



National Audit Office

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

A progress update in resolving the difficulties in  
administering the Single Payment Scheme in England

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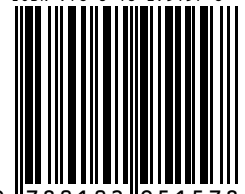
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***John Bourn***  
**Comptroller and Auditor General**  
**National Audit Office**

**10 December 2007**

The National Audit Office  
study team consisted of:

Alex Clark, Sudip Dasgupta, Joe Griffiths,  
Christopher Joyce, David Raraty,  
Duncan Richmond and Leanne Sheldon,  
under the direction of Philip Gibby

This report can be found on the National Audit  
Office web site at [www.nao.org.uk](http://www.nao.org.uk)

**For further information about the  
National Audit Office please contact:**

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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# SUMMARY

**1** We reported in October 2006<sup>1</sup> on the problems experienced by the Rural Payments Agency (the Agency) in administering the 2005 single payment scheme.<sup>2</sup> Farmers eligible to claim under the second year of the scheme (known as the 2006 scheme) were due to receive payment between December 2006 and June 2007. This follow up report examines the progress made in resolving those outstanding problems from the 2005 scheme, processing the 2006 scheme payments and in remedying similar problems in future.

**2** The single payment scheme was introduced by the Member States of the European Union as part of Common Agricultural Policy reforms which replaced 11 separate crop and livestock based production subsidies with a single payment based on land area. In the first year of the scheme (the 2005 scheme), the Agency had experienced considerable difficulties in capturing and processing the data required to process payments, and as a result failed to meet both its own target to pay 96 per cent of the fund by the

<sup>1</sup> *The Delays in Administering the 2005 Single Payment Scheme in England*, HC 1631 Session 2005-06, 18 October 2006.

<sup>2</sup> Scheme payments are made in respect of calendar years, in a payment window which runs from December to June. Claims in respect of the 2005 scheme year should have been paid between December 2005 and June 2006. The bulk of claims in respect of the 2006 scheme year are payable between December 2006 and June 2007. The European Union regulations require paying agencies to have paid 96.14 per cent of scheme funds in respect of any year by the end of June deadline if late payment corrections are to be avoided.



end of March 2006 and the European Union legislative requirement to pay 96.14 per cent of the fund by the end of June 2006 to avoid late payment corrections. Many farmers experienced financial hardship as a result and the then Chief Executive of the Agency was removed from post. The Agency made a commitment to pay outstanding payments on the 2005 scheme by the end of December 2006 and to implement its recovery plan by April 2008. The Department agreed to provide an additional £40 million to help the Agency recover and make changes to its IT and processes.

## Overall Conclusion

**3** Until the Agency is able to routinely meet the 30th June deadline each year and is confident that it can process payments within an acceptable tolerance of error, there is a risk that, as with other EU funded schemes, it will incur financial corrections (effectively penalties) from the European Commission and farmers may not have complete confidence in the Agency's administration of the scheme. The new management team has instilled a clearer sense of direction and drive amongst the staff to improve performance. The Agency has also undertaken a substantial exercise to review cases where entitlements used for the 2005 scheme year may be incorrect, and this exercise is scheduled to be completed substantially by the end of December 2007. In the interim, however, the errors in the first year of the scheme (the 2005 scheme) would have been largely repeated in the second year (the 2006 scheme) and the Agency has not yet paid all those claimants who were underpaid in the first year, nor recovered the sums from those farmers who were overpaid. As a consequence, the Agency was not able to administer the 2006 single payment scheme in a fully cost-effective manner.

**4** Further work is scheduled to streamline the claim process, cleanse data, improve the quality of management information available, and fully support whole case working. The Agency has organised its work in this area through a series of major IT releases, together with minor system and process enhancements. These have been staged pieces of work allowing the Agency to deliver system improvements progressively so as to reduce risk. The first three projects have already been implemented, with the fourth release due in two stages between January and April 2008 and subsequent project stages planned at the end of 2008 and during 2009. There is a small residual risk of having to accommodate the possibility of further, unknown, policy changes made by the European Union, although where sufficient detail about policy changes is known they have been considered as part of the major IT releases that are in hand.

**5** Our key findings are:

**On the progress in resolving outstanding problems with the 2005 scheme payments**

**6** **Virtually all of the outstanding 2005 scheme claims were paid by the end of December 2006.** The Agency managed to pay the claims for all 24,730 outstanding 2005 claims (out of a total of 116,474), bar 24 claims with legal issues beyond the Agency's ability to resolve, such as probate queries or divorce settlements.

**7** **The Agency identified 34,499 cases as at risk and needing to be reviewed.** Agency identified 34,499 cases where errors in the original calculation of farmers' entitlements to money under the single payment scheme may have led to errors in the 2005 scheme payments and could result in recurring errors in subsequent years unless corrected. By mid-November 2007, the Agency had reviewed 33,592 cases, and there were 907 cases for which entitlements remained to be reviewed. Officials confirmed that, on the basis of the work done to date, the Agency had found errors in a substantial number of the cases reviewed, but it was unable to provide us with any breakdown of the extent or range of errors found. The Agency is currently evaluating the outcome of the review of these cases.

**8** **The Agency has confirmed that it plans to remedy the underpayments, which we estimated at up to £19.3 million for the 2005 scheme, with the remaining outstanding amounts due to farmers being processed alongside the calculation of payments due for the 2007 scheme year, and plans to commence recovery of overpayments, which we had estimated as up to £6.8 million for the 2005 scheme, in early 2008.** Until the Agency finalises its review, we are unable to determine the actual amount of each overpayment and underpayment to claimants for the 2005 scheme. A separate review was undertaken of one computer run in August 2006, which is known to have resulted in substantial errors. In this computer run of 672 claims, duplicated payments amounted to £4.4 million, including six farmers who were overpaid by over £100,000 each. To avoid the need to go back to farmers more than once to make corrections, the Agency decided, early in 2007, that it would not pursue these overpayments until it had finalised its data review. Senior management approved a more detailed strategy to deal with such cases in September 2007 and confirmed that it has now started the process of recovering overpayments.

## On the progress in processing the 2006 scheme

**9 Meeting the payment deadline for the 2006 scheme reflects the considerable progress made by the Agency since the National Audit Office's previous report in October 2006.** Our report last year highlighted a number of critical problems with the 2005 scheme – in particular that the reliance on a task-based approach was hampering management efforts to identify and overcome obstacles delaying the payment process. The Agency managed to process 98 per cent, by value, of payments for the second scheme year by 30 June 2007, largely through the drive of the management team, availability of improved management information and staff commitment to review and process each claim as a whole. Achieving the target means that the Agency will not incur late payment charges from the European Commission in the second year.

**10 Overall, farmers' satisfaction with the way the Agency handled their claims has increased.** Our survey of farmers reveals that 61 per cent of respondents are satisfied this year with the Agency's handling of the scheme, a rise of some 22 per cent compared with last year (when 39 per cent were satisfied with the Agency's administration of the scheme).

**11 Although the Agency met the June 2007 deadline to pay claims for the 2006 scheme year, it had to defer completion of its review of entitlements in order to help achieve this (see paragraph 7).** The deadline for the 2006 scheme was met with 10 days to spare and having deferred the review of entitlements to allow staff to focus on processing 2006 claims. By April 2007, the Agency decided to proceed with the 2006 payments on those claims where it had not completed its follow up review.

**12 The Agency relied on partial payments when it could not make a full payment to a farmer earlier in the year.** In Wales, Scotland and Northern Ireland, like those in Germany and Finland, farmers started to receive full payments in December 2006. In England, full payment to farmers with fully validated claims began in January 2007. With Ministerial agreement, the Agency started making partial payments to other farmers in February 2007, some three months earlier than last year, to ensure that farmers would not experience cash flow difficulties. Whilst farmers had previously budgeted on the basis that they would receive subsidy payments earlier in the year, the Agency is not required to make the payments until the end

of June each year. In Germany, two Länder made similar partial payments, whilst administrators in the other Länder concluded this would be unnecessarily expensive because they believed they could make full payments promptly.

**13 The majority of farmers believe their entitlement statements were correct though some farmers continue to question the accuracy of the data used to calculate their entitlements. The Agency is confident that the records on the Rural Land Register are accurate.** Our survey of farmers found that 80 per cent of farmers believe the entitlement statements the Agency had sent them were correct but the remainder questioned the accuracy or did not know. The Agency is dependent on the completion of its review of farmers' entitlements (see paragraph 7) in order to issue revised entitlement statements that should give farmers assurance that any errors have been corrected.

## On remedying the remaining problems with the payment scheme

**14 The Agency has developed a detailed recovery plan to deliver improvements, but implementing the necessary changes to business processes and the enhancements to computer systems needed to support them remains challenging, and there is little room for manoeuvre in case of any significant unforeseen events.** Future IT developments focus on allowing the Agency to administer the scheme more efficiently, such as providing whole case workers with all information relating to a client, and the planned integration of key offline databases into the main IT system to enable the Agency to monitor the progress of claims more effectively. The Agency's current plans include the flexibility to accommodate known amendments to the scheme required by the European Commission<sup>3</sup>, and it has already integrated the new sugar regime reference amounts into the single payment scheme and made changes to procedures in anticipation of future European Union regulatory requirements. A joint Policy Directorate, comprising staff from the Department and the Agency, was established in summer 2006 to improve the relationship between policy and delivery teams. As a result, the Agency has confirmed that this joint working has improved the impact assessments for potential policy changes and early indication of the practical and timing issues involved which informs both development of the policy and planning for implementation. The Agency is also improving its IT systems and business processes to make it easier to respond to previously unspecified policy changes.

<sup>3</sup> Changes for the third scheme year (the 2007 calendar year) included introducing the systems and processes required to comply with EU requirements on financial discipline and incorporating requirements arising from reform of the EU sugar regime into the main IT system.

**15 The Agency is exposed to a continuing risk of disallowance corrections.** In its 2006-07 financial accounts, the Department included an additional £153 million of provisions and contingent liabilities (in addition to £139 million of provisions and contingent liabilities in its 2005-06 financial accounts) to cover for its best estimate of future financial penalty for the first two years of the single payment scheme, based on the ongoing negotiations with the European Commission on a current case example. The European Commission's final decision on disallowance penalties can take a number of years to settle, however, so the actual amount may not be known for some time.

**16 The Agency and the Department have strengthened governance arrangements, although this progress was hampered by a lack of reliable data on performance until July 2007.** The Agency replaced its governance structure in favour of a new Agency Management Board (AMB) to co-ordinate strategic issues, and an Operations Management Team (OMT) to monitor scheme progress. Our review of AMB minutes shows it is taking its responsibilities to challenge management seriously. Both committees are dependent on reliable and prompt management information to function properly, but the Agency had found this difficult to provide whilst a significant number of key systems and databases were not integrated within the main IT system. The Agency improved the reliability of its management information in August 2007, when it incorporated one of its critical databases within the main IT system. A further review of Governance arrangements in autumn 2007 has resulted in the OMT focusing on scheme progress and a new Agency Executive Group monitoring day-to-day activities.

**17 We recommend that the Agency:**

- a** recovers high value overpayments to farmers (such as those over £25,000) as soon as practicable;
  - b** brings its key offline databases into the single payment scheme IT system to make its forecasts more accurate and reliable;
  - c** in the event that the European Union makes policy changes to the scheme, explores whether its existing IT systems would be able to accommodate such changes without the need for major redesign of the application. If the system is unlikely to be able to accommodate such changes, the Agency should notify its Management Board and the Department of the risks accordingly and update farmers once a revised timetable can be defined;
- d** draws on the good practices we identified from the IT systems supporting the German model of the single payment scheme on how to keep claimants informed about the progress of their claims, and the online processes already available to German farmers to transfer entitlements; and
  - e** learns lessons from implementation of this IT system, to take account of best practice. In particular, the Agency should:
    - use appropriate off the shelf rather than bespoke software whenever practicable, after considering business needs and scheme complexity, because bespoke software is costly to develop, needs to be thoroughly tested, and takes more time to implement;
    - avoid offline systems, on which the main IT system depends;
    - align the system to business needs, rather than the business to the system needs, applying caution to any significant movement away from tried and trusted business methods to accommodate the IT system; and
    - ensure the system specifications retain a realistic level of flexibility to cope with future changes.

**18 We recommend that the Department satisfy itself that it has:**

- a** considered the adequacy of the Agency's targets to reduce single payment scheme disallowance to one per cent by 2010-11 in the light of its current review of entitlements due to be completed by the end of December 2007; and
- b** adequate contingency plans in case the Agency is unable to meet the demanding schedule this autumn for correcting entitlements and processing any outstanding entitlement transfers.

