



National Audit Office

# The compensation scheme for former Icelandic water trawlermen

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# SUMMARY

**1** The United Kingdom Government made agreements in the 1970s to end the ‘Cod Wars’ with Iceland. These agreements prevented UK vessels from fishing in Icelandic waters and contributed to the broader decline of distant water fishing.

**2** As jobs were lost, on the basis of their interpretation of employment law at the time, Department of Employment officials advised trawlermen that they were not entitled to redundancy compensation from their employers. A court ruled in 1993 that this interpretation of the law was wrong. In response the Department of Employment set up an *ex gratia* scheme to compensate former trawlermen who had not sought a redundancy payment at the time of their dismissal. Former trawlermen, however, considered this

compensation scheme which linked payments to length of service with an employer did not recognise that their employment often required them to move between different vessels and employers.

**3** In July 2000 the Department of Trade and Industry [the Department] announced a compensation scheme whose objective was to compensate “former distant water trawlermen who lost their jobs when the industry collapsed following settlement of the ‘Cod Wars’”. The scheme was targeted on former UK-based trawlermen who had worked in Icelandic waters. By March 2007 the Department had paid just under £43 million in respect of 4,400 claims, or 63 per cent of claims from or on behalf of around 7,000 former trawlermen.

4 In February 2007, the Parliamentary Commissioner for Administration [Ombudsman] reported the results of her investigation into the administration of the scheme following complaints from a number of claimants. Her report made three findings of maladministration: that the scheme was devised and launched before it was appropriate to do so; that there was a mismatch between what the scheme was intended to deliver and what it was capable of delivering through the scheme rules; and that the problems identified during the operation of the scheme should have led to a comprehensive review of the scheme, which did not happen.

5 This report focuses on value for money issues and was conducted in parallel with the Ombudsman's inquiry. The report draws lessons for future schemes and is intended to help inform the development of guidance for Government departments as recommended by the Ombudsman in her report.

## Main findings and conclusions

6 The development of a scheme to compensate former trawlermen for loss of employment as a result of the settlement of the 'Cod Wars' posed the Department with a difficult challenge. Former trawlermen who had worked in Icelandic waters were not an easily identifiable group with a common employment history, but individuals who had served for varying periods on a range of vessels in Icelandic and other waters. Added to that, the 'Cod Wars' had ended over twenty years before.

7 The Department was under pressure to deliver, and it managed to pay some applicants within a reasonable time. But the scheme had significant shortcomings which inhibited efficient and effective delivery of the scheme objectives. Before the Department launched the scheme it did not know enough about the industry, its structure or working practices to enable it to draw up workable scheme rules. It did not check the availability and robustness of the evidence it would need to verify claims or establish how the rules would work in practice with applicants from different ports. In the difficult circumstances it faced, the Department was never likely to deliver a perfect solution, but better preparation would have put it in a stronger position to manage the uncertainties it faced.

8 Our detailed findings are:

- The Department did not develop a robust plan to implement the scheme, setting out targets, and the resources needed to meet those targets, with an assessment of the risks to achieving its objectives.
- The scheme cost £18 million more than the initial estimate of £25 million, primarily because the Department had to address additional issues affecting the scope of the scheme as claims came in. While an accurate initial budget would have been difficult to estimate given the uncertainty involved, presentation of a range of estimates based on sensitivity analysis of key variables would have made the Department's decision making more robust.
- Some claims took a long time to process, due to problems with the quality and availability of evidence, and uncertainties about interpretation of the scheme rules. But the Department did allocate additional staff once the initial rush of applications became clear.
- There is no evidence that in designing or interpreting the scheme rules the Department sought to discriminate in favour of some groups of claimants or against others. Under the rules claims from Hull were more likely to be paid, with higher amounts, than claims from other ports. The Department ascribes this to the greater dependence of Hull on distant water fishing in general. But the Department did not anticipate the likely impact of the rules on the different ports and therefore was not in a position to explain effectively its position when the scheme was launched, exacerbating the sense of grievance in the ports. Although this effect of the scheme rules was not fully anticipated, it could have been with better understanding of the industry.
- Our sample of 100 claims revealed 11 cases where former trawlermen were overpaid or underpaid by reference to the final scheme rules, due in some cases to operational errors, but in most cases because the Department lacked the evidence it needed to assess accurately whether claims were eligible for payment under the scheme rules. We found a further 25 cases in our sample where there was insufficient evidence to conclude with certainty that the claim decisions were correct.

