National Audit Office

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A Second Progress Update on the Administration of the Single Payment Scheme by the Rural Payments Agency

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A Second Progress Update on the Administration of the Single Payment Scheme by the Rural Payments Agency

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Amyas Morse

Comptroller and Auditor General

National Audit Office

12 October 2009

This report is our second update on the progress made by the Rural Payments Agency in administering the Single Payment Scheme in England. In addition to scheme administration, it examines the recovery of previous overpayments, and the scheme's governance by the Department and the Agency.

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Summary

1 In 2005 the Single Payment Scheme (the scheme) was introduced by the Member States of the European Union as part of the Common Agricultural Policy reforms which replaced 11 separate crop and livestock based production subsidies to farmers with a single payment based on land area. European Union (EU) Regulations provided some discretion as to how the scheme could be implemented within individual countries. The Department for Environment, Food and Rural Affairs (the Department) introduced a 'dynamic hybrid' system in England whereby payments are based partly on historical data and partly on a flat rate per hectare. This was the most complex model available and only England, Germany and Finland chose to adopt it, although Germany and Finland are introducing the 'dynamic' element in 2010 and 2011 respectively. Total payments to farmers in scheme year 2008 amount to £1.63 billion.

2 The Rural Payments Agency (the Agency), which administers the scheme on behalf of the Department, experienced considerable difficulties in processing applications and paying farmers in the 2005 and 2006 schemes. These difficulties generated a large backlog of work which it has struggled to clear alongside the annual scheme processing cycle. In the 2005 scheme many farmers were paid the wrong amounts late, causing stress and cash flow problems to one in five farmers. In 2006, scheme administration improved and over 96 per cent of payments were made by 30 June 2007. This met the target set in EU legislation, although many payments were still inaccurate. Such problems can result in disallowance, whereby the European Commission declines to fund a percentage of payments if it concludes that the Agency has not complied with the regulations of the scheme, and also sets penalties if payments are made beyond the targets set in EU legislation. The Department set aside £292 million for potential disallowance and penalties for the first two years of the scheme.

3 This report is our second update on the progress made by the Agency in administering the scheme in England. We reported in October 2006 on the problems experienced by the Agency in administering the 2005 scheme. We also reported in December 2007 on the Agency's progress in administering the 2006 scheme and on its efforts to stabilise future scheme administration. This report examines further progress made, including the recovery of previous overpayments, and the scheme's governance by the Agency and the Department.

Main findings

On remedying the problems with processing claims

4 In early 2007, following a review of the scheme systems by IT specialists, the Agency concluded that it would be better value for money to upgrade the existing IT systems rather than to procure new ones. In April 2007 it set about upgrading the existing systems in order to transform scheme administrative performance by 2010. The upgrades to date have improved the stability of the IT systems and allowed farmers to be paid earlier than in previous years. The Agency paid out over 96 per cent of the 2008 scheme payments to farmers by mid-May 2009, compared to only 80 per cent by the same month for the 2006 scheme.

5 The lack of sufficient progress in aligning the design of the scheme's systems to operational needs has, however, hindered efficient administration. In the absence of reliable records we estimate that the IT costs for the scheme, which includes recovery work, maintenance costs, upgrades in response to policy and other changes, as well as overheads, amounted to £130 million between April 2007 and March 2009. The Agency considers that the high cost reflects the complexity of the scheme in England, but when estimated earlier spending on scheme IT of £220 million is taken into account, we consider the scheme's IT to be very expensive. In addition:

- heavy customisation of the IT systems has resulted in very complex software which is expensive to modify and maintain, and has increased the risk of obsolescence. For example, any further upgrades in response to policy initiatives from the European Commission will be expensive to implement; and
- around a third of the changes made to the finance system have been 'invasive', requiring changes to the source code, although the Agency did not keep an accurate record of all the changes made.

6 The degree of changes to the system has created other problems. The involvement of Agency staff in the original implementation of the system blurred responsibilities with its contractors, leading to a lack of clarity over who is liable if the system goes wrong. In view of the heavy customisation of systems since then, we have been unable to gain adequate assurance over what redress would be available for any potential system failures in future. Despite the changes that have taken place, scheme payments show little sign of increased accuracy, with estimated overpayments of £24.3 million and underpayments of £38.8 million in scheme year 2008.

7 The complexity of the systems has contributed to a very high average cost of £1,743 for administering each claim in 2008-09 – a 22 per cent increase on 2005-06 when the scheme was introduced. Staff costs represent 41 per cent of the cost per claim and the remainder comprises IT and administrative cost overheads. Between 2007-08 and 2008-09 the Agency managed to reduce staff costs by £3.7 million but other scheme administrative costs increased by £8.8 million. The high cost per claim is a reflection of the unforeseen additional costs of £304 million incurred on the scheme by the Agency between April 2005 and March 2009. Once the £27 million cost of bad debts and changes in disallowance are included, the cost per claim in England is even higher. In comparison to the administration cost in England of £1,743 per claim, the cost per claim in Scotland was only £285, although we have not been able to establish what proportion of the difference is due to additional complexity and what proportion due to the way it was implemented.

8 Many of the contracts for the ongoing support of the Agency's scheme IT systems are due to end in 2009. The Agency is exploring options to procure extended support, and it has estimated that this would cost £12 million for the next two years. The Agency is very dependent on external support, with over 100 IT contractors based permanently in its offices as part of a contracted IT service. This dependence, combined with the need to renew the support contracts quickly, and the difficulty in finding other potential contractors who could support the bespoke systems, will undermine the Agency's ability to get value for money.

On the accuracy of processing claims and the recovery of earlier overpayments

9 Overpayments to farmers since 2005 are likely to be between £55 million and £90 million, and the Agency has already repaid an estimated £85 million to the European Commission for potential overpayments. The Department had notified the Committee of Public Accounts in February 2008 that overpayments were estimated to be £37 million, although the Chief Executive of the Agency reported to Ministers in the same month that the actual figure was around £60 million. The Departmental Accounting Officer has written to the Chairman of the Committee of Public Accounts to clear up this misunderstanding. The Agency estimates that significant further overpayments are likely to have been made since February 2008.

10 We concluded that seeking to correct earlier errors in processing claims and thus to establish the extent of overpayments has cost the Agency approximately £119 million (staff costs and associated overheads). As yet, however, there is still no clear picture of the degree of inaccuracy in the data. The work to correct 34,500 cases in 2007 took over a year to complete and did not identify all errors. In the absence of proper documentation or quality control, not all original payment errors were corrected, necessitating a further tranche of corrections on 27,757 cases in 2008 and early 2009. During the summer of 2009, National Audit Office and Agency testing of outstanding overpayment debts showed high error rates, such that the Comptroller and Auditor General qualified his opinion on the Agency's financial accounts because of significant uncertainty over remaining debts.

11 In addition to poor oversight of correction work, a number of Agency management failures, such as a lack of an effective strategic approach, poor co-ordination of different teams and a wider lack of capacity, have resulted in slow progress in overpayment recovery. By the end of May 2009, the Agency had invoiced less than half of the farmers believed to have been overpaid, and it had only recovered £25 million of overpayments. The Agency considers it unlikely that it will recover £4.6 million, including in 13 cases where overpayments were each over £50,000. Even straightforward mistakes have taken a long time to resolve. The Agency made duplicate payments of over £50,000 to 19 farmers in August 2006, but made no recoveries until April 2008 (apart from £2,000 from one farmer in December 2007), and in July 2009 £106,000 was still outstanding.

12 The Agency has been slow to notify farmers of overpayments, and the lack of information in the letters sent out, and uncertainties over the calculations made, have led to further queries. In our survey, 58 per cent of farmers invoiced for overpayment felt that the Agency's approach to recovering overpayments had been 'unreasonable'.

On the governance of the scheme

13 In January 2008 the Department and the Agency made a number of assurances to the Committee of Public Accounts that the problems with the original implementation of the scheme were largely resolved and that progress was well underway to rectify mistakes and recover overpayments. We consider that this report demonstrates that there is still a long way to go and that progress has been slow and costly.

14 According to Departmental oversight performance reports and the evidence of achievement against Ministerial targets, the Agency has made strong progress in the last year. Thirteen out of 15 assessments between October 2008 and March 2009 for the relevant five targets were 'green'. However, some of the assessments against individual targets are not an accurate reflection of performance, and collectively the targets do not cover all the key aspects of the Agency's activities.

15 The slow progress in identifying and recovering overpayments has not been helped by a lack of experienced senior officials to support the Chief Executive. The Agency has experienced a high turnover of senior staff, including two changes of Chief Operating Officer during 2008. The Departmental and Agency Boards responsible for overseeing performance and the Agency's Audit and Risk Committee have not had sufficient information on which to challenge progress effectively. In September 2009 the Department announced it would undertake a wide-ranging review of the operational capability of the Agency.