# PART ONE

## Introduction

**1.1** The single payment scheme, introduced by the European Union as part of the reform of the Common Agricultural Policy, replaced 11 separate crop and livestock production-based subsidies previously payable to farmers with a single payment based on land area. Farmers are entitled to claim the payment subject to their maintaining the land in good agricultural and environmental condition, and complying with European Community legislation relating to the environment, animal and public health, and animal welfare.

**1.2** European Union (EU) Regulations offered some discretion to Member States over how to implement the scheme. England and Germany were the only two countries to adopt a 'dynamic hybrid model'<sup>4</sup> for 2005, although Finland introduced the same model in 2006. However in Germany and Finland the dynamic element will not be activated until 2010 and 2011 respectively. The scheme in England required farmers to submit applications by 16 May 2005 so that the target 96.14 per cent of the £1,515 million payments could be completed by 30 June 2006.

**1.3** The Rural Payments Agency, the Agency responsible for the implementation of the scheme and subsequent administration of payments to farmers, experienced considerable difficulties in developing the IT systems and other procedures required in 2005 and early 2006 to comply with the European Commission's requirements. Although the Agency did manage to make 95 per cent of payments, by value, by 30 June 2006, our report in October 2006 concluded that the implementation had not proved value for money. The project had cost more than anticipated, was not fully implemented, did not deliver planned efficiency savings, damaged

relationships with the Agency's customer base and created a risk of substantial disallowance of expenditure by the European Commission.

**1.4** The difficulties experienced by the Rural Payments Agency led to reports critical of both the Agency and the Department, from the Environment, Food and Rural Affairs Select Committee in March 2007 and from the Committee of Public Accounts in September 2007. The main criticisms of the two committees were:

- the Department's decision to implement the most complex option for reform (a dynamic hybrid) in the shortest possible timescale (in year one of the new scheme), its decision not to implement a de minimis claim and the need to accommodate 46,000 newly eligible claimants, led to a series of risks which individually would have been severe but collectively proved unmanageable for the Agency;
- there were failures in project implementation, including inadequate pilot testing and not developing systems to extract management information;
- the governance arrangements for the project led to blurred responsibility and did not adequately challenge the information coming from those responsible for single payment scheme implementation;
- the Agency's adoption of a task-based approach to dealing with claims was fundamentally unsuitable and hindered the Agency's understanding of the degree of progress it was making in dealing with claims; and

<sup>4</sup> In England, in the first year of the single payment scheme (claims relating to land held in 2005), 90 per cent of each payment was calculated by reference to historic subsidy receipts. The remaining ten per cent was paid as a flat rate per hectare. For the 2006 scheme, 85 per cent was calculated on a historic basis, and 15 per cent on a flat rate. Eligible land in England (although not in the rest of the United Kingdom) attracted different flat rates of grant for SPS 2006 per hectare depending whether it was moorland within the upland Severely Disadvantaged Area (€6.48 per hectare), land in the rest of the upland Severely Disadvantaged Area (€38.02 per hectare), or land outside the upland Severely Disadvantaged Area (€45.92 per hectare). The Euro/Sterling conversion rate applied was 0.67770 (the value of the Euro as at 30 September 2006), and the approximate Sterling equivalent values of the flat rate payments per hectare were £4.39, £25.77 and £31.11 respectively.

- new IT systems were initially slow and unreliable and the supporting business processes in the Agency were insufficiently developed. As a result, the system as a whole was not user friendly and staff struggled to cope with the volumes of work encountered.

**1.5** Our report in October 2006 noted that the Agency's management team was developing a recovery plan which the Agency expected to be fully implemented by April 2008. This follow up report examines whether the Agency has:

- resolved the outstanding problems with claims for the 2005 scheme year;
- in the second year, administered 2006 claims more effectively than 2005; and
- made progress to address the issues identified in successive reviews, with a view to stabilising the scheme by April 2008.

**1.6** Our methodology for this report is summarised at Appendix 1.

# PART TWO

## Resolution of queries and outstanding work from the 2005 scheme

**2.1** The Comptroller and Auditor General reported in October 2006 that there were two main outstanding problems with the 2005 single payment scheme:

- **Less than 80 per cent of claims had been finalised.** Over 24,700 claimants had not received their full payment, three months after the EU regulatory deadline of 30 June 2006.
- **Our testing indicated that there were errors in some of the Agency's calculations of the amount to which individual claimants were entitled.** At the time of our previous report we had identified 34 overpayments and 79 underpayments in our sample which, if replicated across the whole population, were most likely to result in errors of £6.5 million and £17.4 million respectively. Our previous report noted that these figures were provisional until we had completed our audit of the financial records on behalf of the United Kingdom Coordinating Body. After further audit work, we were able to report to the European Commission that the overpayments would amount to £6.8 million at most, and underpayments would not exceed £19.3 million.

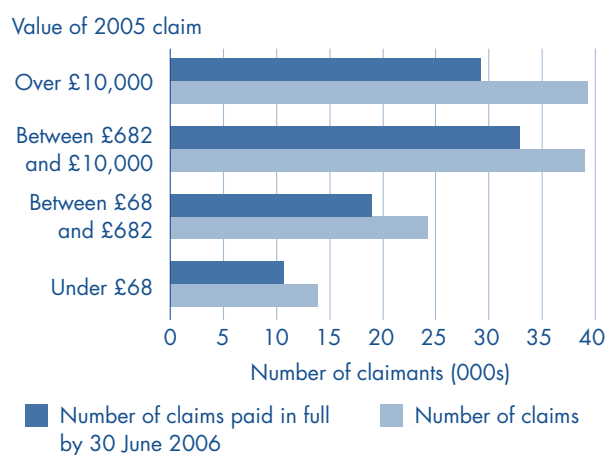
**2.2** The European Commission can withhold a proportion of funding for the single payment scheme from Member States if payments have been made late. If the European Commission becomes aware of payment errors or control failures, or if it considers that agencies administering the scheme have not complied with the scheme regulations in other ways it may disallow specific payments or impose a flat rate penalty across a payment population respectively. Our previous report highlighted the risk that, given the problems listed above, the European Commission could impose a substantial financial correction, which would in effect require the Department to fund a proportion of the payments that were due to farmers. In view of the potential risk, the Comptroller and Auditor General noted that, at the time of his report, the Department was proposing

to include £131<sup>5</sup> million of provisions and contingent liabilities in its 2005-06 financial accounts in respect of payments in England.

**The backlog of outstanding payments for the 2005 scheme was virtually cleared by December 2006**

**2.3** Some 8,586 claimants (seven per cent) had not received any payment by the end of June 2006 and 16,168 claimants (14 per cent) had received partial payments amounting to 80 per cent of the value of their claims. In 3,255 cases, the value of the claims was relatively small (less than £68 or €100) and thus unlikely to have much impact on farmers. There were 10,123 outstanding cases, however, for claims over £10,000 (see Figure 1).

**1** At the end of June 2006 there were 10,000 farmers with claims over £10,000 who had yet to receive some of their payment



Source: National Audit Office analysis of data from the Rural Payments Agency

<sup>5</sup> The Department's final position disclosed in its 2005-06 financial statements was £139 million comprising £75.75 million provisions and £63.5 million contingent liabilities in respect of disallowance arising from the single payment scheme in England.

**2.4** The Chief Executive of the Rural Payments Agency made a commitment to the Committee of Public Accounts to resolve all outstanding cases (except those where legal issues such as probate may hold up payment) by the end of December 2006. In practice, the Agency did manage to pay the outstanding claims. By that date, there were only 24 claims, totalling £250,114, where the Agency had made no payment. Of these cases, 19 could not be finalised until probate had been resolved, and the remaining cases were outstanding because they were subject to divorce settlements, debt recovery or ongoing investigation.

**2.5** The Farm Crisis Network noted that there were some farmers who had received no money for their 2005 claims because they had made errors filling in their original forms. There had been instances where both landlord and tenant had made a claim on the same parcel of land, which meant that claims needed to be investigated, but there were some instances which farmers believed were genuine mistakes. The Agency has an appeals process, but the Farm Crisis Network, Royal Institute of Chartered Surveyors, Rural Stress Helpline and Country Land and Business Association all criticised what they saw as a lack of transparency in the appeals process and the length of time it took to complete. This was particularly important because farmers who had mistakes in the first year would receive no payment in the second year either until the issues were resolved.

**2.6** The Department noted that the appeals system can only operate within the confines of EU legislation. This does not permit penalties to be removed simply because errors were genuine. The legislation does permit removal of penalties where they are deemed to be “obvious”; however the definition of “obvious” is constrained and cannot always be applied.

## Steps to quantify individual errors in processing 2005 claims are now substantially complete, but at least £4.4 million of known overpayments have not yet been reclaimed

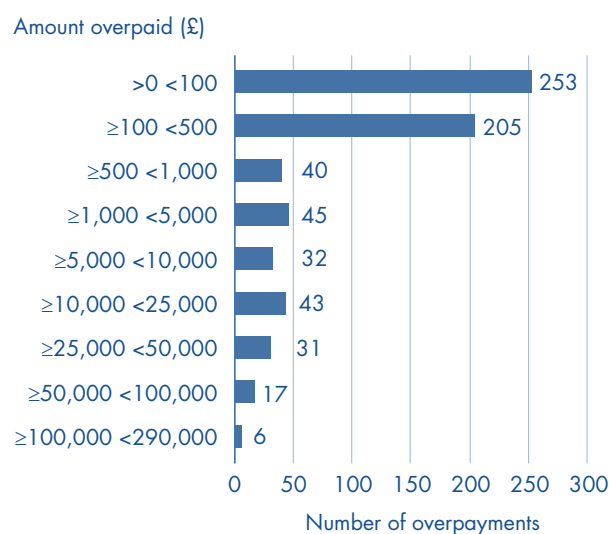
**2.7** Our estimates of the most likely error in the 2005 payments were based on a sample of 363 cases. Following on from our testing, the Agency has substantially completed a review of 34,499 cases which it had identified as meriting further examination. The Agency identified some of the cases as high risk and high value; a proportion arose from claimant queries, whilst the Agency’s IT system identified others. The Agency managed to complete its review of some 8,000 of these cases (23 per cent) prior to making 2006 scheme year payments, and by mid-November 2007 the Agency had completed reviews of all but 907 cases. The Agency expects to have

substantially completed its review of these remaining cases by the end of December 2007, and will adjust payments for all relevant scheme years to correct errors identified.

**2.8** Reviewing each case and resolving any mistakes found proved to be resource intensive and time consuming. The Agency estimated that it typically took staff eight days to complete the relevant procedures for a typical case. The task involved reviewing 16 separate steps in the processing of each claim, in a specific order, to clear each item. A number of the steps required overnight interrogation of databases which were not directly linked to the core IT system used for the single payment scheme. Since August 2007, the Agency has integrated the review process into the main IT system, reducing the time to complete any one review from eight days to one. Officials confirmed that, on the basis of the work done to date, the Agency had found errors in a substantial number of the cases reviewed, but was unable to provide us with any breakdown of the extent or range of errors found. The Agency is currently evaluating the outcome of the review of these cases.

**2.9** In addition to the errors mentioned above, we noted that an operational error made on one computerised payment run gave rise to duplicate payments made in August 2006, which resulted in 54 overpayments of over £25,000 (including six of over £100,000 each) and a further 618 other overpayments (see Figure 2). The overpayments from this computer run totalled £4.4 million. The Agency notified each of the farmers it believed it had overpaid in writing, but the letters did not explain how the error had occurred and did not specify the precise amount of overpayment each farmer had received.

**2** Errors on one payment run for the 2005 scheme led to 672 overpayments, none of which the Agency has yet recovered



Source: NAO analysis of data from the Rural Payments Agency

**2.10** Some farmers have repaid the Agency the amount they believed they had been overpaid. However, so that it only approached farmers for refunds once, the Agency decided to defer pursuing the other outstanding amounts until the review of entitlements had been completed.

A policy paper for pursuing the overpayments was finalised in September 2007 and any corrections are due to be offset, where possible, against the 2007 scheme payments to be processed between December 2007 and the end of June 2008.

## Determining the full financial impact of the problems in processing the 2005 scheme is likely to take a long time

**2.11** The Commission draws on independent auditors' reports and on its own compliance checks in order to assess whether accredited paying agencies have complied with its requirements in processing the single payment scheme. In order to justify disallowance, the Commission does not need to demonstrate exhaustively that checks carried out by national authorities are inadequate, or that there are irregularities in the figures supplied by them, only that there is evidence of "serious and reasonable doubt on its part regarding those checks and figures". The principal reasons why the Commission may impose such financial corrections, called 'disallowances', are failure to make payments on time, miscalculation of payments which have been made, or poor financial controls.

