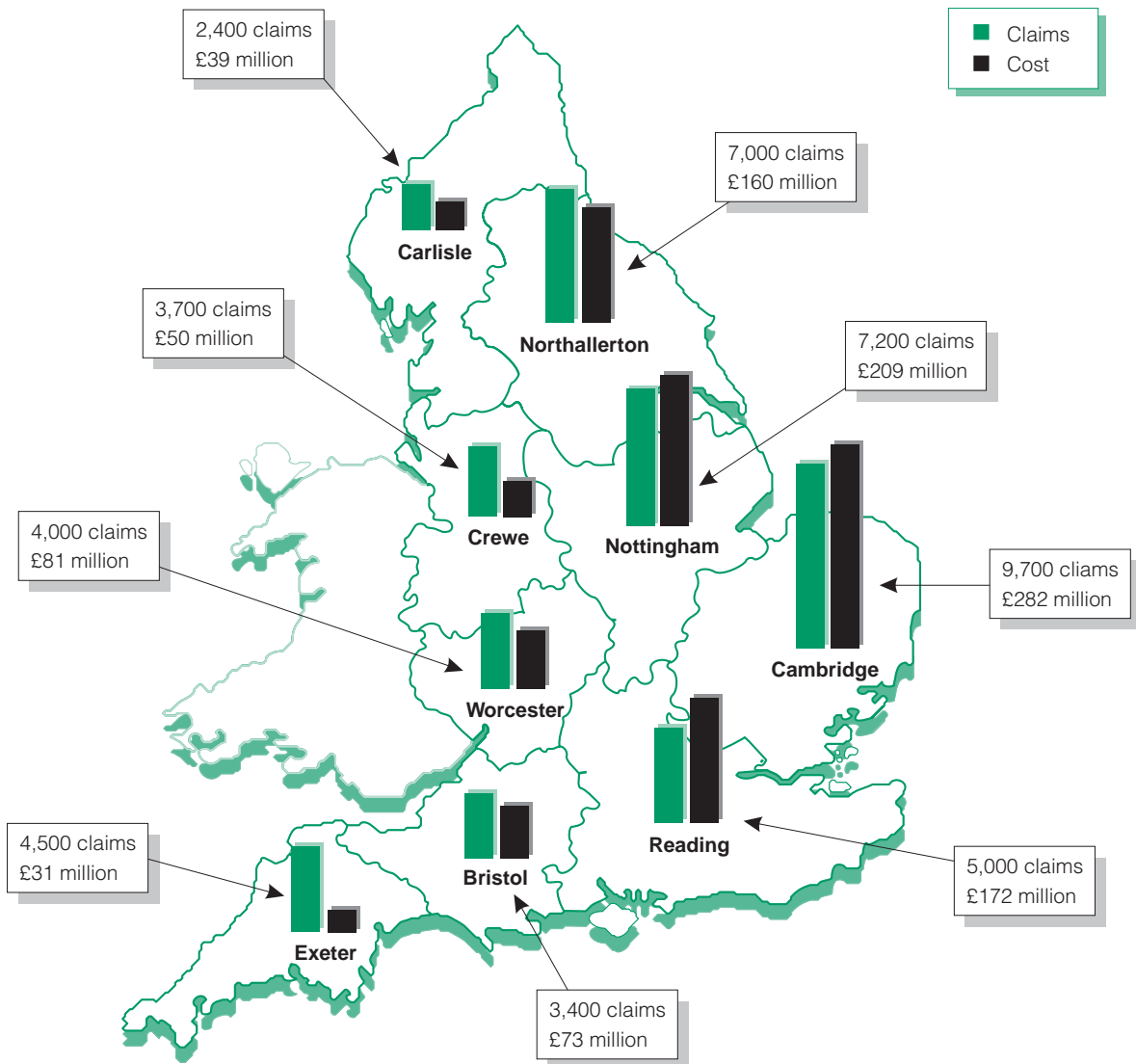
What does claim processing involve?

2.8 Farmers apply for the Arable Area Payments Scheme using forms which combine the requirements of the Scheme with those of the Integrated Administration and Control System. Farmers must submit a single application each year, covering all of their holdings, to the regional office within which their main or sole holding lies. All Scheme applications have to be submitted by 15 May and the majority of applications have to be paid by 31 December. This can cause problems for regional offices in managing their workload, which is not evenly distributed throughout the year and is heightened by the "last minute" nature of the submissions. The Ministry has developed a mixture of manual and computer based checks to ensure that each claim complies with the requirements of the Scheme and the underlying Integrated Administration and Control System (Figure 10).

Figure 9

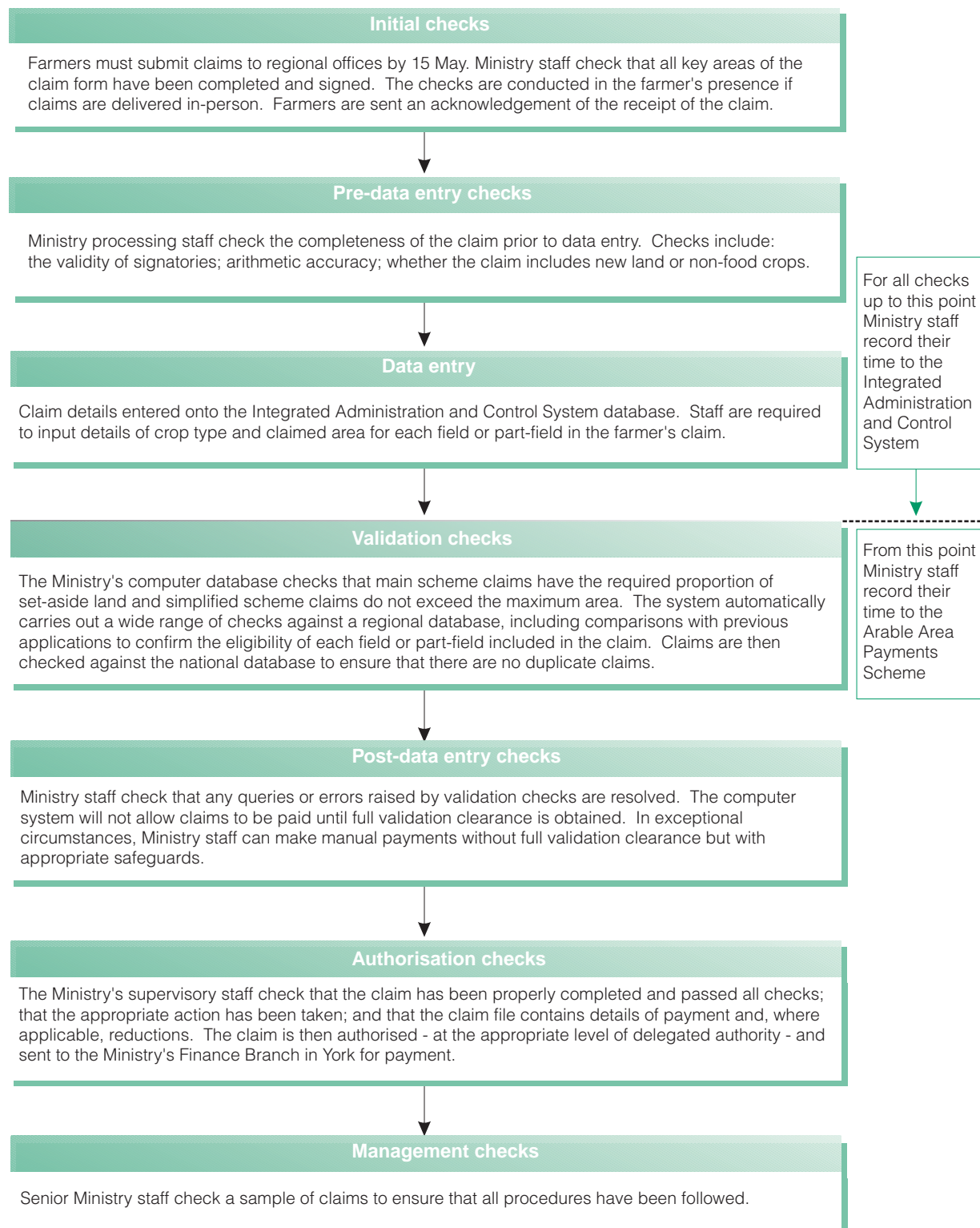
Number and value of Arable Area Payments Scheme payments in 1997 - by regional office

The number and value of claims varies widely between the Ministry's nine regional offices reflecting regional variations in the dominant type of farming.



Source: National Audit Office

Figure 10 Processing an Arable Area Payments Scheme claim

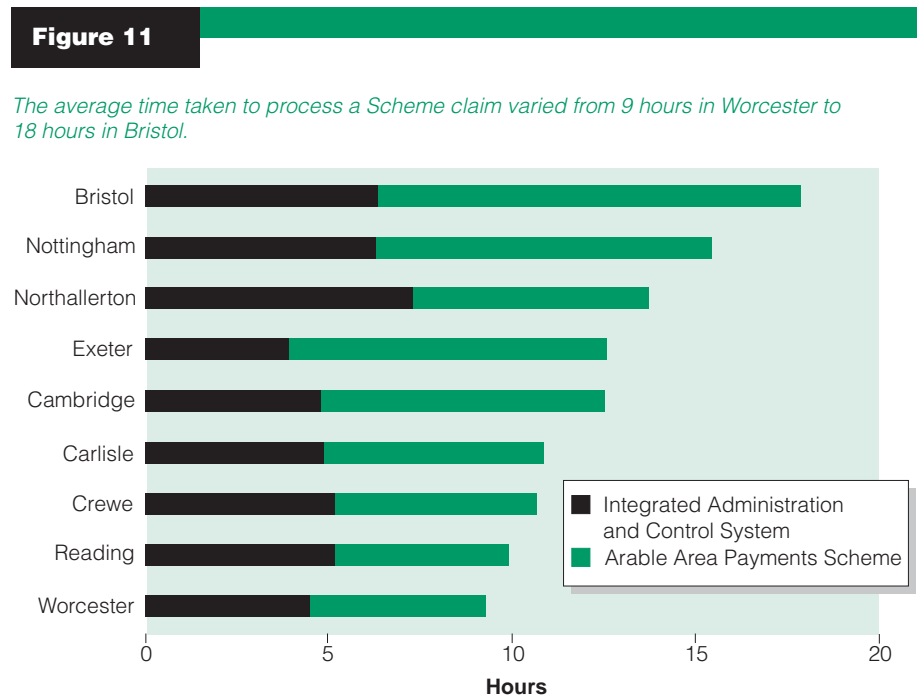


Source: National Audit Office

How long does it take to process a claim?

2.9 Using information from the Ministry’s time recording system, we calculated the average time taken to process and verify an Arable Area Payments Scheme claim in 1996-97 was 12.7 hours. However, our analysis in Figure 11 of the average time taken at each regional office showed wide variations, ranging from just over nine hours in Worcester to nearly 18 hours per claim in Bristol. In order to test whether 1996-97 was representative, we also calculated the average processing times in previous years and found that there was little change in the relative ranking of regional offices.

The average time taken to process an Arable Area Payments Scheme claim by regional office



Notes: 1. The analysis is based on the hours recorded by the Ministry's processing staff. It excludes agency staff. The time recorded by field inspection staff and Lead Region work, which are not routine processing activities, are also excluded.

2. The hours shown for the Integrated Administration and Control System work is an estimate of the proportion spent on processing Scheme applications.

Source: National Audit Office analysis of data from the Ministry's time recording System

Conclusions on time taken to process claims:

The variations in the average time taken by regional offices are significant. If the reasons for this lie in relative efficiency rather than factors outside regional or management control, then savings may be possible. For example, we calculated that if the average processing time of 12.7 hours per claim could be reduced by five per cent, this could produce savings of some £400,000.

Why are there regional variations in the time taken?

2.10 The time needed to process and check an application is dependent on its size and complexity. Whilst the size and complexity of applications and the number of Scheme applications are not within the Ministry's control, there are a number of other factors that impact on average processing time, such as the skill of the processor. We investigated the reasons for variations in the average processing time by examining a number of different hypotheses that could impact on regional efficiency:

- economies of scale;
- regional variations in the type of claims;
- the level of error made by farmers in completing their applications; and
- the organisation and staffing of the processing and checking of claims.

Hypothesis (1):

Variations between regional offices were caused by economies of scale.

2.11 We compared the average processing time against the number of claims received by each regional office (Figure 12). The results show that the three regional offices (Cambridge, Nottingham and Northallerton) receiving the highest number of Scheme claims (over 7,000) took noticeably longer than four of the other regions. Of the six regional offices with the lower number of claims (5,000 or less), four took the lowest average time. The four regional offices with the closest number of claims (4,000) a year cover the widest possible range in average processing times and include both the quickest office (Worcester) and the slowest office (Bristol). These results did not therefore produce conclusive evidence that the number of claims was the sole factor in determining average processing time. However, the results did suggest that the three regions with over 7,000 claims a year might have encountered logistical or other problems which could add to processing time; and they did not benefit from economies of scale.

Hypothesis (1)

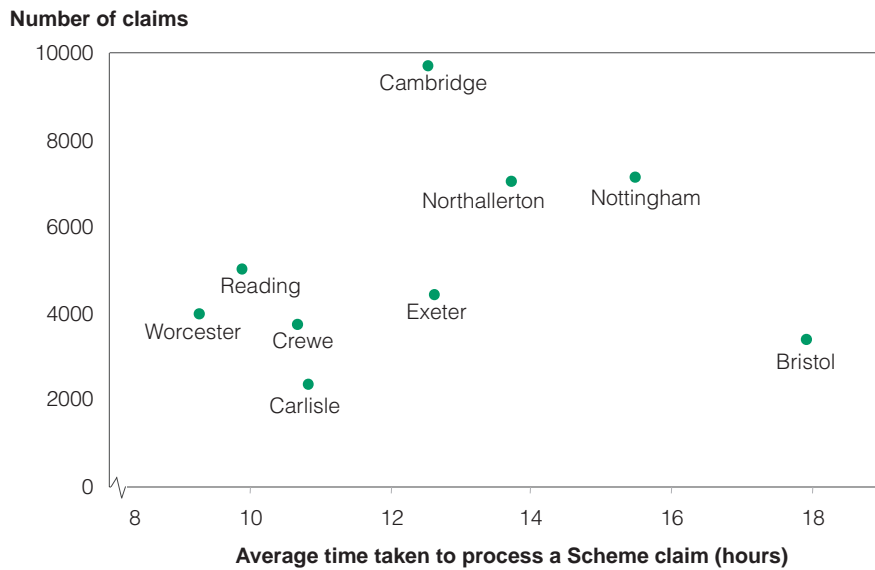
Conclusion:

Economies of scale do not explain the regional variations in efficiency.

The number of claims processed by each regional office compared with average processing time

Figure 12

Regional offices with the largest number of Scheme claims do not appear to have benefited from economies of scale.



Source: National Audit Office

Hypothesis (2):

Variations between regional offices were caused by regional variations in the characteristics of Scheme claims.

2.12 Given the different nature of farming in different regions, some offices might be faced with more complex claims than others which could account for differences in processing times. In consultation with Ministry staff, we therefore determined the key factors inherent within a claim that impact on the time taken to process it. These are shown in Figure 13 overleaf.

2.13 While the Ministry had information from which we could identify the number of claims under the main or simplified scheme and the number of claims with oilseeds, they do not hold information on the average number of fields per claim or the number of changes which appear in claims made by farmers. Therefore we used the results from our examination of a sample of one per cent of all Scheme applications in 1996-97 to quantify these two factors.