### Good practice points for future non-statutory schemes

We have drawn out the following good practice points which Departments should take into account when considering the establishment of similar schemes.

#### Scheme design

- 1 Departments should establish sound governance arrangements, with a senior responsible owner and project manager and a project board.
- 2 Departments should set realistic objectives to clearly define the purpose of the scheme and the target group. The objectives should be intelligible to potential applicants.
- 3 In establishing scheme rules, Departments should identify and consult widely with potential sources of knowledge and expertise in the sector.
- 4 Departments should assess the potential scale of claims under different rules, the likely number of claims and the likely profile of payments in terms of amount and timing – the latter being crucial for the Department’s financial management. The data and assumptions underpinning these estimates, and the sensitivity of estimates to variations or inaccuracies in those assumptions, should be explicitly stated and analysed. For larger schemes, Departments should consider the need for actuarial advice.
- 5 Departments should pilot the scheme, in particular to identify the effects of alternative rules and the availability of evidence to support claims.
- 6 In producing estimates of the costs of the scheme, Departments should identify uncertain factors and assess sensitivity to changes in key variables.
- 7 Departments should consider the likely unit cost of processing claims and compare this to the likely profile of compensation to be paid. Departments should consider whether it is appropriate to introduce a simplified procedure for dealing with small claims.
- 8 Governance should include effective risk management arrangements, covering the cost of claims, cost of administration, timeliness of processing, equity between claimants, effectiveness of targeting, fraud, and the completeness of evidence to support claims. Risks should be considered and reviewed as the design of the scheme evolves.
- 9 Departments should carefully consider the need for specific legislation to provide statutory authority for scheme expenditure, based on sensitivity analysis of the likely length and financial scale of the scheme.

#### Before the scheme is implemented

- 10 The implementation plan should include:
  - a indicative service standards, including target processing times and response times for enquiries.
  - b the profile of claim settlements over time, the proportion of determinations accepted by claimants, and those subject to appeals with a target date for closure.
  - c a procurement strategy for the administration of the scheme – including, where appropriate, outsourcing.
  - d a resource plan, covering the numbers of people required, skills and training requirements, whether for in-house delivery or as a reality check against tender submissions.
  - e a plan of the data recording, handling, manipulation and reporting requirements – including that needed for management reporting and financial control.
  - f a project timetable for procurement, publicity and launch activities, reviews and audit, and target dates for key milestones.
  - g a communications plan covering the publicity for the launch of the scheme and the handling capacity of subsequent enquiries.
  - h a procedures and operations manual for case officers, supervisory and management staff.
  - i explicit plans for dealing with appeals, including independent adjudication where appropriate.
  - j appropriate arrangements to deal with any policy questions that might arise affecting the scope of the scheme.
  - k an outline of the potential closure strategy – including the criteria dictating when closure might be announced, and the factors that might need to be considered.

#### After the scheme begins

- 11 In communicating with claimants, Departments should explain decisions clearly, and keep claimants informed if processing times are long. If claims cannot be settled quickly, Departments should consider making interim payments, especially if the basic eligibility is not in dispute.
- 12 Departments should fully document all supervision checks and controls, and record in detail the reason for each claim decision.
- 13 Departments should have effective and timely performance management arrangements in place to ensure that emerging performance issues are considered at the appropriate level.
- 14 Departments should evaluate progress shortly after the scheme begins to assess performance and identify areas for improvement, with a further evaluation after it has closed.