**2.12** The National Audit Office audits the processing of the single payment scheme in the United Kingdom on behalf of the European Commission and submits an annual report on the results. In January 2007, we reported the results of our audit of a sample of 363 cases and associated systems review related to the 2005 scheme. Our report concluded that the financial accounts were correctly stated, and fairly reflected the charges to the European Fund and that the overall financial interests of the Community Fund were protected. We also reported the errors we had found. For these instances, we recommended that:

- payments should only be made on the basis of fully validated data. If claims are not fully validated at the time of payment, then the Paying Agency should ensure this does not result in risk to the Fund;
- the Agency should review its data capture methods and ensure that appropriate controls are in place to capture all data completely and accurately; and

- the Agency should implement procedures to ensure that all amendments to claimants' files are documented fully and that a clear and robust audit trail exists for the entire process of determining the payment made.

To date, the European Commission has not indicated whether it would impose a penalty arising from the results of this work.

**2.13** The European Commission has deducted some €81.7 million from its reimbursement of the Agency's expenditure claim for June 2007 because of late payments in the first scheme year. The Agency is expecting the Commission to deduct a balance of some €19.6 million as the remaining correction for late payments.<sup>6</sup>

**2.14** Two bodies, the European Court of Auditors (ECA) and European Commission auditors, also audit the single payment scheme payments and control processes in Member States. The results of the auditors' work indicated control weaknesses over data quality, as well as the effectiveness of cross checks of claim data against the Rural Land Register, ineligible features entered onto the Rural Land Register, inconsistencies in map data, and problems with the controls over inspections in terms of measurement of declared land area, and timely completion of inspections. The European Commission has indicated that the results of the audit of the Agency may lead to a financial correction in due course, in relation to amounts already paid to farmers.

**2.15** The Agency has sought to defend its position, initially with discussions with the European Commission and, if appropriate, will continue to do so through conciliation with a view to reducing any penalty that may be proposed. On 11 June 2007, the then Secretary of State for Environment, Food and Rural Affairs discussed the penalty regime with the Agriculture and Rural Development Commissioner in Brussels. He was concerned that strict adherence to the rules could result in penalties which were not proportionate to the risk to the fund, and cited the Arable Crops remote sensing case as an example (see Figure 3).

**2.16** Last year, the Department reported in its 2005-06 accounts a provision and contingent liabilities of some £139 million. It believed this to be the best estimate at the time, using its experience of the Arable Crop case as a basis. The estimate within the 2006-07 accounts including an assessment for potential penalties from the second scheme year, again using the Arable Crop case as a basis, raises the potential correction to some £292<sup>7</sup> million.

<sup>6</sup> The €81.7 million deduction was equivalent to £55.3 million at an exchange rate of 0.67735. At the same exchange rate, €19.6 million would be equivalent to some £13.3 million, although this has not been finalised and will depend on the exchange rate at the time.

<sup>7</sup> This value of total potential correction comprises provisions and accruals valued at £285 million and contingent liabilities of some £7 million.



### 3 Case Study: Enquiry No AC/2004/16 into arable crop payments

- The European Commission is required to complete a number of audits annually on its programme expenditure. One of these audits related to one of the schemes the single payment scheme replaced (the arable area aid payments scheme), in which the Commission's auditors check that the Agency has completed its inspections of farms appropriately. The Commission's auditors found that: the timing of inspections was too late to accurately determine a cropped area; and the quality of the satellite images was poor which lead to differences in determining accurate land sizes.
- Where a Member State has failed to follow the EU Regulations, and where auditors feel unable to isolate an error because it relates to a control rather than an individual farm, the Commission's Regulations provide that it may impose a flat rate disallowance (or penalty) against a whole expenditure stream rather than apply a penalty against the particular payment subject to testing.
- The Commission judged that this case should warrant a five per cent flat rate disallowance penalty of some £55 million because in its view the Agency's checks "did not provide a sufficient level of assurance of the regularity of claims and therefore that the risk of loss to the European Agricultural Guarantee and Guidance Fund (EAGGF) was significant".
- The Agency completed checks and told us it considered the rate of difference to be within tolerances further stipulated in EC regulations; confirming its view that Remote Sensing procedures provide a satisfactory means of control.
- The Agency recalculated the error applying it only to the payments affected by the control failures rather than all the payments in the scheme population, and using the actual rate of difference it had observed rather than 5 per cent flat rate that the Commission auditors had used and put a case forward to the EC proposing that disallowance be lowered to £4.7 million.
- The European Commission initially rejected the Agency's case, but the appeal was heard by a conciliation panel in July 2007. In October 2007, the panel confirmed it was unable to bring the views of the two parties together within the prescribed timescale, but invited the Commission to consider the Agency's arguments on the extent of the risk to the Fund.
- The European Commission has confirmed that a correction will be made in the near future, however this decision could be challenged should the Paying Agency feel the case warrants such action.

Source: National Audit Office

# PART THREE

## Progress in administering the 2006 scheme

### The Agency met the target to pay 96 per cent of 2006 scheme funds by the end of June 2007

**3.1** The Agency managed to pay 98 per cent by value of claims by 30 June 2007, which was within the payment window, so avoiding late payment penalties. Achieving this target proved very challenging, but was met by 20 June, 10 days before the deadline. In May 2006 Lord Bach announced that the deadline for farmers to submit claims for 2006 would be extended from 15 May to 31 May, and this was later extended again, at EU level, to 10 June, because there had been difficulties issuing application forms. In autumn 2006, the Agency predicted that it would have difficulty making full payments, to all claimants, that complied with all the scheme regulations until close to the last date allowed by the regulations. In November 2006, Ministers gave approval for the Agency to make partial payments to farmers in cases where it could not make a full payment straight away.

**3.2** By the end of January 2007 the Agency had made 21,940 payments in full, totalling £201 million (amounting to 13 per cent of the £1,520 million scheme funds). The Agency started making partial payments of 50 per cent of claim values in February 2007, three months earlier than it had done the previous year (see Figure 4). By the beginning of May 2007 it had paid farmers nearly 80 per cent of the total scheme fund, compared to some 30 per cent by May 2006.

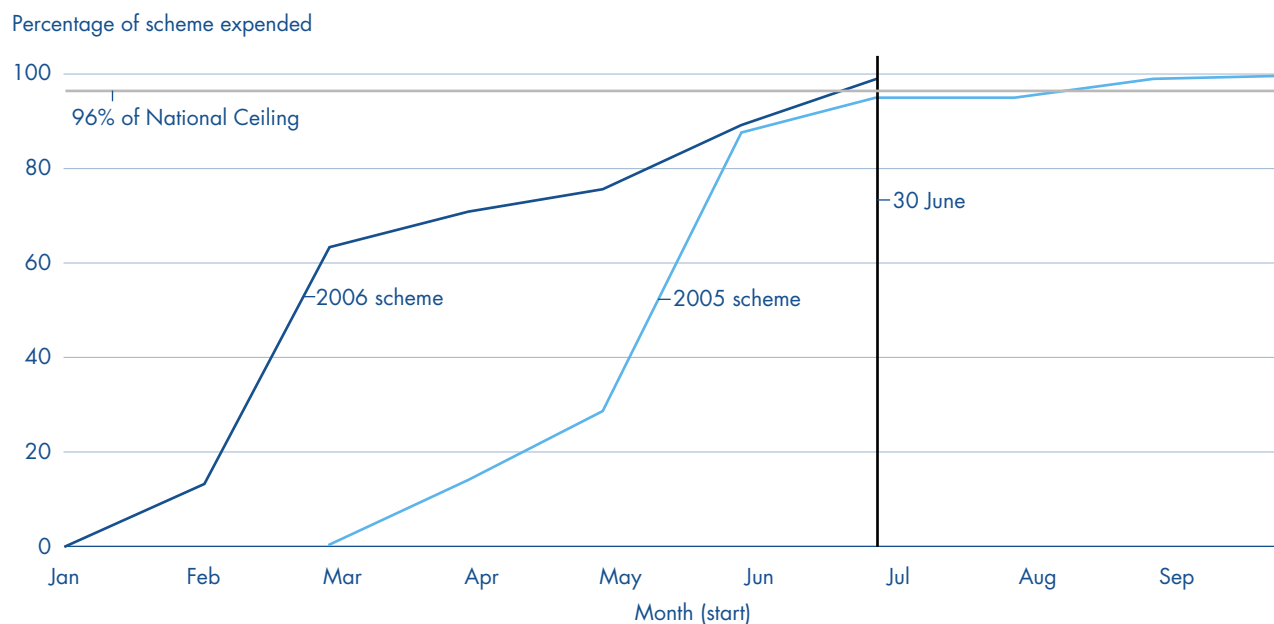
**3.3** By 20 November 2007 the Agency had completed processing 109,025 claims and made payments totalling £1,520 million. Of those cases, 105,971 farmers have received full payment, and 3,054 claims were processed but no payment was due. A further 110 claimants had received

partial payments by that date, and 115 farmers with more complex claims had received no payment. The Agency will pay interest to claimants on money paid after 30 June on the same basis as in respect of 2005 claims, subject to a minimum interest payment level of £50.<sup>8</sup>

**3.4** Performance in 2006 represents a substantial improvement on the previous year, and reflects the hard work and dedication of those staff involved in the payment process. Other countries have processed their 2006 claims more quickly, often completing the majority of payments by December 2006 (at which point no payments had been made to farmers in England), although the Agency's processing of 2006 claims was affected by the outstanding issues from the 2005 scheme year. In Germany, thirteen Länder administer the German scheme regionally and pay farmers locally. The German authorities reported that only two Länder chose to make partial payments for the 2006 scheme, and between them the 13 Länder had paid 97 per cent of the scheme fund by 31 December 2006. However in Germany and Finland the dynamic element will not be activated until 2010 and 2011 respectively. In Finland, which adopted a dynamic hybrid scheme from 2006, officials explained to us that 99.3 per cent of farmers had received their payments by the end of December without the need to make partial payments. Among the three home nations in the rest of the United Kingdom (none of which adopted the dynamic hybrid model), by the end of December 2006, 75 per cent of scheme funds had been paid in Wales, 65 per cent in Northern Ireland and 82 per cent in Scotland. The Welsh Assembly Government and Scottish Government delayed making final payments to the 400 farmers in England whose land straddles the Welsh and Scottish borders.

<sup>8</sup> The interest rate is one percent above the 3 month London Interbank Offered Rate (LIBOR), calculated (in respect of claims for the 2006 scheme year) from 1 July 2007.

#### 4 The Agency paid 98 per cent of funds for the 2006 scheme year by the end of June 2007



Source: National Audit Office analysis of Rural Payments Agency data

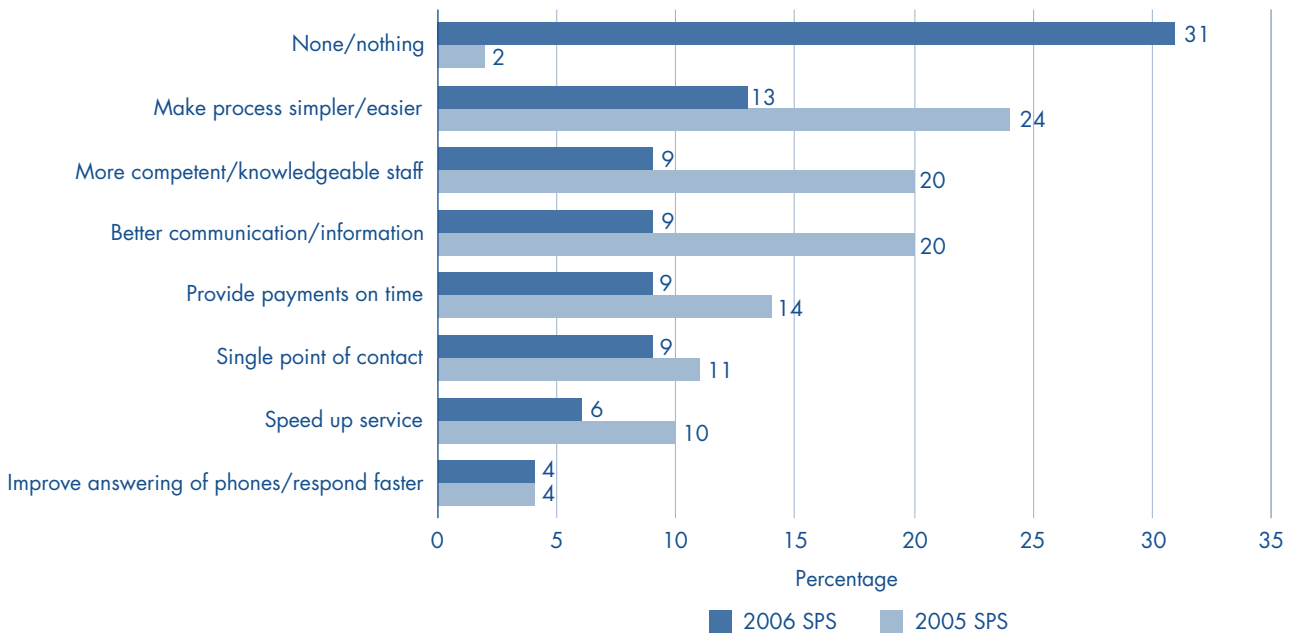
### Farmers were more satisfied with the way their claims were handled

**3.5** Farmers do appear more satisfied with performance than they were in 2006. We followed up our survey of farmers in 2006 by contacting the same people again in summer 2007 to determine the impact on claimants. Out of the 500 responses we received, 61 per cent said they were satisfied with the way the Agency had administered the 2006 single payment scheme, compared to just 39 per cent the previous year for the 2005 scheme. Almost a third of farmers said that there was nothing the Agency could have done this year to improve customer service, compared with just two per cent last year (**Figure 5 overleaf**). The National Farmers' Union also commented that it was aware of the improvements the Agency was making to its systems, and appreciated that the effects of these changes may take some time to reach farmers.