2.14 We were able in this way to prepare profiles for each of the regional offices under the key factors identified above. Figure 14 on page 29 sets out these profiles and enables comparison of them with the average processing time. The results indicate that the factors are not the principal determinants of regional differences in average processing time. For example, Reading has the highest percentage in

The key factors that influence processing time

Figure 13

| Variable | Impact on processing time |
|---|--|
| Main / simplified scheme | Simplified scheme claims are quicker to process and check as there are fewer details to input; there is no set-aside requirement; and payment is made at a single rate for all crops. |
| Claims with oilseeds | Oilseed claims require additional processing time as they are paid in three parts - an advance oilseed payment is made in September, other crop types on the claim are paid between October and December and the balance of the oilseeds claim is paid by the end of March. |
| Size of claim – the number of fields or part-fields per claim | Every field, or part-field if different crop groups are grown in the same field, declared in the claim must be input to the Ministry’s computerised database and validated to confirm eligibility. If the field is sub-divided differently in successive years, Ministry staff must link each field parcel to the previous years to confirm eligibility. This can be complex and time-consuming. |
| Number of changes to the claim | All changes to the previous year’s claim are checked and verified by Ministry staff. This is particularly time-consuming when a field is split in a different way from the previous year. |

Source: National Audit Office

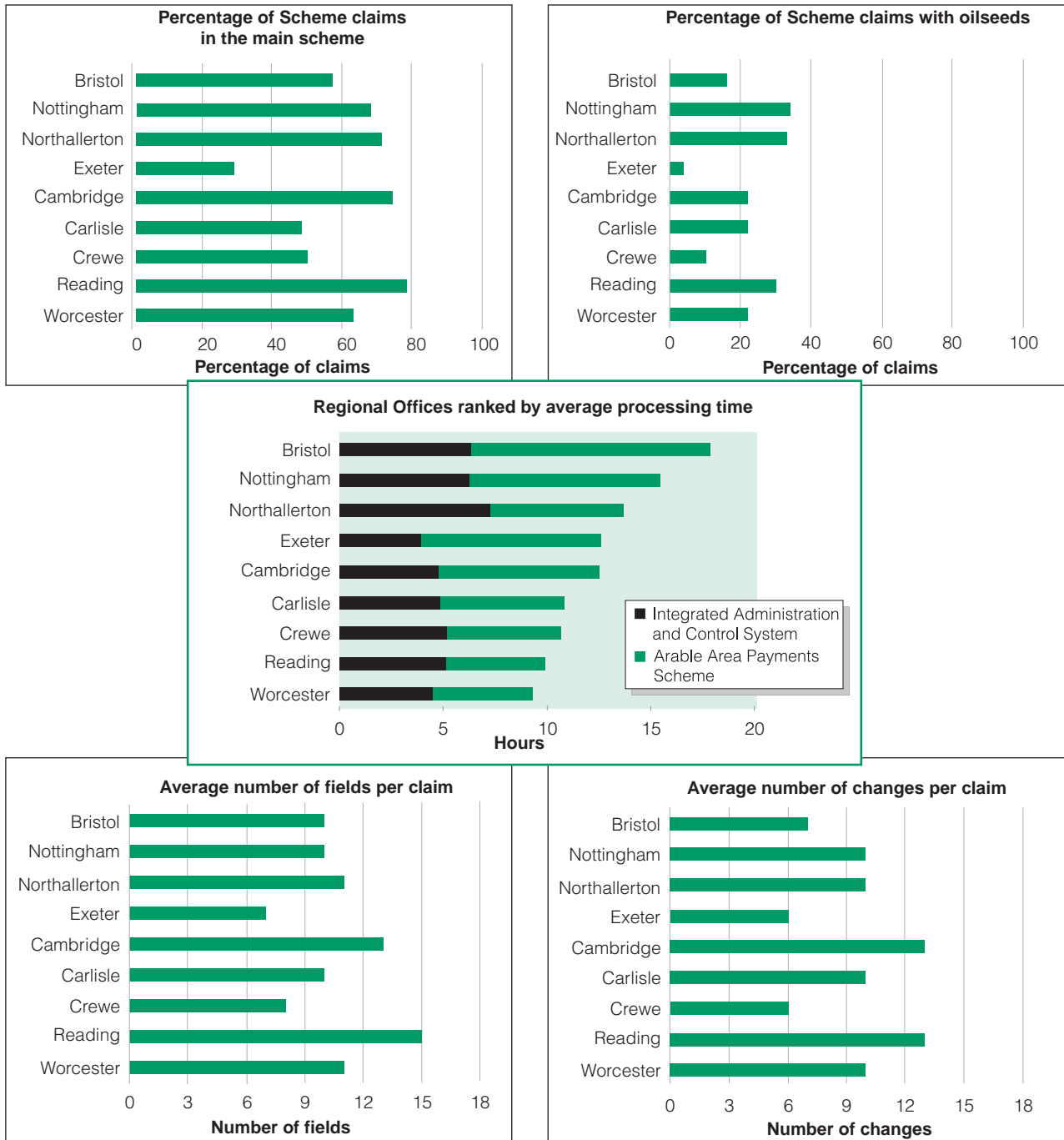
three of the four factors: main scheme applications; number of fields; and changes per claim, but has the second lowest average processing time. Exeter has the lowest ranking in all of the four factors, but is the fourth slowest in average processing time.

2.15 However, we then tested whether a combination of these four key factors might account for regional differences in processing time by:

- ranking regional offices under each of these factors and producing a combined ranking for each office to reflect the complexity of the claims which they received (Figure 15 on page 30); and
- checking the robustness of the results by adopting different approaches to combining these key factors. For example, we ranked regional offices applying different weightings for factors such as the time taken to process main scheme and oilseed claims. The results were similar to those shown in Figure 14 and 15 and confirmed that an average ranking was an appropriate approach.

Figure 14 Regional variations in the type of Scheme claim

The characteristics of claims processed by each region varied widely but showed little relationship to regional variations in average processing time.



The central graph shows the regional variations in the average time taken to process a Scheme claim as identified in Figure 11. The four outer graphs analyse how the profile of each key factor of Scheme claims (Figure 13) varies between regional offices. In each graph regional offices are shown in order of average processing time - the same order as the central graph.

Source: National Audit Office analysis

Figure 15 Complexity of Scheme claims - calculation of the ranking of regional offices

Reading has the most complex claims to process and Exeter the least complex, but there is no correlation with average processing times.

Ranking of regional office (see Figure 14)

| Regional offices ranked by average processing times (from highest average time down to the lowest) | Proportion of claims in the main Scheme | Proportion of claims with oilseeds | Average number of fields per claim | Average number of changes per claim | Complexity of claims: ² Average ranking |
|--|---|------------------------------------|------------------------------------|-------------------------------------|---|
| Bristol | 4 | 3 | 3= | 3 | 3 |
| Nottingham | 6 | 9 | 3= | 4= | 6 |
| Northallerton | 7 | 8 | 6= | 4= | 7 |
| Exeter | 1 | 1 | 1 | 1= | 1 |
| Cambridge | 8 | 4= | 8 | 8= | 8 |
| Carlisle | 2 | 4= | 3= | 4= | 4 |
| Crewe | 3 | 2 | 2 | 1= | 2 |
| Reading | 9 | 7 | 9 | 8= | 9 |
| Worcester | 5 | 4= | 6= | 4= | 5 |

Notes: 1. A ranking of 1 means that region has the simplest claims; for example, the lowest number of claims in the main scheme; the lowest proportion of claims with oilseeds; and the lowest average number of fields or changes per claim.

2. The overall ranking is based upon a summation of the individual rankings. Where regional offices are ranked equally, a mid-point score has been assumed. (Eg where 3 offices are ranked 4th, a numerical ranking of 5 has been assigned.)

Source: National Audit Office

2.16 We then compared the ranking of regional offices according to the complexity of claims against the average processing time. The results are shown in Figure 16. The offices where the average time taken is in proportion to the complexity of the application lie near the line shown on the graph. Those offices to the left of the line such as Reading, Worcester and Cambridge appear to be more efficient and those to the right such as Bristol and Exeter less efficient. The contents of the figure confirm that the combination of the four key factors does not account for differences in regional processing times.

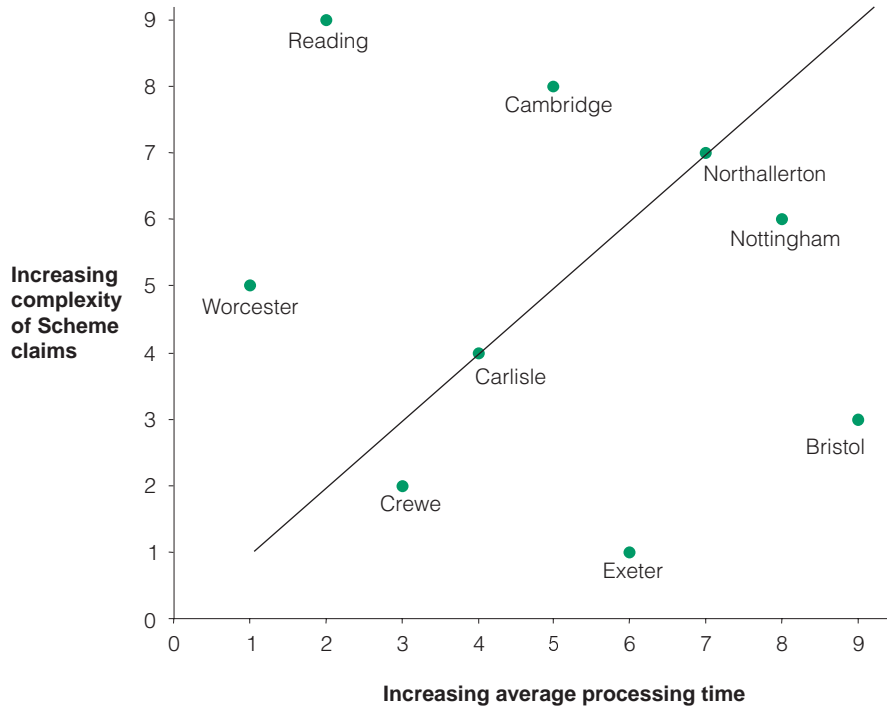
*Hypothesis (2)
Conclusion*

Although there were significant differences in the characteristics of applications each office receive, they do not account – either individually or in combination – for the regional variations in average processing time.

Performance of regional offices - ranked by average processing time and complexity of Scheme claims

Figure 16

Reading, Worcester and Cambridge deal with claims quicker than might be expected by the complexity of the claims they receive, while Bristol and Exeter are slower.



Source: National Audit Office analysis

Note: Regional offices are ranked by complexity of Scheme claim (where 1=the most straightforward claims and 9=the most complex) and average processing time (where 1=the quickest average time per claim and 9=the slowest).

Hypothesis (3)

Variations in average processing times between regional offices were caused by variations in the rates of errors made by farmers in their applications.

2.17 Errors in applications submitted by farmers which breach Scheme regulations result in the claim being reduced. Simple clerical errors, such as arithmetical errors, may not result in reductions to the claim if regional offices are satisfied that the farmer has acted in good faith and that there is no evidence of serious negligence. Analysis of our sample of Scheme claims showed that farmers had made errors in 22 per cent of Scheme claims, just over half of which did not lead to reductions to the claim. Extrapolating these results over all Scheme claims indicates that the Ministry may receive over 5,000 claims each year on which a simple error has to be resolved before the claim can be processed. Our analysis also showed that regional staff were required to correspond with farmers on 19 per cent of the cases examined, which equates to at least 9,000 letters annually.

This includes the resolution of simple clerical errors but also covers requests for additional or missing supporting information. Whether they result in reductions to claims or not, all errors can therefore add significantly to the time needed to process claims because Ministry staff have to resolve any errors on the farmer's application before making payments.

2.18 The level of simple clerical error in farmers' claims reported by regional offices varied from zero in two regions to 3,100 errors (65 per cent of claims) in Reading and 4,100 errors (59 per cent of claims) in Northallerton. This suggested variations which could impact on the regional processing times, although the existence of no errors in claims seemed unlikely and threw doubt on the accuracy of that form of reporting for the purposes of our analysis. Therefore we used the level of farmer error identified in our examination of a one per cent sample of all claims in 1996-97 to compare such levels against average processing times.

2.19 Rates of error in our regional samples, covering both simple clerical errors and errors which led to claim reductions, varied from 10 per cent to 44 per cent. The level of simple clerical errors alone varied from three per cent to 31 per cent (Figure 17). With the exception of Bristol (highest processing time; highest percentage of errors in claims) and Worcester (lowest processing time; lowest percentage of errors), there was little correlation between average processing time (Figure 11) and the proportion of errors.

2.20 Our sample showed that the most common types of error that did not lead to a reduction in claim were arithmetic or transposition errors and the failure to complete all sections of the claim form. All regional offices encourage farmers to deliver their claim forms by hand. However, in practice, farmers may find their regional office inconvenient to visit; for example Bristol and Reading offices receive very few applications by hand. Those regions – such as Cambridge – which receive a significant number of applications by hand provide staff to perform a quick check of the application to ensure that the claimant has completed all the relevant sections of the form and that there are no obvious mistakes, such as a missing signature. There are extra costs in providing staff to receive claims especially as the majority of claims are received in the week before the Scheme deadline. However, the level of errors that do not lead to a reduction is lower in regions where a high proportion of claims are delivered by hand, suggesting that there may be some benefits from this approach.

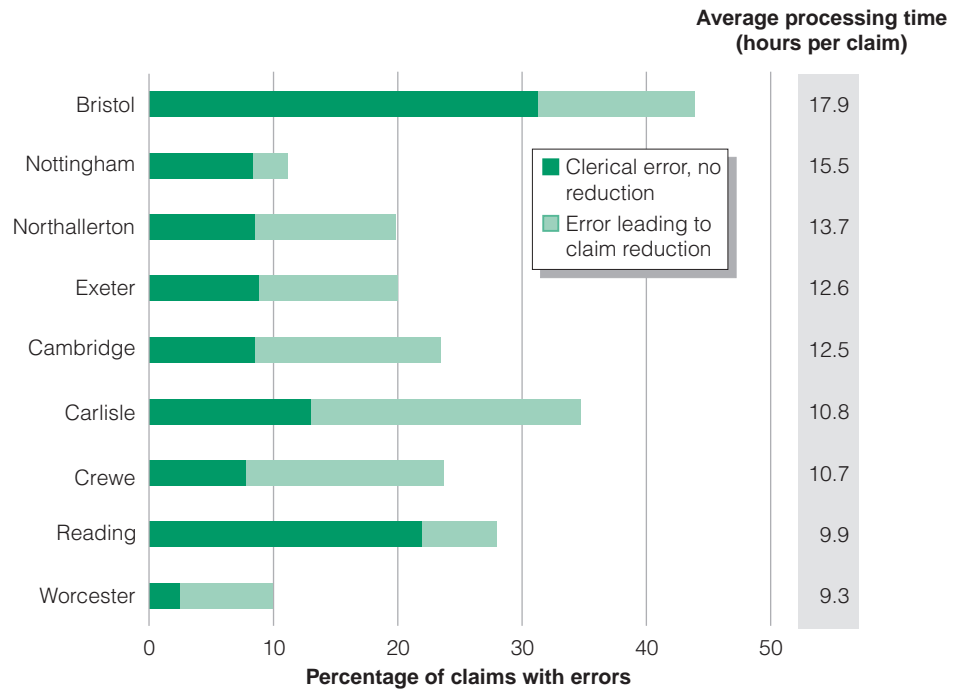
*Hypothesis (3)
Conclusion:*

The need to resolve errors made by farmers has a significant impact on processing time and varied widely between regions, but did not explain variations in efficiency.

The lever of farmer error in Scheme claims

Figure 17

The proportion of claims on which the farmer has made an error varies widely between regional offices but there is little correlation with average processing time.



Source: National Audit Office analysis of a one per cent sample of Scheme claims

Note: Regional offices are ranked in order of average processing time from Bristol which had the highest average time to Worcester, which had the lowest.

Hypothesis (4):

Variations in average processing times between regional offices were caused by differences in the organisation or staffing of processing sections.

2.21 We examined the structure and organisation of the Scheme processing sections in each regional office for any features which might account for variations. The regulations and requirements in respect of processing all arable applications are the same for each regional office and central guidance is issued by the Ministry’s policy division after consultation with the lead region. The lead region has issued additional advice reflecting the decisions made on specific difficult cases to assist regional offices in similar situations. There is a national computer system for processing claims, including cross-checking the eligibility of land to previous claims. In the light of these features, it is not surprising that we found that each regional office had adopted a similar staffing structure and organised the work in much the same way.

2.22 On levels of staffing, the National Audit Office found that it was not possible to identify the numbers of staff, as opposed to staff time, engaged on processing arable area claims on a basis that would be sufficiently accurate or meaningful to make quantitative comparisons between regional offices, for example by calculating the numbers of claims processed per staff member. Staff transfers, turnover and the fact that some staff are engaged on a range of different activities over the course of a year, are such that the time recording system is the only means of identifying staff effort on arable area scheme and its proportion of the Integrated Administration Control System.

2.23 However, we considered whether there were qualitative factors about the competence and experience of staff engaged in processing claims which might lead to variations between regional offices' ability to process claims expeditiously. We examined staff turnover, employment of temporary staff; and training.