Value for Money Conclusion

16 The Department and the Agency have brought forward payments due to farmers under the single payment scheme but the cost of administration – at an average of £1,743 per claim – is very high and there are no signs of it coming down. Efficiency has not improved, the IT systems are expensive and cumbersome, and the information in those systems is still inaccurate. The additional £304 million staff costs, the £280 million set aside for disallowance and penalties, and the £43 million anticipated irrecoverable overpayments, shows scant regard by the Department and its Agency for the proper management of public funds, and the ongoing administration of the scheme does not represent value for money. Without any alternative system to fall back upon, the Agency appears to have little choice but to continue with the existing IT systems in the short term. The relative inexperience of the senior management team in the Agency and difficulties in establishing an accurate assessment of progress have hindered the scrutiny of expenditure and the development of any alternative approaches. The fault does not lie with the Agency alone as the Department has not adequately engaged with the issues we highlighted in our earlier reports about this scheme. The review announced by the Department in September 2009 is a late response to longstanding issues.

17 In January 2008 the Department assured the Committee of Public Accounts that the Agency was resolving the problems with this scheme and that good progress was being made in recovering overpayments. These assurances proved optimistic and the Department still does not have sufficient grip on the issues being faced by the Agency. Until the Department and the Agency address the ongoing weaknesses in managing the scheme, there is a high risk that costs will continue to rise, and that the errors and inaccuracies will increasingly become embedded within the data. The Comptroller and Auditor General qualified his audit opinion on the Agency's financial accounts for 2008-09 because of significant uncertainty over the overpayments still outstanding. Without prompt action, continued uncertainties over its financial records leave the Agency at risk of further qualifications in the future.

Recommendations

18 This is our third review of the single payment scheme. Over the period 2007 to 2009, the Department and the Agency have brought forward payments to farmers, but they have not adequately addressed the earlier recommendations from the Committee of Public Accounts and they still have not gained adequate control of the scheme. We consider the underlying problems to be the following:

- underestimation of the scale of work required to remedy the problems in determining the amounts due to farmers each year and the sums to be recovered. The high turnover of senior staff has allowed the culture of over-optimism in reporting that we originally identified to persist;
- inadequacies in record keeping and management information make it difficult for the Agency's Board and the Department to measure progress accurately;
- there is scant regard to protecting public money. The cost of administering each claim remains very high and there has been little effective action by the Department or the Agency to streamline costs or to develop any alternative approaches to reduce the dependency on the existing IT systems;
- at Departmental level the focus was on monitoring the service to farmers provided by the Agency, and the implementation of policy initiatives from the European Commission without sufficient regard to known key risk areas, such as overpayments and the complexity of the IT systems; and
- a lack of detailed engagement with the operational issues faced by the Agency and personal ownership of them within the Department.

19 To address these problems, we recommend the following action:

i Stabilise the current position

- Determine what is needed to keep existing systems operational and consider the business case for investment in a new IT support system. Establish how much it will cost to maintain the existing IT systems for the next five years, and quantify the cost of having to respond to potential European Commission policy changes, as well as the risk of significant system failures because of a lack of support.
- Tidy up the data. Experience shows that the Agency is unlikely to do this in an acceptable timeframe. Therefore the Department should commission an external organisation to work with the Agency to compile an accurate record for each claimant.
- Establish the full extent of overpayments and determine action within three months of this report. Where overpayments cannot readily be offset against future scheme payments, contract out the debt recovery arrangements and notify farmers likely to have been overpaid accordingly.

ii Develop alternative options that could be used to process payments instead

- As part of its current review, the Department should determine the potential costs and benefits of introducing a longer term contract or service level agreement with an organisation to develop and operate a suitable payment system. The agreement would need to specify clear performance standards and that the organisation would be responsible for the cost of system changes in response to any future policy changes by the European Commission.

iii Resolve the management issues

- The Department should work urgently with the Agency to resolve management capability issues.
- Consider separating out other services that the Agency currently administers, such as the British Cattle Movement Service, to free up time for senior managers to address the difficulties with the IT systems and the inaccuracies in the data. Management of the other services could be transferred to other agencies sponsored by the Department.
- Put in place a target regime for the Department and the Agency that focuses on the key risks associated with this scheme. Clear targets and metrics for the Department and its accredited organisation would help to support a more robust and formal service agreement.
- Agree the detailed actions, budgets and deadlines necessary to resolve the problems with the IT systems and the data quality so that progress can be measured effectively.
- Keep a proper audit trail of each action taken.

Part One

Introduction

1.1 The single payment scheme (the scheme), introduced by the European Union (EU), entitles farmers to claim a payment subject to maintaining their land in good agricultural and environmental condition, and for complying with European Union legislation relating to the environment, animal and public health and animal welfare. EU Regulations covering the scheme up to 2013 provided some discretion as to how the scheme could be implemented within countries, and the Department for Environment, Food and Rural Affairs (the Department) opted to introduce a 'dynamic hybrid' system whereby payments are based partly on historical data and partly on a flat rate per hectare. This was the most complex model available and only England, Germany and Finland have adopted it, although Germany and Finland are introducing the 'dynamic' element in 2010 and 2011 respectively. The scheme is administered by the Rural Payments Agency (the Agency) and it is due to operate until at least 2013, by which time the European Union may have agreed revisions to the Common Agricultural Policy.

1.2 The Agency experienced considerable difficulties in processing applications and paying farmers in the 2005 scheme, and generated a large backlog of work which it has since struggled to address alongside the annual scheme processing cycle. Our first report[1] in October 2006 was critical of the implementation of the scheme, but it noted that the Agency's management team was developing a recovery campaign which the Agency expected to be fully implemented by April 2008. Our second report[2] in December 2007 noted that the new management team had instilled a clearer sense of direction and drive amongst the staff to improve performance. The report stated that the errors in the first year of the scheme were largely repeated in the second year and the Agency had not yet recovered the sums from those farmers who were overpaid. Our assessment of the progress made by the Department and the Agency in implementing the recommendations of the Committee of Public Accounts is at Appendix 2. In September 2009 the Department announced it was undertaking a wide-ranging review into the financial and operational functions of the Agency, due to be completed in March 2010.

1.3 This report follows up the earlier examinations of the scheme. It focuses on the actions taken by the Agency to improve scheme IT and operations and to quantify and recover overpayments to farmers. The report also examines the adequacy of the governance and management oversight of the scheme by the Agency's senior staff and officials from the Department. Details of the methodology used are at Appendix 1.

1 *The Delays in Administering the 2005 Single Payment Scheme in England*, HC 1631 Session 2005-06, 18 October 2006.
2 *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*, HC 10 Session 2007-08, 12 December 2007.

Part Two

The administration of the 2008 single payment scheme

2.1 In its 2008 report, the Committee of Public Accounts identified two key issues that the Agency needed to address in order to improve the service to farmers. These were:

- The Agency's service to farmers was undermined by weaknesses in its IT systems, such as its inability to provide farmers with a predicted amount and payment date to assist them with their financial planning. Restoring farmers' confidence would depend on the Agency's ability to process claims promptly and to provide accurate information on the progress of each claim, including the likely payment date.
- Reducing the cost of processing claims depended on greater automation in processing small, standard claims, use of e-channels and reductions in staff costs through reduced overtime and shift working. The Agency's future business plans should set targets for the implementation of its efficiency measures and the savings it expected to achieve.

Progress in improving the IT systems

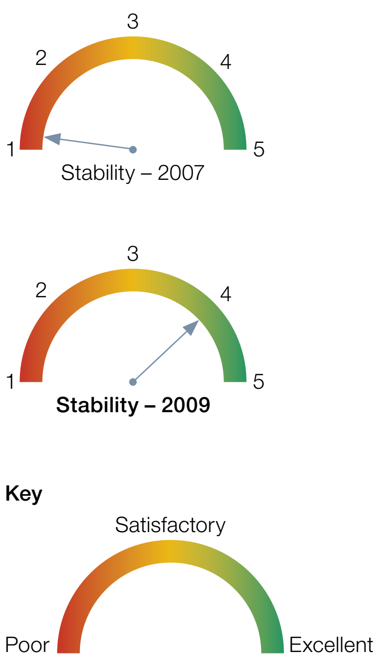
2.2 In 2007 the Agency embarked on a new three-year recovery campaign, which included an IT plan to upgrade elements of the scheme's systems. The main focus of the work was on a fundamental re-design of the IT systems used to process payments to change it from a task-based approach, whereby different staff would work on the same claim, to whole case working where a member of staff would oversee the same claim all the way through. This change in approach aimed to improve efficiency and to enable staff to have a clearer overview of the progress of each claim. Customers could expect to receive earlier and more accurate payments and improved information about the status of their claim.