**3.6** Some 43 per cent of farmers we surveyed said they had not known when to expect payment for the 2006 scheme, and the feedback we received suggested lower expectations of when payment would be made: a common phrase we received was that payment would "come when it comes". Nonetheless, farmers were more likely to express satisfaction with the way the Agency handled their claims if they were kept well informed about them, irrespective of whether the information they received was positive or negative. Uncertainty about when they would be paid was of far more concern to farmers, because it made it more difficult to plan their business. Our survey showed that those farmers who felt informed about the progress of their application were less likely to incur additional bank or consultant charges than those who felt uninformed. In the first year of the scheme only 45 per cent of farmers surveyed thought they were well informed about progress of their claim, compared to 55 per cent this year. The results from the survey show a sizeable improvement of some 20 per cent compared with last year, although this still leaves a significant minority for whom this element of customer service could be improved.

**5** Farmers were consistently more satisfied with the Agency’s customer service in 2006 compared with 2005

Q What could the Rural Payments Agency have done to improve the quality of their customer service?



Source: Ipsos MORI survey of farmers carried out on behalf of the National Audit Office

**3.7** Further progress will be required if the Agency is to deliver an acceptable quality of service. Respondents to our survey complained that continued problems in administering the single payment scheme were having an adverse impact on their levels of stress (10 per cent) and on their personal finances (11 per cent). The National Farmers’ Union told us that “as far as the majority of claimants are concerned, the Agency is still a failing organisation”. Farmers were particularly frustrated that the Agency was still unable to provide basic information to claimants such as their outstanding balance due, and complained that it rarely acknowledges written correspondence for a number of months. Nonetheless, the National Farmers’ Union believed that the Agency was generally on the right track with a sense of what needed to be done and a greater customer focus. The Agency confirmed that 80 per cent of correspondence is now answered within a 15 day target. One specific example cited by the farming charities: Farm Crisis Network; and the Rural Stress Helpline, was that the Agency has started to prioritise validation, approval and payment of claims in instances where it has become aware of financial hardship, which was indicative of a more considered attitude to processing applications.

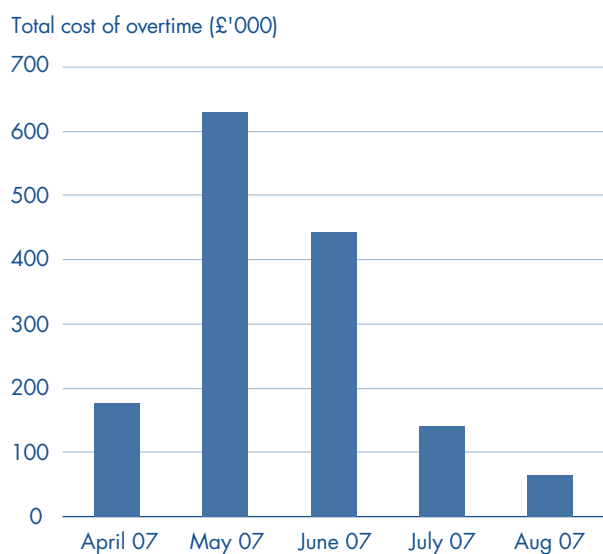
**Processing the 2006 claims proved resource intensive and led to some adverse impacts on the resources available to manage the Agency’s other work**

**3.8** The Agency had originally sought, through its Change Programme, to deliver anticipated efficiency savings by reducing staff numbers in 2005-06 by 1,000 posts. In practice, however, the difficulties with the 2005 scheme required additional resources, and our previous report highlighted that the Agency had to maintain numbers at about 4,329 people, largely by relying on casual and contract staff.<sup>9</sup> The Agency has since had to retain staffing at broadly similar levels and approximately 2,000 of the 4,600 staff in the Agency in 2007 were involved in processing 2006 single payment scheme applications.

<sup>9</sup> In March 2006 the Agency had 2,140 permanent staff, 838 casual staff and 1,351 contract staff.

**3.9** The continued reliance on large numbers of staff has had a knock-on impact on costs and the Agency's other work. Our discussions with key staff confirmed that in order to meet the June deadline, additional staff had to be drawn from other parts of the organisation, such as the British Cattle Movement Service (BCMS) business area. In addition, the Agency offered overtime to staff involved in processing single payment scheme claims who were willing to work extra hours over the peak period in order to avoid exposure to late payment penalties by the European Commission. According to the Agency's financial data, the Agency paid £1.45 million in overtime for staff working on the single payment scheme between April and August 2007, as shown in **Figure 6**. The Hunter review estimated that it cost around £750, on average, to process each single payment scheme claim for the 2005 scheme year.<sup>10</sup>

**6** The cost of overtime peaked in May 2007, as Agency staff processed payments for the 2006 scheme year



Source: National Audit Office

**3.10** Despite the large number of staff working on 2006 claims in April 2007, the Agency concluded that it would only be able to achieve the target to pay 96.14 per cent of funds by the end of June deadline if it deferred its review of remaining queries on the 2005 claims. Perhaps as a result, our survey showed that of those farmers who contacted the Agency in both years only 43 per cent of farmers considered their query was resolved in full for their 2006 claim – although this is an improvement over the previous year when just 28 per cent held this view. Twenty per cent considered that their issues were not resolved, and 14 per cent said that the Agency had actually further complicated the issue for their 2006 claim.

**3.11** The Agency's decision to defer work on its review of the remaining 77 per cent of the 34,499 entitlements considered to be likely to contain mistakes has inevitably raised the risk that any errors in paying 2005 claims will have been replicated in 2006 claims. According to our survey of farmers, 18 per cent of respondents indicated that they thought their land holdings were not listed correctly on the Rural Land Register for their 2006 claim, and 26 per cent said they had experienced problems with registering their land for the 2005 claim. The Agency is confident that its review of 2005 claims and entitlements will have rectified any errors and, therefore, should enable farmers to have greater confidence in the accuracy of their entitlements and payments received.

**3.12** There is a fixed number of entitlements to single payment scheme payments, corresponding to land area, that was established in England in 2005. EU Regulations permit farmers to transfer (sell or lease) entitlements to single payment scheme payments. Such transfers of entitlements between farmers could only start taking place in the second year of the scheme, once all the entitlements within the scope of the scheme had been definitively established. The Agency's computer system did not include features able to handle entitlement transfers before 23 April 2007. Prior to then, the Agency issued incorrect entitlement statements to some farmers, and made incorrect partial payments for these farmers in spring 2007. Our survey of farmers found that 15 per cent of farmers believe the entitlement statements the Agency had sent them were incorrect. The most common error farmers cited was that the number of entitlements recorded was incorrect.

<sup>10</sup> Department for Environment, Food and Rural Affairs' review of the Rural Payments Agency, March 2007 (Hunter Review).

**3.13** Our survey found that 78 per cent of respondents had received a pre-populated form for their 2006 claim. Of those, 76 per cent said that the information identifying their land was correct, and 83 per cent said that their entitlements were listed correctly. Farmers with larger holdings were more likely to experience difficulties with the pre-populated data included in the scheme application forms sent out by the Agency and the need to make corrections to records in the Rural Land Register in time for the 2005 scheme. One impact of the difficulties they experienced is that 42 per cent of farmers who had experienced problems registering their land on the Rural Land Register said that this had prevented or deterred them from applying for other money they may have been entitled to claim under the separate Environmental Stewardship Schemes.

**3.14** Although the Agency met the EU target to pay over 96.14 per cent of the fund by 30 June 2007, it may yet incur disallowance because of errors in the payments made. In addition to the difficulties identified above, the Agency was unable to integrate sugar reforms into the main 2006 single payment scheme IT system in time (see Box 1). The Department has increased its provisions and contingent liabilities for disallowance by a further £153 million, in addition to the £139 million reported by the Department in respect of the provision and contingent liabilities for the 2005 scheme.

## BOX 1

### The Agency was unable to implement the European Commission's sugar reforms in time to be incorporated within the main IT system for the second scheme year

In November 2005, the European Union reformed support for sugar producers with the aim of cutting EU sugar prices by 36 per cent over four years. In England, as elsewhere in the EU, the sugar producers are provided additional support. EU regulations specified that the payments for additional sugar support had to be integrated into the single payment scheme in 2006. This was done in England, but in view of the other pressures on the Agency it made separate payments after seeking Ministerial approval for its approach in June 2006. Should the European Commission consider that the relevant scheme regulations had not been complied with it could trigger further disallowance. The Agency has highlighted, however, that it only made payments after it had completed its checks on the claimant's main single payment scheme payment, and ensured EU Regulations were complied with by working together with the policy team and maintaining a series of checks to confirm accuracy of the payments.

# PART FOUR

## The Agency's plans to stabilise the scheme by April 2008

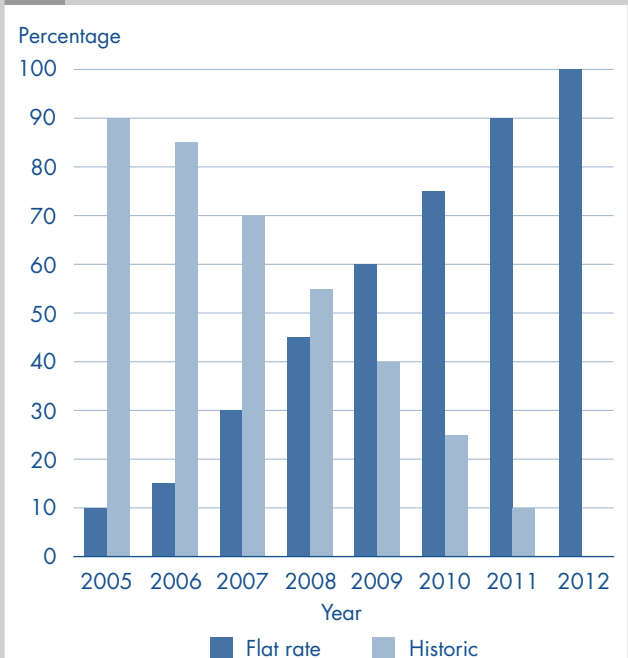
**4.1** In his previous report, the Comptroller and Auditor General highlighted three key problems with the implementation of the 2005 single payment scheme. In particular:

- the Rural Payments Agency did not have adequate management information to monitor progress and forecast future work properly. In the absence of clearly defined metrics, the Agency and the Department found it difficult to determine the true state of progress with implementation;
- the Department had allowed the Agency too much discretion and independence with implementation given the potential liability it faced and the consequent risks to its implementation. As the implementation deadline grew closer, the two key oversight boards took greater control of implementation and uncertainties grew over who was responsible for what; and
- as the pressure built, day-to-day communications with farmers proved difficult and a lack of information on progress led to stress and frustration.

**4.2** Under the dynamic hybrid model, the proportion of monies distributed on the basis of the historic amount gradually declines over time and the proportion distributed on the basis of the flat rate per hectare correspondingly increases (see Figure 7).<sup>11</sup> By comparison, in Germany and Finland the dynamic element of the scheme is not due to be activated until 2010 and 2011 respectively, thereby allowing the system to stabilise before the proportions of the flat and historic rates begin to change. As the majority of the errors we identified during our testing in 2005 and 2006 only affected the flat rate element of the payment, the amount of error will therefore increase over time if the corrective work, that the Agency has now largely completed, proves inadequate. The Agency's recovery plan

expects to reduce exposure to single payment scheme disallowance penalties from a potential £153 million in 2006-2007 to no more than £16 million by 2010-2011, through improvements to the core IT system, processes and by rectifying mistakes made in calculating each farmer's entitlements. The Agency also expects the recovery plan to stabilise the workforce. In January 2007, the Agency transferred some 700 temporary staff to permanent contracts and the current ratio of permanent to temporary staff is 60:40.

