Report by the
Comptroller and Auditor General

Ministry of Agriculture, Fisheries and Food

The Sheep Annual Premium Scheme in England

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Executive Summary

1 The Sheep Annual Premium Scheme was introduced in the European Union in 1990 to guarantee sheep producers in member states a common level of support. This report examines the administration of the Sheep Annual Premium Scheme in England. In 1998-99 payments of £142 million were made to sheep farmers in England. This makes it the second largest Common Agricultural Policy scheme administered by the Ministry of Agriculture, Fisheries and Food (the Ministry), after the Arable Area Payments Scheme.

2 Member states must follow the European regulations or guidance on the principles of sound financial control. Failure to do so may result in the European Commission proposing deductions to the reimbursement to member states of payments to farmers under Common Agricultural Policy schemes - known as 'disallowance'. Member states bear the cost of disallowance as it represents a failure on the part of administrators rather than claimants.

3 Whether the detailed arrangements within a member state comply with the requirements for sound controls in a scheme may only start to become clear once the Commission has conducted an audit. The process of confirming if the results of the audit indicate significant weaknesses leading to disallowance, and at what level, may take several years to complete. Initially the member state may be uncertain as to whether changes in procedures will be required or whether it will be able to convince the Commission that its management of the scheme was satisfactory.

4 The Commission conducted audit visits to England in 1995 and 1996, examining the implementation of the Sheep Annual Premium Scheme for 1993 onwards. By 1998, the European Commission had disallowed expenditure of £27.2 million in England in respect of the Scheme years 1993 to 1995. This equated to just over five per cent of Sheep Annual Premium Scheme (the Scheme) payments in England between 1993 and 1996. The disallowance had its origins in the quality of flock records maintained by farmers and the Ministry's efforts to balance the demands of scheme control and practical issues such as the timing of on-farm inspections. In the light of this disallowance, it was important to tighten up the administration of the Scheme so that the taxpayer did not continue to lose money.

5 The Ministry has already made significant changes in its implementation of Scheme controls. Disallowance of Scheme expenditure reached a peak in 1994 of £13 million and fell to under £2 million in 1996. By 1998 the Commission indicated that scheme controls were compliant with European regulations in areas of previous weakness. As at January 2000, the final results of review by the European Commission of performance for the 1997 and 1998 Scheme years were not available. However, the Ministry does not expect to incur disallowance in respect of the same problems as in earlier years.

6 The purpose of this report is to analyse the position reached and make further recommendations to safeguard the taxpayer's and farmer's interests. Our recommendations are as follows:

i) The Ministry should seek to clarify the European Commission's concerns at the earliest possible opportunity and establish clearly the potential implications for disallowance. In developing detailed scheme rules to meet the needs of agriculture in England, it should take care not to put the taxpayer at risk of incurring disallowance.

ii) The Ministry seeks to maintain close liaison with the other agriculture departments in the United Kingdom, including the sharing of information about the Commission's views on scheme controls. The Ministry accepts that the changes in the structure of government following devolution mean that it must be careful to ensure that this sharing of information continues.

iii) The Ministry should make every effort to encourage farmers to adopt the recommended standard format for the combined flock and movement record and to ensure that farmers' compliance will satisfy the Commission for the purposes both of scheme control and animal movement requirements.

iv) If trading standards or other bodies continue to provide farmers with movement record books for other purposes, the Ministry must ensure that farmers only use these for Scheme purposes if they meet the Ministry's requirements. In the spirit of modernising government, greater liaison between the authorities with an interest in flock records would be helpful.

v) The Ministry should revise the inspection report forms to explain more clearly those cases in which an inspector concludes that the quality of flock records was satisfactory in spite of differences between the number of sheep counted and the number recorded.

vi) A claim, which is satisfactory in all other respects, is rejected in full if the inspector reports that the flock records are unsatisfactory. It is therefore important that the Ministry satisfy itself as to inspectors' consistency in their assessment of the quality of a farmer's flock records.

vii) Where the penalty is not specified by European regulations, for example in cases of error in flock records, the Ministry might consider whether a system of graduated penalties could lead to more equitable treatment in those cases.

viii) The rules relating to claims from producer groups originate from a now defunct scheme and cause confusion or error by some farmers. These rules serve little purpose and the Ministry should continue to press the European Commission to change them.

ix) It is the Commission's normal practice to target its audits according to risk factors, for example size of expenditure, or issues or regions previously shown to be capable of improvement. The Ministry should periodically re-assess the areas of general weaknesses in member states identified by the Commission in 1997, to minimise the risk of future adverse comment or disallowance.

x) The Ministry has started to build on contacts with administrators in other member states and material available from the Commission. Better information on the conduct and costs of on-farm inspections, for example, should be used by the Ministry as a benchmark for its performance and for sharing experience on aspects of administration not normally covered by the Commission's reviews of Scheme compliance.

xi) The Ministry should assess the effectiveness of the individual criteria within its revised risk analysis model for the selection of claims for on-farm inspection. It should also extrapolate the results from the random sample selected by the model to enable the overall level of error in expenditure under the Scheme to be estimated.

7 The United Kingdom receives subsidy under this Scheme on more animals than any other member state and on 19 million animals out of a European Union total of 73 million. The value of disallowance for the United Kingdom on the sheep scheme was £87.3 million for 1993 to 1996 and was higher than the total for all other member states. The comparative figures are shown in Figure 1.

Figure 1

Numbers of animals paid for and amount of disallowance on the Sheep and Goat Annual Premium Scheme

	Number of sheep and goats on which premium paid in 1998 (thousands)	Disallowance for 1993 to 1996 (£ million)
United Kingdom	19,200	87.3
Spain	18,700	0.9
Greece	10,500	0
Italy	7,900	37.0
France	7,000	4.2
Ireland	4,300	1.8
Portugal	2,500	1.5
Germany	1,700	0.02

The other member states receive premium on only some 1.2 million sheep and goats in total and incurred no disallowance.

Source: National Audit Office analysis

8 Of the 19 million sheep in the United Kingdom on which subsidy is paid under this Scheme, some 11 million (55 per cent) are outside England. Our recommendations above relate mainly to the administration of the Scheme in England by the Ministry, which was the main focus of our examination. But they should also be useful to the authorities in Scotland, Wales and Northern Ireland who exercise some responsibility for the Scheme in those parts of the United Kingdom and where disallowance for 1993 to 1996 amounted to some £60 million (69 per cent) of the United Kingdom total of £87.3 million.