2.3 Since October 2007 four major IT upgrades have been rolled out, broadly on time and properly tested before going live, with the latest upgrade completed in April 2009. At the January 2008 hearing of the Committee of Public Accounts, the witnesses indicated that the IT faults had largely been rectified and that the upgrades would resolve outstanding issues quickly. In response to questions from the Committee, the Chief Executive confirmed that the changes already made would enable the system to perform as would be expected and that the final upgrades on case working would be in place by April 2008.

2.4 In 2009 the Agency commissioned Gartner (IT research and benchmarking specialists) to conduct a follow-up review of their 2007 assessment of the scheme's IT systems. Their overall finding is that "whilst there is evidence of progress in some areas since the previous review [January 2007], there is much work to do before the scheme systems can be deemed appropriate". They found that the systems are much more stable than previously, with marked improvement in some aspects of usability and functionality. But system design has improved very little, such that a gap still remains between the systems' capacity and the level needed for the Agency to achieve the scheme's operational requirements efficiently (**Figure 1**).

Figure 1

Agency progress against areas specified in the 2007 Gartner Review



Source: Gartner Review of Agency's scheme core IT systems, May 2009

NOTE

The scales were not used by Gartner in their original 2007 review – they illustrate relative rather than absolute progress.

2.5 Limited progress in aligning the design of the scheme's systems to operational needs means that necessary changes are likely to be more time consuming and costly. Manual 'workarounds' are still required, such as where farmers claim from the fruit, vegetable and potato entitlement[3]. The systems allow farmers to be better informed about the status of their claims, but the date and amount of their payments are still largely not predictable. From our survey, 41 per cent of farmers who contacted the Agency about their 2008 scheme claim were satisfied with the way their query was handled, but 48 per cent were dissatisfied.

2.6 The original Gartner review in 2007 also examined the risk profile of various options (to the Agency) and, while it recommended a radical overhaul of core system design, the review did not recommend a wholesale replacement of the Agency's IT systems, as this was deemed high risk for the organisation at that time and very unlikely to be successful. Subsequently, the Agency concluded that it would be better value for money to upgrade the existing systems rather than to procure new ones. The subsequent upgrades to the systems have increased the complexity and uniqueness of the software. The main two systems supporting the scheme are RITA, which is used to process each farmer's claim, and Oregon, which is used to process payments. Both have been heavily customised, which is likely to make maintenance, repair and further upgrade more expensive and challenging. In the case of the Oregon system, around a third of the upgrade work has been 'invasive', whereby specialists have had to alter the source code provided by the software company Oracle. The complexity of the challenge has been compounded by a lack of adequate documentation to record some of the changes made. The involvement of Agency staff in the original implementation of the scheme blurred responsibilities with its contractors, leading to a lack of clarity over who is liable if the systems go wrong. In view of the heavy customisation of systems since then we were unable to gain sufficient assurance from this review over what redress would be available for any potential system failures in future.

2.7 The extent of the changes and upgrades has increased the dependency of the Agency on specialists to maintain and protect the IT systems. There are 54 software and hardware elements that make up the scheme's four key systems (RITA, Oregon, Rural Land Register and Customer Register) that require ongoing support. It is likely that 29 of these 54 will no longer have support by the end of 2009, and at the time of our audit the Agency did not know when a further 16 software packages/hardware will lose full support. It is difficult to assess the seriousness of the risk, as the systems' complexity makes it difficult to determine the extent of interaction between them. The Agency is exploring options to procure extended support to minimise the risk as part of its review of Business Continuity and Disaster Recovery. It has estimated that supporting RITA and Oregon to at least 2012 would cost an additional £12 million.

3 Fruit, Vegetable and Potato entitlements have been allocated to approximately 7,000 farmers.

Cost of IT systems

2.8 It is difficult to establish the precise cost of the scheme's IT systems as some of the systems, such as Oregon, Customer Register and Rural Land Register, are also utilised for other aspects of the Agency's work (including joint programmes with other bodies sponsored by the Department). Drawing on an analysis undertaken by the Agency, the National Audit Office estimates that some 72 per cent of the Agency's IT costs were used on scheme activity in 2008-09. Assuming this proportion applied in previous years, and by apportioning IT costs accordingly, we have estimated that the implementation and development costs of the scheme's IT systems have now amounted to nearly £350 million, including almost £130 million over the last two years (i.e. since the start of the recovery campaign).

2.9 In April 2007 the Department allocated £40.1 million for the three-year recovery campaign and the Agency allocated a further £15.6 million to the campaign to cover the implementation of previously announced EU policy. It is difficult to distinguish the boundaries between the IT work for the recovery campaign and the IT work for the scheme as a whole, as the recovery campaign's ten broad objectives were not clearly defined. The Department and Agency did not subsequently monitor progress and costs against objectives, and we found that significant costs relating to the broad objectives had been charged to other budgets, for example in developing management information and a customer strategy. The Agency explained that some work, although related to the objectives, was over and above what was initially intended under the recovery campaign. The Chief Executive assured the Committee of Public Accounts in January 2008 that the Agency had no intention of spending more than budgeted, but in view of the difficulties in determining accurately what the recovery campaign included we were unable to establish whether this commitment has been met.

2.10 Contractual relations with the main contractor, Accenture, appear to have improved. The Agency has nevertheless spent £84 million on the firm's services in the last two years according to its accounting records. The expenditure on Accenture is against a forecast spend reported to the Committee of Public Accounts of £36 million for the same period. There are over 100 Accenture contractors working full time for the Agency, most of them based permanently in the Agency's offices. The average cost of these contractors was over £200,000 per person in 2008-09.

Progress in reducing the cost of processing claims

2.11 In its January 2005 Business Case the Agency had anticipated that the introduction of the IT systems for the scheme would enable a reduction of Agency staff numbers of 1,813 full time equivalent posts by April 2007, and thereafter for numbers to remain steady. Since April 2005 staff numbers have in fact remained on average over 1,000 higher than the Agency's forecast, in part as a result of difficulties with the 2005 scheme.

2.12 It is difficult to establish an accurate estimate of staff time on the scheme as the Agency does not use timesheets. Drawing on Agency analyses of how staff allocate their time (separate to the one conducted on IT costs explained in paragraph 2.8), 67 per cent of the Agency's business relates to the scheme. Assuming this percentage applies across the scheme years, at 31 March 2009 there were 361 more staff working on the scheme than worked on it at its start in 2005. This is despite a decline in scheme staff numbers of approximately 470 full time equivalent posts since 2006-07, of which 352 were in 2008-09 (**Figure 2**). The full cost of the unanticipated scheme staff employed (i.e. staff costs plus IT and administrative overheads), over the last four years, has amounted to £304 million[4].

Figure 2
Agency staff working on the scheme

Source: National Audit Office analysis of the Agency's data

NOTE
The number of full time equivalents is an average over the year.

4 The average annual cost for each unanticipated member of staff from 2005 to 2009 has been £61,200. The high cost reflects the fact that on average IT and administrative overheads constitute about 60 per cent of costs.

2.13 The decrease in staff numbers working on the scheme in 2008-09 has reduced staff costs by some £3.7 million. This coincided with a £8.8 million increase in other administrative costs, such as accommodation and foreign exchange costs, over the same period. Overall, assuming the proportion of scheme to Agency business has remained constant at 72 per cent for IT costs and 67 per cent for non-IT costs, the Agency increased the cost of processing the scheme by £4.8 million from £180.9 million in 2007-08 to £185.7 million in 2008-09. Taking into account the marginal reduction in the number of farmers claiming under the scheme (numbers reduced by 200 to 106,500 in 2008-09), the full staff cost per claim has increased by three per cent to £1,743.[5] This represents a 17 per cent increase on the scheme administration cost per farmer in 2006-07, and a 22 per cent increase since 2005-06 (**Figure 3**). The unique nature of the scheme in England makes comparisons difficult, but Scotland's administration costs of £285 per claim[6] are much lower over the same period. We have not been able to establish what proportion of the difference between England and Scotland is due to the additional complexity of the scheme in England and what proportion is due to the way it was implemented by the Agency. The Agency expects to reduce its reliance on temporary staff further in 2009-10, thereby reducing costs and increasing efficiency.