**7** By 2012 the amounts individual farmers receive under the scheme will be distributed as a flat rate per hectare



Source: National Audit Office

<sup>11</sup> The historic element of the payments is based on the average direct payments received by farmers between 2000 and 2002 under previous subsidy schemes.

## The Agency had difficulties in extracting reliable information on the progress of claims before August 2007

**4.3** In order to overcome some constraints arising because components of the original core computer system were de-scoped, and to process the 2005 and 2006 single payment scheme claims before the European Commission deadlines, the Agency has had to rely on separate processes and additional systems including separate databases and spreadsheets to circumvent problems. The Agency decided for the 2006 scheme year to change from a ‘task based’ approach to processing claims, whereby staff would log onto the computer system to process particular stages on different claims, and instead adopt a ‘whole case working’ approach whereby individual claims are allocated to a member of staff or team to own and ensure the claim is processed right the way through, an approach more similar to the way it had administered predecessor schemes. Some work-arounds have been needed because the main IT system was not designed to support whole case working, and some of the necessary upgrades were not due to be in place before autumn 2007, in time for processing claims for the 2007 scheme year. The system specification was originally meant to be mainly made up of an off-the-shelf package which would not need substantial customisation. Ensuring compliance with single payment scheme rules has meant, however, that the packages have needed to be customised.

**4.4** In trying to implement the single payment scheme the Agency did not implement a means of tracking the progress of each claim. Since February 2007 however, the Agency generated weekly data on the number of claims at each stage of the administration process, the progress at each site since the previous week’s report, and a forward forecast setting out the expected time it will take the Agency to meet its single payment scheme payment deadline. This data provided management with much more comprehensive information to make informed decisions than it had before. The Agency noted that for the 2007 and 2008 scheme years it will continue to improve the quality of management information through further computer upgrades. For example the “gamma” system release, which went live on 29 October 2007, provides team leaders with a comprehensive overview of a farmer’s claim, allocation of resources and outstanding work. The Agency told us it had sought to improve its forecasting procedures by incorporating lessons learned from its forecasting processes during the first two scheme years.

**4.5** A consultancy review found that whilst the infrastructure was basically appropriate, stability, functionality and system design of some key areas of the Agency’s main IT, fell short of an adequate solution, and there was need for a radical redesign of some key applications. Despite the problems experienced with processing 2005 and 2006 claims, the Agency accepted the consultant’s recommendation that it was better value for money to resolve the problems by making changes to the existing system than to procure a new IT system.

**4.6** The cost for the implementation of the recovery plan is estimated to be £40 million between 2007-08 and 2009-10. At the time the original change programme was closed at the end of May 2006 the Agency had already spent £258 million on the change programme and implementation costs for the single payment scheme.

**4.7** The Agency collated some 400 suggestions for improving its business made by staff, customers and stakeholders, together with comprehensive technical reviews undertaken by consultants with specialist expertise in computer systems and change management. It condensed these ideas into ten key workstreams which taken together represent a substantial change programme covering ways of working, customer service improvements, policy changes, and the supporting information technology systems (**Figure 8**). These activities forms the basis for the additional £40m funding agreed with the Department for 2007-08 to 2009-10.

**4.8** Upgrades to computer systems are needed to support the Agency’s planned business changes. The Agency has revised its contract with one of its principal contractors, Accenture, to achieve a more effective working relationship, based more on working in partnership. The revised contract was negotiated directly with Accenture and the Agency considers that it has secured better value for money compared to the original terms. All major build and test work is delivered on a fixed price. The contractor is liable for any costs owing to its failure to deliver to schedule. In relation to specific operational support activities, the Agency has imposed targets on the contractor to ensure it works towards the Agency’s main target of 96.14 per cent of claims by value and volume by 30 June each year. Failure to deliver against these targets result in the ‘hold-back’ of a percentage of the fixed cost.



## 8 The Agency plans ten workstreams in support of its business improvement programme

<b>More efficient ways of working</b>	<p><b>Whole case working:</b> to allocate whole claims to teams of workers, in place of the 'task-based' system, which will be supported by IT developments to give case workers access to claims through one screen;</p> <p><b>Entitlement register:</b> automation of tasks currently carried out manually or using spreadsheets for tasks such as lease of entitlements and multiple entitlement transfers.</p>
<b>Customer service improvements</b>	<p><b>Claim form simplification:</b> to reduce bureaucracy and error;</p> <p><b>Customer strategy and segmentation:</b> improving information available to farmers, including payment and status of their claims, reducing the need for customers to contact the Agency and increasing customer satisfaction.</p>
<b>Policy changes</b>	<p><b>Policy changes:</b> incorporating known or likely policy developments that simplify the single payment scheme, and reducing potential exposure to disallowance, as well as simplifying administration by joining Defra's policy team with the Agency's delivery team.</p>
<b>Information technology and data quality</b>	<p><b>Data quality and management:</b> improving data quality, putting right errors where these have been identified and enhancing processes to improve ongoing data quality, speeding up payments and making payments more accurate;</p> <p><b>Management information:</b> developing management information systems and reporting tools, so as to provide management with reliable information showing progress against performance targets;</p> <p><b>Bringing all key processes into the main RITA computer system:</b> consolidation of the different databases and processes the Agency uses into the main computer system, simplifying processes, improving the quality of management information, and reducing risk;</p> <p><b>Rural Land Register:</b> increasing the accuracy of maps, reducing potential exposure to disallowance;</p> <p><b>Technology refresh:</b> implementing system software and hardware upgrades needed to support ongoing business, and aimed at reducing the cost of future system enhancements.</p>

Source: National Audit Office

**4.9** The contract also allows Accenture the opportunity to discuss relevant future work falling within the scope of the agreement which the Agency may procure. The Agency takes the view that these terms will enable it to achieve improved value for money in respect of any additional work.

**4.10** The Agency plans to measure achievement of its recovery plan by improving the speed and accuracy of single payment scheme payments, enhancing customer satisfaction, and delivering cost savings, against the potential benefits summarised in **Figure 9 overleaf**. The Agency expects benefits from the actions taken to be realised by 2010-2011 (subject to funding being available).

The Department and the Agency have strengthened their governance arrangements, but implementation remains high risk and further European Union policy changes could derail progress

**4.11** The Department is ultimately responsible for the European funded schemes within the United Kingdom, but in practice it has delegated the implementation role for the single payment scheme in England to the Agency. In response to the difficulties with the original implementation of the single payment scheme, the Agency and the Department have improved the co-ordination between policy and delivery teams by joining them under one senior manager. The new structure is similar to arrangements in Germany and in Finland where co-ordination of the functions has led to better awareness of issues by all the parties, and better management of stakeholder expectations – see **Box 2 overleaf**.

## 9 The Agency's plan is to make substantial improvements to single payment scheme administration in 2008-2009, in respect of 2008 claims

Potential benefits		2006-07 baseline	2007-08	2008-09	2009-10	2010-11
Effectiveness						
By value of valid single payment scheme claims	96.14%	30 June 07 SPS 2006	30 June 08 SPS 2007	Processed within 12 months		
	Partial payment	Yes	Contingency	Contingency	No	No
Operational predictability						
			Higher than 2006	Higher than 2007	Stable – no surprises	Stable – no surprises
Customer						
Accuracy of single payment scheme payment		Higher than 2005	Higher than 2006	Within 2 per cent materiality		
Customer satisfaction with Agency services		Targets to demonstrate an improvement trend against baseline established for the 2007 calendar year.				
Efficiency						
Running cost reduction for the Agency		£nil	£nil	£nil	£21.2m	£11.5m
Staff numbers (FTEs) for the Agency (at the year end)		4,600	4,370	4,246	3,928	3,516
Disallowance		£95m	£80m (5%)	£32m (2%)	£32m (2%)	£16m (1%)

Source: Rural Payments Agency

### BOX 2

#### Close cooperation between policy and delivery teams can help to highlight and deal with potential risks before they become a significant obstacle

In Germany, the federal level responsible for the design of the policy cooperated closely with the Länder responsible for regional delivery of the German single payment scheme and included views from the farmers' unions. The federal government chaired meetings every three weeks to monitor and discuss progress in implementation. In addition, some Länder organised workshops with local delivery staff and briefed local farmers' unions about the implementation process.

In Finland, administrators delayed the start of the single payment scheme by one year, after those responsible for delivery expressed concern about the risks to delivering the scheme within the first year. A Preparation Group, represented by policy, delivery, farmers' unions, agricultural research institutes and advisory organisations, achieved a common consensus as to the most appropriate approach to delivering the scheme. On 2 March 2004, the single payment scheme Preparation Group concluded that there would be considerable risks to implementing the scheme in the first year. It suggested a delay to provide sufficient time for changing legislation, and developing appropriate IT systems.

4.12 The Department has clarified line management responsibilities by determining that the Chief Executive of the Rural Payments Agency would report directly to the Director General for Farming and Food within the Department. In addition, in summer 2005 the Agency reshaped its senior management structure to create two new oversight boards:

- the **Agency Management Board** (AMB) provides strategic direction, governance and oversight of risk management. The Board's main functions include ensuring effective corporate governance arrangements and internal controls are in place, overseeing strategic Agency risks, and providing a critical challenge function to the business; and
- the **Operations Management Team** (OMT) was responsible for managing the Agency's day-to-day business operations, projects and programmes. In May 2007, the Agency further realigned the OMT to take more of an overview role, to reduce the number of operational business decisions it had been taking and allow business units to take greater responsibility for day-to-day operations.

**4.13** Following a further review of governance arrangements in autumn 2007, a new Agency Executive Group was established to monitor day to day cross-Agency activities with the OMT focussing on monitoring scheme performance.

**4.14** Our review of the Agency Management Board minutes confirmed that it is taking its responsibilities to challenge management seriously. Both committees are heavily dependent on reliable and prompt management information to function properly. Historically, the Agency has had difficulty in providing such information because officers would need to draw on data held within one of the databases held offline or outside the main IT system. On 27 August 2007, the Agency integrated its “redefinition” database, retaining data on corrections to entitlements, into its main IT system in order to improve the reliability of management information, which is commonly dependent on redefinition data. The Agency has a planned programme to integrate key offline databases (in addition to the redefinition database integrated in August 2007). For example, the Agency plans to integrate during the course of 2008 the “call tracker” database (a record of farmers’ correspondence), the Rural Development Plan task filter and the “spiderplan database” (retaining details of entitlement transfers).

**4.15** The Agency’s plans include a timetable for a series of upgrades to computer systems between 2007 and 2009. Although the timetable for implementation of the computer upgrades required is tight the Agency has delivered the first three IT projects (“alpha”, “beta” and “gamma”) to time. The 2005 scheme year claims took 21 months to process, and until the Agency can reduce the time required to process a year’s claims to around 12 months, the overlaps will continue to generate peaks in workload and significantly restrict the time available to remedy computer problems or update systems.

**Figure 10 on pages 24 and 25** shows the key milestones for processing claims for the 2007, 2008 and 2009 claim years, and the dates when major computer upgrades are planned. In addition, the Agency is implementing a series of discrete computer fixes and projects which can be managed as smaller packages of work. The large number of late specification changes as a result of European Union regulatory changes made to the Agency’s systems was one of the main causes of pushing back the original timetable for processing the 2005 single payment scheme claims.

**4.16** Our discussions with IT specialists indicate that changing and testing computer systems specification can take a long time, and the changes required to the Rural Land Register<sup>12</sup> could take at least 15 months – see **Box 3**. Our review of the computer upgrades introduced in 2006 and 2007 found that activities, including testing of system releases, had to be conducted in parallel in order to meet the tight deadlines.

**4.17** On 1 April 2007, the Agency created an information system Test Assurance Team, to create a corporate testing strategy, which uses a risk-based approach to allocate resources to concurrent projects according to business risk. The Agency has also set up a Model Office facility which allows it to test new business products before they are incorporated into the live system.

### BOX 3

#### The changes required for the Rural Land Register to comply with European Commission requirements could take at least 15 months

In 2006, the Agency completed an internal review of the Rural Land Register, and found inaccuracies within the mapping process and weaknesses in the preparation and review of Rural Land Register management information. It concluded that the framework of management governance and control over the Register could be improved. The Agency completed a process to review and correct the data held in the Register, and found 7,274 issues requiring further investigation, after taking account of errors it had corrected in its data. It concluded that 5,837 of these issues did not have any financial impact (and the Agency could wait until August 2008 before correcting them), 1,400 issues were resolved following successful integration of enhancements to the IT system and the Agency corrected 37 issues manually.