2.24 The regional offices told us that they had experienced considerable difficulty in attracting and retaining suitable staff. Relevant issues include the nature of the work, involving complex claims which require detailed checking, performed during periods of peak pressure in the scheme year; and the location of most regional offices in areas where there is strong competition with other employers of office staff. Regional offices do not keep statistics on staff turnover in individual processing sections, and this made it difficult to assess its impact on regional efficiency. However, our interviews and analysis at one regional office showed that 19 out of 25 processing staff had less than two year's experience, 17 of whom were either new or had been in-post for one year. We found that similar situations existed in other regional offices, although the data was not sufficiently robust to allow the relative difficulties of regional offices to be assessed.

2.25 Some regional offices have employed agency staff for data entry to cope with the peak in the workload when applications are received. They told us that the use of agency staff varied widely from a policy of not employing any agency staff to the use of 10 staff for a ten-week period. We were not able to collect reliable information on the amount of agency staff effort spent on the Arable Area Payments scheme alone. However, the additional resources involved were relatively small although the management of temporary staff may have a small impact on direct staff time. We consider this would have minimal impact in comparisons of the regional variations in processing time.

2.26 We found that the processing of Scheme claims is often difficult and the job entails the careful examination and analysis of the farmer's claim. New staff are provided with desk-based training and monitored closely by more experienced colleagues. In addition, staff need to keep up-to-date with annual changes to

detailed Scheme rules. Each regional office is responsible for managing its own training programme and, as a result, the level of training provided has varied between regions. In 1996 a day's training course on the arable area payments scheme and arable farming was given to staff at Cambridge, Worcester and Reading and the other regional offices received a half day course. In 1997, the Ministry's National Scheme Management Centre at Cambridge offered a further whole day of training to regional offices, but this was taken up only by Crewe and Cambridge. Further training has been provided annually to processing staff on the changes to the Scheme computer system. Staff at regional offices told us that there were inadequate computer facilities to train new staff and to familiarise themselves with system changes. In the light of staff turnover and the possible impacts on processing efficiency, training is an important issue.

*Hypothesis (4)
Conclusion:*

There was insufficient data to indicate that the organisation and staffing of processing sections were the causes of differences in regional performance. However, the problems of staffing and training are significant factors in regional efficiency generally and may account for some variations.

*Conclusions on
variations in regional
efficiency:*

-
- The variations in the average processing time per claim at regional offices were not explained by the numbers of claims and economies of scale. Nor on the analysis we were able to make did it appear that there was an optimal number of claims which would lead to greater efficiency.
 - There are factors inherent within claims which the Ministry agrees have an impact on their complexity and on the time taken to process a claim. However, although there were significant differences in the numbers of claims of differing complexity received by regional offices, these did not account for variations in processing time.
 - Similarly, the variations in error rates in farmer's claims did not generally correlate with processing times. However, the percentage of farmer errors in a sample of claims at Bristol suggest some contribution to that region's high average processing time.
 - The impact of staffing is harder to quantify and we could not find evidence to indicate that this was a factor in regional variation. However, problems of retention of staff, and the need to employ temporary staff at peak periods, suggest that competence and experience is important and may be one of the factors in the increasing cost of processing claims.
-

Information Technology support for claim processing

What systems have been introduced?

2.27 The European Union's requirement for member states to implement an arable area scheme and an Integrated Administration and Control System date from 1992-1993. In the latter case, the requirement was for full implementation of a database by 1996, whereas the arable scheme was to be operated from 1993 onwards. The Ministry therefore adopted a phased approach to development of computer systems in this area. This has involved significant annual enhancements to incorporate automated checking of farmers' claims, including cross checks with other schemes; to reflect the scheme regulations; and to meet European Union requirements. Further information on the development and nature of the computer system is given in Appendix 2.

2.28 As a result of the European Union's requirements and this phased approach, the cost of information technology in support of the Arable Area Payments Scheme has been increasing since 1992 (paragraph 2.6, Figure 7 on page 20). Initial hardware costs of some £2 million were incurred in 1992-93, but the total costs of some £8 million from 1993-94 to 1997-98 relate almost entirely to staffing and consultancy.

2.29 The approach adopted by the Ministry has resulted in the following:

- urgent implementation of a basic system in 1993 with incorporation of enhancements and European Union requirements on an incremental basis. This made it impossible to evaluate the project against objectives, budgets and timescales which had originally been set;
- computerisation of many of the checks and controls required by the European Commission, rather than reliance on manual checking. While this made the system more complex, it has given increased assurance that all payments were regular and correct.

What problems have processing staff faced?

2.30 During our visits to the nine regional offices, we examined the impact of the computer system on processing efficiency. We found that staff had faced various difficulties in processing claims:

- The Ministry has developed and updated the system software on an annual basis. In order to smooth out staffing requirements for this work and maintain the continuity of the development team, not all the software is made available at the beginning of each Scheme year. Instead, it is released during the year in several stages to reflect when particular functions are likely to be required by users. Data entry software, for example, must be available very early in the year for applications, the deadline for which is 15 May, to be registered and entered; whereas payments software is generally not required until September. We found that this has significantly affected the manner in which claims are processed, as only certain aspects of each claim can be addressed at each stage. If the software requirements were available at the outset, many claims could be processed in one attempt, significantly reducing the inefficiencies involved in having to process them in three or four stages. The Ministry told us that a single release of software would result in more in-year changes and possibly greater overall costs.

- In 1996, several problems arose. Firstly, the release of each stage of the software was significantly later than planned – by about a month in the cases of data entry and central validation – which impacted on the ability of regional staff to make early progress and then reduced the period available to them for processing claims. Secondly, problems with the central computer led to delays in the validation of claims against the Integrated Administration and Control System database to check for duplicate claims, and restrictions on the number of claims that regional offices could send electronically at any one time for validation.

- The validation process involves establishing “parcel links” for every field (or part-field) to previous years. This is a complex process especially where fields have been divided up in different ways each year. In 1996 staff experienced additional difficulty with this process and were sometimes obliged to take out all links and re-insert them several times before the claim would validate. This difficulty arose even where the links had been entered correctly, due to the manner in which requests were processed on the central database. Staff in regional offices had to re-submit each claim for local validation approximately four times on average, and for central validation approximately 3.5 times on average. These difficulties caused further interruptions in the processing of individual claims as staff had to wait at least a day for each central validation request to be processed before they could investigate claims which were rejected.

- Processing on the system in terms of keying-in data could be very slow. Staff told us that sometimes they had to wait for 30 seconds or longer before data appeared on the screen. This could be frustrating for staff when entering information from applications, and therefore could increase the likelihood of errors.
- There was no reliable information on which to analyse the extent of system downtime. But the evidence available from records of meetings, internal minutes and other documents suggested that there had been a significant number of occasions on which the system had been either partly or completely unavailable to users. While the incidence of major system crashes was rare, the effects could be severe depending on when they occurred. In 1995, for example, system problems resulting from the introduction of new software at one regional office led to a total of 3 weeks downtime at that office within a critical three month period, thus seriously impairing its ability to meet payment deadline targets.

Could systems be improved?

2.31 A key element of the process of checking and validation of claims relates to the identification of eligible areas, and the size, use and crop type of fields and part fields. A geographical information system - which incorporates information on the spatial relationships between the data it holds – would be of benefit to this process. At the simplest level, it could present on-screen a map of a farmer’s holdings, including field boundaries and areas, crop types, roads, pathways, barns, ponds, and other features. At the outset of the scheme in 1992-93, the Ministry considered adopting a geographical information system. However, the only available database was that owned by the Ordnance Survey, the costs of purchasing and developing which were estimated to be in excess of £20 million. In view of the uncertainty about the long-term future of the arable scheme at that time, the Ministry decided against pursuing this.

2.32 A geographical information system was developed specifically for the Ministry’s Environmentally Sensitive Areas scheme for use by the Farming and Rural Conservation Agency. This was user-friendly and offered significant cost benefits for that scheme. A similar system designed for the Arable Area Payments Scheme could offer substantial reductions in staff time due to:

- reductions in data inputting time by use of application data sheets which incorporate maps of the applicant’s holding and the ability to transcribe this information quickly into a geographical information system; and

- quicker checking and processing of applications as a result of fewer interruptions in the processing of individual claims and more specific information on errors when claims fail to validate correctly.

2.33 The Ministry has upgraded the central computer on which the main database is held and has improved the timeliness of software releases and of additional functions. In 1997 and 1998, the Ministry carried out a number of reviews of its information technology systems, the scope for implementing a geographical information system, and the provision of regional services. Based on the results of these reviews, in June 1998 the Ministry submitted to the Treasury a business case for re-developing the computer systems which support the administration and management of the Common Agricultural Policy schemes in England. The business case recognised that:

- the current systems were based on older hardware and software technologies which offered little scope for further improvement;
- they were expensive and time-consuming to maintain and enhance, and therefore could not be flexibly adapted to enhance productivity and incorporate increasingly stringent regulatory requirements;
- the potential risk of disallowance of expenditure by the European Union would therefore increase as a result of weaknesses in control; and
- substantial new investments were necessary in information technology systems if the Ministry were to continue to meet its responsibilities in these areas.

2.34 The business case proposed an investment of about £42 million over the period 1998 to 2001. It anticipated that administrative efficiency gains of almost £20 million a year would result by 2003; while the failure to implement such a system could incur disallowance penalties of almost £250 million a year by that date.

Conclusions on information technology:

- The Ministry has invested considerable effort in order to improve the information technology system, increase its reliability, and make available the software to users at an earlier stage. However, the costs of the system are escalating due mainly to the difficulty of developing and maintaining the programming software.
- The absence of a database based on a geographical information system, the need to process each claim in a number of stages, and the increasing demands placed on the system by complex checks and periods of peak demand, lead to inefficiencies in clerical processing.
- Significant improvements in information technology support for regional offices could be justified, if the predicted efficiency gains can be realised.

Conclusions and recommendations on processing claims

2.35 The cost of regional processing is increasing. The reasons for variations in the average processing time per claim are not clear but do not appear to lie in factors such as the numbers and complexity of claims or levels of farmer error.

2.36 The cause may in part lie in factors within the control of management, and the Ministry should explore further the reasons for the variations. This should be pursued with the aim of getting average processing times and costs down to the lowest possible level while maintaining standards. If, for example, the five regions taking the longest time were able to achieve the average time of the four others – 10 hours – we calculate this could result in savings in the region of £1.6 million a year.

2.37 Previous attempts by the Ministry via best practice reviews have been unable to identify reasons for differences in efficiency. In late 1998, the Ministry were creating a Strategic Management Unit within the central division responsible for oversight of the management of Common Agricultural Policy schemes. This unit will focus on operations design using techniques such as benchmarking and total quality management and will look at the consistency and speed of processing within and between schemes. In addition, the Ministry is to conduct an efficiency scrutiny of management structures and reward systems.

2.38 The establishment of performance targets, such as time taken to process a claim, might be of benefit in identifying the reasons for variations and improving performance. Pending the outcomes of work by the new Unit, the Ministry might use the results of our analysis to examine the reasons why some of the regional offices with comparable numbers or complexity of claims under the arable area

scheme take significantly longer. Conversely those offices taking significantly less time may offer some examples of good practice or management factors from which others could benefit.

2.39 The problems of staff turnover, employment of temporary staff, periods of peak demand, and complexity of processing reinforce the importance of the induction and on-going training given to staff on both clerical and computer based activity. The Ministry's introduction in November 1998 of a revised strategy for its training as a whole and for regional offices should help to reduce these problems. The Ministry should monitor the take up of the new programme by regional offices to ensure that all staff benefit from the available training and should evaluate the success of training given. The training should specifically aim to address annual changes to the scheme and developments on the computer system.

2.40 The rising costs and increased time spent checking claims suggest that review and updating of information technology support is appropriate. The Ministry is planning to introduce a major new system for administration of all Common Agricultural Policy schemes in the next five years. This will be taken forward using a project management methodology and should enable evaluation of the project in due course against objectives, budgets and timescales.

Arable Area Payments Scheme



A field of wheat



A field of oilseed

Part 3: Prevention and detection of irregularities

3.1 The European Union requires member states to develop an effective system of checks to prevent and detect irregularity, including fraud. To meet these commitments, the Ministry undertakes a combination of checks to ensure that claims comply with Scheme rules and that farmers receive the payment to which they are entitled. Our analysis of the main risks that may give rise to irregularities and the nature of the controls implemented by the Ministry to prevent or detect them is at Appendix 3.

3.2 There are three main categories of detailed checks which the Ministry applies:

- **In-office checks.** A wide range of clerical, managerial and computerised checks on applications submitted under the Integrated Administration and Control System, on Scheme claims, and on supporting data supplied by farmers. Details are shown in Figure 10 on page 24.
- **Field inspections.** Visits by Ministry staff to farms in order to verify physically details such as field sizes and crops contained in farmers' applications and claims. The European Commission sets a minimum target level of five per cent of Arable Area claims to be checked on-the-spot.
- **Remote sensing.** The analysis of satellite and photographic imagery to determine field sizes and crop types.

3.3 We examined the Ministry's application of these controls and how robust they were. This involved examination of a one per cent sample of Scheme claims; review of the selection, timing and conduct of field inspections; and the use made of remote sensing. We also analysed the action taken by the Ministry in cases of irregularity and the level of irregularity detected.

In-office checks

3.4 The Ministry's in-office checks comprise a series of manual and computer based checks that are performed on all Scheme claims to confirm that they comply with the rules, and the amounts claimed are arithmetically correct. The checks

seek to be comprehensive; to identify potential irregularities, including simple errors, which are capable of detection from examination of paperwork and cross checking to other data; and to lead to necessary actions to remedy the errors or penalise the farmer. As reflected in Appendix 3, we found that the Ministry’s controls are designed to address the main risks of irregular claims. Furthermore, controls have been built into the computer system to ensure claims cannot be paid on the system until errors have been resolved.

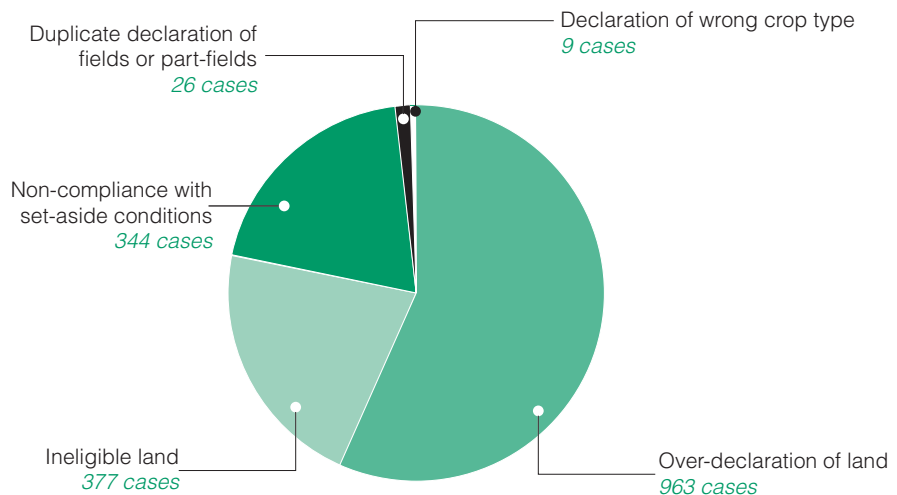
3.5 In view of the scale of in-office checks and in order to examine their application in practice, we reviewed a one per cent sample of Scheme claims from across the nine regional offices. Our review confirmed that the Ministry’s controls were operated or had been recorded as operating in the way intended and were applied consistently across the regions. We found just one case out of 470 that had been paid incorrectly and the Ministry has since recovered the overpayment of some £1,000 from the farmer’s 1997-98 payment.

3.6 The cost of in-office checks of claims amounted to more than £3.7 million in 1996-97. This excludes work carried out on applications required under the Integrated Administration and Control System (Figure 7 on page 20). In that same year, in-office checks led to the detection of 1,719 irregularities (Figure 18). Penalties were applied on 400 cases, which represents 0.9 per cent of all Scheme payments.

Irregularities on Arable Area Payments Scheme claims in 1996-97

Figure 18

In 1996-97 the Ministry detected over 1,700 irregularities from manual and computer based in-office checks.



Source: National Audit Office analysis

3.7 The Ministry does not collect information on the value of all irregularities or errors identified as a result of in-office checks. However, those cases which led to the application of financial penalties or to reductions of claims amounted to some £840,000. This figure includes an element, not separately identified, relating to in-office checks following remote sensing.