Figure 3
Administration costs of the scheme – April 2005 to March 2009

	Financial year				
	2005-06 £000	2006-07 £000	2007-08 £000	2008-09 £000	Total £000
IT costs[1]	63,323	57,125	63,348	63,073	246,869
Staff costs[2]	76,297	78,430	79,421	75,680	309,828
Administration[3]	27,191	26,598	38,149	46,902	138,841
Processing cost	**166,811**	**162,153**	**180,918**	**185,655**	**695,538**
Number of claimants	**116,474**	**109,100**	**106,700**	**106,500**	***438,774***
Processing cost per claimant	**1,432**	**1,486**	**1,696**	**1,743**	***1,585***

Source: National Audit Office analysis of Agency audited accounts and other data

NOTES
1 IT depreciation, amortisation, running costs and contractors.
2 Permanent staff and agency (scheme process) staff costs.
3 Accommodation, foreign exchange, communication, and other non-IT running costs.

5 In March 2007 a Departmental review of the Agency (the Hunter review) estimated that the average cost of processing a claim in 2005 was £750. Our methodology in measuring cost per claim uses full scheme staff costs (salaries and wages, employers' national insurance contributions and superannuation etc), apportioned IT costs, and apportioned overheads (administrative costs less notional costs) divided by the number of farmers claiming scheme payments in the equivalent year.
6 The cost per claim for Scotland is based on a population of approximately 22,000 claimants who submit a single application form, which is the application route for a range of schemes including the Single Payment Scheme. The figure of £285 includes all Single Payment Scheme costs and associated overheads, as well as some costs related to other minor schemes.

2.14 The European Commission can withhold a proportion of funding for the scheme from Member States (termed disallowance) if payments include errors or if the administration of the scheme has not complied with the requisite regulations. In addition, if payments are made late, the Commission can impose flat rate penalties separately from disallowance. The Department set aside £139 million for such risks in its 2005-06 financial accounts in respect of payments under the 2005 scheme in England.[7] The Agency met the European Commission target in the following year to pay over 96.14 per cent of the scheme fund by 30 June 2007 but the Department increased the amount set aside for disallowance and potential late penalties by a further £153 million, as it was likely that the errors in 2005 had been repeated in 2006 (**Figure 4**).

2.15 Since 2007 the Department has been negotiating with the European Commission over the disallowance to be imposed, with a final decision expected in 2010 or 2011. The Department considers that very little disallowance will be imposed for the scheme years 2007 and 2008, but that any charge that does arise for these years (once the Commission has announced its intentions) can be met within the amounts already set aside. In 2008 the Department paid the Commission's £70 million penalty for late payments in the 2005 scheme, and the Commission disallowed £5.4 million for a shortfall in 2005 farm cross-compliance inspections.

Figure 4

Costs of disallowance and those debts not expected to be recovered between April 2005 and March 2009

	2005-06 £000	2006-07 £000	2007-08 £000	2008-09 £000	Total £000
Amount set aside/paid for disallowance and penalties[1]	139,000	152,600	4,100	(15,600)	280,100
Overpayments: debts not expected to be recovered	–	–	700	4,600	5,300
Irrecoverable overpayments paid back to European Commission[2]	–	–	–	38,000	38,000
Total	**139,000**	**152,600**	**4,800**	**27,000**	**323,400**

Source: National Audit Office

NOTES

1 The increase/decrease in provisions and penalties in the Department's accounts. For technical accounting reasons the provision was reduced in the 2008-09 accounts.

2 In the absence of reliable records, we estimate that the Agency has returned £85 million to the European Commission relating to overpayments, £60 million in advance of recovery. The Agency estimates that £22 million of this £60 million is recoverable from farmers and the remainder will be funded by the UK taxpayer.

7 Amounts 'set aside' include both provisions (recognised in the income and expenditure account and/or balance sheet) and contingent liabilities (recognised in a note to the accounts).

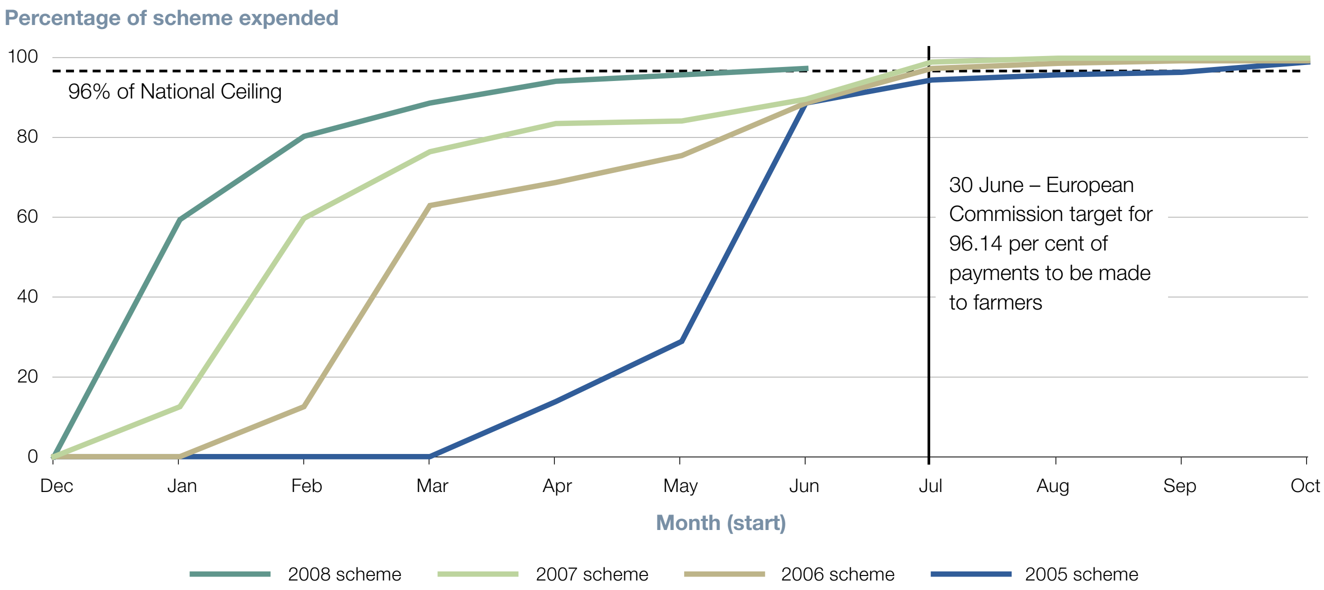
The service provided to farmers during the 2008 scheme

2.16 The performance of the Agency in bringing forward the payments due to farmers has continued to improve since we last examined this issue. We reported in December 2007 that the Agency had paid out nearly 80 per cent of the £1.52 billion funds for the 2006 scheme by the beginning of May 2007, compared to only 30 per cent of the 2005 scheme funds by the same date in 2006. As **Figure 5** shows, payments have continued to be made more quickly and the Agency reported on 13 May 2009 that total payments for the 2008 scheme had reached £1.56 billion, equivalent to 96.18 per cent of the estimated total fund of £1.63 billion.

2.17 Farmers appear more satisfied with the administration of the scheme than in previous years. Seventy six per cent of farmers in our survey (conducted in April 2009) stated that they were satisfied with the way the Agency had administered the 2008 scheme, compared with our 2007 results when 61 per cent of farmers were satisfied with the administration of the 2006 scheme, and in 2006, when just 39 per cent were satisfied with the administration of the 2005 scheme. The increased satisfaction is due, in large part, to greater certainty amongst farmers over when they were likely to be paid: 77 per cent of farmers said that under the 2008 scheme they were paid either when expected or earlier than expected.

Figure 5
Payment of scheme funds by the Agency

Scheme total value paid by scheme year



Source: Rural Payments Agency

2.18 The Agency has not yet achieved its recovery campaign target of paying 96 per cent of claims by the end of March each year. And it has not yet reached the standard of the other payment bodies in the United Kingdom, which adopted a simpler payment model. By the end of December 2008, 59 per cent had been paid in England, against 87 per cent of scheme funds in Wales, 83 per cent in Northern Ireland and 76 per cent in Scotland. Many of the farming industry representatives we contacted raised concerns that payments for farmers in England lagged behind those to farmers in the other home countries and in Europe. In our survey, 23 per cent said that their payment was later than expected.

2.19 Bringing forward the payment timetable could increase the risk of administrative mistakes. Our audit of scheme payments over the last three years confirms a continuing level of error close to the limit set by the European Commission, and exceeding this tolerance threshold could trigger disallowance (**Figure 6**).