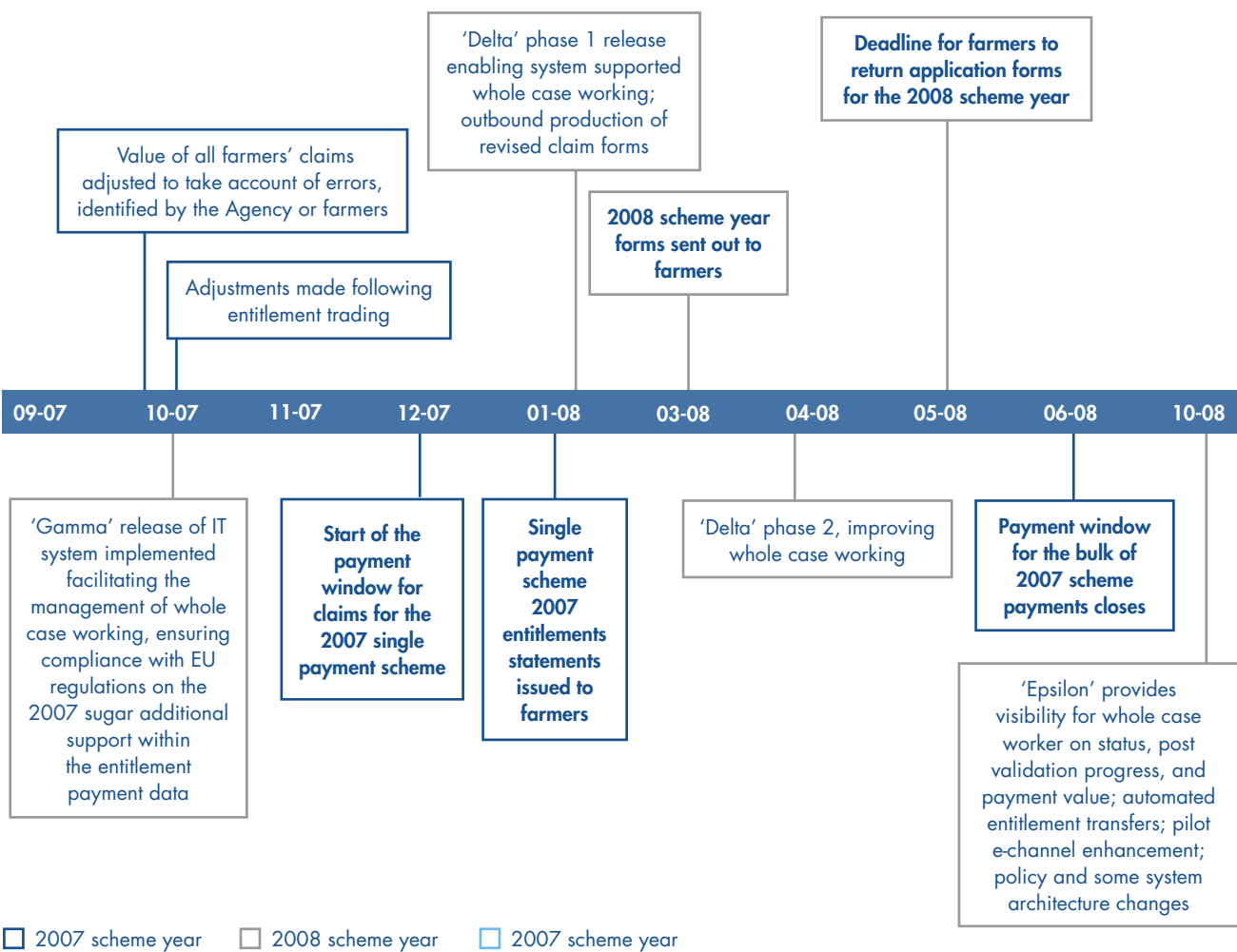
The Agency has yet to decide on further improvements for the Rural Land Register.

<sup>12</sup> The Agency’s Rural Land Register is a database which maps farmers’ holdings onto agricultural land within England and is fundamental to the calculation of farmers’ payments. In 2005, the Agency had not anticipated the volume of requests it received to change maps and a backlog of some 30,000 amendments developed. Farmers requested significantly fewer amendments to the Rural Land Register in relation to the 2006 scheme year.

**4.18** The Agency's information technology plan, which forms a key part of its overall strategy, does not make any provision for system changes in response to agricultural policy, other than changes the Agency was aware of at the time of creating the plan. Anticipating the risk that policy changes would impact on the recovery plan, the information technology plan proposes that the Department should lobby the European Agriculture Commissioner to defer any further changes. Such an approach is unlikely, however, to be realistic. In May 2007, the European Agriculture Commissioner announced her intention to complete a Common Agricultural Policy Healthcheck in 2008. Proposals are expected from the Commission

in May 2008 with a likely decision by the Council in December. Implementation across the 15 "older" EU members (the 12 'new' members mostly operate a simplified Single Area Payment scheme and not all of the likely proposals will affect them) is likely from the 2010 scheme, as it would be very difficult to get detailed rules in place in time for the 2009 scheme. The Department points to some successes in deferring changes, for example recent reform of the fruit and vegetable regime. However, it recognises that it may be unrealistic to expect the European Union to defer all proposed policy changes as the plan proposes.

**10** Key milestones for processing claims impose deadlines (in bold) which the Agency's system and process improvements must meet

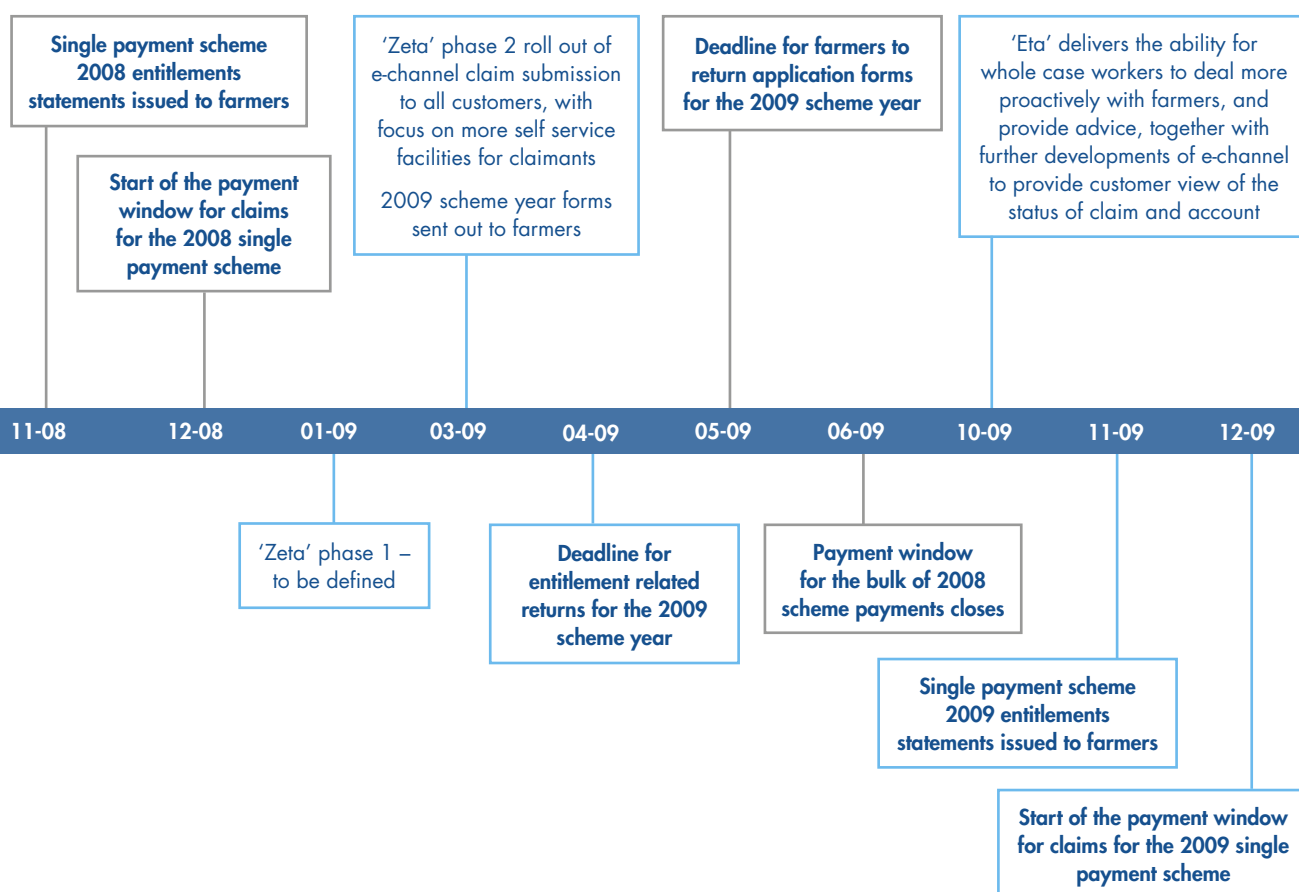


Source: National Audit Office from data supplied by the Rural Payments Agency

## Actions to improve relations with the farming industry have had some success, but the Agency is unlikely to restore confidence sufficiently until the single payment scheme operates properly

**4.19** The difficulties with the 2005 single payment scheme had a detrimental impact on relations with the farming industry and our survey in summer 2006 found that the delayed payments had caused stress and anxiety. Five per cent of farmers had considered leaving farming and we had estimated that the delays had cost farmers between £18 million and £22.5 million in interest and arrangement fees on additional bank loans and increased

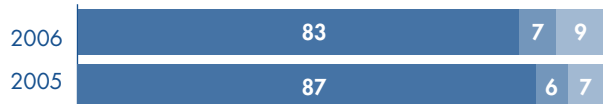
short term borrowing on overdrafts. Representatives of the British Bankers' Association told us that they had not identified an increase in lending in the market as a whole that could be attributed to the single scheme payment in 2007. Nonetheless, in response to our survey of individual farmers, nine per cent of farmers said they had incurred overdraft or loan set-up fees of more than £600 as a result of the timing of scheme payments (**Figure 11 overleaf**). The number of scheme claimants fell from 116,474 in 2005 to 109,000 in 2006. A number of individuals with small entitlements (such as those owning pony paddocks) did not apply for a payment in the second year after concluding that the amount of work involved in making a claim was not justified by the amount of money they would receive.



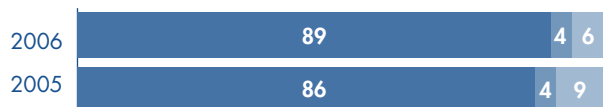
**11** Nine per cent of farmers responding to our survey said they had paid at least £600 on overdraft or loan set up fees as a direct result of the timing of scheme payments

Q. As a direct result of the timing of your single payment scheme payment, roughly how much, if anything, have you had to pay in total on:

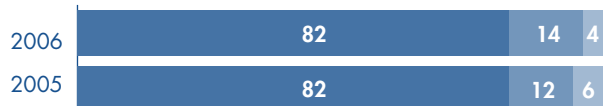
Overdraft or loan set-up fees?



Interest on loans?



Additional consultants fees for business advice or assistance?



Source: Ipsos MORI survey of farmers carried out on behalf of the National Audit Office

**NOTE**

Figures shown are percentages. Because of rounding, figures may not add up to 100.

**4.20** Since our earlier report the Agency has taken a number of steps to restore confidence in its work and to improve the service it provides:

- **More realistic information on when farmers could expect payment.** The adoption of 'claims based' processing has enabled Agency staff to deal better with specific queries from farmers, because the approach enables staff to obtain an overview of the farmer's claim and an understanding of where the bottlenecks lie and why.
- **The Agency has worked with, and responded to concerns of third parties.** For example, the Agency meets with a range of stakeholders, such as the National Farmers' Union and the Central Association of Agricultural Valuers, every fortnight to discuss the Agency's upcoming proposals and listen to farmer's concerns. As a direct result of these meetings, the Agency delayed proposed changes to claim forms after the National Farmers' Union explained that farmers were becoming familiar with the forms and did not want further changes.

- **The Agency has improved its communications generally with farmers.** Teams of whole case workers have helped in this regard, providing the farmers with realistic assessments of where problems to claims lie and expected delays to processing. The results of our survey showed that customer satisfaction rises significantly with improvements in communications with farmers.
- **Simplification of the application form and associated guidance notes.** The Agency simplified the 2006 scheme by pre-populating the claim forms where it was able to, and the Agency continued this process for the 2007 scheme. Farmers have commented positively that the 2006 claim form was simpler than that for 2005, but continue to say that the single payment scheme forms are still more complicated than those used for the previous schemes.

