



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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# 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.