Figure 6
Results of the National Audit Office's audit of scheme payments[1]

Scheme year	No. of payments tested	Errors found	Estimate of total overpayments made based on errors found £m	Estimate of total underpayments made based on errors found £m	Estimated error that is tolerable to European Commssion[2] £m
2006	118	19	27.2	30.7	33.8
2007	118	25	21.1	30.2	28.8
2008[3]	102	18	24.3	38.8	30.6

Source: National Audit Office analysis

NOTES
1 Testing during National Audit Office's audit of European Agricultural Funds.
2 The level of error officially tolerated by the European Commission. This tolerance relates in practice to the overpayment error only.
3 Results are provisional. Testing is completed proportionately to value of payments made from October to September. By August 2009 102 from the sample of 118 had been tested and some audit queries on the potential errors have yet to be resolved.

Part Three

Progress in recovering earlier overpayments

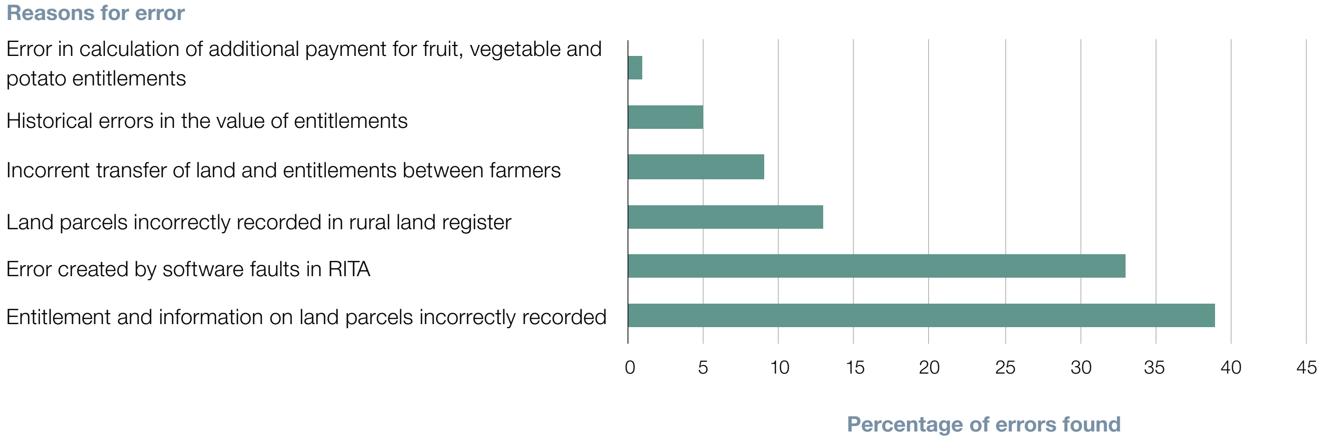
3.1 In 2008 the Committee of Public Accounts concluded that the Agency had been slow to investigate overpayments made under the 2005 scheme and many were likely to have been repeated under the 2006 scheme. Progress depended upon:

- compiling an accurate record of overpayments so that the Agency's Management Board and its Audit and Risk Committee could review progress each quarter in recovering the sums owed; and
- notifying each farmer of the extent of any overpayment made, as well as agreeing a method of recovery and a deadline for when this would be achieved.

The cause and extent of payment error

3.2 Mistakes in paying each farmer the correct amount have arisen in a number of different ways, mainly errors in data input and problems with the software. In many cases, underlying information such as the number and value of farmers' entitlements, and mapping of land, has been inaccurate (**Figure 7**). We reported in 2007 that the Agency had identified potential errors in 34,500 cases, approximately 30 per cent of claimants. Between 1 February 2008 and 19 May 2009 the Agency made further corrections on 27,757 cases, making 62,257 cases in all since 2007, or 56 per cent of all claimants.

Figure 7
Reasons for errors found during checking of claims and payments – February 2008 to May 2009



Source: National Audit Office analysis of Agency's data

The extent of overpayments

3.3 The amount of overpayments is uncertain, although it is likely to be between £55 million and £90 million. The Department's memorandum to the Committee of Public Accounts in February 2008 stated that overpayments were estimated to be £37 million, but this was an underestimation of the extent of the problem. The Agency's own data and a progress update by the Chief Executive to Ministers in February 2008 showed that the actual figure was more likely to be around £60 million. The Departmental Accounting Officer has written to the Chairman of the Committee of Public Accounts to clear up this misunderstanding. Since February 2008 the Agency estimates that a further £25 million has been overpaid to farmers. During our audit of the Agency's 2008-09 accounts, even after extensive additional testing by both the National Audit Office and the Agency, we were unable to form an opinion on the level of debt outstanding reported by the Agency at 31 March 2009 due to poor record keeping and potential error (**Box 1**).

3.4 By the end of May 2009, the Agency had recovered £25 million from farmers. Under the scheme's regulations, the Agency has to repay this amount together with unrecovered overpayments due to administrative error, to the European Commission. In the absence of reliable records, we estimate that the Agency has repaid £85 million to the European Commission because of the overpayments, £60 million in advance of recovery from farmers. If the Agency's estimate of potentially recoverable debts of £22 million turns out to be correct, £38 million of the amount paid to the Commission will have to be borne by the Agency (Figure 4).

Box 1
Extract from NAO report on the Agency's 2008-09 financial accounts: scheme overpayments

Administration of the Single Payment Scheme

The Agency's 2008-09 financial statements include £26.6 million in debtors against which a bad debt provision of £4.6 million is set. The balance of £22 million is considered by the Agency to reflect the likely overpayments from the single payment scheme and is reflected within the trade debtors balance. Our testing found indicative error rates of 79 per cent in uninvoiced debts and error rates of nine per cent in respect of amounts which had already been invoiced to farmers. An internal review of invoiced debt by the Agency, targeted at those cases viewed as at risk of being incorrect, indicated potential error rates of 30 per cent in amounts invoiced to farmers. The Agency does not however consider this exercise to be reliable. As a result of our audit findings, the Agency reviewed a further sample of 50 uninvoiced debts and identified an indicative error rate of 40 per cent, where the records available allowed the debt to be re-calculated.

The Agency is undertaking further work to establish accurate records of the amounts owed by individual farmers and will subsequently invoice for the amounts due. The significant uncertainty over debtor balances means that I have been unable to obtain assurance over this balance and the scope of my audit opinion has been limited in this respect. I have qualified my opinion on the Agency's accounts accordingly.

Source: Rural Payment Agency: Annual Report and Accounts 2008-09, (HC 606).

The Agency's difficulties in recovering overpayments

3.5 The failure of the Agency's finance department to produce reliable data has contributed to the uncertainty over overpayment amounts. The Audit and Risk Committee met seven times between December 2007 and April 2009. At none of those meetings was a reasonably accurate written record of progress presented to the Committee which inhibited their opportunity to scrutinise performance effectively.

3.6 The difficulties stem in large part from the mistakes in the original implementation of an overly complicated computer system, but a number of subsequent factors have compounded the problem:

a the lack of a strategic approach;

b insufficient oversight of the corrections process;

c little co-ordination of teams conducting inter-related work;

d the relative inexperience of senior staff tasked with the recovery of overpayments; and

e poor customer service.

a The lack of a strategic approach

3.7 The Agency's senior management did not produce an effective strategic plan setting out how it would determine the amounts of overpayments, recovery arrangements or how they would monitor progress. The exercise to recover overpayments effectively began in January 2008 (although the Agency carried out an ad hoc exercise to recover a batch of duplicate payments from August 2006 – see **Box 2**). Our review of available records indicates that the Agency changed its approach on several occasions.

- **From February to June 2008** the Agency prioritised 14,243 farmers (owing £37.6 million) overpaid as a result of 'straightforward' issues, such as too many partial payments in 2006. The remaining more complicated cases (2,416 farmers owing £22.4 million) were either put through a checking process or 'parked'. The 'straightforward' cases proved to be more challenging than expected, and progress was slow. The Agency had stopped standard payments under the 2007 scheme to those farmers it estimated may have 'potentially' been overpaid previously. This approach was stopped as the risk of missing scheme payment deadlines loomed, and the Agency estimate that a further £7 million of overpayments were made from the 2007 scheme.

- **By 30 June 2008** only 2,025 farmers (owing £10 million) had been invoiced. Actual amounts repaid as a result were £3.8 million[8]. At 30 June the Agency estimated that 17,753 overpaid farmers (potentially owing £62.2 million, including £10.5 million newly identified) had still not been contacted.
- **From 1 July to 31 August 2008**, to speed up recovery the Agency concentrated on 6,904 'non-trivial' debts of over £185. Limited resources meant progress was very slow in this period and the Agency only contacted 78 farmers.
- **From 1 September to 18 November 2008** the Agency introduced a further change of approach: the 2,014 farmers with debts over £5,000 were prioritised (owing £37.8 million in total). Progress however remained very slow.