**4.21** Our follow up survey of farmers in 2007 indicates that the actions taken by the Agency have led to an improvement in confidence. Our survey of farmers found that confidence in the Agency's ability to deal with the following year's payment effectively has risen from 34 per cent in 2006 (in respect of 2006 scheme year payments due to be paid in 2007) to 58 per cent this year (in respect of 2007 scheme year claims due to be paid in 2008).

**4.22** Despite the progress made by the Agency, it still has some way to go before it can provide a similar standard of service to Germany. Figure 12 illustrates the information about their single payment scheme entitlements that farmers in Germany are already able to access through the internet. Our discussions with senior staff in the Agency indicate that they do intend to develop their computer systems to allow farmers to submit single payment scheme claims electronically and to enable them to have access to screens showing details of their payment details, the stage their claim has reached in the validation process, and customer account details. These facilities are, however, several years off and will be subject to funding and influenced by the scope of changes arising from the 2008 Common Agricultural Policy Health Check.

## 12 Farmers in Germany are able to see details of their single payment scheme entitlements online

Basis	Intervall	Region	Anzahl	Value of entitlement in €	Erhöhung pro ZA in €		Anteil NR > 20%	Art	OGS	zuletzt genutzt
				Wert pro ZA in €	Tahak	Zucker				
VKO	12 BFWNN 1-1	BBB	1,00	290,00			Nein	S	Nein	
EIG	12 BFWNN 2-9/75	BBB	7,75	290,00			Nein	S	Nein	
EIG	12 BFWNN 10-26/20	BBB	16,20	440,00			Nein	N	Ja	
EIG	12 BFWNN 31-101/60	BBB	70,60	440,00			Nein	N	Nein	
EIG	12 BFWNN 111-151/70	BBB	40,70	240,00			Nein	N	Nein	
Packet-ID 12 BFWNN									GVE	
EIG	12 BFWNN 163-163	BBB	1,00	4,300,00			Nein	B	43,00	
EIG	12 BFWNN 161-162	BBB	2,00	5,000,00			Nein	B	50,00	
<b>Summe</b>				<b>139,25</b>						

Ownership: Ownership Lease Sold

Reference number of entitlements

Number of entitlements with same value

FVP entitlements (yes/no)

Last use

Source: [http://www.zi-daten.de/ZidTest/za\\_regist.aspx](http://www.zi-daten.de/ZidTest/za_regist.aspx)

### NOTE

National Audit Office representation of information about single payment scheme entitlements that is available on the internet for farmers in Germany.

# APPENDIX ONE

## Our methodology

The main techniques we used to evidence the report included:

### Benchmarking

**1** Germany, Finland and England are the only European Union nations which used a dynamic hybrid model as the basis for the single payment scheme. Last year we employed consultants, RAND Europe, to investigate the introduction of the dynamic hybrid model and the administration of the scheme in Germany. This year we asked RAND Europe to re-examine the scheme in Germany and evaluate any changes since the first year. We also engaged them to look at the implementation of the single payment scheme in Finland which was introduced in 2006, a year after Germany and England. The purpose of the analysis was to assess the implementation and continuing administration of the scheme in Finland and Germany and draw comparisons with the situation in England. The research was conducted during July – September 2007 and involved desk research, using an extensive literature, press and document review, followed by interviews with government officials and stakeholders in Germany, Finland and the European Commission. A full copy of the report is available on the NAO website ([www.nao.org.uk](http://www.nao.org.uk)).

**2** Each devolved administration within the UK adopted its own process for delivering the single payment scheme. We liaised with the auditing bodies and the relevant agriculture departments of each administration with the aim of identifying how the single payment scheme operated in each area.

### Examination of key documents and reports

**3** We undertook a detailed examination of relevant management reports, including minutes and supporting papers of the project boards which were overseeing the scheme. We supplemented this work with interviews with the responsible staff at the Agency and within the Department. We considered what issues the Agency encountered, the effectiveness of the action it took in response, and the robustness of the programme and risk management arrangements the Agency had put in place.

### Semi-structured interviews

**4** We interviewed key officials from the Agency and the Department for Environment, Food and Rural Affairs responsible for IT development, single payment scheme policy and implementation.

### Survey of farmers

**5** In order to assess whether the Agency's performance in processing the single payment scheme had improved from a customer's point of view we resurveyed respondents to our previous report. We commissioned Ipsos MORI to conduct a telephone survey of those claimants who had agreed to be re-contacted from the previous survey. The aim of the survey was to establish satisfaction levels for the administration of the 2006 scheme and how they had changed from the previous year. In total, 500 farmers were re-contacted and the resulting data was weighted to reflect the farming population in terms of the amount of land they registered, Government Office Region and Severely Disadvantaged Area.



6 The survey was conducted in July and August 2007 and was followed by in-depth telephone interviews with ten farmers, two of whom we spoke to last year, and a further eight Ipsos MORI randomly selected who had agreed to be further interviewed during the survey. The summary report from Ipsos MORI is available on the NAO website ([www.nao.org.uk](http://www.nao.org.uk)).

## Consultation with third parties

7 To provide an overview of the single payment scheme and how it has affected both claimants and other agricultural industries we have consulted with a range of expert third parties, including agricultural valuers, suppliers, bankers and individual farmers and land agents:

- Agricultural Industries Confederation;
- Agricultural Law Association;
- British Bankers' Association;
- British Institute of Agricultural Consultants;
- Central Association of Agricultural Valuers;
- Country Land and Business Association;
- Farm Crisis Network;
- Institute of Agricultural Secretaries and Administrators;
- Moore Allen & Innocent LLP;
- National Association of Agricultural Contractors;
- National Farmers' Union;
- Peter Greenwood & Company;
- Public and Commercial Services Union;
- Royal Institute of Chartered Surveyors;
- Rural Stress Helpline formerly known as the Rural Stress Information Network;
- Windle Beech Winthrop; and
- Woodland Trust.

## APPENDIX TWO

# Survey and case examples of farmers' experiences of the second year of the single payment scheme

This appendix summarises the results of this year's survey of 500 of the farmers we surveyed last year. It also presents the results of ten in-depth telephone interviews we commissioned Ipsos MORI to undertake. Case studies 2 and 8 reflect the comments from two farmers whom Ipsos MORI interviewed last year and spoke to again as part of this year's study. The remaining eight case studies were picked by Ipsos MORI at random.

### Farmers surveyed consider the Agency to be processing claims more effectively this year compared with last

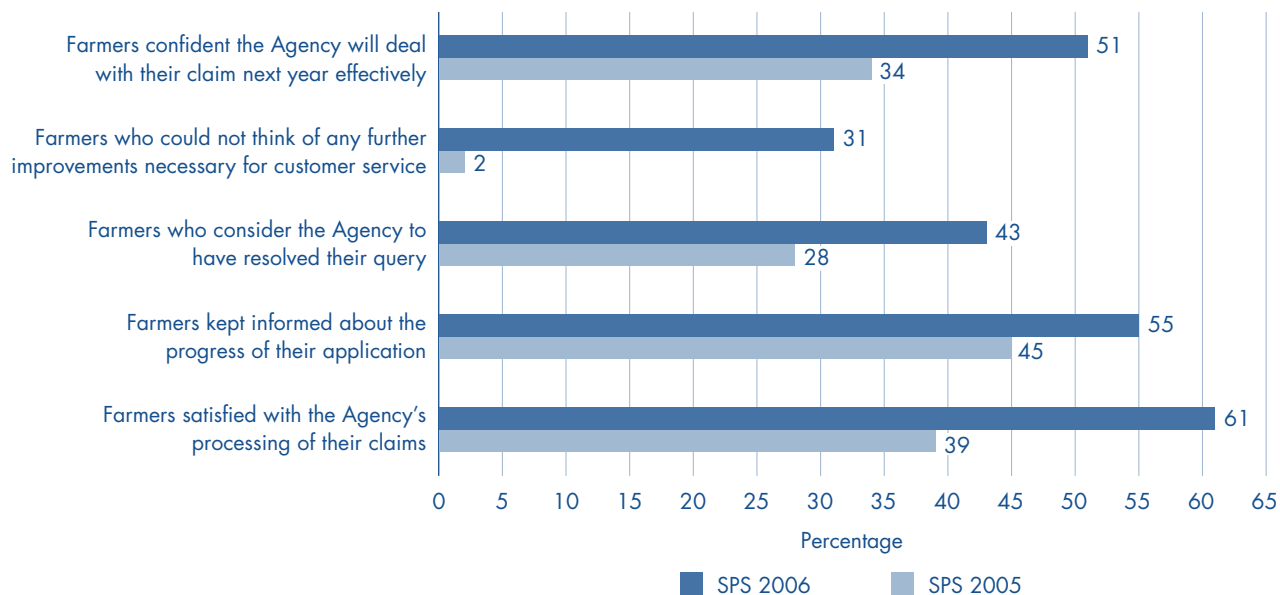
Last year, the results of the survey showed that the majority of farmers were dissatisfied in relation to the Agency's processes for registering land on the Agency's database, dealing with claim application forms, and communicating with farmers. There is a strong correlation between the levels of satisfaction and how well farmers were kept informed about the progress of their application. Of those who were satisfied with the process, 83 per cent stated that they were kept informed. This year's survey shows that overall farmers believe the Agency is processing the claims more effectively. Some of the main indicators of improving effectiveness are set out opposite (see Figure 13).

### The Agency can improve further

Our research found that the proportion of farmers surveyed who do not think that the Agency will deal effectively with their claim next year (see Figure 14) has fallen. There remains a significant minority of farmers who remain unconfident.

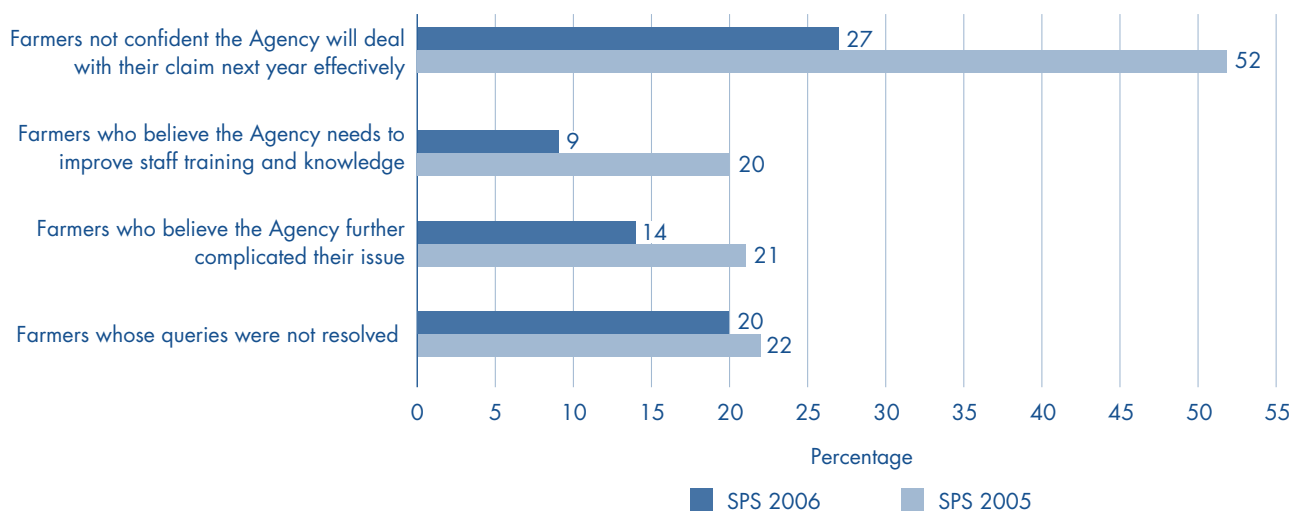
The Agency provided 78 per cent of farmers we surveyed with pre-populated application forms. Of these, 21 per cent believed that the information identifying their land was incorrect and 15 per cent believed that their entitlements were incorrect. In addition 18 per cent of all farmers believed that the land recorded on the Rural Land Register was incorrect for their 2006 claim. When we asked farmers when they could expect their payments, 43 per cent did not know, 11 per cent indicated cash flow difficulties and 10 per cent reported increased stress and anxiety as a result of the single payment scheme process.