Conclusions on in-office checks:

- In-office checks are appropriately targeted and applied by regional offices to confirm eligibility of claims for payments and to identify errors and more serious irregularities to the extent allowed by examination of paperwork, computer controls and cross checking to other data.
- All claims are subject to similar levels of checking and this cost £3.7 million in 1996-97. While this identified some 1,700 irregularities, the Ministry's record keeping does not enable an assessment of the full value of amounts saved as a result of in-office checks.

Field inspections

What do they involve?

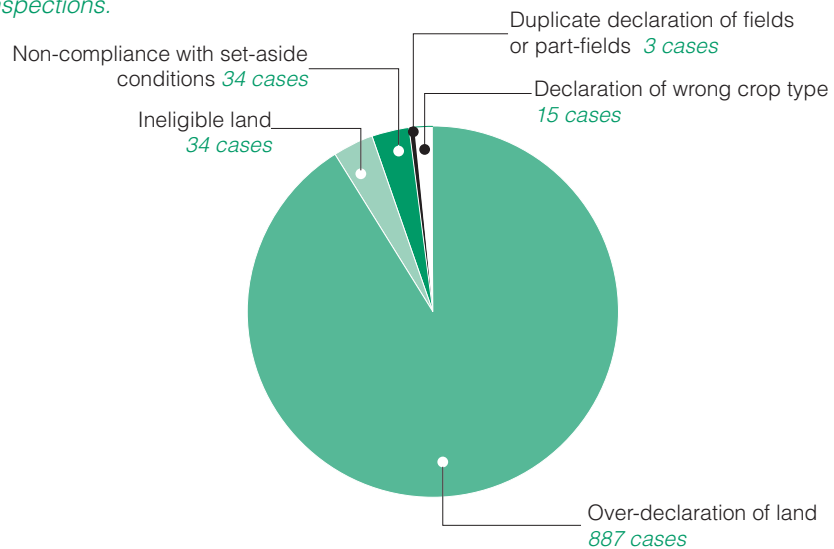
3.8 On-farm inspections (field inspections) involve the physical verification of claim details such as field sizes and crop types. European Union legislation sets minimum target levels for field inspections: the Ministry is required to inspect a risk-based sample of five per cent of arable claims submitted under the Integrated Administration and Control System each year. The failure to meet this target could lead to the European Commission disallowing Scheme expenditure. Responsibility for selecting, conducting and monitoring field inspections has been devolved to the nine regional offices. The size of the field inspection sample is reduced to three per cent of claims if the regional office makes use of remote sensing.

3.9 In 1996 the Ministry carried out 2,100 random field inspections and found irregularities on nearly 1,000 cases, most commonly in the over-declaration of field sizes (Figure 19). On 388 of the claims inspected these overclaims led to the application of penalties. The total value of the reductions on claims with penalties was some £520,000 and the area over-claimed amounted to 2,400 hectares. The discovery of overclaims does not always lead to reductions if field inspections identify fields on which the farmer has made an under-claim. In such cases, the Ministry calculates the net effect of under and over-declarations for each crop group before making deductions (case A). The Ministry informs farmers of under-declarations but the current claim is not increased.

Irregularities on Arable Area Payments Scheme claims in 1996-97

Figure 19

In 1996-97 the Ministry detected nearly 1,000 irregularities as a result of their field inspections.



Source: National Audit Office analysis

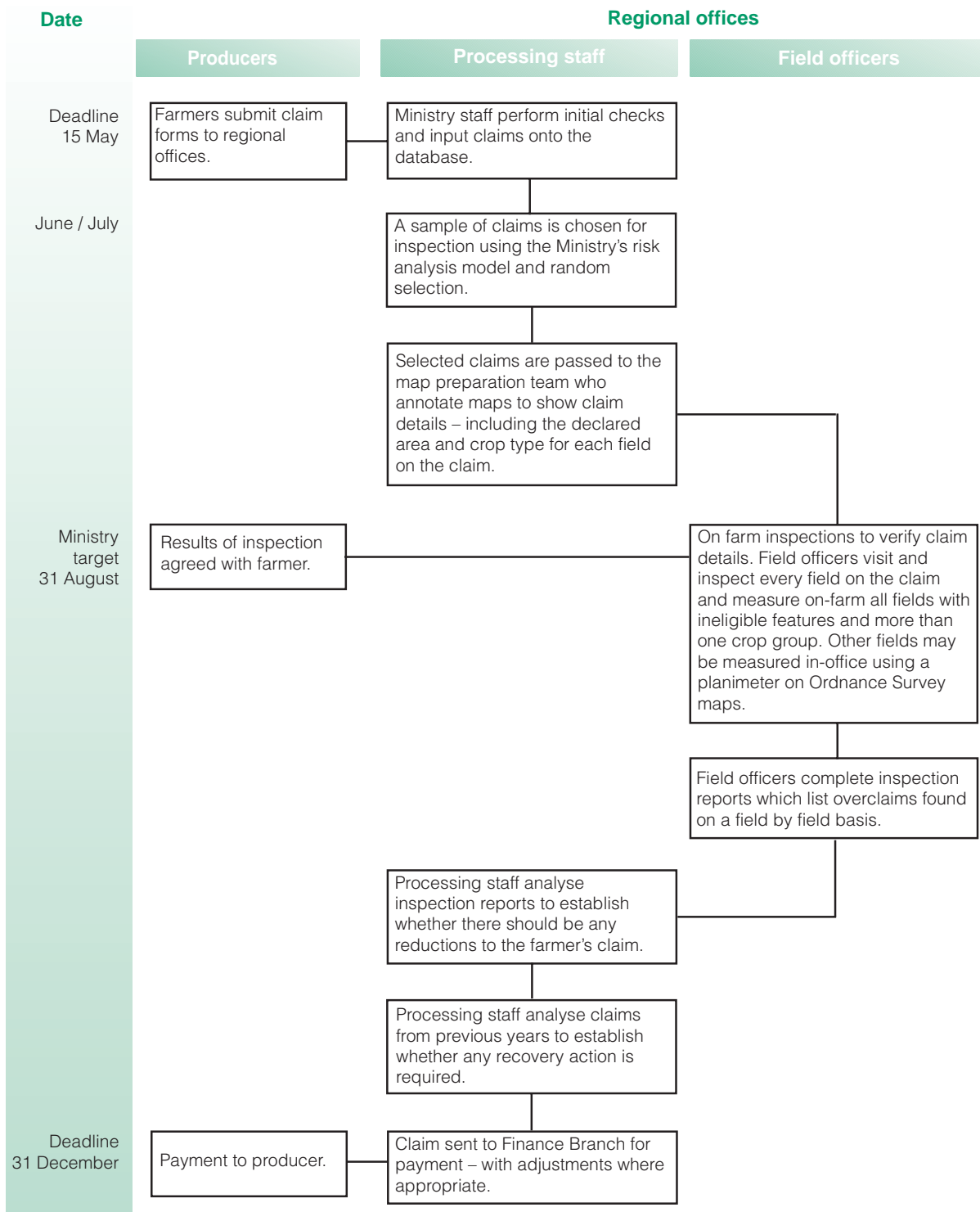
Case A

A random field inspection of a claim for 154 hectares found discrepancies on three fields. The first discrepancy related to an overclaim of 0.22 hectares on a field of beans, which are paid under the proteins crop group, and resulted in the Ministry reducing the farmer's claim by £85. The field inspection also found an overclaim of 0.83 hectares and an underclaim of 1.06 hectares on fields of wheat, which are paid under the cereals crop group. The Ministry offset the overclaim of 0.83 hectares by the underclaim of 1.06 hectares and as a consequence, correctly, did not reduce the application. The remaining underclaimed area of 0.23 hectares did not attract payment. Ministry staff checked previous claims to establish whether the farmer had included the over-declared fields in earlier claims but found that no further action was necessary.

3.10 The Ministry's processing staff can also request a targeted field inspection if their checks indicate a potential problem with the claim. Field officers visit farms specifically to investigate the suspected irregularity and will only widen the investigation to cover the remainder of the farm if discrepancies are found. Other targeted inspections result from tip-offs to the Ministry from members of the public. Targeted field inspections do not count towards the European Commission inspection target. In 1996-97 the Ministry conducted an unknown number of targeted inspections and discovered irregularities on 28 of the claims inspected. As a result, the Ministry recovered overpayments of £55,500.

3.11 Figure 20 outlines the process of selecting and conducting a field inspection. In 1996 the Ministry employed 145 field officers on Scheme inspections at a cost of £750,000 which equates to £360 per field inspection. Field officers

Figure 20 The selection and conduct of field inspections



Source: National Audit Office analysis

spent approximately 60 per cent of their time on the farm inspecting crops and measuring field sizes; the remainder is spent in-office, for example, using the Ministry's electronic device (a planimeter) to measure field sizes using a map and completing inspection reports.

3.12 The Committee of Public Accounts in its 11th Report of 1997-98 noted that field inspections provide an important source of evidence as to the validity of claims since there is no substitute for verification on the spot. In view of their importance we examined:

- the selection of field inspections;
- the timing of them; and
- their conduct, such as methods of inspection, time taken, compliance with instructions and reporting.

Does the selection of claims for inspection target risk?

3.13 The European Commission gives member states some discretion in deciding which claims to inspect. But the selection must be based on analysis of risk; have regard to the size of claims; and allow for an element of representativeness in the sample. The Ministry has established a risk based selection model to choose the sample of claims for field inspection. The criteria used for sample selection is based on the potential risks under the Scheme but takes into account factors set out in European Commission regulations. The Ministry also targets applicants who are known to have broken the rules of this and other schemes.

3.14 The criteria used in the risk based selection model have resulted in a number of high value claims being selected for field inspection in consecutive years. The Ministry does not keep information on the number of claims that have been re-selected and, therefore, does not know what proportion of farm holdings have been inspected since the Scheme's introduction. The Scheme regulations do not require member states to keep information on claims that have been re-selected. We found that in Northallerton and Exeter some 20 per cent of the claims selected for field inspection in 1996 had also been inspected the previous year. The results of our examination of field inspections in Exeter showed that of seven field inspections in the sample which had been inspected in previous years, only one inspection in 1996-97 found discrepancies that led to a reduction to the claim.

3.15 The Ministry has reviewed the criteria in the risk based selection model and has made some revisions to refine sample selection; for example, satisfactory inspections were given a negative weighting to reduce the chance of re-selection. However, we found that the Ministry has undertaken limited analysis on the results of field inspections to determine whether resources are targeted towards the highest risk areas. We evaluated the results of a random sample of 240 field inspections and found that the highest incidence of claims being reduced as a result of the inspection occurred on claims between 50 and 150 hectares (Figure 21).

The results of field inspections in 1996 – by size of claim

Figure 21

The Ministry's risk based selection model biases the field inspection sample towards claims above 150 hectares but there is a higher incidence of error on claims between 50 and 150 hectares.

| Size of claims (hectares) | Profile of all Scheme claims (%) | Claims selected for inspection (%) ¹ | Claims reduced following inspection (%) ² |
|---------------------------|----------------------------------|---|--|
| Less than 20 | 38.9 | 1.5 | 0.0 |
| 20 to 49.9 | 10.2 | 5.5 | 7.1 |
| 50 to 99.9 | 23.5 | 10.1 | 46.3 |
| 100 to 149.9 | 10.1 | 13.5 | 46.9 |
| Over 150 | 17.3 | 69.4 | 38.1 |

Notes: 1 Breakdown of field inspection sizes in three regions where such information was available. Claims were selected by the Ministry's risk assessment model.

2 The proportion of reduced claims was based on analysis of the National Audit Office's sample.

Source: National Audit Office sample of field inspections

3.16 In 1998 the Ministry revised its approach to sample selection to ensure that smaller claims were better represented in field inspection samples. Scheme claims were split into quartiles and ten per cent of inspections were selected from the lowest quartile. In accordance with European Commission requirements, the sample is still biased towards high value claims as 40 per cent of the inspection sample is drawn from the upper quartile. In order to evaluate this revised risk analysis approach, two per cent of claims will be chosen at random for field inspection, leaving the remaining three per cent to be chosen on the basis of risk analysis. The Ministry intends to compare the results of each sub-sample to ensure that they are targeting high risk cases.

What is the timing of field inspections?

3.17 Field inspections on arable area claims need to be carried out at times when eligibility is physically capable of being checked. In 1996 and 1997 the Ministry set a target of completing all field inspections by 31 August, which is traditionally about the end of the harvesting period. In 1998 the Ministry consulted the National Audit Office and the target was set to complete 95 per cent of inspections by the end of August and 100 per cent by the end of September. The Ministry told us that while it is possible to conduct post-harvest field inspections, it is preferable to complete inspections in a four to six week period following the harvest. During that period, field officers are still able to find evidence of the previous year's cropping patterns. After that, it becomes increasingly difficult to measure accurately fields that were split between different crop groups. In addition, post-harvest inspections will not detect undeclared crop failures, which is important as producers are not paid on the area of a failed crop.

3.18 The Ministry introduced improved management procedures for inspections in 1997 and further refined these in 1998. In particular, and as part of improved quality control, inspection performance is critically assessed annually with any improvements made in the following year. The effect of all these changes was to greatly improve the performance in completing inspections and, as can be seen from Figure 22, the Ministry reported that all inspections were completed on time in 1998. This is a significant improvement from the analysis that we undertook of the timing of the Ministry's field inspection programme in 1996 where we found that that the Ministry had completed 46 per cent of the field inspection programme by the end of August. In 1996 some 760 inspections (35 per cent of inspections) were carried out between October and December and our review of a sample of field inspections identified a number of cases where the field officer concluded that it was too late in the year to conduct a full inspection (Case B). There were also marked variations between regional offices, as reflected in Figure 22.

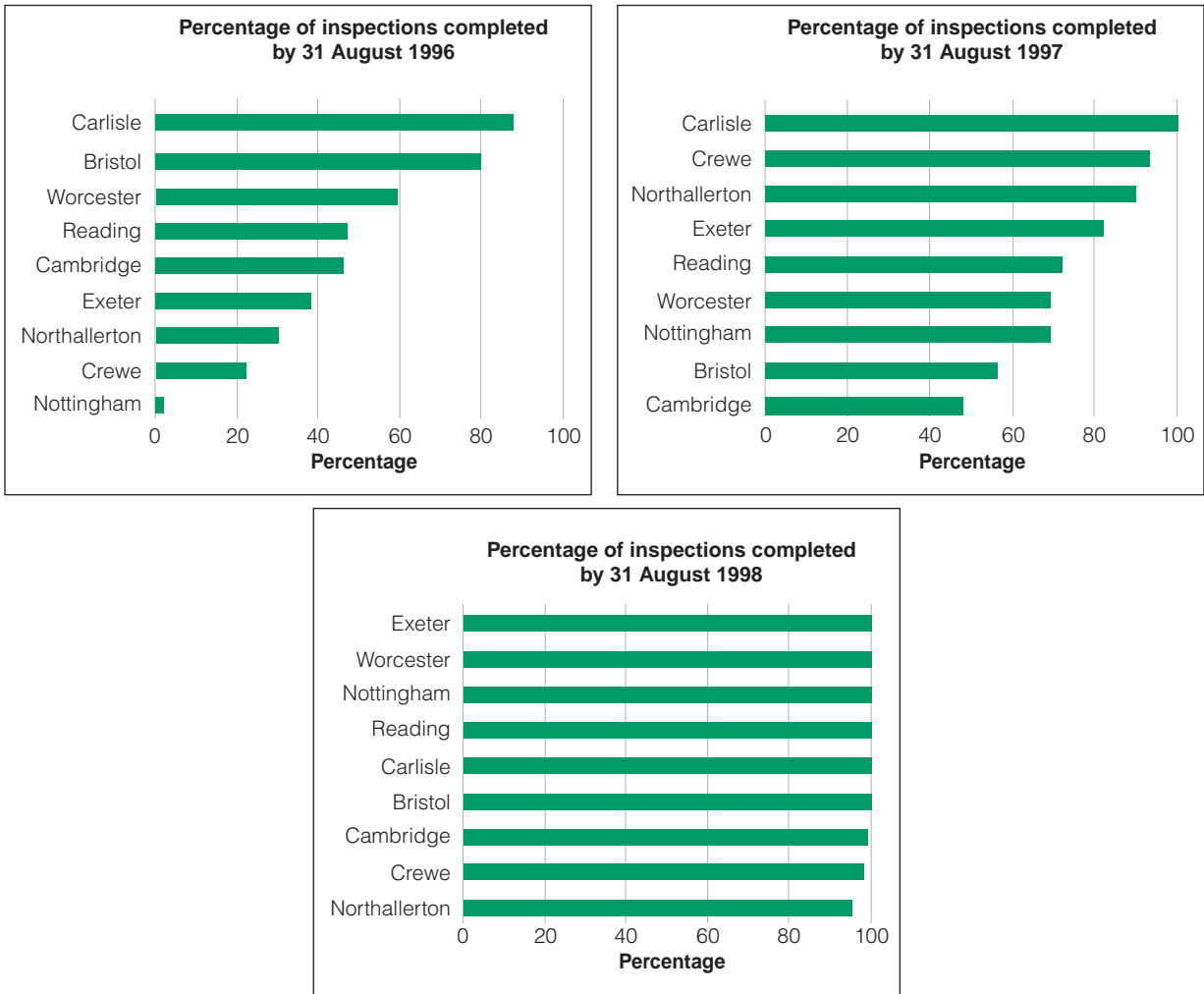
Case B

A claim for 870 hectares was passed for inspection in mid-October 1996 and the field inspection was carried out on 21 November. The field officer concluded that, in most cases, it was possible to see remains and crop debris from the previous year's cropping that corresponded with the farmer's claim. However, two fields were defined with non-physical boundaries and it was not possible at that time of year to determine accurately the crop boundary.