3.8 When the Epsilon IT upgrade went live in November 2008, the Agency was able to introduce a new partially automated process to speed up recovery. As a result, between 18 November 2008 and mid-March 2009 the Agency invoiced 5,417 farmers. The Agency managed to recover £16.2 million of overpayments in this period from 4,987 farmers.

b Insufficient management oversight of corrections made

3.9 At the Committee of Public Accounts hearing in January 2008, the Agency's Chief Executive reported that he was much more confident that subsequent payments would be more accurate. In response to questions on the difficulties in identifying and recovering overpayments, the Agency confirmed that it had almost caught up on what happened in 2005 and 2006. But in February 2008 it became apparent that there remained errors in the calculation of amounts due to farmers under the 2005 and 2006 schemes, which could affect payments in subsequent years.

Box 2
Duplicate payments from August 2006

The Agency made a batch of 672 duplicate payments in error in August 2006. We reported in December 2007 that these overpayments had amounted to £4.4 million. A subsequent memorandum by the Department to the Committee of Public Accounts confirmed that within the batch, 19 farmers had received over £50,000 each in error. Although they had been notified of the mistake in September 2006, no amounts were recovered until April 2008 (apart from £2,000 from one farmer in December 2007). By July 2009 the Agency had recovered £1.7 million overpayments from the 19 cases, but £106,000 was still outstanding on three cases.

Source: National Audit Office

8 The Agency has not kept clear records on the number of farmers who have signed up to long term repayment plans and so the figure may rise (although we could only find evidence that 39 farmers have agreed these plans with the Agency).

3.10 Each correction case in the first tranche of 34,500 cases took on average eight working days, amounting to the equivalent of 1,227 full time staff working for a year and costing some £66 million[9]. Despite this, mistakes were made and not picked up, and we were unable to find a proper audit trail of the work done on these cases. The problems continued in the second tranche of 27,757 corrections cases where, for example, 800 cases had to be corrected three times or more before correct amounts were confirmed. In our discussions with key officials they acknowledged that the work had been haphazard and inconsistent from the outset. Assuming that the average time taken to carry out each correction case was the same in both tranches of work, the total cost of correction work has been approximately £119 million.

c Little co-ordination of teams conducting inter-related work

3.11 Those responsible for the quality checking appear to have adopted a 'silo culture' whereby the progress of their work had not been communicated properly with the Agency's finance department. Weekly "overpayment summit" meetings held by senior managers were not formally minuted but our review of the supporting information used indicates that the Agency's management team would have struggled to determine what progress had been made. In particular:

- cumulative amounts and information were frequently inconsistent, for example weekly running totals not reconciling to those for the previous week;
- reports on other team's work, for example on underlying corrections, were not included; and
- no forecasts on future recovery had been made.

d The relative inexperience of senior staff tasked with recovery of overpayments

3.12 There were two changes in Chief Operating Officer in 2008. The first was removed from Office and suspended on full pay between 30 April 2008 and 5 February 2009 at a cost of £150,000, and the second was appointed in April 2008 and replaced in October 2008. Both the interim Finance Director was replaced in July 2008 and the interim Director of Human Resources was replaced in December 2008, with permanent appointments.

e Poor customer service

3.13 By the end of May 2009, the Agency had contacted 8,000 out of 17,000 potentially overpaid farmers by letter, specifying how much was overpaid, broken down by year, explaining the three options available. These were:

9 We calculated the cost by using total staff costs plus apportioned overheads divided by the total number of staff working on the scheme during the period of correction, multiplied by eight days and then by 34,500 cases.

- pay back the amount as a lump sum within a month;
- agree a payment plan to pay back the money within six months; or
- offset the overpayment against scheme payments in subsequent years.

The letter states that if no choice is communicated to the Agency within a month of receipt of the letter, the overpayment will be automatically offset against future claims. It explains that if the farmer disagrees with the amount of overpayment, he must write to the Agency explaining his reasons.

3.14 Only 37 per cent of the 100 farmers invoiced for overpayment we surveyed said that the Agency's calculations were correct, with 36 per cent saying that they thought they were wrong and 27 per cent saying that they did not know. Those farmers we surveyed who said that the Agency's calculations were incorrect believed the level of inaccuracy to be, on average around £10,000. Our survey found that 58 per cent believed the Agency's approach was unreasonable, although 30 per cent believed it had been reasonable. Sixty per cent said it had caused them to incur extra cost on average of £4,000 through either increased consultants fees, overdraft fees and charges or other costs. Nearly half of the farmers said that they have experienced stress and anxiety as a result of the uncertainty caused by the Agency's overpayments.

3.15 Recovery of sums is always likely to be unwelcome, and the Agency regularly meets industry stakeholders, including farmers' stress networks, to discuss their proposals and listen to concerns. The farming industry bodies we contacted were nevertheless critical of the approach adopted by the Agency. The main concerns were:

- **A lack of clear information.** Farmers did not have sufficient information in a format that would enable them to validate their payments. Those who received similar payment amounts for 2005 and 2006 scheme years assumed this must be correct and that the Agency had carried out full validation of their claim at the time. When they received the letter claiming an overpayment, clear and simple overpayment breakdowns were not included.
- **Inaccuracy of many Agency demands.** Many Agency demands have been found to be wrong after investigation.
- **The Agency is quick to penalise but slow to correct its own mistakes.** Farmers were given little time to respond and pay money back on some payments that had been incorrectly paid more than three years previously. If a mistake was found, it seemed to take a long time to be corrected.
- **The Agency does not give sufficient allowance to those in financial difficulties.** There is little leeway given to farmers who rely heavily on the payment from the scheme, such as hill farmers.
- **The Agency's appeals process is slow and costly to use.** Appeals by farmers against Agency maladministration, often take over a year to complete.

3.16 The farmers we visited commented that it was the impersonal letters arriving 'out of the blue' that caused them most distress. One farmer, for example, received a claim for £33,228 in February 2009 without notice and which he did not understand. After inquiries the Agency sent him what he considered were "many pages of baffling calculations", before acknowledging that it had made a fundamental mistake and he owed nothing at all (**Box 3**). Another farmer was confused and concerned by sudden and apparently conflicting Agency demands for payments (**Box 4**). Many of the industry bodies we consulted noted that poor communication and administration by the Agency had proved stressful to farmers.

Box 3
Case study on overpayments: A farmer's experience of the Agency

The farmer runs a 200 hectare dairy farm in North Yorkshire. His annual payment under the scheme has been around £34,000 and it formed an important part of his income each year.

On 20 February 2009 the farmer received a letter from the Agency stating that he had been overpaid since 2005 by a total of £33,228.91, and that within a month he would need to agree a plan with the Agency to pay this amount back. This letter was 'out of the blue' and caused considerable concern.

Our review of this case proved difficult as there was no sequential or clear record of activity kept on the Agency's systems. We established that the Agency had put the farmer's claim through 78 validation checks and completed 11 recalculations of the farmer's entitlement rate since December 2005. Only once a specialist team investigated the farmer's complaint, however, did the Agency identify that the computer system had erroneously reduced the farmer's entitlement after each payment. As of 28 May 2009, the farmer had not been notified that the overpayment invoice sent to him is entirely wrong.

Source: National Audit Office

Box 4
Case study on overpayments: A second farmer's experience

The farmer runs a 200 hectare beef cattle and sheep farm in Yorkshire. His annual payment under the scheme is about £25,000, forming an important part of his annual income.

On 20 December 2007 the Agency wrote to the farmer advising him that he may be asked to make a repayment on his 2005 and 2006 scheme payments. The Agency wrote to him again on 2 October 2008 asking for repayment of £14,369, which the farmer paid in a lump sum on 13 October. The reason for the overpayment had been a manual error during entitlement correction work on the farmer in 2007. On 31 January 2009 the Agency wrote to the farmer again claiming a further £1,493 repayment from the 2006 scheme. On 12 February the Agency wrote back admitting this second claim had been an accounting mistake and should be ignored. However on 6 March the Agency deducted an amount of £1,493 from the farmer's 2008 scheme payment. After correspondence, on 16 March the Agency repaid the amount to the farmer.

The farmer was not aware that he had been overpaid in 2005, and was not sure whether he had been overpaid or not in 2006. He left matters to be resolved by his Agent. Our investigation showed that since 2005 there had been 14 separate validations on the farmer's claims.