**13** Comparison of surveys relating to SPS 2005 and SPS 2006



Source: IPSOS MORI Survey of farmers carried out on behalf of the National Audit Office

**14** Comparison of 2005 and 2006 surveys of farmers



Source: IPSOS MORI Survey of farmers carried out on behalf of the National Audit Office

## Case studies

We asked Ipsos MORI to conduct in-depth interviews with ten farmers. Our researchers were able to recontact two cases from the ten interviewed for last year's study

and picked the remainder at random. Whilst the sample is small, a number of issues highlighted are indicative of the issues still facing the Agency.

### CASE STUDY 1

Farm location: South West

Farm size and activity: Medium-small, Arable

Overall rating: Fairly satisfied

Type of farmer: Owner

Paid as at August 2007: Yes

This farmer was fairly satisfied overall. The farmer believed the application process was very easy, he was happy with the Agency's level of communication, and the final amount was in line with expectation. Whilst he acknowledged that he received the first payment earlier, he wondered, *"how is it an improvement to get less money sooner?"*

### CASE STUDY 3

Farm location: South West

Farm size and activity: Small – Grazing

Overall view: Fairly satisfied

Type of farmer: Owner

Paid as at August 2007: Yes

This is a small farmer and he was generally satisfied with the single payment scheme. He thought there was an awful lot of paperwork for just six acres. He thought it would be a lot easier for the Agency if they separated the farmers into those with holdings of greater than 10 acres and those with less. He believed that the amount he received was not worth the effort involved in applying.

### CASE STUDY 2

Farm location: Yorkshire and the Humber

Farm size and activity: Large – Arable

Overall view: Fairly Satisfied

Type of farmer: Owner

Paid as at August 2007: Yes

This farmer was fairly satisfied as the timing and the amount of the payment was what he had expected. He hired an agent to complete his forms, and although this was an expensive option he felt it was worth it to get rid of the hassle. Last year he had difficulty in completing the form, received conflicting advice from the Agency and experienced problems with mapping. In future, he would prefer to have a single person assigned to his case to avoid conflicting advice from various sources.

### CASE STUDY 4

Farm location: South West

Farm size and activity: Small – Grazing

Overall view: Neither satisfied nor dissatisfied

Type of farmer: Owner

Paid as at August 2007: Yes

*"The whole process has been developed by people who haven't been out to see what England is really like".*

This year the farmer found the application process to be a lot easier; she thinks this is probably because she has got better at it although she does feel the form has marginally improved from 2005 to 2006. Mapping problems have continued this year and attempts to solve the problem via correspondence or the helpline have not been fruitful. She believes that the Agency should provide acknowledgment letters for all correspondence received from farmers.

## CASE STUDY 5

Farm location: Yorkshire and the Humber

Farm size and activity: Large – Arable

Overall view: Very dissatisfied

Type of farmer: Owner

Paid as at August 2007: Yes

*“When you ring up and eventually get through and they say ‘oh no, that field doesn’t belong to you, that belongs to Mr Bloggs in another county’ and you think, well what’s he got? If I’ve got his? And who has got one of mine?”*

The main issue from both the 2005 and 2006 schemes have involved mapping where problems have occurred at random. On one application 700 hectares of land was missing. The uncertainty around the actual payment date created serious problems for business planning and prevented a number of business decisions.

## CASE STUDY 7

Farm location: North West

Farm size and activity: Medium-small – Livestock

Overall view: Fairly dissatisfied

Type of farmer: Owner

Paid as at August 2007: Yes

*“You seem to put a lot of time into the paper work and less time into farming; which is what you should be doing.”*

The farmer continues to experience mapping problems from her 2005 application which have had a direct impact on her 2006 claim. She has still not received payment for her 2005 claim. She has experienced additional stress from the application process and has been unable to devote the necessary time to her core business. She believed that contact with a caseworker was useful and should be the main source of information rather than general letters sent by the Agency, which tend to confuse matters.

## CASE STUDY 6

Farm location: East Midlands

Farm size and activity: Medium-small – Grazing

Overall view: Very dissatisfied

Type of farmer: Owner

Paid as at August 2007: Partially

*“It’s cost me time and money and I’m annoyed, but I’ve got the time, I’ve got the money and I don’t rely on their money. If I’d have been a full-time farmer and the same thing happened to me, I’d have been bankrupt.”*

This farmer found the process over complicated, due to the complexity and language of the forms and information booklets. Due to a death in the family this farmer became responsible for both his own application and that of the deceased’s estate. The Agency confused the two applications throughout the process and, in the end, made payments into the wrong accounts. The respondent was also frustrated with the communication process as he felt there was a lack of continuity and staff knowledge.

## CASE STUDY 8

Farm location: North West

Farm size and activity: Large – Livestock

Overall view: Very dissatisfied

Type of farmer: Tenant

Paid as at August 2007: Yes

*“Within a few minutes of speaking to the people it became evident that they had absolutely no idea about agriculture, farming, horticulture, anything. They were just people who’d been asked to man the lines and answer the phone. The stress and the strain were unimaginable. My husband had been suffering from ME a few years previously. He had got over the worst of it, but because of the stress involved, he became very tired and lethargic. He found it all upsetting, and so tiring to keep fighting all the time. There was just this unimaginable, interminable worry that you could not get away from, and dozens of sleepless nights.”*

This farmer has experienced problems for both the 2005 and 2006 schemes. The Agency produced incorrect map and entitlement information for the 2005 scheme, which the farmer corrected only to find the Agency repeating the errors in the following year. The lack of communication about her claim was particularly frustrating, as was the lack of knowledge by those at the Agency’s customer service centre. She did believe that the application form had improved but would still like all the figures quoted by the Agency to be in pounds rather than Euros.

## CASE STUDY 9

Farm location: East of England

Farm size and activity: Medium-small – Grazing

Overall view: Fairly dissatisfied

Type of farmer: Owner

Paid as at August 2007: No

Despite reports in the media about the improving situation concerning the single payment scheme her experience did not confirm this impression. She had not received her 2006 payment, which is about £250. She thought that the amount of time required to complete the form was disproportionate to the payment. She thought the Agency unnecessarily bureaucratic, and that the scheme was probably costing too much to administer.

## CASE STUDY 10

Farm location: Yorkshire and the Humber

Farm size and activity: Large – Agent

Overall view: Fairly dissatisfied

Type of farmer: Agent

Paid as at August 2007: Mostly

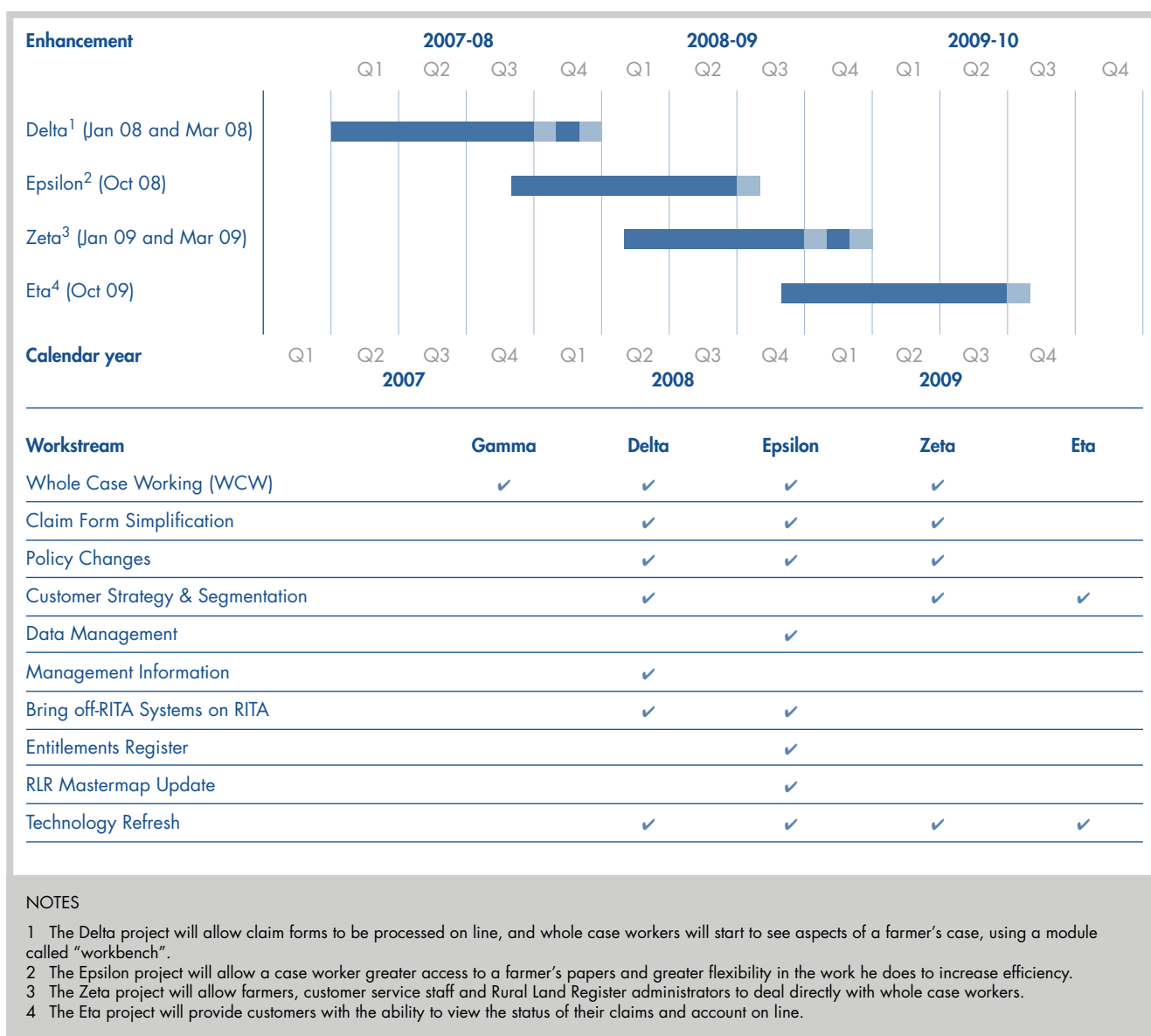
*“Trying to contact the RPA and receive responses to letters is also problematic and incredibly frustrating. The RPA staff at the call centre have very little knowledge or experience of farming.”*

Mapping continues to be a problem and errors have only been resolved by continual communication with the Agency. He had hoped the 2006 process would be much simpler but the reality had not lived up to these expectations. This was compounded by the fact that the applications were issued far too late.

# APPENDIX THREE

## The key developments the Agency is making to its systems to stabilise administration of the scheme

The Agency has planned four further major upgrades to its computer systems over the next three years which together will deliver the required outcomes from the ten key workstreams in the Agency's plan, in addition to the "gamma" release which went live in October 2007.



# APPENDIX FOUR

## International comparisons

1 Our consultants, RAND Europe, interviewed officials in Germany and Finland, and information about the scheme in Scotland, Wales and Northern Ireland was collated on our behalf by Audit Scotland, the Wales Audit Office and Northern Ireland Audit Office. Other countries

also experienced some problems. Finland, for example, implemented the scheme for the first time in 2006 and had some problems with computer systems, although this did not lead to any delay in payments. All the other countries, however, paid farmers earlier than in England.

### 15 A comparison of the implementation of the single payment scheme in England with Germany, Finland and the home nations for the 2006 scheme

	England	Northern Ireland	Scotland	Wales	Germany <sup>1</sup>	Finland <sup>1</sup>
Scheme Type	Dynamic Hybrid	Static Hybrid	Historic	Historic	Dynamic Hybrid	Dynamic Hybrid
Total number of claimants	109,000	39,872	21,259	17,955	366,000	68,686
Change in the number of claimants since 2005	-7,474	-1,828	-43	+385	-12,000	-78
Total value of payments (million)	£1,520	£232	£398	£222 <sup>2</sup>	£3,672 (€5,419) <sup>3</sup>	£334 (€493)
Minimum payment	£0	£0	£0	£0	£68 <sup>4</sup> (€100)	£34(€50)
Minimum field size (hectares)	0.1	0.1	0.1	0.1	0.1	0.05
Minimum holding size (hectares)	0.3	0.3	0.3	0.3	0.3	0.3
Partial payments made	Yes	No	No	No <sup>5</sup>	Yes (2 Länder only)	No

Source: National Audit Office

#### NOTES

- 1 Information about the German and Finnish schemes provided for us by our consultants RAND Europe.
- 2 Figure for post modulation.
- 3 Budgetary ceiling for 2006, as no final payment information was provided.
- 4 Applying the exchange rate €1 = 0.67770 (rate at 30 September 2006). EU Regulation 1290/2005 requires Member states to convert aid expressed in euros into the national currency using the most recent exchange rate set by the European Central Bank prior to 1 October of the year for which the aid is granted.
- 5 There were some partial payments to farmers with cross border land which were dependent on additional information from the Agency (DTR).

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