Figure 22

The timing of field inspections in 1996-98 - by regional office

The timing of field inspections varied widely between regional offices in 1996 but had improved significantly by 1998.



Source: National Audit Office analysis (1996); Ministry data (1997 and 1998).

3.19 Regional offices select their field inspection samples in a number of stages as processing staff input Scheme claims on to the computer system. In 1996, information technology difficulties led to delays in such input and thus in the selection of samples. Regional offices typically did not select their field inspection samples using the risk analysis model until July, although some selected manually a small number of claims to enable an earlier start. This resulted in most regional offices making late starts to their field inspection programme and, due to the resource intensive nature of inspections, they were unable to catch up any delays. Our fieldwork did not reveal any evidence of delays after claims had been chosen for inspection.

3.20 The timeliness of field inspections improved in 1997. The selection of inspections using the risk-based model was staggered between May and July. The Ministry has recognised the importance of making an early start on field inspection programmes and has agreed with the European Commission that, from 1998, a proportion of field inspections will be randomly selected on the basis of the previous year's claims. In 1998 the Ministry made significant further improvements such that six regional offices completed all their inspections by 31 August and the remaining three completed 95, 98 and 99 per cent by that date.

How are field inspections conducted?

3.21 In view of their role in minimising fraud, error and the risk of European Commission disallowance, it is important that field inspections are properly managed and carried out. To meet these requirements, the Ministry has issued field inspectors with instructions on the conduct of inspections. These are summarised below. Field officers have discretion to decide how best to conduct an inspection, provided that they meet the requirements set out in these instructions.

Ministry instructions for conducting field inspections

Instructions set out in detail the procedures that field officers are required to follow when conducting a field inspection of a Scheme claim. In summary, field officers are required to:

- visit and inspect all fields on which there is an arable or forage claim to verify the crop group and area claimed and check that there have been no undeclared crop failures;
 - measure all fields on which more than one crop group (cereals, oilseeds, proteins, set-aside, forage) is being grown to establish the area covered by each group;
 - physically measure the area of all ineligible features, such as roads, tracks, ponds, manure heaps etc, and ensure that they have been correctly deducted from the claimed area;
 - follow-up any potential discrepancies identified by the map preparation team;
 - use the standard method of measurement on-farm which is the measuring wheel, rather than pacing the fields which is not considered an acceptable method for measuring distances accurately; and
 - agree the results of the inspection with the farmer.
-

Source: Ministry data

3.22 We reviewed each regional office's management information on field inspections for the 1996 Scheme year and found there were significant variations in the level of information available for management purposes. However, we were able to analyse the methods used on inspection in five regions (Bristol, Cambridge, Exeter, Reading, Worcester). We found that there were wide variations in the methods used to conduct inspections.

- The proportion of inspections on which field officers did not measure any fields - either on-farm or in-office - varied from less than four per cent in three regions to 44 per cent in Bristol.
- The proportion of inspections on which the field officer did not measure any fields whilst on the farm varied from 27 per cent of inspections in Worcester to 73 per cent in Exeter.
- Regional instructions state that where a claim is chosen for inspection, the field officer must visit and inspect every field on which there is an arable claim but the management information showed that, across all regions, field officers visited on average 92 per cent of the fields. The proportion of inspections on which the field officer did not visit all fields varied from seven per cent of inspections in Exeter to 35 per cent in Reading.
- Pacing was recorded as a method of measurement in two regions and in Worcester pacing was cited as the only method of measuring fields in five per cent of inspections.

How long do inspections take?

3.23 In 1996 the average field inspection covered 260 hectares and took 26 hours to complete. Our analysis for each regional office of the average time taken to complete inspections, the average size of inspections, and the proportion of inspections which did not lead to reductions in claims is shown in Figure 23. The average time taken varied from 12 hours for Bristol to 46 hours for Cambridge.

3.24 The different practices described above, such as the number of fields measured, and average field size will be factors in the time taken, but the absence of detailed information did not enable us to analyse the impact of this for all regional offices. Nor were we able to identify whether the variations in the proportion of satisfactory inspections were due to those inspections which identify potential irregularity taking longer to complete; or to the fact that the less time

spent on an inspection, the less likely that it will reveal irregularities. In addition, the results in Figure 22 indicate that three of the four regional offices which had completed the largest percentage of their inspections by 31 August 1996 (Bristol, Carlisle, and Worcester) were also three of the four offices with the lowest average time taken to conduct an inspection in Figure 23. This might be because inspections take less time if they are carried out when clear evidence of crops is available; or because the less work carried out in an inspection, the more inspections can be completed in a shorter time period. More management information enabling analysis of all these factors would have been of value in judging the quality and consistency of field inspections.

Average field inspection times and inspection results – by regional office

Figure 23

The results of field inspections varied widely between regional offices. There was no clear pattern by which the average time taken could be attributed to field size or the proportion of satisfactory inspections.

| Regional office | Average time taken to conduct an inspection (hours) | Average field inspection size (hectares) | Proportion of satisfactory inspections ^{1 2} (%) |
|------------------|--|---|--|
| Cambridge | 46 | 309 | 51 |
| Crewe | 37 | 169 ¹ | 63 |
| Northallerton | 31 | 243 | 42 |
| Reading | 22 | 310 ¹ | 73 |
| Nottingham | 22 | 327 | 53 |
| Carlisle | 18 | 143 ¹ | 62 |
| Worcester | 17 | 188 ¹ | 67 |
| Exeter | 16 | 204 | 71 |
| Bristol | 12 | 279 ¹ | 88 |
| National average | 26 | 263 | 64 |

Notes: 1 Figures not available from Ministry data and were extracted from National Audit Office sample results.

2 A satisfactory inspection is defined as an inspection that does not discover any irregularities that lead to a reduction to the claim.

Source: National Audit Office analysis

How well do field inspectors comply with requirements?

3.25 In order to examine further the quality of field inspections, we reviewed a sample at each regional office to establish whether field officers were complying with the requirements of the Ministry’s instructions (paragraph 3.21). The sample included 241 inspections conducted in the 1996 scheme year, over 11 per cent of the Ministry’s field inspection programme, covering some 49,000 hectares. The main findings of our examination were:

On the conduct of field inspections

- Field officers are required to record on maps relating to the farmer's claim evidence that the field inspection has been properly conducted; for example, field officers should show that they have visited each field and record details of any measurements taken. However, we found that the level of notation on maps varied widely between and within regional offices. In a number of cases there was little or no notation and in other cases it was not possible to determine whether the details had been added by the field officer. In August 1997 the Ministry issued an instruction reminding field officers that the notation on maps must be capable of supporting the inspection and show clearly what has been done. The Ministry also revised regional instructions to state explicitly how maps should be annotated and is considering introducing a colour coding system that would identify clearly those measurements which are added by the field officer.

- The Ministry's instructions state that the fields with more than one crop group should be measured on-farm to verify the areas claimed. We identified a number of claims that contained fields with different crop groups but the inspection report stated that no fields had been measured.

- Our review confirmed that generally factors such as the number of fields to be inspected, the proximity of the fields, ease of access and the methods used do influence the time taken and that there can be wide variations. We found an example in Bristol where an inspection on a claim of 344 hectares and 97 fields was completed on-farm in three hours - which equates to 115 hectares an hour and one field inspected every two minutes.

On reporting the results of inspections

- At the end of each inspection, the field officers are required to complete an inspection report that details the methods used and the results. We found that the standard of inspection reports varied in terms of completeness and the level of information provided. In particular, the conclusions and measurement methods were often omitted and it was not always clear which fields had been measured on inspection.

On processing the results of inspections

- Field officers are required to list all discrepancies found on inspection and pass the results back to the processing staff to make the appropriate reductions to the claim. When there were large numbers of discrepancies Ministry processing staff occasionally encountered difficulties in interpreting field inspection results. We found one case where the processing staff had failed to action discrepancies found on inspection. The Ministry has since instituted recovery action to recover the overpayment.
- If the field inspection discovers discrepancies on the current year's claim, Ministry staff examine earlier claims to determine whether the fields had been included in previous years and, as such, whether recovery of previous overpayments is necessary. However, we found that recovery action was not applied consistently and identified a number of cases where Ministry staff had not checked whether over-declarations applied to previous years. The Ministry has now taken action in all these cases to check previous years claims and take recovery action where appropriate.

3.26 The Ministry's current monitoring is largely focused on measuring the completion of inspections against targets rather than evaluating the effectiveness and quality of inspections. The Ministry is seeking to develop greater consistency between regional offices in the conduct of field inspections. From 1997 senior field officers were required to re-perform a sample of inspections carried out by field officers to highlight potential problem areas and disseminate the results in the form of best practice across the regional offices. Prior to this, senior field officers met periodically to discuss key issues.

3.27 Prior to 1978 field officers were required to have relevant agricultural experience or qualification. Now they are usually recruited by transfer or promotion from within the Ministry. Therefore field officers have a range of experience and qualifications. Newer officers are more likely to have previous experience of scheme administration and the Ministry told us that personal characteristics are at least as important as agricultural experience.

3.28 New field officers receive on-the-job training by accompanying experienced field officers on arable field inspections. Field officers told us that they would welcome detailed, explicit instructions that would clarify what they are required to measure and considered that there was some ambiguity in the wording of Scheme regulations. However, the Ministry does issue guidance setting out

instructions that should be followed when undertaking an arable inspection. Prior to 1998, regional offices were responsible for establishing their own approach to training but in 1998 the Ministry introduced a comprehensive training package for all aspects of the field officer role. The new training, via formal courses, briefing sessions or tutorials, is designed for both new entrant and experienced field officers.

Conclusions on field inspections:

-
- The Ministry has successively improved its application of risk based criteria in the selection of claims for field inspection. The absence of complete data or analysis on the results of its field inspections limits its ability to attest to the appropriateness of its risk assessment model and to confirm the benefit of bias towards high value claims and reinspection in successive years. Changes made in 1998 to the way field inspections are chosen, especially the introduction of a two per cent sample of randomly selected claims, should facilitate such an analysis.
 - In 1996-97 some regional offices carried out significant numbers of their field inspections well after the Ministry's internal target of 31 August and after the harvest when evidence confirming accuracy of claims is increasingly difficult to find. This reduced the effectiveness and value of these inspections. However, the Ministry has achieved significant improvements in the timing such that in 1998 six regional offices completed all their inspections, and the remaining three completed 95 per cent or more of their inspections, by 31 August.
 - Regional offices varied surprisingly in the methods they used on inspection visits and the average time taken to conduct an inspection. There were also variations in the proportion of inspections with satisfactory results, for which management information did not enable reasons to be identified.
 - Some field inspections did not meet the standards set out by the Ministry.
 - Reporting of the results of field inspections was sometimes poor or incomplete especially in the level of detail recorded on copies of the farm maps.
 - Regional offices collected different levels and type of information on the conduct and results of their field inspections, thereby reducing the scope of the Ministry to identify and address any weaknesses.
 - Processing staff did not always examine whether the overclaims identified by the inspectors on the current year's claim also applied to claims from previous years.
-

Remote sensing

3.29 Remote sensing involves the analysis of satellite imagery to determine land use by measuring field sizes and identifying crops. In 1992, the European Union introduced the use of remote sensing as a method of checking the accuracy of farmers' claims and agreed that member states should receive technical support and be assisted with the contractual costs at a rate of 100 per cent re-imburement in 1992 and 1993 and generally at a level not exceeding 50 per cent between 1994 and 1998. This financial support does not continue beyond 1998. The Ministry first used remote sensing in 1992 and has since examined over one million hectares of farmland subject to area aid applications. Most member states now use remote sensing in some form to monitor area aid applications.

3.30 Remote sensing is of particular importance on the Arable Area Payments Scheme which has over £1 billion of area based payments in England each year. A private contractor is employed by the Ministry to carry out remote sensing and to report possible discrepancies back to regional staff. The results from remote sensing are used to verify the crop type and area claimed; check the eligibility of set-aside land; and perform historical checks to determine whether the land being claimed meets eligibility criteria. Scheme regulations, generally, require land to have been in arable use, either production or rotation, on 31 December 1991.

3.31 Our report on Tackling Common Agricultural Policy Irregularities (HC268, 1996-97) found that the cost of remote sensing checks had fallen; the value of claim reductions prompted by remote sensing had increased; and the accuracy of remote sensing data improved. In 1997-98 the contract cost of remote sensing fell further to £242 per case, some 56 per cent of the original cost per case in 1992 of £434. This reduction has been achieved in part by the impact of competitive tendering. In addition to this cost, the Ministry has estimated that the administrative cost of dealing with remote sensing cases amounts to about £115 per case. Some 70 per cent of this staff cost related to management of the remote sensing programme including the contract; the remainder was spent on preparing cases for the contractor and processing results; and on field inspections to check the accuracy of results and follow up potential discrepancies.

3.32 In 1995 remote sensing analysis identified 166 cases as worthy of investigation of which 30 per cent were confirmed, following field inspections, to represent a discrepancy (Figure 24). In the following year, a higher number and proportion of cases were identified and confirmed as indicating discrepancies. For 1997, MAFF contracted for fewer remote sensing cases to be analysed. While correspondingly fewer cases were identified as warranting investigation, a higher

proportion than in the previous two years were confirmed as containing discrepancies. Figure 24 shows that the value of claim reductions, financial penalties or recoveries in 1997 was just over £200,000 compared with around £240,000 in 1995 and 1996. Analysis of the reasons for claim reductions showed that more than half related to historical checks on land eligibility, and the remainder to area and crop group discrepancies.

Remote sensing: costs and results - 1995 to 1997

Figure 24

The contract cost per case of remote sensing in the last three years has fallen while the amount of money recovered has remained at over £200,000.

| | 1995 | 1996 | 1997 |
|--|----------|----------|-----------------------|
| Contract cost per case | £431 | £334 | £242 |
| Number of cases | 2253 | 2249 | 1203 |
| Cases identified by remote sensing as worthy of investigation | | | |
| number | 166 | 227 | 91 |
| proportion | 7.4% | 10% | 7.6% |
| Cases where subsequent investigation identified a discrepancy | | | |
| number | 49 | 104 | 48 ¹ |
| proportion | 30% | 46% | 53% |
| Value of reductions to claims and recoveries as a result of remote sensing | £247,200 | £238,800 | £204,000 ¹ |

Source: National Audit Office analysis

¹ Provisional

Conclusions on remote sensing:

- Remote sensing is likely to have a significant but unquantifiable deterrent effect. The Ministry has made good use of remote sensing as a method of targeting claims which prove to be irregular.
- Remote sensing has become a more cost-effective technique with the contract cost per case falling and the financial value of claim reductions and recoveries remaining at over £200,000.

Detection of irregularity

What penalties can be applied in the case of irregularity?

3.33 Member states are responsible for detecting and investigating fraud and other irregularities under the Common Agricultural Policy, for applying legal and other sanctions provided for under national or European Union legislation, and for recovering sums overpaid. The cost of any amounts not recovered has to be borne by the member state concerned. European Union regulations define the administrative penalties which member states must apply where irregularities have been identified and, in many cases, the Ministry has no discretion in implementing administrative penalties. Relatively few irregularities arise from fraud or serious negligence and the Ministry may take various actions depending on the severity of the offence (Figure 25).

What is an irregularity?