Source: National Audit Office

Progress in recovering overpayments

3.17 The Agency took a pragmatic decision in November 2008, endorsed by the Department, to write-off overpayments below £250 on the basis that the costs of recovery would outweigh the sums owed. The Agency's financial accounts include total write-offs of £706,257 to date for such debtors.[10] Of its remaining farmer debts at 31 March 2009, the Agency considers the recovery of £4.6 million to be doubtful, representing overpayments to 1,094 of the 9,974 farmers since 2005 who no longer claim scheme payments. Thirteen of these debts are for over £50,000 each, amounting to just under £1 million. The Agency has charged the £4.6 million to its operating cost statement, but is still hoping to recover at least some of the debts in the future.

3.18 In principle, farmers must pay back any overpayments received including interest to national agencies.[11] European Commission regulations require national agencies to then return the recovered monies relating to agency administrative error (as opposed to recovered monies relating to farmers breaching the regulations)[12]. The Agency has now returned an estimated £85 million to the Commission, including £25 million recovered by May 2009 and a further £60 million in advance of recovery. According to the EC regulations, in certain circumstances farmers who have been overpaid as a result of an administrative error do not have to repay, unless the farmer could reasonably have detected the error. Farmers have questioned whether they could have reasonably known of mistakes made by the Agency and the National Farmers' Union explained that many farmers only agreed to the recovery on a 'without prejudice' basis to avoid holding up payment of the remainder of their 2008 claim. We sought legal advice on this issue. Under UK national law the Agency can seek to reclaim all overpayments, including overpayments which would not be recoverable under the provisions of the EC regulations.

3.19 The Agency intends to develop more comprehensive progress reports showing systematically all overpayments identified and when they will be recovered against a pre-determined profile. We understand that out of the 17,000 farmers thought to have been overpaid, there are 9,000 farmers who had not yet been invoiced or where steps to recover the money had not yet been taken by May 2009. The Agency has prioritised these cases:

- Phase 1: it will check the 1,900 cases where the farmer has already been invoiced but the Agency has not yet sought to recover the money.
- Phase 2: it will check the 7,100 cases where the farmer has not yet been invoiced.
- Phase 3: it will check the 1,900 cases, out of the 8,000 where actions have already been taken to recover monies, where farmers have challenged the calculations provided by the Agency.

In addition, changes to EC regulations mean that from January 2010 entitlements will be deemed to be correct unless the discrepancy is due to farmer error. The Agency will need to develop their IT systems to meet this new requirement.

10 £701,000 was included in the Agency's 2007-08 financial accounts as a bad debt provision.
11 Commission Regulation (EC) No 796/2004, article 73(1).
12 See, for example, Commission Regulation (EC) No 1290/2005, article 32(1) and Commission Regulation (EC) 885/2006.

Part Four

Management and governance arrangements

The adequacy of governance within the Agency

4.1 The Agency re-structured its senior management in 2006-07 after the difficulties encountered in introducing the scheme in 2005-06. This involved streamlining operational management and introducing an Agency Executive Group, working under the Agency Management Board, to enable quicker day-to-day decisions to be made.

4.2 Our review of papers and minutes to the Agency's Management Board indicate an absence of decisive action in remedying the faults with many aspects of the administration of the scheme. The information provided to the Board on overpayments before August 2008 was often inaccurate, and there was very little evidence of challenge or discussion of the reasons for slow progress and what risks this might have on the future reputation for the Agency. In June 2008, for example, the Board agreed to put in place a clear communications strategy across the Agency, only to cancel the idea in the next meeting in July 2008. The minutes of the meetings may not necessarily reflect everything discussed, and the Chief Executive explained that he sought to focus the Board on longer term strategic issues rather than existing problems.

4.3 The minutes of the Board's meeting in August 2008 record the frustration of the Chief Executive: "*the PAC's most recent report majored on overpayments and yet this is an area where progress is very limited. There appears to be too much work to do in too short a time, a lack of capability and capacity, and decision making takes far too long with consequences not always clear*". After August 2008 the Agency Executive Group frequently discussed the overpayment recovery exercise, but there is again little evidence of robust challenge or consistent scrutiny. In June 2009, the Chief Executive raised questions about the constantly changing figures on debt, and called for "*a radical look at the whole of the Agency's strategy for dealing with debt*". As a result the Group decided that "more input was needed to bottom out all the issues around overpayments"[13] and an investigation was launched into how to improve the whole exercise.

13 Agency Executive Group minutes 15 June 2009.

Unforeseen additional costs between 2005 and 2009

4.4 The implementation of the scheme in England has included unforeseen additional costs of £680 million, of which £628 million have been borne by taxpayers in the United Kingdom and additional costs reported by farmers of £52 million in fees and charges incurred through late or inaccurate payments (**Figure 8**). The Department confirmed that it had paid £3.7 million in interest payments to farmers. Around half the additional costs (£280 million) relate to disallowance, and most of the remainder was incurred in trying to remedy mistakes made in the first two years of the scheme.

The adequacy of the Department's oversight of progress by the Agency

4.5 The Department is ultimately responsible for the European funded schemes within the United Kingdom, although in practice it delegates the administration of the scheme in England to the Agency. The Department's original oversight of the 2005 scheme was hampered by blurred responsibilities and inadequate challenge of the information coming from those responsible for scheme implementation. Our second report in December 2007, however, found that the Department and Agency had strengthened their governance arrangements by clarifying roles and integrating policy and implementation more closely.

Figure 8
Unforeseen additional costs of the scheme – 2005 to 2009

	£000
Full staff costs over business case targets since April 2005[1]	304,400
Disallowance and penalties[2]	280,100
Overpayment charges to operating cost statement	5,300
Anticipated irrecoverable overpayments to be paid back to EC	38,000
Sub total	**627,800**
Additional costs reported by farmers[3]	52,450
Total[4]	**680,250**

Source: National Audit Office analysis

NOTES

1 This figure is calculated on the basis of unanticipated additional staff needed to administer the scheme from 2005 to 2009 (see 2.11). Extra staff were needed, amongst other things, to: undertake unforeseen entitlement correction work (see 3.10); use and manage poorly designed IT systems; recover overpayments; and implement the recovery campaign.

2 This figure includes £75 million paid to the European Commission in 2008, and £205 million charged as expenditure to the Agency's financial accounts, but not yet paid to the European Commission and still under negotiation (see 2.15).

3 This figure comprises: £20.3 million as a result of delays to SPS 2005 (2006 NAO report); £10.15 million in 2006 and 2007 (NAO estimate based on NAO 2006 report findings to reflect partial repetition of 2005 problems); £22 million in 2008 (extrapolation of 2009 NAO survey results).

4 The total cost does not include any interest charges on overpayments the EC may charge the Agency (see 3.18).

4.6 The Department's oversight of the scheme is now focused in two Boards (**Figure 9**). In particular:

- The Strategic Advisory Board meets quarterly to oversee the Agency's strategic direction. The Board is chaired by the 'corporate owner' of the Agency (the Director General of Food and Farming), and its membership includes the Chief Executive of the Agency, the 'corporate customer' (a Departmental Director who acts as the scheme champion on behalf of the Department), a finance official from the Department and a non-executive member of the Agency's Board (who is the chair of the Agency's Audit and Risk committee).
- The Delivery Review Board meets every two months to oversee the administration of the Agency's operations, including administration of the scheme. The Board is chaired by the 'corporate customer' and its members include policy officials from the Department as well as the Agency's Chief Executive and the Finance Director.

In addition the Chief Executive has regular meetings with the corporate owner and the Departmental Permanent Secretary, and there are regular staff secondments both ways between the Department and the Agency.

4.7 The Department uses a combination of management information, targets and informal contacts to help it scrutinise Agency performance. The Strategic Advisory Board, which meets quarterly, is provided with a Performance Report and other ad hoc papers, compiled jointly by the Agency and a small Departmental secretariat team. The Performance Report acts as the main basis for the Board's discussions, and consists of a commentary of the last quarter's performance with reference to Ministerial targets, a section on operational risks, and a discussion of finance and human resources issues. Our review of the Performance Reports and other Board papers and associated minutes, as well as interviews with Board members, shows that, within the Performance Report, the Ministerial targets were the main focus of monitoring (**Box 5**).[14]