3.34 An irregularity is defined as any infringement of a European Union or national rule, whether deliberate or not, the outcome or aim of which was to enable the producer to receive undue payments from European Union funds or to avoid making payments due. Irregularities may range from simple errors to fraud, and include deliberate overclaims and acts of negligence. They also include cases where a condition of payment was not properly fulfilled, for example a failure to maintain land as set-aside or to plant in each field the type of crop specified in the application. The main types of irregularity detected by the Ministry are:

- claimed area greater than actual cropped area (case C on page 62);
- claim includes ineligible land (case D);
- non-compliance with rules on set-aside land (case E);
- duplicate declaration of fields or part fields; and
- wrong crop type declared on claim (case F).

Figure 25**Action taken by the Ministry on irregular claims**

| Type of error | Reduction/penalty | Examples |
|---|---|---|
| <p>Errors of a clerical nature. Ministry staff must be satisfied that the farmer acted in good faith; that there is no element of deliberateness involved; and that there is no risk of fraud or serious negligence</p> | <p>No reduction. Correction of claim without penalty – errors may be corrected before or during the processing of the application.</p> | <ul style="list-style-type: none"> ■ Incomplete or inconsistent claim forms; ■ claim forms not dated or signed; and ■ arithmetic mistakes or transposition errors. |
| <p>Eligible area found is less than that declared. For example: an area claimed is greater than the actual cropped area; farmer did not make appropriate deductions for ineligible land; or the applicant has claimed the wrong crop type.</p> <p>All reductions and penalties are applied by crop group.</p> <p>On discovery of an irregularity, Ministry staff check claims from previous years to determine whether ineligible land has been previously included. When, applicable, recovery action is initiated to recover overpayments plus interest.</p> | <p>Claim reduced: Claim reduced to the lower figure if the difference between the eligible area and declared area is less than two hectares or three per cent.</p> <p>Penalties applied: When the difference is more than three per cent or two hectares but less than 20 per cent, a penalty of twice the difference is applied.</p> <p>When the difference is over 20 per cent, the whole crop group is disallowed.</p> <p>If the discrepancy relates to set-aside, the entitlement to set-aside payments is lost. However, payments are still made on an area of crops but only in proportion to the area of eligible set-aside found.</p> | <ul style="list-style-type: none"> ■ Area declared: 20 hectares Eligible area: 19.5 hectares Area paid: 19.5 hectares ■ Area declared: 20 hectares Eligible area: 17 hectares Area paid: 11 hectares ■ Area declared: 20 hectares Eligible area: 15 hectares Area paid: 0 hectares ■ Crops declared: 200 hectares Set-aside declared: 20 hectares Eligible set-aside: 15 hectares Set-aside paid: 0 hectares Area of crops eligible for payment: 150 hectares |
| <p>Suspected cases of fraud or serious negligence If an irregularity is a potential criminal offence, the case is passed to Ministry's Investigation Branch to consider the potential for prosecution.</p> | <p>Prosecution / exclusion from Scheme The Ministry may seek judicial penalties by prosecuting the offender under Scheme regulations or general criminal law; and/or exclude the producer from the Scheme for a further one or two years. This action is taken in addition to administrative penalties.</p> | |

Source: Ministry of Agriculture, Fisheries and Food

Case C

A field inspection of a claim for 153 hectares found that the farmer had measured three fields incorrectly and failed to make the appropriate deductions for a boundary change; road widening; and an area of trees. The net result was an overclaim of 0.28 hectares on the cereals crop group (0.33 per cent of claimed area) and 0.39 hectares on the proteins crop group (1.13 per cent). Penalties were not applicable, as the reductions were less than three per cent of the area declared. The farmer's 1996 claim was reduced by £225.

Case D

A field inspection of a 1996 claim for 191 hectares found that the farmer had failed to make the appropriate deduction to the field size for a building. As a result, the Ministry deducted 0.41 hectares from the field size of 14.31 hectares (proteins) and reduced the farmer's claim by £158. Penalties were not applicable, as the reduction was less than three per cent of the area claimed under that crop group. Ministry staff checked previous year's claims and found that the field had been included in earlier years; a further £210 was deducted from the farmer's 1997 claim.

Case E

A farmer submitted a claim under the main scheme for 32 hectares that included 3.2 hectares of set-aside land. The set-aside requirement was 10 per cent in 1996. However, checks by the Ministry's processing staff showed that the field had been claimed had been included as grass ley the previous year. Scheme regulations stipulate that set-aside must have been cultivated the previous year with the intention of producing a harvestable crop; or have been in a set-aside scheme. As a result, the field of 3.2 hectares was withdrawn from the claim. In accordance with Scheme regulations, the absence of any eligible set-aside area resulted in the rejection of the whole of the farmer's claim.

Case F

A field inspection of a claim for 174 hectares found that the farmer had made overclaims on seven fields. On one of these fields the field officer found that a field of 4.51 hectares which had been declared as set-aside was actually being used to grow wheat. The whole field was removed from the claim. Scheme regulations state that farmers lose their entitlement to set-aside payments when the difference between the area found and area declared is over 20 per cent. In this case, the difference represented an over-declaration of 37 per cent. Therefore, all of the set-aside was removed from the farmer's claim and payments on cropped areas were proportionately reduced to reflect the area supported by the eligible set-aside area actually found. The net result was a reduction to the farmer's claim of £15,750.

What is the level of detected irregularity?

3.35 In 1996-97 the Ministry detected irregularities on 2,700 Scheme claims which resulted in a total reduction of some £1.43 million in payments to producers. The total area overclaimed amounted to 3,500 hectares. The Ministry applied penalties on 820 of these cases and rejected 138 cases entirely. The value of reductions on cases with penalties was £1.06 million (Figure 26). In addition, some 6,700 Scheme claims were proportionately reduced as they had insufficient set-aside or had exceeded the area limit for simplified scheme claims. The value of these reductions was a further £1.77 million.

The number and value of Scheme claims with penalties in 1996 – by method of discovery

Figure 26

The Ministry applied penalties on 820 cases – recovering or withholding some £1.06 million

| Method of discovery | Number of claims on which penalties were applied | Value of reductions (£) |
|---------------------|--|-------------------------|
| In-office checks | 400 | 465,700 |
| Field inspections | 416 | 575,400 |
| Remote sensing | 4 | 14,000 |
| Total | 820 | 1,055,100 |

Source: National Audit Office analysis

3.36 Detailed comparison of the results and costs of the three main types of checks carried out by the Ministry would be of interest in considering the cost effectiveness of the controls in identifying irregularity. However, the Ministry does not collect all the data necessary for such comparisons. In evidence to the previous Committee of Public Accounts (11th Report of 1997-98), the Ministry stated that it was difficult to assess cost effectiveness because of the unknown factor of deterrence.

3.37 European Union regulations have established a reporting system to monitor detected irregularities and follow-up action by member states. The Ministry is required to report to the European Commission each quarter all Common Agricultural Policy scheme irregularities over 4000 ecu (about £3,200) where an act or omission by a claimant, whether deliberate or not, results in an irregular payment. The regulations permit member states to retain 20 per cent of the recoveries from claimants arising from properly reported irregularities. The remainder must be returned to the European Union budget.

3.38 We examined the Ministry's irregularity reports to the European Commission and found that there had been a steady increase in the number and value of cases reported under the Arable Area Payments Scheme:

- the number of cases reported under the Scheme increased from 35 in 1995 to 108 in 1997;
- the value of these irregularities increased from £226,000 in 1995 to £848,000 in 1997; and
- the total value of irregularities between 1995 and 1997 was £1.6 million of which just over £810,000 has yet to be repaid by farmers.

3.39 There are a number of contributory factors that have led to the increase in the number of cases reported under the Scheme. In particular, the Ministry has improved its arrangements for reporting irregularities; and, as the pound has strengthened, the threshold for reporting irregularities has fallen. In addition, each reported irregularity includes the action taken by the Ministry to recover overpayments from previous Scheme years; for example, the value of an irregularity identified in 1997 will include the recovery of overpayments between 1993 and 1996. So the potential value of irregularities rises each year as there is an additional year from which to recover overpayments.

When are criminal prosecutions undertaken?

3.40 Regional staff are responsible for identifying whether an irregularity constitutes a potential criminal offence and for referring such cases to the Ministry's Investigation Branch. Once an investigation has been completed, the Ministry's lawyers decide whether the suspected offender should be prosecuted under Scheme regulations or general criminal law. Their decision whether to prosecute is based on whether the evidence is sufficient to prove beyond reasonable doubt that a criminal offence has been committed; and it is in the public interest to prosecute. The Ministry may consider it is not in the public interest to prosecute if it is likely that a successful prosecution will result in only a nominal penalty, the monetary value of the irregularity is small or the defendant's past behaviour has been good.

3.41 Between 1993 and 1997 regional staff referred 25 cases of suspected fraud or serious negligence to Investigation Branch, which represents one in every 10,000 Scheme claims in the first five years of the Scheme. The most common types of suspected irregularities referred for investigation were breaches of

set-aside rules (10 cases), claims for non-existent or wrong crop groups (four cases), the over-declaration of field sizes (three cases) and claims for ineligible land (three cases). Regions discovered almost half of these suspected irregularities as a result of tip-offs from other farmers and a further quarter as a result of field inspections. Two-thirds of the cases investigated by Investigation Branch were not recommended for prosecution. The main reason, which applied in half of these cases, was that the Ministry could not prove that the farmer knowingly or recklessly furnished false information at the time of making the claim.

Conclusions and recommendations on preventing and detecting irregularity

3.42 More data on the value of errors found as a result of different types of checks would be of use in comparing regional efficiency and in confirming whether checks are targeted at the areas of highest risks and are effective in detecting errors.

3.43 The rising cost of administration in the regions, of which in-office checks form the largest part, suggest that the Ministry should review whether the level of this checking can be reduced while still meeting European Union requirements and the demands of prevention and detection. In 1998, the Ministry decided to review this issue for all schemes.

3.44 The Ministry has made, and is continuing to make, progress in improving the management, timeliness and conduct of field inspections. The Ministry has issued revised, more explicit instructions to field officers in 1997 and the Lead Region will monitor closely the conduct of inspections in 1998. However that there is scope for further improvements in promoting rigorous and consistent field inspections:

- The Ministry should evaluate the impact of the changes to the method for selecting claims for field inspection. Particular attention might also be paid to the number of farms which have never been selected for field inspection for this Scheme.
- The Ministry should ensure that all field inspections are completed by their target dates when physical evidence to support the claim is mostly likely to be available. In 1998 the targets were for 95 per cent to be complete by the end of August and 100 per cent complete by the end of September.

- The variations in the availability of management information and in the average time spent on the conduct of an inspection, and the failure to comply with instructions on measurements of fields, are worrying features. The variations in time spent should be explored further to judge the quality and consistency of field inspections.
- Regional offices should instruct their existing field officers about the improved conduct of field inspections and on the documentation of the results. The Ministry should monitor the implementation of its new training strategy which should include training for map preparation teams.

3.45 Remote sensing of Scheme claims has a significant but unquantified deterrent effect. It is used to verify the type of crop grown, the area claimed and the eligibility of the land. The cost of remote sensing has fallen and its accuracy improved since the Ministry first employed it. Technological developments may result in remote sensing playing an increasing role in the detection of irregularities.

Part 4: The management of set-aside and other aspects of the Scheme

4.1 The National Audit Office reviewed the work of the Ministry on the following aspects of the Scheme:

- the management of set-aside land; and
- disallowance, penalties or other intervention by the European Commission.

The management of set-aside land

4.2 Set-aside is the requirement for farmers submitting claims under the Arable Area Payments Scheme to take a proportion of their land out of arable production. One of the European Union's central policy objectives for the Scheme is to control the level of production of arable crops across member states (paragraph 1.2). The European Union introduced set aside to achieve this objective and to reduce the surpluses of cereal stocks. The European regulations also require the set-aside land to be maintained in good cropping condition and require member states to apply appropriate measures relative to the situation of the land so as to ensure the protection of the environment. The Ministry is responsible for managing set-aside in England to meet the European Union objectives. It has also sought to:

- maintain set-aside land in good agronomic and environmental condition; and
- encourage the management of set-aside land in ways that benefit the wider community.

4.3 The European Union determines the proportion of land that farmers must take out of agricultural production each year on the basis of a combination of the present and forecast levels of world cereal stocks, world and European Union prices, and the level of intervention stocks. The type and proportion of land that farmers must set-aside each year has varied over the life of the Scheme. The set-aside requirement was initially set at 15 per cent of the claimed area, but had fallen to five per cent in 1997. In 1997 over 250,000 hectares of land was set-aside



Set-aside at the margin of a field



A set-aside field with poppies

in England, and the Ministry paid farmers some £81 million in compensation. The set-aside requirement remained at five per cent in 1998 but is to rise to ten per cent in 1999.

4.4 The European Commission has established the basic rules that govern set-aside land. Within this framework, the Ministry has established national rules for set-aside land that govern the eligibility and use of all land declared as set-aside. The Ministry's regulations establish the different types of set-aside land and set out rules common to all set-aside land that farmers must meet if they are to qualify for Scheme payments. The Scheme regulations also establish penalties that would be applied if farmers fail to comply with these regulations.

4.5 The Ministry has built checks into the computer system to ensure that every main scheme claim has the required proportion of set-aside land. Claims are automatically reduced if the proportion of set-aside is insufficient. The Ministry also checks the eligibility of land declared as set-aside by reference to its use in previous years.

The environmental aims of set-aside

4.6 The Ministry has drawn up management rules that seek to encourage farmers to keep their set-aside land in sound agricultural condition and, under that constraint, to maximise environmental benefits (paragraph 5, Appendix 1). Within the scope of European union legislation, the Ministry is keen to maximise environmental benefits such as a greater variety of wildlife, improvements to the landscape and access to the countryside. The European Commission has set environmental conditions that are expressed in general terms to reflect the wide range of climates and soil types across member states. Individual member states are responsible for applying appropriate measures specific to their own local conditions to ensure the protection of the environment and for enforcing penalties if environmental rules are not observed. Member states are required to inform the European Commission of the measures taken to apply this provision.

4.7 The rules for managing set-aside land are supplementary to the Scheme regulations and provide farmers with environmental advice and techniques to manage their set-aside land to benefit the environment. They are designed to ensure that set-aside is managed in an environmentally friendly way, protect traditional countryside features and allow farmers the freedom to create new wildlife habitats. The rules were drawn up in consultation with a wide range of industry, conservation and environmental groups, including the Council for the Protection of Rural England, the Countryside Commission, Farming and Wildlife

Advisory Group and the Royal Society for the Protection of Birds. The initial management rules were, to a large degree, based upon the Ministry's experience of a set-aside scheme which pre-dated the arable area scheme. The Ministry has funded research into the impact of set-aside since 1987.

Research into environmental issues

4.8 The Ministry has commissioned two major studies to evaluate the impact of set-aside land. The first study, commissioned in 1994, assessed the use and management of set-aside land and the second study evaluated the agronomic and environmental impact of set-aside management decisions over a three-year period between 1995 and 1997. The aim was to identify the beneficial and detrimental effects of set-aside under different management conditions. The Ministry has also commissioned research into specific environmental and technical issues, such as of the potential uses of set-aside to benefit wildlife. Between 1991 and 1998 the Ministry spent £5.7 million on research into set-aside issues and plans to spend a further £157,000 between 1998 and 2001. The level of research into set-aside has been significantly reduced due to uncertainty over its future under reform of the Common Agricultural Policy and because the Ministry has already built up a substantial body of knowledge on how to manage set-aside.

4.9 The Ministry has reviewed the management rules each year and made revisions to reflect the results of the research and the views expressed in consultation with environmental organisations and farmers. Management rules have been amended to seek increases in environmental benefits. For example, following widespread discussions in 1995, follow-up research and a consultation exercise in 1996, the Ministry amended management rules on the cutting and cultivation of set-aside land. These measures were designed to enhance conservation of field margins and protect wildlife, particularly for ground nesting birds.

4.10 The Ministry provides advice to farmers through a number of sources. The Scheme regulations and management advice are set out in detail in the guidance booklets that are sent to farmers each year. The Ministry has also published various leaflets, which are available on demand, suggesting more specialised forms of set-aside management that farmers might undertake. The Ministry's advisers, ADAS, have been providing specialist advice to farmers at a series of roadshows over the last four years and offer a free telephone advice service. In addition, the Ministry also gives free advice to farmers on managing their set-aside land for the benefit of wildlife, which involves a site visit and a written report.

The environmental benefits of set-aside

4.11 In 1997 the Ministry commissioned research into farmers' views on the environmental benefits of set-aside and found that:

- set-aside has resulted in some environmental benefits, most commonly an increase in the number of birds, a greater variety of wildlife and more wild animals but has had a much lower impact on other environmental factors, such as improvements to the landscape and public access;
- most environmental organisations felt that both the Ministry and farmers were now making good environmental use of set-aside within the restrictions of the Scheme but the constant changes to the set-aside rate made the long-term planning of environmental benefits impossible; and
- environmental reasons came low down in farmers' priorities when selecting land to put into set-aside and only 10 per cent of farmers considered wildlife and conservation factors. Farmers most commonly put their least productive land into set-aside or chose land that most closely fits into crop rotations.

4.12 Although improving the rural environment is not the main objective of the Scheme, set-aside provides the opportunity for taking land out of intensive crop production and achieving environmental benefits. The Ministry's own research has shown that set-aside has resulted in some environmental benefits but these have diminished as the area set-aside has declined to just five per cent of land in agricultural production in 1997. The research concluded that the Scheme cannot be regarded as an effective mechanism for achieving specific environmental aims. These aims are secondary to the main priority of the Scheme which is to compensate farmers and control the level of production.

The impact of set-aside on other agri-environmental schemes

4.13 In 1996 the Ministry introduced an environmental set-aside option that allowed farmers who enter land into certain environmental schemes to claim this land towards their set-aside requirement. These schemes are the Habitat Improvement Scheme, the set-aside option of the Nitrate Sensitive Area Scheme and the Woodland Grant Scheme. The Ministry's research shows that there is a high level of awareness amongst farmers about this option but a low level of take-up - only two per cent of farmers have entered set-aside land in

agri-environmental schemes. The main reason is that the relatively high payments under the arable Scheme, which has less strict environmental restrictions, are more attractive to farmers than the lower payments under agri-environmental schemes that have very tight environmental restrictions. In addition, our Advisory Panel noted that farmers are often reluctant to enter set-aside land into agri-environmental schemes when the future of set-aside is uncertain. The Ministry consulted the major farming and environmental organisations about the relationship with environmental schemes. These organisations considered that there are too many environmental schemes with different objectives which are not well integrated and are too complex.

Conclusions on the management of set-aside:

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- The main objectives of the Scheme and the variations in the level of set-aside limit the environmental benefits which can be achieved from set-aside.
 - However, within the constraints of the Scheme, the Ministry has sought to encourage maintenance of the land in good agronomic condition and achieve some environmental benefits from set-aside land, by introducing rules on the management of the land and by providing farmers with advice. The rules were drawn up after extensive consultation and are generally regarded as environmentally sensible.
 - Studies commissioned by the Ministry have shown that set-aside has resulted in some environmental benefits such as improvements in the natural habitat for wildlife. These studies and the experience in managing the set aside element of the Scheme may be of benefit in the future if environmental objectives become a stronger feature of Common Agricultural Policy schemes, as is proposed by the European Commission's Agenda 2000.
-

Disallowance, penalties or other intervention by the European Commission

4.14 Arable Area Payments made to farmers by member states are entirely reimbursed by the European Union provided that those states implement the Scheme satisfactorily. The European Commission is responsible for defining scheme regulations, and its staff regularly visit each member state in order to monitor compliance. If they find that a member state has failed to meet regulatory requirements, the European Commission may decide to “disallow” some of the expenditure incurred and reduce the amount of reimbursement by that amount. This is particularly the case where weaknesses in the control system or in the implementation of checks have put at risk the regularity of expenditure. Member states are also penalised where they fail to meet targets such as payment

deadlines. The Commission may also provide advice to member states where their application of the scheme rules does not warrant disallowance or penalties but where other difficulties arise.

4.15 In some areas, there are objective targets which member states are required to meet, and failure to do so would result in some degree of disallowance or penalty. These include:

- Field inspection targets. Member states are required to carry on-the-spot checks on at least five per cent of applications, although this target may be reduced in areas where remote sensing is used. The United Kingdom practice is to apply targets of three per cent where they use remote sensing.
- Payment deadlines. Member states are required to make 96.15 per cent of advance payments for oilseeds and 96.15 per cent of main payments by 30 September and 31 December respectively. They are also obliged to make 96.15 per cent of final payments for oilseeds within 60 days of the publication by the European Commission of the final rate.

4.16 The extent of disallowance is determined by the nature and extent of the irregularity and is usually subject to negotiation between the European Commission and the member state. For example, where the member state can demonstrate that the irregularity was not wide-spread but was confined to a definable period, activity, or area etc. The sums involved can be substantial, as is demonstrated by the European Commission's decision in 1998 to disallow £31 million of United Kingdom expenditure on the Sheep Annual Premium Scheme from the 1994 accounts. As Arable Area Payments is by far the largest Common Agricultural Scheme in England, with expenditure of over £1 billion in 1997-98, the potential for disallowance on this scheme is very large. To date, the Commission has completed its reviews of 1993 and 1994 accounts and the Ministry has not been subject to any disallowance on the Scheme.

4.17 The European Commission has yet to clear accounts from 1995 onwards. The Ministry is continuing to discuss issues arising from 1995 to 1997 with Commission and the possible disallowance of expenditure. We found that there had been four categories which either had given, or could give, rise to disallowance in respect of 1995 to 1997. These were:

- the failure of one regional office to meet its field inspection target in 1995;

- errors in the conduct of field inspections relating to the 1995 to 1997 scheme years which were discovered by the European Commission during a visit to one region in 1997;
- payments made after regulatory deadlines and in particular the failure of the Ministry to meet its main payment target in 1995;
- the way in which the Ministry had calculated the 1996 base area penalty for maize.

Field inspection targets

4.18 The Ministry monitors closely the level of inspections each year to ensure that the European Commission's target is met. Regional offices have met the target each year with one exception: Crewe regional office missed their target in 1995 but the Ministry took immediate action to ensure that the problems were not repeated. In 1996 and 1997 all regional offices met their field inspection targets. The Ministry was continuing to discuss achievement of inspection targets with the Commission in 1998.

Conduct of field inspections

4.19 As part of the European Commission's process of reviewing the arable crops sector of its annual accounts, staff from the Commission visited Bristol regional office to re-perform three of the Ministry's field inspections. The Commission found that the Ministry's original inspections had failed to identify over-declarations on each of the three claims. The total value of the overpayments not identified by the Ministry's inspections was £33,900. The Commission's discovery of these deficiencies raised serious implications with the potential for disallowance of expenditure.

4.20 To address the problems raised by the European Commission, the Ministry re-performed all of the 1997 inspections undertaken by the field officer who had carried out the three inspections chosen by the Commission and re-inspected a selection of inspections performed by other field officers in the region. As a result, the Ministry was able to isolate the poor standard of performance identified by the Commission to one field officer. There was no evidence of a more widespread problem with either inspection procedures or the competence of field officers. The Ministry provided the European Commission with the results of its review and in late 1998 was negotiating the implications for potential disallowance of

expenditure. Following the Commission's visit, the Ministry also introduced additional management controls and issued instructions reminding regional offices of the requirements when conducting Scheme inspections.

Payment deadlines

4.21 A number of difficulties were experienced by the Ministry in processing claims in 1995 (paragraphs 5 and 6 of Appendix 2). As a result, the Ministry managed to make only 83 per cent of main payments by the deadline of 31 December 1995. However, almost all the 17 per cent of the outstanding claims, except where there were particular difficulties or queries, were paid in January 1996. The European Commission initially proposed to withhold re-imbursement to the United Kingdom of some £17 million. This related to the total amount outstanding at 31 December. However, following further discussions it subsequently agreed to fully finance all payments made in January 1996. The Ministry has accepted that £25,000 disallowance for these late payments should be imposed.

4.22 The Commission has provisionally proposed disallowance for other payments made after regulatory deadlines in the 1995, 1996 and 1997 accounting years. The Ministry has accepted that disallowance of £133,000 relating to late payments made during the 1996 accounting year (in addition to the £25,000 referred to in the previous paragraph) should be imposed, as well as £37,000 for late payments made during the 1995 accounting year. The Ministry was in negotiation in 1998 with the Commission on its provisional proposal to disallow £0.2 million for late payments made during the 1997 accounting year.

Regional base areas

4.23 In order to limit total expenditure under the Scheme, the European Union incorporated within its design a system of maximum areas – known as base areas – on which payment can be made. Member states were required to choose between regional base areas or individual base areas for each holding. The United Kingdom chose regional base areas. There are seven yield regions in the United Kingdom, of which the whole of England forms one region. In England there are two separate base areas: one for maize and one for other eligible crops. The Ministry opted to establish a separate base area for maize in 1994 following a rapid increase in the forage maize area. As maize is almost exclusively grown as forage by livestock and mixed farmers in the United Kingdom, unlike other cereal crops, the Ministry decided it was not appropriate to penalise all cereal producers for increases in the forage maize area.

4.24 In line with European requirements, the maximum regional base areas were calculated on the average area in eligible crops and set-aside between 1989 and 1991. In England this amounts to some 3.8 million hectares for “other crops” and 33,000 hectares for maize. Whilst there are no fixed limits on the area of eligible land that individual farmers can claim, regional base areas impose limits on the total area claimed in that region. If the total area on which payments are claimed exceeds the regional base area, in any one year, the area on which claims are paid to producers in that region are reduced proportionately. In this situation, any undershoot on the other base area may be taken into account, thus lowering the extent of any reductions.

4.25 In 1997 the area claimed under the Arable Area Payments Scheme marginally exceeded the base area limit for the main arable crops. This meant that producers claiming area payments for eligible crops and associated set-aside were paid on 99.92 per cent of the area claimed, representing a reduction in payments on cereal crops of about 20 pence per hectare. As in previous years, there was also a substantial reduction in the area aid on maize as the area claimed greatly exceeded the base area. In that case, growers were paid on only 34 per cent of the area of maize and associated set-aside.

4.26 In late 1996 the European Commission informed the Ministry that the method the Ministry had used to calculate the base area overshoot in 1996 was different to the Commission’s and that which was used in other member states. The Ministry’s method unduly penalised maize farmers and, after agreeing the correct method of calculating the overshoot with the European Commission, the Ministry made top-up payments in late 1996 and early 1997 to those affected.

4.27 Following the discovery of the error in the method for 1996, the Ministry re-examined its calculations for 1994, where there had also been an overshoot in the maize area. The Ministry found that using the European Commission’s method of calculation farmers should have been paid 78 per cent of the aid rate compared to the 60 per cent the Ministry had actually paid. As a result, in November 1997 the Ministry made top-up payments of £2.1 million to farmers for the mis-calculation of the 1994 payments which was reimbursed by the European Union.

4.28 The Ministry is required to report to the European Commission the total area claimed under the Scheme and calculate any reductions to claims because of any overshoot on the base area before the payment period (which is 16 October to 31 December). Final figures are sent to the Commission in the January immediately following that payment period. By then, as all claims have been processed and paid, these figures are more accurate than those available in September. But the Ministry’s legal advice is that the January figures do not

override the September figures and there is therefore no provision for adjustments. There is a strong presumption that the September figures for the areas claimed will be higher than those submitted in January because, on further examination, some claims will be rejected - either in whole or in part. Therefore, final figures usually indicate total areas which are slightly lower than calculated in September and as a result the penalties for area overshoots which were applied on the basis of September figures were slightly more severe than would have been justified by later figures. But the penalties are not adjusted.

4.29 However, the final total area figures for 1996 (published in January 1997) were larger than the September figures. Thus, the actual base area overshoot was larger than originally thought and, as a result, farmers had been paid more than if penalties were based on later figures. The Ministry estimated that the value of the extra payment was £1.6 million. The Ministry has taken action to ensure that the same situation will not arise again by modifying their computer system to ensure that all applications are entered in their entirety before the base area is calculated in September.

Conclusions on disallowance, penalties or other intervention by the Commission:

- The Ministry has, to date, successfully limited the extent of disallowance by being able to demonstrate adherence to the targets, checks and controls required by the European Commission. It is still in negotiation with the Commission on disallowance in respect of 1995 to 1997. Where the Ministry's performance has been in danger of failing to meet requirements it has responded to advice from the Commission.

On regional base areas:

- In 1996 the Commission ruled that the Ministry's method used since 1994 for calculating the overshoot of base areas was different to that intended and used by other member states. This led to additional payments to farmers for 1996. The Ministry's recalculation for 1994 led to top-up payments of £2.1 million to farmers in 1997.
 - Farmers were paid £1.6 million more in 1996 than the Ministry's subsequent calculations indicated was due. In the light of its legal advice, that scheme recalculations do not allow for such adjustments, the Ministry has taken no action to recover these overpayments which were based on provisional data.
 - These instances have resulted in additional clerical work for staff and must therefore have increased the cost of administration.
-

Conclusions and recommendations on set-aside, disallowance or other intervention by the European Commission

4.30 The Ministry has sought to achieve environmental benefits from set-aside. But the overall environmental effectiveness of set-aside remains low because of the constraints of the Scheme and the uncertainty with regard to the future levels of set-aside required. The specified level of set-aside required has fallen from 15 per cent to five per cent but will rise again to ten per cent in 1999. This has also reduced environmental benefits. The experience and lessons from the management of set-aside should be taken forward in future responses to European Union initiatives on environmental objectives.

4.31 Disallowance of expenditure by the European Commission can have significant financial consequences for member states, as payments made to farmers may not be fully reimbursed. To date, the Ministry has incurred no definitive disallowance on the Scheme, although it is not contesting the Commission's provisional disallowance of £195,000 for late payments made in the 1995 and 1996 accounting years, which is a small amount when viewed against expenditure of over £2.5 billion in England in the first three years of the Scheme, and the complexity of the Scheme. Given the potential scale of disallowance penalties, the Ministry is aware of the need to continue to make every effort to ensure that all its processing and control systems are not open to criticism. Many of the recommendations made earlier in this Report should assist the Ministry in ensuring that control systems are effective.

Appendix 1

The rules of the Arable Area Payments Scheme

1 The Arable Area Payments Scheme offers payments per hectare to growers of eligible crops on eligible land. Farmers can claim in one of two ways: the main scheme or simplified scheme (see below). To qualify for the Arable Area Payments Scheme, farmers are required to submit an annual application providing full details of their farmed land. This application is a dual purpose one containing information for the Integrated Administration and Control System as well as the Arable Area Payments Scheme. The Integrated Administration and Control System was required by the European Commission across all member states in 1992 as part of the reform of the Common Agricultural Policy. Its primary purpose is to strengthen controls over payments to farmers under a number of Common Agricultural Policy schemes and to combat fraud. The key elements of the Integrated Administration and Control System are:

- a computerised database developed by each member state enabling them to undertake detailed checks of farmers' claims;
- a unique alpha-numeric identification system for each agricultural field parcel covered by an aid application under any of the Common Agricultural Policy schemes;
- a system for identification and registration of animals under livestock schemes;
- an annual requirement for farmers to submit certain specified information about their holdings to the national authority, in order to be eligible for aid;
- an integrated system for checking and inspecting claims; and
- an uniform set of administrative penalties for irregular claims.

2 By establishing the unique identification of all fields and part-fields, the System is designed to prevent and detect duplicate payments or payments for non-existent land. Farmers are required to provide very detailed information on

the use of all their eligible land, including information on the size and use of individual sections of fields (parcels) that are included in the current claim. Farmers are not be eligible for aid under any of the Common Agricultural Policy schemes if they fail to submit their annual Integrated Administration and Control System application. Incomplete, inaccurate or late forms result in the partial or total loss of aid under these schemes. The penalties for incorrect or fraudulent claims are severe and can lead to exclusion from the aid scheme concerned or, in the most serious cases, criminal prosecution.

3 Farmers have to comply with the following rules to be eligible for the Arable Area Payments.

Integrated Administration and Control System aspects

- To qualify for the Arable Area Payments Scheme farmers are required to submit an area aid application each year, even when there are no changes to the use of their land.
- The area aid application, together with all supporting documentation, must be received by the regional office by 15 May. The application must reflect the position on the farmed land at this date.
- It is possible to notify amendments to the area aid application before 5 May but only minor corrections are acceptable after this date. It is not possible to make corrections that involve a change in the cropping plan or an increase in aid entitlement after 15 May, although areas claimed can be withdrawn.
- Under European Commission rules, farmers must submit a single area aid application covering all of their farmed land in the United Kingdom that is managed as part of one business.
- Separate applications must be submitted for different farms that are managed as separate businesses provided that the farmer can meet specific criteria.
- There are two parts to the area aid application: the base form which requests general information about the applicant and farmed land; and the field data printouts which require information on the area claimed on a field by field basis.