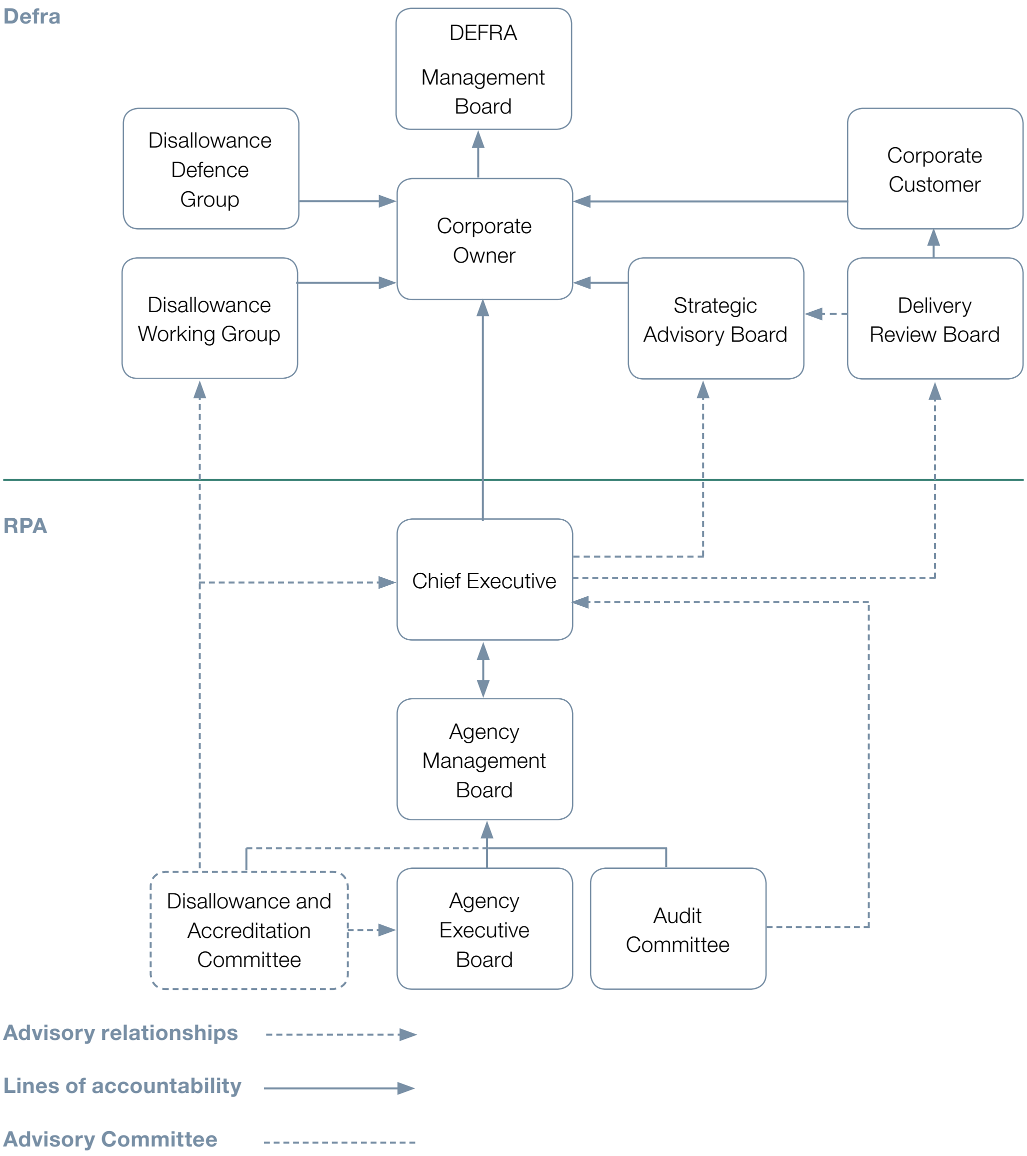
Box 5
Ministerial targets for Agency 2008-09

- To have paid 80 per cent by value of valid 2008 Single Payment scheme (SPS) claims by 31 January 2009 and 90 per cent by value of valid 2008 SPS claims by March 2009.
- To demonstrate an improving trend in customer satisfaction by achieving an annual average customer satisfaction score of 6.5 out of ten as measured through surveys of external customers and demonstrating a reduction in complaints.
- To demonstrate a ten per cent reduction from the 2007-08 year in the cost of administering RPA without compromising service delivery.
- To minimise disallowance risks and make payments accurate to within two per cent materiality for all subsidy schemes under RPA's direct management.
- To demonstrate improved capacity and capability to deliver services and implement change.

Source: The Department for Environment, Food and Rural Affairs

14 The targets in Box 5 are relevant to the scheme, although only the first target is exclusive to it.

Figure 9
Governance of the Agency



Source: Rural Payments Agency

4.8 Since October 2008 the Performance Report has contained a formal 'traffic light' assessment of progress against the targets. The improvement in the timing of payments under the 2008 scheme were closely scrutinised by the Boards and progress probably warranted a 'green' assessment. As thirteen out of the fifteen assessments between October 2008 and March 2009 for the relevant five targets were 'green' (the other two were 'amber') this would suggest that the Department's assessment of the Agency's performance on all important aspects of the scheme has been strong. In addition, the reports in May and July 2008 for the 2007 Ministerial target for 'materiality of payments and accuracy improvements' was also 'green', as were all the sub-metrics.[15]

4.9 Our assessment of the performance of the Agency does not accord with some of the Department's assessments against these targets. Also collectively the targets do not cover all the key aspects of the Agency's activities, which could only be provided by a comprehensive set of metrics or Service Level Agreements between the Agency and its customers (as was recommended by a Departmental report in 2008). In our view the Agency's own risk register offers a more realistic assessment, where for example, in September 2008 seven out of the top ten risks were assessed as 'red', and three assessed as 'amber'.

15 Sub-metrics were: error rate checking; correction of entitlement plans; data quality; training plans; quality framework; and National Audit Office audit results.

Appendix One

Our Methodology

The main techniques we used to evidence the report included:

Examination of key documents and reports

1 We examined relevant management reports, minutes and supporting papers.

Semi-structured interviews

2 We interviewed key officials from the Agency and the Department for Environment, Food and Rural Affairs.

Survey of farmers

3 We commissioned Ipsos MORI to conduct a telephone survey of farmers on our behalf. In total, 400 farmers were contacted, of whom 321 were drawn randomly from the total population of farmers, and 79 were drawn randomly from the population of farmers invoiced by the Agency for overpayment (making the latter group's total number contacted equal to 100). The data were weighted to reflect the actual proportions of invoiced and uninvoiced farmers in the total farmer population.

4 The survey was conducted in April 2009. The summary report from Ipsos MORI is available on the NAO website (www.nao.org.uk).

Consultation with third parties

5 We consulted with a range of expert third parties:

- Country Land and Business Association;
- Cumbrian Farmers' Network;
- Farm Crisis Network;
- Federation of Commoners;
- National Farmers' Union;
- Parliamentary Ombudsman;
- Rural Stress Helpline formerly known as the Rural Stress Information Network;
- Tenant Farmers' Association; and
- Windle Beech Winthrop.

Legal Advice

6 We sought legal advice on the Agency's right to reclaim overpayments from a firm of solicitors with relevant expertise in the area.

Appendix Two

Progress in implementing recommendations from the Committee of Public Accounts' twenty-ninth report

Committee Recommendation	NAO assessment of progress on implementation	NAO conclusion on progress made
The Agency should notify each farmer of the extent of any overpayment made, as well as agree a method of recovery and a deadline for when this would be achieved.	The Agency has notified just over 8,000 of the estimated 17,000 farmers who have been overpaid, and has so far agreed an overpayment plan with about half of those notified. There is no overall deadline set for completion of the overpayment recovery exercise. There is currently further delay as all overpayment amounts, whether notified to farmers or not are being re-checked for accuracy.	The Agency has begun to implement the recommendation, but progress is slow.
The Agency should compile an accurate record of overpayments so that the Agency's Management Board and the Audit and Risk Committee can review progress in recovering the sums owed each quarter.	No accurate record of overpayments exists. Both the Agency Management Board and Audit and Risk Committee received minimal information on overpayments and their recovery during 2008, although steadily more information on these matters has become available as 2009 has progressed.	The Agency has not adequately addressed this recommendation.
The Agency should give higher priority to processing claims from farmers with greater dependency on the scheme payments, for example hill farmers and those running smaller operations	Payments have been made earlier and the Agency has made over 96 per cent of payments by mid-May 2009. Initiatives to prioritise particular types of payments under the 2008 scheme were complicated with ongoing difficulties in resolving over and underpayments made under earlier scheme years.	Progress against this recommendation has been mixed.
The Agency's future business plans should set targets for the implementation of its efficiency measures and the savings it expects to achieve.	There are now plans and targets in place for staff reductions.	Satisfactory progress.
The Department should consider whether it has sufficiently robust processes to scrutinise and challenge the underlying assumptions in its policy proposals. Utilising an external or peer challenge process would assist in providing appropriate emphasis to all risks so decision makers have the best information available to inform their choice of options.	There is evidence that processes for scrutinising the overall performance of the Agency needs further attention. No external peer or challenge process has so far been put in place.	The Department and the Agency have made some progress with this recommendation, but there is still insufficient scrutiny of the operational problems.

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