- Each field has a unique reference number that is based on Ordnance Survey map references. For whole fields, farmers can use the area indicated by OS or professionally produced maps after making the necessary deductions for uncropped areas or ineligible features.
- If fields are sub-divided between different crops or part of the field is set-aside, farmers are required to determine the area of each part of the field and provide a sketch map showing the temporary field division.

General rules

- Land entered into the Scheme must be eligible. Land must have been in arable production or part of a recognised arable rotation on 31 December 1991. Land that was in permanent grass, permanent crops, woodland or non-agricultural use at that time does not qualify for Arable Area Payments.
- Farmers cannot claim Arable Area Payments on any land counting towards the requirement for an area of forage under the livestock schemes.
- All crops must be sown by 15 May except for sunflower seed and maize grown below 250 metres above sea level (31 May) and sweetcorn (15 June).
- Under European Commission rules, all crops must be fully sown and maintained in line with normal agricultural practice so that they could be expected to produce a normal marketable crop. Farmers must notify their regional office of any crop failure to avoid the risk of penalties.
- The minimum application size is 0.3 hectares and the minimum crop plot size is 0.1 hectares.
- Payment rates are based on historic average cereal yields in the United Kingdom. They are set in ecu and converted into sterling at the agricultural exchange rate applying on 1 July following sowing, as determined by the European Union. A “frozen” rate of exchange may be applied if there is an appreciable revaluation.

- Payments for cereals, protein crops, linseed and set-aside are made between 16 October and 31 December following harvest. Payments for non-food crops on set-aside can be paid up to 31 March.
- Payments for oilseeds are made in two parts. An advance payment, of up to 50 per cent of the aid, is made by 30 September with the balance paid early in the following year when the final payment rate has been confirmed, taking account of the level of market prices and production.

Main scheme rules

- There is no upper limit on the area of eligible land on which farmers can claim but they must set a proportion of their land aside. The cropped area will be reduced if area set-aside is less than the requirement. The set-aside rate may be changed annually by the European Commission in light of market conditions.
- Eligible crops include cereals; oilseed rape; sunflower seed; soya beans; dry peas; field beans; sweet lupins; and linseed. Payments are made at different rates for different crop groups.
- Obligatory set-aside is the land that must be entered into set-aside to claim Arable Area payments. Under the right circumstances, farmers can also enter additional land into set-aside or count land under other environmental schemes towards their set-aside requirement.
- Eligibility of land in set-aside: the land must be eligible for Arable Area Payments; have been farmed for at least two years (although there are certain exceptions); and either cultivated in the preceding year with the intention of producing a harvestable crop or have been in a set-aside scheme.
- Set-aside land cannot be used for any form of agricultural production or any non-agricultural purpose that brings a return in cash or kind (there are exceptions under very restricted conditions when growing some industrial crops).

- Farmers must adhere to a set of management rules that govern the use and treatment of set-aside land, including the use of fertilisers, retention of features and cutting arrangements. The Ministry also provides advice on how to obtain maximum environmental benefits and minimise damage to wildlife.
- Each individual block of set-aside must cover an area of at least 0.3 hectares and be at least 20 metres wide throughout. There are strict restrictions on the eligibility of smaller areas.

Simplified scheme rules

- Farmers can claim payments on a maximum area of 15.62 hectares of crops.
- They are not required to set land aside.
- Payment is made at the rate for cereals regardless of the crop type grown, provided those crops are eligible for the scheme.
- Farmers cannot claim under both main and simplified schemes.

- 4** The proportions of land required to be set-aside each year are as follows:

Changes in set-aside arrangements 1993-99

| Year | Type of set-aside | Description | Set-aside requirement (%) |
|------|------------------------------|--|--------------------------------------|
| 1993 | Rotational | Land could only be entered into set-aside in one year out of six. | 15 |
| 1994 | Rotational or non-rotational | In 1994 the option of non-rotational set-aside was introduced which allowed farmers to enter the same land into set-aside. | Rotational: 15 Non-rotational: 18 |
| 1995 | Rotational or flexible | In 1995 the introduction of flexible set-aside allowed farmers the option of leaving their set-aside in the same place. | Rotational: 12 Flexible: 15 |
| 1996 | Obligatory | In 1996 a single rate was introduced. Obligatory set-aside may be left in the same place or moved from year to year. | 10 |
| 1997 | Obligatory | As above – but the set-aside requirement was reduced. | 5 |
| 1998 | Obligatory | As above – the set-aside requirement was unchanged. | 5 |
| 1999 | Obligatory | As above – the set-aside requirement is to be increased. | 10 |

Source: National Audit Office analysis

5 The management rules which the Ministry has prescribed for set-aside are set out below:

Management rules for set-aside in 1997

| Date | Management rules |
|--------------------------|---|
| 15 January | Start of the set-aside period. Cover must be in place unless the previous year's crop was harvested after 1 October |
| 15 April | Non selective/non residual herbicides may be used on set-aside from this date, but if so then this land must not be cut until 1 July. Selective herbicides may be used at any point during the set-aside year but residuals must not be used until the set-aside period is ended. |
| 1 July | After this date set-aside cover may be cut if non-selective herbicide was used between 15 April and 30 June. Set-aside land may be cultivated to control weeds |
| 15 July | Crops may be sown for harvest after 15 January the following year. Appropriate sprays and fertilisers may be used for establishment |
| 15 July – 15 August | Set-aside cover must be cut short at least once with the cuttings left on the ground to rot unless the cover is destroyed by 31 August. |
| 31 August | End of the set-aside period unless cover remains. Cover restrictions remain until 15 January. |
| 1 September – 14 January | Any remaining cover may be grazed or cut for hay/silage for the farmer's animals only. |

Source: National Audit Office analysis

Appendix 2

The development of the Integrated Administration and Control System computer system

Development of system

1 In late 1992, the European Commission introduced the requirement on member states to operate the Arable Area Payments Scheme from early 1993. This meant that the Ministry had less than six months to design and implement the scheme before the first application deadline of 15 May 1993 and the need to process these claims. The Commission subsequently introduced the detailed requirements for an Integrated Administration and Control System in 1993 – after the introduction of the Scheme. The Ministry’s computerisation project was expanded to embrace these requirements. In practice, it is impossible to separate these two activities and costs.

2 The Ministry developed the system to operate on its existing network of Unix minicomputers located in each regional office. These supported a variety of Ministry grant schemes and administrative systems. The system consists of an alpha-numeric database of land. It contains field reference numbers and data on areas and usage, but cannot represent the physical layout of field parcels or their geographical relationship to one another. The Ministry did examine an alternative approach which would have involved buying a geographical information database from the Ordnance Survey. However, the costs of purchasing and developing this system to include unique field numbering were estimated to be more than £20 million. As there was some uncertainty about the long-term future of the scheme, the Ministry did not consider that such an investment was warranted.

3 The original target set by the European Commission for the full implementation of an Integrated Administration and Control System database was 1 January 1996. In order to process claims in the first year of the scheme (1993) and to meet the implementation deadlines, the Ministry adopted a phased approach to the development of the system. During the first two years of operation the system covered only land area aspects. Major development of the system was undertaken from the end of 1994 to support livestock scheme requirements and further Arable Area Payment Scheme requirements. The phased approach has resulted in significant annual enhancement projects. The Ministry was unable to complete the development of the Integrated Administration and Control System database by the original deadline which was extended to 1 January 1997.

However, other states experienced similar difficulties and the European Commission was satisfied with the progress the Ministry had made. The Ministry achieved full implementation of the Integrated Administration and Control System database during 1996.

4 The main development work included two major enhancements:

- the introduction in 1995 of part-parcel linking in order to enable regulatory checks to be carried out where farmers subdivided individual fields between different crops. This required Ministry staff to link each “field parcel” to fields or field parcels in the previous years. In 1994, linking to the previous year’s claims had only been carried out at a field level but this was insufficient, under the requirements of the Integrated Administration and Control System, to give assurance that each part of the field was eligible for the aid claimed;
- introduction in 1996 of a central Integrated Administration and Control System database covering the whole of England and against which every individual application is checked. In previous years, applications at each regional office that involved land in other regional areas were subject to a manual system of data transfer and checking. The introduction of a central database enabled such claims to be processed entirely automatically.

5 Ministry staff experienced significant problems relating to the numbering of fields in the early years of the scheme. In 1993, the Ministry staff and farmers had utilised field references on Ordnance Survey maps to identify individual fields on their applications and these were input into the computer system. However, the Ministry later realised that, for a variety of reasons, more than one field could sometimes have the same field number or else that the same field could sometimes have more than one number. Considerable extra clerical processing was required particularly during 1995 and 1996 to identify and correct all the individual problem cases.

6 The resources required to incorporate part-parcel linking in 1995 proved to be much greater than the Ministry anticipated. First of all staff had to study each claim, and the sketch maps supplied with it, to establish where the part parcels were and what links needed to be created with the previous year’s data. This information then had to be input into the computer before the claim could be submitted for validation. In many cases, the maps were of poor quality and had to be clarified with the claimant before the links could be established. In addition, the exercise brought to light significant problems with data for previous years. These

related to field numbering issues and to inconsistencies between regional offices in the way in which data had been entered. Many claims therefore failed the automatic computer checks and required substantial clerical work involving the examination of paperwork in previous years. This process frequently had to be repeated, as the correction of one set of errors often brought to light further errors which had been masked by the original ones. As a result of these problems, in 1995 the Ministry failed to meet the target set by the European Commission for making main payments, though in all other scheme years the Ministry has successfully achieved it.

7 The European Commission also set a target date of 31 December 1996 for checking the data recorded on the Integrated Administration and Control System database. Beginning in 1994, the Ministry therefore instituted a programme of map checks which involved checking individual claim files in order to agree every field area recorded on the database against Ordnance Survey maps. The Ministry was unable to complete this programme within the original deadline, and it was extended to March 1998. By mid-1997 some regional offices had checked all the applications within their area, but analysis showed that a significant number of individual parcels remained unchecked. This was due to a variety of causes, including the transfer and sale of land between holdings and the restructuring of businesses.

8 It was not possible to evaluate the system development against objectives, budgets and timescales which had originally been set. This was due to the incremental approach adopted by the Ministry and the need to incorporate changing European Commission requirements. No overall evaluation of the project from 1992 had therefore been carried out. A project closure report covering 1996 development work only had been completed but this was largely limited in scope to an analysis of expenditure in that year against budget. Following the completion of the main development work in 1996, enhancements have been implemented on an annual project basis with requirements and specifications being developed each year.

9 The Ministry had made every effort to incorporate into the computer system many of the checks and controls required by the European Commission, rather than rely on manual checks. This gave increased assurance that all payments were regular and correct. However, we noted that the system was difficult and time-consuming to maintain and enhance as it was based on older hardware and software technologies. These difficulties might give rise to unexpected problems and increased risks of a major system failure. For example, a simple query developed in 1997 to quantify the extent of mapping checks unexpectedly altered previously validated applications changing their status to

unvalidated. This created additional work for regional staff who then had to access the relevant cases to amend their status and allow scheme payments to be made. Hardware requirements were also steadily escalating as data from every previous year is maintained on the system. European Commission changes in the rules governing set-aside now make it unnecessary to maintain all this data.

Costs and staffing

10 The following table gives the costs of the information technology supporting the Arable Area Payments Scheme and elements of the Integrated Administration and Control System.

| Information Technology costs | | | | | | |
|-------------------------------------|------------------|----------------|----------------|------------------|------------------|------------------|
| | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 |
| | £ | £ | £ | £ | £ | £ |
| Ministry staff | 50,091 | 84,590 | 99,837 | 127,979 | 198,650 | 186,861 |
| Consultancy staff | 147,102 | 377,292 | 669,709 | 1,322,980 | 1,763,061 | 1,771,467 |
| Total staff costs | 197,193 | 461,882 | 769,546 | 1,450,959 | 1,961,711 | 1,958,328 |
| Non-staff costs | 1,888,000 | 2,000 | 85,000 | 322,313 | 963,000 | 30,000 |
| Total costs | 2,085,193 | 463,882 | 854,546 | 1,773,272 | 2,924,711 | 1,988,328 |

Source: National Audit Office analysis of Ministry data

Information Technology costs to date have been £10 million

11 The major non-staff expenditure in 1992-93 relates to the enhancement of the Unix minicomputers in regional offices in order to cope with the introduction of the Arable Area Payments system. The other significant expenditure in 1995-96 and 1996-97 relates to the introduction of a new minicomputer to maintain a centralised Integrated Administration and Control System database for the whole of England. This was required to enable comprehensive checking of applications to be carried out.

12 From the outset, the Ministry employed consultants from two companies (Sema and Sherwood) to assist in the development of the system. These consultants have been employed on individual short-term contracts regularly renewed, and they are under the operational management of Ministry staff.

13 The provision of information technology services for the various schemes is covered by internal agreements between the Ministry's Information Technology directorate and the various operational divisions. In 1992, the Ministry began to consider the scope for market testing and contracting within the information

technology area. In 1994 a strategic partnership was formed between the Ministry's staff and two consultancy firms to compete to provide software requirements of the scheme. By 1998 this partnership – known as Delta – was awarded application development work and formal transition of services to the partnership under the contract should be completed in 1999-2000.

Appendix 3

Arable Area Payments Scheme: risks and controls

| Risk | Ministry control to prevent and detect |
|---|---|
| Claims for non-existent land | |
| Claiming on non-existent land / fictitious holding | The Ministry's computer system validates the existence of all fields against a national database. As every field has a unique identification number, the risk of a farmer claiming for a fictitious holding is small. The Ministry is also undertaking map checks on every Scheme claim. |
| Over-declaration of land area | |
| Overstating field sizes | The Ministry uses a combination of map checks, field inspections and remote sensing to verify the area claimed. Farmers base the eligible field areas on Ordnance Survey or other professionally prepared maps. The computer system checks the declared area for each field against the national database and the previous year's claim to establish whether the eligible area has increased. |
| Overstating the claimed area - failing to make appropriate deductions for ineligible features or tracks, etc | Field inspections check that farmers have made the appropriate deductions and have claimed only on the area of the crop grown |
| Simplified scheme - claiming more than the maximum | Regardless of whether farmers claim more than the maximum (15.62 hectares), the computer system will only allow payment at the upper limit. |
| Duplicate claims for land | |
| Splitting holdings in order to submit two or more claims under the simplified scheme, rather than setting land aside. | The Ministry has sent a questionnaire to all applicants with more than one business to collect information on the nature of the businesses and establish the extent to which they overlap. |
| Two farmers submitting claims on the same field. | The computer system would identify whether the same field number had been input twice. In such cases, the Ministry would approach both farmers to resolve any discrepancies and, if necessary, undertake field inspections to determine which claim is genuine |
| Duplicate claims | Computer checks would identify that the holding number had been input twice. |
| Ineligible land | |
| Claims on ineligible land - land that does not meet Scheme rules governing the previous use of the land. | Since 1996 farmers have been required to register new land and provide evidence (maps, invoices, etc) to show the previous use of land, including the cover that was on the land in 1991. Prior to 1996 farmers were required to declare the use of land in 1991 but no supporting evidence was required. The Ministry also checks the eligibility of land against early remote sensing data and the library of historical pictures collected by aerial photography between 1986 and 1991. |
| Set-aside land does not meet eligibility criteria. | The Ministry's computer system checks the use of set-aside land in previous years. The Ministry also uses remote sensing data to confirm the use of set-aside in previous years. |

continued....

| Risk | Ministry control to prevent and detect |
|--|--|
| Failure to comply with Scheme rules | |
| Claiming a higher rate crop group (eg. claiming oilseeds when growing cereals) | Tip-offs / field inspections / remote sensing. |
| Failure to sow and maintain crops to an adequate standard / crop failures | Field inspections – provided that they are carried out before harvest. |
| Using set-aside land for agricultural production or other lucrative purposes | Tip-offs / field inspections / remote sensing. |
| Set-aside less than the required proportion of total claimed area. | Validation checks automatically calculate the required set-aside area and, when applicable, pro-rata reduce the whole claim. |
| Failure to understand requirements, need for level of information required; or changes in Scheme rules or requirements; excessive paperwork demands. | Ad hoc surveys of farmers; discussions with farmers on draft guidance to improve clarity; annual guidance of booklets; availability of staff to answer queries; and roadshows to discuss new developments. From 1996, pre-printed forms with details of previous year's claim. |